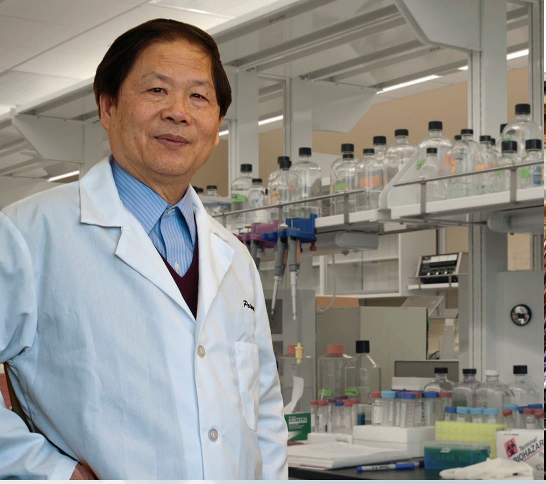

University of Kentucky

2014 Financial Statements

UK UNIVERSITY OF KENTUCKY see blue.

University of Kentucky
A Component Unit of the Commonwealth of Kentucky
Financial Statements
Years Ended June 30, 2014 and 2013

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MESSAGE FROM THE PRESIDENT

Three years ago, before a gathering of faculty, staff, alumni, friends, family and stakeholders, we declared in "the cadence of a common voice that we are resolute in seeing that the University's promise will endure."

Thoughtfully, but with a fierce sense of urgency, we have embarked upon a remarkable revitalization of our campus, a place that puts students first and that gives our faculty and staff the tools they need to continue and expand their path-breaking work.

Our success has been the result of mutual interest in our future, an honest and open dialogue that included the voices of all university and community constituents, and the persistence of a deeply devoted Wildcat family.

Two independent and external evaluations, in particular, underscore the leadership and vision provided by the Board of Trustees; affirm our efforts; and demonstrate our progress.

Reaffirming our course, UK executed a successful reaffirmation visit from the Southern Association of Colleges and Schools Commission on Colleges (SACSCOC) in April 2013.

The second affirmation comes from conclusions reached by Standard and Poor's Rating Services (S&P) and Moody's Investors Service in February 2014 – two independent examinations of our financial strength.

S&P revised its outlook of the University's financial condition from "stable" to "positive" and Moody's analysis maintains our current strong credit rating – even as much of higher education has been given a "negative" outlook. The S&P also cited as strengths our growth in enrollment, health care and financial management.

The praise we received from SACSCOC and the rating agencies – made possible through the work of the UK family – is evident across campus:

- At 29,385 students, UK broke its enrollment record for the fourth year in a row; and enrolled a more selective and higher yield class in research and professional practice graduate programs.
- The mean ACT Composite for the Fall 2013 first-year class was 25.3 and included 417 students from the Governor's School for the Arts/Governor's Scholars Program.
- The first-year class included 105 National Merit, National Achievement and National Hispanic Scholars, placing UK in the top 10 of public universities with these scholars.
- In Fall 2013, minority and international student enrollment accounted for 19 percent of the total headcount with a record 1,658 African American and 607 international undergraduate students.
- In Fall 2014, UK experienced an increase of more than one percentage point in our first-to-second year retention rates and significant, multi-percentage-point increases in our third- and fourth-year rates.
- In 2013-2014, UK awarded 6,095 degrees including 888 research and professional doctorates.
- In FY 2013-14, UK received $259.3 million in external research grants and contracts -- signifying that we are a major player among research institutions in the country.
- UK completed a historic year in philanthropy, securing records in both cash receipts of $105 million, topping $100 million for the first time, and in new commitments received of over $145 million. UK received over 91,000 gifts from 53,724 donors.

To build on our progress as one university, we drafted a budget that invests in our priorities by:

- Holding the institution's annual tuition and fee increase to five percent – extending our goal of maintaining affordability and access.
- Supporting our students with more than $11 million in additional financial aid and scholarships.

- Investing and rewarding our faculty and staff with a two percent merit salary pool – building on the five percent merit pool in the previous year.

The University's public/private partnership with EdR continues to make progress. In August, we opened the doors to Champions Court I & II, Woodland Glen I & II and Haggin Hall, adding nearly 2,400 modern resident beds and 100 new academic learning spaces.

Currently, Phases II-B and II-C are underway. In total, the completed and approved projects will add 5,700 beds across 12 facilities by Fall 2016. The investment thus far – nearly $348 million – is transforming the way we house, educate and build community for our students.

Thanks to the support of the state lawmakers, donors, private partners and our strategic priorities, we are making progress on important capital projects that further enhance our campus community and institutional mission:

- The construction of three facilities authorized by House Bill 7 is underway: a $65 million renovation and expansion of the Gatton College of Business and Economics; a new $112 million Academic Science Building; and the $120 million renovation of Commonwealth Stadium.
- Three facilities authorized during the 2014 General Session: a $175 million renovation and expansion of the Student Center; the $150 million continued fit-up of UK HealthCare's Pavilion A; and $65 million for the revitalization of the College of Law.
- We are also self-financing a $22 million investment in various projects for the College of Fine Arts and a $45 million renovation and expansion of the Nutter Training Center.

In total, over the last three years, UK has self-financed more than $1 billion in capital investment to enhance the academic, research, service and health care missions of the institution while maintaining a strong balance sheet and not placing a financial burden on the state.

Our investment in a modern campus environment - one that stimulates collaboration and creativity – is focused on building communities that benefit and support the UK family. With that philosophy as a guiding doctrine, we entered into a new partnership for campus dining services.

At the end of the Spring 2014 semester, the University of Kentucky negotiated a 15-year, nearly $250 million contract with Aramark for dining. The partnership will improve service, provide healthier food options at a lower cost, invest millions in facilities, enhance our commitment to locally sourced food and support employee development.

We continued to make progress on two important initiatives that speak to our vision and how we will make it a reality. The Financial Model of Accountability and the "see tomorrow." Strategic Plan involved extensive campus conversation throughout the respective planning processes.

As we look toward our sesquicentennial, we can reflect with pride on what we accomplished together, and we can confront – with vigor – that which we still must accomplish. Building on the progress in our research enterprise, we must – and we will – encourage innovative approaches to complex challenges. Research is at the center of our institution, and it calls upon us to answer still lingering questions while daring to pioneer the questions yet asked.

Together, as a UK family, we will build collaborative communities on campus that – in entrepreneurial ways – continue their dedicated service to the communities we touch. A robust environment for creative scholarship and educating our world's next generation of pioneers will be the cornerstone of our work.

Because of the lives we touch and teach, we remain anchored in our mission to Kentucky – to educate, innovate and serve. To be sure, our complex, multi-faceted mission looks different today in many ways than it did in 1865. However, our sense of responsibility to our communities on campus and across the region is resolute. The mission has evolved and grown. The vision of service to our Commonwealth and the world beyond remains the same. They remain our compass – the soul of the University of Kentucky.

Eli Capilouto
President

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CPAs & Advisors

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Independent Auditor's Report

Board of Trustees
University of Kentucky
Lexington, Kentucky

Report on the Financial Statements

We have audited the accompanying basic financial statements of the University of Kentucky (University), a component unit of the Commonwealth of Kentucky, which are comprised of statements of net position as of June 30, 2014 and 2013, and statements of revenues, expenses and changes in net position and of cash flows and the related notes to the basic financial statements for the years ended June 30, 2014 and 2013, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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), a blended component unit of the University, which statements reflect total assets of $134,891 and $113,368 as of June 30, 2014 and 2013, respectively, and total revenues of $230,289 and $207,099, respectively, for the years then ended (dollars in thousands). Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for KMSF, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the University's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, during 2014, the University implemented the provisions of Governmental Accounting Standards Board No. 65, *Items Previously Reported as Assets and Liabilities*, which changed its method of accounting for bond issuance costs through retroactive application to prior years' financial statements. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and postemployment and long-term disability benefit plan information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The governing board listing and the message from the president as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2014, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

BKD, LLP

Louisville, Kentucky
October 3, 2014

Management’s Discussion and Analysis

The following Management’s Discussion and Analysis (MD&A) provides an overview of the financial position and activities of the University of Kentucky (the University or UK) and its affiliated corporations for the years ended June 30, 2014 and 2013. 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
- Personal and institutional responsibility and accountability
- Shared governance
- A sense of community
- Work-life sensitivity
- Civic engagement
- Social responsibility

Background. Under provisions of the federal Morrill Land-Grant Colleges Act (1862), Kentucky State Agricultural and Mechanical College was established in 1865 as part of Kentucky University (now Transylvania University). The College separated from Kentucky University in 1878 and was established on a 52 acre site (the University’s current location) donated by the city of Lexington. In 1908, the College was re-named the State University, Lexington, Kentucky. In 1916 it became the University of Kentucky.

According to the Kentucky Revised Statutes (KRS) 164.125(2):

> In carrying out its statewide mission, the University of Kentucky shall conduct statewide research and provide statewide services, including, but not limited to, agricultural research and extension services, industrial and scientific research, industrial technology extension services to Kentucky employers and research related to the doctoral, professional and postdoctoral programs offered within the University. The University may establish and operate centers and utilize state appropriations and other resources to carry out the necessary research and service activities throughout the state. The University may enter into joint research and service activities with other universities in order to accomplish its statewide mission.

In 1997, the Kentucky General Assembly reformed the state’s public system of colleges and universities. According to the ***Kentucky Postsecondary Education Improvement Act*** of 1997:

> The University of Kentucky is mandated to become a major comprehensive research institution ranked nationally in the top twenty public universities by 2020.

At its December 2005 meeting, the UK Board of Trustees approved the ***Top 20 Business Plan***.

The University's ***Strategic Plan for 2009-2014*** was adopted by the UK Board of Trustees at its June 2009 meeting. The ***Strategic Plan*** is designed to measure the University's progress by establishing specific goals for teaching, research and service at the department, college and university level. The Strategic Plan established five goals:

- Prepare Students for Leading Roles in an Innovation-driven Economy and Global Society
- Promote Research and Creative Work to Increase the Intellectual, Social, and Economic Capital of Kentucky and the World Beyond Its Borders
- Develop the Human and Physical Resources of the University to Achieve the Institution's Top 20 Goals
- Promote Diversity and Inclusion
- Improve the Quality of Life of Kentuckians through Engagement, Outreach and Service

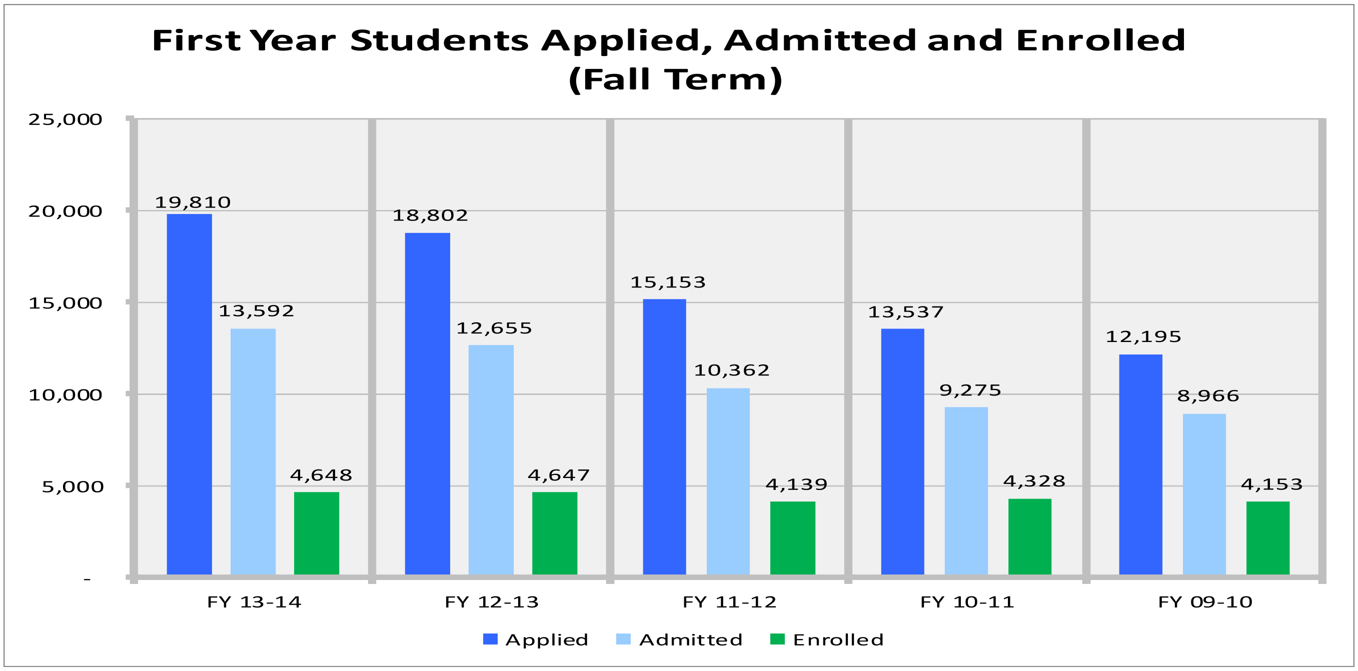
Today, the University continues to focus on the core academic mission of the institution and the original tenets of the Morrill Land-Grant Colleges Act (1862). For nearly 150 years, we have been a beacon for Kentucky, shining bright a path to prosperity and economic competitiveness. We remain steadfast in our covenant with the Commonwealth – to produce graduates prepared for a 21st century economy; to conduct research that extends the boundaries of scientific discovery; and to render service and patient care that uplifts our community and region.

Work is currently underway to develop the **Strategic Plan for 2014-2020 "see tomorrow"**. More than 100 faculty, staff and students have been appointed to committees and working groups to help develop the Strategic Plan which will support the vision to be a nationally recognized public institution with global reach and a commitment to the Commonwealth. Following the Board of Trustees approval, an implementation committee will be appointed to monitor the strategies, tactics and metrics within the plan to ensure smooth implementation.

The University is identified as a "Research University (very high research activity)" by the Carnegie Commission on Higher Education. There are 108 such institutions in the United States (out of approximately 3,600 colleges and universities).

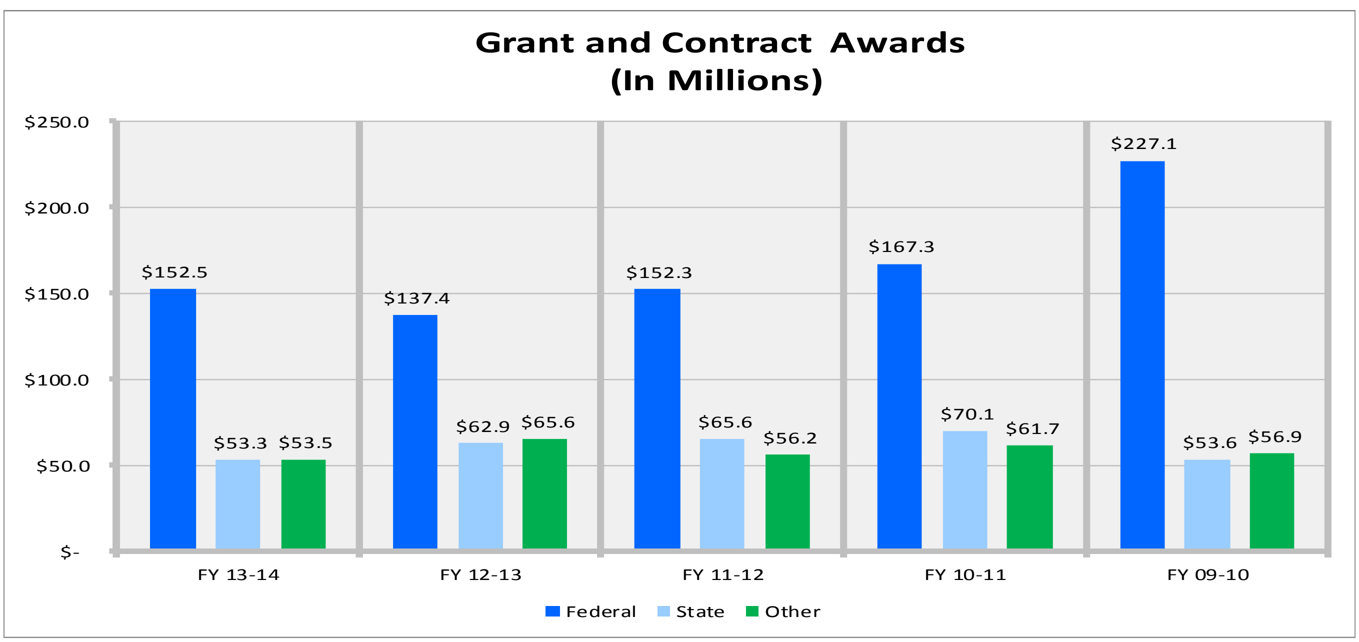
The University is accredited by the Commission on Colleges (CoC) of the Southern Association of Colleges and Schools (SACS). This has been re-affirmed at approximately 10-year intervals since 1915, with the next accreditation review scheduled to begin in 2022. In addition, several degree programs and individual units are accredited by agencies appropriate to specific professions or fields.

