



UNIVERSITY OF
KENTUCKY[®]

2008 Financial Statements

University of Kentucky and Affiliated Corporations
A Component Unit of the Commonwealth of Kentucky
Financial Statements
Year Ended June 30, 2008

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MESSAGE FROM THE PRESIDENT

The University of Kentucky stands at an important crossroads in our 143-year history. Just months after receiving unprecedented financial support from state policy makers for our landmark Top 20 Business Plan, the University's Top 20 momentum met an imposing obstacle. A weakening national economy triggered revenue declines across the country, including Kentucky. Such difficult economic times have reduced temporarily the capacity of our state to assist us.

Compounding this difficult situation has been a perfect storm of economic woes – our other sources of revenue are in decline and our fixed costs are increasing much faster than the rate of inflation.

Although these conditions threaten our momentum and the pulse of confidence that beat across this campus only a few months ago, our commitment to mission and mandate remains steadfast. Our shared ambitions are still before us, fixed on our collective horizon, unmoved by time or fate or by short-term challenges we cannot control.

The work of building a better University and a better Kentucky continues. And over the past year, we took important steps to move the University – and the Commonwealth – forward.

UK delivered a new wave of bachelor degree holders to Kentucky's work force, as the University reported the highest graduation rate in its history. UK's six-year graduation rate for 2007 was 61.2 percent, the highest in the state among public universities. The rate is up from 59.1 percent for 2006. Graduation rates for African-American students also were at an historic high at 50.3 percent for 2007, up from 45 percent the previous year. That rate also is highest among all public institutions in the state.

Such improvements speak to our Top 20 commitment to improve the undergraduate experience. As did the fact that we brought 200

new faculty members to campus last fall – a net increase of 60 faculty members over the previous year. Our new faculty came to UK from some of the nation's prestigious public and private institutions, like Yale, Princeton, MIT, Dartmouth, Stanford, Cornell, Duke, Johns Hopkins, UCLA, North Carolina, Wisconsin, Virginia, Texas, and Michigan.

The University has established itself as one of the nation's leaders in developing the next generation of researchers and innovators. Our students, who compete annually in the National Conference on Undergraduate Research, had 20 research papers accepted at this year's conference, the most of any public research university in the U.S.

UK researchers brought more dollars into the Commonwealth, as they continue to drive discovery, create new jobs, and work to change Kentucky's economy. UK's total research expenditures for fiscal year 2007, as reported to the National Science Foundation, increased to a record-high \$331 million.

Just as we promised when we released our Top 20 plan, our research commitment extends far beyond our 716 acres in the heart of the Bluegrass. We are engaged with families, businesses, communities, elected leaders, and policy makers in every corner of the Commonwealth.

We unveiled 13 new Commonwealth Collaboratives this year. The program encourages our top faculty to engage in Kentucky's most intrinsic problems, hoping to solve an issue that has long held the state back from reaching its full potential. The 13 new projects join 23 existing Collaboratives that are focused on solving educational, health care, economic development, environmental, and quality of life issues.

The need for the Commonwealth Collaboratives – and many of our other outreach programs – is reinforced by the very conditions that affect



President Lee T. Todd Jr.

Kentuckians. Our state faces economic difficulties today because too many of our fellow citizens are poor, too many of them are sick, too many of them are burdened with limited educations and job skills, and too many of them watch helplessly as their dreams linger beyond their reach.

We must hold fast to our responsibility to be a sustaining hope amid the economic crises too many Kentuckians face for too much of their lives. We are reminded that we do not seek Top 20 status for its own sake. We seek it because we know that universities such as ours are the surest path to the realization of dreams. People in states with Top 20 universities have higher incomes. Unemployment rates are lower there and fewer public dollars are spent on health care. These states have healthier children and fewer people living in poverty.

We seek Top 20 status because it reflects a breadth of capacity to change our state in fundamental ways, delivering the sustained economic success and the social and physical health the people of Kentucky deserve. Our

doors of opportunity must open wider for all students who can do the work, regardless of their economic status. Our efforts at discovery must strengthen. Our battle against disease must intensify. And our engagement with businesses and communities must deepen.

There will be those who say this difficult moment is evidence that Kentucky's leaders no longer support our mission and mandate. The naysayers will use this time as an excuse for deeper cynicism and will urge retreat from our aspirations.

But we cannot use current conditions as license to shrink from the responsibility that has been placed upon our shoulders. We must keep our eyes firmly fixed on the promise embodied in our goals, regardless of the current haze that can partially obscure our view of what we know we must become.

We cannot give in to the temptation to sit idly by, waiting for better days. If we do, we resign ourselves to being facilitators of an unacceptable status quo instead of seizing our distinctive role as a vehicle for improving economic conditions. If this University is not working, every day, to build sustained economic prosperity in Kentucky, that prosperity will never arrive.

We do a disservice to those sacrifices if we abandon our aspirations or put them on hold until circumstances change. It is our duty to remain focused on the work before us. It is our responsibility to lift the haze and make clear again and again the promise of Top 20 status.

It is our work that must continue to matter, every day, in the lives of the people who depend upon their flagship university to lead Kentucky forward.

Lee T. Todd Jr.
President



Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees
University of Kentucky
Lexington, Kentucky

We have audited the accompanying basic financial statements of the University of Kentucky and affiliated corporations (University), a component unit of the Commonwealth of Kentucky as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Kentucky Medical Services Foundation, Inc., which statements represent 2%, 3% and 11%, respectively, of the assets, net assets and operating revenues of the University. Those financial statements were audited by other accountants whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the University, is based on the report of the other accountants. The financial statements of the University as of and for the year ended June 30, 2007, were audited by other accountants whose report dated October 5, 2007, expressed an unqualified opinion on those statements.

We conducted our audit 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 financial statements are free of material misstatement. The financial statements of Kentucky Medical Services Foundation, Inc., Kentucky Technology, Inc. and Coldstream Laboratories, Inc., which are included in the University's reporting entity, were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other accountants, the 2008 financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 2008, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 17 and 18, in 2008, the University changed its method of accounting for its defined benefit post-retirement health plan and long-term disability plan by adopting the provisions of GASB 45, *Accounting and Financial Reporting by Employees for Postemployment Benefits Other Than Pensions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2008, on our consideration of the University's 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 of internal control over financial reporting and compliance and the results of that 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.

The accompanying management's discussion and analysis and pension information as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the 2008 basic financial statements. The accompanying supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the 2008 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 2008 basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the 2008 basic financial statements taken as a whole.

BKD, LLP

September 29, 2008

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, 2008 and 2007. Management has prepared this discussion, and we encourage you to read it in conjunction with the financial statements and the notes appearing in this report.

About the University of Kentucky

Vision. The University of Kentucky will be one of the nation's 20 best public research universities, an institution recognized world-wide for excellence in teaching, research and service and a catalyst for intellectual, social, cultural and economic development.

Mission. The University of Kentucky is a public, research-extensive, land-grant university dedicated to improving people's lives through excellence in teaching, research, health care, cultural enrichment and economic development.

The University of Kentucky:

- Facilitates learning, informed by scholarship and research.
- Expands knowledge through research, scholarship and creative activity.
- Serves a global community by disseminating, sharing and applying knowledge.

The University, as the flagship institution, plays a critical leadership role for the Commonwealth by contributing to the economic development and quality of life within Kentucky's borders and beyond. The University nurtures a diverse community characterized by fairness and equal opportunity.

From Paducah to Pikeville, Covington to Cumberland, the University of Kentucky touches lives across the Bluegrass State, providing education, cultural stimulation and economic development in all 120 counties. Considering that residents of all Kentucky counties benefit from the University's medical care, community service, innovative research and creative teaching and instruction, there's no question UK is The University of Kentucky.

The University has long embraced its mission to provide excellent education to outstanding resident and non-resident students, recognizing that a knowledgeable populace is the best foundation for a prosperous Commonwealth. This mission has been further enhanced since 1997, when the Kentucky General Assembly mandated that UK become a Top 20 public research university by 2020. President Lee T. Todd Jr. focused the University on achieving this goal through the development of a Top 20 Business Plan in 2005 that gained national prominence for its vision and detail.

"As the state's flagship institution, UK is mindful of its responsibility to help all Kentuckians," Todd says. "Our land-grant mission calls on us to make a positive impact across the state. We need to be an education leader, while remaining accessible to all Kentuckians. We need to be a cultural leader, sharing new ideas and opportunities across the state. And we need to be leading Kentucky's charge into the new economy. We are the catalyst for a new Commonwealth."

History. Nestled in the heart of Kentucky's scenic Bluegrass region, UK was founded in 1865 as a land grant university. From its beginnings with only 190 students and 10 professors, UK's campus now covers more than 716 acres in Lexington and is home to more than 26,600 students and more than 13,300 employees. The University also operates remote research laboratories in areas such as Princeton and Quicksand, Kentucky.

Students. Students from 117 countries, every state in the nation and every Kentucky county provide a diverse learning and cultural environment that enriches the educational experience at UK. While the

student population has enjoyed steady growth in the past several years, the average ACT score of entering freshmen has continually exceeded the national average and is competitive with UK's benchmark institutions, the top public universities in America. The high quality of UK's students is confirmed by their successful competition for the most prestigious awards, including the Fulbright, Truman, Goldwater and Marshall scholarships. UK has twice been selected as one of only 13 universities nationwide to participate in the Beckman Foundation Scholarship Program, allowing the University to award grants of \$19,300 to students to support their own research projects. Boasting 13 Truman Scholars, UK has won recognition from the Harry S. Truman Foundation as an honor institution for exemplary participation in the program.

Outreach. Thousands of Kentuckians from across the state feel the impact of UK's research and public service annually through programs aimed at improving industrial productivity, agricultural profitability and home life. Programs like the Health Education through Extension Leadership bring the results of health research to local communities, helping boost the quality of life across the state.

Meanwhile, Kentuckians have responded to the University's commitment to the Commonwealth through their remarkable support of The Campaign for the University of Kentucky. The fundraising effort to enhance facilities, academic programs, public service and scholarships, the largest in state history, recently surpassed its \$1 billion goal. The generosity of UK's alumni and friends allowed it to fully utilize its allocation of state support available through Kentucky's Research Challenge Trust Fund program.

Programs. UK students enjoy an enormous array of choices, with some 200 majors and degree programs in 16 academic and professional colleges available. UK is one of only a few public universities nationally to house colleges of 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 on a single campus.

Research. "Determination" is truly the word describing UK's focus on achieving its Top 20 research goal. For the last five years, the University has consistently exceeded \$200 million in sponsored projects awards. UK faculty attracted a total of over \$280 million in extramural funding for grants and contracts in fiscal year 2007. The 2005 NSF survey placed UK 39th among all public universities for federal expenditures. A 2007 national ranking by Academic Analytics put UK 19th among public institutions for the scholarly productivity of its faculty.

Medical Centers. The UK Chandler Medical Center, opened in 1960, stands among the nation's finest academic medical centers. Its faculty, students and staff take pride in achieving excellence in education, patient care, research and community service. One of two Level 1 Trauma Centers in Kentucky, UK cares for the most critically injured and ill patients in the region. More than 600 faculty physicians and dentists, 500 resident physicians and a staff of 3,600 health professionals provide care in the 473-bed UK Chandler Hospital and Kentucky Children's Hospital and in the 302-bed UK HealthCare Good Samaritan Hospital.

In spring 2007, ground was broken for a new \$525 million patient care facility. This more than 1 million square foot facility, which will start opening in phases beginning in 2010, is the cornerstone of a 20-year, \$2.5 billion plan to construct the Commonwealth Medical Campus of the Future. Among the campus' components are a now-under-construction \$120 million pharmacy building, additional research buildings, a new shared Health Sciences Learning Center, and additional buildings to house programs for the colleges of Medicine, Nursing, Health Sciences, Dentistry and Public Health.

Libraries. No university can provide adequate opportunities to its students or to the residents of the state it serves without outstanding library facilities. The University of Kentucky exceeds expectations by operating a nationally recognized research library system, with the capstone being the world-class William T. Young Library. UK's book endowment is the largest among public universities. Its library network and technology provide extraordinary service to students in the colleges of Medicine, Law, Engineering, Fine Arts and other programs. Meanwhile, students, faculty and Kentucky residents can use UK Libraries' advanced technology to access the most up-to-date information from online journals, government publications and private studies.

