



UNIVERSITY OF KENTUCKY

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**University of Kentucky Research Foundation**  
**Board of Directors Meeting**  
**June 5, 2012**

**Report of the Treasurer**

Independent Audit of Consolidated Financial Statements for the Year Ended June 30, 2011

The independent audit for the fiscal year ended June 30, 2011 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 2010-2011.

The Audited Financial Statements were previously distributed to the Board of Directors in the fall of 2011. An additional copy is included in your Board packet.

### *FINANCIAL HIGHLIGHTS, FY 2010-11*

- Operating revenues were \$339.5 million, an increase of \$11.9 million or 3.6% over the previous year. The increase in operating revenues is due primarily to increases in federal contracts of \$11.9 million which included \$11.2 million increase in ARRA grants. Nongovernmental grants and contracts also contributed to the growth by \$1.5 million, offset by a decrease in State and local grants of \$3.3 million.
- Operating expenses were \$326.2 million, an increase of \$12.8 million, primarily attributable to increased expenses associated with research of \$6.4 million, instruction of \$2.7 million and public service activity of \$2.4 million.
- Net income from operations was \$13.3 million. Operating revenues and expenses consist primarily of grants and contracts activity.
- Nonoperating revenues were \$18.4 million, consisting primarily of capital grants and gifts of \$15.8 million and patent and investment income of \$1.7 million. Grants to the University for support of academic programs, administrative costs and capital projects totaled \$21.5 million.
- Reimbursement of facility and administrative costs of contracts and grants (indirect costs recovery) totaled \$52.8 million compared to \$50.6 million for the previous year, and are included in total revenues of \$339.5 million.
- The above activities resulted in an overall increase in net assets for the year of \$10.3 million, with unrestricted net assets increasing \$7.6 million.
- The Balance Sheet as of June 30, 2011 reported total assets of \$108.2 million, with liabilities of \$64.6 million. Total net assets were \$43.6 million, consisting of capital assets (net of depreciation) of \$12.6 million, restricted net assets of \$4.4 million, and unrestricted net assets of \$26.6 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, 2011 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, 2012

- Budgeted unrestricted current funds revenues for the current year total \$292.5 million which includes expected indirect cost recovery of \$43.0 million. For the nine months ended March 31, UKRF has realized \$262.5 million or 90% of the total revenue estimate.
- Unrestricted current funds expenditures, including grants to the University, total \$255.6 million or 87% of the approved budget as of March 31, 2012.

- Unrestricted fund balances at June 30, 2012 are projected to be approximately \$34.6 million, an increase of \$8 million for the 2011-12 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, 2011 to March 31, 2012 total \$219.8 million compared to \$249.9 million for the same period last fiscal year or a 12.0% decrease. Federal awards were \$115.6 million for the current year compared to \$132.9 million for the same period last year, or a decrease of 13.0%. Total awards without ARRA funds were \$216.8 million for the nine month period compared to \$220.2 million from the same period last fiscal year.

BKD will conduct the independent audit of the general-purpose financial statements of the Foundation for FY 2011-2012 at a cost of \$7,400. The audited financial statements will be distributed to the Board of Directors in October 2012.

#### 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 2010-2012.

An F & A cost rate proposal based upon June 30, 2011 costs was submitted in December 2011 to DHHS. Negotiations and final rates are not expected for several months.

#### **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.

UNIVERSITY OF KENTUCKY  
RESEARCH FOUNDATION  
BALANCE SHEETS AS OF MARCH 31, 2012 AND 2011

ASSETS

	<u>2012</u>	<u>2011</u>
<b>CURRENT FUNDS</b>		
Cash	\$ 38,988,376	\$ 34,722,126
Reimbursable costs - grants and contracts, less allowances of \$635,000 in 2012 and \$545,000 in 2011	35,693,211	40,987,895
Investments, at market (Schedule 3)	16,606,479	14,949,372
Deferred charges - patents	2,316,322	3,306,925
<b>Total current funds</b>	<b>\$ 93,604,388</b>	<b>\$ 93,966,318</b>
<b>ENDOWMENT FUNDS</b>		
Investments, at market (Schedule 3)	\$ 3,656,818	\$ 3,902,343
<b>Total endowment funds</b>	<b>\$ 3,656,818</b>	<b>\$ 3,902,343</b>
<b>PLANT FUNDS</b>		
Land and improvements	\$ 2,336,454	\$ 2,336,454
Construction in progress	-	529,013
Spindletop farm	469,180	1
<b>Total plant funds</b>	<b>\$ 2,805,634</b>	<b>\$ 2,865,468</b>

