UNIVERSITY OF
KENTUCKY®

2009 Financial Statements

University of Kentucky and Affiliated Corporations

A Component Unit of the Commonwealth of Kentucky

Financial Statements

Years Ended June 30, 2009 and 2008

TABLE OF CONTENTS

MESSAGE FROM THE PRESIDENT

If there was ever a time for the University of Kentucky's faculty, staff, and students to lose hope, 2008-09 was the year. Facing a mid-year appropriations reduction for the sixth time in eight years, a second consecutive year of no raises, and a gloomy economic outlook, it would have been easy for our campus community to relinquish our desire to transform the Commonwealth.

These difficult times we have faced challenged us to look inward, asking whether our collective ambitions are strong enough to withstand these trying times. Like they have time and again since I accepted this position, the faculty and staff of this institution have responded gallantly – with a consistent and tough determination to move forward though the path before us has grown more difficult. And they have refused to use a troubled period as an excuse to relinquish our role as leaders in the quest to build a better Kentucky.

Despite some of the most difficult economic and budget conditions in this University's storied history, the last 18 months have been a remarkable time for UK. We experienced a number of institutional records:

- Record high number of freshman applicants: 11,120
- Record high number of Governor's Scholars/School for the Arts students in the first-year class: 389
- Record high number of African-American first year students: 347
- Record high number of African-American undergraduate students: 1,234
- Record high retention rate: 81%
- Record high graduation rate: 61.4%
- Record high graduation rate for African-American students: 50.3%
- Record high doctoral student enrollment: 2,391
- Record high first-professional (Dentistry, Law, Medicine, and Pharmacy) enrollment: 1,558
- Record high first-professional (Dentistry, Law, Medicine, and Pharmacy) degrees awarded: 409
- Record high number of full-time faculty: 2,096
- Record high number of African-American faculty: 84 (including record number of 11 new African-American faculty)
- Record high number and percent of women in Executive/Administrative/Managerial positions: 234 (48.4%)
- Record high research expenditures reported to the National Science Foundation: $337 million

One reason we were able to experience such success is because our faculty and staff did not feel like they were fighting the good fight on their own. While other colleges and universities across the nation experienced a drop in financial support from alumni and friends, UK had a remarkably successful year in private giving. This past fiscal year, more than $68 million was raised for colleges and programs across the University. That's an 18% increase over the previous year. More than 30,000 donors made gifts – an increase of more than 6% from the previous year.

These accomplishments represent more than just numbers and rankings for the Commonwealth. As our fellow Kentuckians look to their University with anxious eyes, they see that resolve to continue our efforts to educate a 21st Century workforce and use our laboratories to discover and create. These twin responsibilities are the necessary ingredients to the building of businesses and communities and the creating of more and better jobs.

We remain committed to the mandate to be one of the best universities in the country. Not because of what such an achievement would mean for this institution; but because of what it means for our state. Strong universities matter because people in states that are home to leading research institutions enjoy higher educational attainment and higher incomes, are less likely to live in poverty, and are more likely to lead healthier lives. And no amount of clutter arising from our current condition can diminish that truth.

We are called today to be vocal guardians of our mandate. The last several months have damaged the state's economy. But we cannot let it erode our confidence in our ability to build an economy that is not only better than it is today, but stronger – much, much stronger - than it has ever been before. An economy that delivers prosperity that is wider and deeper and touches every edge of our state; one that can better withstand the inevitable ebbs and flows of national and international conditions.

We cannot let the unprecedented difficulty of the last year tempt us with a false nostalgia. An ambition to merely recover to our previous economic circumstance is no ambition at all. We must remember with unquestioned clarity that we labeled as unacceptable the low incomes, low educational attainment, and devastating health maladies that existed even before the current recession took hold. And they remain unacceptable now.

Aristotle said that, "Education is an ornament in prosperity and a refuge in adversity."

During these particularly trying days, I swell with pride knowing that UK's faculty, staff, students, alumni, and donors are working to provide the Commonwealth with the refuge it deserves.

Sincerely,

Lee T. Todd Jr.
President

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CPAs & Advisors

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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 years ended June 30, 2009 and 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 audits. We did not audit the financial statements of Kentucky Medical Services Foundation, Inc. (KMSF), which statements reflect total assets of $107,533,968 and $100,114,346 as of June 30, 2009 and 2008, respectively and total revenues of $198,745,113 and $177,401,306 for the years then ended. 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.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. The financial statements of KMSF, 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 audits provide a reasonable basis for our opinions.

In our opinion, based on our audits and the reports of the other accountants, the financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 2009 and 2008, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 26, in 2009 the University changed its method of accounting for certain federal and state grants.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2009, 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, 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 audits.

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 supplementary information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the 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 basic financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

BKD, LLP

October 1, 2009

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, 2009 and June 30, 2008. Management has prepared this discussion, and suggests that it be read in conjunction with the financial statements and the notes appearing in this report.

About the University of Kentucky

Mission. The University of Kentucky is a public, land grant university dedicated to improving people's lives through excellence in education, research and creative work, service and health care. As Kentucky's flagship institution, the University plays a critical leadership role by promoting diversity, inclusion, economic development and human well-being.

Vision. The University of Kentucky will be one of the nation's 20 best public research universities.

Values. The University of Kentucky is guided by its core values:

- Integrity
- Excellence
- Mutual respect and human dignity
- Diversity and inclusion
- Academic freedom
- Shared governance
- Work-life sensitivity
- Civic engagement
- Social responsibility

The University contributes to the economic development and quality of life within Kentucky's borders and beyond. From Paducah to Pikeville and from Covington to Cumberland, the University of Kentucky is committed to the individual success of students; to research that both stretches the bounds of knowledge and provides practical solutions; and to the provision of extension services, health care, creative experiences, life-long learning, and countless other efforts to improve the lives of Kentuckians where they live and work and raise their families.

In 1997, the Commonwealth placed in statute the mandate that the University of Kentucky become a Top 20 public research university by 2020. This mandate recognized the strong symbiotic relationship between a state's economic and social condition and its intellectual capital. That capital is most readily available at land-grant, research universities. Strong institutions matter because people in states that are home to leading research universities enjoy higher educational attainment and higher incomes, are less likely to live in poverty, and are more likely to lead healthier lives. President Lee T. Todd Jr. focused the University on achieving this goal through the development of the 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 795 acres on its main campus and is home to more than 26,000 students and more than 13,500 employees. The University also operates research laboratories across Kentucky.

Students. Students from all 120 Kentucky counties, every state in the U.S. and over 100 countries 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. 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 three times 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 research projects. Boasting 13 Truman Scholars, UK has won recognition from the Harry S. Truman Foundation as an honor institution for exemplary participation.

Outreach. Thousands of Kentuckians from across the state feel the impact of UK's research and public service annually, through programs aimed at improving existing businesses and building new ones, creating jobs, improving health and strengthening communities. Programs like Health Education through Extension Leadership (HEEL) 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 fund-raising effort – the largest in state history – to enhance facilities, academic programs, public service and scholarships surpassed its $1 billion goal. The generosity of UK's alumni and friends allowed the University 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 seven public universities nationally to house colleges of Agriculture, Engineering, Medicine and Pharmacy on a single campus.

Research. The University has consistently increased its research and development portfolio. Today, UK is doing over $154 million in federally-financed research and $337 million in total research. A recent national ranking by Academic Analytics placed 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 only two Level One Trauma Centers in Kentucky, UK cares for the most critically injured and ill patients in the region. More than 600 faculty physicians and dentists, 570 resident physicians and a staff of 4,880 provide care in the 791 licensed beds at UK Chandler Hospital, Kentucky Children's Hospital and UK HealthCare Good Samaritan Hospital.

In 2007, ground was broken for the new, $532 million UK Chandler Hospital. This more than one million square-foot facility, to be opened in phases starting with the Emergency Department 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 $133 million Biological Pharmaceutical Building set to open in Spring 2010, 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 operates 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 services to students in the colleges of Medicine, Law, Engineering, Fine Arts and other programs. Meanwhile, students, faculty, staff 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.

Financial Highlights

The University's overall financial position remains fiscally sound with assets of $3.25 billion and liabilities of $1.03 billion. Net assets, which represent the University's residual interest in assets after liabilities are deducted, were $2.21 billion (68 percent) of total assets.

- Total assets decreased $84.5 million (three percent), primarily due to declines in cash and endowment investments offset by an increase in net capital assets.

- Total liabilities were comparable to the previous year, at $1.03 billion.

- Total net assets decreased $83.5 million (four percent) from June 30, 2008 to June 30, 2009. Unrestricted net assets declined $57.4 million primarily as a result of a $59.9 million investment loss on quasi endowments; restricted net assets decreased $113.4 million largely due to investment losses on endowments; and capital assets, net of depreciation and related debt, increased $87.3 million.