Agenda. UK's agenda aims to accelerate the University's movement toward academic excellence in all areas and gaining worldwide recognition for its outstanding academic programs, its commitment to undergraduates, its success in building a diverse community, and its engagement with the larger society. It's all part of the University's strategy to help position Kentucky as a leader in American prosperity.

Financial Highlights

The University's overall financial position remained strong with assets of \$3.33 billion and liabilities of \$1.03 billion. Net assets, which represent the University's residual interest in assets after liabilities are deducted, were \$2.30 billion or 69 percent of total assets.

- Total assets increased \$193.2 million, or 6 percent, primarily due to increases in cash and capital assets, net.
- Total liabilities increased \$174.2 million, or 20 percent, primarily due to the issuance of additional bonds, notes, capital leases and other long-term obligations for the purchase and/or construction of land, buildings, equipment and computer software.
- Total net assets increased \$18.9 million, or 1 percent, due to an increase of \$18.6 million in unrestricted net assets, primarily due to excess revenues over expenses in the hospital of \$13.5 million, and an increase in net capital assets of \$48.4 million offset by a decrease in restricted net assets of \$48.1 million, primarily due to investment loss on endowments.
- Operating revenues were \$1.57 billion and operating expenses were \$1.91 billion, resulting in a loss from operations of \$341.0 million. Nonoperating and other revenues, net of nonoperating expenses, were \$359.9 million, including \$327.2 million in state appropriations. When combined with the loss from operations, this resulted in an overall increase in net assets of \$18.9 million.

Using the 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 comprehensive, entity-wide 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 financial statements of the University include the operations of the University and the following entities:

- University of Kentucky Research Foundation, and its for-profit subsidiaries, Kentucky Technology, Inc. and Coldstream Laboratories, 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.
- University of Kentucky Faculty Club, Inc. (effective during fiscal year 2007-08)
- Kentucky Healthcare Enterprises, Inc., a for-profit subsidiary.

Statement of Net Assets

The 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, 2008, with comparative information as of June 30, 2007. 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, 2008, 2007 and 2006 is as follows:

Condensed Statements of Net Assets (in thousands)

	<u>2008</u>	<u>2007</u>	<u>2006</u>
ASSETS			
Current assets	\$ 659,405	\$ 608,720	\$ 551,899
Capital assets, net of depreciation	1,345,426	1,208,670	1,081,156
Other noncurrent assets	1,325,909	1,320,191	1,178,993
Total Assets	<u>3,330,740</u>	<u>3,137,581</u>	<u>2,812,048</u>
LIABILITIES			
Current liabilities	312,458	294,294	229,343
Noncurrent liabilities	721,697	565,636	480,603
Total Liabilities	<u>1,034,155</u>	<u>859,930</u>	<u>709,946</u>
NET ASSETS			
Invested in capital assets, net of related debt	822,409	773,962	763,476
Restricted			
Nonexpendable	487,815	448,506	420,396
Expendable	302,215	389,627	310,554
Unrestricted	684,146	665,556	607,676
Total Net Assets	<u>\$ 2,296,585</u>	<u>\$ 2,277,651</u>	<u>\$ 2,102,102</u>

Assets. As of June 30, 2008, total assets amounted to \$3.33 billion. Of this amount, investment in capital assets (net of depreciation) of \$1.35 billion, or 40 percent of total assets, represented the largest asset class. Endowment investments amounted to \$896.8 million, or 27 percent of total assets, and cash and cash equivalents amounted to \$578.5 million, or 17 percent of total assets. During the year, total assets increased by \$193.2 million primarily due to increases in cash resulting from bond proceeds and the timing of grant reimbursements, and capital assets due to new additions of land, buildings, equipment and computer software.

Liabilities. As of June 30, 2008, total liabilities amounted to \$1.03 billion. Bonds and notes payable, capital leases and other long-term obligations issued for educational buildings, the housing and dining system, the UK HealthCare Hospital System, the William T. Young Library, equipment and computer software amounted to \$676.6 million, or 65 percent of total liabilities. During the year, total liabilities increased by \$174.2 million primarily due to the issuance of additional debt, principally for the construction of the patient care facility.

Net Assets. The equity of the University of \$2.30 billion as of June 30, 2008 is reported on the Statement of Net Assets in four net asset categories: invested in capital assets, net of related debt, \$822.4 million (36 percent); restricted-nonexpendable, \$487.8 million (21 percent); restricted-expendable, \$302.2 million (13 percent); and unrestricted, \$684.1 million (30 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 \$18.9 million during the year ended June 30, 2008. Invested in capital assets, net of related debt, increased \$48.4 million primarily due to payment of current year maturities of principal on capital debt. Restricted net assets decreased \$48.1 million, principally as a result of a \$77.0 million loss on endowment investments due to a negative return on the endowment pool. The loss was partially offset by gifts to endowments totaling \$34.6 million. Unrestricted net assets increased \$18.6 million, primarily due to excess revenues over expenses in the UK HealthCare Hospital System of \$13.5 million and in the general fund of \$5.4 million.

2007 Versus 2006. During the year ended June 30, 2007:

- Total assets increased \$325.5 million, primarily due to increases in endowment investments resulting from market value appreciation and gifts, and in capital assets as a result of additions of land, buildings, equipment and computer software.
- Liabilities increased \$150.0 million, primarily due to the issuance of additional debt, principally for the construction of a new student health facility, for computer software, and to lease land, buildings and equipment.
- Total net assets increased by \$175.5 million during the year ended June 30, 2007. Invested in capital assets, net of related debt, increased \$10.5 million, primarily due to payment of current year maturities of principal on bonds and capital leases. Restricted net assets increased \$107.2 million, primarily due to endowment investment returns which increased from 10.0% to 16.8% compared to the prior year, resulting in an increase in investment income on endowments, net of spending distributions, of \$69.1 million. Unrestricted net assets increased \$57.9 million, primarily due to revenues in excess of expenses in the hospital of \$47.8 million and general funds revenues in excess of expenses of \$6.9 million.

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets is the University's income statement. It details how net assets have increased during the year ended June 30, 2008, with comparative information for the year ended June 30, 2007. 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 Statement of Revenues, Expenses and Changes in Net Assets as revenues, expenses, gains or losses.

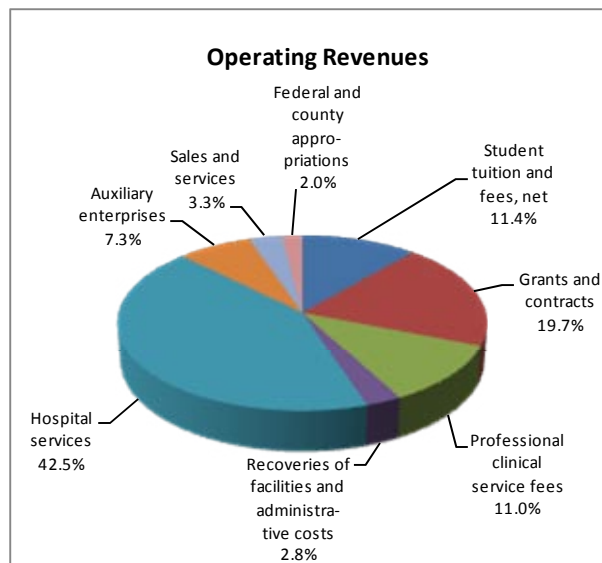
Financial activities are reported as either operating or nonoperating. GASB Statement No. 35 requires state appropriations, gifts, and investment and endowment income to be classified as nonoperating revenues. Accordingly, the University reports a net operating loss for the year prior to the addition 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, 2008, 2007 and 2006 is as follows:

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

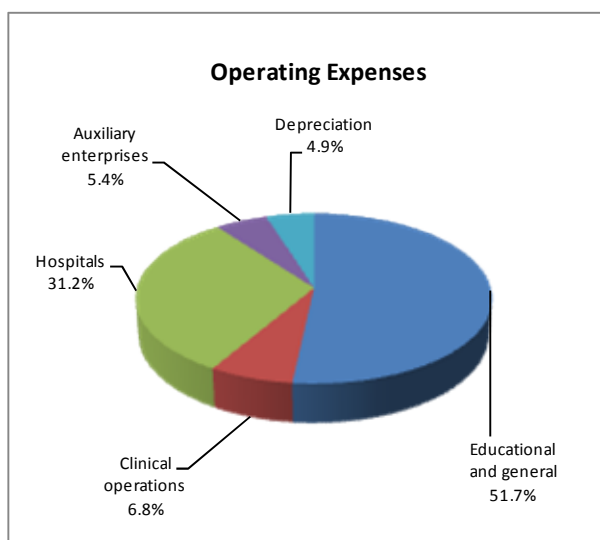
	<u>2008</u>	<u>2007</u>	<u>2006</u>
OPERATING REVENUES			
Student tuition and fees, net of scholarship allowances	\$ 178,237	\$ 166,742	\$ 147,267
Grants and contracts	308,672	298,237	297,361
Hospital services	667,531	535,814	468,672
Professional clinical service fees	174,929	164,432	150,241
Auxiliary enterprises, net of scholarship allowances	114,370	105,005	102,080
Sales and services	51,084	45,717	42,024
Recoveries of facilities and administrative costs	44,137	43,792	43,303
Federal and county appropriations	31,062	30,675	27,682
Other operating revenues	1,821	1,507	2,222
Total operating revenues	<u>1,571,843</u>	<u>1,391,921</u>	<u>1,280,852</u>
OPERATING EXPENSES			
Educational and general, excluding depreciation	989,828	940,314	864,844
Clinical operations, excluding depreciation	130,194	133,271	119,910
Hospital, excluding depreciation	596,260	501,506	424,129
Auxiliary enterprises, excluding depreciation	102,549	99,630	94,825
Depreciation	93,731	90,270	83,761
Other operating expenses	317	229	460
Total operating expenses	<u>1,912,879</u>	<u>1,765,220</u>	<u>1,587,929</u>
OPERATING LOSS	<u>(341,036)</u>	<u>(373,299)</u>	<u>(307,077)</u>
NONOPERATING REVENUES (EXPENSES)			
State appropriations	327,155	319,859	314,294
Capital appropriations	-	-	475
Capital grants and gifts	13,503	23,536	63,188
Gifts and grants	45,105	34,218	32,135
Investment income (loss)	(49,382)	160,975	119,067
Interest on capital asset-related debt	(14,098)	(12,723)	(13,497)
Additions to permanent endowments	34,611	29,931	24,336
Other, net	3,076	(6,948)	6,025
Total nonoperating revenues (expenses)	<u>359,970</u>	<u>548,848</u>	<u>546,023</u>
Total increase in net assets	18,934	175,549	238,946
Net assets, beginning of year	<u>2,277,651</u>	<u>2,102,102</u>	<u>1,863,156</u>
Net assets, end of year	<u>\$ 2,296,585</u>	<u>\$ 2,277,651</u>	<u>\$ 2,102,102</u>

Total operating revenues were \$1.57 billion for the year ended June 30, 2008, an increase of \$179.9 million (13 percent). The primary components of operating revenues were student tuition and fees of \$178.2 million; grants, contracts and recoveries of facilities and administrative costs of \$352.8 million; hospital services of \$667.5 million; and professional clinical fee income of \$174.9 million.

The major increase was in hospital services revenue of \$131.7 million. This is the first year that UK HealthCare Hospital System included the operation of Good Samaritan Hospital. Good Samaritan patient net revenue was \$76.8 million while Chandler Hospital increased \$51.7 million, of which \$45.8 million was net patient revenue primarily due to rate increases. Additional significant increases in operating revenues related to student tuition and fees, net, of \$11.5 million due to tuition increases and to grants and contracts of \$10.4 million.



Operating expenses totaled \$1.91 billion, an increase of \$147.7 million (8 percent). Of this amount, \$989.8 million (excluding depreciation) was expended for educational and general programs, including the functions of instruction, research and public service. Hospital expenses, excluding depreciation, amounted to \$596.3 million and clinical operations expenses, excluding depreciation, were \$130.2 million. Depreciation expense for the year amounted to \$93.7 million.