Students. In Fall 2013, the University had 29,385 undergraduate, graduate, and professional students. They represent all 120 Kentucky counties, every state in the U.S. and over 100 countries. Enrollment has increased over 2,800 students (11%) since Fall 2004.



__Programs.__ The University offers more than 200 majors and degree programs in 17 academic and professional colleges that are supported by a comprehensive research library system. UK is one of only eight public universities nationally to house colleges of Agriculture, Engineering, Medicine and Pharmacy on a single contiguous campus.

__Research.__ Total research expenditures, as reported to the National Science Foundation, totaled $339.8 million for fiscal year 2012-13, compared to $360.8 million in 2011-12. Research awards received during fiscal year 2013-14 total $259.3 million, a 2.5% decrease from the prior year amount of $265.9 million. The University's annual research awards peaked in fiscal year 2009-10 as result of the temporary stimulus funding available as part of the American Recovery and Reinvestment Act.



Outreach. As Kentucky's flagship, land-grant university, UK engages citizens and communities across the state in a myriad of ways, including extension offices in all 120 Kentucky counties; continuing education opportunities for teachers, lawyers and health care providers; clinics providing legal, pharmaceutical and health care assistance; and a multitude of research efforts aimed at Kentucky's most difficult problems in economic development, health care, infrastructure and education.

Medical Centers. UK HealthCare, a trademarked brand used by the University of Kentucky for its health care services, is uniquely equipped to provide advanced subspecialty care to the people of Kentucky. The academic medical center and health system provides patient care on par – in terms of both volume and complexity – with the nation's top 25% of academic medical centers. In October 2013, UK HealthCare was named a "Rising Star" by the University HealthSystem Consortium (UHC) for gains made in quality, safety, efficiency and equity of care. This and other notable achievements are listed at http://ukhealthcare.uky.edu/quality/awards/.

UK HealthCare Hospital System operates two hospital units under one Joint Commission Accreditation and two licenses in addition to ambulatory services. The major service units include Albert B. Chandler Hospital, Good Samaritan Hospital and the Kentucky Clinic. The hospitals have a combined total of 825 licensed beds with an average daily census of 670 patients. On a monthly basis, the system provides over 1,200 inpatient surgeries, 1,280 outpatient surgeries, 29,360 radiology procedures, 7,595 emergency department visits and 98,335 hospital based outpatient clinic visits.

Under a management contract entered into with the Kentucky Cabinet for Health and Family Services (CHFS), UK HealthCare Hospital System also operates and manages Eastern State Hospital, a 300,000 square-foot facility located on the university's Coldstream Research Campus. The new psychiatric facility, opened in September 2013, provides a modern setting for both acute and long-term inpatient psychiatric treatment for adults living within Fayette County and the 50 surrounding counties.

UK HealthCare's Markey Cancer Center remains the state's only cancer center designated by the National Cancer Institute (NCI), which reflects UK's position as a frontrunner in cancer treatment and research. UK HealthCare is one of an elite group of only 22 medical centers in the United States that have NCI designation, a federally funded Center on Aging, and a highly prized Clinical and Translational Science Award grant (CTSA).

UK HealthCare's dramatic growth within the last decade is in large part the result of a commitment to support the state's overall system of care by working hand-in-hand with local community providers to bring specialty care closer to the patient. These relationships take on different dimensions in each locality (management agreements, affiliate networks, outreach, etc.) and support keeping less acute care in the local community and smoothing the process for more complex, serious cases to be treated in UK HealthCare's Lexington facilities. The goal is better care at all points of the continuum.

Libraries. UK 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 service to students in the colleges of Medicine, Law, Engineering, Fine Arts and other programs. Meanwhile, students, faculty and Kentucky residents can use UK Libraries' advanced technology to access the most up-to-date information from online journals, government publications and private studies.

Financial Highlights

The University's overall financial position remains fiscally sound with assets of $4.49 billion, liabilities of $1.34 billion and deferred inflows of resources of $3.5 million as of June 30, 2014. Net position, which represents the University's residual interest in assets after liabilities and deferred inflows of resources are deducted, was $3.14 billion (70% of total assets).

- Total assets increased $545.9 million (14%), primarily due to increases in cash and cash equivalents, endowment investments and other investments.

- Total liabilities increased $266.1 million (25%), primarily due to increases in bonds and capital lease obligations and accounts payable and accrued liabilities and a decrease in unearned revenue.

- Deferred inflows of resources decreased $1.5 million (30%) due to amortized refunding bond premium and the amendment of the Forward Delivery Agreement.

- Total net position increased $281.3 million (10%). Restricted net position increased $120.1 million mainly due to investment gains on endowments. Unrestricted net position increased $118.3 million and net investment in capital assets increased $42.9 million.

- Operating revenues were $2.15 billion and operating expenses were $2.44 billion, resulting in a loss from operations of $292.4 million. Nonoperating and other revenues, net of nonoperating expenses, were $573.8 million, including $283.9 million in state appropriations.

Using the Financial Statements
The University presents its financial reports in a “business type activity” format, in accordance with Governmental Accounting Standards Board (GASB) 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 Position
- Statement of Revenues, Expenses, and Changes in Net Position
- Statement of Cash Flows
- Notes to the Financial Statements

Reporting Entity
The University is a component unit of the Commonwealth of Kentucky (Commonwealth). 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.
- The Fund for Advancement of Education and Research in the University of Kentucky Medical Center
- University of Kentucky Gluck Equine Research Foundation, Inc.
- University of Kentucky Humanities Foundation, Inc.
- University of Kentucky Mining Engineering Foundation, Inc.
- University of Kentucky Center on Aging Foundation, Inc.
- Central Kentucky Management Services, Inc.
- Kentucky Medical Services Foundation, Inc.

Statement of Net Position
The Statement of Net Position is the University’s balance sheet. It reflects the total assets, liabilities, net position (equity), and deferred outflows and inflows of resources of the University as of June 30, 2014, with comparative information as of June 30, 2013. Liabilities due within one year, and assets available to pay those liabilities, are classified as current. Other assets and liabilities are classified as noncurrent. Net position (i.e. the difference between total assets and total liabilities and deferred inflows and outflows of resources) are an important indicator of the University’s current financial condition, while the change in net position is an indicator of whether the overall financial position has improved or worsened during the year. Generally, assets and liabilities and deferred inflows and outflows of resources 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, deferred inflows of resources, and net position as of June 30, 2014, 2013 and 2012 follows:

Condensed Statements of Net Position (in thousands)

	2014	2013 (Restated)	2012 (Restated)
ASSETS			
Current assets	$ 694,839	$ 661,164	$ 591,287
Capital assets, net	1,979,404	1,955,731	1,986,562
Other noncurrent assets	1,816,476	1,327,891	1,189,866
Total assets	4,490,719	3,944,786	3,767,715
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES			
Current liabilities	358,060	324,085	329,145
Noncurrent liabilities	985,317	753,178	761,014
Deferred inflows of resources	3,490	5,017	4,844
Total liabilities and deferred inflows of resources	1,346,867	1,082,280	1,095,003
NET POSITION			
Net investment in capital assets	1,347,778	1,304,887	1,307,738
Restricted			
Nonexpendable	573,995	567,676	557,712
Expendable	428,045	314,237	241,602
Unrestricted	794,034	675,706	565,660
Total net position	$ 3,143,852	$ 2,862,506	$ 2,672,712

Assets. As of June 30, 2014, total assets amounted to $4.49 billion. The largest asset class was capital assets, net, that totaled $1.98 billion or 44% of total assets. Endowment investments were $1.22 billion, or 27% of total assets and cash and cash equivalents totaled $680.9 million, or 15% of total assets. During the year, total assets increased by a net $545.9 million primarily because of an increase in cash and cash equivalents of $229.0 million, endowment investments of $160.8 million, other long-term investments of $86.5 million, notes loans and accounts receivable, net of $22.7 million, current investments of $19.5 million and capital assets, net, of $23.7 million.

Liabilities. As of June 30, 2014, total liabilities amounted to $1.34 billion. Bonds and notes payable, capital leases and other long-term obligations issued for educational buildings, housing, the UK HealthCare Hospital System, athletics football stadium, and equipment totaled $838.2 million, or 62% of total liabilities. During the year, total liabilities increased by $266.1 million primarily as a result of the issuance of new debt comprised of $239.0 million in general receipts bonds and $2.8 million in capital leases offset by principal payments, an increase in accounts payable and accrued liabilities and a decrease in unearned revenue.

Deferred Inflows of Resources. The University's deferred inflows of resources totaled $3.5 million, which represents the deferred gains on refunding debt. During the year, deferred inflows of resources decreased $1.5 million due to the amortization of deferred gains on refunding debt and the amendment of the Forward Delivery Agreement, which eliminated the hedging instrument that provided a specified rate of return on certain debt service instruments.

Net Position. The University's equity of $3.14 billion as of June 30, 2014 is reported on the Statement of Net Position in three net position categories: net investment in capital assets, $1.35 billion (43%); restricted nonexpendable, $574.0 million (18%) and restricted expendable, $428.0 million (14%); and unrestricted, $794.0 million (25%).

Restricted net position is subject to externally imposed restrictions governing its use. Although unrestricted net position is not subject to externally imposed stipulations, most of the unrestricted net position has been internally designated for support of academic and research programs and initiatives, capital projects and working capital requirements.

Total net position increased $281.3 million during the year ended June 30, 2014. Net investment in capital assets increased $42.9 million due to excess of additions of capital assets and principal payments of capital debt offset by depreciation expense. Restricted net position increased $120.1 million principally as a result of gain on endowment investments due to a positive return on the endowment pool. Unrestricted net position increased $118.3 million, primarily due to an increase in operating revenues of $166.3 million offset by an increase in operating expenses of $141.7 million. Additionally, the positive return on the endowment pool contributed to an increase in quasi endowment net position of $37.6 million.

2013 Versus 2012. During the year ended June 30, 2013:

- Total assets increased by a net $177.1 million primarily due to an increase in cash and cash equivalents of $103.7 million, endowment investments of $107.1 million offset by a decrease in capital assets of $30.8 million.

- Liabilities decreased $12.9 million primarily due to principal payments on bonds and capital leases and refunding of bonds offset by the addition of new capital lease obligations primarily for the patient care facility offset by increases in accounts payable and accrued liabilities and unearned revenue.

- Total net position increased $189.8 million during the year ended June 30, 2013. Net investment in capital assets decreased $2.9 million due to depreciation expense and demolition of residential halls for the Education Realty Trust (EdR) housing project in excess of additions of capital assets and principal payments of capital debt. Restricted net position increased $82.6 million principally as a result of gain on endowment investments due to a positive return on the endowment pool. Unrestricted net position increased $110.0 million primarily due to an increase in operating revenues of $33.0 million along with a decrease in operating expenses of $13.0 million. Additionally, the positive return on the endowment pool caused an increase in quasi endowment net position of $24.3 million.

Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position is the University's income statement. It details how net position has changed during the year ended June 30, 2014, with comparative information for the year ended June 30, 2013. 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 position appear on the Statement of Revenues, Expenses and Changes in Net Position as revenues, expenses, gains or losses.

Financial activities are reported as either operating or nonoperating. GASB Statement No. 35 requires state appropriations, gifts, and investment income to be classified as nonoperating revenues. Accordingly, the University reports a net operating loss prior to the addition of nonoperating revenues. The utilization of long-lived capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life. Tuition revenue is reduced by external scholarships and institutional aid and is reported net of the scholarship allowance.

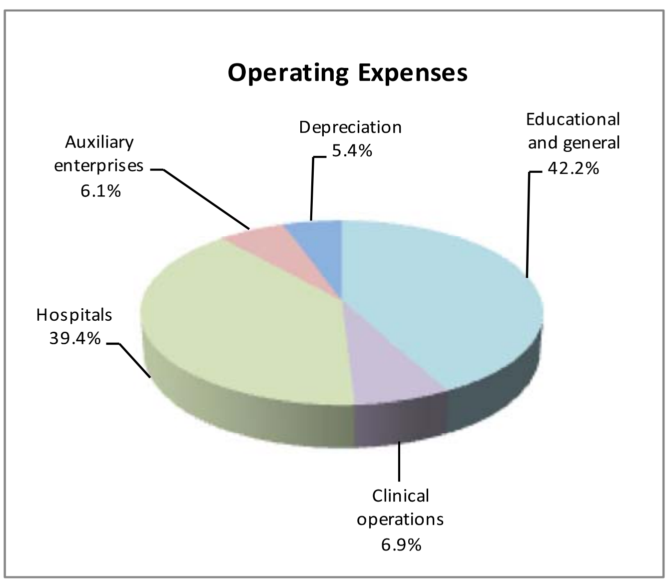
A summarized comparison of the University's revenues, expenses and changes in net position for years ended June 30, 2014, 2013 and 2012 follows:

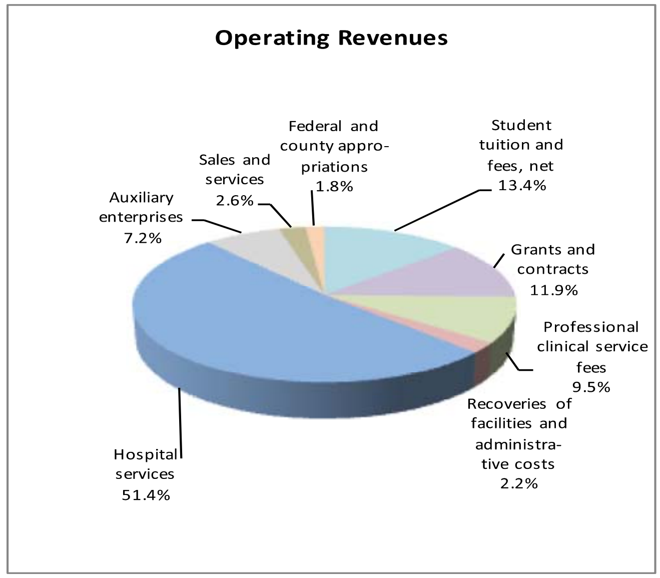
Condensed Statements of Revenues, Expenses and Changes in Net Position (in thousands)

	2014	2013 (Restated)	2012 (Restated)
OPERATING REVENUES			
Student tuition and fees, net of scholarship allowances	$ 287,517	$ 265,293	$ 243,364
Grants and contracts	256,179	283,378	317,722
Hospital services	1,101,662	945,885	906,607
Professional clinical service fees	203,721	196,974	195,412
Auxiliary enterprises, net of scholarship allowances	155,393	153,006	149,216
Recoveries of facilities and administrative costs	47,159	47,862	51,818
Sales and services	54,765	50,473	49,131
Federal and county appropriations	38,259	36,202	33,986
Other operating revenues	4,516	3,772	2,631
Total operating revenues	2,149,171	1,982,845	1,949,887
OPERATING EXPENSES			
Educational and general, excluding depreciation	1,029,208	999,332	1,068,280
Clinical operations, excluding depreciation	168,934	184,794	164,506
Hospital and clinics, excluding depreciation	961,165	839,744	823,421
Auxiliary enterprises, excluding depreciation	149,630	142,300	133,344
Depreciation	131,262	133,066	122,219
Other operating expenses	1,384	682	1,102
Total operating expenses	2,441,583	2,299,918	2,312,872
NET LOSS FROM OPERATIONS	(292,412)	(317,073)	(362,985)
NONOPERATING REVENUES (EXPENSES)			
State appropriations	283,869	283,869	297,580
Capital grants and gifts	54,068	30,672	40,022
Gifts and non-exchange grants	96,771	98,418	86,735
Investment income (loss)	155,547	104,748	(232)
Interest on capital asset-related debt	(30,288)	(29,244)	(32,151)
Additions to permanent endowments	7,578	10,225	11,581
Other, net	6,213	8,179	3,626
Total nonoperating revenues (expenses)	573,758	506,867	407,161
Total increase in net position	281,346	189,794	44,176
Net position, beginning of year, as previously reported	-	-	2,632,161
Cumulative effect of adoption of accounting principle	-	-	(3,625)
Net position, beginning of year, as restated	2,862,506	2,672,712	2,628,536
Net position, end of year	$ 3,143,852	$ 2,862,506	$ 2,672,712

Total operating revenues were $2.15 billion for the year ended June 30, 2014, an increase of $166.3 million (eight percent). The primary components of operating revenues were student tuition and fees of $287.5 million; grants, contracts and recoveries of facilities and administrative costs of $303.3 million; hospital services of $1.10 billion; and professional clinical service fees of $203.7 million.

The major increase was in hospital service revenue of $155.8 million primarily caused by an increase in rates and the overall case mix. The Eastern State Hospital management contract also increased hospital service revenue. Other significant increases in operating revenues related to net student tuition and fees of $22.2 million due to tuition and fee rate increases as well as increased enrollment; professional clinical service fees of $6.7 million due to increased patient activity and improved reimbursements associated with the decline in the uninsured self-pay population due to Medicaid expansion; sales and services of $4.3 million and auxiliary enterprises net of scholarship allowances of $2.4 million. Grants and contracts decreased $27.2 million primarily resulting from decreases of state and local grants and contracts of $19.4 million resulting from a decrease in Department of Corrections Health Care Network grant and federal grants and contracts of $4.8 million due to the reduction in funding from the American Recovery and Reinvestment Act of 2009.





