



UK
UNIVERSITY
OF KENTUCKY

2006

University of Kentucky
**Consolidated
Financial
Statements**

Dream Challenge Succeed



University of Kentucky Consolidated Financial Statements Year Ended June 30, 2006

TABLE OF CONTENTS

Message from the President	i
Independent Auditors' Report	1
Management's Discussion and Analysis	2
Consolidated Financial Statements	
Statements of Net Assets	13
Statements of Revenues, Expenses and Changes in Net Assets	14
Statements of Cash Flows	15
Notes to Financial Statements	16
Independent Auditors' Report on Additional Information	38
Supplemental Information	
Consolidating Schedule – Statement of Net Assets	39
Consolidating Schedule – Statement of Revenues, Expenses and Changes in Net Assets	40
Board of Trustees	
Administrative Executive Officers	
Academic Officers	

MESSAGE FROM THE PRESIDENT

In 1997, the people of Kentucky formed a compact with their flagship university. They called on the University of Kentucky to become a Top 20 public research university by 2020. In return for making the investments necessary to achieving this goal, the people of Kentucky would receive the benefits that come from it: an institution defined by academic excellence, world-class research, and vigorous engagement in communities across Kentucky.

In the eight years since House Bill 1 passed, UK has made great progress in its quest to build a Top 20 university. UK is educating more students, increasing the overall student enrollment by about 2,400 students. We are graduating more students as well, as the graduation rate jumped from 48 to 60 percent. The university's research expenditures have risen by 138 percent, deepening our commitment to addressing Kentucky's most challenging health care problems, from lung cancer to heart disease. UK's endowment has soared, increasing from \$195 million in 1997 to its current total of \$746 million.

However, despite the tremendous progress by our faculty, staff and students, I felt the university's Top 20 aspirations needed a boost. The entire campus community needed to know if achieving this dream of Top 20 status was within reach.

In December 2005, after 18 months of research, benchmarking and statistical analysis, the University of Kentucky released its Top 20 Business Plan, which was designed to clarify the benefits of building a Top 20 university and defining what it will take to achieve that goal.

The Plan's bottom line is simple: citizens of states with Top 20 universities are more educated, healthier, and more financially secure. Average household incomes are higher in states with Top 20 universities. The median income in these



President Lee T. Todd Jr.

states is over \$10,000 higher than we have in Kentucky. Fewer people live in poverty and fewer public dollars are spent on health care in these states. Today, 17 percent of Kentuckians live in poverty — over one-third of them are children. In states with Top 20 universities, the rate is 12 percent. If Kentucky's rate were 12 percent instead of 17 percent, some 200,000 fewer Kentuckians would be living in poverty. We also could reduce substantially the number of our citizens on Medicaid, saving the Commonwealth hundreds of millions of dollars each year.

Most important to Kentucky's long-term economic success is the fact that only 19 percent of our fellow Kentuckians have a bachelor's degree or higher. The national average is 27 percent and it is 28 percent in states with Top 20 universities. To reach the national average by 2020, Kentucky needs to educate 210,000 more young people. Especially in a knowledge-based economy, a state that allows its workforce to lag behind in educational attainment is a state that willingly accepts economic failure.

Our role could not be clearer. This nation's universities, particularly research universities, are not only called upon to educate. Research

universities are change agents, responsible for bettering all aspects of our lives.

That belief is at the heart of UK's Top 20 Business Plan and our vision for the Commonwealth. And as the state's flagship, land-grant institution, the University of Kentucky must play a leadership role in improving health care and quality of life across the state, while developing and diversifying the Commonwealth's economy.

To do that, UK must invest in our human capital. The Business Plan calls on UK to build a faculty and support staff that is attractive to more students, valued by businesses and communities for their expertise, and willing to dare to discover new products and new processes, build companies, and create jobs. Kentucky's progress in this new century will be the result of the vision, expertise, and initiative of her flagship faculty.

As a result of this investment, UK will be able to continue building a student body that is more diverse in character, larger in size, and even more anxious – and prepared – to discover advances across all fields of human knowledge, especially in those essential to economic success: science, technology, engineering and math. UK will inspire, recruit, and retain thousands of Kentuckians willing to take on the challenges and opportunities of the knowledge economy with the aim of making their home state a leader in new business creation and a magnet for cutting edge industries. UK also will be a magnet for students from across the United States and the globe anxious to share in building an economy that successfully competes in the 21st century. And we will give them an appreciation of the humanities and arts; an interest in literature, culture and history; and a passion for making their communities better.

Over the next 14 years, the Business Plan calls for UK to:

- Increase enrollment by 7,000 students – to 34,000;

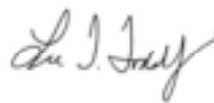
- Increase what is already the state's highest graduation rate among public universities by 12 percentage points – to 72 percent;
- Increase the number of faculty by 625 – to more than 2,500;
- Increase research expenditures by \$470 million – to \$768 million; and
- Increase engagement in Kentucky's schools, farms, businesses and communities.

Not only did the Business Plan motivate leaders across campus, it brought statewide and national acclaim. The General Assembly fully funded the Top 20 Business Plan during the second year of the biennium, providing this university with a jolt of confidence from our elected officials.

Several national higher education leaders have stated that UK's plan was the first comprehensive business plan developed by a public university. National media were drawn to the university, as well. UK was the cover story in the Chronicle on Higher Education. USA Today featured the plan and the New York Times, Business Week and Wall Street Journal conducted interviews about the planning process.

But maybe the most invigorating aspect of the Plan is that it showed this campus and the Commonwealth that, with steady and strong statewide support, we can transform Kentucky. It was not long ago that Kentucky's elected officials stood in Frankfort challenging the status quo. They envisioned a new Kentucky – one that was better educated, healthier and wealthier than ever before.

It is time to turn those dreams into reality.



Lee T. Todd Jr.
President



Deloitte & Touche LLP
Suite 2100
220 W. Main Street
Louisville, KY 40202-5313
USA

Tel: +1 502 562 2000
Fax: +1 502562 2073
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of the University of Kentucky

and

the Secretary of Finance and Administration Cabinet of the
Commonwealth of Kentucky

We have audited the accompanying consolidated statements of net assets of the University of Kentucky (the "University") (an agency of the Commonwealth of Kentucky) and affiliated corporations as of June 30, 2006 and 2005, and the related consolidated statements of revenues, expenses and changes in net assets and of cash flows for the years then ended. These consolidated financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the University of Kentucky and affiliated corporations as of June 30, 2006 and 2005, and its changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis ("MD&A") on pages 2 through 12 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the University's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2006, on our consideration of internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLP

October 20, 2006

Management's Discussion and Analysis

The following Management's Discussion and Analysis, or MD&A, provides an overview of the financial position and activities of the University of Kentucky (the University) and its affiliated corporations for the years ended June 30, 2006 and 2005. Management has prepared this discussion, and we encourage you to read it in conjunction with the consolidated financial statements and the notes appearing in this report.

About the University of Kentucky

Located in Lexington, the University of Kentucky is the Commonwealth of Kentucky's flagship institution of higher education. As a land grant institution, the University is dedicated to enriching people's lives through excellence in teaching, research and service and plays a critical leadership role for the state by promoting human and economic development that improves lives within Kentucky's borders and beyond.

The University of Kentucky has a presence in all 120 counties – through its Agricultural Extension Service -- with an impact nationwide and abroad. Total enrollment is over 27,000 students, representing all Kentucky counties, every state in the nation, and 118 countries. In 2005 - 2006, the University conferred nearly 5,500 degrees among its comprehensive academic programs. Over 1,900 full-time faculty and 9,500 full-time staff are employed by the University.

The University consists of 16 colleges, plus the Graduate School. With 93 undergraduate programs, master's degrees in 99 fields, doctoral degrees in 66 programs, and four professional programs, the colleges include: Agriculture, Arts and Sciences, Business and Economics, Communications and Information Studies, Dentistry, Design, Education, Engineering, Fine Arts, Health Sciences, Law, Medicine, Nursing, Pharmacy, Public Health, and Social Work. The University boasts more than 80 national rankings for academic excellence.

The University's William T. Young Library is among the world's leading research libraries; its book endowment is the largest among public universities and ranks second only to Harvard University among all universities. Its broad scope of technology offers students, faculty and Kentucky residents access to the most up-to-date information from online journals, government publications, and private studies, as well as more traditional materials.

The UK Chandler Medical Center, which opened in 1960, is considered one of the nation's finest academic medical centers. The faculty, students and staff take pride in achieving excellence in education, patient care, research, and community service. As one of two Level 1 Trauma Centers in the state and the first health-care facility in Central and Eastern Kentucky to obtain distinction as a Primary Stroke Center, UK Hospital cares for the most critically injured and ill patients in the region. The 473-bed UK Hospital and UK Children's Hospital are supported by more than 500 faculty physicians and dentists, 400 resident physicians, and a staff of 3,300 health professionals committed to high-quality patient care.

Research at the University is a dynamic enterprise encompassing both traditional scholarship and emerging technologies. The Advanced Science and Technology Commercialization Center, for example, is a hub for multidisciplinary research collaboration. It is just one of more than 50 research centers and institutes across campus, including the highly acclaimed Sanders-Brown Center on Aging, Morris K. Udall Parkinson's Disease Research Center of Excellence, and Markey Cancer Center, where University researchers are discovering and developing new treatments to improve health care, providing a rich training ground for the next generation of researchers, and advancing the state's economic growth.

During fiscal year 2006, the University faculty received a record-breaking total of \$290.4 million in extramural funding for grants and contracts. The achievement marked an increase of 6 percent from last fiscal year and the fifth year in a row the University exceeded the \$200 million level in sponsored project awards. The majority of grants and contracts – 53.6 percent – were awarded by federal agencies and totaled \$155.5 million, an increase of 2 percent.

The University is committed to strong public service, reaching out to communities across the Commonwealth, sharing knowledge and making a difference in the towns, cities, and lives of all Kentuckians. An example is Health Education through Extension Leadership, a partnership between the College of Public Health, the College of Dentistry, the College of Agriculture, and the Cooperative Extension Service to enhance extension agents' capacity to deliver valuable health and wellness information throughout the state.

The University's agenda is simple – to be a catalyst for a new Commonwealth, one that is healthier, more prosperous and economically secure and that educates the state's best and brightest. The University is accelerating the movement toward academic excellence, becoming known worldwide for the quality of its academic programs, its commitment to undergraduates, its success in building a diverse community, and its engagement with the larger society.

Research Challenge Trust Fund

In 1998, the Commonwealth of Kentucky initiated the Research Challenge Trust Fund (RCTF), an endowment match program. Since that time, the Commonwealth has appropriated more than \$350 million to the public universities to be matched with private donations primarily to support chairs and professorships, fellowships and scholarships, and the research and graduate missions of the institutions. To date, the University of Kentucky has been allocated \$202.2 million in RCTF funding.

Financial Highlights

The University's overall financial position remains strong with assets of \$2.81 billion and liabilities of \$709.9 million. Net assets, which represent the University's residual interest in assets after liabilities are deducted, were \$2.10 billion or 75 percent of total assets.

- Total assets increased \$366.9 million, or 15 percent, primarily due to increases in cash and cash equivalents and capital assets, net, from the proceeds of debt issued during the year, as well as increases in endowment investments and other increases in capital assets. During the year, \$150.0 million of Hospital cash was invested in the University pooled endowment fund which accounted for a significant portion of the increase in endowment investments.
- Total liabilities increased \$128.0 million, or 22 percent, primarily due to the issuance of additional debt, principally for the hospital patient care facility project.
- Total net assets increased \$238.9 million, or 13 percent, due to an increase in net capital assets of \$13.0 million; an increase in restricted net assets of \$120.1 million, primarily due to gifts and other additions to endowments of \$36.4 million, investment income on endowments, net of spending distributions, of \$25.2 million, and capital grants from the Commonwealth of Kentucky restricted for building projects of \$48.5 million; and an increase of \$105.9 million in unrestricted net assets, primarily due to excess revenues over expenses in the hospital of \$68.9 million and general funds revenues in excess of expenses.
- Operating revenues were \$1.33 billion and operating expenses were \$1.63 billion, resulting in a loss from operations of \$307.1 million. Nonoperating revenues, including \$314.3 million in state appropriations, net of nonoperating expenses, were \$546.0 million, which, when combined with the loss from operations, resulted in an overall increase in net assets of \$238.9 million.

Using the Consolidated Financial Statements

The University presents its financial reports in a “business type activity” format, in accordance with Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* and GASB Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities – an amendment of GASB Statement No. 34*. In addition to this MD&A section, the financial report includes a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, a Statement of Cash Flows, and Notes to the Financial Statements. GASB requires that statements be presented on a consolidated basis to focus on the University as a whole.