The most significant increase was in Hospital expenses, excluding depreciation, of \$94.8 million (19 percent) primarily due to the operation of Good Samaritan Hospital. Additionally, Chandler Hospital had a \$68.3 million increase in personnel, supplies, equipment and building operations. Educational and general expenses, excluding depreciation, increased \$49.5 million (5 percent) due primarily to increases in research, institutional support and public service.

The net loss from operations for the year amounted to \$341.0 million. Nonoperating revenues, net of expenses, amounted to \$359.9 million, resulting in an increase in net assets of \$18.9 million for the year. Nonoperating revenues include state appropriations of \$327.2 million, which increased \$7.3 million, and gifts and grants of \$45.1 million, which increased \$10.9 million in the current year.

2007 Versus 2006. Total operating revenues were \$1.39 billion for the year ended June 30, 2007, including student tuition and fees of \$166.7 million (12 percent), grants, contracts and recoveries of facilities and administrative costs of \$342.0 million (25 percent), professional clinical service fees of \$164.4 million (12 percent) and hospital services of \$535.8 million (38 percent). Operating revenues for fiscal 2007 increased by \$111.1 million or 9 percent over fiscal 2006, primarily due to increases in hospital services revenues of \$67.1 million, in professional clinical service fees of \$14.2 million and in student tuition and fees of \$19.5 million.

Operating expenses totaled \$1.77 billion in fiscal year 2007. Of this amount, \$940.3 million, or 53 percent, was expended for educational and general programs, including the functions of instruction, research and public service. Hospital expenses, excluding depreciation, amounted to \$501.5 million, or 28 percent of the total expenses, and clinical operations expenses, excluding depreciation, were \$133.3 million, or 8 percent. Depreciation amounted to \$90.3 million, or 5 percent. Operating expenses for fiscal 2007 increased \$177.3 million or 11 percent over fiscal 2006, primarily due to increases in hospital expenses, excluding depreciation, of \$77.4 million (18 percent) due to increased usage of medical supplies and increased personnel costs due to higher utilization. Educational and general expenses increased \$75.5 million (9 percent) due primarily to increases in instruction, research and public service.

The net loss from operations for the year amounted to \$373.3 million. Nonoperating revenues, net of expenses, amounted to \$548.8 million, resulting in an increase in net assets of \$175.5 million for the year. Nonoperating revenue includes state appropriations of \$319.9 million, which increased \$5.6 million in 2007.

Statement of Cash Flows

The Statement of Cash Flows details how cash has increased (or decreased) during the year ended June 30, 2008, with comparative financial information for the year ended June 30, 2007. It breaks out the sources and uses of cash into the following categories:

- Operating activities
- Noncapital financing activities
- Capital financing activities
- Investing activities

Cash flows associated with the University's expendable net assets appear in the operating and noncapital 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 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 statement of cash flows for the years ended June 30, 2008, 2007 and 2006 is as follows:

Condensed Statements of Cash Flows (in thousands)

	<u>2008</u>	<u>2007</u>	<u>2006</u>
CASH PROVIDED (USED) BY:			
Operating activities	\$ (295,242)	\$ (268,331)	\$ (233,793)
Noncapital financing activities	415,976	383,141	373,395
Capital and related financing activities	(56,828)	(146,771)	21,179
Investing activities	(771)	5,649	(58,921)
Net increase (decrease) in cash and cash equivalents	63,135	(26,312)	101,860
Cash and cash equivalents, beginning of year	<u>515,403</u>	<u>541,715</u>	<u>439,855</u>
Cash and cash equivalents, end of year	<u>\$ 578,538</u>	<u>\$ 515,403</u>	<u>\$ 541,715</u>

The University's cash and cash equivalents increased \$63.1 million in 2008. Total cash provided by operating and non-capital financing activities was \$120.7 million, up \$5.9 million compared to 2007. Total cash used by capital financing activities was \$56.8 million, reflecting both capital funding sources (debt proceeds) and uses (purchases of capital assets and debt service). Total cash used by investing activities was \$771,000.

Major sources of cash received from operating activities are student tuition and fees of \$178.1 million, hospital services of \$625.5 million, grants, contracts and recoveries of facilities and administrative costs of \$364.6 million and professional clinical service fees of \$166.8 million. Major uses of cash for operating activities were payments to employees for salaries and benefits of \$1.20 billion and to vendors and contractors of \$593.9 million.

Noncapital financing activities includes state appropriations from the Commonwealth of Kentucky of \$327.2 million and gifts of \$74.3 million

Capital and related financing activities include proceeds of capital debt of \$224.3 million and capital grants and gifts of \$11.5 million. Cash of \$218.2 million was expended for construction and acquisition of capital assets and \$66.5 million was expended for principal and interest payments on debt.

Investing activities include proceeds from sales and maturities of investments of \$1.78 billion and interest and dividends on investments of \$62.0 million. Cash of \$1.84 billion was used to purchase investments.

2007 Versus 2006. Cash balances were down when comparing fiscal 2007 versus fiscal 2006 with a net decrease in cash of approximately \$26.3 million. The net decrease in cash was due primarily to more cash used by operating activities and capital and related financing activities offset by cash provided by investing activities.

Capital Asset and Debt Administration

Capital Assets

Capital assets, net of accumulated depreciation, totaled \$1.35 billion at June 30, 2008, an increase of \$136.8 million. Capital assets as of June 30, 2008 and significant changes in capital assets during the years ended June 30, 2008 and 2007 are as follows (in millions):

	Balance June 30, 2006	Net Additions FY 06-07	Balance June 30, 2007	Net Additions FY 07-08	Balance June 30, 2008
Land and land improvements	\$ 112	\$ 16	\$ 128	\$ 6	\$ 134
Buildings, fixed equipment and infrastructure	1,277	58	1,335	87	1,422
Equipment, vehicles and capitalized software	442	54	496	37	533
Library materials and art	138	5	143	3	146
Construction in progress	43	61	104	72	176
Accumulated depreciation	<u>(931)</u>	<u>(66)</u>	<u>(997)</u>	<u>(69)</u>	<u>(1,066)</u>
Total	<u>\$ 1,081</u>	<u>\$ 128</u>	<u>\$ 1,209</u>	<u>\$ 136</u>	<u>\$ 1,345</u>

At June 30, 2008, the University has capital construction projects in progress totaling approximately \$568.3 million in scope. Major projects include the new patient care facility, the Biological Pharmaceutical Research building and the expansion and upgrade of the Livestock Disease Diagnostic Center. The estimated cost to complete these projects is approximately \$335.8 million.

Debt

At June 30, 2008, capital debt amounted to \$676.6 million, summarized by trust indenture and type as follows (in millions):

	2008	2007	2006
General Receipts bonds and notes	\$ 361.5	\$ 207.3	\$ 114.7
Consolidated Educational Buildings Revenue Bonds	115.7	126.2	139.2
Housing and Dining System Revenue Bonds	-	-	74.0
Commonwealth Library Project (W.T. Young Library) Bonds	37.8	39.0	40.2
Capital lease obligations	156.1	143.4	65.2
Notes payable	5.5	21.6	3.4
Total	<u>\$ 676.6</u>	<u>\$ 537.5</u>	<u>\$ 436.7</u>

Debt increased \$139.1 million during the year primarily due to the issuance of bonds for the construction of the patient care facility and capital leases for the purchase of equipment.

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 the Commonwealth's economy, budgeted state appropriations will decrease from fiscal year 2007-08 receipts by approximately \$6 million to \$321 million for fiscal year 2008-09.
- Tuition rates for fiscal year 2009 will increase an average of approximately 9.0 percent for resident undergraduate students and 6.6 percent for non-resident undergraduate students. The tuition rate increases, along with adjustment for projected enrollment, are expected to generate additional operating revenues of approximately \$8 million.
- As of June 30, 2008, grants and contracts of approximately \$379.4 million have been awarded to the University, but not expended. These contracts will provide grant revenue in future periods.
- A new hospital patient care facility with an estimated construction project cost of \$525 million has been approved by the General Assembly and construction is under way. General Receipts Notes in the amount of \$265.7 million have been issued to provide initial funding for this project. The remainder of the funding for this project will come from hospital cash reserves.
- The University concluded its Campaign for the University of Kentucky in fiscal 2007-08, exceeding the goal of \$1 billion. Campaign pledges in the amount of \$69 million are due to be received in future years.
- 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.

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

UNIVERSITY OF KENTUCKY AND AFFILIATED CORPORATIONS
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
STATEMENTS OF NET ASSETS
JUNE 30, 2008 AND 2007

	2008	2007
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 388,839,660	\$ 372,287,497
Notes, loans and accounts receivable, net	229,444,385	205,349,472
Investments	6,882,493	4,196,757
Inventories and other	34,239,083	26,886,295
Total current assets	<u>659,405,621</u>	<u>608,720,021</u>
Noncurrent Assets		
Restricted cash and cash equivalents	189,698,543	143,116,091
Endowment investments	896,819,682	945,305,685
Other long-term investments	178,265,961	172,433,672
Notes, loans and accounts receivable, net	45,074,337	38,181,625
Other noncurrent assets	16,049,959	21,154,371
Capital assets, net	1,345,425,917	1,208,670,346
Total noncurrent assets	<u>2,671,334,399</u>	<u>2,528,861,790</u>
Total assets	<u>3,330,740,020</u>	<u>3,137,581,811</u>
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	182,904,473	161,759,827
Deferred revenue	60,089,686	54,458,210
Long-term liabilities - current portion	69,464,119	78,076,113
Total current liabilities	<u>312,458,278</u>	<u>294,294,150</u>
Noncurrent Liabilities		
Deferred revenue	5,972,467	5,700,898
Long-term liabilities	715,724,493	559,935,302
Total noncurrent liabilities	<u>721,696,960</u>	<u>565,636,200</u>
Total liabilities	<u>1,034,155,238</u>	<u>859,930,350</u>
NET ASSETS		
Invested in capital assets, net of related debt	<u>822,409,128</u>	<u>773,961,907</u>
Restricted		
Nonexpendable		
Scholarships and fellowships	98,381,676	90,850,147
Research	229,370,895	208,754,452
Instruction	71,938,787	63,354,280
Academic support	81,846,550	81,063,100
Other	6,277,350	4,484,230
Total restricted nonexpendable	<u>487,815,258</u>	<u>448,506,209</u>
Expendable		
Scholarships and fellowships	61,483,715	78,548,026
Research	71,234,186	100,999,470
Instruction	45,958,353	59,121,693
Academic support	32,461,741	44,318,046
Loans	9,843,737	9,455,269
Capital projects	56,087,533	77,247,177
Debt service	5,140,282	3,623,967
Auxiliary	7,333,133	4,571,892
Other	12,672,356	11,741,858
Total restricted expendable	<u>302,215,036</u>	<u>389,627,398</u>
Total restricted	<u>790,030,294</u>	<u>838,133,607</u>
Unrestricted	<u>684,145,360</u>	<u>665,555,947</u>
Total net assets	<u>\$ 2,296,584,782</u>	<u>\$ 2,277,651,461</u>