Operating expenses totaled $2.44 billion, an increase of $141.7 million (six percent). Of this amount, $1.03 billion (excluding depreciation) was expended for educational and general programs, including instruction, research and public service. Hospital and clinics expenses, excluding depreciation, amounted to $961.2 million and clinical operations expenses, excluding depreciation, were $168.9 million. Depreciation expense for the year amounted to $131.3 million.

Education and general programs expenses, excluding depreciation, increased $29.9 million due primarily to increases in instruction of $14.3 million, operations and maintenance of plant of $16.6 million and student financial aid of $11.8 million. Offsetting these increases was a decrease in research expenses of $2.2 million, public service expenses of $18.3 million and institutional support of $3.4 million. Clinical operations expenses, excluding depreciation, decreased $15.9 million primarily due to the increased use of funds provided by professional supplemental payments revenue and corresponding expenses reflected within the public service expenses. Hospital and clinics expenses, excluding depreciation, increased $121.4 million primarily due to additional staffing and supplies required for increased patient activities and Eastern State Hospital management contract expenses. Auxiliary enterprise expenses, excluding depreciation, increased $7.3 million primarily in the athletics department for coaches' salaries and benefits. Depreciation expense decreased $1.8 million due to a significant amount of equipment that had been fully depreciated.

The net loss from operations for the year was $292.4 million. Nonoperating and other revenues, net of expenses, totaled $573.8 million and included: state appropriations of $283.9 million. Capital grants and gifts totaled $54.1 million – an increase of $23.4 million; investment income of $155.5 million – an increase of $50.8 million; additions to permanent endowments of $7.6 million – a decrease of $2.6 million; and gifts and non-exchange grants of $96.8 million – a decrease of $1.6 million.

2013 Versus 2012. Total operating revenues were $1.98 billion for the year ended June 30, 2013, including: student tuition and fees of $265.3 million (13%); grants, contracts, and recoveries of facilities and administrative costs of $331.2 million (16%); professional clinical service fees of $197.0 million (10%); and hospital services of $945.9 million (47%). Operating revenues for fiscal year 2013 increased $33.0 million or two percent over fiscal year 2012, primarily due to increases in hospital services revenue of $39.3 million resulting from an increase in rates, the overall case mix and patient discharges; student tuition and fees of $21.9 million due to tuition and fees rate increases as well as increased enrollment; and professional clinical service fees of $1.6 million due to increased patient activity offset by declining reimbursements; and auxiliary enterprises net of scholarship allowances of $3.8 million while grants and contracts decreased $34.3 million due to the closure of the Department of Corrections Health Care Network grant and a reduction in funding from the American Recovery and Reinvestment Act of 2009.

Operating expenses totaled $2.30 billion in fiscal year 2013. Of this amount, $999.3 million, excluding depreciation, or 43% was expended for educational and general programs, including instruction, research and public service. Hospital and clinics expenses, excluding depreciation, totaled $839.7 million, (36%) of the total expenses, and clinical operations expenses, excluding depreciation, were $184.8 million (eight percent). Depreciation amounted to $133.1 million (six percent). Operating expenses for fiscal year 2013 decreased $13.0 million (less than one percent) compared to fiscal year 2012 primarily due to a decrease in education and general program expenses of $68.9 million (six percent) offset by increases in hospital and clinics expenses, excluding depreciation of $16.3 million (two percent); clinical operations expenses, excluding depreciation, of $20.3 million (12%); auxiliary enterprises expenses of $9.0 million (seven percent) and depreciation expense of $10.8 million (nine percent).

The net loss from operations for the 2013 fiscal year totaled $317.1 million. Nonoperating and other revenues, net of expenses, totaled $506.9 million, resulting in an increase in net position of $189.8 million for the year. Nonoperating revenue included state appropriations of $283.9 million, which decreased $13.7 million from June 30, 2012 to June 30, 2013.

Statement of Cash Flows

The Statement of Cash Flows details how cash has increased or decreased during the fiscal year ended June 30, 2014, with comparative financial information for the fiscal year ended June 30, 2013. 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 position appear in the operating and noncapital financing categories. Capital financing activities include payments for capital assets, proceeds from long-term debt, and debt repayments. Purchases and sales of investments are reflected in investing activities.

The primary purpose of the Statement of Cash Flows is to provide information about the cash receipts and cash payments made by the University during the year that will allow financial statement readers to assess the 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, 2014, 2013 and 2012 follows:

Condensed Statement of Cash Flows (in thousands)

	2014	2013	2012
CASH PROVIDED (USED) BY:			
Operating activities	$ (150,202)	$ (152,097)	$ (271,163)
Noncapital financing activities	409,650	402,433	416,254
Capital and related financing activities	81,163	(127,067)	(253,701)
Investing activities	(111,587)	(19,582)	77,004
Net increase (decrease) in cash and cash equivalents	229,024	103,687	(31,606)
Cash and cash equivalents, beginning of year	451,867	348,180	379,786
Cash and cash equivalents, end of year	$ 680,891	$ 451,867	$ 348,180

The University's cash and cash equivalents increased $229.0 million in fiscal year 2014. Total cash provided by operating and noncapital financing activities was $259.4 million, an increase of $9.1 million compared to fiscal year 2013. Total cash provided by capital financing activities was $81.2 million, reflecting both capital funding sources (debt proceeds) and uses (purchases of capital assets and debt service). Total cash used by investing activities was $111.6 million.

Major sources of cash received from operating activities were student tuition and fees of $288.9 million; hospital services of $1.10 billion; grants, contracts, and recoveries of facilities and administrative costs of $293.4 million; and professional clinical service fees of $212.4 million. Major uses of cash for operating activities were payments to employees for salaries and benefits of $1.53 billion and to vendors and contractors of $721.1 million.

Noncapital financing activities include state appropriations from the Commonwealth of $283.9 million; gifts of $96.3 million and other noncapital financing receipts of $30.3 million.

Capital and related financing activities include proceeds of capital debt of $251.9 million and capital grants and gifts of $47.0 million. Cash of $140.0 million was expended for construction and acquisition of capital assets and $79.4 million was expended for principal and interest payments on debt.

Investing activities include proceeds from sales and maturities of investments of $717.5 million and interest and dividends on investments of $13.7 million. Cash of $842.8 million was used to purchase investments.

2013 Versus 2012. Cash balances are higher when comparing fiscal year 2013 to fiscal year 2012. The $103.7 million net increase in cash was created from less cash used by operating and capital and related financing activities, offset by less cash provided by noncapital activities and more cash used for investing activities.

Capital Asset and Debt Administration

Capital Assets

Capital assets, net of accumulated depreciation, totaled $1.98 billion at June 30, 2014, a increase of $23.7 million. Capital assets as of June 30, 2014, 2013 and 2012, and significant changes in capital assets during the years ended June 30, 2013 and 2014 follow (in millions):

	Balance June 30, 2012	Net Additions (Deletions) FY 12-13	Balance June 30, 2013	Net Additions (Deletions) FY 13-14	Balance June 30, 2014
Land and land improvements	$ 163	$ 17	$ 180	$ 5	$ 185
Buildings, fixed equipment and infrastructure	2,311	58	2,369	32	2,401
Equipment, vehicles and capitalized software	688	22	710	25	735
Library materials and art	158	2	160	2	162
Certificate of need license	12	-	12	-	12
Construction in progress	58	(23)	35	57	92
Accumulated depreciation	(1,403)	(107)	(1,510)	(98)	(1,608)
Total	$ 1,987	$ (31)	$ 1,956	$ 23	$ 1,979

At June 30, 2014, the University had capital construction projects in progress totaling approximately $475.5 million in scope. Major projects include the renovation and expansion of Commonwealth Stadium and Nutter Training Center, the renovation and expansion of the Gatton College of Business and Economics, the construction of the Academic Science Building and the fit-up of the 8th floor of the Patient Care Facility. The estimated cost to complete the projects in progress was approximately $381.3 million.

Debt

At June 30, 2014, capital debt amounted to $838.2 million, summarized by trust indenture and type as follows (in millions):

	2014	2013	2012
General Receipts bonds and notes	$ 698	$ 479	$ 500
Consolidated Educational Buildings Revenue Bonds	33	38	42
Capital lease obligations	86	109	115
Notes payable	21	22	22
Total	$ 838	$ 648	$ 679

Debt increased $190.4 million during the year primarily due to the issuance of General Receipts Bonds 2014 Series A, B and C for $239.0 million and additional capital leases of $2.8 million, offset by a net decrease from principal payments of the University's debt obligations of $51.4 million.

Economic and Other 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 citizens of the Commonwealth. The University's strong financial condition, as evidenced by the receipt of credit ratings of Aa2 and AA- from Moody's Investors Service and Standard & Poor's Ratings Services, respectively, will provide a high degree of flexibility in obtaining funds for future capital projects 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:

- The Commonwealth continues to suffer from fiscal stress in spite of modest increases in revenue. The Kentucky General Assembly enacted reductions in state general funds for many state agencies of five percent and a 1.5% reduction for public colleges and universities for fiscal year 2014-15. The enacted budget generally reflects no change in state appropriations for state agencies and public colleges and universities for fiscal year 2015-16. The Consensus Forecasting Group noted several areas of risk to the Commonwealth including:
  - Highly dependent on improvement in new home construction
  - Recognition of a range of outcomes regarding future Tobacco Master Settlement Agreement payments to the Commonwealth
  - Downside risk from coal severance funding
- State support as a percentage of the total budget is expected to continue to decline. Over the past 10 years, state support has decreased from 20% of the operating budget in 2004-05 to nine percent for 2014-15. In spite of significant enrollment growth and inflationary cost increases, state support for 2014-15 will be $8.3 million less than it was in 2004-05 at $287.9 million.
- Student demand is expected to remain high in the coming years. Even though tuition rates for fiscal year 2014-15 reflect a five percent increase for Kentucky residents, the University is expected to enroll the largest, most diverse and one of the best prepared incoming freshmen classes in the institution's history. Applications for the Fall 2014 incoming class increased over five percent to 19,810 as compared to the prior fall of 18,802. Preliminary numbers indicate that the Fall 2014 entering freshmen class will total 5,188 students – an increase of 504 students, or 11%, compared to last fall. The tuition rate increases, the higher percentage of non-resident undergraduate students, and projected enrollment are expected to generate additional operating revenues of $28.6 million compared to the fiscal year 2013-14 original budget.
- The University is undergoing a momentous physical transformation. The multi-phase housing project to revitalize UK's on-campus housing includes five new residence halls which came online in August 2014 adding 2,381 beds to the housing stock. Three additional residence halls are expected online in August 2015 (1,610 beds). The total plan includes increasing the current on-campus housing stock up to 9,000 beds by 2018. This comprehensive public/private partnership with EdR, the first of its kind in the nation, will provide a substantial increase in the quantity and quality of student housing while allowing the University to reserve its debt capacity to rebuild learning and research spaces.
- To meet the needs of the University's growing student body; improve the quality of academic programs, scientific research, and creative scholarship; and expand access and ensure affordability, the University sought and received authorization from the 2013 Kentucky General Assembly to self-finance three building projects:
  - A $65.0 million renovation and expansion of the Gatton College of Business and Economics, financed by private gifts
  - A new $112.0 million Academic Science Building financed by the University. The University Department of Intercollegiate Athletics (Athletics) will fund $65.0 million of the project cost.
  - A $120.0 million renovation and expansion of Commonwealth Stadium financed completely by Athletics
- More recently, the University received authorization from the 2014 Kentucky General Assembly for the following three building projects:
  - A $175.0 million renovation and expansion of the Student Center financed by the University
  - A $150.0 million renovation and upgrade of the UK HealthCare facilities financed completely by UK HealthCare
  - A $65.0 million renovation and expansion of the College of Law building financed by $35.0 million of state bonds and $30.0 million of private gifts
- As of June 30, 2014, grants and contracts of approximately $177.7 million, a decrease of approximately $11.4 million from the previous year, have been awarded to the University but not expended. The decline in available governmental awards will result in reduced grant revenue in future periods.
- Health care reform has initiated significant changes to the United States healthcare system, including potential material changes to the delivery of healthcare services and the reimbursement paid for such services by governments or other third-party payers. The long-term impact is unknown, as the long period between passage and its implementation lends to some level of uncertainty. UK HealthCare Hospital

System will develop and execute strategies in an effort to mitigate the negative impacts and leverage opportunities.

- 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.
- Fiscal year 2014-15 is a pivotal year of transition as the University moves from a traditional incremental budget approach to the values-based financial model. The new model is designed to focus on aligning resources with academic decision-making authority and accountability. A values-based model creates incentives in two fundamentally important ways:
    - Making the financial aspects of operations more transparent and the system more nimble
    - Empowering Colleges to make informed decisions about investing in priorities
- In July 2014, the University created a public/private partnership with Aramark that will transform the dining services provided for students, faculty, staff, and the community. The 15 year partnership provides for $70 million in facilities investments by Aramark, including $40 million in new facilities, subject to board approval, to be completed by 2017-18. Aramark will construct a new K Lair at Haggin Hall and make substantial upgrades to the Student Center Food Court, both to be completed for use in Fall 2014, and a newly constructed Commons for Fall 2015.

Economic challenges will continue to have an impact on the future. However, management believes the University will be able to sustain its sound financial position and continue its progress toward becoming a nationally recognized public institution.

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
STATEMENTS OF NET POSITION (in thousands)
JUNE 30, 2014 AND 2013

	2014	2013 (Restated - Note 1)
ASSETS		
Current Assets		
Cash and cash equivalents	$ 387,863	$ 391,975
Notes, loans and accounts receivable, net	240,088	226,327
Investments	26,452	6,944
Inventories and other assets	40,436	35,918
Total current assets	694,839	661,164
Noncurrent Assets		
Restricted cash and cash equivalents	293,028	59,892
Endowment investments	1,215,226	1,054,448
Other long-term investments	248,108	161,574
Notes, loans and accounts receivable, net	59,412	50,478
Other noncurrent assets	702	1,499
Capital assets, net	1,979,404	1,955,731
Total noncurrent assets	3,795,880	3,283,622
Total assets	4,490,719	3,944,786
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
Current Liabilities		
Accounts payable and accrued liabilities	227,576	189,636
Unearned revenue	60,017	64,552
Long-term liabilities - current portion	70,467	69,897
Total current liabilities	358,060	324,085
Noncurrent Liabilities		
Accounts payable and accrued liabilities	2,476	-
Long-term liabilities	982,841	753,178
Total noncurrent liabilities	985,317	753,178
Total liabilities	1,343,377	1,077,263
Deferred Inflows of Resources	3,490	5,017
Total liabilities and deferred inflows of resources	1,346,867	1,082,280
NET POSITION		
Net investment in capital assets	1,347,778	1,304,887
Restricted		
Nonexpendable		
Scholarships and fellowships	134,731	131,743
Research	268,265	267,594
Instruction	78,597	76,649
Academic support	83,904	83,741
Other	8,498	7,949
Total restricted nonexpendable	573,995	567,676
Expendable		
Scholarships and fellowships	77,594	57,802
Research	95,614	57,605
Instruction	57,031	44,562
Academic support	56,801	38,889
Loans	10,445	10,531
Capital projects	101,357	77,165
Debt service	774	1,042
Auxiliary	15,198	11,763
Other	13,231	14,878
Total restricted expendable	428,045	314,237
Total restricted	1,002,040	881,913
Unrestricted	794,034	675,706
Total net position	$ 3,143,852	$ 2,862,506

See notes to financial statements.