Reporting Entity

The University of Kentucky is a component unit of the Commonwealth of Kentucky. The consolidated financial statements of the University include the operations of the University and the following entities:

- University of Kentucky Research Foundation, and its for-profit subsidiary, Kentucky Technology, Inc.
- University of Kentucky Athletic Association
- The Fund for Advancement of Education and Research in the University of Kentucky Medical Center
- University of Kentucky Business Partnership Foundation, Inc.
- University of Kentucky Center on Aging Foundation, Inc.
- University of Kentucky Gluck Equine Research Foundation, Inc.
- University of Kentucky Humanities Foundation, Inc.
- University of Kentucky Mining Engineering Foundation, Inc.
- Central Kentucky Management Services, Inc.
- Kentucky Medical Services Foundation, Inc.
- Kentucky Healthcare Enterprises, Inc., a for-profit subsidiary.

Consolidated Statement of Net Assets

The Consolidated Statement of Net Assets is the University’s balance sheet. It reflects the total assets, liabilities and net assets (equity) of the University as of June 30, 2006, with comparative information as of June 30, 2005. Liabilities due within one year, and assets available to pay those liabilities, are classified as current. Other assets and liabilities are classified as non-current. Net assets, the difference between total assets and total liabilities, are an important indicator of the University’s current financial condition, while the change in net assets is an indicator of whether the overall financial position has improved or worsened during the year. Generally, assets and liabilities are reported using current values. A major exception is capital assets, which are stated at historical cost, less accumulated depreciation. A summarized comparison of the University’s assets, liabilities and net assets at June 30, 2006, 2005 and 2004 is as follows:

Condensed Consolidated Statements of Net Assets (in thousands)

	<u>2006</u>	<u>2005</u>	<u>2004</u>
ASSETS			
Current assets	\$ 580,909	\$ 542,273	\$ 480,985
Capital assets, net of depreciation	1,081,156	1,028,064	982,366
Other noncurrent assets	1,149,983	874,771	844,098
Total Assets	<u>2,812,048</u>	<u>2,445,108</u>	<u>2,307,449</u>
LIABILITIES			
Current liabilities	229,343	213,913	204,913
Noncurrent liabilities	480,603	368,039	364,059
Total Liabilities	<u>709,946</u>	<u>581,952</u>	<u>568,972</u>
NET ASSETS			
Invested in capital assets, net of related debt	763,476	750,485	737,140
Restricted			
Nonexpendable	423,755	393,224	356,599
Expendable	307,195	217,643	204,049
Unrestricted	607,676	501,804	440,689
Total Net Assets	<u>\$ 2,102,102</u>	<u>\$ 1,863,156</u>	<u>\$ 1,738,477</u>

Assets. As of June 30, 2006, total assets amounted to \$2.81 billion. Of this amount, investment in capital assets (net of depreciation) of \$1.08 billion, or 39 percent of total assets, represented the largest asset class. Endowment investments amounted to \$767.7 million or 27 percent of total assets and cash and cash equivalents amounted to \$541.7 million or 19 percent of total assets. During the year, total assets increased by \$366.9 million primarily due to increases in cash and cash equivalents and capital assets, net, from the proceeds of debt issued during the year, as well as increases in endowment investments and other increases in capital assets.

Liabilities. As of June 30, 2006, total liabilities amounted to \$709.9 million. Bonds payable and capital leases for educational buildings, the housing and dining system, the University hospital and the William T. Young library amounted to \$436.7 million, or 62 percent of total liabilities. During the year, total liabilities increased by \$128.0 million primarily due to the issuance of additional debt, principally for the hospital patient care facility project.

Net Assets. The equity of the University of \$2.10 billion as of June 30, 2006 is reported on the Statement of Net Assets in four net asset categories: invested in capital assets, net of related debt, \$763.5 million (36 percent), restricted-nonexpendable, \$423.8 million (20 percent), restricted-expendable, \$307.2 million (15 percent), and unrestricted, \$607.7 million (29 percent).

Restricted net assets are subject to externally imposed restrictions governing their use. Although unrestricted net assets are not subject to externally imposed stipulations, substantially all of the unrestricted net assets have been internally designated for support of academic and research programs and initiatives, capital projects, and working capital requirements.

Total net assets increased by \$238.9 million during the year ended June 30, 2006. Invested in capital assets, net of related debt, increased by \$13.0 million, primarily due to payment of current year maturities of principal on bonds and capital leases. Restricted net assets increased by \$120.1 million, primarily due to gifts and other additions to endowments of \$36.4 million, investment income on endowments, net of spending distributions, of \$25.2 million, and capital grants from the Commonwealth of Kentucky restricted for building projects of \$48.5 million. Unrestricted net assets increased \$105.9 million, primarily due to excess revenues over expenses in the hospital of \$68.9 million and general funds revenues in excess of expenses.

2005 Versus 2004. During the year ended June 30, 2005:

- Total assets increased by \$137.7 million, primarily due to increases in cash and cash equivalents, endowment investments and capital assets.
- Liabilities increased by \$13.0 million primarily due to the issuance of new capital debt, net of principal payments on bonds and capital lease obligations, and increases in self insurance reserves.
- Total net assets increased by \$124.7 million. Invested in capital assets, net of related debt, increased by \$13.3 million, primarily due to net additions to capital assets of \$123.9 million offset by current year depreciation expense of \$78.2 million. Restricted net assets increased by \$50.2 million, primarily due to an increase in permanent endowments of \$36.6 million and realized and unrealized gains on endowment investments of \$26.7 million. Unrestricted net assets increased \$61.1 million, primarily due to revenues in excess of expenditures in hospital and general funds.

Consolidated Statement of Revenues, Expenses and Changes in Net Assets

The Consolidated Statement of Revenues, Expenses and Changes in Net Assets is the University's income statement. It details how net assets have increased (or decreased) during the year ended June 30, 2006, with comparative information for the year ended June 30, 2005. This statement is prepared on the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged. All items that increase or decrease net assets must appear on the Consolidated Statement of Revenues, Expenses and Changes in Net Assets as revenues, expenses, gains or losses.

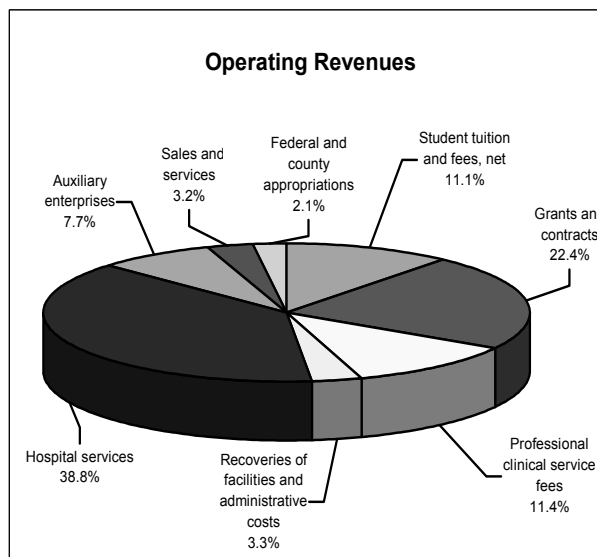
Financial activities are reported as either operating or nonoperating. GASB Statement No. 35 requires state appropriations, gifts, and investment and endowment income to be classified as nonoperating revenues. Accordingly, the University reports a net operating loss for the year prior to the addition of nonoperating revenues. The utilization of long-lived capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life. Tuition revenue is reduced by gift scholarships and institutional aid, and is reported net of scholarship allowances in the financial statements. A summarized comparison of the University's revenues, expenses and changes in net assets for the years ended June 30, 2006, 2005 and 2004 is as follows:

Condensed Consolidated Statements of Revenues, Expenses and Changes in Net Assets
(in thousands)

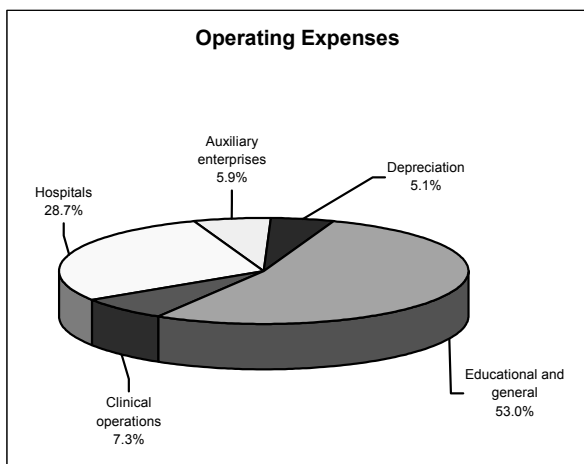
	<u>2006</u>	<u>2005</u>	<u>2004</u>
OPERATING REVENUES			
Student tuition and fees, net of scholarship allowances	\$ 147,267	\$ 133,389	\$ 124,034
Grants and contracts	297,361	268,219	241,732
Hospital services	513,466	440,609	370,628
Professional clinical service fees	150,241	142,154	134,349
Auxiliary enterprises, net of scholarship allowances	102,080	95,249	84,447
Sales and services	42,024	38,857	42,587
Recoveries of facilities and administrative costs	43,303	40,332	37,122
Federal and county appropriations	27,682	27,703	25,707
Other operating revenues	2,222	466	303
Total operating revenues	<u>1,325,646</u>	<u>1,186,978</u>	<u>1,060,909</u>
OPERATING EXPENSES			
Educational and general, excluding depreciation	864,844	797,183	787,780
Clinical operations, excluding depreciation	119,910	116,852	115,279
Hospital, excluding depreciation	468,923	387,685	329,142
Auxiliary enterprises, excluding depreciation	94,825	87,884	80,334
Depreciation	83,761	78,219	70,888
Other operating expenses	460	382	276
Total operating expenses	<u>1,632,723</u>	<u>1,468,205</u>	<u>1,383,699</u>
OPERATING LOSS	<u>(307,077)</u>	<u>(281,227)</u>	<u>(322,790)</u>
NONOPERATING REVENUES (EXPENSES)			
State appropriations	314,294	287,897	302,539
Capital appropriations	475	732	2,070
Capital grants and gifts	63,188	18,915	15,275
Gifts and grants	32,135	24,638	22,477
Investment income	119,067	56,517	78,102
Interest on capital asset - related debt	(13,497)	(13,062)	(11,970)
Additions to permanent endowments	24,336	33,650	21,036
Transfer of net assets of Lexington Community College	-	(4,968)	-
Other, net	6,025	1,587	(6,418)
Total nonoperating revenues (expenses)	<u>546,023</u>	<u>405,906</u>	<u>423,111</u>
Total increase in net assets	<u>238,946</u>	<u>124,679</u>	<u>100,321</u>
Net assets, beginning of year	<u>1,863,156</u>	<u>1,738,477</u>	<u>1,638,156</u>
Net assets, end of year	<u>\$ 2,102,102</u>	<u>\$ 1,863,156</u>	<u>\$ 1,738,477</u>

Total operating revenues were \$1.33 billion for the year ended June 30, 2006, an increase of \$138.7 million (12 percent). The primary components of operating revenues were student tuition and fees of \$147.3 million; grants, contracts and recoveries of facilities and administrative costs of \$340.7 million; hospital services of \$513.5 million; and professional clinical fee income of \$150.2 million.

The major increase was in hospital services revenue of \$72.9 million, caused equally by an increase in inpatient volume, due to improved recruitment and retention of medical faculty and staff combined with an increase in available beds, and by rate increases for selected services, primarily outpatient services. Additional significant increases in operating revenues related to grants, contracts and recoveries of facilities and administrative costs of \$32.1 million, due to the continued expansion of the research mission of the University, and in tuition and fees, net, of \$13.9 million due to tuition increases of approximately 12.5 percent.



Operating expenses totaled \$1.63 billion, an increase of \$164.5 million (11 percent). Of this amount, \$864.8 million was expended for educational and general programs, including the functions of instruction, research and service. Hospital expenses, excluding depreciation, amounted to \$468.9 million and clinical operations expenses, excluding depreciation, were \$119.9 million. Depreciation expense for the year amounted to \$83.8 million.



The most significant increase was in hospital expenses of \$81.2 million (21 percent) due to increased usage of medical supplies and increased personnel costs due to higher utilization. Education and general expenses increased \$67.7 million (8 percent) due primarily to increases in instruction, research and public service.

The net loss from operations for the year amounted to \$307.1 million. Nonoperating revenues, net of expenses, amounted to \$546.0 million, resulting in an increase in net assets of \$238.9 million for the year. Nonoperating revenues include state appropriations of \$314.3 million, which increased \$26.4 million in the current year.

2005 Versus 2004. Total operating revenues were \$1.19 billion for the year ended June 30, 2005, including student tuition and fees of \$133.4 million (11 percent), grants, contracts and recoveries of facilities and administrative costs of \$308.6 million (26 percent), professional clinical service fees of \$142.2 million (12 percent) and hospital services of \$440.6 million (37 percent). Operating revenues for fiscal 2005 increased by \$126.1 million or 12 percent over fiscal 2004, primarily due to increases in hospital services revenues of \$70.0 million, in grants, contracts and recoveries of facilities and administrative costs of approximately \$29.7 million and in student tuition and fees of \$9.4 million.