- Operating revenues were $1.62 billion and operating expenses were $2.03 billion, resulting in a loss from operations of $410.2 million. Non-operating and other revenues, net of non-operating expenses, were $326.7 million, including $315.2 million in state appropriations. Overall, net assets decreased by $83.5 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*. GASB requires that statements be presented on a comprehensive, entity-wide basis. In addition to this MD&A section, the financial report includes:

- Statement of Net Assets
- Statement of Revenues, Expenses, and Changes in Net Assets
- Statement of Cash Flows, and
- Notes to the Financial Statements

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.
- 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, 2009, with comparative information as of June 30, 2008. 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 (i.e. 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 as of June 30, 2009; June 30, 2008; and June 30, 2007 follows:

Condensed Statements of Net Assets (in thousands)

	2009	2008	2007
ASSETS			
Current assets	$ 628,141	$ 659,405	$ 608,720
Capital assets, net of depreciation	1,571,530	1,345,426	1,208,670
Other noncurrent assets	1,046,614	1,325,909	1,320,191
Total Assets	3,246,285	3,330,740	3,137,581
LIABILITIES			
Current liabilities	313,083	312,458	294,294
Noncurrent liabilities	720,121	721,697	565,636
Total Liabilities	1,033,204	1,034,155	859,930
NET ASSETS			
Invested in capital assets, net of related debt	909,736	822,409	773,962
Restricted			
Nonexpendable	500,182	487,815	448,506
Expendable	176,433	302,215	389,627
Unrestricted	626,730	684,146	665,556
Total Net Assets	$ 2,213,081	$ 2,296,585	$ 2,277,651

Assets. As of June 30, 2009, total assets amounted to $3.25 billion. The largest asset class was investment in capital (net of depreciation) which totaled $1.57 billion, or 48 percent of total assets. Endowment investments were $701.8 million, or 22 percent of total assets, and cash and cash equivalents totaled $441.6 million, or 14 percent of total assets. During the year, total assets decreased by a net $84.5 million primarily due to a decline in endowment investments resulting from unfavorable market conditions and a decrease in cash and cash equivalents. This decrease was offset by an increase in capital assets due to new additions of land, buildings, equipment and computer software.

Liabilities. As of June 30, 2009, 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, equipment, and computer software totaled $788.0 million, or 76 percent of total liabilities. During the year, total liabilities decreased by $951,000 primarily due to a decrease in accounts payable and accrued liabilities offset by increases in deferred revenue and long-term liabilities.

Net Assets. The equity of the University of $2.21 billion as of June 30, 2009 is reported on the Statement of Net Assets in four net asset categories: invested in capital assets, net of related debt of $909.7 million (41 percent); restricted-nonexpendable of $500.2 million (23 percent); restricted-expendable of $176.4 million (eight percent); and unrestricted of $626.7 million (28 percent).

Restricted net assets are subject to externally imposed restrictions governing their use. Although unrestricted net assets are not subject to externally imposed stipulations, most 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 decreased $83.5 million during the year ended June 30, 2009. Invested in capital assets, net of related debt, increased $87.3 million primarily due to the additions of capital assets and principal payments of capital debt. Restricted net assets decreased $113.4 million principally as a result of a $195.1 million loss on endowment investments due to a negative return on the endowment pool. The loss was partially offset by gifts to endowments totaling $10.0 million. Unrestricted net assets decreased $57.4 million primarily due to $59.9 million loss on quasi endowment investments offset by excess unrestricted revenues over expenses in the UK HealthCare Hospital System of $13.9 million.

2008 Versus 2007. During the year ended June 30, 2008:

- Total assets increased $193.2 million primarily due to increases in cash from bond proceeds and the timing of grant reimbursements; and capital assets due to new additions of land, buildings, equipment and computer software.

- Liabilities increased $174.2 million 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 by $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 bonds and capital leases. Restricted net assets decreased $48.1 million primarily due to endowment investment losses. Unrestricted net assets increased $18.6 million primarily due to unrestricted revenues in excess of expenses in the Hospital System of $13.5 million and general funds revenues in excess of expenses of $5.4 million.

Statement of Revenues, Expenses and Changes in Net Assets

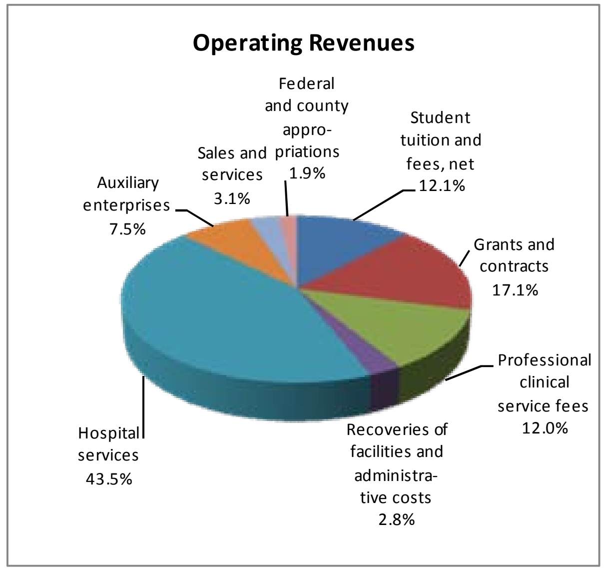
The Statement of Revenues, Expenses and Changes in Net Assets is the University's income statement. It details how net assets have changed during the year ended June 30, 2009, with comparative information for the year ended June 30, 2008. This statement is prepared on the accrual basis of accounting 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. Items that increase or decrease net assets 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 non-operating. GASB Statement No. 35 requires state appropriations, gifts, and investment and endowment income to be classified as non-operating revenues. Accordingly, the University reports a net operating loss prior to the addition of non-operating 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 the scholarship allowance. A summarized comparison of the University's revenues, expenses and changes in net assets for years ended June 30, 2009; June 30, 2008; and June 30, 2007 follows.

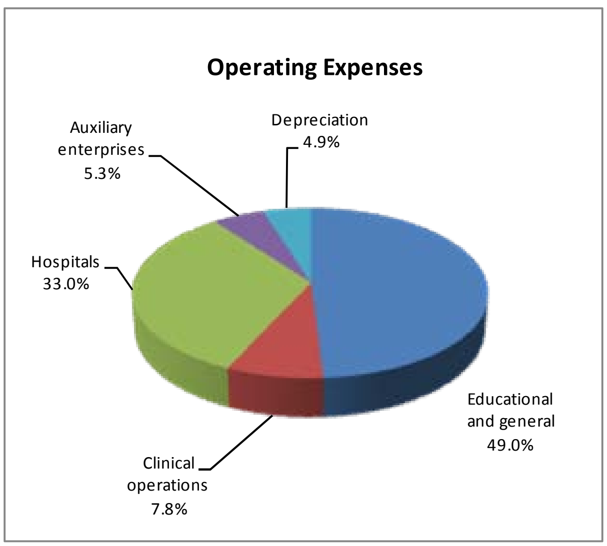
Condensed Statements of Revenues, Expenses and Changes in Net Assets
(in thousands)

	2009	2008	2007
OPERATING REVENUES			
Student tuition and fees, net of scholarship allowances	$ 195,244	$ 178,237	$ 166,742
Grants and contracts	275,468	299,842	289,808
Hospital services	701,936	667,531	535,814
Professional clinical service fees	193,391	174,929	164,432
Auxiliary enterprises, net of scholarship allowances	121,655	114,370	105,005
Sales and services	50,195	51,084	45,717
Recoveries of facilities and administrative costs	44,707	44,137	43,792
Federal and county appropriations	31,035	31,062	30,675
Other operating revenues	2,790	1,821	1,507
Total operating revenues	1,616,421	1,563,013	1,383,492
OPERATING EXPENSES			
Educational and general, excluding depreciation	993,605	989,828	940,314
Clinical operations, excluding depreciation	158,841	130,194	133,271
Hospital, excluding depreciation	667,994	596,260	501,506
Auxiliary enterprises, excluding depreciation	106,897	102,549	99,630
Depreciation	99,067	93,731	90,270
Other operating expenses	243	317	229
Total operating expenses	2,026,647	1,912,879	1,765,220
NET LOSS FROM OPERATIONS	(410,226)	(349,866)	(381,728)
NONOPERATING REVENUES (EXPENSES)			
State appropriations	315,162	327,155	319,859
Capital appropriations	3,446	-	-
Capital grants and gifts	107,546	13,503	23,536
Gifts and grants	72,035	53,935	42,647
Investment income (loss)	(169,113)	(49,382)	160,975
Interest on capital asset-related debt	(15,862)	(14,098)	(12,723)
Additions to permanent endowments	9,990	34,611	29,931
Other, net	3,518	3,076	(6,948)
Total nonoperating revenues (expenses)	326,722	368,800	557,277
Total increase (decrease) in net assets	(83,504)	18,934	175,549
Net assets, beginning of year	2,296,585	2,277,651	2,102,102
Net assets, end of year	$ 2,213,081	$ 2,296,585	$ 2,277,651

Total operating revenues were $1.62 billion for the year ended June 30, 2009, an increase of $53.4 million (three percent). The primary components of operating revenues were student tuition and fees of $195.2 million; grants, contracts and recoveries of facilities and administrative costs of $320.2 million; hospital services of $701.9 million; and professional clinical fee income of $193.4 million.



