



**Office of the Treasurer**  
301 Peterson Service Building  
Lexington, KY 40506-0005  
(859) 257-4758  
Fax: (859) 257-4805  
[www.uky.edu](http://www.uky.edu)

**University of Kentucky Research Foundation**  
Board of Directors Meeting  
June 23, 2014

**Report of the Treasurer**

Independent Audit of Consolidated Financial Statements for the Year Ended June 30, 2013

The independent audit for the fiscal year ended June 30, 2013 was performed by BKD, Certified Public Accountants, who rendered an unmodified or “clean” opinion on the UKRF Consolidated Financial Statements. The consolidated financial statements are prepared in accordance with financial accounting and reporting standards established for public universities by the Governmental Accounting Standards Board (GASB) and include the financial activities of the UK Research Foundation, Kentucky Technology, Inc., (KTI), Secat Inc., and Coldstream Laboratories, Inc. The financial statements consist of a Statement of Net Position (Balance Sheet), a Statement of Revenues, Expenses, and Changes in Net Position (Income Statement), and a Statement of Cash Flows. The financial statements are preceded by a Management’s Discussion and Analysis that provides a summary overview of the financial condition and activities of the Foundation for the fiscal year 2012-2013.

The Audited Financial Statements were previously distributed to the Board of Directors in the fall of 2013. An additional copy is included in your Board packet.

### *FINANCIAL HIGHLIGHTS, FY 2012-13*

- Net income from operations was \$15.2 million. Operating revenues and expenses consist primarily of grants and contracts activity.
- Operating revenues were \$299.1 million, a decrease of \$43.2 million or 13% less than the previous year. The decrease in operating revenues is due to decreases in state and local grants and contracts of \$27.3 million, federal grants and contracts of \$14.8 million and recoveries of facilities and administrative costs of \$3.9 million, offset by increases in nongovernmental grants and contracts of \$2.3 million and other operating revenue of \$651 thousand primarily from CLI growth in sales.
- Operating expenses were \$283.9 million, a decrease of \$42.3 million or 13% less than the previous year. Public service expenses decreased \$30.8 million while research expenses declined \$11.5 million.
- Nonoperating revenues were \$8.5 million, consisting primarily of capital grants and gifts of \$5.4 million and patent income of \$2.0 million.
- Nonoperating expenses were \$21.4 million consisting primarily of grants to the University for support of academic programs, administrative costs and capital projects totaling \$21.1 million.
- The above activities resulted in an overall increase in net position for the year of \$2.3 million, with unrestricted net position increasing \$1.5 million.
- The Balance Sheet as of June 30, 2013 reported total assets of \$105.2 million, total liabilities of \$55.6 million and a total net position of \$49.6 million. The net position consisted of net investment in capital assets of \$14.5 million, restricted net position of \$4.5 million, and unrestricted net position of \$30.6 million.

In addition to the audit of the general purpose financial statements, BKD performed an audit of all federal funds received by the University for fiscal year ended June 30, 2013 under the provisions of OMB Circular A-133. The audit includes all research, instructional, public service and student financial aid grants and contracts sponsored by the federal government. A schedule of expenditures of all federal awards was tested for compliance with laws, regulations and provisions of individual grants and contracts. BKD issued an unmodified or “clean” opinion on the A-133 audit with no material or significant exceptions noted. The findings reported that a noncompliance issue with the verification and return of Title IV compliance requirements applicable to the Student Financial Aid Program found during last year’s audit had been corrected.

### Fiscal Year Ending June 30, 2014

- Budgeted current funds revenues for the current year total \$275.9 million which includes expected indirect cost recovery of \$41.5 million. For the nine months ended March 31, 2014, UKRF has realized \$186.6 million or 68% of the total revenue estimate.
- Current funds expenditures, including grants to the University, total \$190.4 million or 69% of the approved budget as of March 31, 2014.

- Unrestricted fund balances at June 30, 2014 are projected to be approximately \$33.4 million, an increase of \$2.8 million for the 2013-14 fiscal year. This increase is due to an anticipated over-recovery of Facilities and Administrative Cost (F&A).
- Contract and grant awards received from July 1, 2013 to March 31, 2014 total \$200.6 million compared to \$214.7 million for the same period last fiscal year or a decrease of \$14.1 million, a 7% decrease. Federal awards were \$106.8 million for the current year compared to \$107.6 million for the same period last year, a 1% decrease.

BKD will conduct the independent audit of the general-purpose financial statements of the Foundation for FY 2013-2014 at a cost of \$7,825. The audited financial statements will be distributed to the Board of Directors in fall 2014. BKD will perform an audit of all federal funds received by the University for fiscal year ended June 30, 2014 under the provisions of OMB Circular A-133 at a cost of \$13,900. Related printing costs for these statements will be approximately \$400.

#### Negotiated Facilities and Administrative Cost (F & A) Rates

The Facilities and Administrative Cost Rates (F & A cost rates) applicable to federal contracts and grants are negotiated with the Department of Health and Human Services (DHHS). The rate applicable to organized research is 50.0% for fiscal years 2014-2015. The rate for organized research will increase to 50.5% for fiscal year 2016.

#### **GENERAL INFORMATION**

UKRF is a separate legal entity established by the University of Kentucky to receive, invest and expend funds in promoting scientific, educational, and developmental activities on behalf of the University. UKRF is classified as a 501(c)(3) entity by the Internal Revenue Service.

UKRF operates as an integral part of the University and is designated to receive, manage, and account for externally sponsored grants and contracts for research, education, public service, and other activities.

UKRF is fully accountable to the University for all resources received and used in its operations, particularly indirect cost recoveries representing reimbursement of the facilities and administrative costs of conducting sponsored programs. UKRF transfers a major portion of indirect cost recoveries to the University in the form of “grants to UK” for capital projects, support of academic programs, and support of indirect costs.