Operating expenses totaled \$1.47 billion. Of this amount, \$797.2 million, or 54 percent, was expended for educational and general programs, including the functions of instruction, research and public service. Hospital expenses, excluding depreciation, amounted to \$387.7 million, or 26 percent of the total expenses and clinical operations expenses, excluding depreciation, were \$116.9 million, or 8 percent. Depreciation amounted to \$78.2 million, or 5 percent. Operating expenses for fiscal 2005 increased by \$84.5 million or 6 percent over fiscal 2004, primarily due to increases in hospital expenses of \$58.5 million due to increased usage of medical supplies and increased personnel costs due to higher utilization.

The net loss from operations for the year amounted to \$281.2 million. Nonoperating revenues, net of expenses, amounted to \$405.9 million, resulting in an increase in net assets of \$124.7 million for the year. This compares with an increase in net assets for fiscal 2004 of \$100.3 million. The most significant difference between fiscal 2004 and 2005 was a decrease in the loss from operations of \$41.6 million, offset by decreases in investment income and state appropriations of \$21.6 million and \$14.6 million, respectively.

Consolidated Statement of Cash Flows

The Consolidated Statement of Cash Flows details how cash has increased (or decreased) during the year ended June 30, 2006, with comparative financial information for the year ended June 30, 2005. It breaks out the sources and uses of cash into the following categories:

- Operating activities
- Non-capital financing activities
- Capital financing activities
- Investing activities

Cash flows associated with the University's expendable net assets appear in the operating and non-capital financing categories. Capital financing activities include payments for capital assets, proceeds from long-term debt, and debt repayments. Purchases and sales of investments are reflected in investing activities.

The primary purpose of the Consolidated Statement of Cash Flows is to provide information about the cash receipts and cash payments made by the University during the year that will allow financial statement readers to assess the institutions:

- Ability to generate future net cash flows,
- Ability to meet obligations as they become due, and
- The possible need for external financing.

A comparative summary of the University's consolidated statement of cash flows for the years ended June 30, 2006, 2005 and 2004 is as follows:

Condensed Consolidated Statements of Cash Flows (in thousands)

	<u>2006</u>	<u>2005</u>	<u>2004</u>
CASH PROVIDED (USED) BY:			
Operating activities	\$ (228,971)	\$ (203,467)	\$ (228,809)
Noncapital financing activities	373,395	345,427	348,499
Capital and related financing activities	16,357	(118,891)	(79,170)
Investing activities	<u>(58,921)</u>	<u>15,696</u>	<u>(6,490)</u>
Net increase in cash and cash equivalents	101,860	38,765	34,030
Cash and cash equivalents, beginning of year	<u>439,855</u>	<u>401,090</u>	<u>367,060</u>
Cash and cash equivalents, end of year	<u><u>\$ 541,715</u></u>	<u><u>\$ 439,855</u></u>	<u><u>\$ 401,090</u></u>

The University's cash and cash equivalents increased \$101.9 million in 2006. Total cash provided by operating and non-capital financing activities was \$144.4 million, up \$2.5 million compared to 2005. Total cash provided by capital financing activities was \$16.4 million, reflecting both capital funding sources (debt proceeds) and uses (purchases of capital assets and debt service). Total cash used by investing activities was \$58.9 million.

Major sources of cash received from operating activities are student tuition and fees of \$144.5 million, hospital services of \$511.2 million, grants, contracts and recoveries of facilities and administrative costs of \$325.1 million and professional clinical service fees of \$154.3 million. Major uses of cash for operating activities were payments to employees for salaries and benefits of \$990.5 million and to vendors and contractors of \$532.2 million.

Noncapital financing activities includes state appropriations from the Commonwealth of Kentucky of \$314.3 million.

Capital and related financing activities include proceeds of capital debt of \$128.4 million and capital grants and gifts of \$56.3 million. Cash of \$136.7 million was expended for construction and acquisition of capital assets and \$41.1 million was expended for principal and interest payments on debt.

Investing activities include proceeds from sales and maturities of investments of \$1.68 billion and interest and dividends on investments of \$62.4 million. Cash of \$1.80 billion was used to purchase investments.

2005 Versus 2004. Cash balances improved when comparing fiscal 2005 versus fiscal 2004 with a net increase in cash of approximately \$38.8 million. The net increase in cash was due primarily to the excess funding provided by an increase in cash provided by investing activities of \$22.2 million.

Capital Asset and Debt Administration

Capital Assets

Capital assets, net of accumulated depreciation, totaled \$1.08 billion at June 30, 2006, an increase of \$53.1 million. Capital assets as of June 30, 2006, and significant changes in capital assets during the years ended June 30, 2006, and 2005 are as follows (in millions):

	Balance June 30, 2004	Net Additions FY 04-05	Balance June 30, 2005	Net Additions FY 05-06	Balance June 30, 2006
Land and land improvements	\$ 92	\$ 6	\$ 98	\$ 14	\$ 112
Buildings, fixed equipment and infrastructure	1,117	93	1,210	67	1,277
Equipment, vehicles and capitalized software	377	24	401	41	442
Library materials and art	122	10	132	6	138
Construction in progress	89	(34)	55	(12)	43
Accumulated depreciation	(815)	(53)	(868)	(63)	(931)
Total	\$ 982	\$ 46	\$ 1,028	\$ 53	\$ 1,081

At June 30, 2006, the University has capital construction projects in progress totaling approximately \$512 million in scope. Major projects include the hospital patient care facility, the new Biological Pharmaceutical Research building and the renovation of and addition to Memorial Coliseum.

Debt

At June 30, 2006, capital debt amounted to \$436.7 million, summarized by trust indenture and type as follows (in millions):

	2006	2005	2004
General Receipts bonds and notes	\$ 114.7		
Consolidated Educational Buildings Revenue Bonds	139.2	\$ 141.6	\$ 154.3
Housing and Dining System Revenue Bonds	74.0	77.0	79.3
Hospital Revenue Bonds	-	1.8	3.8
Commonwealth Library Project (W.T. Young Library) Bonds	40.2	41.4	42.5
Capital lease obligations	65.2	66.1	43.1
Notes payable	3.4	3.1	3.5
Total	\$ 436.7	\$ 331.0	\$ 326.5

Debt increased \$105.7 million during the year primarily due to the issuance of debt for the construction of the hospital patient care facility.

Economic Factors That Will Affect the Future

Executive management believes that the University is well-positioned to maintain its strong financial condition and to continue providing excellent service to students, patients, the community and the Commonwealth of Kentucky. The University's strong financial condition, as evidenced by the receipt of credit ratings of Aa3 and AA- from Moody's Investors Service and Standard & Poor's Ratings Services, respectively, will provide a high degree of flexibility in obtaining funds on competitive terms. This flexibility, along with ongoing efforts toward revenue diversification and cost containment, will enable the University to obtain the necessary resources to sustain excellence. The following are known facts and circumstances that will affect future financial results:

- As a result of an improving economy, budgeted state appropriations will increase to \$318.6 million and \$335.0 million for fiscal years 2006-07 and 2007-08, respectively.
- Tuition rates for fiscal year 2007 will increase an average of approximately 12.0 percent for resident undergraduate students and 9.1 percent for non-resident undergraduate students. The tuition rate increases combined with stable enrollment are expected to generate additional operating revenues of approximately \$17.9 million.
- As of June 30, 2006, grants and contracts of approximately \$221 million had been awarded to the University, but not expended. These contracts will provide grant revenue to future periods. Research grants and contracts awarded to the University in fiscal year 2006 were a record high of \$290.4 million.
- The University is conducting its Campaign for the University of Kentucky, a capital campaign with an expanded goal of \$1 billion. As of June 30, 2006, approximately \$910 million of gifts have been received or pledged toward this goal.
- A new hospital patient care facility with an estimated construction project cost of \$450 million has been approved by the General Assembly. General Receipts Notes in the amount of \$107.5 million were issued in fiscal year 2005-06 to provide initial funding for this project. An additional \$150 million in related bond authority has been approved for the current biennium.
- The University will continue its long-term endowment investment strategy to maximize total returns, at an appropriate level of risk, while utilizing a spending rate policy to insulate programs funded by the endowment from temporary market volatility.
- The University does not record a liability for post-employment retiree health benefits. Governmental Accounting Standards require that this liability be recognized in the financial statements beginning June 30, 2008. The impact of implementing this change from a cash basis to an accrual basis for recognizing the cost of post employment retiree health benefits will increase the annual expense associated with providing this benefit from \$7.7 million to \$14.2 million per year beginning in fiscal year 2008.

Economic challenges will continue to impact the future. However, university management believes that the University of Kentucky will be able to sustain its sound financial position and continue its progress to become one of America's 20 best public research institutions.

UNIVERSITY OF KENTUCKY AND AFFILIATED CORPORATIONS
CONSOLIDATED STATEMENTS OF NET ASSETS
JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 369,087,885	\$ 364,986,832
Notes, loans and accounts receivable, net	154,909,270	126,763,191
Investments	32,109,469	29,846,815
Inventories and other	24,802,495	20,675,672
Total current assets	<u>580,909,119</u>	<u>542,272,510</u>
Noncurrent Assets		
Restricted cash and cash equivalents	172,627,182	74,868,400
Endowment investments	767,693,088	555,365,026
Other long-term investments	172,127,484	213,472,794
Notes, loans and accounts receivable, net	35,872,190	31,065,483
Other noncurrent assets	1,662,816	-
Capital assets, net	1,081,156,203	1,028,063,986
Total noncurrent assets	<u>2,231,138,963</u>	<u>1,902,835,689</u>
Total assets	<u>2,812,048,082</u>	<u>2,445,108,199</u>
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	126,320,063	118,076,210
Deferred revenue	57,521,650	48,375,374
Long-term liabilities - current portion	45,501,341	47,460,973
Total current liabilities	<u>229,343,054</u>	<u>213,912,557</u>
Noncurrent Liabilities		
Long-term liabilities	480,602,627	368,039,152
Total liabilities	<u>709,945,681</u>	<u>581,951,709</u>
NET ASSETS		
Invested in capital assets, net of related debt	<u>763,475,732</u>	<u>750,484,801</u>
Restricted		
Nonexpendable		
Scholarships and fellowships	83,311,656	75,348,358
Research	194,070,426	179,061,853
Instruction	59,711,569	55,464,362
Academic support	82,115,782	78,868,428
Other	4,545,612	4,481,386
Total restricted nonexpendable	<u>423,755,045</u>	<u>393,224,387</u>
Expendable (See note 9.)		
Scholarships and fellowships	57,540,489	49,027,316
Research	63,706,209	46,552,512
Instruction	44,326,525	39,776,450
Academic support	29,671,893	22,309,913
Loans	8,972,452	8,726,094
Capital projects	76,815,088	23,191,108
Debt service	4,171,226	4,747,705
Auxiliary	9,833,881	10,732,438
Other	12,157,229	12,579,530
Total restricted expendable	<u>307,194,992</u>	<u>217,643,066</u>
Total restricted	<u>730,950,037</u>	<u>610,867,453</u>
Unrestricted (See note 10.)	<u>607,676,632</u>	<u>501,804,236</u>
Total net assets	<u>\$ 2,102,102,401</u>	<u>\$ 1,863,156,490</u>

UNIVERSITY OF KENTUCKY AND AFFILIATED CORPORATIONS
CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	2006	2005
OPERATING REVENUES (See note 11)		
Student tuition and fees	\$ 201,192,585	\$ 178,587,240
Less: Scholarship allowances	(53,925,121)	(45,198,300)
Net tuition and fees	147,267,464	133,388,940
Federal grants and contracts	170,590,760	159,811,330
State and local grants and contracts	95,222,942	78,293,146
Nongovernmental grants and contracts	31,547,216	30,113,297
Recoveries of facilities and administrative costs	43,303,460	40,332,490
Sales and services	42,023,694	38,856,761
Federal appropriations	15,683,789	16,135,899
County appropriations	11,998,193	11,567,197
Professional clinical service fees	150,240,798	142,154,440
Hospital services	513,465,765	440,609,478
Auxiliary enterprises:		
Housing and dining	40,781,440	36,359,880
Less: Scholarship allowances	(4,396,917)	(4,217,608)
Net housing and dining	36,384,523	32,142,272
Athletics	45,062,540	42,408,397
Other auxiliaries	20,632,796	20,698,585
Other operating revenues	2,222,388	465,610
Total operating revenues	1,325,646,328	1,186,977,842
OPERATING EXPENSES		
Educational and general:		
Instruction	240,101,280	222,216,734
Research	236,141,392	226,870,110
Public service	164,011,200	137,286,741
Libraries	14,866,441	13,440,593
Academic support	61,655,329	56,129,788
Student services	21,564,839	18,862,683
Institutional support	50,213,111	47,633,536
Operations and maintenance of plant	53,047,615	45,577,213
Student financial aid	23,242,484	29,165,814
Depreciation	57,901,456	53,528,499
Total educational and general	922,745,147	850,711,711
Clinical operations (including depreciation of \$807,937 in 2006 and \$726,210 in 2005)	120,717,535	117,577,768
Hospital and clinics (including depreciation of \$19,210,460 in 2006 and \$19,265,277 in 2005)	488,133,619	406,949,935
Auxiliary enterprises:		
Housing and Dining (including depreciation of \$3,366,341 in 2006 and \$2,183,203 in 2005)	38,780,215	34,092,645
Athletics (including depreciation of \$2,474,802 in 2006 and \$2,515,907 in 2005)	47,810,546	44,472,780
Other auxiliaries	14,075,804	14,017,792
Other operating expenses	460,336	381,985
Total operating expenses	1,632,723,202	1,468,204,616
Net loss from operations	(307,076,874)	(281,226,774)
NONOPERATING REVENUES (EXPENSES) (See note 11)		
State appropriations	314,293,555	287,897,256
Gifts and grants	32,134,557	24,638,487
Investment income	119,066,760	56,517,381
Interest on capital asset-related debt	(13,497,227)	(13,062,343)
Other nonoperating revenues and expenses, net	3,749,372	3,343,018
Net nonoperating revenues (expenses)	455,747,017	359,333,799
Net income (loss) before other revenues, expenses, gains, or losses	148,670,143	78,107,025
Capital appropriations	475,068	732,166
Capital grants and gifts	63,188,237	18,915,305
Additions to permanent endowments, including Research Challenge		
Trust Funds of \$9,076,476 in 2006 and \$14,519,692 in 2005	24,335,856	33,650,404
Transfer of net assets of Lexington Community College	-	(4,968,447)
Other, net	2,276,607	(1,756,512)
Total other revenues (expenses)	90,275,768	46,572,916
INCREASE IN NET ASSETS	238,945,911	124,679,941
NET ASSETS, beginning of year	1,863,156,490	1,738,476,549
NET ASSETS, end of year	\$ 2,102,102,401	\$ 1,863,156,490