**UNIVERSITY OF KENTUCKY**  
**RESEARCH FOUNDATION**  
**BALANCE SHEETS AS OF MARCH 31, 2012 AND 2011**

**LIABILITIES AND FUND BALANCES**

	<u>2012</u>	<u>2011</u>
<b>CURRENT FUNDS</b>		
Interest payable	\$ 8,977	\$ 8,977
Accounts payable	4,074,604	3,624,912
Net deferred revenues	6,875,277	8,892,122
Deferred income - grants and contracts	38,003,555	46,846,037
Deferred income - patents	660,522	857,294
Due to other funds	7,528,701	6,683,618
Fund balances		
Unrestricted	35,803,015	26,458,761
Restricted	649,737	594,597
<b>Total current funds</b>	<b>\$ 93,604,388</b>	<b>\$ 93,966,318</b>
<b>ENDOWMENT FUNDS</b>		
Due to other funds	\$ 15,812	\$ 163,653
Fund balances	3,641,006	3,738,690
<b>Total endowment funds</b>	<b>\$ 3,656,818</b>	<b>\$ 3,902,343</b>
<b>PLANT FUNDS</b>		
Investment in plant	\$ 2,805,634	\$ 2,865,468
<b>Total plant funds</b>	<b>\$ 2,805,634</b>	<b>\$ 2,865,468</b>

UNIVERSITY OF KENTUCKY  
RESEARCH FOUNDATION  
UNRESTRICTED FUNDS NET DEFERRED REVENUES  
FOR THE NINE MONTHS ENDED MARCH 31, 2012  
WITH COMPARATIVE FIGURES FROM MARCH 31, 2011

	<u>2012</u>	<u>2011</u>
Total revenues and appropriated fund balance	\$ 55,202,639	\$ 50,961,176
Less appropriated fund balance	<u>(6,000,000)</u>	<u>(3,400,000)</u>
Total revenues less appropriated fund balance	49,202,639	47,561,176
Expenditures	<u>42,327,362</u>	<u>38,669,054</u>
Net deferred revenues	<u>\$ 6,875,277</u>	<u>\$ 8,892,122</u>

**UNIVERSITY OF KENTUCKY**  
**RESEARCH FOUNDATION**  
**STATEMENT OF CHANGES IN FUND BALANCES**  
**FOR THE NINE MONTHS ENDED MARCH 31, 2012**

	Current Restricted Funds	Endowment Funds	Investment In Plant
<b>REVENUES AND OTHER ADDITIONS</b>			
Endowment income	\$ 100,855	\$ 43,961	
Gifts	55,500	2,255	
Other income	11,177	-	
Net change in fair value of investments	-	(28,206)	
<b>Total revenues and other additions</b>	<b>167,532</b>	<b>18,010</b>	
<b>EXPENDITURES AND OTHER DEDUCTIONS</b>			
Educational and general	186,683	-	
Transfers to other funds and affiliated corporations	-	106,777	598,279
<b>Total expenditures and other deductions</b>	<b>186,683</b>	<b>106,777</b>	<b>598,279</b>
<b>NET DECREASE for the period</b>	<b>(19,151)</b>	<b>(88,767)</b>	<b>(598,279)</b>
<b>FUND BALANCE, July 1, 2011</b>	<b>668,888</b>	<b>3,729,773</b>	<b>3,403,913</b>
<b>FUND BALANCE, March 31, 2012</b>	<b>\$ 649,737</b>	<b>\$ 3,641,006</b>	<b>\$ 2,805,634</b>

**UNIVERSITY OF KENTUCKY**  
**RESEARCH FOUNDATION**  
**SCHEDULE OF UNRESTRICTED CURRENT FUNDS REVENUES AND APPROPRIATED FUND BALANCES**  
**FOR THE NINE MONTHS ENDED MARCH 31, 2012**  
**WITH COMPARATIVE FIGURES FROM MARCH 31, 2011**