UNIVERSITY OF KENTUCKY AND AFFILIATED CORPORATIONS
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
OPERATING REVENUES		
Student tuition and fees	\$ 238,848,034	\$ 224,668,456
Less: Scholarship allowances	<u>(60,611,448)</u>	<u>(57,926,127)</u>
Net tuition and fees	178,236,586	166,742,329
Federal grants and contracts	168,494,872	170,466,382
State and local grants and contracts	114,417,369	95,901,471
Nongovernmental grants and contracts	25,760,168	31,869,123
Recoveries of facilities and administrative costs	44,137,137	43,791,890
Sales and services	51,084,255	45,717,176
Federal appropriations	17,044,673	17,857,797
County appropriations	14,017,057	12,817,459
Professional clinical service fees	174,929,376	164,431,689
Hospital services	667,530,857	535,813,930
Auxiliary enterprises:		
Housing and dining	40,639,060	40,605,278
Less: Scholarship allowances	<u>(5,499,024)</u>	<u>(4,822,458)</u>
Net housing and dining	35,140,036	35,782,820
Athletics	55,931,152	47,516,947
Other auxiliaries	23,298,626	21,705,111
Other operating revenues	<u>1,820,589</u>	<u>1,507,086</u>
Total operating revenues	<u>1,571,842,753</u>	<u>1,391,921,210</u>
OPERATING EXPENSES		
Educational and general:		
Instruction	251,748,760	257,607,986
Research	249,118,888	242,820,600
Public service	214,763,937	192,543,828
Libraries	18,184,540	16,591,647
Academic support	72,037,499	70,279,099
Student services	26,130,984	22,836,323
Institutional support	72,167,147	58,387,303
Operations and maintenance of plant	60,933,691	56,031,610
Student financial aid	24,742,343	23,215,661
Depreciation	<u>61,543,692</u>	<u>61,324,257</u>
Total educational and general	1,051,371,481	1,001,638,314
Clinical operations (including depreciation of \$1,453,575 in 2008 and \$1,342,478 in 2007)	131,647,716	134,613,845
Hospital and clinics (including depreciation of \$25,568,921 in 2008 and \$21,691,682 in 2007)	621,828,347	523,197,444
Auxiliary enterprises:		
Housing and dining (including depreciation of \$3,003,019 in 2008 and \$3,433,154 in 2007)	37,721,463	38,132,789
Athletics (including depreciation of \$2,161,461 in 2008 and \$2,478,790 in 2007)	58,062,434	53,792,125
Other auxiliaries	11,929,954	13,617,266
Other operating expenses	<u>317,313</u>	<u>228,599</u>
Total operating expenses	<u>1,912,878,708</u>	<u>1,765,220,382</u>
Net loss from operations	<u>(341,035,955)</u>	<u>(373,299,172)</u>
NONOPERATING REVENUES (EXPENSES)		
State appropriations	327,155,104	319,859,256
Gifts and grants	45,104,660	34,217,737
Investment income (loss)	(49,381,525)	160,975,415
Interest on capital asset-related debt	(14,098,305)	(12,722,644)
Other nonoperating revenues and expenses, net	<u>6,854,346</u>	<u>3,121,530</u>
Net nonoperating revenues (expenses)	315,634,280	505,451,294
Net income (loss) before other revenues, expenses, gains or losses	<u>(25,401,675)</u>	<u>132,152,122</u>
Capital grants and gifts	13,502,788	23,536,462
Additions to permanent endowments, including Research Challenge		
Trust Funds of \$25,856,304 in 2008 and \$15,401,331 in 2007	34,610,672	29,930,763
Other, net	<u>(3,778,464)</u>	<u>(10,070,287)</u>
Total other revenues (expenses)	<u>44,334,996</u>	<u>43,396,938</u>
INCREASE IN NET ASSETS	<u>18,933,321</u>	<u>175,549,060</u>
NET ASSETS, beginning of year	<u>2,277,651,461</u>	<u>2,102,102,401</u>
NET ASSETS, end of year	<u>\$ 2,296,584,782</u>	<u>\$ 2,277,651,461</u>

UNIVERSITY OF KENTUCKY AND AFFILIATED CORPORATIONS
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	\$ 178,107,517	\$ 166,039,394
Grants and contracts	319,581,948	285,559,893
Recoveries of facilities and administrative costs	45,000,751	42,548,136
Sales and services	45,614,666	45,313,405
Federal appropriations	20,046,283	15,868,099
County appropriations	13,600,530	12,449,258
Payments to vendors and contractors	(593,947,438)	(584,515,435)
Student financial aid	(24,735,315)	(23,207,121)
Salaries, wages and benefits	(1,197,401,683)	(1,082,516,038)
Professional clinic service fees	166,780,304	168,460,192
Hospital services	625,489,984	573,080,357
Auxiliary enterprise receipts:		
Housing and Dining	34,810,945	36,011,751
Athletics	56,346,302	49,920,644
Other auxiliaries	23,076,975	21,963,117
Loans issued to students	(16,195,630)	(19,967,396)
Collection of loans to students	13,066,109	20,910,174
Self insurance receipts	34,086,983	39,330,989
Self insurance payments	(39,510,760)	(36,334,387)
Other operating receipts (payments), net	939,018	753,747
Net cash provided (used) by operating activities	<u>(295,242,511)</u>	<u>(268,331,221)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	327,155,104	319,859,256
Gifts and grants received for other than capital purposes:		
Gifts received for endowment purposes	34,591,042	29,930,763
Gifts received for other purposes	39,666,818	31,337,959
Agency and loan program receipts	112,393,351	114,295,027
Agency and loan program payments	(110,968,637)	(116,061,303)
Other noncapital financing receipts (payments), net	13,138,611	3,779,592
Net cash provided (used) by noncapital financing activities	<u>415,976,289</u>	<u>383,141,294</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital grants and gifts	11,539,879	19,382,629
Purchases of capital assets	(218,198,925)	(163,276,461)
Proceeds from capital debt	224,266,115	107,885,704
Payments to refunding bond agents	-	(83,020,792)
Proceeds from sales of capital assets	-	5,241,755
Principal paid on capital debt and leases	(53,905,237)	(20,373,014)
Interest paid on capital debt and leases	(12,557,527)	(16,189,397)
Other capital and related financing receipts (payments), net	(7,972,475)	3,579,115
Net cash provided (used) by capital and related financing activities	<u>(56,828,170)</u>	<u>(146,770,461)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	1,780,775,353	1,945,208,797
Interest and dividends on investments	62,020,038	48,887,958
Purchase of investments	(1,843,566,384)	(1,988,447,846)
Net cash provided (used) by investing activities	<u>(770,993)</u>	<u>5,648,909</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	63,134,615	(26,311,479)
CASH AND CASH EQUIVALENTS, beginning of year	<u>515,403,588</u>	<u>541,715,067</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 578,538,203</u>	<u>\$ 515,403,588</u>
Reconciliation of net loss from operations to net cash used by operating activities:		
Net loss from operations	\$ (341,035,955)	\$ (373,299,172)
Adjustments to reconcile net loss from operations to net cash used by operating activities:		
Depreciation expense	93,730,668	90,270,361
Change in assets and liabilities:		
Notes, loans and accounts receivable, net	(53,061,124)	(22,749,645)
Inventories and other assets	(7,469,281)	(1,869,950)
Accounts payable and accrued liabilities	11,513,018	27,817,313
Deferred revenue	5,777,023	2,763,478
Long term liabilities	(4,696,860)	8,736,394
Net cash used by operating activities	<u>\$ (295,242,511)</u>	<u>\$ (268,331,221)</u>

UNIVERSITY OF KENTUCKY AND AFFILIATED CORPORATIONS
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
NOTES TO 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 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 (GASB), and which meet the definition of an affiliated corporation under Kentucky Revised Statute (KRS) section 164A.550) as follows: the University of Kentucky Research Foundation and its for-profit subsidiaries (Kentucky Technology, Inc. and Coldstream Laboratories, 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.; and University of Kentucky Center on Aging Foundation, Inc. The financial statements also include the operations of Kentucky Medical Services Foundation, Inc. (KMSF) and University of Kentucky Faculty Club, Inc. (doing business as the Hilary J. Boone Center) (effective during fiscal year 2007-08), non-profit entities for which the University is financially accountable as defined by GASB, but which are not affiliated corporations under KRS. The financial statements also include the operations of the UK HealthCare Hospital System, an organizational unit of the University.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the GASB. GASB establishes standards for external financial reporting for public colleges and universities and requires that resources be classified for accounting and financial 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.

Pursuant to GASB Statement No. 20, the University has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989 and do not conflict with or contradict GASB pronouncements.

Summary of Significant Accounting Policies

Accrual Basis. The 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, debt service reserves and endowment fund cash pending transfer to the custodian for investment. Cash and cash equivalents held by bond trustees and the University's endowment fund managers are included in investments.

Notes, Loans and Accounts Receivable. This classification consists of tuition and fee charges to students, charges for auxiliary enterprise services provided to students, faculty and staff, and loans to students. Also included are patient accounts receivable, amounts due from sponsors for reimbursement of expenses made pursuant to contracts and grants, and pledges that are verifiable, measurable and expected to be collected. Accounts receivable are recorded net of estimated uncollectible amounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

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.

The University's endowment spending rule provides for annual distributions of 4.5 percent of the three-year moving average market value of fund units. For the years ended June 30, 2008 and 2007 approximately \$10,805,000 and \$9,445,000, 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 \$96,515,000 at June 30, 2008. Additionally, the University assesses eligible endowment accounts with a management fee of 0.5 percent of total asset value to support fundraising and endowment administration.

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. Other investments, including guaranteed investment contracts, repurchase agreements and certificates of deposit are valued at face value and are fully collateralized.

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.

The University capitalizes interest costs as a component of construction in progress, based on the interest cost of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing.

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 and vehicles.

The University capitalizes, but does not depreciate, works of art, historical treasures and certain library materials 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. Deferred revenue is recognized in the period to which the grant, event or semester relates.

Compensated Absences. The amount of vacation leave earned but not taken by employees at June 30, 2008 is recorded as a liability by the University. Temporary disability leave payable upon termination under the University's payout policy is also recorded as a liability. Compensated absence liabilities are computed using the pay rates in effect at the statement of net assets date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Scholarship Allowances. 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. Scholarship allowances are the difference between the stated charge for goods and services provided by the University and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or nonoperating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship allowance.

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, less an allowance for doubtful accounts. 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.

Medicare. Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient skilled nursing services are paid at prospectively determined per diem rates that are based on the patients' acuity. Certain inpatient nonacute services and defined medical education costs are paid based on a cost reimbursement methodology. UK HealthCare Hospital System (the System) is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the System and audits thereof by the Medicare fiscal intermediary.

Medicaid. Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology for certain services and at prospectively determined rates for all other services. The System is reimbursed for cost reimbursable services at tentative rates with final settlement determined after submission of annual cost reports by the System and audits thereof by Medicaid fiscal intermediary.

Revenue from the Medicare and Medicaid programs accounted for approximately 30 percent and 22 percent, respectively, of the System's net patient service revenues for the year ended June 30, 2008 and approximately 28 percent and 24 percent, respectively for the year ended June 30, 2007. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

The System also entered into payment agreements with certain commercial insurance carriers, health maintenance organization and preferred provider organizations. The basis for payment to the System under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

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). KMSF and University of Kentucky Faculty Club are also not-for-profit corporations as described in Section 501 (c)(3) and 501 (c)(7), respectively, of the Internal Revenue Code.

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.

The University has classified operating expenses based upon their functional classification. Operating expenses by natural classification are presented in Note 23. During fiscal years 2008 and 2007, departmental research in nonsponsored accounts of \$42,878,000 and \$33,129,000, respectively, was recorded as research expense in the Statements of Revenues, Expenses and Changes in Net Assets.

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. The GASB has issued certain statements which are applicable to the University for fiscal years ending after June 30, 2009. The University does not expect the adoption of these statements to have a material effect on its financial statements.