UNIVERSITY OF KENTUCKY AND AFFILIATED CORPORATIONS
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	\$ 144,545,367	\$ 133,441,920
Grants and contracts	283,967,680	269,050,369
Recoveries of facilities and administrative costs	41,178,394	40,344,165
Sales and services	44,686,045	38,667,103
Federal appropriations	14,746,791	15,724,706
County appropriations	12,176,710	11,089,895
Payments to vendors and contractors	(532,207,183)	(419,513,842)
Student financial aid	(23,306,717)	(29,178,203)
Salaries, wages and benefits	(990,500,114)	(939,556,548)
Professional clinic service fees	154,322,459	139,176,337
Hospital services	511,222,775	441,273,315
Auxiliary enterprise receipts:		
Housing and Dining	36,405,967	32,062,046
Athletics	46,092,778	41,574,832
Other auxiliaries	20,003,727	20,479,035
Loans issued to students	(16,292,186)	(13,313,757)
Collection of loans to students	16,844,054	13,359,946
Self insurance receipts	38,995,996	32,957,622
Self insurance payments	(35,761,650)	(32,046,168)
Other receipts (payments), net	3,908,082	939,603
Net cash provided (used) by operating activities	(228,971,025)	(203,467,624)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	314,293,555	287,897,256
Gifts and grants received for other than capital purposes:		
Gifts received for endowment purposes	24,335,856	33,650,404
Gifts received for other purposes	30,353,354	25,612,601
Agency and loan program receipts	107,162,039	91,343,086
Agency and loan program payments	(106,656,275)	(96,238,768)
Other nonoperating receipts (payments), net	3,906,093	3,162,632
Net cash provided (used) by noncapital financing activities	373,394,622	345,427,211
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	-	(4)
Capital grants and gifts	56,273,834	5,681,344
Purchases of capital assets	(136,651,651)	(112,885,265)
Proceeds from capital debt	128,410,581	29,651,354
Payments to refunding bond agents	-	(6,174,849)
Proceeds from sales of capital assets	10,400,000	10,089
Principal paid on capital debt and leases	(25,758,025)	(25,106,312)
Interest paid on capital debt and leases	(15,292,480)	(13,057,633)
Other capital and related financing receipts (payments), net	(1,025,361)	2,990,256
Net cash provided (used) by capital and related financing activities	16,356,898	(118,891,020)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	1,675,818,484	1,736,561,278
Interest and dividends on investments	62,359,530	26,415,348
Purchase of investments	(1,797,098,674)	(1,747,280,367)
Net cash provided (used) by investing activities	(58,920,660)	15,696,259
NET INCREASE IN CASH AND CASH EQUIVALENTS		
	101,859,835	38,764,826
CASH AND CASH EQUIVALENTS, beginning of year	439,855,232	401,090,406
CASH AND CASH EQUIVALENTS, end of year	\$ 541,715,067	\$ 439,855,232
Reconciliation of net loss from operations to net cash used by operating activities:		
Operating loss	\$ (307,076,874)	\$ (281,226,774)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation expense	83,760,995	78,219,096
Change in assets and liabilities:		
Notes, loans and accounts receivable, net	(25,801,876)	(6,912,821)
Inventories and other assets	(4,576,243)	(1,460,218)
Accounts payable and accrued liabilities	12,042,808	1,549,214
Deferred revenue	10,184,938	2,148,691
Long term liabilities	2,495,227	4,215,188
Net cash used by operating activities	\$ (228,971,025)	\$ (203,467,624)

UNIVERSITY OF KENTUCKY AND AFFILIATED CORPORATIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The University of Kentucky (the University) is a component unit of the Commonwealth of Kentucky and is included in the basic financial statements of the Commonwealth. The consolidated financial statements of the University include the operations of the University, its for-profit subsidiary (Kentucky Healthcare Enterprise, Inc.) and its affiliated non-profit corporations (entities for which the University is financially accountable as defined by Statement No. 14 and amended by Statement No. 39 of the Governmental Accounting Standards Board) as follows: The University of Kentucky Research Foundation and its for-profit subsidiary (Kentucky Technology, Inc.); The Fund for Advancement of Education and Research in the University of Kentucky Medical Center; University of Kentucky Athletic Association; Central Kentucky Management Services, Inc.; University of Kentucky Mining Engineering Foundation, Inc.; University of Kentucky Business Partnership Foundation, Inc.; University of Kentucky Gluck Equine Research Foundation, Inc.; University of Kentucky Humanities Foundation, Inc.; University of Kentucky Center on Aging Foundation, Inc.; and Kentucky Medical Services Foundation, Inc.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). GASB establishes standards for external financial reporting for public colleges and universities and requires that resources be classified for accounting and reporting purposes into the following net assets categories:

- Invested in capital assets, net of related debt: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- Restricted:
 - Nonexpendable* – Net assets subject to externally imposed stipulations that they be maintained permanently by the University. Such assets include the principal of the University's permanent endowment funds.
 - Expendable* – Net assets whose use by the University is subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time.
- Unrestricted: Net assets whose use by the University is not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

The financial statement presentation is intended to provide a comprehensive, entity-wide perspective of the University's assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows.

Summary of Significant Accounting Policies

Accrual Basis. The consolidated financial statements have been prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when an obligation has been incurred. The University reports as a Business Type Activity (BTA) as defined by GASB Statement No. 35. BTA's are those activities that are financed in whole or part by fees charged to external parties for goods and services.

Cash and Cash Equivalents. The University considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Noncurrent cash and cash equivalents includes plant funds allocated for capital projects and endowment fund cash pending transfer to the custodian for investment. Cash and cash equivalents held by the University's endowment fund managers are included in endowment investments.

Inventories. Inventories are stated principally at the lower of average cost or market.

Pooled Endowment Funds. The University employs the total return concept of investment management for setting investment objectives and determining investment performance. This concept recognizes dividends and interest, plus or minus realized and unrealized gains or losses, in determining the total return earned during any particular period. The market value method of accounting for pooled endowment funds is employed to ensure proper distribution of market price changes, realized gains (losses) on sales, accrued income earned, and distribution of investment earnings for expenditure by participating funds.

The Uniform Management of Institutional Funds Act (UMIFA), as adopted by the Commonwealth of Kentucky, permits the University to appropriate an amount of the realized and unrealized endowment appreciation to support current programs. Accordingly, spendable return from the endowment is determined using the total return philosophy. This philosophy recognizes a prudent amount of realized and unrealized gains as spendable return in addition to traditional yield. Distribution of investment earnings for expenditure by participating funds is supported first by traditional yield earned and, if necessary, a transfer from the endowment of any prior years' accumulated earnings (unexpended traditional yield) or net realized or unrealized gains.

In fiscal years 2005-06 and 2004-05, the University's endowment spending rule provided for annual distributions of 4.75 percent and 5 percent, respectively, of the three-year moving average market value of fund units. For the years ended June 30, 2006 and 2005 approximately \$10,498,000 and \$11,481,000, respectively, was transferred from endowment realized and unrealized gains to support current programs in accordance with the University's endowment spending rule. Appreciation on endowments available to support future spending rule distributions amounted to approximately \$123,774,000 at June 30, 2006. The Investment Committee of the University's Board of Trustees has approved a spending rate distribution for fiscal year 2006-07 of 4.50 percent of the three-year moving average market value of fund units. Additionally, the University assesses eligible endowment accounts with a management fee to support fundraising and endowment administration. The management fee was .75 percent and 1 percent, respectively, of total asset value during the years ended June 30, 2006 and 2005. The Investment Committee has approved a management fee of .50 percent of total asset value for fiscal year 2006-07.

Investments. Investments in marketable securities are carried at fair value, as determined by the major securities markets. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the Statement of Revenues, Expenses and Changes in Net Assets.

Capital Assets. Capital assets are stated at cost at date of acquisition or, in the case of gifts, at fair market value at date of gift.

Equipment with a unit cost of \$2,000 or more (\$1,000 for computers) and having an estimated useful life of greater than one year, is capitalized. Renovations to buildings, infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred.

Depreciation of capital assets is computed on a straight-line basis over the estimated useful lives of the respective assets, generally 40 years for buildings, 10 – 25 years for land and building improvements and infrastructure, 10 years for library books and 5 – 20 years for equipment.

The University capitalizes, but does not depreciate, works of art and historical treasures that are held for exhibition, education, research and public service.

Deferred Revenue. Deferred revenue consists primarily of amounts received from grant and contract sponsors that have not yet been earned under the terms of the agreement. Deferred revenue also includes amounts

received in advance of an event, such as advance athletic ticket sales relating to future fiscal years and unearned summer school revenue.

Student Tuition and Fees. Student tuition and fees are presented net of scholarship allowances applied to student accounts. Stipends and other payments made directly to students are presented as student financial aid expenses.

Hospital and Clinical Services Revenues. Hospital and clinical services revenues are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including contractual allowances and estimated retroactive adjustments under reimbursement programs with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Income Taxes. The University is an agency and instrumentality of the Commonwealth of Kentucky, pursuant to Kentucky Revised Statutes sections 164.100 through 164.280. Accordingly, the University is excluded from Federal income taxes as an organization described in Section 115 of the Internal Revenue Code of 1986. Each of the University's affiliated non-profit organizations has received a determination from the Internal Revenue Service granting exemption from federal income taxation pursuant to the provisions of Internal Revenue Code section 501(c)(3).

Restricted Asset Spending Policy. The University's policy is that restrictions on assets cannot be fulfilled by the expenditure of unrestricted funds for similar purposes. The determination on whether restricted or unrestricted funds are expended for a particular purpose is made on a case-by-case basis. Restricted funds remain restricted until spent for the intended purpose.

Operating Activities. The University defines operating activities, as reported on the Statement of Revenues, Expenses and Changes in Net Assets, as those that generally result from exchange transactions, such as payments received for providing goods and services and payments made for goods and services received. Nearly all of the University's expenses are from exchange transactions. Certain significant revenues relied upon for operations, such as state appropriations, gifts and investment income, are recorded as non-operating revenues, in accordance with GASB Statement No. 35.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to use estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The accompanying financial statements include estimates for items such as bad debt and contractual allowances, self-insurance reserves, accrued expenses and other liability accounts.

Recent Accounting Pronouncements. In June 2004, the GASB issued Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions." This statement establishes standards for the measurement, recognition and display of other post employment benefit expenses/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of employers subject to governmental accounting standards.

Statement No. 45 requires employers to record, as the annual cost of the plan, the actuarially determined annual required contribution. The annual required contribution is calculated to include the normal annual cost for the year for current employees plus a component to amortize the unfunded actuarial accrued liabilities of the plan over a period not to exceed 30 years.

The provisions of this statement are effective for financial statements for fiscal periods beginning after December 15, 2006. The impact of implementing this change in the method of recognizing the cost for post employment retiree health benefits will increase the annual expense associated with providing this benefit from \$7.7 million to \$14.2 million per year beginning in fiscal year 2008.

2. RESEARCH CHALLENGE TRUST FUND

The Research Challenge Trust Fund (RCTF) was created by the Kentucky General Assembly with the passage of the Postsecondary Education Improvement Act of 1997 (House Bill 1). The objectives of the Trust Fund, as stated in the Bill, include support of efforts by the University of Kentucky to attain status as a top-20 public research university. The RCTF Endowment Match Program provides state funds on a dollar-for-dollar match basis. This program, also known as "Bucks for Brains", supports endowed chairs, professorships and graduate fellowships, and the research and graduate mission of the University.

