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University of Kentucky Research Foundation
Board of Directors Meeting
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Report of the Treasurer

Independent Audit of Consolidated Financial Statements for the Year Ended June 30, 2012

The independent audit for the fiscal year ended June 30, 2012 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., Therix Medical, 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 2011-2012.

The Audited Financial Statements were previously distributed to the Board of Directors in the fall of 2012. An additional copy is included in your Board packet.

FINANCIAL HIGHLIGHTS, FY 2011-12

- Operating revenues were \$342.3 million, an increase of \$2.8 million or .8% over the previous year. The increase in operating revenues is due to increases in state and local grants and contracts of \$4.9 million; other operating revenue increase of \$3.5 million primarily from CLI growth in sales and nongovernmental grants and contracts increase of \$1.3 million, offset by a decrease in federal grants of \$5.6 million and recoveries of facilities and administrative costs of \$1.3 million.
- Operating expenses remained same as prior year at \$326.2 million, yet the functional expenses shifted greatly. Public service expenses increased \$13.5 million while research expenses declined \$11.6 million and instruction expenses decreased \$2.5 million. Net income from operations was \$16.1 million. Operating revenues and expenses consist primarily of grants and contracts activity.
- Nonoperating revenues were \$25.1 million, consisting primarily of capital grants and gifts of \$23.5 million and patent and investment income of \$1.5 million. Grants to the University for support of academic programs, administrative costs and capital projects totaled \$36.9 million.
- The above activities resulted in an overall increase in net assets for the year of \$3.7 million, with unrestricted net assets increasing \$2.5 million.
- The Balance Sheet as of June 30, 2012 reported total assets of \$105.3 million, with liabilities of \$58.0 million. Total net assets were \$47.3 million, consisting of capital assets (net of depreciation) of \$13.9 million, restricted net assets of \$4.3 million, and unrestricted net assets of \$29.1 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, 2012 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. The findings did report a noncompliance issue with the verification and return of Title IV compliance requirements applicable to the Student Financial Aid Program.

Fiscal Year Ending June 30, 2013

- Budgeted current funds revenues for the current year total \$297.7 million which includes expected indirect cost recovery of \$45.0 million. For the nine months ended March 31, UKRF has realized \$223.4 million or 75% of the total revenue estimate.
- Current funds expenditures, including grants to the University, total \$220.8 million or 74% of the approved budget as of March 31, 2013.

- Unrestricted fund balances at June 30, 2013 are projected to be approximately \$30.1 million, an increase of \$1.0 million for the 2012-13 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, 2012 to March 31, 2013 total \$214.7 million compared to \$219.8 million for the same period last fiscal year or a 2.3% decrease. Federal awards were \$107.6 million for the current year compared to \$115.6 million for the same period last year, or a decrease of \$8.0 million, a 6.9% decrease.

BKD will conduct the independent audit of the general-purpose financial statements of the Foundation for FY 2012-2013 at a cost of \$7,600. The audited financial statements will be distributed to the Board of Directors in October 2013.

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 48.5% for fiscal years 2010-2013.

An F & A cost rate proposal based upon June 30, 2011 costs was submitted in December 2011 to DHHS. Negotiations were completed in December 2012 and final rates accepted in February 2013. Organized research will increase to 50.0% for fiscal years 2014-2015 and 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.