2. DEPOSITS AND INVESTMENTS

The fair value of deposits and investments, by type, at June 30, 2008 and 2007 is as follows (in thousands):

	2008	2007
Deposits with banks and the Commonwealth of Kentucky	\$ 168,305	\$ 48,576
U.S. Treasury fixed income securities	17,036	30,537
Government agency fixed income securities	93,923	79,753
Common and preferred stocks	10,079	92,083
Pooled equity funds	593,540	582,392
Private equity funds	15,745	8,524
Pooled real estate funds	79,877	73,433
Pooled fixed income funds	517,746	481,270
Corporate fixed income securities	53,745	29,369
Guaranteed investment contracts	8,010	10,545
Repurchase agreements	56,174	144,437
Certificates of deposit	25,561	22,254
Cash and cash equivalents	19,835	33,944
Other	930	223
	<u>\$ 1,660,506</u>	<u>\$ 1,637,340</u>
	2008	2007
Statement of Net Assets classification		
Cash and cash equivalents	\$ 388,840	\$ 372,287
Current investments	6,882	4,197
Restricted cash and cash equivalents	189,698	143,116
Endowment investments	896,820	945,306
Other long-term investments	178,266	172,434
	<u>\$ 1,660,506</u>	<u>\$ 1,637,340</u>

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 include deposits and repurchase agreements with local banks and the Commonwealth of Kentucky, and money market accounts;
- 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 Overnight and Short-Term Investment Policy approved 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 percent 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 U.S. Treasury securities; securities issued by U.S. government agencies or government sponsored entities; money market securities, including: commercial paper rated the highest by a nationally recognized rating agency, collateralized certificates of deposit, and bankers' acceptances for banks rated A or higher; repurchase and reverse repurchase agreements collateralized at 102 percent; municipal obligations rated A1 or higher; and money market mutual funds invested in the any of the above noted security types. 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, 2008 and 2007, respectively, the credit quality of the University's fixed income investments is as follows (in thousands):

	2008							
	S&P/Moody's Credit Ratings						Rating	Total
	AAA/Aaa	AA/Aa	A	BBB/Baa	Not rated	Not Applicable		
U.S. Treasury fixed income						\$ 17,036	\$ 17,036	
Government agency fixed income	\$ 93,923					-	93,923	
Pooled fixed income	207	\$ 2,652	-	-	\$ 514,888	-	517,747	
Corporate fixed income	24,454		\$ 1,368	\$ 27,923		-	53,745	
Guaranteed investment contracts	-	-	-	-	8,010	-	8,010	
Repurchase agreements	-	-	-	-	51,232	4,942	56,174	
Certificates of deposit	-	-	-	-	25,561	-	25,561	
Cash and cash equivalents	11,751	-	7,092	-	932	60	19,835	
Total fixed income investments	\$ 130,335	\$ 2,652	\$ 8,460	\$ 27,923	\$ 600,623	\$ 22,038	\$ 792,031	

	2007							
	S&P/Moody's Credit Ratings						Rating	Total
	AAA/Aaa	AA/Aa	A	BBB/Baa	Not rated	Not Applicable		
U.S. Treasury fixed income						\$ 30,537	\$ 30,537	
Government agency fixed income	\$ 78,147				\$ 1,606	-	79,753	
Pooled fixed income	641	\$ 1,919			478,710	-	481,270	
Corporate fixed income	20,267	-	\$ 448	\$ 8,654	-	-	29,369	
Guaranteed investment contracts	-	-	-	-	10,545	-	10,545	
Repurchase agreements	-	-	-	-	139,493	4,944	144,437	
Certificates of deposit	-	-	-	-	22,254	-	22,254	
Cash and cash equivalents	28,745	-	2,160	-	3,025	14	33,944	
Total fixed income investments	\$ 127,800	\$ 1,919	\$ 2,608	\$ 8,654	\$ 655,633	\$ 35,495	\$ 832,109	

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 held in the Commonwealth's investment pools are held in the Commonwealth's name by the Commonwealth's custodian.
- Short-term investments held by the Commonwealth for the benefit of the University are invested in the Commonwealth's investment pools and are held in the name of the Commonwealth 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, 2008 and 2007, respectively, 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):

	2008					Total
	State Deposits	Overnight Investments	Bond Revenue Investments	Short-term Investments	Other State Investments	
Uninsured and collateralized with securities held by the pledging financial institution's trust department or agent but not in the University's name	\$ 136,670	\$ 54,000				\$ 190,670
Uninsured, not registered in the name of the University and held by the counterparty but not in the University's name	-	-	\$ 230,183	\$ 60,051	\$ 103,794	394,028
Total	\$ 136,670	\$ 54,000	\$ 230,183	\$ 60,051	\$ 103,794	\$ 584,698

	2007					Total
	State Deposits	Overnight Investments	Bond Revenue Investments	Short-term Investments	Other State Investments	
Uninsured and collateralized with securities held by the pledging financial institution's trust department or agent but not in the University's name	\$ 40,987	\$ 110,000				\$ 150,987
Uninsured, not registered in the name of the University and held by the counterparty but not in the University's name	-	-	\$ 232,343	\$ 59,434	93,507	385,284
Total	\$ 40,987	\$ 110,000	\$ 232,343	\$ 59,434	\$ 93,507	\$ 536,271

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, other than the requirement that the amount of money invested at any

one time in commercial paper, bankers' acceptances and municipal obligations shall not exceed twenty (20) percent.

- 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 five (5) percent of total investments.

At June 30, 2008 and 2007, 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 generally 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.

Below is the maturity distribution of the University's fixed income investments at June 30, 2008 and 2007, respectively, (in thousands):

2008							
Investment Type	Maturities in Years					Managed based on duration	Total
	Less than 1	1-3	3-5	5-10	Greater than 10		
U.S. Treasury fixed income	\$ 16,724			\$ 108	\$ 27	\$ 177	\$ 17,036
Government agency fixed income	15,132	\$ 20,771	\$ 5,595	651	-	51,774	93,923
Pooled fixed income	-	-	-	-	-	517,747	517,747
Corporate fixed income	-	318	296	1,116	153	51,862	53,745
Guaranteed investment contracts	3,561	948	-	326	3,175	-	8,010
Repurchase agreements	51,232	-	-	1,008	3,934	-	56,174
Certificates of deposit	21,561	4,000	-	-	-	-	25,561
Cash and cash equivalents	19,835	-	-	-	-	-	19,835
Total fixed income investments	<u>\$ 128,045</u>	<u>\$ 26,037</u>	<u>\$ 5,891</u>	<u>\$ 3,209</u>	<u>\$ 7,289</u>	<u>\$ 621,560</u>	<u>\$ 792,031</u>

2007							
Investment Type	Maturities in Years					Managed based on duration	Total
	Less than 1	1-3	3-5	5-10	Greater than 10		
U.S. Treasury fixed income	\$ 10,483	\$ 976		\$ 71	\$ 42	\$ 18,965	\$ 30,537
Government agency fixed income	36,085	2,317	\$ 498	432	1,369	39,052	79,753
Pooled fixed income	-	-	-	-	-	481,270	481,270
Corporate fixed income	-	-	-	433	160	28,776	29,369
Guaranteed investment contracts	2,611	4,248	150	361	3,175	-	10,545
Repurchase agreements	139,493	-	-	1,008	3,936	-	144,437
Certificates of deposit	22,254	-	-	-	-	-	22,254
Cash and cash equivalents	33,944	-	-	-	-	-	33,944
Total fixed income investments	<u>\$ 244,870</u>	<u>\$ 7,541</u>	<u>\$ 648</u>	<u>\$ 2,305</u>	<u>\$ 8,682</u>	<u>\$ 568,063</u>	<u>\$ 832,109</u>

At June 30, 2008 and 2007, the University had the following investments managed based on duration (in thousands):

<u>Investment Type</u>	<u>2008</u>		<u>2007</u>	
	<u>Fair Value</u>	<u>Modified Duration (Years)</u>	<u>Fair Value</u>	<u>Modified Duration (Years)</u>
U.S. Treasury fixed income securities				
Pooled endowment fund	\$ 177	15.35	\$ 18,965	7.17
Government agency fixed income securities				
Pooled endowment fund	51,774	2.26	39,052	4.11
Pooled fixed income funds				
Pooled endowment fund	95,835	4.54	93,426	4.66
Other endowment investments	2,859	4.00	2,560	3.55
Commonwealth of Kentucky short-term pool	25,025	0.14	219,006	0.06
Commonwealth of Kentucky intermediate pool	263,148	0.30	166,278	1.18
Other Short Term Pools	130,880	1.61		
Corporate fixed income securities				
Pooled endowment fund	51,862	2.13	28,776	2.94
Total	<u>\$ 621,560</u>		<u>\$ 568,063</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, 2008 and 2007, the following endowment investments were subject to foreign currency risk (in thousands):

<u>Endowment Investment</u>	<u>Fair Value</u>	
	<u>2008</u>	<u>2007</u>
Pooled fixed income funds	\$ 8,152	\$ 11,857
Pooled global equity fund	69,859	75,411
Pooled non-U.S. equity funds	100,144	106,623
	<u>\$ 178,155</u>	<u>\$ 193,891</u>

The University invests in various securities. Investment securities are exposed to various interest rate, market and credit risks, discussed above. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could affect the investment amounts in the statement of net assets.

3. NOTES, LOANS AND ACCOUNTS RECEIVABLE, NET

Notes, loans and accounts receivable as of June 30, 2008 and 2007, respectively, are as follows (in thousands):

	2008		
	Gross Receivable	Allowance	Net Receivable
Hospital patient accounts	\$ 115,418	\$ (21,271)	\$ 94,147
Hospital third-party payor settlements	13,181	-	13,181
KMSF patient accounts	30,108	(3,772)	26,336
Dentistry patient accounts	4,304	(1,227)	3,077
Student loans	28,701	(2,393)	26,308
Reimbursement receivable - grants and contracts	56,587	(500)	56,087
Reimbursement receivable - federal appropriations	1,100	-	1,100
Pledges receivable	41,762	(15,167)	26,595
Accrued interest receivable	4,621	-	4,621
Student receivables	9,048	(3,928)	5,120
Other	18,060	(113)	17,947
Total	\$ 322,890	\$ (48,371)	\$ 274,519
Current portion			\$ 229,445
Noncurrent portion			45,074
Total			\$ 274,519
	2007		
	Gross Receivable	Allowance	Net Receivable
Hospital patient accounts	\$ 78,690	\$ (18,416)	\$ 60,274
Hospital third-party payor settlements	4,027	-	4,027
KMSF patient accounts	21,734	(3,337)	18,397
Dentistry patient accounts	3,491	(848)	2,643
KMSF receivable - Good Samaritan transaction	18,669	-	18,669
Student loans	25,592	(2,426)	23,166
Reimbursement receivable - grants and contracts	56,166	-	56,166
Reimbursement receivable - federal appropriations	3,915	-	3,915
Pledges receivable	32,061	(12,095)	19,966
Accrued interest receivable	5,863	-	5,863
Student receivables	7,957	(3,125)	4,832
Escrow funds receivable - CHA sale	7,400	-	7,400
Other	18,331	(118)	18,213
Total	\$ 283,896	\$ (40,365)	\$ 243,531
Current portion			\$ 205,349
Noncurrent portion			38,182
Total			\$ 243,531

4. CAPITAL ASSETS, NET

Capital assets as of June 30, 2008, and capital asset activity for the year ended June 30, 2008, are summarized as follows (in thousands):

	June 30, 2007	Additions	Deletions	June 30, 2008
Land	\$ 58,204	\$ 3,123	\$ 1,076	\$ 60,251
Land improvements - nonexhaustible	17,099	3,638	-	20,737
Land improvements - exhaustible	52,384	512	-	52,896
Buildings	1,236,775	84,867	6,809	1,314,833
Fixed equipment - communications	48,339	5,648	-	53,987
Infrastructure	50,120	2,816	-	52,936
Equipment	404,173	54,826	29,937	429,062
Vehicles	19,416	2,120	715	20,821
Library materials	128,613	3,988	354	132,247
Nondepreciable library materials	6,381	49	-	6,430
Capitalized software	72,625	10,429	-	83,054
Art	7,305	269	-	7,574
Construction in progress	104,017	100,201	27,544	176,674
	<u>2,205,451</u>	<u>272,486</u>	<u>66,435</u>	<u>2,411,502</u>
<u>Accumulated Depreciation</u>				
Land improvements - exhaustible	43,545	1,478	-	45,023
Buildings	522,867	33,231	3,786	552,312
Fixed equipment - communications	27,529	3,577	-	31,106
Infrastructure	12,179	2,061	-	14,240
Equipment	259,975	38,793	19,935	278,833
Vehicles	15,195	1,990	715	16,470
Library materials	102,638	5,809	-	108,447
Capitalized software	12,853	6,792	-	19,645
	<u>996,781</u>	<u>93,731</u>	<u>24,436</u>	<u>1,066,076</u>
Capital assets, net	<u>\$ 1,208,670</u>	<u>\$ 178,755</u>	<u>\$ 41,999</u>	<u>\$ 1,345,426</u>

Capital assets as of June 30, 2007, and capital asset activity for the year ended June 30, 2007, are summarized as follows (in thousands):

	June 30, 2006	Additions	Deletions	June 30, 2007
Land	\$ 44,681	\$ 14,505	\$ 982	\$ 58,204
Land improvements - nonexhaustible	16,291	808	-	17,099
Land improvements - exhaustible	51,070	1,342	28	52,384
Buildings	1,184,627	67,953	15,805	1,236,775
Fixed equipment - communications	44,473	3,866	-	48,339
Infrastructure	47,954	2,166	-	50,120
Equipment	373,354	58,703	27,884	404,173
Vehicles	18,528	1,569	681	19,416
Library materials	124,133	4,859	379	128,613
Nondepreciable library materials	6,313	68	-	6,381
Capitalized software	50,212	22,413	-	72,625
Art	7,054	251	-	7,305
Construction in progress	43,108	83,132	22,223	104,017
	<u>2,011,798</u>	<u>261,635</u>	<u>67,982</u>	<u>2,205,451</u>
<u>Accumulated Depreciation</u>				
Land improvements - exhaustible	41,935	1,621	11	43,545
Buildings	495,053	31,581	3,767	522,867
Fixed equipment - communications	24,124	3,405	-	27,529
Infrastructure	10,218	1,961	-	12,179
Equipment	242,945	36,703	19,673	259,975
Vehicles	13,641	2,234	680	15,195
Library materials	96,134	6,504	-	102,638
Capitalized software	6,592	6,261	-	12,853
	<u>930,642</u>	<u>90,270</u>	<u>24,131</u>	<u>996,781</u>
Capital assets, net	<u>\$ 1,081,156</u>	<u>\$ 171,365</u>	<u>\$ 43,851</u>	<u>\$ 1,208,670</u>

At June 30, 2008, the University has construction projects in process totaling approximately \$568.3 million in scope. The estimated cost to complete these projects is approximately \$335.8 million. Such construction is principally financed by proceeds from the University's general receipts bonds, capital appropriations from the Commonwealth of Kentucky and cash reserves.