	2012			2011	
	Budget	Realized	%	Realized	%
<b>REALIZED INCOME</b>					
<b>Sponsored projects</b>					
Federal grants and contracts	\$ 202,872,317	\$ 172,778,194	85	\$ 171,262,862	82
State and local grants and contracts	61,290,727	56,201,667	92	49,665,751	71
Nongovernmental grants and contracts	25,836,956	21,526,643	83	21,004,342	79
<b>Total realized income</b>	<b>290,000,000</b>	<b>250,506,504</b>	<b>86</b>	<b>241,932,955</b>	<b>79</b>
<b>Less: direct costs</b>					
Federal grants and contracts	163,165,220	139,056,941	85	137,239,986	82
State and local grants and contracts	61,140,949	55,424,340	91	48,953,699	70
Nongovernmental grants and contracts	22,693,831	18,801,495	83	18,259,325	78
<b>Total direct costs</b>	<b>247,000,000</b>	<b>213,282,776</b>	<b>86</b>	<b>204,453,010</b>	<b>78</b>
<b>Net recoveries of facilities and administrative costs</b>	<b>43,000,000</b>	<b>37,223,728</b>	<b>87</b>	<b>37,479,945</b>	<b>85</b>
<b>GENERAL INCOME</b>					
Cost of education allowances	63,000	31,500	50	-	-
Fixed price contracts	1,100,000	2,550,000	232	632,251	39
Investment income	-	19,911	-	32,380	-
Miscellaneous income	20,000	50,130	251	11,584	58
Patent income	1,300,000	975,873	75	1,328,036	89
Transfers from University of Kentucky for cost share	-	8,351,497	-	8,076,980	-
<b>Total general income</b>	<b>2,483,000</b>	<b>11,978,911</b>	<b>482</b>	<b>10,081,231</b>	<b>313</b>
<b>Appropriated fund balance</b>	<b>6,000,000</b>	<b>6,000,000</b>	<b>100</b>	<b>3,400,000</b>	<b>100</b>
<b>Total revenues and appropriated fund balance</b>	<b>\$ 51,483,000</b>	<b>\$ 55,202,639</b>	<b>107</b>	<b>\$ 50,961,176</b>	<b>101</b>



**UNIVERSITY OF KENTUCKY**  
**RESEARCH FOUNDATION**  
**SCHEDULE OF UNRESTRICTED CURRENT FUNDS EXPENDITURES**  
**FOR THE NINE MONTHS ENDED MARCH 31, 2012**  
**WITH COMPARATIVE FIGURES FROM MARCH 31, 2011**

	2012			2011	
	Budget	Expended	%	Expended	%
<b>I. TRANSFERS TO UNIVERSITY OF KENTUCKY</b>					
A. General grant	\$ 3,263,400	\$ 2,447,550	75	\$ 2,188,200	75
B. Academic research administration personnel	7,079,600	5,309,700	75	5,054,850	75
C. "Accounting" transfer (COE, fixed price)	1,163,000	2,581,500	222	632,250	37
<b>D. Other transfers</b>					
1. Teaching assistants	451,000	338,250	75	338,250	75
2. Minority postdoctoral fellowships	120,000	90,000	75	90,000	75
3. Women postdoctorals in underrepresented areas	120,000	90,000	75	90,000	75
4. Computer upgrade funds to VP info systems	430,400	322,800	75	322,800	75
5. Graduate school program support	3,997,000	2,997,750	75	2,997,750	75
6. Health sciences research building debt service	691,700	518,775	75	406,200	75
7. Environmental health and safety	66,000	49,500	75	49,500	75
8. Biomedical/Biological science research building debt service	2,226,700	1,670,025	75	1,669,350	75
9. Legal counsel support	81,000	60,750	75	60,750	75
10. Risk & insurance	100,000	75,000	75	75,000	75
11. Controller's office support/CAS	635,000	476,250	75	476,243	75
12. President's retainer for chairing UKRF Board	-	-	-	20,250	75
13. Commercialization & economic development	552,500	414,375	75	414,375	75
14. RCTF - VC/MC commitment (Toxicology)	85,000	63,750	75	63,750	75
15. College grant officers	637,000	477,750	75	477,750	75
Total transfers to University of Kentucky	21,699,300	17,983,725	83	15,427,268	72
<b>II. EXPENDITURES</b>					
<b>A. Operating expenses, research administration</b>					
1. Contractual services	20,000	18,983	95	21,966	110
2. Computer services	100,000	68,450	68	72,372	63
3. Project administration	50,000	23,484	47	32,584	65
4. Federal relations/sponsored program development	31,000	19,109	62	23,490	76
5. Intellectual properties office	36,000	41,064	114	28,694	80
6. Communications and advancement	126,000	26,245	21	28,199	19
7. Discretionary accounts	26,000	12,837	49	15,357	59
8. Overruns and disallowed costs	2,000	33,652	-	89,151	-
9. Regulatory travel - federal relations	45,000	33,405	74	25,205	56
10. VP office operating	60,000	24,652	41	19,986	33
11. Air freight, postage and duplicating	50,000	23,386	47	21,722	43
12. Renovation, equipment and other	10,000	5,306	-	-	-
13. Faculty travel	30,000	2,884	10	6,547	22
14. Research integrity	45,000	29,523	66	35,526	79
15. Sponsored projects accounting/Office of the treasurer	63,100	65,754	104	39,168	62
Total operating expenses	694,100	428,734	62	459,967	63