The major increase was in hospital services revenue of $34.4 million. Good Samaritan patient net revenue increased by $24.5 million while Chandler Hospital increased $9.9 million. Other significant increases in operating revenues related to net student tuition and fees of $17.0 million due to tuition and fee rate increases and professional clinical service fees of $18.5 million. The increases were partially offset by a $24.4 million decrease in grants and contracts primarily due to a change in accounting principle. $21.1 million federal and state grants were reported as nonoperating revenues in the current fiscal year instead of operating revenues as they were in the past.



Operating expenses totaled $2.03 billion, an increase of $113.8 million (six percent). Of this amount, $993.6 million (excluding depreciation) was expended for educational and general programs, including instruction, research and public service. Hospital System expenses, excluding depreciation, amounted to $668 million and clinical operations expenses, excluding depreciation, were $158.8 million. Depreciation expense for the year amounted to $99.1 million.

The most significant increase was in Hospital System expenses, excluding depreciation, of $71.7 million (12 percent) from the operations of Chandler Hospital - $53.8 million, and Good Samaritan Hospital - $17.9 million. Additionally, clinical operation expenses increased $28.6 million for personnel, supplies and equipment, as well as new clinics that opened during the fiscal year. Depreciation expense increased $5.3 million (six percent) due primarily to the addition of related capital assets.

The net loss from operations for the year was $410.2 million. Nonoperating and other revenues, net of expenses, totaled $326.7 million and included: state appropriations of $315.2 million – a decrease of $12.0 million; investment loss of $169.1 million – an increase of $119.7 million; gifts and grants of $72.0 million – an increase of $18.1 million primarily due to the change in accounting principle mentioned above; and capital gifts and grants of $107.5 million – an increase of $94.0 million. The increase from operating and capital gifts and grants partially offset the reduction in state appropriations and the significant loss on investment income.

2008 Versus 2007. Total operating revenues were $1.56 billion for the year ended June 30, 2008, including: student tuition and fees of $178.2 million (11 percent); grants, contracts, and recoveries of facilities and administrative costs of $344.0 million (22 percent); professional clinical service fees of $174.9 million (11 percent); and hospital services of $667.5 million (42 percent). Operating revenues for fiscal year 2008 increased $179.5 million or 13 percent over fiscal year 2007, primarily due to increases in hospital services revenues of $131.7 million; student tuition and fees of $11.5 million; and grants and contracts of $10.0 million.

Operating expenses totaled $1.91 billion in fiscal year 2008. Of this amount, $989.8 million, excluding depreciation, (52 percent), was expended for educational and general programs, including instruction, research and public service. Hospital expenses, excluding depreciation, totaled $596.3 million (31 percent of the total expenses) and clinical operations expenses, excluding depreciation, were $130.2 million (seven percent). Depreciation amounted to $93.7 million (five percent). Operating expenses for fiscal year 2008 increased $147.7 million (eight percent) over fiscal year 2007 primarily due to increases in hospital expenses, excluding depreciation, of $94.8 million (19 percent). $68.3 million was the result of the addition of Good Samaritan Hospital. Additionally, Chandler Hospital reported a $26.4 million increase in personnel, supplies, equipment and building operations. Educational and general expenses increased $49.5 million (five percent) due primarily to increases in research, institutional support and public service.

The net loss from operations for the 2008 fiscal year totaled $349.9 million. Nonoperating and other revenues, net of expenses, totaled $368.8 million, resulting in an increase in net assets of $18.9 million for the year. Nonoperating revenue includes state appropriations of $327.2 million, which increased $7.3 million from June 30, 2007 to June 30, 2008.

Statement of Cash Flows

The Statement of Cash Flows details how cash has increased (or decreased) during the fiscal year ended June 30, 2009, with comparative financial information for the fiscal year ended June 30, 2008. The sources and uses of cash are arranged in 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 non-capital financing categories. Capital financing activities include payments for capital assets, proceeds from long-term debt and debt repayments. Purchases and sales of investments are reflected in investing activities.

The primary purpose of the 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 University's ability to generate future net cash flows and to meet obligations as they become due; and to assess the possible need for external financing.

A comparative summary of the University's statement of cash flows for years ended June 30, 2009; June 30, 2008; and June 30, 2007 follows:

Condensed Statement of Cash Flows (in thousands)

	2009	2008	2007
CASH PROVIDED (USED) BY:			
Operating activities	$ (307,813)	$ (304,072)	$ (276,760)
Noncapital financing activities	401,342	424,806	391,570
Capital and related financing activities	(226,694)	(56,828)	(146,771)
Investing activities	(3,819)	(771)	5,649
Net increase (decrease) in cash and cash equivalents	(136,984)	63,135	(26,312)
Cash and cash equivalents, beginning of year	578,538	515,403	541,715
Cash and cash equivalents, end of year	$ 441,554	$ 578,538	$ 515,403

The University's cash and cash equivalents decreased $137.0 million in fiscal year 2009. Total cash provided by operating and non-capital financing activities was $93.5 million, a decrease of $27.2 million compared to fiscal year 2008. Total cash used by capital financing activities was $226.7 million, reflecting both capital funding sources (debt proceeds) and uses (purchases of capital assets and debt service). Total cash used by investing activities was $3.8 million.

Major sources of cash received from operating activities were student tuition and fees of $196.5 million; hospital services of $710.5 million; grants, contracts, and recoveries of facilities and administrative costs of $335.2 million; and professional clinical service fees of $192.2 million. Major uses of cash for operating activities were payments to employees for salaries and benefits of $1.25 billion and to vendors and contractors of $679.8 million.

Noncapital financing activities include state appropriations from the Commonwealth of Kentucky of $315.2 million and gifts of $80.0 million.

Capital and related financing activities include proceeds of capital debt of $68.3 million and capital grants and gifts of $96.9 million. Cash of $293.4 million was expended for construction and acquisition of capital assets and $59.1 million was expended for principal and interest payments on debt.

Investing activities include proceeds from sales and maturities of investments of $1.38 billion and interest and dividends on investments of $46.8 million. Cash of $1.44 billion was used to purchase investments.

2008 Versus 2007. Cash balances were higher when comparing fiscal year 2008 with fiscal year 2007. The $63.1 million net increase in cash was created primarily from more cash provided by non-capital financing activities and less cash used by capital related activities offset by more cash used by operating activities.

Capital Asset and Debt Administration

Capital Assets

Capital assets, net of accumulated depreciation, totaled $1.57 billion at June 30, 2009, an increase of $226.1 million. Capital assets as of June 30, 2009 and significant changes in capital assets during the years ended June 30, 2007; June 30, 2008; and June 30, 2009 follow (in millions):

	Balance June 30, 2007	Net Additions FY 07-08	Balance June 30, 2008	Net Additions FY 08-09	Balance June 30, 2009
Land and land improvements	$ 128	$ 6	$ 134	$ 4	$ 138
Buildings, fixed equipment and infrastructure	1,335	87	1,422	95	1,517
Equipment, vehicles and capitalized software	496	37	533	37	570
Library materials and art	143	3	146	6	152
Construction in progress	104	72	176	165	341
Accumulated depreciation	(997)	(69)	(1,066)	(80)	(1,146)
Total	$ 1,209	$ 136	$ 1,345	$ 227	$ 1,572

At June 30, 2009, the University has capital construction projects in progress totaling approximately $769.8 million in scope. Major projects include the new Patient Care Facility and the Biological Pharmaceutical Research Building. The estimated cost to complete the projects in progress is approximately $384.8 million.

Debt

At June 30, 2009, capital debt amounted to $677.0 million, summarized by trust indenture and type as follows (in millions):

	2009	2008	2007
General Receipts bonds and notes	$ 390.9	$ 361.5	$ 207.3
Consolidated Educational Buildings Revenue Bonds	104.8	115.7	126.2
Commonwealth Library Project (W.T. Young Library) Bonds	-	37.8	39.0
Capital lease obligations	154.5	156.1	143.4
Notes payable	26.8	5.5	21.6
Total	$ 677.0	$ 676.6	$ 537.5

Debt increased $400,000 during the year primarily due to the issuance of notes for the purchase of KMSF buildings and capital leases for the purchase of equipment, reduced by principal payments for the University's debt obligations.