Interest costs incurred during construction, net of related investment income, are capitalized. Total interest capitalized was \$5,772,000 for 2008 and \$97,000 for 2007.

During 2008, the University has utilized capital leases to acquire various items of equipment costing approximately \$36.3 million. Additionally, the University has entered into capital lease agreements to finance renovations to Commonwealth Stadium and for the construction of several buildings. The University has also utilized capital leases to fund the purchase and implementation of its new administrative computing systems and for the lease purchase of land and buildings associated with its purchase of Good Samaritan Hospital. The net book value for capitalized leased land, buildings and equipment is \$184.5 million and \$179.2 million at June 30, 2008 and 2007, respectively.

Non-cash capital asset and related financing activities are summarized as follows (in thousands):

	<u>2008</u>	<u>2007</u>
Capital lease additions	\$ 3,835	\$ 70,905
Gifts of capital assets	843	2,629
Capital asset additions in accounts payable	17,703	9,457
Capitalized interest, net of investment income	5,772	97
Amortized bond discount, premium and cost of issues	309	(33)
Total	<u>\$ 28,462</u>	<u>\$ 83,054</u>

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2008 and 2007, respectively, are as follows (in thousands):

	<u>2008</u>	<u>2007</u>
Payable to vendors and contractors	\$ 84,785	\$ 61,330
Accrued expenses, including vacation and sick leave	69,967	62,506
Employee withholdings and deposits payable to third parties	28,152	37,924
Total	<u>\$ 182,904</u>	<u>\$ 161,760</u>

6. DEFERRED REVENUE

Deferred revenue as of June 30, 2008 and 2007, respectively, is as follows (in thousands):

	<u>2008</u>	<u>2007</u>
Unearned summer school revenue	\$ 4,455	\$ 4,338
Unearned hospital revenue	11,384	10,846
Unearned grants and contracts revenue	35,946	29,627
Prepaid athletic ticket sales	12,075	11,943
Other	2,202	3,405
Total	<u>\$ 66,062</u>	<u>\$ 60,159</u>
Current portion	\$ 60,090	\$ 54,458
Noncurrent portion	<u>5,972</u>	<u>5,701</u>
Total	<u>\$ 66,062</u>	<u>\$ 60,159</u>

Noncurrent deferred revenue activity for the years ended June 30, 2008 and 2007 is summarized as follows (in thousands):

	<u>June 30,</u> <u>2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30,</u> <u>2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30,</u> <u>2008</u>
Noncurrent deferred revenue	<u>\$ 5,399</u>	<u>\$ 309</u>	<u>\$ 7</u>	<u>\$ 5,701</u>	<u>\$ 271</u>	<u>\$ -</u>	<u>\$ 5,972</u>

7. LONG-TERM LIABILITIES

Long-term liabilities as of June 30, 2008, and long-term liability activity for the year ended June 30, 2008, are summarized as follows (in thousands):

	June 30, 2007	Additions	Reductions	June 30, 2008	Current Portion	Noncurrent Portion
<u>Bonds, notes and capital leases</u>						
General receipts notes	\$ 175,915	\$ 158,150	\$ 2,745	\$ 331,320	\$ 2,870	\$ 328,450
General receipts bonds	31,240	-	1,040	30,200	1,080	29,120
Educational buildings bonds	126,225	-	10,520	115,705	10,865	104,840
Library bonds	39,035	-	1,265	37,770	1,320	36,450
Capital leases and other long-term obligations	143,415	36,306	23,618	156,103	21,133	134,970
Notes payable	21,626	3,000	19,116	5,510	5,112	398
Total bonds, notes and capital leases	<u>537,456</u>	<u>197,456</u>	<u>58,304</u>	<u>676,608</u>	<u>42,380</u>	<u>634,228</u>
<u>Other liabilities</u>						
Medical malpractice	31,977	3,235	3,359	31,853	6,511	25,342
Long term disability	9,823	-	9,823	-	-	-
Annuities payable	6,704	185	618	6,271	608	5,663
Health insurance	10,904	32,116	30,724	12,296	12,296	-
Other postemployment benefits trust	-	6,620	-	6,620	-	6,620
Federal loan programs	21,894	527	874	21,547	-	21,547
Workers compensation	10,076	5,000	-	15,076	5,394	9,682
Compensated absences	3,437	-	92	3,345	507	2,838
Supplemental disability	355	-	241	114	91	23
Arbitrage rebate	528	433	138	823	417	406
Unamortized bond premium	3,690	6,696	457	9,929	554	9,375
Outstanding check liability	644	288	644	288	288	-
Unemployment compensation	523	372	477	418	418	-
Total other liabilities	<u>100,555</u>	<u>55,472</u>	<u>47,447</u>	<u>108,580</u>	<u>27,084</u>	<u>81,496</u>
Total	<u>\$ 638,011</u>	<u>\$ 252,928</u>	<u>\$ 105,751</u>	<u>\$ 785,188</u>	<u>\$ 69,464</u>	<u>\$ 715,724</u>

Long-term liabilities as of June 30, 2007, and long-term liability activity for the year ended June 30, 2007, are summarized as follows (in thousands):

	June 30, 2006	Additions	Reductions	June 30, 2007	Current Portion	Noncurrent Portion
<u>Bonds, notes and capital leases</u>						
General receipts notes	\$ 107,540	\$ 68,525	\$ 150	\$ 175,915	\$ 2,745	\$ 173,170
General receipts bonds	7,160	24,325	245	31,240	1,040	30,200
Educational buildings bonds	139,170	-	12,945	126,225	10,520	115,705
Housing and dining bonds	74,000	-	74,000	-	-	-
Library bonds	40,250	-	1,215	39,035	1,265	37,770
Capital leases and other long-term obligations	65,195	91,459	13,239	143,415	17,740	125,675
Notes payable	3,408	18,659	441	21,626	21,055	571
Total bonds, notes and capital leases	<u>436,723</u>	<u>202,968</u>	<u>102,235</u>	<u>537,456</u>	<u>54,365</u>	<u>483,091</u>
<u>Other liabilities</u>						
Medical malpractice	29,779	6,528	4,330	31,977	5,013	26,964
Long term disability	10,056	1,774	2,007	9,823	1,958	7,865
Annuities payable	5,937	784	17	6,704	621	6,083
Health insurance	8,458	29,654	27,208	10,904	10,904	-
Federal loan programs	21,889	963	958	21,894	-	21,894
Workers compensation	5,276	6,785	1,985	10,076	3,016	7,060
Compensated absences	3,250	187	-	3,437	490	2,947
Supplemental disability	431	178	254	355	229	126
Arbitrage rebate	365	163	-	528	93	435
Unamortized bond premium	2,182	1,701	193	3,690	220	3,470
Outstanding check liability	596	644	596	644	644	-
Unemployment compensation	455	448	380	523	523	-
Other	707	-	707	-	-	-
Total other liabilities	<u>89,381</u>	<u>49,809</u>	<u>38,635</u>	<u>100,555</u>	<u>23,711</u>	<u>76,844</u>
Total	<u>\$ 526,104</u>	<u>\$ 252,777</u>	<u>\$ 140,870</u>	<u>\$ 638,011</u>	<u>\$ 78,076</u>	<u>\$ 559,935</u>

Annuities payable consists of the present value of future payments due under charitable remainder annuity trusts, charitable remainder unitrusts, lead trusts, irrevocable trusts and charitable gift annuities, discounted at 7 percent.

Bond discounts and premiums are amortized over the life of the bond using a method that approximates the effective interest method.

Bonds payable consist of General Receipts bonds, General Receipts notes, Consolidated Educational Building Revenue bonds (CEBRB) and Lexington-Fayette Urban County Government (LFUCG) bonds in the original amount of \$577,595,000 dated June 1, 1998 through November 8, 2007, which bear interest at 1.15% to 5.00%. The bonds are payable in annual installments through October 1, 2027. The University is required to make semi-annual deposits of varying amounts to the debt service funds held by the trustees. The bonds are secured by the net revenues of the University and the assets restricted under the bond indenture agreements. Capital leases are due in periodic installments through May 1, 2024 and bear interest at 2.87% to 8.20%.

The indenture agreements require that certain funds be established with the trustee and with the Commonwealth of Kentucky. In addition, CEBRB bonds require a debt service reserve equal to the highest annual aggregate debt service payment due during the remaining lives of the bonds. Currently this amount is \$15,433,000. The LFUCG bonds require a debt service reserve of \$3,176,000.

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, 2008, are as follows (in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 42,380	\$ 27,483	\$ 69,863
2010	43,040	25,777	68,817
2011	45,561	26,046	71,607
2012	69,442	23,267	92,709
2013	38,534	21,361	59,895
2014-2018	165,946	84,672	250,618
2019-2023	154,250	48,615	202,865
2024-2027	<u>117,455</u>	<u>15,275</u>	<u>132,730</u>
Total	<u>\$ 676,608</u>	<u>\$272,496</u>	<u>\$ 949,104</u>

At June 30, 2008, assets with a fair market value of approximately \$106,947,000 have been placed on deposit with trustees to totally defease bonds with a par amount of \$104,835,000. The liability for these fully defeased bonds is not included in the financial statements.

8. 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. As of June 30, 2008 and 2007, respectively, restricted expendable net assets were composed of the following (in thousands):

	<u>2008</u>	<u>2007</u>
Appreciation on permanent endowments	\$ 100,678	\$ 176,327
Term endowments	7,113	7,791
Quasi-endowments initially funded with restricted assets	42,681	43,077
Funds restricted for capital projects and debt service	61,228	80,871
Funds restricted for noncapital purposes	80,671	72,106
Loan funds (primarily University funds required for federal match)	<u>9,844</u>	<u>9,455</u>
Total	<u>\$ 302,215</u>	<u>\$ 389,627</u>

9. 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 as of June 30, 2008 and 2007, respectively, are as follows (in thousands):

	<u>2008</u>	<u>2007</u>
Working capital requirements	\$ 60,620	\$ 71,209
Budget appropriations for future year fiscal operations	81,155	66,928
Designated for capital projects	24,283	29,876
Designated for renewal and replacement of capital assets	12,136	12,441
Hospital	426,823	421,071
Affiliated corporations	<u>79,128</u>	<u>64,031</u>
Total	<u>\$684,145</u>	<u>\$665,556</u>

10. 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. For the years ended June 30, 2008 and 2007, respectively, pledged revenues are as follows (in thousands):

	<u>2008</u>	<u>2007</u>
Student tuition and fees	\$ 178,237	\$ 166,742
Nongovernmental grants and contracts	559	6,916
Recoveries of facilities and administrative costs	44,137	43,792
Sales and services	41,783	38,775
Hospital services	667,531	535,814
Auxiliary enterprises - housing and dining	35,140	35,783
Auxiliary enterprises - other	23,299	21,705
Other operating revenue	612	553
State appropriations	327,155	319,859
Gifts and grants	2,411	2,087
Investment income	22,522	30,654
	<u>\$ 1,343,386</u>	<u>\$ 1,202,680</u>

11. INVESTMENT INCOME

Components of investment income (loss) for the years ended June 30, 2008 and 2007 are as follows (in thousands):

	<u>2008</u>	<u>2007</u>
Interest and dividends earned on endowment investments	\$ 27,716	\$ 20,860
Realized and unrealized gains and losses on endowment investments	(102,587)	104,660
Interest and dividends on cash and non-endowment investments	29,906	30,035
Realized and unrealized gains and losses on non-endowment investments	(6,123)	3,689
Investment income from external trusts	1,706	1,731
Total	<u>\$ (49,382)</u>	<u>\$ 160,975</u>

12. FUNDS HELD IN TRUST BY OTHERS

The University is the income beneficiary of various trusts that are held and controlled by external trustees. For the years ended June 30, 2008 and 2007, the University received income from these trusts of approximately \$1,706,000 and \$1,731,000, respectively. The market value of the external trust assets as of June 30, 2008 and 2007 was approximately \$56,512,000 and \$45,028,000, respectively. 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.