**UNIVERSITY OF KENTUCKY**  
**RESEARCH FOUNDATION**  
**SCHEDULE OF UNRESTRICTED CURRENT FUNDS EXPENDITURES**  
**FOR THE NINE MONTHS ENDED MARCH 31, 2012**  
**WITH COMPARATIVE FIGURES FROM MARCH 31, 2011**

	2012			2011	
	Budget	Expended	%	Expended	%
<b>B. Other activity</b>					
1. RGS/IS contract programming & software	150,000	127,534	85	144,106	96
2. Patent costs	700,000	460,885	66	806,092	121
3. Royalty income sharing program	3,100,000	365,296	12	117,451	4
<b>Total other activity</b>	<b>3,950,000</b>	<b>953,715</b>	<b>24</b>	<b>1,067,649</b>	<b>26</b>
<b>C. Research program budget</b>					
1. Start up	9,499,055	6,224,521	66	5,829,995	60
2. Enrichment program	9,440,000	4,073,364	43	4,099,349	48
3. Faculty research support	775,000	320,708	41	323,857	42
4. Grant related support	925,000	566,677	61	355,761	36
5. Shared use facilities	1,500,000	432,376	-	420,975	22
6. University wide initiatives & opportunities	3,000,545	1,468,038	49	1,488,677	60
<b>Total research program expenditures</b>	<b>25,139,600</b>	<b>13,085,684</b>	<b>52</b>	<b>12,518,614</b>	<b>51</b>
<b>D. Cost share</b>					
1. Cost share expenses	-	9,875,504	-	9,195,556	-
<b>Total cost share</b>	<b>-</b>	<b>9,875,504</b>	<b>-</b>	<b>9,195,556</b>	<b>-</b>
<b>Total transfers and expenditures</b>	<b>\$ 51,483,000</b>	<b>\$ 42,327,362</b>	<b>82</b>	<b>\$ 38,669,054</b>	<b>76</b>

UNIVERSITY OF KENTUCKY  
RESEARCH FOUNDATION  
SCHEDULE OF INVESTMENTS BY FUND GROUP  
AS OF MARCH 31, 2012

<b>CURRENT FUNDS</b>	
Centaur Pharmaceuticals	\$ 100
Coldstream Laboratories Incorporated	8,819,448
InfraReDx Incorporated	3,835
Kentucky Technology Incorporated	7,783,090
Oil leases - at nominal value (six)	6
<b>Total current funds investments</b>	<b>\$ 16,606,479</b>
<b>ENDOWMENT FUNDS</b>	
Investments in funds held by others	\$ 1
Equity in pooled endowment funds	3,656,817
<b>Total endowment funds investments</b>	<b>\$ 3,656,818</b>

**UNIVERSITY OF KENTUCKY**  
**RESEARCH FOUNDATION**  
**SUMMARY OF CURRENT FUNDS REVENUES, EXPENDITURES AND TRANSFERS**  
**FOR THE NINE MONTHS ENDED MARCH 31, 2012**

	Unrestricted	Restricted	Total
<b>REVENUES</b>			
Grants and contracts	\$ 37,223,728	\$ 213,282,776	\$ 250,506,504
<b>Unrestricted current</b>			
Cost of education allowance	31,500		31,500
Fixed price contracts	2,550,000		2,550,000
Investment income	19,911		19,911
Miscellaneous income	50,130		50,130
Patent income	975,873		975,873
Transfers from University of Kentucky for cost share	8,351,497		8,351,497
Restricted current		167,532	167,532
<b>Total revenues</b>	<b>49,202,639</b>	<b>213,450,308</b>	<b>262,652,947</b>
<b>EXPENDITURES</b>			
Grants and contracts		213,282,776	213,282,776
Operating	428,734		428,734
Other	953,715		953,715
Research support	13,085,684		13,085,684
Cost share	9,875,504		9,875,504
Other restricted		186,683	186,683
<b>Total expenditures</b>	<b>24,343,637</b>	<b>213,469,459</b>	<b>237,813,096</b>
<b>TRANSFERS</b>			
Grants to the University of Kentucky	17,983,725		17,983,725
<b>Total transfers</b>	<b>17,983,725</b>		<b>17,983,725</b>
<b>Total expenditures and transfers</b>	<b>42,327,362</b>	<b>213,469,459</b>	<b>255,796,821</b>
<b>NET INCREASE/(DECREASE) in fund balances</b>	<b>\$ 6,875,277</b>	<b>\$ (19,151)</b>	<b>\$ 6,856,126</b>