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (in thousands)
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013 (Restated - Note 1)
OPERATING REVENUES		
Student tuition and fees	$ 385,989	$ 364,547
Less: Scholarship allowances	(98,472)	(99,254)
Net tuition and fees	287,517	265,293
Federal grants and contracts	160,384	165,214
State and local grants and contracts	67,755	87,143
Nongovernmental grants and contracts	28,040	31,021
Recoveries of facilities and administrative costs	47,159	47,862
Sales and services	54,765	50,473
Federal appropriations	17,921	16,890
County appropriations	20,338	19,312
Professional clinical service fees	203,721	196,974
Hospital services	1,101,662	945,885
Auxiliary enterprises:		
Housing and dining	58,346	57,793
Less: Scholarship allowances	(7,193)	(7,367)
Net housing and dining	51,153	50,426
Athletics	73,957	72,033
Other auxiliaries	30,283	30,547
Other operating revenues	4,516	3,772
Total operating revenues	2,149,171	1,982,845
OPERATING EXPENSES		
Educational and general:		
Instruction	271,857	257,516
Research	245,313	247,550
Public service	211,479	229,757
Libraries	21,070	19,487
Academic support	71,482	64,765
Student services	36,790	34,106
Institutional support	49,295	52,702
Operations and maintenance of plant	79,823	63,198
Student financial aid	42,099	30,251
Depreciation	66,224	69,508
Total educational and general	1,095,432	1,068,840
Clinical operations (including depreciation of $2,021 in 2014 and $1,995 in 2013)	170,955	186,789
Hospital and clinics (including depreciation of $51,460 in 2014 and $51,261 in 2013)	1,012,625	891,005
Auxiliary enterprises:		
Housing and dining (including depreciation of $5,823 in 2014 and $5,020 in 2013)	52,416	47,531
Athletics (including depreciation of $5,734 in 2014 and $5,282 in 2013)	91,322	84,036
Other auxiliaries	17,449	21,035
Other operating expenses	1,384	682
Total operating expenses	2,441,583	2,299,918
Net loss from operations	(292,412)	(317,073)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	283,869	283,869
Gifts and non-exchange grants	96,771	98,418
Investment income (loss)	155,547	104,748
Interest on capital asset-related debt	(30,288)	(29,244)
Other nonoperating revenues and expenses, net	7,449	9,856
Net nonoperating revenues (expenses)	513,348	467,647
Net income (loss) before other revenues, expenses, gains or losses	220,936	150,574
Capital grants and gifts	54,068	30,672
Additions to permanent endowments	7,578	10,225
Other, net	(1,236)	(1,676)
Total other revenues (expenses)	60,410	39,221
INCREASE IN NET POSITION	281,346	189,795
NET POSITION, beginning of year, as previously reported	-	2,676,387
Cumulative effect of adoption of accounting principle	-	(3,676)
NET POSITION, beginning of year, as restated	2,862,506	2,672,711
NET POSITION, end of year	$ 3,143,852	$ 2,862,506

See notes to financial statements.

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
STATEMENTS OF CASH FLOWS (in thousands)
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	$ 288,922	$ 265,136
Grants and contracts	247,522	281,214
Recoveries of facilities and administrative costs	45,917	49,348
Sales and services	53,836	51,035
Federal appropriations	17,117	14,858
County appropriations	21,400	18,935
Payments to vendors and contractors	(721,086)	(667,570)
Student financial aid	(42,082)	(30,169)
Salaries, wages and benefits	(1,529,995)	(1,462,989)
Professional clinic service fees	212,424	199,317
Hospital services	1,096,977	973,830
Auxiliary enterprise receipts	153,659	153,741
Loans issued to students	(21,188)	(17,137)
Collection of loans to students	19,818	16,422
Self insurance receipts	51,230	45,035
Self insurance payments	(48,217)	(43,921)
Other operating receipts (payments), net	3,544	818
Net cash provided (used) by operating activities	(150,202)	(152,097)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	283,869	283,869
Gifts and grants received for other than capital purposes:		
Gifts received for endowment purposes	7,554	10,225
Gifts received for other purposes	88,716	80,516
Agency and loan program receipts	225,252	210,958
Agency and loan program payments	(226,011)	(210,594)
Other noncapital financing receipts (payments), net	30,270	27,459
Net cash provided (used) by noncapital financing activities	409,650	402,433
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital grants and gifts	46,989	36,249
Purchases of capital assets	(139,955)	(102,520)
Proceeds from capital debt	251,920	30,832
Payments to refunding bond agents	-	(5,633)
Principal paid on capital debt and leases	(50,900)	(56,419)
Interest paid on capital debt and leases	(28,460)	(29,535)
Other capital and related financing receipts (payments), net	1,569	(41)
Net cash provided (used) by capital and related financing activities	81,163	(127,067)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	717,482	741,159
Interest and dividends on investments	13,723	15,476
Purchase of investments	(842,792)	(776,217)
Net cash provided (used) by investing activities	(111,587)	(19,582)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	229,024	103,687
CASH AND CASH EQUIVALENTS, beginning of year	451,867	348,180
CASH AND CASH EQUIVALENTS, end of year	$ 680,891	$ 451,867
Reconciliation of net loss from operations to net cash used by operating activities:		
Net loss from operations	$ (292,412)	$ (317,073)
Adjustments to reconcile net loss from operations to net cash used by operating activities:		
Depreciation expense	131,262	133,066
Change in assets and liabilities:		
Notes, loans and accounts receivable, net	(11,745)	26,580
Inventories and other assets	(4,472)	1,442
Accounts payable and accrued liabilities	26,255	1,967
Unearned revenue	(4,510)	1,676
Long-term liabilities	5,420	245
Net cash provided (used) by operating activities	$ (150,202)	$ (152,097)

See 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 (the Commonwealth) and is included in the basic financial statements of the Commonwealth. The financial statements of the University include the operations of the University and its affiliated non-profit corporations (entities for which the University is financially accountable as defined by Statement No. 14 and amended by Statements No. 39 and No. 61 of the Governmental Accounting Standards Board (GASB), and which meet the definition of an affiliated corporation under Kentucky Revised Statutes (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 Gluck Equine Research Foundation, Inc.; University of Kentucky Humanities Foundation, Inc.; University of Kentucky Mining Engineering Foundation, Inc.; University of Kentucky Center on Aging Foundation, Inc.; and Central Kentucky Management Services, Inc. The affiliates are presented as blended component units since University management has operational responsibility for each affiliated corporation. The financial statements also include the operations of Kentucky Medical Services Foundation, Inc. (KMSF) a non-profit entity for which the University is financially accountable as defined by GASB, but which is not an affiliated corporation under KRS. KMSF is included within the University reporting entity as a blended component unit as KMSF provides its services entirely to the University. The financial statements also include the operations of the UK HealthCare Hospital System (the System), the Department of Intercollegiate Athletics (Athletics), and the Kentucky Tobacco Research and Development Center (KTRDC), organizational units of the University. The separate financial statements for the above entities can be found at: www.uky.edu/evpfa/controller/finst.

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 position categories:

- Net investment in capital assets: 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 position 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 position 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 position whose use by the University is not subject to externally imposed stipulations. Unrestricted net position 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, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, expenses, changes in net position and cash flows.

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 include 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. All endowments are managed in a consolidated investment pool, which consists of more than 2,000 named funds. All contributing endowments participate in the income and appreciation of the pool on a per unit basis commensurate with their contribution to the pool. New endowments purchase units in the pool at the current unit value, which is calculated each month based on the fair value of the pool investments divided by the number of pool units outstanding. 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.

In accordance with the Kentucky Uniform Prudent Management of Institutional Funds Act (UPMIFA), as adopted by the Commonwealth in July 2010, the University employs a total return method for establishing investment objectives and spending policies designed to achieve financial equilibrium for endowment funds over the long term. The University makes expenditure decisions in accordance with UPMIFA and donor gift agreements. UPMIFA prescribes guidelines for expenditure of a donor-restricted endowment fund (in the absence of overriding, explicit donor stipulations) and focuses on the entirety of a donor-restricted endowment fund, that is, both the original gift amount(s) and net appreciation. In accordance with the standard of prudence prescribed by UPMIFA and consistent with industry standards, the University has adopted a spending policy whose long-term objective is to maintain the purchasing power of each endowment and provide a predictable and sustainable level of income to support current operations.

The University has established a "hybrid" spending policy, which includes both the market value of the endowment and the current level of inflation in determining spending each year. Annual spending will be calculated by taking a weighted average comprising 60% of the prior year's spending, adjusted for inflation, and 40% of the amount that results when the target annual spending rate of four percent is applied to the average market value of the endowment over the preceding 36 months. The spending amount determined by the formula will be constrained so that the calculated rate is at least three percent, and not more than six percent, of the current endowment market value. The hybrid spending policy will be phased in over two years with the new policy fully implemented in the year ending June 30, 2015. The year ended June 30, 2014 served as a transition year to the new policy and spending was based on four percent of the average market value for the preceding 60 months. For the year ended June 30, 2013, the University's endowment standard spending rule provided for annual distributions of 4.25% of the 60 month moving average market value of fund units.

Additionally, for the fiscal year ended June 30, 2014, spending and management fee withdrawals were suspended on all endowments with a market value less than the contributed value by more than 20% at December 31st of the prior year. Endowments with a market value less than the contributed value by more than 10% went through a formal review to determine the appropriate level of spending in accordance with various factors set forth in UPMIFA. For fiscal year 2013, reduced spending rules were also established for certain endowments whose market value was less than the contributed value as of December 31st of the prior year.

For the years ended June 30, 2014 and 2013, the University's annual endowment management fee was 0.25%; however, endowments whose market value was less than the contributed value as of December 31st were exempt from the management fee in the subsequent fiscal year.

The components of the University's spending policy distribution and management fee for the years ended June 30, 2014 and 2013 are as follows (in thousands):

	2014	2013
Gross spending policy distribution	$ 36,381	$ 36,289
Reinvested spending policy distribution	(16,640)	(16,216)
Net spending policy distribution	$ 19,741	$ 20,073
Management fee	$ 2,525	$ 1,949

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

The University's financial statements include alternative investments, such as limited partnerships, that are not publicly traded. Certain of these alternative investments are carried at their estimated fair values as of March 31, 2014 and 2013, as adjusted by cash receipts, cash disbursements, and securities distributions through June 30, 2014 and 2013, at a total estimated fair value of $154.1 million and $114.3 million, respectively. Other alternative investments are carried at estimated fair values as of December 31, 2013 and 2012, at a total estimated value of $1.3 million and $1.4 million, respectively. In addition, the University also has alternative investments in investment funds that are not themselves publicly traded and thus do not have publicly reported market values, but whose underlying assets consist of publicly traded investments for which fair values are established by the major securities markets. Such alternative investments are carried at fair value of approximately $492.9 million and $298.7 million at June 30, 2014 and 2013. The University believes that the total carrying amount of its alternative investments valued at $695.6 million and $458.7 million at June 30, 2014 and 2013 is a reasonable estimate of fair value. The University's outstanding commitment to alternative investments is approximately $122.5 million and $116.9 million as of June 30, 2014 and 2013, respectively.

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. Institutional software costing more than $400,000 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 improvements, building improvements and infrastructure, 10 years for library books and capitalized software, 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.

Unearned Revenue. Unearned revenue consists primarily of amounts received from grant and contract sponsors that have not yet been earned under the terms of the agreement. Unearned 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. Unearned 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, 2014 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 position date plus an additional amount for compensation-related payments such as Social Security and Medicare taxes computed using rates in effect at that date.

Deferred Inflows of Resources. A deferred inflow of resources is a gain in net position by the University that is applicable to a future reporting period. Deferred inflows of resources are reported in the statement of net position but are not recognized in the financial statements as revenue until in the related period. Deferred inflows of resources, as of June 30, 2014 and 2013, consist of deferred gains on refunding debt, $3.5 million and $4.4 million, respectively, and the fair value of a derivative, $0 and $561,000, respectively, which is defined as a hedging instrument, providing a specified rate of return on certain debt service instruments.

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 a provision 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 25% and 24%, respectively, of the System's net patient services revenues before the provision for doubtful accounts for the year ended June 30, 2014 and approximately 24% and 23%, respectively for the year ended June 30, 2013. 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.

Electronic Health Records Incentive Program. The Electronic Health Records Incentive Program, enacted as part of the American Recovery and Reinvestment Act of 2009, provides for incentive payments under both the Medicare and Medicaid programs to eligible physicians and hospitals that demonstrate meaningful use of certified electronic health records technology. Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. Payment under both programs is contingent on the System and KMSF continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The System recognizes revenue when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

In fiscal year 2014, the System was in the third year under the Medicare programs and recorded $1.7 million, which is included in net patient service revenue within operating revenues in the Statement of Revenues, Expenses, and Changes in Net Position. In fiscal year 2013, the System was in the second year of the programs but did not attest to completion of the second phase and recorded no revenue.

In fiscal year 2014, the System completed the third year requirements under the Medicaid program and recorded revenue of approximately $564,000, which is included in net patient service revenue within operating revenues in the Statement of Revenues, Expenses, and Changes in Net Position. In fiscal year 2013, the System recorded $2.2 million in revenue.

In addition, during the years ended June 30, 2014 and 2013, KMSF applied for and received $269,000 and $1.9 million, respectively, in Medicaid health information technology (HIT) funds and $1.0 million and $124,000, respectively, in Medicare HIT funds.

Income Taxes. The University is an agency and instrumentality of the Commonwealth, 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, as amended. 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 is a not-for-profit corporation as described in Section 501(c)(3) 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 Position, 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 nonoperating revenues in accordance with GASB Statement No. 35.

The University has classified operating expenses based upon their functional classifications. Operating expenses by natural classification are presented in Note 24. During fiscal years 2014 and 2013, departmental research in nonsponsored accounts of approximately $67.7 million and $63.4 million, respectively, was recorded as research expense in the Statements of Revenues, Expenses and Changes in Net Position.

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, estimated third-party payer settlements, self-insurance reserves, accrued expenses and other liability accounts.

Change in Accounting Principle. During 2014, the University adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB Statement No. 65 also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term “deferred” in the financial statement presentations.

Adoption of GASB Statement No. 65 requires that bond issuance costs are expensed when incurred and reclassification of deferred gains on refunding debt from long-term liabilities to deferred inflows of resources, resulting in a decrease of approximately $3.7 million in beginning net position as of July 1, 2012 and an increase in the change in net position of approximately $213,000 for the year ended June 30, 2013 for the University.

Reclassifications. Certain reclassifications have been made to the fiscal year 2013 financial statements to conform to the fiscal year 2014 financial statement presentation.

2. DEPOSITS AND INVESTMENTS

The fair value of deposits and investments, by type, at June 30, 2014 and 2013 is as follows (in thousands):

	2014	2013
Cash and cash equivalents	$ 109,551	$ 101,490
Certificates of deposit	26,715	26,703
Common and preferred stocks	63,668	51,862
Corporate fixed income securities	56,742	25,157
Deposits with banks and the Commonwealth of Kentucky	111,619	81,513
Government agency fixed income securities	69,423	52,035
Guaranteed investment contracts	2,726	1,645
Other	152	152
Pooled absolute return funds	140,497	211,085
Pooled equity funds	353,946	407,828
Pooled fixed income funds	615,555	365,042
Pooled global tactical allocation funds	91,544	-
Pooled long/short equity funds	145,705	-
Pooled private equity funds	120,515	88,064
Pooled real estate funds	81,454	70,961
Pooled real return/diversified inflation strategy funds	115,915	88,572
Repurchase agreements	39,998	84,141
State and municipal fixed income securities	13,258	7,418
U.S. Treasury fixed income securities	11,694	11,165
Total	$ 2,170,677	$ 1,674,833

	2014	2013
Statement of Net Position classification		
Current cash and cash equivalents	$ 387,863	$ 391,975
Current investments	26,452	6,944
Restricted cash and cash equivalents	293,028	59,892
Endowment investments	1,215,226	1,054,448
Other long-term investments	248,108	161,574
Total	$ 2,170,677	$ 1,674,833

Alternative investments totaling approximately $695.6 million and $458.7 million as of June 30, 2014 and 2013, respectively, are included within pooled absolute return funds, pooled global tactical allocation funds, pooled long/short equity funds, pooled private equity funds, pooled real estate funds, and pooled real return/diversified inflation strategy funds in the summary schedule of investments above (please refer to Note 1, Summary of Significant Accounting Policies, regarding valuation of alternative investments).

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. Deposit and investment policies are developed to ensure 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 and other financial institutions.
- Bond revenue fund investments held by the Treasurer of the Commonwealth as required by the University's bond trust indentures and invested in pooled fixed income funds managed by the Commonwealth.
- Short-term investments managed by the University, including individual securities purchased and held by the University, short-term investments in pooled fixed income funds managed by the Commonwealth, and short term investments managed by an external manager.
- 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 a short-term investment program of the University based on the Operating Fund Investment Policy. 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 Policy.

Deposit and Investment Risks. The University's deposits and investments are exposed to various risks, including credit, interest rate and foreign currency risk. 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 Statements of Net Position.

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 for balances exceeding amounts covered by the Federal Deposit Insurance Corporation (FDIC). The University's deposits are insured up to $250,000 at each FDIC insured institution. Credit risk on deposits in excess of FDIC coverage and 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 is mitigated by the Commonwealth's requirement that providers of overnight repurchase agreements collateralize these investments at 102% of face value with U.S. Treasury or agency securities, pledged in the name of the Commonwealth. 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. Treasury and agency securities; 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%; 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. Short term investments managed by an external manager include a

portfolio of fixed income investments with a minimum of 85% of portfolio holdings rated investment grade and a minimum A- portfolio average quality, with no single credit industry exceeding 15% of the portfolio.

- 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 managers are permitted to use derivative instruments to limit credit risk.