Economic Factors That Will Affect the Future

Executive management believes 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, state appropriations for fiscal year 2010 are uncertain. In March 2009, the University absorbed a two percent reduction in state appropriations for operations. This reduction was originally imposed as non-recurring. However, it is anticipated this reduction will be imposed as recurring for fiscal year 2010 (though no Executive Order has been issued to date). A further complication exists because the originally enacted 2010 state appropriation (in April 2008) included a one percent increase over the originally enacted fiscal year 2009 appropriation. In sum, a recurring two percent reduction combined with the expected loss of the one percent increase results in a net three percent ($9.4 million) reduction in state appropriations when fiscal year 2010 original is compared to fiscal year 2010 actual. Because economic conditions in the Commonwealth continue to deteriorate, it is uncertain whether there will be additional reductions in state appropriations in 2009-10.
- Tuition rates for fiscal year 2010 will increase an average of approximately five percent for resident undergraduate students and five percent for non-resident undergraduate students. The tuition rate increases, along with adjustments for projected enrollment, are expected to generate additional operating revenues of approximately $17.2 million.
- As of June 30, 2009, grants and contracts of approximately $370.3 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 cost of $532.0 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 Year 2009, exceeding the goal of $1 billion. Campaign pledges in the amount of $59.8 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 have an impact on the future. However, management believes the University of Kentucky will be able to sustain its sound financial position and continue its progress toward becoming one of America's Top 20 public research institutions.

UNIVERSITY OF KENTUCKY AND AFFILIATED CORPORATIONS
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
STATEMENTS OF NET ASSETS
JUNE 30, 2009 AND 2008

	2009	2008
ASSETS		
Current Assets		
Cash and cash equivalents	$ 378,008,688	$ 388,839,660
Notes, loans and accounts receivable, net	209,201,081	229,444,385
Investments	3,834,071	6,882,493
Inventories and other assets	37,096,674	34,239,083
Total current assets	628,140,514	659,405,621
Noncurrent Assets		
Restricted cash and cash equivalents	63,545,515	189,698,543
Endowment investments	701,762,044	896,819,682
Other long-term investments	211,939,888	178,265,961
Notes, loans and accounts receivable, net	51,754,493	45,074,337
Other noncurrent assets	17,612,357	16,049,959
Capital assets, net	1,571,530,212	1,345,425,917
Total noncurrent assets	2,618,144,509	2,671,334,399
Total assets	3,246,285,023	3,330,740,020
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	170,105,665	182,904,473
Deferred revenue	68,755,940	60,089,686
Long-term liabilities - current portion	74,221,448	69,464,119
Total current liabilities	313,083,053	312,458,278
Noncurrent Liabilities		
Deferred revenue	6,305,546	5,972,467
Long-term liabilities	713,815,756	715,724,493
Total noncurrent liabilities	720,121,302	721,696,960
Total liabilities	1,033,204,355	1,034,155,238
NET ASSETS		
Invested in capital assets, net of related debt	909,736,433	822,409,128
Restricted		
Nonexpendable		
Scholarships and fellowships	106,739,359	98,381,676
Research	232,694,344	229,370,895
Instruction	72,176,410	71,938,787
Academic support	82,065,465	81,846,550
Other	6,505,828	6,277,350
Total restricted nonexpendable	500,181,406	487,815,258
Expendable		
Scholarships and fellowships	26,633,837	61,483,715
Research	5,919,752	71,234,186
Instruction	5,756,794	45,958,353
Academic support	8,849,427	32,461,741
Loans	10,100,004	9,843,737
Capital projects	57,041,784	56,087,533
Debt service	3,321,353	5,140,282
Auxiliary	14,374,112	7,333,133
Other	44,435,542	12,672,356
Total restricted expendable	176,432,605	302,215,036
Total restricted	676,614,011	790,030,294
Unrestricted	626,730,224	684,145,360
Total net assets	$ 2,213,080,668	$ 2,296,584,782

See notes to financial statements.

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, 2009 AND 2008

	2009	2008
OPERATING REVENUES		
Student tuition and fees	$ 261,101,412	$ 238,848,034
Less: Scholarship allowances	(65,857,400)	(60,611,448)
Net tuition and fees	195,244,012	178,236,586
Federal grants and contracts	157,468,186	159,664,651
State and local grants and contracts	90,655,458	114,417,369
Nongovernmental grants and contracts	27,344,046	25,760,168
Recoveries of facilities and administrative costs	44,707,250	44,137,137
Sales and services	50,195,812	51,084,255
Federal appropriations	16,584,047	17,044,673
County appropriations	14,451,243	14,017,057
Professional clinical service fees	193,390,926	174,929,376
Hospital services	701,936,084	667,530,857
Auxiliary enterprises:		
Housing and dining	45,021,377	40,639,060
Less: Scholarship allowances	(5,738,615)	(5,499,024)
Net housing and dining	39,282,762	35,140,036
Athletics	56,856,918	55,931,152
Other auxiliaries	25,514,674	23,298,626
Other operating revenues	2,790,076	1,820,589
Total operating revenues	1,616,421,494	1,563,012,532
OPERATING EXPENSES		
Educational and general:		
Instruction	240,313,163	247,539,837
Research	251,361,721	253,327,811
Public service	218,489,297	214,763,937
Libraries	18,661,730	18,184,540
Academic support	73,702,860	72,037,499
Student services	26,881,506	26,130,984
Institutional support	81,413,593	72,167,147
Operations and maintenance of plant	58,556,828	60,933,691
Student financial aid	24,224,600	24,742,343
Depreciation	65,247,100	61,543,692
Total educational and general	1,058,852,398	1,051,371,481
Clinical operations (including depreciation of $2,182,905 in 2009 and $1,453,575 in 2008)	161,023,668	131,647,716
Hospital and clinics (including depreciation of $28,026,771 in 2009 and $25,568,921 in 2008)	696,020,757	621,828,347
Auxiliary enterprises:		
Housing and dining (including depreciation of $3,067,994 in 2009 and $3,003,019 in 2008)	38,941,416	37,721,463
Athletics (including depreciation of $541,996 in 2009 and $2,161,461 in 2008)	56,936,410	58,062,434
Other auxiliaries	14,629,789	11,929,954
Other operating expenses	243,034	317,313
Total operating expenses	2,026,647,472	1,912,878,708
Net loss from operations	(410,225,978)	(349,866,176)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	315,161,856	327,155,104
Gifts and grants	72,035,090	53,934,881
Investment income (loss)	(169,112,621)	(49,381,525)
Interest on capital asset-related debt	(15,862,134)	(14,098,305)
Other nonoperating revenues and expenses, net	6,205,488	6,854,346
Net nonoperating revenues (expenses)	208,427,679	324,464,501
Net loss before other revenues, expenses, gains or losses	(201,798,299)	(25,401,675)
Capital appropriations	3,445,500	-
Capital grants and gifts	107,546,249	13,502,788
Additions to permanent endowments, including Research Challenge Trust Funds of $25,856,304 in 2008	9,990,091	34,610,672
Other, net	(2,687,655)	(3,778,464)
Total other revenues (expenses)	118,294,185	44,334,996
INCREASE (DECREASE) IN NET ASSETS	(83,504,114)	18,933,321
NET ASSETS, beginning of year	2,296,584,782	2,277,651,461
NET ASSETS, end of year	$ 2,213,080,668	$ 2,296,584,782

See notes to financial statements.

UNIVERSITY OF KENTUCKY AND AFFILIATED CORPORATIONS
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	$ 196,484,801	$ 178,107,517
Grants and contracts	287,815,457	310,751,727
Recoveries of facilities and administrative costs	47,362,845	45,000,751
Sales and services	53,339,526	45,614,666
Federal appropriations	17,254,543	20,046,283
County appropriations	15,502,364	13,600,530
Payments to vendors and contractors	(679,765,474)	(593,947,438)
Student financial aid	(24,199,537)	(24,735,315)
Salaries, wages and benefits	(1,251,596,509)	(1,197,401,683)
Professional clinic service fees	192,191,168	166,780,304
Hospital services	710,548,886	625,489,984
Auxiliary enterprise receipts:		
Housing and Dining	39,164,301	34,810,945
Athletics	58,014,172	56,346,302
Other auxiliaries	25,213,008	23,076,975
Loans issued to students	(20,764,879)	(16,195,630)
Collection of loans to students	21,396,140	13,066,109
Self insurance receipts	45,589,764	34,086,983
Self insurance payments	(44,727,061)	(39,510,760)
Other operating receipts (payments), net	3,363,260	939,018
Net cash provided (used) by operating activities	(307,813,225)	(304,072,732)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	315,161,856	327,155,104
Gifts and grants received for other than capital purposes:		
Gifts received for endowment purposes	10,009,607	34,591,042
Gifts received for other purposes	70,028,627	48,497,039
Agency and loan program receipts	137,758,878	112,393,351
Agency and loan program payments	(139,696,126)	(110,968,637)
Other noncapital financing receipts (payments), net	8,079,644	13,138,611
Net cash provided (used) by noncapital financing activities	401,342,486	424,806,510
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	3,445,500	-
Capital grants and gifts	96,858,703	11,539,879
Purchases of capital assets	(293,361,014)	(218,198,925)
Proceeds from capital debt	68,325,514	224,266,115
Payments to refunding bond agents	(38,090,250)	-
Principal paid on capital debt and leases	(42,977,538)	(53,905,237)
Interest paid on capital debt and leases	(16,114,679)	(12,557,527)
Other capital and related financing receipts (payments), net	(4,780,218)	(7,972,475)
Net cash provided (used) by capital and related financing activities	(226,693,982)	(56,828,170)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	1,384,472,748	1,780,775,353
Interest and dividends on investments	46,797,312	62,020,038
Purchase of investments	(1,435,089,340)	(1,843,566,384)
Net cash provided (used) by investing activities	(3,819,279)	(770,993)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(136,984,000)	63,134,615
CASH AND CASH EQUIVALENTS, beginning of year	578,538,203	515,403,588
CASH AND CASH EQUIVALENTS, end of year	$ 441,554,203	$ 578,538,203
Reconciliation of net loss from operations		
to net cash used by operating activities:		
Net loss from operations	$ (410,225,978)	$ (349,866,176)
Adjustments to reconcile net loss from operations		
to net cash used by operating activities:		
Depreciation expense	99,066,766	93,730,668
Change in assets and liabilities:		
Notes, loans and accounts receivable, net	22,095,011	(53,061,124)
Inventories and other assets	(3,393,265)	(7,469,281)
Accounts payable and accrued liabilities	(23,816,878)	11,513,018
Deferred revenue	8,999,902	5,777,023
Long-term liabilities	(538,783)	(4,696,860)
Net cash used by operating activities	$ (307,813,225)	$ (304,072,732)

See notes to financial statements.