The status of the RCTF endowed funds as of June 30, 2006, is summarized as follows (in thousands):

	Kentucky General Assembly Funding	University of Kentucky Share of Funding	State Funds Received to Date	Matching Pledges Receivable
1998 Biennium	\$ 100,000	\$ 66,667	\$ 66,667	
2000 Biennium	100,000	68,857	68,857	\$ 733
2002 Biennium	100,000	66,667	25,409	6,477
Total	<u>\$ 300,000</u>	<u>\$ 202,191</u>	<u>\$ 160,933</u>	<u>\$ 7,210</u>

Interest income of approximately \$2.2 million earned on the state matching funds is included in the University's share of the 2000 Biennium funding.

The University expects to fully realize all outstanding matching pledges, however, it may be obligated to return any state funds and accrued interest income related to pledges not received within five years of the initial pledge dates if unable to replace the unpaid pledges with other eligible gifts. A payment schedule of the outstanding pledges is shown below (in thousands):

	2000 Biennium	2002 Biennium
Pledges due in fiscal years 2006 or prior	\$ 245	\$ 498
Pledges due in fiscal year 2007	359	1,412
Pledges due in fiscal year 2008	99	1,853
Pledges due in fiscal year 2009	30	1,533
Pledges due in fiscal year 2010	-	1,039
Pledges due in fiscal year 2011	-	142
Total	<u>\$ 733</u>	<u>\$ 6,477</u>

3. DEPOSITS AND INVESTMENTS

The fair value and cost of deposits and investments, by type, at June 30, 2006 and 2005 are as follows (in thousands):

	2006	
	Fair Value	Cost
Deposits with banks and the		
Commonwealth of Kentucky	\$ 45,631	\$ 45,631
United States government fixed income securities	129,968	127,682
Common and preferred stocks	67,313	63,102
Pooled equity funds	478,759	401,134
Pooled real estate funds	53,602	47,937
Pooled fixed income funds	510,613	511,008
Corporate fixed income securities	26,156	25,442
Guaranteed investment contracts	38,254	38,225
Repurchase agreements	132,804	132,804
Certificates of deposit	19,264	19,250
Cash and cash equivalents	11,132	11,132
Other	148	148
Total	\$ 1,513,644	\$ 1,423,495

	2005	
	Fair Value	Cost
Deposits with banks and the		
Commonwealth of Kentucky	\$ 43,199	\$ 43,199
United States government fixed income securities	112,086	111,542
Common and preferred stocks	56,339	51,552
Pooled equity funds	334,238	284,841
Pooled real estate funds	42,504	40,378
Pooled fixed income funds	448,873	447,508
Corporate fixed income securities	28,573	27,820
Guaranteed investment contracts	41,712	41,670
Repurchase agreements	66,728	66,728
Equity in healthcare corporations	31,379	31,379
Certificates of deposit	27,810	27,794
Cash and cash equivalents	4,951	4,951
Other	148	148
Total	\$ 1,238,540	\$ 1,179,510

	<u>2006</u>	<u>2005</u>
Statement of Net Assets classification		
Cash and cash equivalents	\$ 369,088	\$ 364,987
Current investments	32,109	29,847
Restricted cash and cash equivalents	172,627	74,868
Endowment investments	767,693	555,365
Other long-term investments	<u>172,127</u>	<u>213,473</u>
Total	<u>\$ 1,513,644</u>	<u>\$ 1,238,540</u>

Included above in the caption "Equity in healthcare corporations" was the University's approximately 84 percent ownership of CHA Service Company (CHA), a Kentucky for-profit corporation established to provide an integrated health care delivery system throughout the Commonwealth of Kentucky, which was sold during fiscal 2006 at a gain of approximately \$28.8 million. The University accounted for its investment in CHA by the equity method since, under the provision of CHA's by-laws, the University could not exercise control over the day-to-day operations of CHA. A summary of the University's investment in CHA is as follows (in thousands):

	<u>June 30, 2004</u>	<u>Fiscal 2004-05</u>	<u>June 30, 2005</u>	<u>Fiscal 2005-06</u>	<u>June 30, 2006</u>
Capital investment	\$ 38,180		\$ 38,180		\$ 38,180
Equity in income (losses) through December 31 (CHA fiscal year end) and date of sale	(9,111)	\$ 1,226	(7,885)	\$ 11,731	3,846
Cash dividend				(25,148)	(25,148)
Sale proceeds				(45,714)	(45,714)
Gain on sale				<u>28,836</u>	<u>28,836</u>
Net investment	<u>\$ 29,069</u>	<u>\$ 1,226</u>	<u>\$ 30,295</u>	<u>\$ (30,295)</u>	<u>\$ -</u>

As part of the sale agreement, escrow funds were established totaling \$9.5 million to cover any potential unrecorded liabilities or overstatement of asset value and for any additional transaction costs. Any monies remaining in these escrow accounts as of August 2007 will be returned to the University in proportion to its prior ownership interest in CHA. The University has recorded a receivable as of June 30, 2006 for its estimated share of these escrow funds.

Deposit and investment policies. The University's Board of Trustees is responsible for establishing deposit and investment policies. Once established, the Board has delegated day-to-day management to the Treasurer of the University, who is also the Treasurer of the Board. Deposit and investment policies are developed to insure compliance with state laws and regulations as well as to establish and maintain sound financial management practices.

The University follows Kentucky Revised Statutes (KRS 42.500) for the investment of public funds, which list allowable investment instruments to include: obligations of the United States or a United States government agency; obligations of any corporation of the United States Government; collateralized certificates of deposit; highly rated uncollateralized certificates of deposit, bankers acceptances and commercial paper; highly rated securities issued by a state or local government; and mutual funds comprised of any of the above allowable investments.

For purposes of investment management, the majority of the University's deposits and investments can be grouped into five significant categories, as follows:

- Overnight investments (deposits and repurchase agreements) with local banks and the Commonwealth of Kentucky;
- Bond revenue fund investments held by the Treasurer of the Commonwealth of Kentucky as required by the University's bond trust indentures, and invested in pooled fixed income funds managed by the Commonwealth of Kentucky;
- Short term investments managed by the University, including individual securities purchased and held by the University and short term investments in pooled fixed income funds managed by the Commonwealth of Kentucky;
- Debt service reserve fund investments required by the University's bond trust indentures and held by the bond trustees;
- Endowment investments administered by the University and managed using external investment managers.

The Treasurer manages the overnight and short term investment programs of the University based on the Statement of Investment Objectives and Policies for Short-Term Current Funds Investments established by the Investment Committee of the University's Board of Trustees.

The University's policy for the investment of bond revenue and debt service reserve funds is governed by each respective bond's trust indenture.

The Investment Committee of the University's Board of Trustees establishes and maintains the University's Endowment Investment Policies.

Deposit and investment risks. The University's deposits and investments are exposed to various risks, including credit, interest rate and foreign currency risk, as discussed in more detail below:

Credit Risk. Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligation, causing the University to experience a loss of principal.

As a means of limiting its exposure to losses arising from credit risk, the University's investment policies limit the exposure of its various investment types, as follows:

- Overnight investment (deposits and repurchase agreements) policies minimize credit risk in several ways. Deposits are governed by State law which requires full collateralization. Credit risk on repurchase agreements with local banks is mitigated by the issuing financial institution's pledge of specific U.S. treasury or agency securities, held in the name of the University by the Federal Reserve Bank. Credit risk on repurchase agreements with the Commonwealth of Kentucky is mitigated by the Commonwealth's requirement that providers of overnight repurchase agreements collateralize these investments at 102% of face value with U.S. treasury or agency securities, pledged in the name of the Commonwealth.
- Bond revenue fund investments held in the Commonwealth's investment pools can invest in U.S. treasuries and agencies; commercial paper or asset backed securities rated in the highest category by a nationally recognized rating agency; certificates of deposit, bankers acceptances, state or local government securities and corporate, Yankee and Eurodollar securities rated in one of the three highest categories by a nationally recognized rating agency; shares of mutual funds (up to 10%); and state and local property tax certificates of delinquency secured by interests in real estate.
- Short-term investments managed by the University are limited to direct obligations of the U.S. Treasury, other appropriate securities issued by federal agencies, repurchase agreements of U.S. government obligations, and certificates of deposit collateralized by U.S. government obligations or general obligations of the University of Kentucky. Short term investments held in the Commonwealth's investment pools are subject to the same credit quality requirements as denoted above for bond revenue fund investments.
- Investment securities held in bond debt service reserve funds may be invested and reinvested solely in bonds or interest bearing notes of the United States Government.
- Endowment investments held by fixed income managers are generally limited to holdings of high quality fixed income securities. These managers may invest a portion of the portfolio in other below-investment

grade bonds, non U.S. dollar denominated bonds, and emerging market bonds, provided the overall credit quality of the fixed income portfolios is not lower than A-.

At June 30, 2006, the credit quality of the University's fixed income investments, included in the above significant investment types, is as follows (in thousands):

	<u>S&P/Moody's Credit Ratings</u>			
	<u>AAA/Aaa</u>	<u>A</u>	<u>BBB/Baa</u>	<u>Not rated</u>
U.S. government fixed income	\$ 86,130			
Corporate fixed income	12,378		\$ 13,778	
Fixed income pools				\$ 501,689
Repurchase agreements				132,804
Cash equivalents	438	\$ 2,670		
Total fixed income securities	\$ 98,946	\$ 2,670	\$ 13,778	\$ 634,493

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investment or collateral securities that are in possession of an outside party.

As a means of limiting its exposure to losses arising from custodial credit risk, the University's investment policies limit the exposure of its various investment types, as follows:

- Overnight investments (deposits and repurchase agreements) are not exposed to custodial credit risk other than repurchase agreements with the Commonwealth of Kentucky which are held in the Commonwealth's name.
- Bond revenue fund investments and short term investments held in the Commonwealth's investment pools are held in the Commonwealth's name by the Commonwealth's custodian.
- Short term investments managed by the University are held in the University's name by the University's custodian.
- Investment securities held in bond debt service reserve funds are held by the respective bond trustee in a specific trust account for the benefit of the University and bondholders.
- Endowment investments are held in the University's name by the University's custodian.

At June 30, 2006, the following University deposit and investment balances held in the name of the Commonwealth of Kentucky, included in the above significant investment types, were exposed to custodial credit risk as follows (in thousands):

	<u>State</u>	<u>Overnight</u>	<u>Bond</u>	<u>Short-term</u>	<u>Other</u>	<u>Total</u>
	<u>Deposits</u>	<u>Investments</u>	<u>Revenue</u>	<u>Investments</u>	<u>State</u>	
			<u>Investments</u>	<u>Investments</u>	<u>Investments</u>	<u>Total</u>
Uninsured and collateralized with securities held by the pledging financial institution's trust department or agent but not in the University's name	\$ 35,947	\$ 93,000				\$ 128,947
Uninsured, not registered in the name of the University and held by the counterparty but not in the University's name			\$ 219,632	\$ 59,366	\$ 142,176	421,174
Total	\$ 35,947	\$ 93,000	\$ 219,632	\$ 59,366	\$ 142,176	\$ 550,121

Concentrations of Credit Risk. University investments can be exposed to a concentration of credit risk if significant amounts are invested in any one issuer.

As a means of limiting its exposure to concentrations of credit risk, the University's investment policies limit concentrations in various investment types, as follows:

- Overnight investments (deposits and repurchase agreements) are not limited as to the maximum amount that may be invested in one issuer. However, all such investments in excess of Federal Depository Insurance are required to be fully collateralized by U.S. treasury and/or U.S. agency securities or other similar investments as provided by KRS 41.240.
- Bond revenue fund investments and short-term investments held in the Commonwealth's investment pools are limited as follows: U.S. dollar denominated corporate and Yankee securities issued by foreign and domestic issuers shall not exceed twenty-five (25) percent of an individual pool and \$25,000,000 per issuer, inclusive of commercial paper, bankers' acceptances and certificates of deposit; and U. S. dollar denominated sovereign debt shall not exceed five (5) percent of any individual portfolio and \$25,000,000 per issuer.
- There is no specific limit on the maximum amount of short term investments managed by the University that may be invested in one issuer. However, such investments are limited to direct U.S. government obligations (U.S. Treasuries) and U.S. government agencies.
- There is no specific limit on the maximum amount of investment securities held in bond debt service reserve funds that may be invested in one issuer. However, such investments are limited to bonds or interest bearing notes of the U.S. government.
- Endowment investment managers are limited to a maximum investment in any one issuer of no more than 5 percent of total investments.

At June 30, 2006, the University has no investments in any one issuer, other than U.S. treasury and/or agency securities, that represent 5 percent or more of total investments.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

As a means of limiting its exposure to fair value losses arising from increasing interest rates, the University's investment policies limit the maturity of its various investment types, as follows:

- Overnight investments (deposits and repurchase agreements) have limited exposure to interest rate risk due to the short-term nature of the investment. The University requires that all deposits and repurchase agreements be available for use on the next business day.
- Bond revenue fund investments and short-term investments held in the Commonwealth's short term investment pool are limited to a duration that does not exceed 90 days. Such investments in the Commonwealth's intermediate-term investment pool must maintain a modified duration of less than 3 years.
- Short-term investments managed by the University are limited to a maximum maturity of 24 months.
- Investment securities held in bond debt service reserve funds are required to have a maturity no later than two years from the date of the investment.
- Endowment investments held by fixed income managers are limited to a duration that is within +/-25 percent of the duration of the Lehman Aggregate Bond Index.