At June 30, 2014, and 2013, respectively, the credit quality of the University's fixed income investments is as follows (in thousands):

	2014									
	S&P/Moody's Credit Ratings									
	AAA/Aaa	AA/Aa	A	BBB/ Baa	BB/Ba	B	Below B	Not rated	Rating Not Applicable	Total
Cash and cash equivalents	$ 73,674	$ -	$ -	$ -		$ -	$ -	$ 35,877	$ -	$ 109,551
Certificates of deposit	-	-	-	-		-	-	26,715	-	26,715
Corporate fixed income	4,822	2,314	18,637	20,676	5,607	3,988	496	-	202	56,742
Government agency fixed income	-	68,690	-	733	-	-	-	-	-	69,423
Guaranteed investment contracts	-	121	-	-	-	-	-	2,605	-	2,726
Pooled fixed income	-	-	-	-	-	-	-	615,555	-	615,555
Repurchase agreements	-	-	-	-	-	-	-	39,998	-	39,998
State and municipal fixed income	1,840	2,600	8,818	-	-	-	-	-	-	13,258
U.S. Treasury fixed income	-	-	-	-	-	-	-	-	11,694	11,694
Total fixed income investments	$ 80,336	$ 73,725	$ 27,455	$ 21,409	$ 5,607	$ 3,988	$ 496	$ 720,750	$ 11,896	$ 945,662

	2013									
	S&P/Moody's Credit Ratings									
	AAA/Aaa	AA/Aa	A	BBB/ Baa	BB/ Ba	B	Below B	Not rated	Rating Not Applicable	Total
Cash and cash equivalents	$ 82,826	$ -	$ -	$ -	$ -	$ -	$ -	$ 18,664	$ -	$ 101,490
Certificates of deposit	-	-	-	-	-	-	-	26,703	-	26,703
Corporate fixed income	-	832	16,253	2,681	-	5,391	-	-	-	25,157
Government agency fixed income	-	52,035	-	-	-	-	-	-	-	52,035
Guaranteed investment contracts	-	40	-	-	-	-	-	1,605	-	1,645
Pooled fixed income	-	-	-	-	-	-	-	365,042	-	365,042
Repurchase agreements	-	-	-	-	-	-	-	84,141	-	84,141
State and municipal fixed income	-	277	7,141	-	-	-	-	-	-	7,418
U.S. Treasury fixed income	-	-	-	-	-	-	-	-	11,165	11,165
Total fixed income investments	$ 82,826	$ 53,184	$ 23,394	$ 2,681	$ -	$ 5,391	$ -	$ 496,155	$ 11,165	$ 674,796

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, 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 and managed by an external manager 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, 2014 and 2013, respectively, the following University deposit and investment balances held in the name of the Commonwealth included in the above significant investment types, were exposed to custodial credit risk as follows (in thousands):

	2014				
	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	$ 42,000	$ -	$ -	$ -	$ 42,000
Uninsured, not registered in the name of the University and held by the counterparty but not in the University's name	-	435,360	60,000	25,885	521,245
Total	$ 42,000	$ 435,360	$ 60,000	$ 25,885	$ 563,245

	2013				
	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	$ 91,000	$ -	$ -	$ -	$ 91,000
Uninsured, not registered in the name of the University and held by the counterparty but not in the University's name	-	179,904	60,000	25,823	265,727
Total	$ 91,000	$ 179,904	$ 60,000	$ 25,823	$ 356,727

<u>Concentrations of Credit Risk.</u> 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 deposits in excess of federal deposit 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% of an individual pool and $25.0 million per issuer, inclusive of commercial paper, bankers' acceptances and certificates of deposit; and U.S. dollar denominated sovereign debt shall not exceed five percent of any individual portfolio and $25.0 million 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%.

- Short term investments managed by an external manager are limited in that no single credit industry shall exceed 15% of the portfolio at purchase.
- 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 five percent of total investments excluding sovereign debt of governments belonging in the Organization for Economic Cooperation and Development and U.S. agencies.

At June 30, 2014 and 2013, the University had no investments in any one issuer, other than U.S. Treasury and/or agency securities, that represent five 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 three years.
- Short-term investments managed by the University are generally limited to a maximum maturity of 24 months. The portfolio duration of short-term investments managed by and external manager must be within a range of +/- 0.5 years of the Barclays 1-5 Year Government/Credit Index.
- 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 managers are permitted to use derivative instruments to limit interest rate risk. Additionally, endowment investments held by core-plus fixed income managers are limited to a duration that is within two years of the duration of the Barclays Aggregate Bond Index and new unconstrained fixed income strategies have been implemented to further protect against rising interest rates.

For June 30, 2014, below is the maturity distribution of the University's fixed income investments (in thousands):

	2014						
	Maturities in Years						
Investment Type	Less than 1	1-3	3-5	5-10	Greater than 10	Managed based on duration	Total
Cash and cash equivalents	$ 109,551	$ -	$ -	$ -	$ -	$ -	$ 109,551
Certificates of deposit	26,715	-	-	-	-	-	26,715
Corporate fixed income	2,305	12,305	19,004	7,592	9,395	6,141	56,742
Government agency fixed income	-	-	59,584	7,205	-	2,634	69,423
Guaranteed investment contracts	-	-	102	120	2,504	-	2,726
Pooled fixed income	-	-	-	-	-	615,555	615,555
Repurchase agreements	39,998	-	-	-	-	-	39,998
State and municipal fixed income	250	10,496	2,512	-	-	-	13,258
U.S. Treasury fixed income	10	29	47	23	-	11,585	11,694
Total fixed income investments	$ 178,829	$ 22,830	$ 81,249	$ 14,940	$ 11,899	$ 635,915	$ 945,662

For June 30, 2013, below is the maturity distribution of the University's fixed income investments (in thousands):

	2013						
	Maturities in Years						
Investment Type	Less than 1	1-3	3-5	5-10	Greater than 10	Managed based on duration	Total
Cash and cash equivalents	$ 101,490	$ -	$ -	$ -	$ -	$ -	$ 101,490
Certificates of deposit	26,703	-	-	-	-	-	26,703
Corporate fixed income	-	547	200	261	-	24,149	25,157
Government agency fixed income	-	-	24,660	17,786	-	9,589	52,035
Guaranteed investment contracts	-	-	145	39	1,461	-	1,645
Pooled fixed income	-	-	-	-	-	365,042	365,042
Repurchase agreements	79,171	1,013	-	3,957	-	-	84,141
State and municipal fixed income	-	4,691	2,449	278	-	-	7,418
U.S. Treasury fixed income	2,223	10	52	45	-	8,835	11,165
Total fixed income investments	$ 209,587	$ 6,261	$ 27,506	$ 22,366	$ 1,461	$ 407,615	$ 674,796

At June 30, 2014 and 2013, the University had the following investments managed based on duration (in thousands):

	2014		2013	
Investment Type	Fair Value	Modified Duration (Years)	Fair Value	Modified Duration (Years)
Corporate fixed income	$ 6,141	0.4	$ 24,149	3.8
Government agency fixed income	2,634	2.5	9,589	4.3
Pooled fixed income				
457 Deferred Compensation Plan	-	-	63	5.6
Commonwealth of Kentucky intermediate pool	60,028	1.3	69,683	2.0
Commonwealth of Kentucky short-term pool	461,218	0.1	196,044	0.1
Kentucky Technology, Inc.	52	2.2	52	2.1
KMSF	1,860	3.6	-	-
Other endowment investments	2,283	5.4	2,139	5.5
Pooled endowment fund	90,114	0.6	97,061	3.5
U.S. Treasury fixed income	11,585	0.5	8,835	7.8
Total	$ 635,915		$ 407,615	

Foreign Currency Risk. Foreign currency risk is the risk that fluctuations 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 endowment investments. The University's endowment investment policy allows fixed income managers to invest a portion of their portfolios in non-U.S. securities. Additionally, the investment policy allows various pooled fund managers to invest in accordance with the guidelines established in each individual fund's prospectus, which allows for investment in non-U.S. securities. Endowment managers are permitted to use derivative instruments to limit foreign currency risk.

As of June 30, 2014 and 2013, the following investments were subject to foreign currency risk (in thousands):

Endowment Investment	Fair Value 2014	Fair Value 2013
Common stock	$ 51,320	$ 43,060
Pooled private equity funds	8,712	8,034
Cash equivalents	372	-
Total	$ 60,404	$ 51,094

Derivative Financial Instruments. The University has entered into a forward delivery agreement (the Forward Delivery Agreement). The Forward Delivery Agreement requires the counterparty to deposit U.S. Treasury securities into the University's debt service reserve trust account and provides the University with a guaranteed rate of return. The securities that are deposited into the Consolidated Educational Building Revenue Bonds (CEBRB) debt service reserve trust accounts are required to mature prior to the scheduled debt service payment dates.

The Forward Delivery Agreement allows the University to earn a guaranteed fixed rate of return over the life of the investment. This agreement was utilized by the University to earn a rate of return in excess of a rate that would otherwise be feasible by investing in securities with a shorter term.

The original date of the Forward Delivery Agreement is June 16, 2004, with a termination date of May 1, 2024. The scheduled reserve amount varies throughout the term and was $2.2 million as of June 30, 2013. The guaranteed rate is 4.73% and the fair market value of the Forward Delivery Agreement was $561,000 as of June 30, 2013.

The amendment to the Forward Delivery Agreement dated June 26, 2014 amended the required reserve amount to approximately $853,000 as of June 30, 2014, which was solely invested in cash. The required reserve balance will remain at approximately $853,000 through June 30, 2024. The guaranteed rate is 4.73% and there is a zero fair market value of the Forward Delivery Agreement as of June 30, 2014.

The fair value of the Forward Delivery Agreement is based on the value of the future discounted cash flows expected to be received over the life of the agreement. The fair value of the Forward Delivery Agreement is classified as a noncurrent asset in the Statement of Net Position at June 30, 2013. As the Forward Delivery Agreement is an effective hedging instrument, the offsetting balance is reflected as deferred inflows of resources in the Statement of Net Position.

3. NOTES, LOANS AND ACCOUNTS RECEIVABLE, NET

Notes, loans and accounts receivable as of June 30, 2014 and 2013 follows (in thousands):

	2014		
	Gross Receivable	Allowance	Net Receivable
Hospital patient accounts	$ 146,604	$ (26,042)	$ 120,562
Hospital third-party payer settlements	6,490	-	6,490
KMSF patient accounts	29,317	(6,365)	22,952
Dentistry patient accounts	2,584	(690)	1,894
Student loans	29,701	(2,854)	26,847
Reimbursement receivable - grants and contracts	31,663	(575)	31,088
Reimbursement receivable - federal appropriations	2,699	-	2,699
Pledges receivable	76,279	(28,316)	47,963
Accrued interest receivable	2,807	-	2,807
Student receivables	22,934	(13,256)	9,678
Other	26,520	-	26,520
Total	$ 377,598	$ (78,098)	$ 299,500
Current portion			$ 240,088
Noncurrent portion			59,412
Total			$ 299,500

	2013		
	Gross Receivable	Allowance	Net Receivable
Hospital patient accounts	$ 153,029	$ (34,750)	$ 118,279
KMSF patient accounts	28,107	(5,676)	22,431
Dentistry patient accounts	2,773	(797)	1,976
Student loans	27,924	(2,467)	25,457
Reimbursement receivable - grants and contracts	30,268	(575)	29,693
Reimbursement receivable - federal appropriations	2,159	-	2,159
Pledges receivable	55,484	(18,582)	36,902
Accrued interest receivable	2,495	-	2,495
Student receivables	20,167	(11,215)	8,952
Other	28,461	-	28,461
Total	$ 350,867	$ (74,062)	$ 276,805
Current portion			$ 226,327
Noncurrent portion			50,478
Total			$ 276,805

4. CAPITAL ASSETS, NET

Capital assets as of June 30, 2014 and capital asset activity for the year ended June 30, 2014 are summarized below (in thousands):

	June 30, 2013	Additions	Deletions	June 30, 2014
Land	$ 71,480	$ 914	$ -	$ 72,394
Land improvements - nonexhaustible	40,492	2,151	-	42,643
Land improvements - exhaustible	68,472	1,788	29	70,231
Buildings	2,184,296	36,216	11,180	2,209,332
Fixed equipment - communications	90,775	5,862	58	96,579
Infrastructure	93,561	1,915	91	95,385
Equipment	553,165	46,676	28,620	571,221
Vehicles	20,684	1,344	628	21,400
Library materials	142,576	2,212	458	144,330
Nondepreciable library materials	6,618	33	-	6,651
Capitalized software	135,824	6,756	-	142,580
Art	11,148	311	-	11,459
Certificate of need license	11,609	-	-	11,609
Construction in progress	34,762	82,411	25,536	91,637
	3,465,462	188,589	66,600	3,587,451
Accumulated Depreciation				
Land improvements - exhaustible	52,709	2,595	26	55,278
Buildings	772,551	57,367	7,552	822,366
Fixed equipment - communications	53,382	6,023	58	59,347
Infrastructure	29,561	3,514	74	33,001
Equipment	387,387	45,289	24,608	408,068
Vehicles	17,383	1,497	628	18,252
Library materials	131,496	2,981	-	134,477
Capitalized software	65,262	11,996	-	77,258
	1,509,731	131,262	32,946	1,608,047
Capital assets, net	$ 1,955,731	$ 57,327	$ 33,654	$ 1,979,404

Capital assets as of June 30, 2013 and capital asset activity for the year ended June 30, 2013 are summarized below (in thousands):

	June 30, 2012	Additions	Deletions	June 30, 2013
Land	$ 63,666	$ 7,814	$ -	$ 71,480
Land improvements - nonexhaustible	37,447	3,045	-	40,492
Land improvements - exhaustible	61,842	7,338	708	68,472
Buildings	2,135,650	58,106	9,460	2,184,296
Fixed equipment - communications	83,939	6,902	66	90,775
Infrastructure	91,507	2,090	36	93,561
Equipment	541,492	32,022	20,349	553,165
Vehicles	20,631	1,398	1,345	20,684
Library materials	140,377	2,339	140	142,576
Nondepreciable library materials	6,601	17	-	6,618
Capitalized software	126,366	9,516	58	135,824
Art	10,991	215	58	11,148
Certificate of need license	11,609	-	-	11,609
Construction in progress	57,420	28,069	50,727	34,762
	3,389,538	158,871	82,947	3,465,462
Accumulated Depreciation				
Land improvements - exhaustible	50,992	2,425	708	52,709
Buildings	722,365	57,646	7,460	772,551
Fixed equipment - communications	47,536	5,912	66	53,382
Infrastructure	25,858	3,719	16	29,561
Equipment	357,167	47,114	16,894	387,387
Vehicles	16,926	1,546	1,089	17,383
Library materials	128,167	3,329	-	131,496
Capitalized software	53,965	11,375	78	65,262
	1,402,976	133,066	26,311	1,509,731
Capital assets, net	$ 1,986,562	$ 25,805	$ 56,636	$ 1,955,731

At June 30, 2014, the University had construction projects in progress totaling approximately $475.5 million in scope. The estimated cost to complete these projects was approximately $381.3 million. Such construction was principally financed by cash reserves, gifts and grants, and proceeds from the University's general receipts bonds.

Interest costs incurred during construction, net of related investment income, are capitalized. Total interest capitalized was $454,000 for 2014 and $17,000 for 2013.

During fiscal years 2014 and 2013, the University utilized capital leases to acquire various items of equipment. As of June 30, 2014 and 2013, the net book value of land, buildings, equipment and software acquired through capital lease included in the above schedules totaled $130.9 million and $147.8 million, respectively.

During fiscal year 2014, five student housing buildings were demolished with an original cost of $7.6 million and accumulated depreciation of $6.8 million, for a total net book value written off of $779,000. As of June 30, 2014, seven student housing buildings are scheduled for demolition in subsequent fiscal years and have been recorded as impaired assets. A portion of the net book value of each building was written off with the remainder to be written off in subsequent years. The total original cost of impaired assets was $7.3 million with accumulated depreciation of $6.5 million, and a total net book value written off in fiscal year 2014 of $356,000.

During fiscal year 2013, five student housing buildings were demolished with an original cost of $8.3 million and accumulated depreciation of $7.2 million, for a total net book value written off of $1.1 million. As of June 30, 2013, 14 student housing buildings were scheduled for demolition in subsequent fiscal years and were recorded as impaired assets. A portion of the net book value of each building was written off with the remainder to be written off in the subsequent year. The total original cost of impaired assets was $28.7 million with accumulated depreciation of $21.1 million, and a total net book value written off in fiscal year 2013 of $3.1 million.

