

University of Kentucky Research Foundation
Board of Directors Meeting
May 23, 2023

Report of the Treasurer

***INDEPENDENT AUDIT OF FINANCIAL STATEMENTS AND FEDERAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2022***

The independent audit for the fiscal year ended June 30, 2022 was performed by FORVIS, Certified Public Accountants, who rendered an unmodified or “clean” opinion on the University of Kentucky Research Foundation (UKRF) Financial Statements. The financial statements were 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 2021-22.

The Audited Financial Statements are posted on the University Financial Services website and are also included in your Board packet.

In addition to the audit of the general purpose financial statements, FORVIS performed an audit of all federal funds received by the University for the fiscal year ended June 30, 2022 under the Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards. The audit included 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.

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FINANCIAL HIGHLIGHTS

Fiscal Year Ended June 30, 2022

- Net income from operations was \$49.9 million. Operating revenues and expenses consist primarily of activity related to grants and contracts.
- Operating revenues were \$434.3 million, an increase of \$74.6 million or 20.7% more than the previous year. The increase in operating revenues was due to increases of \$46.0 million in federal grants, \$15.0 million in recoveries of facilities and administrative cost, \$10.1 million in other operating revenues, \$1.9 million in nongovernmental grants and contracts and \$1.6 million in state and local grants.
- Operating expenses were \$384.4 million, an increase of \$64.8 million or 20.3% more than the previous year. Operating expenses increased \$31.7 million in research and \$31.1 million in public service.
- Nonoperating revenues were \$10.7 million, consisting primarily of capital grants and gifts of \$9.5 million and license income of \$1.3 million.
- Nonoperating expenses were \$41.3 million consisting of grants to the University of Kentucky (the University) primarily to support academic programs, administrative costs and capital projects.
- The above activities resulted in an overall increase in net position of \$19.3 million, which is the increase in unrestricted net position.
- The Statement of Net Position as of June 30, 2022 reported total assets of \$216.8 million, total liabilities of \$59.0 million and a total net position of \$157.8 million. The net position consisted of net investment in capital assets of \$6.8 million, restricted net position of \$6.0 million, and unrestricted net position of \$145.0 million.

Fiscal Year Ending June 30, 2023

- Budgeted unrestricted total revenues for the current year total \$71.0 million. For the nine months ended March 31, 2023, UKRF has realized \$82.5 million or 116% of the total revenue estimate.
- Unrestricted expenses, including grants to the University, total \$72.4 million or 43% of the approved budget as of March 31, 2023.
- Unrestricted fund group net position at June 30, 2023 is projected to be approximately \$157.4 million, an increase of \$12.4 million, for the 2022-23 fiscal year. This increase is mainly due to an anticipated over-recovery of Facilities and Administrative Costs (F&A).
- Contract and grant awards from July 1, 2022 to March 31, 2023 total \$381.7 million compared to \$355.3 million last fiscal year, an increase of \$26.4 million or 7.4%. Federal awards were \$190.1 million for the current year compared to \$187.4 million for the same period last year, representing

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a 1.4% increase. State awards were \$123.4 million for the current year compared to \$106.7 million for the same period last year, representing a 15.7% increase.

FORVIS will conduct the independent audit of the general-purpose financial statements of the Foundation for fiscal year 2022-23 at the cost of \$9,461. The audited financial statements will be distributed to the Board of Directors in late 2023/early 2024. FORVIS will perform an audit of all federal funds received by the University for fiscal year ended June 30, 2023 under the provisions of the Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards at the cost of \$20,909. The quoted fee is for testing eight major programs. Additional fees of \$7,771 will result if additional programs meet the criteria as a major program cluster. Related printing costs for these statements will be approximately \$250.

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 in FY 23 is 53.0% and will remain in effect until amended.

A full Facilities and Administrative Cost Rate proposal, based on FY 22 data, was prepared and submitted to DHHS, Cost Allocation Services in March 2023, with assistance from Huron Consulting. It is anticipated that Huron will also assist in the negotiation phase to establish a new rate agreement. Until a new agreement is finalized, the current agreement and rates remain in effect.

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 "grants to UK" for capital projects, support of academic programs, and support of indirect costs.

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