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), 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 (the 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, 2009 and 2008 approximately $18,427,000 and $10,805,000, respectively, was transferred from endowment realized and unrealized gains to support current programs in accordance with the University's endowment spending rule. Additionally, the University assesses eligible endowment accounts with a management fee of 0.5 percent of total asset value.

Investments. Investments in marketable debt and equity 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, 2009 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 and state programs similar to Pell, are recorded as nonoperating revenues; other governmental and nongovernmental grants are recorded as operating 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 payers and others for services rendered, including contractual allowances and estimated retroactive adjustments under reimbursement programs with third-party payers, 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.

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. 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.

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 the Medicaid fiscal intermediary.

Revenue from the Medicare and Medicaid programs accounted for approximately 29 percent and 24 percent, respectively, of the System's net patient services revenues for the year ended June 30, 2009 and approximately 30 percent and 22 percent, respectively, for the year ended June 30, 2008. 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 organizations 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.

The System provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Since the System does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

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 the 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 2009 and 2008, departmental research in nonsponsored accounts of $64,084,000 and $47,087,000, 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, 2009 and 2008 is as follows (in thousands):

	2009	2008
Deposits with banks and the Commonwealth of Kentucky	$ 75,282	$ 154,181
U.S. Treasury fixed income securities	22,457	17,036
Government agency fixed income securities	96,596	93,923
Common and preferred stocks	7,475	10,079
Pooled equity funds	431,702	593,540
Private equity funds	20,057	15,745
Pooled absolute return	15,000	-
Pooled real return	22,183	-
Pooled real estate funds	57,403	79,877
Pooled fixed income funds	437,632	492,722
Corporate fixed income securities	56,514	53,745
Guaranteed investment contracts	1,741	8,010
Repurchase agreements	20,081	70,297
Certificates of deposit	21,200	25,561
Cash and cash equivalents	73,029	44,860
Other	738	930
Total	$ 1,359,090	$ 1,660,506

	2009	2008
Statement of Net Assets classification		
Cash and cash equivalents	$ 378,009	$ 388,840
Current investments	3,834	6,882
Restricted cash and cash equivalents	63,545	189,698
Endowment investments	701,762	896,820
Other long-term investments	211,940	178,266
Total	$ 1,359,090	$ 1,660,506

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 including: 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, money markets and repurchase agreements with local banks, the Commonwealth of Kentucky and other financial institutions.
- 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. Money market fund portfolios consist of securities eligible for short-term investments.

- 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 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, 2009 and 2008, respectively, the credit quality of the University's fixed income investments is as follows (in thousands):

	2009								
	S&P/Moody's Credit Ratings								
	AAA/Aaa	AA/Aa	A	BBB/Baa	BB/Ba	B	Not rated	Rating Not Applicable	Total
U.S. Treasury fixed income								$ 22,457	$ 22,457
Government agency fixed income	$ 96,596							-	96,596
Pooled fixed income	-	$ 1,889					$ 435,743	-	437,632
Corporate fixed income	-	171	$ 2,394	$ 43,954	$ 141	$ 9,340	514	-	56,514
Guaranteed investment contracts	-	-	-	-	-	-	1,741	-	1,741
Repurchase agreements	-	-	-	-	-	-	15,140	4,941	20,081
Certificates of deposit	-	-	-	-	-	-	21,200	-	21,200
Cash and cash equivalents	60,479	-	-	-	-	-	1,614	10,936	73,029
Total fixed income investments	$ 157,075	$ 2,060	$ 2,394	$ 43,954	$ 141	$ 9,340	$ 475,952	$ 38,334	$ 729,250

	2008						
	S&P/Moody's Credit Ratings						
	AAA/Aaa	AA/Aa	A	BBB/Baa	Not rated	Rating Not Applicable	Total
U.S. Treasury fixed income						$ 17,036	$ 17,036
Government agency fixed income	$ 93,923					-	93,923
Pooled fixed income	207	$ 2,652			$ 489,863	-	492,722
Corporate fixed income	24,454	-	$ 1,368	$ 27,923	-	-	53,745
Guaranteed investment contracts	-	-	-	-	8,010	-	8,010
Repurchase agreements	-	-	-	-	65,355	4,942	70,297
Certificates of deposit	-	-	-	-	25,561	-	25,561
Cash and cash equivalents	36,776	-	7,092	-	932	60	44,860
Total fixed income investments	$ 155,360	$ 2,652	$ 8,460	$ 27,923	$ 589,721	$ 22,038	$ 806,154

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 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. Money market investments are held in the University's name by the University's custodian.
- 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, 2009 and 2008, 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):

	2009				
	State Deposits	Bond Revenue Investments	Short-term Investments	Other State Investments	Total
Uninsured and collateralized with securities held by the pledging financial institution's trust department or agent but not in the University's name	$ 56,674				$ 56,674
Uninsured, not registered in the name of the University and held by the counterparty but not in the University's name	-	$ 222,937	$ 60,156	$ 84,136	367,229
Total	$ 56,674	$ 222,937	$ 60,156	$ 84,136	$ 423,903

	2008					
	State Deposits	Overnight Investments	Bond Revenue Investments	Short-term Investments	Other State Investments	Total
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

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 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 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 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 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 fixed income managers are limited to a maximum investment in any one issuer of no more than 5 percent of total investments.

At June 30, 2009 and 2008, 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, money markets 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, 2009 (in thousands):

	2009						
	Maturities in Years						
Investment Type	Less than 1	1-3	3-5	5-10	Greater than 10	Managed based on duration	Total
U.S. Treasury fixed income	$ 9,659		$ 56	$ 67	$ 17	$ 12,658	$ 22,457
Government agency fixed income	25,480	$ 45,540	23,046	994	-	1,536	96,596
Pooled fixed income	-	-	-	-	-	437,632	437,632
Corporate fixed income	-	338	302	1,096	-	54,778	56,514
Guaranteed investment contracts	1,198	100	443	-	-	-	1,741
Repurchase agreements	15,140	-	-	1,008	3,933	-	20,081
Certificates of deposit	17,200	4,000	-	-	-	-	21,200
Cash and cash equivalents	73,029	-	-	-	-	-	73,029
Total fixed income investments	$ 141,706	$ 49,978	$ 23,847	$ 3,165	$ 3,950	$ 506,604	$ 729,250

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

Investment Type	2008 Maturities in Years Less than 1	1-3	3-5	5-10	Greater than 10	Managed based on duration	Total
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	-	-	-	-	-	492,722	492,722
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	65,356	-	-	1,008	3,933	-	70,297
Certificates of deposit	21,561	4,000	-	-	-	-	25,561
Cash and cash equivalents	44,860	-	-	-	-	-	44,860
Total fixed income investments	$ 167,194	$ 26,037	$ 5,891	$ 3,209	$ 7,288	$ 596,535	$ 806,154

At June 30, 2009 and 2008, the University had the following investments managed based on duration (in thousands):

Investment Type	2009 Fair Value	2009 Modified Duration (Years)	2008 Fair Value	2008 Modified Duration (Years)
U.S. Treasury fixed income securities				
Pooled endowment fund	$ 12,658	0.79	$ 177	15.35
Government agency fixed income securities				
Pooled endowment fund	1,536	0.10	51,774	2.26
Pooled fixed income funds				
Pooled endowment fund	68,513	4.96	95,835	4.54
Other endowment investments	1,889	3.95	2,859	4.00
Commonwealth of Kentucky short-term pool	285,967	0.65	263,148	0.30
Commonwealth of Kentucky intermediate pool	81,263	1.10	130,880	1.61
Corporate fixed income securities				
Pooled endowment fund	54,778	3.36	51,862	2.13
Total	$ 506,604		$ 596,535	

