

University of Kentucky Research Foundation
Board of Directors Meeting
June 8, 2018

Report of the Treasurer

*INDEPENDENT AUDIT OF FINANCIAL STATEMENTS AND FEDERAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017*

The independent audit for the fiscal year ended June 30, 2017 was performed by BKD, Certified Public Accountants, who rendered an unmodified or “clean” opinion on the University of Kentucky Research Foundation (UKRF) Financial Statements. The 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 UKRF, Kentucky Technology, Inc., (KTI) and Secat, 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 2016-17.

In addition to the audit of the general purpose financial statements, BKD performed an audit of all federal funds received by the University for the fiscal year ended June 30, 2017 under the Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards. 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 University received an unmodified (clean) opinion on each of the major federal programs.

FINANCIAL HIGHLIGHTS

Fiscal Year Ended June 30, 2017

- Net income from operations was \$21.0 million. Operating revenues and expenses consist primarily of activity related to grants and contracts.
- Operating revenues were \$285.3 million, an increase of \$13.1 million or 4.8% more than the previous year. The increase in operating revenues was due to increases of \$12.6 million in federal grants, \$3.3 million in recoveries of facilities and administrative cost and \$422K in state and local grants and contracts offset by decreases of \$1.7 million in nongovernmental grants and contracts and \$1.4 million in other operating revenues.
- Operating expenses were \$264.3 million, an increase of \$11.1 million or 4.4% more than the previous year. Operating expenses increased \$9.7 million in research expenses, \$1.7 million in academic support, \$995K in student financial aid and \$559K in instruction offset by a decrease of \$1.7 million in public service.
- Nonoperating revenues were \$15.4 million, consisting primarily of capital grants and gifts of \$9.0 million and license income of \$4.5 million.
- Nonoperating expenses were \$23.2 million consisting primarily of grants to the University of Kentucky (the University) for support of academic programs, administrative costs and capital projects.
- The above activities resulted in an overall increase in net position for the year of \$13.2 million, with unrestricted net position increasing \$13.4 million.
- The Statement of Net Position as of June 30, 2017 reported total assets of \$121.4 million, total liabilities of \$39.8 million and a total net position of \$81.6 million. The net position consisted of net investment in capital assets of \$8.6 million, restricted net position of \$5.0 million, and unrestricted net position of \$68.0 million.

Fiscal Year Ending June 30, 2018

- Budgeted unrestricted total revenues for the current year total \$50.7 million. For the nine months ended March 31, 2018, UKRF has realized \$55.8 million or 110% of the total revenue estimate.

see blue.

- Unrestricted expenses, including grants to the University, total \$43.6 million or 48% of the approved budget as of March 31, 2018.
- Unrestricted fund balances at June 30, 2018 are projected to be approximately \$80.1 million, an increase of \$12.1 million, for the 2017-18 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, 2017 to March 31, 2018 total \$256.5 million compared to \$274.5 million for the same period last fiscal year for a decrease of \$18.0 million or 7%. Federal awards were \$136.4 million for the current year compared to \$140.7 million for the same period last year, representing a 3% decrease.

BKD will conduct the independent audit of the general-purpose financial statements of the Foundation for fiscal year 2017-18 at a cost of \$8,150. The audited financial statements will be distributed to the Board of Directors in late 2018/early 2019. BKD will perform an audit of all federal funds received by the University for fiscal year ended June 30, 2018 under the provisions of the Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards at a cost of \$18,025. The quoted fee is for the testing of the research and development cluster and one other program. Additional fees of \$6,700 will result if additional programs meet criteria as a major program cluster. Related printing costs for these statements will be approximately \$800.

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 53.0% for fiscal year 2017-18 and 53.0% will remain in effect through June 30, 2020.

Huron Consultants were hired to assist with the F&A rate calculation/negotiation based upon June 30, 2015 data; a rate proposal was submitted to DHHS in early 2016 and the rate agreement was signed on May 1, 2017. It is anticipated Huron will be hired to assist with the next F&A rate calculation/negotiation, to be based on June 30, 2019 data.

GENERAL INFORMATION

UKRF is a separate legal entity established by the University 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.

