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**University of Kentucky Research Foundation**  
Board of Directors Meeting  
May 21, 2015

**Report of the Treasurer**

Independent Audit of Consolidated Financial Statements for the Year Ended June 30, 2014

The independent audit for the fiscal year ended June 30, 2014 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. (CLI). 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 2013-2014.

The Audited Financial Statements were previously distributed to the Board of Directors in January 2015. An additional copy is included in your Board packet.

### *FINANCIAL HIGHLIGHTS, FISCAL YEAR 2013-14*

- Net income from operations was \$19.6 million. Operating revenues and expenses consist primarily of activity related to grants and contracts.
- Operating revenues were \$266.1 million, a decrease of \$33.0 million or 11% less than the previous year. The decrease in operating revenues is due to decreases in state and local grants and contracts of \$27.4 million, federal grants and contracts of \$5.0 million, nongovernmental grants and contracts of \$3.0 million and recoveries of facilities and administrative costs of \$760 thousand, offset by an increase in other operating revenue of \$3.2 million primarily from CLI growth in sales.
- Operating expenses were \$246.5 million, a decrease of \$37.3 million or 13% less than the previous year. Public service expenses decreased \$27.0 million and research expenses declined \$8.2 million.
- Nonoperating revenues were \$7.1 million, consisting primarily of capital grants and gifts of \$3.6 million and patent income of \$2.6 million.
- Nonoperating expenses were \$28.8 million consisting of grants to the University for support of academic programs, administrative costs and capital projects totaling \$28.8 million.
- The above activities resulted in an overall decrease in net position for the year of \$2.1 million, with unrestricted net position decreasing \$1.6 million.
- The Statement of Net Position as of June 30, 2014 reported total assets of \$93.0 million, total liabilities of \$45.5 million and a total net position of \$47.4 million. The net position consisted of net investment in capital assets of \$13.4 million, restricted net position of \$5.0 million, and unrestricted net position of \$29.0 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, 2014 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. The opinion on compliance for the student financial aid cluster was qualified due to errors in the University's verification process for students' award information. The University has taken corrective actions to help ensure accurate verification in the future.

### Fiscal Year Ending June 30, 2015

- Budgeted current funds revenues for the current year total \$283.3 million which includes expected indirect cost recovery of \$43.5 million. For the nine months ended March 31, 2015, UKRF has realized \$211.5 million or 75% of the total revenue estimate.
- Current funds expenditures, including grants to the University, total \$204.3 million or 72% of the approved budget as of March 31, 2015.
- Unrestricted fund balances at June 30, 2015 are projected to be approximately \$29.5 million, an increase of \$500 thousand, for the 2014-15 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, 2014 to March 31, 2015 total \$223.6 million compared to \$200.6 million for the same period last fiscal year or an increase of \$23.0 million, a 11% increase. Federal awards were \$106.0 million for the current year compared to \$106.8 million for the same period last year, a 1% decrease.
- UKRF sold CLI in January 2015 and the UKRF fiscal year 2014-2015 financial statements will not only include CLI calendar year 2014 but also the January 1-15, 2015 loss. Fiscal year 2014-2015 will be the last year CLI is included in the consolidated UKRF financial year end statements.

BKD will conduct the independent audit of the general-purpose financial statements of the Foundation for fiscal year 2014-2015 at a cost of \$8,100. The audited financial statements will be distributed to the Board of Directors in late 2015/early 2016. BKD will perform an audit of all federal funds received by the University for fiscal year ended June 30, 2015 under the provisions of OMB Circular A-133 at a cost of \$14,300. Related printing costs for these statements will be approximately \$450.

#### Negotiated Facilities and Administrative Cost Rates

The Facilities and Administrative Cost (F&A) 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 year 2014-2015. The rate for organized research will increase to 50.5% for fiscal year 2015-2016. Huron Consultants have been hired to assist with an updated F&A rate calculation based upon June 30, 2015 data, with the filing to be complete by December 31, 2015.

#### **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.