13. PLEDGES AND DEFERRED GIFTS

At June 30, 2008, pledges are expected to be collected primarily over the next five years, as follows (in thousands):

Operating purposes	\$ 20,714
Capital projects	<u>29,234</u>
Total	\$ 49,948
Less discounts and allowances	<u>(23,353)</u>
Total	<u><u>\$ 26,595</u></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 (\$28,850,000 at June 30, 2008) are not recognized as revenue until the gifts are actually received. Accordingly, for the years ended June 30, 2008 and 2007, the University recorded the discounted value of operating and capital pledges using a rate of 6 percent, net of the allowance for uncollectible pledges, of approximately \$26,595,000 and \$19,966,000, respectively.

Deferred gifts through insurance, known bequests and irrevocable trusts in which the University has a remainder interest are estimated to be approximately \$98,406,000 at June 30, 2008. The University records these amounts as revenue when the cash is received.

14. GRANTS AND CONTRACTS AWARDED

At June 30, 2008, grants and contracts of approximately \$379,437,000 have been awarded to the University and the University of Kentucky Research Foundation but not expended. These amounts will be recognized in future periods.

15. 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 two retirement plan carriers, as follows:

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

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 2008 and 2007 were approximately \$69,818,000 and \$62,534,000, respectively. Employees contributed approximately \$34,362,000 in 2008 and \$31,003,000 in 2007. The University's total payroll costs were approximately \$920,282,000 and \$848,973,000, respectively, for the years ended June 30, 2008 and 2007. The payroll for employees covered by the retirement plan was approximately \$698,180,000 and \$625,344,000 for the years ended 2008 and 2007, 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 16).

16. MINIMUM ANNUAL RETIREMENT BENEFITS AND SUPPLEMENTAL RETIREMENT INCOME

Employees in retirement groups I, II and III, referred to in Note 15 above, 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 \$2,880,000 and \$3,089,000 for the years ended June 30, 2008 and 2007, respectively.

The latest actuarial valuation was prepared as of July 1, 2008, 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 \$15,206,000.

17. HEALTH INSURANCE BENEFITS FOR RETIREES

The University administers a single-employer defined benefit healthcare plan including medical and prescription drug benefits. The plan provides lifetime healthcare insurance benefits for eligible retirees and their surviving spouses. Employees are eligible for the University retiree health benefits upon retirement after a) completing 15 years of continuous service and b) age plus years of service equal at least 75 years ("rule of 75"). Employees hired on or after January 1, 2006 are eligible to participate in the retiree healthcare plan on an "access only" basis upon retirement, but must pay 100% of the cost of the selected plan. Employees hired prior to January 1, 2006 are eligible for the University subsidy based on their hire date and surviving spouses receive one-half of the health credit their spouse was entitled to if they were covered by the health plan at the time of the retiree's death. No health credit is provided to a spouse of a living retiree. Human Resources Policies and Procedures define retiree health benefits and can be amended by the President of the University as delegated by the University's Board of Trustees. Employees who were hired before August 1, 1965 are eligible for \$5,000 of life insurance coverage upon retirement.

The retiree health plan does not issue a publicly available financial report, but is included in this report of the University using the economic resources measurement focus and the accrual basis of accounting under which expenses, including benefits and refunds, are recorded when the liability is incurred. Employer contributions

are recorded in the accounting period in which they are earned and become measurable. Investments are reported at fair market value and based on published prices and quotations from major investment brokers at current exchange rates, as available.

The contribution requirements of plan members and the University are established and may be amended by the President of the University. The University provides a pre-65 credit of up to 90% of the "true retiree" cost of the least expensive pre-65 medical plan. For post-65 benefits, the University provides a credit equal to 90% of the "true retiree" cost of the post-65 medical plan. However, retirees must pay the greater of \$25 per month or 10 percent of total plan cost. For fiscal year 2008, the University contributed \$13.6 million to the plan. Plan members receiving benefits contributed 27.4 percent of the premium costs, an average for combined single and family coverage. In fiscal year 2008, total member contributions were \$2.7 million approximately.

The University has established a trust fund to segregate plan assets, and currently plans to contribute amounts to the trust fund sufficient to fully fund the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The University will continue to finance retiree benefits by pre-funding benefits and contributing the ARC into a segregated, protected trust fund and will amortize the initial unfunded accrued liability (UAL) over a thirty year closed period. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ARC of \$13.6 million is 2.2 percent of annual covered payroll. There are no long-term contracts for contributions to the plan. The following table presents the other postemployment benefits (OPEB) cost for the year, the amount contributed and changes in the OPEB Plan for fiscal year 2008 (in thousands):

Annual required contribution	\$ 13,649
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Contributions made	<u>(13,649)</u>
Increase in net OPEB obligation (asset)	-
Net OPEB obligation (asset) - Beginning of year	<u>-</u>
Net OPEB obligation (asset) - End of year	<u><u>\$ -</u></u>

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for fiscal year 2008 was as follows (in thousands):

Fiscal Year Ended	Annual OPEB cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2008	\$ 13,649	100.0%	\$ -

As of July 1, 2007, the actuarial accrued liability (AAL) for benefits was \$132.3 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$132.3 million. The covered payroll (annual payroll of active employees covered by the plan) was \$614.9 million and the ratio of the UAAL to the covered payroll was 21.8 percent at June 30, 2008. The University implemented the University of Kentucky Other Postemployment Benefits (OPEB) Trust in July 2007, after the July 1, 2007 actuarial valuation date. At the actuarial valuation date there were no trust fund assets. As of June 30, 2008, there were \$6.6 million in net trust fund assets.

Actuarial valuation of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, is designed to present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The projection of benefits for financial reporting purposes is based on the substantive plan (the plan as understood by the employer and the plan members) and includes the type of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects for legal or contractual funding limitations on the pattern of cost sharing between the employer and plan member in the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2007 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included an 8 percent discount rate based on the University's funding policy (ARC funding) based on the expected long-term return on the separate trust assets that will be used to finance the payment of plan benefits. The projected annual healthcare trend rate is 9 percent for the pre-65 members and 10 percent for the post-65 members initially, reduced in decrements to an ultimate rate of 5 percent after five years. The expected long-term payroll growth rate was assumed to be 3 percent per year. The UAAL is being amortized as a level percent of pay amount on a closed basis. The remaining amortization period at July 2007 was thirty years.

18. LONG TERM DISABILITY BENEFIT PLAN

The University is self insured for a long-term disability income program and has established a trust for the purpose of paying claims and establishing necessary reserves. Regular employees with a full-time equivalent of .75 or greater who have completed 12 months of service are automatically enrolled in the plan. To be covered, an employee must be actively at work on the first day of the month after the employee completes one full year of service. An employee approved for long-term disability benefits receives primary and supplemental payment benefits based on the employee's basic regular monthly salary at the time of the onset of the disabling condition. Primary income benefits provide payment of 60% of the basic regular monthly salary less any disability received from government programs and/or another employer for the same condition. Basic salary for medical faculty is defined as the tenure base salary. Other sources of income used in the benefit formula include Social Security, worker's compensation or other similar government programs, veterans' or other governmental disability payments, or other employer-sponsored disability benefits. The University provides supplemental payment benefits for 42 months following the date of disability onset based on the following schedule (for current long-term disability participants or employees approved for long-term disability benefits prior to October 1, 2006):

Months	Percentage of Salary
1-6	100%
7-18	90%
19-30	80%
31-42	70%
43- End of Benefit	60%

Claimants that file applications and who are approved for benefits on October 1, 2006 or after receive benefits based on a new schedule. For the first six months they receive 100% of the basic salary and receive 60% of the basic salary after that time. Benefits end when members recover, die, terminate employment or retire. In most cases, claimants retire at age 65. The Plan also include provisions for health insurance that allow participants who were enrolled in a health plan at the time their disability benefit began to continue health coverage (University subsidy limited to 29 months for claimants approved on or after October 1, 2006), a \$10,000 life insurance benefit, and retirement contributions equal to 10 percent of pre-disability salary per year for applications filed on or after October 1, 2006 and 15 percent of pre-disability salary per year for applications filed before October 1, 2006.

The long-term disability plan does not issue a publicly available financial report, but is included in this report of the University using the economic resources measurement focus and the accrual basis of accounting under which expenses, including benefits and refunds, are recorded when the liability is incurred. Employer contributions are recorded in the accounting period in which they are earned and become measureable.

Investments are reported at fair market value and based on published prices and quotations from major investment brokers at current exchange rates, as available. The coverage of the long-term disability benefits is established and may be amended by the President of the University.

The University currently plans to contribute amounts to the trust fund sufficient to fully fund the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The University will continue to finance long-term disabilities by pre-funding benefits and contributing to the ARC into a segregated, protected trust fund and will amortize the initial unfunded accrued liability (UAL) over a thirty year closed period. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ARC of \$2.2 million is 0.5 percent of annual covered payroll. There are no long-term contracts for contributions to the plan. The following table presents the OPEB cost for the year, the amount contributed and changes in the OPEB Plan for fiscal year 2008 (in thousands):

Annual required contribution	\$ 2,208
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Contributions made	<u>(2,208)</u>
Increase in net OPEB obligation (asset)	-
Net OPEB obligation (asset) - Beginning of year	<u>-</u>
Net OPEB obligation (asset) - End of year	<u><u>\$ -</u></u>

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2008 was as follows (in thousands):

Fiscal Year Ended	Annual OPEB cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2008	\$ 2,208	100.0%	\$ -

As of July 1, 2007, the actuarial accrued liability (AAL) for benefits was \$21.1 million, with \$7.0 million actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$14.1 million. The covered payroll (annual payroll of active employees covered by the plan) was \$445.0 million and the ratio of the UAAL to the covered payroll was 3.1 percent at June 30, 2008.

Actuarial valuation of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of events far into the future. Major factors affecting all long term disability benefits are the rate at which people become disabled and how quickly they are expected to recover from disability. These rates will improve or deteriorate over time, for example with the state of the economy, with technological development and health related events. Other factors that could also impact the liability include salary inflation, changes in utilization patterns, changes to government programs, and technological advances, such as new drugs or equipment. Actuarially determined amounts are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, is designed to present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The projection of benefits for financial reporting purposes is based on the substantive plan (the plan as understood by the employer and the plan members) and includes the type of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2007 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included an 8 percent discount rate based on the University's funding policy (ARC funding) based on the expected long-term return on the separate trust assets that will be used to finance the payment of plan benefits. The projected elimination period is six months, termination (mortality and recovery from disability) and gender and age-related disability incidence rates are based on the 1987 Commissioner's Group Long Term disability Table, payments are assumed to be made until the later of i) age 65 and ii) five years after date of disability. The projected long-term income benefit is based on actual net benefit currently being paid with social security offset. For people who have been disabled for less than 24 months and are currently not entitled to a social security offset, it was assumed that the offset will eventually be approved according to the following table:

Months Since Disability	Proportion
<12	5%
12-17	40%
18-23	40%
24+	80%

The future salary increase for active members was assumed to be 3 percent per year. The UAAL is being amortized as a level percent of pay amount on a closed basis. The remaining amortization period at July 1, 2007 was thirty years.

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 2007 to 2008. 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. An actuarial valuation is performed to determine the self insurance funding requirements and the fund liability, which has been discounted using an interest rate of six percent. The malpractice liability as of June 30, 2008 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 as of June 30, 2008.