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, 2009 and 2008, the following endowment investments were subject to foreign currency risk (in thousands):

Endowment Investment	Fair Value 2009	Fair Value 2008
Pooled fixed income funds	$ 6,668	$ 8,152
Pooled private equity funds	5,475	-
Pooled equity funds	217,181	170,003
Pooled absolute return funds	15,000	-
Pooled real return funds	22,183	-
	$ 266,507	$ 178,155

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, 2009 are as follows (in thousands):

	2009		
	Gross Receivable	Allowance	Net Receivable
Hospital patient accounts	$ 109,863	$ (15,113)	$ 94,750
Hospital third-party payor settlements	5,006	-	5,006
KMSF patient accounts	28,627	(3,082)	25,545
Dentistry patient accounts	3,716	(1,176)	2,540
Student loans	28,040	(2,346)	25,694
Reimbursement receivable - grants and contracts	45,375	(344)	45,031
Reimbursement receivable - federal appropriations	429	-	429
Pledges receivable	55,056	(21,183)	33,873
Accrued interest receivable	3,759	-	3,759
Student receivables	10,580	(4,854)	5,726
Other	18,773	(170)	18,603
Total	$ 309,224	$ (48,268)	$ 260,956
Current portion			$ 209,201
Noncurrent portion			51,755
Total			$ 260,956

Notes, loans and accounts receivable as of June 30, 2008 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	56,090	(503)	55,587
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	18,560	(113)	18,447
Total	$322,893	$(48,374)	$274,519
Current portion			$229,445
Noncurrent portion			45,074
Total			$274,519

4. CAPITAL ASSETS, NET

Capital assets as of June 30, 2009 and capital asset activity for the year ended June 30, 2009 are summarized below (in thousands):

	June 30, 2008	Additions	Deletions	June 30, 2009
Land	$ 60,251	$ 3,185		$ 63,436
Land improvements - nonexhaustible	20,737	708		21,445
Land improvements - exhaustible	52,896	382		53,278
Buildings	1,314,833	76,281	$ 100	1,391,014
Fixed equipment - communications	53,987	5,948	-	59,935
Infrastructure	52,936	12,839	-	65,775
Equipment	429,062	61,677	29,991	460,748
Vehicles	20,821	1,249	1,605	20,465
Library materials	132,247	4,070	233	136,084
Nondepreciable library materials	6,430	52	-	6,482
Capitalized software	83,054	6,142	-	89,196
Art	7,574	1,440	-	9,014
Construction in progress	176,674	181,372	17,490	340,556
	2,411,502	355,345	49,419	2,717,428
Accumulated Depreciation				
Land improvements - exhaustible	45,023	1,328	-	46,351
Buildings	552,312	35,808	2	588,118
Fixed equipment - communications	31,106	3,837	-	34,943
Infrastructure	14,240	2,374	-	16,614
Equipment	278,833	39,004	17,740	300,097
Vehicles	16,470	1,799	1,503	16,766
Library materials	108,447	5,558	-	114,005
Capitalized software	19,645	9,359	-	29,004
	1,066,076	99,067	19,245	1,145,898
Capital assets, net	$ 1,345,426	$ 256,278	$ 30,174	$ 1,571,530

Capital assets as of June 30, 2008 and capital asset activity for the year ended June 30, 2008 are summarized below (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
	2,205,451	272,486	66,435	2,411,502
Accumulated Depreciation				
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
	996,781	93,731	24,436	1,066,076
Capital assets, net	$ 1,208,670	$ 178,755	$ 41,999	$ 1,345,426

At June 30, 2009, the University had construction projects in process totaling approximately $769.8 million in scope. The estimated cost to complete these projects was approximately $384.8 million. Such construction was 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 $8,094,000 for 2009 and $5,772,000 for 2008.

During 2009, the University utilized capital leases to acquire various items of equipment costing approximately $30.3 million. Additionally, the University has capital lease agreements to finance renovations to Commonwealth Stadium and the construction of several buildings. The University also has 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 $160.8 million and $184.5 million at June 30, 2009 and 2008, respectively.

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

	2009	2008
Capital lease additions	$ 44,479	$ 3,835
Gifts of capital assets	5,551	843
Capital asset additions in accounts payable	29,055	17,703
Capitalized interest, net of investment income	8,094	5,772
Amortized bond discount, premium and cost of issues	148	309
Capital lease termination	68	-
Total	$ 87,395	$ 28,462

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2009 and 2008, respectively, follow (in thousands):

	2009	2008
Payable to vendors and contractors	$ 86,070	$ 84,785
Accrued expenses, including vacation and sick leave	54,558	69,967
Employee withholdings and deposits payable to third parties	29,478	28,152
Total	$ 170,106	$ 182,904

6. DEFERRED REVENUE

Deferred revenue as of June 30, 2009 and 2008, respectively, follows (in thousands):

	2009	2008
Unearned summer school revenue	$ 6,198	$ 4,455
Unearned hospital revenue	11,685	11,512
Unearned grants and contracts revenue	41,164	35,946
Prepaid athletic ticket sales	13,289	12,075
Other	2,725	2,074
Total	$ 75,061	$ 66,062
Current portion	$ 68,755	$ 60,090
Noncurrent portion	6,306	5,972
Total	$ 75,061	$ 66,062

Noncurrent deferred revenue activity for the years ended June 30, 2009 and 2008 is summarized below (in thousands):

	June 30, 2007	Additions	Reductions	June 30, 2008	Additions	Reductions	June 30, 2009
Noncurrent deferred revenue	$ 5,701	$ 271	$ -	$ 5,972	$ 334	$ -	$ 6,306

7. LONG-TERM LIABILITIES

Long-term liabilities as of June 30, 2009 and long-term liability activity for the year ended June 30, 2009 are summarized below (in thousands):

	June 30, 2008	Additions	Reductions	June 30, 2009	Current Portion	Noncurrent Portion
Bonds, notes and capital leases						
General receipts notes	$ 331,320		$ 2,870	$ 328,450	$ 7,400	$ 321,050
General receipts bonds	30,200	$ 33,350	1,080	62,470	2,560	59,910
Educational buildings bonds	115,705	-	10,865	104,840	11,245	93,595
Library bonds	37,770	-	37,770	-	-	-
Capital leases and other long-term obligations	156,103	56,680	58,295	154,488	25,718	128,770
Notes payable	5,510	21,899	620	26,789	4,883	21,906
Total bonds, notes and capital leases	676,608	111,929	111,500	677,037	51,806	625,231
Other liabilities						
Medical malpractice	31,853	7,785	12,857	26,781	4,277	22,504
Long-term disability	-	16	-	16	16	-
Annuities payable	6,271	85	1,749	4,607	423	4,184
Health insurance	12,296	31,471	33,658	10,109	10,109	-
Automobile and property self insurance	-	273	-	273	273	-
Other postemployment benefits trust	6,620	7,531	3,003	11,148	-	11,148
Federal loan programs	21,547	1,135	648	22,034	-	22,034
Workers compensation	15,076	9,013	4,089	20,000	5,872	14,128
Compensated absences	3,345	1,385	-	4,730	490	4,240
Supplemental disability	114	-	102	12	12	-
Arbitrage rebate	823	76	474	425	49	376
Unamortized bond premium	9,929	1,116	624	10,421	624	9,797
Outstanding check liability	288	-	288	-	-	-
Unemployment compensation	418	609	757	270	270	-
Other	-	174	-	174	-	174
Total other liabilities	108,580	60,669	58,249	111,000	22,415	88,585
Total	$ 785,188	$ 172,598	$ 169,749	$ 788,037	$ 74,221	$ 713,816

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
Bonds, notes and capital leases						
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	537,456	197,456	58,304	676,608	42,380	634,228
Other liabilities						
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	100,555	55,472	47,447	108,580	27,084	81,496
Total	$ 638,011	$ 252,928	$ 105,751	$ 785,188	$ 69,464	$ 715,724

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 and Consolidated Educational Building Revenue bonds (CEBRB) in the original amount of $565,305,000 dated June 1, 1998 through February 19, 2009, 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 3.12% to 4.45%.

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.

On February 19, 2009, $33,350,000 of University of Kentucky General Receipts Bonds Series 2009A were issued at a net interest cost of 3.84%, representing a full refunding of the Lexington Fayette Urban County Government Bonds, Series 1998 (Library) bonds. These bonds were sold with a delivery date of March 12, 2009 and will reduce the University's total debt service payments over the next 17 years by approximately

$3,525,000, representing an economic gain (difference between the present value of the debt service payments on the old and the new debt) of approximately $2,785,000.