At June 30, 2006, the University had the following investments, included in the above significant investment types, managed based on maturities (in thousands):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturities in Years</u>	
		<u>Less than 1</u>	<u>1 - 3</u>
U.S. government fixed income	\$ 50,052	\$ 37,250	\$ 12,802
Guaranteed investment contracts	27,942	27,942	
Repurchase agreements	132,804	132,804	
Cash equivalents	5,799	5,799	
Total	<u>\$ 216,597</u>	<u>\$ 203,795</u>	<u>\$ 12,802</u>

At June 30, 2006, the University had the following investments, included in the above significant investment types, managed based on duration (in thousands):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Modified Duration (Years)</u>
U.S. government fixed income		
Pooled endowment fund	\$ 62,624	5.74
Corporate fixed income		
Pooled endowment fund	26,156	4.35
Fixed income pools		
Pooled endowment fund	80,516	5.21
Commonwealth of Kentucky intermediate pool	230,351	1.30
Commonwealth of Kentucky short term pool	<u>190,822</u>	0.11
Total	<u>\$ 590,469</u>	

Foreign Currency Risk. Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit.

The University's exposure to foreign currency risk derives from certain limited endowment investments, including pooled fixed income funds, a pooled global equity fund, and pooled non-U.S. equity funds. The University's endowment investment policy allows fixed-income managers to invest a portion of their funds in non-U.S. securities and equity fund managers of co-mingled portfolios to invest in accordance with the guidelines established in the individual fund's prospectus.

At June 30, 2006, the following endowment investments were subject to foreign currency risk (in thousands):

<u>Endowment Investment</u>	<u>Fair Value</u>
Pooled fixed income funds	\$ 4,929
Pooled global equity fund	61,287
Pooled non-U.S. equity funds	<u>83,588</u>
	<u>\$ 149,804</u>

4. NOTES, LOANS AND ACCOUNTS RECEIVABLE

Notes, loans and accounts receivable as of June 30, 2006 and 2005, respectively, are as follows (in thousands):

	2006		
	Gross Receivable	Allowance	Net Receivable
Hospital patient accounts	\$ 68,087	\$ (13,901)	\$ 54,186
KMSF patient accounts	24,016	(6,151)	17,865
Student loans	25,939	(2,494)	23,445
Reimbursement receivable - grants and contracts	49,167	-	49,167
Pledges receivable	23,638	(8,359)	15,279
Accrued interest receivable	4,215	-	4,215
Student receivables	8,090	(2,854)	5,236
Escrow funds receivable - CHA sale	3,750	-	3,750
Other	18,298	(660)	17,638
Total	<u>\$ 225,200</u>	<u>\$ (34,419)</u>	<u>\$ 190,781</u>
Current portion			\$ 154,909
Non-current portion			<u>35,872</u>
Total			<u>\$ 190,781</u>

	2005		
	Gross Receivable	Allowance	Net Receivable
Hospital patient accounts	\$ 63,199	\$ (12,611)	\$ 50,588
KMSF patient accounts	30,003	(10,894)	19,109
Student loans	27,213	(2,760)	24,453
Reimbursement receivable - grants and contracts	29,066	-	29,066
Pledges receivable	15,768	(5,986)	9,782
Accrued interest receivable	3,214	-	3,214
Student receivables	8,426	(4,388)	4,038
Other	19,133	(1,555)	17,578
Total	<u>\$ 196,022</u>	<u>\$ (38,194)</u>	<u>\$ 157,828</u>
Current portion			\$ 126,763
Non-current portion			<u>31,065</u>
Total			<u>\$ 157,828</u>

5. CAPITAL ASSETS, NET

Capital assets as of June 30, 2006, and capital asset activity for the year ended June 30, 2006, are summarized as follows (in thousands):

	<u>June 30, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2006</u>
Land	\$ 39,559	\$ 5,122		\$ 44,681
Land improvements - nonexhaustible	13,128	3,195	\$ 32	16,291
Land improvements - exhaustible	45,787	5,306	23	51,070
Buildings	1,125,326	70,672	11,371	1,184,627
Fixed equipment - communications	40,253	4,247	27	44,473
Infrastructure	44,779	3,238	63	47,954
Equipment	351,879	49,686	28,211	373,354
Vehicles	17,699	1,840	1,011	18,528
Library materials	118,856	5,628	351	124,133
Nondepreciable library materials	5,947	366	-	6,313
Capitalized software	31,465	18,747	-	50,212
Art	6,969	85	-	7,054
Construction in progress	54,802	38,571	50,265	43,108
	<u>1,896,449</u>	<u>206,703</u>	<u>91,354</u>	<u>2,011,798</u>
<u>Accumulated Depreciation</u>				
Land improvements - exhaustible	39,841	2,094	-	41,935
Buildings	464,944	30,775	666	495,053
Fixed equipment - communications	21,036	3,088	-	24,124
Infrastructure	8,334	1,884	-	10,218
Equipment	227,735	35,181	19,971	242,945
Vehicles	13,003	1,505	867	13,641
Library materials	90,228	5,906	-	96,134
Capitalized software	3,264	3,328	-	6,592
	<u>868,385</u>	<u>83,761</u>	<u>21,504</u>	<u>930,642</u>
Capital assets, net	<u>\$ 1,028,064</u>	<u>\$ 122,942</u>	<u>\$ 69,850</u>	<u>\$ 1,081,156</u>

Capital assets as of June 30, 2005, and capital asset activity for the year ended June 30, 2005, are summarized as follows (in thousands):

	June 30, 2004	Additions	Deletions	June 30, 2005
Land	\$ 39,258	\$ 811	\$ 510	\$ 39,559
Land improvements - nonexhaustible	8,048	5,080	-	13,128
Land improvements - exhaustible	44,375	1,412	-	45,787
Buildings	1,048,919	76,407	-	1,125,326
Fixed equipment - communications	32,953	7,300	-	40,253
Infrastructure	34,799	9,980	-	44,779
Equipment	345,853	31,064	25,038	351,879
Vehicles	16,549	1,827	677	17,699
Library materials	115,698	4,605	1,447	118,856
Nondepreciable library materials	-	5,947	-	5,947
Capitalized software	14,254	17,211	-	31,465
Art	6,893	76	-	6,969
Construction in progress	89,562	42,281	77,041	54,802
	<u>1,797,161</u>	<u>204,001</u>	<u>104,713</u>	<u>1,896,449</u>
<u>Accumulated Depreciation</u>				
Land improvements - exhaustible	38,193	1,648	-	39,841
Buildings	436,829	28,115	-	464,944
Fixed equipment - communications	18,366	2,670	-	21,036
Infrastructure	6,742	1,592	-	8,334
Equipment	216,747	34,188	23,200	227,735
Vehicles	12,118	1,515	630	13,003
Library materials	85,568	5,459	799	90,228
Capitalized software	232	3,032	-	3,264
	<u>814,795</u>	<u>78,219</u>	<u>24,629</u>	<u>868,385</u>
Capital assets, net	<u>\$ 982,366</u>	<u>\$ 125,782</u>	<u>\$ 80,084</u>	<u>\$ 1,028,064</u>

At June 30, 2006, the University has construction projects in process totaling approximately \$512 million in scope. The estimated cost to complete these projects is approximately \$470 million. Such construction is principally financed by proceeds from the University's general receipts bonds and by capital appropriations from the Commonwealth of Kentucky.

The University has utilized capital leases to acquire various items of equipment costing approximately \$14.9 million. Additionally, the University has entered into capital lease agreements with the State Property and Buildings Commission and lease financing agreements with the Kentucky Asset/Liability Commission to finance renovations to Commonwealth Stadium and for the construction of several educational buildings and the new hospital patient care facility. The University has also utilized a capital lease to fund the purchase and implementation of its new administrative computing systems.

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2006 and 2005, respectively, are as follows (in thousands):

	<u>2006</u>	<u>2005</u>
Payable to vendors and contractors	\$ 46,336	\$ 53,083
Accrued expenses, including vacation and sick leave	42,685	44,974
Employee withholdings and deposits payable to third parties	<u>37,299</u>	<u>20,019</u>
Total	<u>\$ 126,320</u>	<u>\$ 118,076</u>

7. DEFERRED REVENUE

Deferred revenue as of June 30, 2006 and 2005, respectively, is as follows (in thousands):

	<u>2006</u>	<u>2005</u>
Unearned summer school revenue	\$ 4,421	\$ 4,692
Unearned hospital revenue	12,542	9,644
Unearned grants and contracts revenue	28,906	20,744
Prepaid athletic ticket sales	9,162	8,245
Unearned state deferred maintenance pool funds	-	475
Other	<u>2,491</u>	<u>4,575</u>
Total	<u>\$ 57,522</u>	<u>\$ 48,375</u>

8. LONG-TERM LIABILITIES

Long-term liabilities as of June 30, 2006, and long-term liability activity for the year ended June 30, 2006, are summarized as follows (in thousands):

	June 30, 2005	Additions	Reductions	June 30, 2006	Current Portion	Noncurrent Portion
<u>Bonds, notes and capital leases</u>						
General receipts notes		\$ 107,540		\$ 107,540		\$ 107,540
General receipts bonds		7,160		7,160	\$ 245	6,915
Educational buildings bonds	\$ 141,565	11,495	\$ 13,890	139,170	12,945	126,225
Housing and dining bonds	77,055	-	3,055	74,000	3,155	70,845
Hospital bonds	1,770	-	1,770	-	-	-
Library bonds	41,415	-	1,165	40,250	1,215	39,035
Capital leases	66,077	4,845	5,727	65,195	5,110	60,085
Notes payable	3,104	3,017	2,713	3,408	2,608	800
Total bonds, notes and capital leases	<u>330,986</u>	<u>134,057</u>	<u>28,320</u>	<u>436,723</u>	<u>25,278</u>	<u>411,445</u>
<u>Other liabilities</u>						
Medical malpractice	27,964	5,067	3,252	29,779	3,396	26,383
Long term disability	10,460	1,899	2,303	10,056	1,912	8,144
Annuities payable	5,691	419	173	5,937	559	5,378
Health insurance	8,614	27,176	27,332	8,458	8,458	-
Federal loan programs	21,840	1,081	1,032	21,889	-	21,889
Workers compensation	4,235	4,565	3,524	5,276	3,300	1,976
Mining and Minerals Trust	55	-	55	-	-	-
Compensated absences	3,000	250	-	3,250	473	2,777
Supplemental disability	342	284	195	431	254	177
Arbitrage rebate	365	190	190	365	-	365
Unamortized bond premium	-	2,267	85	2,182	113	2,069
Outstanding check liability	450	596	450	596	596	-
Unemployment compensation	419	505	469	455	455	-
Other	1,079	377	749	707	707	-
Total other liabilities	<u>84,514</u>	<u>44,676</u>	<u>39,809</u>	<u>89,381</u>	<u>20,223</u>	<u>69,158</u>
 Total	 <u>\$ 415,500</u>	 <u>\$ 178,733</u>	 <u>\$ 68,129</u>	 <u>\$ 526,104</u>	 <u>\$ 45,501</u>	 <u>\$ 480,603</u>

Long-term liabilities as of June 30, 2005, and long-term liability activity for the year ended June 30, 2005, are summarized as follows (in thousands):

	June 30, 2004	Additions	Reductions	June 30, 2005	Current Portion	Noncurrent Portion
<u>Bonds, notes and capital leases</u>						
Educational buildings bonds	\$ 154,325		\$ 12,760	\$ 141,565	\$ 13,610	\$ 127,955
Housing and dining bonds	79,275	\$ 6,230	8,450	77,055	3,055	74,000
Hospital bonds	3,850	-	2,080	1,770	1,770	-
Library bonds	42,520	-	1,105	41,415	1,165	40,250
Capital leases	43,086	29,700	6,709	66,077	5,003	61,074
Notes payable	3,485	3,062	3,443	3,104	2,713	391
Total bonds, notes and capital leases	<u>326,541</u>	<u>38,992</u>	<u>34,547</u>	<u>330,986</u>	<u>27,316</u>	<u>303,670</u>
<u>Other liabilities</u>						
Medical malpractice	25,960	5,004	3,000	27,964	3,205	24,759
Long term disability	11,607	1,739	2,886	10,460	1,934	8,526
Annuities payable	5,646	231	186	5,691	494	5,197
Health insurance	5,455	25,224	22,065	8,614	8,614	-
Federal loan programs	21,414	1,346	920	21,840	-	21,840
Workers compensation	5,677	1,395	2,837	4,235	3,542	693
Mining and Minerals Trust	55	-	-	55	55	-
Compensated absences	2,750	250	-	3,000	454	2,546
Supplemental disability	608	57	323	342	195	147
Arbitrage rebate	278	191	104	365	64	301
Outstanding check liability	413	450	413	450	450	-
Unemployment compensation	303	612	496	419	419	-
Other	-	1,079	-	1,079	719	360
Total other liabilities	<u>80,166</u>	<u>37,578</u>	<u>33,230</u>	<u>84,514</u>	<u>20,145</u>	<u>64,369</u>
Total	<u>\$ 406,707</u>	<u>\$ 76,570</u>	<u>\$ 67,777</u>	<u>\$ 415,500</u>	<u>\$ 47,461</u>	<u>\$ 368,039</u>

Principal maturities and interest on bonds, notes and capital leases for the next five years and in subsequent five-year periods as of June 30, 2006, are as follows (in thousands):

	Principal	Interest	Total
2007	\$ 25,278	\$ 17,468	\$ 42,746
2008	26,996	17,315	44,311
2009	27,024	16,421	43,445
2010	32,042	15,434	47,476
2011	23,234	14,323	37,557
2012-2016	104,960	58,542	163,502
2017-2021	115,108	34,221	149,329
2022-2026	82,081	9,170	91,251
Total	<u>\$ 436,723</u>	<u>\$ 182,894</u>	<u>\$ 619,617</u>

At June 30, 2006, assets with a fair market value of approximately \$50,349,000 have been placed on deposit with trustees to totally defease bonds with a par amount of \$53,475,000. The liability for these fully defeased bonds is not included in the financial statements.