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

	2014	2013
Capital lease additions	$ 1,353	$ 766
Gifts of capital assets	$ 4,934	$ 3,012
Capital asset additions in accounts payable	$ 11,982	$ 8,942
Capitalized interest, net of investment income	$ 454	$ 17
Amortized bond discount and premium	$ 2,667	$ 1,031
Capital asset disposal, net	$ 4,261	$ 3,148
Capital asset trade in	$ 295	$ 426

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2014 and 2013 follow (in thousands):

	2014	2013
Payable to vendors and contractors	$ 116,050	$ 89,725
Accrued expenses, including vacation and sick leave	68,705	60,094
Employee withholdings and deposits payable to third parties	45,297	39,817
Total	$ 230,052	$ 189,636
Current portion	$ 227,576	$ 189,636
Noncurrent portion	2,476	-
Total	$ 230,052	$ 189,636

6. UNEARNED REVENUE

Unearned revenue as of June 30, 2014 and 2013 follows (in thousands):

	2014	2013
Unearned summer school revenue	$ 8,934	$ 7,330
Unearned hospital revenue	7,545	6,928
Unearned grants and contracts revenue	23,140	29,509
Prepaid athletic ticket sales	12,636	13,581
Other	7,762	7,204
Total	$ 60,017	$ 64,552

7. LONG-TERM LIABILITIES

Long-term liabilities as of June 30, 2014 and long-term liability activity for the year ended June 30, 2014 are summarized below (in thousands):

	June 30, 2013	Additions	Reductions	June 30, 2014	Current Portion	Non-Current Portion
Bonds, notes and capital leases						
General Receipts notes	$ 280,175	$ -	$ 14,995	$ 265,180	$ 15,685	$ 249,495
General Receipts bonds	199,295	238,975	5,770	432,500	5,940	426,560
Educational buildings bonds	37,960	-	4,610	33,350	4,795	28,555
Capital leases and other long-term obligations	108,641	2,840	24,996	86,485	19,964	66,521
Notes payable	21,719	-	1,055	20,664	1,089	19,575
Total bonds, notes and capital leases	647,790	241,815	51,426	838,179	47,473	790,706
Other liabilities						
Medical malpractice	26,346	8,440	5,489	29,297	5,235	24,062
Long-term disability	6	-	6	-	-	-
Annuities payable	4,788	1,473	560	5,701	566	5,135
Health insurance	6,038	36,447	35,296	7,189	7,189	-
Automobile and property self insurance	414	1,119	1,093	440	440	-
Retiree health benefits trust	75,362	21,955	-	97,317	-	97,317
Federal loan programs	20,992	375	834	20,533	-	20,533
Workers compensation	19,765	7,743	5,735	21,773	5,445	16,328
Compensated absences	7,634	-	-	7,634	651	6,983
Arbitrage rebate	5	22	-	27	-	27
Unamortized bond premium	7,662	12,715	1,707	18,670	1,526	17,144
Unemployment compensation	629	744	751	622	622	-
Other	5,644	3,984	3,702	5,926	1,320	4,606
Total other liabilities	175,285	95,017	55,173	215,129	22,994	192,135
Total	$ 823,075	$ 336,832	$ 106,599	$ 1,053,308	$ 70,467	$ 982,841

Long-term liabilities as of June 30, 2013 and long-term liability activity for the year ended June 30, 2013 are summarized as follows (in thousands):

	June 30, 2012	Additions	Reductions	June 30, 2013	Current Portion	Non-Current Portion
Bonds, notes and capital leases						
General Receipts notes	$ 294,530	$ -	$ 14,355	$ 280,175	$ 14,995	$ 265,180
General Receipts bonds	205,090	-	5,795	199,295	5,770	193,525
Educational buildings bonds	42,400	-	4,440	37,960	4,610	33,350
Capital leases and other long-term obligations	114,824	30,836	37,019	108,641	24,262	84,379
Notes payable	22,578	104	963	21,719	1,055	20,664
Total bonds, notes and capital leases	679,422	30,940	62,572	647,790	50,692	597,098
Other liabilities						
Medical malpractice	25,774	3,352	2,780	26,346	4,114	22,232
Long-term disability	2	4	-	6	6	-
Annuities payable	4,800	459	471	4,788	516	4,272
Health insurance	5,900	35,222	35,084	6,038	6,038	-
Automobile and property self insurance	316	1,018	920	414	414	-
Retiree health benefits trust	57,722	17,640	-	75,362	-	75,362
Federal loan programs	21,122	387	517	20,992	-	20,992
Workers compensation	21,045	3,171	4,451	19,765	4,928	14,837
Compensated absences	7,655	69	90	7,634	585	7,049
Arbitrage rebate	375	-	370	5	-	5
Unamortized bond premium	12,536	620	5,494	7,662	627	7,035
Unemployment compensation	670	732	773	629	629	-
Other	4,075	4,537	2,968	5,644	1,348	4,296
Total other liabilities	161,992	67,211	53,918	175,285	19,205	156,080
Total	$ 841,414	$ 98,151	$ 116,490	$ 823,075	$ 69,897	$ 753,178

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 4.3% to 10.8%.

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

Bonds payable consist of General Receipts bonds, General Receipts notes and CEBRB in the original amount of $860.0 million dated October 1, 2003 through March 18, 2014, which bear interest at 1.46% to 4.66%. The bonds are payable in annual installments through April 1, 2044. 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 November 20, 2028 and bear interest at 1.39% to 4.45%.

The indenture agreements require that certain funds be established with the trustee and with the Commonwealth. 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. As of June 30, 2014 this amount is approximately $7.2 million.

On March 18, 2014, approximately $239.0 million of University of Kentucky General Receipts 2014 Bonds Series A, B and C were issued at a true interest cost of 3.78%, 3.22% and 1.45%, respectively. These bonds were issued for the purpose of funding the renovation of Commonwealth Stadium, construction of the Academic Science Building and the expansion and renovation of Gatton College of Business and Economics.

In prior fiscal years, certain General Receipts Bonds Series were issued as Build America Bonds (BAB) as authorized under the American Recovery and Reinvestment Act of 2009 and as Qualified Energy Conservation Bonds (QECB) as authorized under the Recovery Act and the Hiring Incentive to Restore Employment Act of 2010. The University will receive an annual cash subsidy from the U.S. Treasury equal to 35% (BAB) and 80% (QECB) of the interest payable on the bonds. The subsidy, which was approximately $2.3 million and $2.4 million during fiscal year 2014 and 2013, respectively, is included in gifts and non-exchange grants in the Statements of Revenues, Expenses and Changes in Net Position. The subsidy payment is contingent on federal regulations and may be subject to change. On March 1, 2013, the President signed an executive order reducing the budgetary authority in accounts subject to sequestration. As a result, the BAB subsidy was reduced to approximately 33% and 32% in 2014 and 2013, respectively. The QECB subsidy was reduced to approximately 74% and 73% in 2014 and 2013, respectively.

Principal maturities and interest on bonds, notes and capital leases for the next five fiscal years and in subsequent five-year fiscal periods as of June 30, 2014, are as follows (in thousands):

	Principal	Interest	Total
2015	$ 47,473	$ 36,472	$ 83,945
2016	47,614	34,444	82,058
2017	65,396	32,458	97,854
2018	47,965	30,002	77,967
2019	43,508	28,095	71,603
2020-2024	215,943	110,907	326,850
2025-2029	177,485	61,725	239,210
2030-2034	76,900	36,990	113,890
2035-2039	64,650	20,097	84,747
2040-2044	51,245	5,711	56,956
Total	$ 838,179	$ 396,901	$ 1,235,080

At June 30, 2014, assets with a fair market value of approximately $3.4 million have been placed on deposit with trustees to totally defease bonds with a par amount of approximately $3.3 million. The liability for these fully defeased bonds is not included in the financial statements.

8. COMPONENTS OF RESTRICTED EXPENDABLE NET POSITION

Restricted expendable net position 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, 2014 and 2013 restricted expendable net position is composed of the following (in thousands):

	2014	2013
Appreciation on permanent endowments	$ 166,996	$ 87,372
Term endowments	9,515	7,417
Quasi-endowments initially funded with restricted assets	50,997	45,591
Funds restricted for capital projects and debt service	102,131	78,207
Funds restricted for noncapital purposes	87,961	85,119
Loan funds (primarily University funds required for federal match)	10,445	10,531
Total	$ 428,045	$ 314,237

9. DESIGNATIONS OF UNRESTRICTED NET POSITION

Unrestricted net position is 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 position as of June 30, 2014 and 2013 are as follows (in thousands):

	2014	2013
Working capital requirements	$ 115,282	$ 82,879
Budget appropriations for future year fiscal operations	145,083	156,034
Designated for capital projects	55,201	46,725
Designated for renewal and replacement of capital assets	25,559	24,395
Hospital System	414,062	326,740
Affiliated corporations and component units	38,847	38,933
Total	$ 794,034	$ 675,706

10. PLEDGED REVENUES

Pledged revenue for 2014 and 2013 as defined by General Receipts Trust Indenture, is as follows (in thousands):

	2014	2013
Student tuition and fees	$ 287,517	$ 265,293
Nongovernmental grants and contracts	716	701
Recoveries of facilities and administrative costs	47,159	47,755
Sales and services	41,637	41,139
Hospital services	1,101,662	945,885
Auxiliary enterprises - housing and dining	51,153	50,426
Auxiliary enterprises - athletics	73,957	-
Auxiliary enterprises - other	30,283	30,547
Other operating revenue	967	989
State appropriations	283,869	283,869
Gifts and grants	4,809	5,015
Investment income	6,208	2,704
Total	$ 1,929,937	$ 1,674,323

The University has substantially pledged all of the unrestricted operating and nonoperating revenues to repay the General Receipts bonds and notes issued during 2005 to 2014. Proceeds from the bonds and notes provided funding for new constructions, major renovations, and for the refunding of bonds and notes issued over the years. The bonds are payable from unrestricted operating and nonoperating revenues and are payable through 2044. Annual principal and interest payments on bonds are expected to require approximately two percent of pledged revenue. The total principal and interest remaining to be paid on the bonds is approximately $1.07 billion and $711.6 million in 2014 and 2013, respectively. Principal and interest paid for 2014 and 2013 was $43.2 million, respectively.

11. INVESTMENT INCOME

Components of investment income (loss) for the years ended June 30, 2014 and 2013 are as follows (in thousands):

	2014	2013
Interest and dividends earned on endowment investments	$ 14,369	$ 16,463
Realized and unrealized gains and losses on endowment investments	135,759	85,352
Interest and dividends on cash and non-endowment investments	3,964	2,584
Realized and unrealized gains and losses on non-endowment investments	(317)	(1,293)
Investment income from external trusts	1,772	1,642
Total	$ 155,547	$ 104,748

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, 2014 and 2013, the University received income from these trusts of approximately $1.8 million and $1.6 million, respectively. The market value of the external trust assets as of June 30, 2014 and 2013 was approximately $42.1 million and $38.1 million, 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, 2014 and 2013, respectively, pledges are expected to be collected primarily over the next ten years, as follows (in thousands):

	2014	2013
Operating purposes	$ 11,541	$ 15,508
Capital projects	70,046	44,208
Total	81,587	59,716
Less discounts and allowances	(33,624)	(22,814)
Total	$ 47,963	$ 36,902

In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions,* the University is required to record operating and capital pledges as revenue when all eligibility requirements have been met. Endowment pledges are not recognized as revenue until the gifts are actually received. For the years ended June 30, 2014 and 2013, the University recorded the discounted value of operating and capital pledges using a rate of two percent.

Deferred gifts through insurance, known bequests and irrevocable trusts in which the University has a remainder interest are estimated to be approximately $94.5 million and $115.6 million at June 30, 2014 and 2013, respectively. The University records these amounts as revenue when the cash is received.

14. GRANTS AND CONTRACTS AWARDED

At June 30, 2014 and 2013, grants and contracts of approximately $177.7 million and $189.0 million, respectively, 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 five percent and the University contributes 10% of the participant's eligible compensation to the retirement plan. Participants in group V contribute one percent and the University contributes two 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 retirement benefits to employees in individually owned contracts. All payments are vested immediately for employees hired prior to January 1, 2010. For employees hired after January 1, 2010, employer contributions are vested after three years. The University's contributions and costs for 2014 and 2013 were approximately $91.4 million and $86.0 million, respectively. Employees contributed approximately $45.3 million in 2014 and $42.6 million in 2013. The University's total payroll costs were approximately $1.18 billion and $1.11 billion, respectively, for the years ended June 30, 2014 and 2013. The payroll for employees covered by the retirement plan was approximately $912.1 million and $857.7 million for the years ended 2014 and 2013, respectively.

Regular full-time KMSF employees become eligible to participate in a defined contribution plan on the first of the month following the employee's regular full time hire date and attainment of age 21. KMSF contributes 10% of the employee's earnings and employees do not contribute to this plan. KMSF contributions for 2014 and 2013 were approximately $700,000 and $800,000, respectively. The total payroll costs for employees covered by the defined contribution plan were approximately $7.2 million and $8.0 million for the years ended June 30, 2014 and 2013, respectively. Participants become vested in the plan according to years of service, with 100% vesting at three years or more.

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. No active employees were eligible for this benefit for the years ended June 30, 2014 and 2013.

The Legislature of the Commonwealth appropriates funds to the University which the University has used 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 prohibits the commitment of future revenues beyond the end of the current biennium. 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. Supplemental retirement benefit payments were approximately $1.6 million and $1.7 million for the years ended June 30, 2014 and 2013, respectively.

The latest actuarial valuation was prepared as of July 1, 2014 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 seven percent, was approximately $5.9 million.

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. For employees hired before January 1, 2006, 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. For fiscal year 2014, the University contributed $20.0 million to the plan. Plan members receiving benefits contributed 31.2% of the premium costs, an average for combined single and family coverage. In fiscal year 2014, total member contributions were approximately $4.8 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 No. 45. The University plans to 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 30 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 30 years. The current ARC of $19.8 million is 3.9% 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 2014 (in thousands):

Annual required contribution	$	19,801
Contributions made		(19,800)
Increase in net OPEB obligation/(asset)		1
Net OPEB obligation/(asset) - beginning of year		(240)
Net OPEB obligation/(asset) - end of year	$	(239)

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for fiscal year 2014, 2013 and 2012, were as follows (in thousands):

Fiscal Year Ended	Annual OPEB cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation/(Asset)
6/30/2012	$19,798	98.2%	($157)
6/30/2013	$20,392	100.4%	($240)
6/30/2014	$19,801	100.0%	($239)

As of July 1, 2014, the actuarial accrued liability (AAL) for benefits was $268.3 million, with an actuarial value of assets of $97.3 million, resulting in an unfunded actuarial accrued liability (UAAL) of $171.0 million. The covered payroll (annual payroll of active employees covered by the plan) was $513.7 million and the ratio of the UAAL to the covered payroll was 33.3% at June 30, 2014. 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, 2014, net trust fund assets totaled $97.3 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, 2013 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 7.5% 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 nine percent for the pre-65 members and eight percent for the post-65 members initially, reduced in decrements to an ultimate rate of three percent for pre-65 members and five percent for post-65 members after nine years. The expected long-term payroll growth rate was assumed to be three percent per year. The initial UAAL is being amortized as a level percent of pay amount on a closed basis. The remaining amortization period at July 1, 2013 was 24 years.

18. LONG-TERM DISABILITY BENEFIT PLAN

The University is self-funded 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 receives 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.

Employees approved for long-term disability receive 100% of their basic salary for the first six months and 60% thereafter. 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), life insurance benefit ($10,000 before July 1, 2007 or one times salary on or after July 1, 2007) and retirement contributions equal to 10% of pre-disability salary per year for applications filed on or after October 1, 2006 and 15% 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 No. 45. The University plans to 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 30 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 30 years. The current ARC of $2.1 million is 0.3% 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 2014 (in thousands):

Annual required contribution	$	2,139
Contributions made		(2,149)
Increase in net OPEB obligation/(asset)		(10)
Net OPEB obligation/(asset) - beginning of year		6
Net OPEB obligation/(asset) - end of year	$	(4)

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for fiscal year 2014, 2013 and 2012 were as follows (in thousands):

Fiscal Year Ended	Annual OPEB cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation/(Asset)
6/30/2012	$1,953	120.9%	$2
6/30/2013	$2,012	99.8%	$6
6/30/2014	$2,139	100.5%	($4)

As of July 1, 2014, the actuarial accrued liability (AAL) for benefits was $23.7 million and the actuarial value of assets was $16.0 million, resulting in an unfunded actuarial accrued liability (UAAL) of $7.7 million. The covered payroll (annual payroll of active employees covered by the plan) was $768.2 million and the ratio of the UAAL to the covered payroll was 1.0% at June 30, 2014.

Actuarial valuation of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of events far into the future. Major factors affecting all long-term disability benefits are the rate at which people become disabled and how quickly they are expected to recover from disability. These rates will improve or deteriorate over time, for example with the state of the economy, with technological development and health related events. Other factors that could also impact the liability include salary inflation, changes in utilization patterns, changes to government programs and technological advances, such as new drugs or equipment. Actuarially determined amounts are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, is designed to present 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. 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, 2013 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 7.5% 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. Benefits end when members recover, die, terminate employment or retire. For long-term disabilities arising at age 64 or later, the duration of LTD payments is limited to 12 months. Payments are assumed to be made until the later of (a) age 65 or (b) five years after date of disability. An employee approved for LTD benefits receives primary and supplemental payment benefits based on the employee's basic regular monthly salary at the time of 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 other employers 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, workers' compensation or salary. Other sources of income used in the benefit formula include Social Security, workers' 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 LTD participants or employees approved for LTD 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 will have benefits based on the following schedule:

Months	Percentage of Salary
1-6	100%
7-End of Benefit	60%

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 three 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, 2013 was 24 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 $1.0 million per occurrence. Losses in excess of $1.0 million are insured by commercial carriers up to $1.25 billion per occurrence with buildings and contents insured at replacement cost. 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 2013 to 2014. 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. 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 3.5%. The malpractice liability as of June 30, 2014 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 loss 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, 2014.

The University also self-insures certain employee benefits, including health insurance, worker's compensation and unemployment claims to the extent not covered by insurance. The University has recorded an estimate for asserted claims at June 30, 2014.

