



UNIVERSITY OF KENTUCKY

**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  
May 13, 2009

**Report of the Treasurer**

Independent Audit of Consolidated Financial Statements for the Year Ended June 30, 2008

The independent audit for the fiscal year ended June 30, 2008 was performed by BKD, Certified Public Accountants, who rendered an unqualified 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., the Secat Foundation, Inc., Closed Vial Filling System, Inc., and Coldstream Laboratories, Inc. The Financial Statements consist of a Statement of Net Assets (Balance Sheet), a Statement of Revenues, Expenses, and Changes in Net Assets (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 2007-2008.

The Audited Financial Statements were previously distributed to the Board of Directors in the fall of 2008. An additional copy is included in your Board packet.

#### *FINANCIAL HIGHLIGHTS, F/Y 2007-08*

- Operating revenues were \$297.0 million, an increase of \$5.6 million or 1.9% over the previous year. The increase in operating revenues is due primarily to increases in state contracts of \$4.9 million and other operating revenues of \$2.1 million, offset by the decrease in federal contracts of \$1.8 million.
- Operating expenses were \$289.9 million, an increase of \$14.9 million, primarily attributable to expenses associated with increased research and public service activity.
- Net income from operations was \$7.1 million. Operating revenues and expenses consist primarily of grants and contracts activity.
- Nonoperating revenues, consisting primarily of patent and investment loss, amounted to \$2.3 million. Grants to the University for support of academic programs, administrative costs, and capital projects totaled \$9.5 million.
- Reimbursement of facility and administrative costs of contracts and grants (indirect costs recovery) totaled \$43.8 million compared to \$43.6 million for the previous year, and are included in total revenues of \$297.0 million.
- The above activities resulted in an overall increase in unrestricted net assets for the year of \$1.7 million.
- The Balance Sheet as of June 30, 2008 reported total assets of \$78.1 million, with liabilities of \$58.3 million. Total net assets were \$19.8 million, consisting of capital assets (net of depreciation) of \$5.6 million, restricted net assets of \$4.6 million, and unrestricted net assets of \$9.6 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, 2008 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 unqualified or “clean” opinion on the A-133 audit with no material or significant exceptions noted.

#### Fiscal Year Ending June 30, 2009

- Total budgeted revenues for the current year are \$283 million which includes expected indirect cost recovery of \$42 million. For the nine months ended March 31, UKRF has realized \$214.1 million or 76% of the total estimate.
- Expenditures, including grants to the University, through March 31 have totaled \$213.9 million or 76% of the approved budget.
- Unrestricted fund balances at June 30, 2009 are projected to be approximately \$9.7 million, a small increase of \$100 thousand for the 2008-09 Fiscal Year. This increase is

due to an anticipated over-recovery of Facilities and Administrative Cost (F&A), offset by the loss of Kentucky Technology, Inc.

- Contract and grant awards received from July 1, 2008 to April 30, 2009 were \$235.6 million, a 12.5% increase from the same period last fiscal year. Federal awards have increased 8%.

BKD will conduct the independent audit of the general-purpose financial statements of the Foundation for FY 2008-2009 at a cost of \$7,000. The audited financial statements will be distributed to the Board of Directors in October 2009.

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

The Facilities and Administrative Cost Rates (Indirect Cost Rates) applicable to federal contracts and grants have been negotiated and finalized with the Department of Health and Human Services (DHHS) through fiscal years ending June 30, 2012. The rate applicable to organized research is currently 47.5%, increasing to 48.5% for fiscal years 2010-2012.

#### **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 of Kentucky, 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 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 administrative costs.

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