9. COMPONENTS OF RESTRICTED EXPENDABLE NET ASSETS

Restricted expendable net assets are subject to externally imposed stipulations or conditions that must be followed and cannot be used for support of general operations of the University. At June 30, 2006 and 2005, respectively, restricted expendable net assets were composed of the following (in thousands):

	<u>2006</u>	<u>2005</u>
Appreciation on permanent endowments	\$ 102,827	\$ 74,636
Term endowments	6,867	5,655
Quasi-endowments initially funded with restricted assets	43,177	43,525
Funds restricted for capital purposes	80,986	27,939
Funds restricted for non-capital purposes	64,366	57,162
Loan funds (primarily University funds required for Federal match)	8,972	8,726
Total	<u>\$ 307,195</u>	<u>\$ 217,643</u>

10. DESIGNATIONS OF UNRESTRICTED NET ASSETS

Unrestricted net assets are designated for specific purposes by action of the Board of Trustees or management or may otherwise be limited by contractual agreements. Commitments for the use of unrestricted net assets at June 30, 2006 and 2005, respectively, are as follows (in thousands):

	<u>2006</u>	<u>2005</u>
Working capital requirements	\$ 246,063	\$ 54,447
Budget appropriations for future year fiscal operations	32,462	27,057
Designated for capital projects	53,958	59,783
Designated for renewal and replacement of capital assets	73,396	169,265
Hospital	137,608	125,263
Affiliated corporations	64,190	65,989
Total	<u>\$ 607,677</u>	<u>\$ 501,804</u>

11. PLEDGED REVENUES

Under the University's General Receipts Trust Indenture, substantially all of the unrestricted operating and non-operating revenues of the University are pledged to secure the payment of debt. As of June 30, 2006 and 2005, respectively, pledged revenues are as follows (in thousands):

	<u>2006</u>	<u>2005</u>
Student tuition and fees	\$ 147,267	\$ 133,389
Nongovernmental grants and contracts	7,543	5,326
Recoveries of facilities and administrative costs	43,303	40,333
Sales and services	42,024	38,857
Hospital services	513,466	440,609
Auxiliary enterprises - housing and dining	36,385	32,142
Auxiliary enterprises - other	20,633	20,699
Other operating revenue	2,222	465
State appropriations	314,294	287,897
Gifts and grants	1,123	709
Investment income	55,382	13,638
	<u>\$ 1,183,642</u>	<u>\$ 1,014,064</u>

12. INVESTMENT INCOME

Components of investment income for the years ended June 30, 2006 and 2005 are as follows (in thousands):

	<u>2006</u>	<u>2005</u>
Interest and dividends earned on endowment investments	\$ 13,706	\$ 11,294
Realized and unrealized gains and losses on endowment investments	39,368	26,742
Interest and dividends on cash and non-endowment investments	24,979	16,101
Realized and unrealized gains and losses on non-endowment investments	40,022	1,503
Investment income from external trusts	992	877
Total	<u>\$ 119,067</u>	<u>\$ 56,517</u>

13. FUNDS HELD IN TRUST BY OTHERS

The University is the income beneficiary of various trusts that are held and controlled by independent trustees. For the years ended June 30, 2006 and 2005, the University received income from these trusts of approximately \$992,000 and \$877,000, respectively. The market value of the external trust assets as of June 30, 2006 and 2005 was approximately \$42,401,000 and \$40,950,000, respectively. However, as the University does not have ownership of the trust assets held by external trustees, the trusts are recorded at a nominal value of \$1 each.

14. PLEDGES AND DEFERRED GIFTS

At June 30, 2006, pledges totaling approximately \$39,753,000 are expected to be collected primarily over the next five years, as follows (in thousands):

Operating purposes	\$ 6,162
Capital projects	22,118
Endowment principal	<u>11,473</u>
Total	<u>\$ 39,753</u>

In accordance with GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions," the University is required to record operating and capital pledges as revenue when all eligibility requirements have been met. Endowment pledges are not recognized as revenue until the gifts are actually received. Accordingly, for the years ended June 30, 2006 and 2005, the University recorded the discounted value of operating and capital pledges, net of the allowance for uncollectible pledges, of approximately \$15,279,000 and \$9,782,000, respectively.

Deferred gifts through insurance, known bequests and irrevocable trusts in which the University has a remainder interest are estimated to be approximately \$62,994,000 at June 30, 2006. The University records these amounts as revenue when the cash is received.

15. GRANTS AND CONTRACTS AWARDED

At June 30, 2006, grants and contracts of approximately \$221 million had been awarded to the University and the University of Kentucky Research Foundation but not expended. These amounts will be recognized in future periods.

16. PENSION PLANS

Regular full-time employees, including faculty, are participants in the University of Kentucky Retirement Plan, a defined contribution plan. The University of Kentucky Retirement Plan consists of five groups as follows:

- Group I Established July 1, 1964, for faculty and certain administrative officials.
- Group II Established July 1, 1971, for staff members in the clerical, technical and service categories.
- Group III Established July 1, 1972, for staff members in the managerial, professional and scientific categories.
- Group IV Established January 1, 1973, for staff members having U.S. Civil Service retirement entitlement.
- Group V Established July 1, 1987, for staff members covered under the Federal Employees Retirement System that replaced Civil Service (those whose employment began during the period from January 1, 1984 to March 31, 1987). Staff members whose employment began after March 31, 1987 are under one of the above University of Kentucky Retirement Plans.

Participation in the University of Kentucky Retirement Plan is mandatory for all regular full-time employees in groups I, II and III who are age 30 or older. Participation is voluntary for regular full-time employees under the age of 30 and for those employees in groups IV and V. Participants in groups I, II, III and IV contribute 5 percent and the University contributes 10 percent of the participant's eligible compensation to the retirement plan. Participants in group V contribute 1 percent and the University contributes 2 percent of the participant's eligible compensation to the retirement plan.

The University has authorized three retirement plan carriers, as follows:

Teachers Insurance and Annuity Association/College
Retirement Equities Fund (TIAA/CREF)
Fidelity Institutional Services Company
American Century Investments

Under the fully funded University of Kentucky Retirement Plan, the University and plan participants make contributions to provide fully vested retirement benefits to employees in individually owned contracts. The University's contributions and costs for 2006 and 2005 were approximately \$58,578,000 and \$51,702,000, respectively. Employees contributed approximately \$29,120,000 in 2006 and \$25,626,000 in 2005. The University's total payroll costs were approximately \$804,628,000 and \$730,380,000, respectively, for the years ended June 30, 2006 and 2005. The payroll for employees covered by the retirement plan was approximately \$585,778,000 and \$517,025,000 for 2006 and 2005, respectively.

In addition to retirement benefits provided from the group retirement plan, the University provides supplemental retirement income benefits to certain eligible employees in each of the retirement groups (see Note 17).

17. MINIMUM ANNUAL RETIREMENT BENEFITS AND SUPPLEMENTAL RETIREMENT INCOME

Employees in retirement groups I, II and III, referred to in Note 16, who were age 40 or older prior to the date of establishment of each group plan, and who were employed by the University prior to that date, qualify for the minimum annual retirement benefit provisions of the retirement plan. Benefits for these eligible employees are based upon a percentage, determined through years of service, of the participant's annual salary in the last year of employment prior to retirement. Retirement benefits as determined are funded by each individual retiree's accumulation in the group retirement plan, with the balance, if necessary, provided by the University as supplemental retirement income.

The Legislature of the Commonwealth of Kentucky has appropriated funds to the University for the payment of supplemental retirement income benefits since adoption of the group retirement plans, and is expected to continue this practice. However, the Constitution of the Commonwealth of Kentucky prohibits the commitment of future revenues beyond the end of the current biennium. Accordingly, the University does not recognize the liability for supplemental retirement income benefits during the service life of covered employees, but recognizes its costs when funds are appropriated by the Legislature and payments are made. The University intends to continue paying supplemental retirement income benefits contingent upon the Legislature continuing to appropriate funds required to make these payments. Supplemental retirement benefit payments were approximately \$3,255,000 and \$3,460,000 for the years ended June 30, 2006 and 2005, respectively.

The latest actuarial valuation was prepared as of July 1, 2006, by TIAA. The actuarial present value of accumulated supplemental retirement income benefits as determined by this valuation, utilizing an assumed rate of return of 7 percent, was \$18,356,000.

18. HEALTH INSURANCE BENEFITS FOR RETIREES

The University provides a health care credit towards health insurance coverage to retirees who have a minimum of fifteen years service. The University recognizes the cost of providing this credit by expensing the credit in the year provided. These health care credits totaled approximately \$7,716,000 and \$7,311,000 for the years ended June 30, 2006 and 2005, respectively. At June 30, 2006, there were approximately 2,200 retirees who met the service requirement and were receiving the health care credit.

19. RISK MANAGEMENT

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by (1) the State Fire and Tornado Insurance Fund (the Fund), (2) Sovereign Immunity and the State Board of Claims, or (3) in the case of risks not covered by the Fund and Sovereign Immunity, commercial insurance, participation in insurance risk retention groups or self-insurance.

The Fund covers losses to property from fire, wind, earthquake, flood and most other causes of loss between \$250,000 and \$500,000 per occurrence. Losses in excess of \$500,000 are insured by commercial carriers up to \$500 million per occurrence, buildings at replacement cost and contents on an actual cash value basis. As a state agency, the University is vested with Sovereign Immunity and is subject to the provisions of the Board of Claims Act, under which the University's liability for certain negligence claims is limited to \$200,000 for any one person or \$350,000 for all persons damaged by a single act of negligence. Claims against educators' errors and omissions and wrongful acts are insured through a reciprocal risk retention group. There have been no significant reductions in insurance coverage from 2005 to 2006. Settlements have not exceeded insurance coverage during the past three years.

The University and its agents are insured against medical malpractice by a combination of Sovereign Immunity, self-insurance, commercial liability insurance, and an excess coverage fund established by the Commonwealth of Kentucky. The malpractice liability at June 30, 2006, is based on the requirements of GASB Statement No. 10, which requires that a liability for claims be recorded if it is probable that a liability has occurred and the amount of loss can be reasonably estimated. The liability includes an estimate for claims that have been incurred but not reported at June 30, 2006.

The University is self-insured for the long-term disability income program and has established a 501(c)(9) trust for purposes of paying claims and establishing necessary reserves. The estimated long-term disability payments for known claims at June 30, 2006 are reported at their present value assuming an investment yield of 6 percent.

The University also self-insures certain employee benefits, including health insurance, worker's compensation, unemployment claims, and a long-term disability supplemental reserve, to the extent not covered by insurance. The University has recorded an estimate for asserted claims at June 30, 2006.

Long-term liabilities related to self-insurance are detailed in Note 8, above.

20. CONTINGENCIES

The University is a defendant in various lawsuits. However, University officials are of the opinion, based on advice of in-house legal counsel, that the effect of the ultimate outcome of all litigation will not be material to the future operations or financial position of the University.

21. NATURAL CLASSIFICATION

The University's operating expenses by natural classification were as follows for the years ended June 30, 2006 and 2005, respectively (in thousands):

	<u>2006</u>	<u>2005</u>
Salaries and wages	\$ 789,040	\$ 737,467
Employee benefits	224,907	201,125
Supplies and services	381,018	320,010
Depreciation	83,761	78,219
Student scholarships and financial aid	36,065	38,531
Purchased utilities	30,096	23,973
Other, various	87,836	68,880
Total	<u>\$ 1,632,723</u>	<u>\$ 1,468,205</u>

22. RECLASSIFICATIONS

Certain reclassifications to fiscal 2005 comparative amounts have been made to conform to the 2006 classifications.