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 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.

With the passage of the 2008-10 budget of the Commonwealth, the 2008 General Assembly authorized $50.0 million in General Fund supported bonds in 2008-09 for the RCTF to support the Endowment Match Program and a newly created Research Capital Match Program. In accordance with KRS 164.7917, these funds were allocated two-thirds to the University of Kentucky ($33.3 million) and one-third to the University of Louisville ($16.7 million). At its June 9, 2009 Board Meeting, the University’s Board of Trustees approved the allocation of the University’s RCTF appropriation as follows: $21.9 million to the Research Capital Match Program and $11.4 million to the Endowment Match Program.

The status of the RCTF endowed funds as of June 30, 2014, 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	-
2008 Biennium: Capital Projects	21,927	21,927	21,927	147
2008 Biennium: RCTF	28,073	11,406	11,406	21
Total	$ 350,000	$ 235,524	$ 235,524	$ 168

Interest income of approximately $2.2 million was earned on the state matching funds was 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 schedule of outstanding pledges is shown below (in thousands):

	2002 Biennium	2008 Biennium: Capital Projects	2008 Biennium: RCTF
Pledges due in fiscal year 2015	$ -	$ 147	$ 21

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, 2014 and 2013 follows (in thousands):

	2014	2013
Funds from private sources approved for match	$ 5,715	$ 6,999
Cigarette excise tax funds distributed	1,901	2,007
Total cancer research matching fund revenues	$ 7,616	$ 9,006
Cancer research matching fund expenses	$ 7,028	$ 6,987

23. STUDENT HOUSING PARTNERSHIP

The University entered an agreement in April 2012 with a third party developer, Education Realty Trust (EdR), to construct two four-story buildings, which comprise a 601 bed living-learning community with three classrooms, 16 active-learning spaces, Honor’s Program offices, and nine multipurpose meeting spaces on the former site of Haggin Field. The project, with an estimated cost of $25.2 million, is on land owned by the University and leased to EdR for a 50 year term with options for additional 10 year and 15 year terms thereafter. At the conclusion of the initial 50 year term or the first renewal option, the University will be required to purchase the buildings from EdR for an appraised value, unless the ground lease is renewed for the first or second optional extension. At the conclusion of the second optional extension, the University is required to purchase the buildings for the greater of current net book value or $10. Ground rent is a percentage of gross revenues. The University accounts for the ground lease as an operating lease. These facilities are subject to ad valorem tax. These two residence halls opened on August 16, 2013 for the Fall 2013 semester.

Phases II-A and II-B of the long-term housing plan agreements have also been signed with EdR. These phases include eight residence halls to be constructed between October 2012 and August 2015. The University has received authorization from the Kentucky legislature for the new projects, which the Commonwealth must approve statutorily even though EdR, not the University, is financing the projects.

Phase II-A, which came on line in August 2014, included the development of five residence halls at an approximate cost of $138.0 million and Phase II-B, expected on line in August 2015, includes the construction of three residence halls at an approximate cost of $101.2 million. The 75 year term lease with EdR includes maintenance standards for the facilities and parameters for the room rental rates for the duration. The University will receive a percentage of the total revenues and a share of the net income, after EdR achieves a minimum internal rate of return. These eight facilities are exempt from ad valorem tax. The University will account for the lease as a service concession arrangement in accordance with GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements.*

24. NATURAL CLASSIFICATION

The University's operating expenses by natural classification were as follows for the years ended June 30, 2014 and 2013 (in thousands):

	2014	2013
Salaries and wages	$ 1,179,988	$ 1,114,676
Employee benefits	358,804	345,945
Supplies and services	582,175	539,323
Depreciation	131,262	133,066
Student scholarships and financial aid	60,401	48,361
Purchased utilities	53,093	46,760
Other, various	75,860	71,787
Total	$ 2,441,583	$ 2,299,918

25. SUBSEQUENT EVENTS

In July 2014, the University entered into a nearly $250.0 million contract with Aramark, forming a 15 year public/private partnership. This partnership will transform dining services offered to students, faculty, staff, and the community served. Under the partnership, several new food brands will be located on campus starting in the Fall of 2014 and continuing the next year. Aramark will provide meals covered under the University's student boarding plans and declining balance dollars. The contract allows for dining commissions to be paid to the University with guaranteed minimum amounts for each contract year. The 2014-15 minimum guaranteed commission will be approximately $1.8 million. Aramark will provide $70.0 million in facilities investments, including $40.0 million in new facilities, subject to board approval, to be completed by fiscal year 2017-18. As part of these facilities investments, Aramark will construct a new K Lair at Haggin Hall and make substantial upgrades to the Student Center Food Court to be completed for the Fall 2014 semester and construct a new Commons Food Court for the Fall 2015 semester. Additionally, the contract provides for various other annual payments to cover various expenses and new dining related initiatives totaling over $1.1 million in the first year of the contract. The contract also provides a one-time grant of $1.0 million to be paid in October 2014.

A multimedia rights partnership was also formed in July 2014 between the University and JMI Sports providing athletics and campus multimedia marketing rights in a 15 year, $210.0 million agreement. Under the contract, the University will receive a guaranteed rights fee in each of the 15 years of the partnership, starting at $9.1 million in 2015-16 and increasing to $16.0 million in fiscal year 2029-30. The agreement also included a $29.4 million signing bonus to be paid over the first two years of the contract.

On July 28, 2014, the University issued $88.1 million in General Receipts Refunding Bonds Series 2014 D to refund CEBRB, Series P, Q, R(2^{nd}) and partially refund General Receipts Series 2005 A bonds and 2005 A notes. The $88.1 million of bond proceeds, the $13.7 million in premium (net of cost of issuance) paid by underwriters, the $5.4 million released from debt service reserves, and the $558,000 in termination payments combine to provide the total amount of $107.8 million needed to call the bonds. The debt service savings for fiscal year 2014-15 will be approximately $1.8 million and a total of $16.8 million through fiscal year 2025-26. The debt service payments on the new bonds are scheduled semi-annually at amounts that range from $5.8 million to $11.9 million with interest rates that range from three percent to 5.25%.

26. COMBINED CONDENSED STATEMENTS

The University of Kentucky and its blended component units' condensed statements were summarized as follows for the years ended June 30, 2014 and 2013 (in thousands):

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
COMBINED CONDENSED STATEMENT OF NET POSITION AS OF JUNE 30, 2014
(in thousands)

	UK	Research Foundation	The Fund	Gluck Equine Research Foundation	Humanities Foundation	Mining Engineering Foundation	Center on Aging	Central Kentucky Management Services	Kentucky Medical Services Foundation	Eliminations	Total
ASSETS											
Current Assets											
Cash and cash equivalents	$ 343,011	$ 37,115	$ 6,313	$ 377	$ 94	$ 4	$ 109	$ 587	$ 253	$ -	$ 387,863
Notes, loans and accounts receivable, net	214,446	33,597	4,393	-	-	-	-	-	24,733	(37,081)	240,088
Investments	-	-	-	-	-	-	-	-	26,452	-	26,452
Inventories and other assets	37,483	2,898	-	-	-	-	-	14	53	(12)	40,436
Total current assets	594,940	73,610	10,706	377	94	4	109	601	51,491	(37,093)	694,839
Noncurrent Assets											
Restricted cash and cash equivalents	293,028	-	-	-	-	-	-	-	-	-	293,028
Endowment investments	1,198,655	4,256	137	8,859	1,370	1,949	-	-	-	-	1,215,226
Other long-term investments	202,498	1,417	-	-	-	-	-	-	44,470	(277)	248,108
Notes, loans and accounts receivable, net	58,831	-	-	-	-	-	-	-	801	(220)	59,412
Other noncurrent assets	540	162	-	-	-	-	-	-	-	-	702
Capital assets, net	1,927,980	13,522	-	-	-	-	-	202	37,700	-	1,979,404
Total noncurrent assets	3,681,532	19,357	137	8,859	1,370	1,949	-	202	82,971	(497)	3,795,880
Total assets	4,276,472	92,967	10,843	9,236	1,464	1,953	109	803	134,462	(37,590)	4,490,719
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES											
Current Liabilities											
Accounts payable and accrued liabilities	210,922	14,022	451	-	1	-	-	601	95,126	(93,547)	227,576
Unearned revenue	31,242	28,710	77	-	-	-	-	-	-	(12)	60,017
Long-term liabilities - current portion	69,036	178	-	-	-	-	-	-	1,373	(120)	70,467
Total current liabilities	311,200	42,910	528	-	1	-	-	601	96,499	(93,679)	358,060
Noncurrent Liabilities											
Accounts payable and accrued liabilities	2,476	-	-	-	-	-	-	-	-	-	2,476
Long-term liabilities	961,793	1,061	-	-	-	-	-	-	20,267	(280)	982,841
Total noncurrent liabilities	964,269	1,061	-	-	-	-	-	-	20,267	(280)	985,317
Total liabilities	1,275,469	43,971	528	-	1	-	-	601	116,766	(93,959)	1,343,377
Deferred Inflows of Resources	3,490	-	-	-	-	-	-	-	-	-	3,490
Total liabilities and deferred inflows of resources	1,278,959	43,971	528	-	1	-	-	601	116,766	(93,959)	1,346,867
INTERFUND BALANCES	(2,369)	1,564	806	-	-	(1)	-	-	-	-	-
NET POSITION											
Net investment in capital assets	1,317,483	13,440	-	-	-	-	-	202	16,653	-	1,347,778
Restricted											
Nonexpendable	567,263	823	31	4,607	617	654	-	-	-	-	573,995
Expendable	416,316	4,192	653	4,629	846	1,300	109	-	-	-	428,045
Total restricted	983,579	5,015	684	9,236	1,463	1,954	109	-	-	-	1,002,040
Unrestricted	698,820	28,977	8,825	-	-	-	-	-	1,043	56,369	794,034
Total net position	$ 2,999,882	$ 47,432	$ 9,509	$ 9,236	$ 1,463	$ 1,954	$ 109	$ 202	$ 17,696	$ 56,369	$ 3,143,852

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
COMBINED CONDENSED STATEMENT OF NET POSITION AS OF JUNE 30, 2013
(in thousands)

	UK	Research Foundation	The Fund	Gluck Equine Research Foundation	Humanities Foundation	Mining Engineering Foundation	Center on Aging	Central Kentucky Management Services	Kentucky Medical Services Foundation	Eliminations	Total
ASSETS											
Current Assets											
Cash and cash equivalents	$ 336,010	$ 46,673	$ 6,992	$ 128	$ 98	$ 6	$ 82	$ 498	$ 1,488	$ -	$ 391,975
Notes, loans and accounts receivable, net	193,753	36,042	2,397	15	-	-	-		26,188	(29,358)	229,037
Investments	-	-	-	-	-	-	-	-	6,944	-	6,944
Inventories and other assets	33,502	2,338	-	-	-	-	-	13	65	-	35,918
Total current assets	563,265	85,053	9,389	143	98	6	82	511	34,685	(29,358)	663,874
Noncurrent Assets											
Restricted cash and cash equivalents	59,892	-	-	-	-	-	-	-	-	-	59,892
Endowment investments	1,039,494	3,809	242	7,934	1,226	1,743	-	-	-	-	1,054,448
Other long-term investments	119,184	1,486	-	-	-	-	-	-	41,198	(294)	161,574
Notes, loans and accounts receivable, net	49,979	-	-	-	-	-	-	-	839	(340)	50,478
Other noncurrent assets	1,337	162	-	-	-	-	-	-	-	-	1,499
Capital assets, net	1,904,390	14,704	-	-	-	-	-	161	36,476	-	1,955,731
Total noncurrent assets	3,174,276	20,161	242	7,934	1,226	1,743	-	161	78,513	(634)	3,283,622
Total assets	3,737,541	105,214	9,631	8,077	1,324	1,749	82	672	113,198	(29,992)	3,947,496
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES											
Current Liabilities											
Accounts payable and accrued liabilities	170,711	17,231	419	-	-	7	-	511	75,006	(71,539)	192,346
Unearned revenue	29,861	34,558	133	-	-	-	-	-	-	-	64,552
Long-term liabilities - current portion	68,440	312	-	-	-	-	-	-	1,265	(120)	69,897
Total current liabilities	269,012	52,101	552	-	-	7	-	511	76,271	(71,659)	326,795
Noncurrent Liabilities											
Long-term liabilities	731,203	1,411	-	-	-	-	-	-	20,964	(400)	753,178
Total noncurrent liabilities	731,203	1,411	-	-	-	-	-	-	20,964	(400)	753,178
Total liabilities	1,000,215	53,512	552	-	-	7	-	511	97,235	(72,059)	1,079,973
Deferred Inflows of Resources	5,017	-	-	-	-	-	-	-	-	-	5,017
Total liabilities and deferred inflows of resources	1,005,232	53,512	552	-	-	7	-	511	97,235	(72,059)	1,084,990
INTERFUND BALANCES	(2,910)	2,131	779	-	-	-	-	-	-	-	-
NET POSITION											
Net investment in capital assets	1,263,284	14,467	-	-	-	-	-	161	15,366	-	1,293,278
Restricted											
Nonexpendable	560,949	822	31	4,607	617	650	-	-	-	-	567,676
Expendable	304,671	3,660	555	3,470	707	1,092	82	-	-	-	314,237
Total restricted	865,620	4,482	586	8,077	1,324	1,742	82	-	-	-	881,913
Unrestricted	606,315	30,622	7,714	-	-	-	-	-	597	42,067	687,315
Total net position	$ 2,735,219	$ 49,571	$ 8,300	$ 8,077	$ 1,324	$ 1,742	$ 82	$ 161	$ 15,963	$ 42,067	$ 2,862,506

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
COMBINED CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE YEAR ENDED JUNE 30, 2014
(in thousands)

	UK	Research Foundation	The Fund	Gluck Equine Research Foundation	Humanities Foundation	Mining Engineering Foundation	Center on Aging	Central Kentucky Management Services	Kentucky Medical Services Foundation	Eliminations	Total
OPERATING REVENUES											
Student tuition and fees, net	$ 287,517	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 287,517
Federal grants and contracts	1,553	158,831	-	-	-	-	-	-	-	-	160,384
State and local grants and contracts	47,653	19,102	1,000	-	-	-	-	-	-	-	67,755
Nongovernmental grants and contracts	140,475	27,283	9,193	-	-	-	-	-	-	(148,911)	28,040
Recoveries of facilities and administrative costs	320	46,839	-	-	-	-	-	-	-	-	47,159
Sales and services	27,635	14,065	13,781	-	-	-	34	6,779	-	(7,529)	54,765
Federal appropriations	17,921	-	-	-	-	-	-	-	-	-	17,921
County appropriations	20,338	-	-	-	-	-	-	-	-	-	20,338
Professional clinical service fees	-	-	-	-	-	-	-	-	207,734	(4,013)	203,721
Hospital services	1,113,453	-	-	-	-	-	-	-	-	(11,791)	1,101,662
Auxiliary enterprises:											
Housing and dining, net	53,401	-	-	-	-	-	-	-	-	(2,248)	51,153
Athletics	73,957	-	-	-	-	-	-	-	-	-	73,957
Other auxiliaries	32,347	-	-	-	-	-	-	-	-	(2,064)	30,283
Other operating revenues	967	-	-	-	-	-	-	-	21,732	(18,183)	4,516
Total operating revenues	1,817,537	266,120	23,974	-	-	-	34	6,779	229,466	(194,739)	2,149,171
OPERATING EXPENSES											
Educational and general:											
Instruction	260,345	11,546	981	-	6	52	-	-	-	(1,073)	271,857
Research	89,977	157,451	302	24	-	-	-	-	-	(2,441)	245,313
Public service	152,614	71,145	3,154	-	-	-	-	-	-	(15,434)	211,479
Libraries	21,089	-	-	-	-	-	-	-	-	(19)	21,070
Academic support	64,270	2,882	4,647	-	-	-	-	-	-	(317)	71,482
Student services	36,141	24	1,094	-	2	-	-	-	-	(471)	36,790
Institutional support	48,845	720	122	-	-	-	125	6,676	-	(7,193)	49,295
Operations and maintenance of plant	79,806	7	237	-	-	-	-	-	-	(227)	79,823
Student financial aid	37,960	1,281	2,876	-	40	-	-	-	-	(58)	42,099
Depreciation	64,682	1,480	-	-	-	-	-	62	-	-	66,224
Total educational and general	855,729	246,536	13,413	24	48	52	125	6,738	-	(27,233)	1,095,432
Clinical operations (including depreciation of $2,021)	116,783	-	-	-	-	-	-	-	226,917	(172,745)	170,955
Hospital (including depreciation of $51,460)	1,020,904	-	59	-	-	-	-	-	-	(8,338)	1,012,625
Auxiliary enterprises:											
Housing and dining (including depreciation of $5,823)	52,930	-	-	-	-	-	-	-	-	(514)	52,416
Athletics (including depreciation of $5,734)	92,784	-	-	-	-	-	-	-	-	(1,462)	91,322
Other auxiliaries	17,986	-	-	-	-	-	-	-	-	(537)	17,449
Other operating expenses	1,384	-	-	-	-	-	-	-	-	-	1,384
Total operating expenses	2,158,500	246,536	13,472	24	48	52	125	6,738	226,917	(210,829)	2,441,583
Net income (loss) from operations	(340,963)	19,584	10,502	(24)	(48)	(52)	(91)	41	2,549	16,090	(292,412)
NONOPERATING REVENUES (EXPENSES)											
State appropriations	283,869	-	-	-	-	-	-	-	-	-	283,869
Gifts and non-exchange grants	97,185	191	208	92	1	-	118		-	(1,024)	96,771
Investment income (loss)	153,922	399	29	1,220	189	268	-		87	(567)	155,547
Interest on capital asset-related debt	(29,371)	(14)	-	-	-	-	-	-	(903)	-	(30,288)
Grant to/(from) the University for non-capital purposes	21,502	(11,839)	(9,526)	(129)	(3)	(5)	-	-	-	-	-
Other nonoperating revenues and expenses, net	4,517	2,932	-	-	-	-	-	-	-	-	7,449
Net nonoperating revenues (expenses)	531,624	(8,331)	(9,289)	1,183	187	263	118	-	(816)	(1,591)	513,348
Net income (loss) before other revenues, expenses, gains, or losses	190,661	11,253	1,213	1,159	139	211	27	41	1,733	14,499	220,936
Capital grants and gifts	50,626	3,599	-	-	-	-	-	-		(157)	54,068
Additions to permanent endowments	7,614	1	-	-	-	3	-	-	-	(40)	7,578
Grant to/(from) the University for capital purposes	16,949	(16,943)	(4)	-	-	(2)	-	-	-	-	-
Other, net	(1,187)	(49)	-	-	-	-	-	-	-	-	(1,236)
Total other revenues (expenses)	74,002	(13,392)	(4)	-	-	1	-	-	-	(197)	60,410
INCREASE (DECREASE) IN NET POSITION	264,663	(2,139)	1,209	1,159	139	212	27	41	1,733	14,302	281,346
NET POSITION, beginning of year	2,735,219	49,571	8,300	8,077	1,324	1,742	82	161	15,963	42,067	2,862,506
NET POSITION, end of year	$ 2,999,882	$ 47,432	$ 9,509	$ 9,236	$ 1,463	$ 1,954	$ 109	$ 202	$ 17,696	$ 56,369	$ 3,143,852