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, 2008.

20. CONTINGENCIES

The University is a defendant in various lawsuits. The nature of the educational and health care industries is such that, from time to time, claims will be presented on account of alleged negligence, acts of discrimination, medical malpractice, breach of contract or disagreements arising from the interpretation of laws or regulations. While some of these claims may be for substantial amounts, they are not unusual in the ordinary course of providing educational and health care services at a large institution. 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. 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 RCTF, 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, 2008, 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	
2002 Biennium	<u>100,000</u>	<u>66,667</u>	<u>66,667</u>	<u>\$ 24,464</u>
Total	<u>\$ 300,000</u>	<u>\$ 202,191</u>	<u>\$ 202,191</u>	<u>\$ 24,464</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):

	2002 Biennium
Pledges due in fiscal year 2008 or prior	\$ 481
Pledges due in fiscal year 2009	2,359
Pledges due in fiscal year 2010	3,447
Pledges due in fiscal year 2011	3,953
Pledges due in fiscal year 2012	11,090
Pledges due in fiscal year 2013	<u>3,134</u>
Total	<u>\$ 24,464</u>

22. CANCER RESEARCH MATCHING FUND

The Kentucky General Assembly created the Cancer Research Institutions Matching Fund, which is funded by a one-cent surtax levied on each 20 cigarettes sold in Kentucky. Tax revenues are made available equally to the University of Kentucky and the University of Louisville when matched dollar-for-dollar by private sources. A summary of the receipts and expenses related to the fund as of June 30, 2008 and 2007, respectively, is as follows (in thousands):

	<u>2008</u>	<u>2007</u>
Funds from private sources approved for match	\$ 4,089	\$ 2,346
Cigarette excise tax funds distributed	<u>3,020</u>	<u>3,119</u>
Total cancer research matching fund revenues	<u>\$ 7,109</u>	<u>\$ 5,465</u>
Cancer research matching fund expenses	<u>\$ 5,019</u>	<u>\$ 3,996</u>

23. NATURAL CLASSIFICATION

The University's operating expenses by natural classification were as follows for the years ended June 30, 2008 and 2007, respectively (in thousands):

	<u>2008</u>	<u>2007</u>
Salaries and wages	\$ 928,498	\$ 852,929
Employee benefits	263,438	248,154
Supplies and services	466,249	423,882
Depreciation	93,731	90,270
Student scholarships and financial aid	38,672	36,559
Purchased utilities	43,728	38,560
Other, various	<u>78,563</u>	<u>74,866</u>
Total	<u>\$ 1,912,879</u>	<u>\$ 1,765,220</u>

24. RECLASSIFICATIONS

Certain reclassifications to fiscal 2007 comparative amounts have been made to conform to the 2008 financial statement classifications. Certain transactions previously reported on a net basis in the Statements of Revenues, Expenses and Changes in Net Assets are now being reported on a gross basis. Certain transactions previously recorded as restricted nonexpendable net assets are now being recorded as restricted expendable net assets. Additionally, certain expenses previously reported as research, institutional support and public service are now being reported as instruction, operations and maintenance, and academic support. Such reclassifications had no effect on the change in net assets.

UNIVERSITY OF KENTUCKY AND AFFILIATED CORPORATIONS
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION

1. HEALTH INSURANCE BENEFITS FOR RETIREES

The University of Kentucky's (the University) Other Postemployment Benefit Plan (OPEB Plan) is administered through the University's OPEB Trust fund as an irrevocable trust. Assets of the trust fund are dedicated to providing post-retirement health insurance coverage to current and eligible future university retirees. Only employees hired prior to January 1, 2006, are eligible to receive post-retirement health insurance benefits.

The following schedules present the University's actuarially determined funding progress and required contributions for the University's Other Postemployment Benefits Trust (using the projected unit credit actuarial cost method):

Schedule of Funding Progress by Valuation Date
(In thousands)

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2008	\$ 7,251	\$ 141,171	\$ 133,920	5.1%	\$ 614,928	21.8%

Schedule of Employer Contributions
(In thousands)

Year Ended	Annual Required contributions	Percentage Contributed
June 30, 2008	\$ 13,649	100.0%

2. LONG TERM DISABILITY BENEFIT PLAN

The University is self insured for a long-term disability income program and has established a trust for the purpose of paying claims and establishing necessary reserves. Regular employees with a full-time equivalent of .75 or greater who have completed 12 months of service are automatically enrolled in the plan.

The following schedules present the University's actuarially determined funding progress and required contributions for the University's long-term disability benefit trust fund (using the projected unit credit actuarial cost method):

Schedule of Funding Progress by Valuation Date
(In thousands)

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2008	\$ 7,601	\$ 21,583	\$ 13,982	35.2%	\$ 444,981	3.1%

Schedule of Employer Contributions
(In thousands)

Year Ended	Annual Required contributions	Percentage Contributed
June 30, 2008	\$ 2,208	100.0%

UNIVERSITY OF KENTUCKY AND AFFILIATED CORPORATIONS
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
STATEMENT OF NET ASSETS SCHEDULE
JUNE 30, 2008
(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	Boone Center	Kentucky Medical Services Foundation	Total
ASSETS													
Current Assets													
Cash and cash equivalents	\$ 349,442	\$ 2,671	\$ 12,815	\$ 913	\$ 16,093	\$ 58	\$ 12	\$ 515	\$ 54	\$ 499	\$ 3	\$ 5,765	\$ 388,840
Notes, loans and accounts receivable, net	168,008	56,250	3,394		239			1	5			1,547	229,444
Investments												6,883	6,883
Inventories and other	28,573	2,254			3,353					13	13	33	34,239
Total current assets	546,023	61,175	16,209	913	19,685	58	12	516	59	512	16	14,228	659,406
Noncurrent Assets													
Restricted cash and cash equivalents	189,633						33	32					189,698
Endowment investments	866,181	4,191	222	8,767	309	1,337	1,868	13,945				42,174	896,820
Other long-term investments	131,348	1,568			3,176								178,266
Notes, loans and accounts receivable, net	44,722		6			2		4					45,074
Other noncurrent assets	15,434	20											16,050
Capital assets, net	1,269,201	11,115			46,681					410	11	18,008	1,345,426
Total noncurrent assets	2,516,519	16,894	228	8,767	50,166	1,339	1,901	13,981	-	410	11	61,118	2,671,334
Total assets	3,062,542	78,069	16,437	9,680	69,851	1,397	1,913	14,497	59	922	27	75,346	3,330,740
LIABILITIES													
Current Liabilities													
Accounts payable and accrued liabilities	158,460	15,457	539		2,422			6		512	16	5,492	182,904
Deferred revenue	11,542	36,474			12,074								60,090
Long-term liabilities - current portion	61,488	953			1,320							5,703	69,464
Total current liabilities	231,490	52,884	539	-	15,816	-	-	6	-	512	16	11,195	312,458
Noncurrent Liabilities													
Deferred revenue	5,972												5,972
Long-term liabilities	672,912	4,611			36,450							1,752	715,725
Total noncurrent liabilities	678,884	4,611			36,450							1,752	721,697
Total liabilities	910,374	57,495	539	-	52,266	-	-	6	-	512	16	12,947	1,034,155
INTERFUND BALANCES	1,733	(825)	(769)		(139)								-
NET ASSETS													
Invested in capital assets, net of related debt	793,201	5,551			12,087					410	11	11,149	822,409
Restricted													
Nonexpendable	473,707	751	31	4,607	615	615	645	7,459					487,815
Expendable	281,975	3,858	1,801	5,073	367	782	1,268	7,032	59				302,215
Total restricted	755,682	4,609	1,832	9,680	367	1,397	1,913	14,491	59	-	-	-	790,030
Unrestricted													
Total net assets	\$ 2,153,901	\$ 19,749	\$ 15,129	\$ 9,680	\$ 17,446	\$ 1,397	\$ 1,913	\$ 14,491	\$ 59	\$ 410	\$ 11	\$ 62,399	\$ 2,296,585

UNIVERSITY OF KENTUCKY AND AFFILIATED CORPORATIONS
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS SCHEDULE
FOR THE YEAR ENDED June 30, 2008
(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	Boone Center	Kentucky Medical Services Foundation	Total
OPERATING REVENUES													
Student tuition and fees, net	\$ 178,237												\$ 178,237
Federal grants and contracts	10,836	\$ 157,659											168,495
State and local grants and contracts	47,991	66,390	\$ 36										114,417
Nongovernmental grants and contracts	(1,951)	25,114	2,597										25,760
Recoveries of facilities and administrative costs	322	43,815											44,137
Sales and services	28,640	4,046	12,945						\$ 22	\$ 5,359	\$ 72		51,084
Federal appropriations	17,045												17,045
County appropriations	14,017												14,017
Professional clinical service fees	667,531											\$ 174,929	842,460
Hospital services													667,531
Auxiliary enterprises:					\$ 55,931								55,931
Housing and Dining, net	35,140												35,140
Athletics	23,299												23,299
Other auxiliaries	546												546
Other operating revenues	1,021,653	297,024	15,586	8	55,931				22	5,359	58	1,209	1,821
OPERATING EXPENSES													
Educational and general:													
Instruction	232,768	18,176	575		\$	20	\$	33	\$	177			251,749
Research	80,958	167,718	398					32	13				249,119
Public service	118,081	96,123	553				7						214,764
Libraries	18,181		4										18,185
Academic support	65,501	3,233	2,994					309					72,037
Student services	26,018	37	74			2							26,131
Institutional support	65,062	1,333	305	\$ 41					74	5,352			72,167
Operations and maintenance of plant	22,288	2,068	193			42		131					24,742
Student financial aid	750,041	289,904	5,096	41		64	72	617	87	5,450			1,051,372
Depreciation	621,746		82										621,828
Hospital (including depreciation of \$1,454)	37,722												37,722
Clinical operations (including depreciation of \$25,569)	(85)				58,147								58,062
Auxiliary enterprises:													
Housing and Dining (including depreciation of \$3,003)	11,630										300		11,930
Athletics (including depreciation of \$2,161)	291										26		317
Other auxiliaries	1,421,345	289,904	5,178	41	58,147	64	72	617	87	5,450	326	131,648	1,912,879
Other expenses	(399,692)	7,120	10,408	(41)	(2,216)	(64)	(72)	(617)	(65)	(91)	(196)	44,490	(341,036)
Total operating expenses	327,155												327,155
Net income (loss) from operations	44,148	59	507	223		10		76	82				45,105
State appropriations	(47,913)	(279)	466	(683)		(113)	(164)	(1,190)	2	26		(46)	(49,382)
Gifts and grants	(11,947)	(253)			512								(14,098)
Investment income (loss)	40,728	(1,790)	(8,664)	(2,211)	(1,898)	(7)	(10)	(74)			199	(36,333)	
Interest on capital asset-related debt	2,399	2,763			1,692								6,854
Grant to/from the University for non-capital purposes	354,570	500	(7,691)	(2,671)	8,488	(110)	(174)	(1,188)	84	26	199	(36,379)	315,634
Other nonoperating revenues and expenses, net	(45,122)	7,620	2,717	(2,712)	6,252	(174)	(246)	(1,805)	19	(65)	3	8,111	(25,402)
Net nonoperating revenues (expenses)	11,366	2,462					3	313	(9)			(325)	13,503
Net income (loss) before other revenues, expenses, gains, or losses	34,293	2	(1,062)	(495)	(4,506)						8		34,611
Capital grants and gifts	13,737												
Additions to permanent endowments	(3,729)												
Grant to/from the University for capital purposes	55,667	(5,209)	(1,062)	(495)	(4,555)		3	304			8	(325)	(3,778)
Other, net	10,545	2,411	1,655	(3,207)	1,697	(174)	(243)	(1,501)	19	(65)	11	7,786	18,934
Total other revenues	2,143,356	17,338	13,474	12,887	15,749	1,571	2,156	15,992	40	475	11	54,613	2,277,651
NET ASSETS, beginning of year	\$ 2,153,901	\$ 19,749	\$ 15,129	\$ 9,680	\$ 17,446	\$ 1,397	\$ 1,913	\$ 14,491	\$ 59	\$ 410	\$ 11	\$ 62,399	\$ 2,296,585

University of Kentucky
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