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, 2009, are as follows (in thousands):

	Principal	Interest	Total
2010	$ 51,806	$ 28,856	$ 80,662
2011	50,125	28,435	78,560
2012	47,727	25,562	73,289
2013	46,133	22,670	68,803
2014	56,717	20,692	77,409
2015-2019	165,929	79,433	245,362
2020-2024	159,280	42,347	201,627
2025-2029	99,320	9,592	108,912
Total	$ 677,037	$ 257,587	$ 934,624

At June 30, 2009, assets with a fair market value of approximately $104,557,000 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, 2009 and June 30, 2008, respectively, restricted expendable net assets were composed of the following (in thousands):

	2009	2008
Appreciation (depreciation) on permanent endowments	$ (47,017)	$ 100,678
Term endowments	5,309	7,113
Quasi-endowments initially funded with restricted assets	36,360	42,681
Funds restricted for capital projects and debt service	60,363	61,228
Funds restricted for noncapital purposes	111,318	80,671
Loan funds (primarily University funds required for federal match)	10,100	9,844
Total	$ 176,433	$ 302,215

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, 2009 and June 30, 2008, respectively, are as follows (in thousands):

	2009	2008
Working capital requirements	$ 47,263	$ 60,620
Budget appropriations for future year fiscal operations	95,664	81,155
Designated for capital projects	24,204	24,283
Designated for renewal and replacement of capital assets	14,589	12,136
Hospital System	382,002	426,823
Affiliated corporations and component units	63,008	79,128
Total	$ 626,730	$ 684,145

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, 2009 and June 30, 2008, respectively, pledged revenues are as follows (in thousands):

	2009	2008
Student tuition and fees	$ 195,244	$ 178,237
Nongovernmental grants and contracts	810	559
Recoveries of facilities and administrative costs	44,707	44,137
Sales and services	43,450	41,283
Hospital services	701,936	667,531
Auxiliary enterprises - housing and dining	39,283	35,140
Auxiliary enterprises - other	25,515	23,299
Other operating revenue	593	612
State appropriations	315,162	327,155
Gifts and grants	2,471	2,411
Investment income	11,564	22,522
	$ 1,380,735	$ 1,342,886

11. INVESTMENT INCOME

Components of investment income (loss) for the years ended June 30, 2009 and June 30, 2008 are as follows (in thousands):

	2009	2008
Interest and dividends earned on endowment investments	$ 29,426	$ 27,716
Realized and unrealized gains and losses on endowment investments	(212,117)	(102,587)
Interest and dividends on cash and non-endowment investments	15,275	29,906
Realized and unrealized gains and losses on non-endowment investments	(3,562)	(6,123)
Investment income from external trusts	1,865	1,706
Total	$ (169,113)	$ (49,382)

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, 2009 and 2008, the University received income from these trusts of approximately $1,865,000 and $1,706,000, respectively. The market value of the external trust assets as of June 30, 2009 and June 30, 2008 was approximately $44,729,000 and $56,512,000, 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, 2009, pledges are expected to be collected primarily over the next five years, as follows (in thousands):

Operating purposes	$ 18,552
Capital projects	45,224
Total	$ 63,776
Less discounts and allowances	(29,903)
Total	$ 33,873

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 ($26,348,000 at June 30, 2009) are not recognized as revenue until the gifts are actually received. For the years ended June 30, 2009 and 2008, the University recorded the discounted value of operating and capital pledges using a rate of 5 percent, net of the allowance for uncollectible pledges, of approximately $33,873,000 and $26,595,000, respectively.

Deferred gifts through insurance, known bequests and irrevocable trusts in which the University has a remainder interest are estimated to be approximately $89,995,000 at June 30, 2009. The University records these amounts as revenue when the cash is received.

14. GRANTS AND CONTRACTS AWARDED

At June 30, 2009, grants and contracts of approximately $370,263,000 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 2009 and 2008 were approximately $73,391,000 and $69,818,000, respectively. Employees contributed approximately $36,233,000 in 2009 and $34,362,000 in 2008. The University's total payroll costs were approximately $965,364,000 and $920,282,000, respectively, for the years ended June 30, 2009 and 2008. The payroll for employees covered by the retirement plan was approximately $733,911,000 and $698,180,000 for the years ended 2009 and 2008, 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 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 $2,611,000 and $2,880,000 for the years ended June 30, 2009 and 2008, respectively.

The latest actuarial valuation was prepared as of July 1, 2008, by TIAA CREF. 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 also 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 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 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 the total plan cost. For fiscal year 2009, the University contributed $14.4 million to the plan. Plan members receiving benefits contributed 29.5 percent of the premium costs, an average for combined single and family coverage. In fiscal year 2009, total member contributions were approximately $3.0 million.

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 $14.1 million is 2.4 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 2009 (in thousands):

Annual required contribution	$ 14,059
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Contributions made	(14,421)
Increase in net OPEB obligation (asset)	(362)
Net OPEB obligation (asset) - Beginning of year	-
Net OPEB obligation (asset) - End of year	$ (362)

The University’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for fiscal year 2009 and 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%	
6/30/2009	$ 14,059	102.6%	$ (362)

As of July 1, 2009, the actuarial accrued liability (AAL) for benefits was $150.2 million, with an actuarial value of assets of $11.1 million, resulting in an unfunded actuarial accrued liability (UAAL) of $139.1 million. The covered payroll (annual payroll of active employees covered by the plan) was $590.4 million and the ratio of the UAAL to the covered payroll was 23.6 percent at June 30, 2009. The University implemented the University of Kentucky Other Postemployment Benefits (OPEB) Trust in July 2007, after the July 1, 2007 actuarial valuation date. As of June 30, 2009, net trust fund assets totaled $11.1 million.

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 multi-year 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, 2008 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 8 percent for the pre-65 members and 8.75 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 2008 was twenty nine 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 then 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 includes 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 .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 2009 (in thousands):

Annual required contribution	$ 2,240
Interest on net OPEB obligation	(9)
Adjustment to annual required contribution	7
Contributions made	(2,231)
Increase in net OPEB obligation (asset)	7
Net OPEB obligation (asset) - Beginning of year	-
Net OPEB obligation (asset) - End of year	$ 7

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2009 and 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%	
6/30/2009	$ 2,238	99.7%	$ 7

As of July 1, 2009, the actuarial accrued liability (AAL) for benefits was $22.0 million and the actuarial value of assets was $6.6 million, resulting in an unfunded actuarial accrued liability (UAAL) of $15.4 million. The covered payroll (annual payroll of active employees covered by the plan) was $473.8 million and the ratio of the UAAL to the covered payroll was 3.3 percent at June 30, 2009.

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 heath 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, 2008 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 or 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, 2008 was twenty nine 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 2008 to 2009. 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 6 percent. The malpractice liability as of June 30, 2009 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, 2009.

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, 2009.

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, 2009, 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	100,000	66,667	66,667	$ 21,046
Total	$ 300,000	$ 202,191	$ 202,191	$ 21,046

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 2009 or prior	$ 437
Pledges due in fiscal year 2010	1,453
Pledges due in fiscal year 2011	8,415
Pledges due in fiscal year 2012	2,690
Pledges due in fiscal year 2013	8,051
Total	$ 21,046

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, 2009 and June 30, 2008, respectively, follows (in thousands):

	2009	2008
Funds from private sources approved for match	$ 3,710	$ 4,089
Cigarette excise tax funds distributed	2,550	3,020
Total cancer research matching fund revenues	$ 6,260	$ 7,109
Cancer research matching fund expenses	$ 9,644	$ 5,019

23. NATURAL CLASSIFICATION

The University's operating expenses by natural classification were as follows for the years ended June 30, 2009 and June 30, 2008, respectively (in thousands):

	2009	2008
Salaries and wages	$ 965,840	$ 928,498
Employee benefits	271,590	263,438
Supplies and services	502,607	466,249
Depreciation	99,067	93,731
Student scholarships and financial aid	38,304	38,672
Purchased utilities	49,276	43,728
Other, various	99,963	78,563
Total	$ 2,026,647	$ 1,912,879

24. CURRENT ECONOMIC CONDITIONS

The current economic environment presents the University with unprecedented circumstances and challenges, which in some cases have resulted in large declines in the fair value of investments and other assets; declines in contributions, governmental support, patient revenue and grant revenue; constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the University.

Current economic conditions have made it challenging for many donors to continue to contribute to not-for profit organizations. A significant decline in the fair value of investments, as well as contribution revenue could have an adverse impact on the University's future operating results. As the Commonwealth continues to struggle with the impact of these economic conditions at the state level, governmental support will continue to decline as well.

In addition, the rising unemployment rate has made it difficult for certain of our patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on UK Healthcare's future operating results. Further, the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medicaid program.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in investment values; allowances for contribution and patient receivables; and the valuation of intangibles that could negatively impact the University's ability to meet debt covenants or maintain sufficient liquidity.

25. RECLASSIFICATIONS

Certain reclassifications to fiscal year 2008 comparative amounts have been made to conform to the fiscal year 2009 financial statement classifications. Pell grants of $8,830,000 previously reported as operating revenue in the Statements of Revenues, Expenses and Changes in Net Assets are now being reported as nonoperating revenue. Certain transactions previously reported as instruction are now being reported as research. Additionally, certain transactions previously reported as cash flows from operating activities are now being reported as cash flows from noncapital financing activities in the Statements of Cash Flows. Such classifications had no effect on the change in net assets.