23. SUBSEQUENT EVENTS

On July 19, 2006, the University sold \$24,325,000 of University of Kentucky General Receipts Bonds (Student Health Facility Project), 2006 Series A, at a net interest cost of 4.50%. The proceeds of the bond issue will be used for constructing and equipping a new University student health facility on the main campus of the University.

On October 5, 2006, the University sold \$66,305,000 of University of Kentucky General Receipts Refunding Project Notes, 2006 Series A, and \$2,220,000 of University of Kentucky General Receipts Taxable Refunding Project Notes, 2006 Series B, at a net interest cost of 4.12%. The proceeds of these bonds were used to fully defease all of the outstanding Housing and Dining bonds. The refunding will decrease the University's total debt service payments over the next 15 years by \$634,650, representing an economic gain (the difference between the present value of the debt service payments on the old and new debt) of \$646,356.

Also, on October 5, 2006, the University sold \$77,905,000 of University of Kentucky General Receipts Project Notes, 2007 Series A at a net interest cost of 4.55%. These bonds were sold with a forward delivery date of November 1, 2007. The proceeds of this bond issue will provide additional funding for the construction of the University's new hospital patient care facility – Phase I.



Deloitte & Touche LLP
Suite 2100
220 W. Main Street
Louisville, KY 40202-5313
USA

Tel: +1 502 562 2000
Fax: +1 502562 2073
www.deloitte.com

INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

To the Board of Trustees of the
University of Kentucky

and

the Secretary of Finance and
Administration Cabinet of the
Commonwealth of Kentucky

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The additional consolidating information contained on pages 39 and 40 is presented for the purpose of additional analysis and is not a required part of the basic consolidated financial statements. This additional information is the responsibility of the University's management. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic consolidated financial statements taken as a whole.

Deloitte & Touche LLP

October 20, 2006

UNIVERSITY OF KENTUCKY AND AFFILIATED CORPORATIONS
CONSOLIDATING SCHEDULE
STATEMENT OF NET ASSETS
JUNE 30, 2006
(In thousands)



	UK	Research Foundation	The Fund	Gluck Equine Research Foundation	Athletic Association	Humanities Foundation	Mining Engineering Foundation	Business Partnership Foundation	Center on Aging	Central Kentucky Management Services	Kentucky Medical Services Foundation	Total
ASSETS												
Current Assets												
Cash and cash equivalents	\$ 337,774	\$ 10	\$ 9,855	\$ 2,808	\$ 13,062	\$ 61	\$ 2	\$ 471	\$ 127	\$ 562	\$ 4,356	\$ 369,088
Notes, loans and accounts receivable, net	85,243	49,411	2,523	145				32			17,555	154,909
Investments											32,109	32,109
Inventories and other	20,091	1,783		2,885						11	33	24,803
Total current assets	443,108	51,204	12,378	2,808	16,092	61	2	503	127	573	54,053	580,909
Noncurrent Assets												
Restricted cash and cash equivalents	172,577						50					172,627
Endowment investments	737,130	4,217	224	8,829	311	1,300	1,878	13,804			13,577	767,693
Other long-term investments	154,845	456		74	3,176							172,128
Notes, loans and accounts receivable, net	35,487							75				35,872
Other noncurrent assets	1,067										596	1,663
Capital assets, net	1,011,465	4,139		49,378						201	15,973	1,081,156
Total noncurrent assets	2,112,571	8,812	224	8,903	52,865	1,300	1,928	13,879	-	201	30,456	2,231,139
Total assets	2,555,679	60,016	12,602	11,711	68,957	1,361	1,930	14,382	127	774	84,509	2,812,048
LIABILITIES												
Current Liabilities												
Accounts payable and accrued liabilities	112,136	6,063	82	8	3,578			6		573	3,874	126,320
Deferred revenue	19,164	29,196			9,162							57,522
Long-term liabilities - current portion	40,972				1,215						3,314	45,501
Total current liabilities	172,272	35,259	82	8	13,955	-	-	6	-	573	7,188	229,343
Noncurrent Liabilities												
Long-term liabilities	440,768				39,035						800	480,603
Total liabilities	613,040	35,259	82	8	52,990	-	-	6	-	573	7,988	709,946
INTERFUND BALANCES	29,667	(9,420)	(694)		(161)						(19,392)	-
NET ASSETS	733,671	4,139		12,304						201	13,161	763,476
Invested in capital assets, net of related debt												
Restricted												
Nonexpendable	409,296	888	31	4,676		640	641	7,583				423,755
Expendable	285,853	3,674	1,353	7,027	358	721	1,289	6,793	127			307,195
Total restricted	695,149	4,562	1,384	11,703	358	1,361	1,930	14,376	127	-	-	730,950
Unrestricted	543,486	6,636	10,442		3,144						43,968	607,676
Total net assets	\$ 1,972,306	\$ 15,337	\$ 11,826	\$ 11,703	\$ 15,806	\$ 1,361	\$ 1,930	\$ 14,376	\$ 127	\$ 201	\$ 57,129	\$ 2,102,102

UNIVERSITY OF KENTUCKY AND AFFILIATED CORPORATIONS
CONSOLIDATING SCHEDULE FOR THE YEAR ENDED JUNE 30, 2006
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
(in thousands)

	UK	Research Foundation	The Fund	Gluck Equine Research Foundation	Athletic Association	Humanities Foundation	Mining Engineering Foundation	Business Partnership Foundation	Center on Aging Services	Central Kentucky Management Services	Kentucky Medical Services Foundation	Total
OPERATING REVENUES	\$ 147,267											\$ 147,267
Student tuition and fees, net	10,914	\$ 159,677										170,591
Federal grants and contracts	51,097	43,589	\$ 537									95,223
State and local grants and contracts	5,002	23,965	2,580									31,547
Nongovernmental grants and contracts	255	43,048										43,303
Recoveries of facilities and administrative costs	24,763	1,073	11,558				\$ 1	\$ 1	\$ 2	\$ 4,626		42,024
Sales and services	15,684											15,684
Federal appropriations	11,998										\$ 150,241	11,998
County appropriations	513,466											513,466
Professional clinical service fees	36,385				\$ 45,063							36,385
Hospital patient services	(1)											45,062
Auxiliary enterprises:	20,633											20,633
Housing and Dining, net	790		64								1,368	2,222
Athletics	838,253	271,352	14,739		45,063		1	1	2	4,626	151,609	1,325,646
Other operating revenues												
Total operating revenues	223,072	15,844	1,086		\$ 13		37	49	175	4,679		240,101
OPERATING EXPENSES	77,686	158,015	77	\$ 99			37	52				236,141
Educational and general:	97,577	65,828	598				8					164,011
Instruction	14,863		3									14,866
Research	57,096	1,354	2,717					488				61,655
Public service	21,448	51	59			7				4,613		21,565
Libraries	44,516	859	210									50,213
Academic support	53,048											53,048
Student services	21,274	1,704	78			59		128				23,243
Institutional support	57,552	283					82	717	175	66		57,901
Operations and maintenance of plant	668,132	243,938	4,828	114		79				4,679		922,744
Student financial aid	488,134										120,718	120,718
Depreciation												488,134
Total educational and general	38,780											38,780
Clinical operations (including depreciation of \$808)	(787)											47,811
Hospital (including depreciation of \$19,210)	14,076				48,598							14,076
Auxiliary enterprises:	460											460
Housing and Dining (including depreciation of \$3,366)	1,208,795	243,938	4,828	114	48,598	79	82	717	175	4,679	120,718	1,632,723
Athletics (including depreciation of \$2,475)	(370,542)	27,414	9,911	(114)	(3,535)	(79)	(81)	(716)	(173)	(53)	30,891	(307,077)
Other auxiliaries												
Total operating expenses	314,293											314,293
Net income (loss) from operations	24,709	18	271	6,763	2	1	1	267	104	19	1,955	32,135
NONOPERATING REVENUES (EXPENSES)	113,268	424	429	941	406	126	183	1,309	7			119,067
State appropriations	(11,495)				(2,002)							(13,497)
Gifts and grants	63,011	(20,513)	(7,935)	(5,641)	7,707	(77)	(14)	(101)				
Investment income	1,509	710		1,530								
Interest on capital asset-related debt	505,295	(19,361)	(7,235)	2,063	7,643	50	169	1,475	111	19	(34,482)	3,749
Grant to/(from) the University for non-capital purposes	134,753	8,053	2,676	1,949	4,108	(29)	88	759	(62)	(34)	(148,670)	455,747
Other nonoperating revenues and expenses, net	475											475
Net nonoperating revenues (expenses)	61,006	2,307					17	190		(125)		63,188
Net income (loss) before other revenues, expenses, gains, or losses	24,126	3			(5,318)			9	(1)			24,336
Capital appropriations	12,795	(6,910)	(557)									
Capital grants and gifts	2,294				(17)							
Additions to permanent endowments	100,696	(4,600)	(557)		(5,335)		17	181	(1)		(125)	2,277
Grant to/(from) the University for capital purposes	235,449	3,453	2,119	1,949	(1,227)	(23)	105	940	(63)	(34)	(3,716)	90,276
Other, net	1,736,857	11,884	9,707	9,754	17,033	1,390	1,825	13,436	190	235	60,845	2,389,446
Total other revenues	\$ 1,972,306	\$ 15,337	\$ 11,826	\$ 11,703	\$ 15,806	\$ 1,361	\$ 1,930	\$ 14,376	\$ 127	\$ 201	\$ 57,129	\$ 2,102,102
INCREASE (DECREASE) IN NET ASSETS												
NET ASSETS, beginning of year												
NET ASSETS, end of year												

Governing Board and Administrative Staff as of June 30, 2006

Officers of the Board

James F. Hardymon, Chair
JoEtta Y. Wickliffe, Vice Chair
Pamela R. May, Secretary

Board of Trustees

Mira S. Ball
Stephen P. Branscum
Penelope A. Brown
Dermontti F. Dawson
Jeffrey B. Dembo
Marianne Smith Edge
Rebecca A. Ellingsworth
Ann Brad Haney
Billy Joe Miles
Roy L. Moore
Phillip Patton
Steven S. Reed
C. Frank Shoop
Myra Leigh Tobin
Billy B. Wilcoxson
Russ Williams
Barbara S. Young

Administrative Executive Officers

Lee T. Todd Jr., President
Scott Smith, Interim Provost
Frank A. Butler, Executive Vice President for Finance and Administration
Michael Karpf, Executive Vice President for Health Affairs
Wendy Baldwin, Executive Vice President for Research
Terry B. Mobley, Vice President for Institutional Advancement
Connie A. Ray, Vice President for Institutional Research, Planning, and Effectiveness
Douglas A. Boyd, Chief of Staff
Barbara W. Jones, General Counsel
Mitchell S. Barnhart, Director of Athletics
Jaime Nebbitt, Interim Co-Chair, Commission on Diversity
Ricardo Nazaro-Colon, Interim Co-Chair, Commission on Diversity
Dorothy Y. Brockopp, Chair, Commission on Women
Ernest J. Yanarella, Chair, University Senate
Kyle Dippery, Chair, Staff Senate
Henry Clay Owen, Treasurer
Marc A. Mathews, Controller
William H. Turner, Vice President for University Engagement and Associate Provost for Multicultural Affairs

Academic Officers

Heidi M. Anderson, Associate Provost for Faculty Affairs
Philipp J. Kraemer, Associate Provost for Undergraduate Education
William H. Turner, Associate Provost for Multicultural Affairs
John Yopp, Associate Provost for Educational Partnerships
Karen T. Combs, Vice Provost for Budget and Administrative Services
M. Scott Smith, Dean
College of Agriculture
Steven L. Hoch, Dean
College of Arts and Sciences
Devanathan Sudharshan, Dean
College of Business and Economics
J. David Johnson, Dean
College of Communications
Sharon P. Turner, Dean
College of Dentistry
David Mohney, Dean
College of Design
James G. Cibulka, Dean
College of Education
Thomas W. Lester, Dean
College of Engineering
Robert Shay, Dean
College of Fine Arts
Jeannine Blackwell, Dean
Graduate School
Lori Gonzalez, Dean
College of Health Sciences
Allan W. Vestal, Dean
College of Law
Carol Diedrichs, Dean
Libraries
Jay A. Perman, Dean
College of Medicine
Jane M. Kirschling, Dean
College of Nursing
Kenneth B. Roberts, Dean
College of Pharmacy
Stephen Wyatt, Dean
College of Public Health
Kay S. Hoffman, Dean
College of Social Work



www.uky.edu

The University of Kentucky is committed to a policy of providing opportunities to people regardless of economic or social status and will not discriminate on the basis of race, color, ethnic origin, national origin, creed, religion, political belief, sex, sexual orientation, marital status, age, veteran status, or physical or mental disability.

The University of Kentucky is an equal opportunity university. Questions concerning compliance with regulations may be directed to the Equal Opportunity Office, 13 Main Building, University of Kentucky, Lexington, KY 40506-0033, (859) 257-8927 or at <http://www.uky.edu/evpfa/eco>.