26. CHANGE IN ACCOUNTING PRINCIPLE

In 2009, the University changed its method of accounting for its federal and state grants similar to Pell based upon determination that these are nonexchange transactions. The effect of this change had no impact on net assets for June 30, 2009. The operating revenues and nonoperating revenues (expenses) line items in the Statements of Revenues, Expenses and Changes in Net Assets for fiscal year 2009 were affected by the following:

	Before Change in Method	After Change in Method
Federal grants reported as operating revenues	$ 1,039,717	
State grants reported as operating revenues	20,076,845	
Federal grants reported as nonoperating revenues	-	$ 1,039,717
State grants reported as nonoperating revenues	-	20,076,845
Total	$ 21,116,562	$ 21,116,562

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
July 1, 2007	$ 7,251	$ 141,171	$ 133,920	5.1%	$ 614,928	21.8%
July 1, 2008	$ 11,148	$ 150,220	$ 139,072	7.4%	$ 590,446	23.6%

Schedule of Employer Contributions
(In thousands)

Year Ended	Annual Required Contributions	Percentage Contributed
June 30, 2008	$ 13,649	100.0%
June 30, 2009	$ 14,059	102.6%

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
July 1, 2007	$ 7,601	$ 21,583	$ 13,982	35.2%	$ 444,981	3.1%
July 1, 2008	$ 6,551	$ 22,044	$ 15,493	29.7%	$ 473,835	3.3%

Schedule of Employer Contributions
(In thousands)

Year Ended	Annual Required Contributions	Percentage Contributed
June 30, 2008	$ 2,208	100.0%
June 30, 2009	$ 2,240	99.7%

UNIVERSITY OF KENTUCKY AND AFFILIATED CORPORATIONS
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
STATEMENT OF NET ASSETS SCHEDULE
JUNE 30, 2009
(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	$ 328,798	$ 15,893	$ 12,144	$ 567	$ 19,264	$ 35	$ 13	$ 225	$ 60	$ 517		$ 493	$ 378,009
Notes, loans and accounts receivable, net	135,473	45,098	3,016	14	296						39	25,265	209,201
Investments												3,834	3,834
Inventories and other	30,228	2,717			4,084					13	14	41	37,097
Total current assets	494,499	63,708	15,160	581	23,644	35	13	225	60	530	53	29,633	628,141
Noncurrent Assets													
Restricted cash and cash equivalents	63,489						57						63,546
Endowment investments	678,300	3,225	171	6,746	238	1,026	1,360	10,696					701,762
Other long-term investments	173,731	6,322										31,887	211,940
Notes, loans and accounts receivable, net	51,071		3	51				4				625	51,754
Other noncurrent assets	17,016											596	17,612
Capital assets, net	1,522,652	2,349			1,854					375	30	44,270	1,571,530
Total noncurrent assets	2,506,259	11,896	174	6,797	2,092	1,026	1,417	10,700	-	375	30	77,378	2,618,144
Total assets	3,000,758	75,604	15,334	7,378	25,736	1,061	1,430	10,925	60	905	83	107,011	3,246,285
LIABILITIES													
Current Liabilities													
Accounts payable and accrued liabilities	150,124	11,603	773	17	2,564	1				530	53	4,441	170,106
Deferred revenue	13,962	41,505			13,289								68,756
Long-term liabilities - current portion	68,624											5,597	74,221
Total current liabilities	232,710	53,108	773	17	15,853	1	-	-	-	530	53	10,038	313,083
Noncurrent Liabilities													
Deferred revenue	6,305												6,305
Long-term liabilities	691,157											22,659	713,816
Total noncurrent liabilities	697,462	-	-	-	-	-	-	-	-	-	-	22,659	720,121
Total liabilities	930,172	53,108	773	17	15,853	1	-	-	-	530	53	32,697	1,033,204
INTERFUND BALANCES	25,230	(1,569)	(738)		(127)							(22,796)	-
NET ASSETS													
Invested in capital assets, net of related debt	884,255	2,349			1,854					375		20,903	909,736
Restricted													
Nonexpendable	486,049	751	31	4,607		614	649	7,481					500,182
Expendable	164,812	3,019	827	2,754	290	446	781	3,444	60				176,433
Total restricted	650,861	3,770	858	7,361	290	1,060	1,430	10,925	60	-	-	-	676,615
Unrestricted	560,700	14,808	12,965		7,612						30	30,615	626,730
Total net assets	$ 2,095,816	$ 20,927	$ 13,823	$ 7,361	$ 9,756	$ 1,060	$ 1,430	$ 10,925	$ 60	$ 375	$ 30	$ 51,518	$ 2,213,081

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, 2009
(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	$ 195,244												$ 195,244
Federal grants and contracts	1,909	$ 155,559											157,468
State and local grants and contracts	20,975	69,476	$ 205										90,656
Nongovernmental grants and contracts	(1,553)	26,531	2,366										27,344
Recoveries of facilities and administrative costs	234	44,473											44,707
Sales and services	31,613		11,603			$ 1			$ 29	$ 6,052	$ 898		50,196
Federal appropriations	16,584												16,584
County appropriations	14,451												14,451
Professional clinical service fees												$ 193,390	193,390
Hospital services	701,936												701,936
Auxiliary enterprises:													
Housing and Dining, net	39,283												39,283
Athletics					$ 56,857								56,857
Other auxiliaries	25,515												25,515
Other operating revenues	(1,307)	1,924	8								(33)	2,198	2,790
Total operating revenues	1,044,884	297,963	14,182	-	56,857	1	-	-	29	6,052	865	195,588	1,616,421
OPERATING EXPENSES													
Educational and general:													
Instruction	226,443	13,107	574			3	$ 40	$ 146					240,313
Research	87,570	163,299	434	$ 19			40						251,362
Public service	111,271	106,236	973				9						218,489
Libraries	18,658		4										18,662
Academic support	67,841	2,082	3,430					350					73,703
Student services	26,768	44	68			1							26,881
Institutional support	74,297	712	317	15					76	5,996			81,413
Operations and maintenance of plant	58,517	40											58,557
Student financial aid	21,928	1,709	323			53		212					24,225
Depreciation	64,611	534								96	6		65,247
Total educational and general	757,904	287,763	6,123	34	-	57	89	708	76	6,092	6	-	1,058,852
Clinical operations (including depreciation of $1,454)												161,024	161,024
Hospital (including depreciation of $25,569)	695,912		109										696,021
Auxiliary enterprises:													
Housing and dining (including depreciation of $3,003)	38,941												38,941
Athletics (including depreciation of $2,161)	(722)				57,658								56,936
Other auxiliaries	13,144										1,486		14,630
Other expenses	178										65		243
Total operating expenses	1,505,357	287,763	6,232	34	57,658	57	89	708	76	6,092	1,557	161,024	2,026,647
Net income (loss) from operations	(460,473)	10,200	7,950	(34)	(801)	(56)	(89)	(708)	(47)	(40)	(692)	34,564	(410,226)
NONOPERATING REVENUES (EXPENSES)													
State appropriations	315,162												315,162
Gifts and grants	71,093	198	231	199		1	3	71	98		141		72,035
Investment income (loss)	(163,652)	(732)	71	(1,797)	79	(277)	(394)	(2,897)		5		481	(169,113)
Interest on capital asset-related debt	(13,959)	(115)			(627)							(1,161)	(15,862)
Grant to/(from) the University for non-capital purposes	51,252	(4,107)	(9,119)	(687)	6,768	(5)	(7)	(58)	(50)		570	(44,557)	-
Other nonoperating revenues and expenses, net	2,933	1,463			1,810								6,206
Net nonoperating revenues (expenses)	262,829	(3,293)	(8,817)	(2,285)	8,030	(281)	(398)	(2,884)	48	5	711	(45,237)	208,428
Net income (loss) before other revenues, expenses, gains, or losses	(197,644)	6,907	(867)	(2,319)	7,229	(337)	(487)	(3,592)	1	(35)	19	(10,673)	(201,798)
Capital appropriations	3,446												3,446
Capital grants and gifts	104,484	3,270										(208)	107,546
Additions to permanent endowments	9,960						4	26					9,990
Grant to/(from) the University for capital purposes	22,558	(8,849)	(439)		(13,270)								-
Other, net	(889)	(150)			(1,649)								(2,688)
Total other revenues	139,559	(5,729)	(439)	-	(14,919)	-	4	26	-	-	-	(208)	118,294
INCREASE (DECREASE) IN NET ASSETS	(58,085)	1,178	(1,306)	(2,319)	(7,690)	(337)	(483)	(3,566)	1	(35)	19	(10,881)	(83,504)
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
NET ASSETS, end of year	$ 2,095,816	$ 20,927	$ 13,823	$ 7,361	$ 9,756	$ 1,060	$ 1,430	$ 10,925	$ 60	$ 375	$ 30	$ 51,518	$ 2,213,081

University of Kentucky
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