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
COMBINED CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE YEAR ENDED JUNE 30, 2013
(in thousands)

	UK	Research Foundation	The Fund	Gluck Equine Research Foundation	Humanities Foundation	Mining Engineering Foundation	Center on Aging	Central Kentucky Management Services	Kentucky Medical Services Foundation	Eliminations	Restated (Note 1) Total
OPERATING REVENUES											
Student tuition and fees, net	$ 265,293	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 265,293
Federal grants and contracts	1,426	163,788	-	-	-	-	-	-	-	-	165,214
State and local grants and contracts	39,633	46,528	982	-	-	-	-	-	-	-	87,143
Nongovernmental grants and contracts	140,380	30,321	6,748	-	-	-	-	-	-	(146,428)	31,021
Recoveries of facilities and administrative costs	263	47,599	-	-	-	-	-	-	-	-	47,862
Sales and services	26,987	10,881	13,833	1	-	-	31	6,558	-	(7,818)	50,473
Federal appropriations	16,890	-	-	-	-	-	-	-	-	-	16,890
County appropriations	19,312	-	-	-	-	-	-	-	-	-	19,312
Professional clinical service fees	-	-	-	-	-	-	-	-	200,559	(3,585)	196,974
Hospital services	950,013	-	-	-	-	-	-	-	-	(4,128)	945,885
Auxiliary enterprises:	-										
Housing and dining, net	52,102	-	-	-	-	-	-	-	-	(1,676)	50,426
Athletics	72,033	-	-	-	-	-	-	-	-	-	72,033
Other auxiliaries	32,571	-	-	-	-	-	-	-	-	(2,024)	30,547
Other operating revenues	988	-	-	-	-	-	-	-	6,422	(3,638)	3,772
Total operating revenues	1,617,891	299,117	21,563	1	-	-	31	6,558	206,981	(169,297)	1,982,845
OPERATING EXPENSES											
Educational and general:											
Instruction	244,787	12,998	315	-	-	80	-	-	-	(664)	257,516
Research	84,171	165,670	228	9	-	-	-	-	-	(2,528)	247,550
Public service	131,085	98,175	1,149	-	-	-	-	-	-	(652)	229,757
Libraries	19,497	-	3	-	-	-	-	-	-	(13)	19,487
Academic support	58,068	2,879	4,161	-	-	-	-	-	-	(343)	64,765
Student services	33,423	39	1,120	-	1	-	-	-	-	(477)	34,106
Institutional support	51,925	818	224	10	-	-	109	6,549	-	(6,933)	52,702
Operations and maintenance of plant	63,216	-	-	-	-	-	-	-	-	(18)	63,198
Student financial aid	25,980	1,756	2,529	-	30	-	-	-	-	(44)	30,251
Depreciation	67,882	1,553	-	-	-	-	-	73	-	-	69,508
Total educational and general	780,034	283,888	9,729	19	31	80	109	6,622	-	(11,672)	1,068,840
Clinical operations (including depreciation of $1,995)	125,369	-	-	-	-	-	-	-	206,556	(145,136)	186,789
Hospital (including depreciation of $51,261)	899,280	-	55	-	-	-	-	-	-	(8,330)	891,005
Auxiliary enterprises:											
Housing and dining (including depreciation of $5,020)	47,637	-	-	-	-	-	-	-	-	(106)	47,531
Athletics (including depreciation of $5,282)	85,724	-	-	-	-	-	-	-	-	(1,688)	84,036
Other auxiliaries	21,575	-	-	-	-	-	-	-	-	(540)	21,035
Other operating expenses	682	-	-	-	-	-	-	-	-	-	682
Total operating expenses	1,960,301	283,888	9,784	19	31	80	109	6,622	206,556	(167,472)	2,299,918
Net income (loss) from operations	(342,410)	15,229	11,779	(18)	(31)	(80)	(78)	(64)	425	(1,825)	(317,073)
NONOPERATING REVENUES (EXPENSES)											
State appropriations	283,869	-	-	-	-	-	-	-	-	-	283,869
Gifts and non-exchange grants	98,971	116	107	96	3	-	149	-	-	(1,024)	98,418
Investment income (loss)	104,081	395	37	852	132	187	-	1	119	(1,056)	104,748
Interest on capital asset-related debt	(28,263)	(61)	-	-	-	-	-	-	(920)	-	(29,244)
Grant to/(from) the University for non-capital purposes	22,806	(11,186)	(11,233)	(380)	(3)	(4)	-	-	-	-	-
Other nonoperating revenues and expenses, net	7,288	2,568	-	-	-	-	-	-	-	-	9,856
Net nonoperating revenues (expenses)	488,752	(8,168)	(11,089)	568	132	183	149	1	(801)	(2,080)	467,647
Net income (loss) before other revenues, expenses, gains, or losses	146,342	7,061	690	550	101	103	71	(63)	(376)	(3,905)	150,574
Capital grants and gifts	25,414	5,369	-	-	-	-	-	-	-	(111)	30,672
Additions to permanent endowments	10,303	2	-	-	-	-	-	-	-	(80)	10,225
Grant to/(from) the University for capital purposes	11,487	(9,878)	(1,595)	(14)	-	-	-	-	-	-	-
Other, net	(1,241)	(257)	-	-	-	-	-	-	(178)	-	(1,676)
Total other revenues (expenses)	45,963	(4,764)	(1,595)	(14)	-	-	-	-	(178)	(191)	39,221
INCREASE (DECREASE) IN NET POSITION	192,305	2,297	(905)	536	101	103	71	(63)	(554)	(4,096)	189,795
NET POSITION, beginning of year, as previously reported	2,546,590	47,274	9,205	7,541	1,223	1,639	11	224	16,517	46,163	2,676,387
Cumulative effect of adoption of accounting principle	(3,676)	-	-	-	-	-	-	-	-	-	(3,676)
NET POSITION, beginning of year, as restated	2,542,914	47,274	9,205	7,541	1,223	1,639	11	224	16,517	46,163	2,672,711
NET POSITION, end of year	$ 2,735,219	$ 49,571	$ 8,300	$ 8,077	$ 1,324	$ 1,742	$ 82	$ 161	$ 15,963	$ 42,067	$ 2,862,506

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
COMBINED CONDENSED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2014
(in thousands)

	UK	Research Foundation	The Fund	Gluck Equine Research Foundation	Humanities Foundation	Mining Engineering Foundation	Center on Aging	Central Kentucky Management Services	Kentucky Medical Services Foundation	Eliminations	Total
CASH FLOWS FROM OPERATING ACTIVITIES											
Student tuition and fees	$ 288,922	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 288,922
Grants and contracts	189,581	198,983	7,869	-	-	-	-	-	-	(148,911)	247,522
Recoveries of facilities and administrative costs	509	45,408	-	-	-	-	-	-	-	-	45,917
Sales and services	25,396	15,070	14,049	-	-	-	34	6,424	-	(7,137)	53,836
Federal appropriations	17,117	-	-	-	-	-	-	-	-	-	17,117
County appropriations	21,400	-	-	-	-	-	-	-	-	-	21,400
Payments to vendors and contractors	(618,502)	(84,757)	(6,999)	(2)	(43)	(21)	(125)	(837)	(198,632)	188,832	(721,086)
Student financial aid	(39,206)	-	(2,876)	-	-	-	-	-	-	-	(42,082)
Salaries, wages and benefits	(1,349,723)	(161,819)	(3,561)	(23)	(4)	(39)	-	(5,394)	(9,432)	-	(1,529,995)
Professional clinic service fees	-	-	-	-	-	-	-	-	209,226	3,198	212,424
Hospital services	1,108,779	-	-	-	-	-	-	-	-	(11,802)	1,096,977
Auxiliary enterprise receipts	157,972	-	-	-	-	-	-	-	-	(4,313)	153,659
Loans issued to students	(21,188)	-	-	-	-	-	-	-	-	-	(21,188)
Collection of loans to students	19,818	-	-	-	-	-	-	-	-	-	19,818
Self insurance receipts	51,230	-	-	-	-	-	-	-	-	-	51,230
Self insurance payments	(51,518)	-	-	-	-	-	-	-	3,301	-	(48,217)
Other operating receipts (payments), net	401	-	-	-	-	-	-	-	21,206	(18,063)	3,544
Net cash provided (used) by operating activities	(199,012)	12,885	8,482	(25)	(47)	(60)	(91)	193	25,669	1,804	(150,202)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES											
State appropriations	283,869	-	-	-	-	-	-	-	-	-	283,869
Gifts and grants received for other than capital purposes:											
Gifts received for endowment purposes	7,590	1	-	-	-	3	-	-	-	(40)	7,554
Gifts received for other purposes	89,115	191	208	107	1	-	118	-	-	(1,024)	88,716
Agency and loan program receipts	225,252	-	-	-	-	-	-	-	-	-	225,252
Agency and loan program payments	(226,011)	-	-	-	-	-	-	-	-	-	(226,011)
Grants (to) from the University for non-capital purposes	22,041	(12,405)	(9,499)	(129)	(3)	(5)	-	-	-	-	-
Other noncapital financing receipts (payments), net	26,636	3,634	-	-	-	-	-	-	-	-	30,270
Net cash provided (used) by noncapital financing activities	428,492	(8,579)	(9,291)	(22)	(2)	(2)	118	-	-	(1,064)	409,650
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES											
Capital grants and gifts	43,547	3,599	-	-	-	-	-	-	-	(157)	46,989
Purchases of capital assets	(136,506)	(796)	-	-	-	-	-	(104)	(2,549)	-	(139,955)
Proceeds from capital debt	251,920	-	-	-	-	-	-	-	-	-	251,920
Payments to refunding bond agents	-	-	-	-	-	-	-	-	-	-	-
Principal paid on capital debt and leases	(49,939)	(202)	-	-	-	-	-	-	(759)	-	(50,900)
Interest paid on capital debt and leases	(27,543)	(14)	-	-	-	-	-	-	(903)	-	(28,460)
Grants (to) from the University for capital purposes	16,972	(16,966)	(4)	-	-	(2)	-	-	-	-	-
Other capital and related financing receipts (payments), net	1,073	496	-	-	-	-	-	-		-	1,569
Net cash provided (used) by capital and related financing activities	99,524	(13,883)	(4)	-	-	(2)	-	(104)	(4,211)	(157)	81,163
CASH FLOWS FROM INVESTING ACTIVITIES											
Proceeds from sales and maturities of investments	708,063	2,432	200	4,908	759	1,077	-	-	43	-	717,482
Interest and dividends on investments	16,025	107	7	113	17	25	-	-	(1,988)	(583)	13,723
Purchase of investments	(812,955)	(2,520)	(73)	(4,725)	(731)	(1,040)	-	-	(20,748)	-	(842,792)
Net cash provided (used) by investing activities	(88,867)	19	134	296	45	62	-	-	(22,693)	(583)	(111,587)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	240,137	(9,558)	(679)	249	(4)	(2)	27	89	(1,235)	-	229,024
CASH AND CASH EQUIVALENTS, beginning of year	395,902	46,673	6,992	128	98	6	82	498	1,488	-	451,867
CASH AND CASH EQUIVALENTS, end of year	$ 636,039	$ 37,115	$ 6,313	$ 377	$ 94	$ 4	$ 109	$ 587	$ 253	$ -	$ 680,891

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
COMBINED CONDENSED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2013
(in thousands)

	UK	Research Foundation	The Fund	Gluck Equine Research Foundation	Humanities Foundation	Mining Engineering Foundation	Center on Aging	Central Kentucky Management Services	Kentucky Medical Services Foundation	Eliminations	Total
CASH FLOWS FROM OPERATING ACTIVITIES											
Student tuition and fees	$ 265,136	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 265,136
Grants and contracts	171,488	248,583	7,571	-	-	-	-	-	-	(146,428)	281,214
Recoveries of facilities and administrative costs	167	49,181	-	-	-	-	-	-	-	-	49,348
Sales and services	28,070	10,267	13,816	1	-	-	31	6,172	-	(7,322)	51,035
Federal appropriations	14,858	-	-	-	-	-	-	-	-	-	14,858
County appropriations	18,935	-	-	-	-	-	-	-	-	-	18,935
Payments to vendors and contractors	(511,232)	(124,557)	(4,710)	(11)	(31)	(33)	(108)	(1,005)	(195,191)	169,308	(667,570)
Student financial aid	(27,641)	-	(2,528)	-	-	-	-	-	-	-	(30,169)
Salaries, wages and benefits	(1,282,891)	(161,214)	(2,575)	(8)	-	(41)	(1)	(5,215)	(11,044)	-	(1,462,989)
Professional clinic service fees	-	-	-	-	-	-	-	-	201,209	(1,892)	199,317
Hospital services	977,994	-	-	-	-	-	-	-	-	(4,164)	973,830
Auxiliary enterprise receipts	157,440	-	-	-	-	-	-	-	-	(3,699)	153,741
Loans issued to students	(17,137)	-	-	-	-	-	-	-	-	-	(17,137)
Collection of loans to students	16,422	-	-	-	-	-	-	-	-	-	16,422
Self insurance receipts	45,035	-	-	-	-	-	-	-	-	-	45,035
Self insurance payments	(42,316)	-	-	-	-	-	-	-	(1,605)	-	(43,921)
Other operating receipts (payments), net	(1,626)	-		-	-	-	-	-	5,963	(3,519)	818
Net cash provided (used) by operating activities	(187,298)	22,260	11,574	(18)	(31)	(74)	(78)	(48)	(668)	2,284	(152,097)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES											
State appropriations	283,869	-	-	-	-	-	-	-	-	-	283,869
Gifts and grants received for other than capital purposes:											
Gifts received for endowment purposes	10,303	2	-	-	-	-	-	-	-	(80)	10,225
Gifts received for other purposes	81,055	116	107	109	3	-	149	-	-	(1,023)	80,516
Agency and loan program receipts	210,958	-	-	-	-	-	-	-	-	-	210,958
Agency and loan program payments	(210,594)	-	-	-	-	-	-	-	-	-	(210,594)
Grants (to) from the University for non-capital purposes	24,255	(12,575)	(11,293)	(380)	(3)	(4)	-	-	-	-	-
Other noncapital financing receipts (payments), net	22,610	4,849	-	-	-	-	-	-	-	-	27,459
Net cash provided (used) by noncapital financing activities	422,456	(7,608)	(11,186)	(271)	-	(4)	149	-	-	(1,103)	402,433
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES											
Capital grants and gifts	30,991	5,369	-	-	-	-	-	-	-	(111)	36,249
Purchases of capital assets	(99,480)	(1,993)	-	-	-	-	-	(10)	(1,037)	-	(102,520)
Proceeds from capital debt	30,728	-	-	-	-	-	-	-	104	-	30,832
Payments to refunding bond agents	(5,633)	-	-	-	-	-	-	-	-	-	(5,633)
Principal paid on capital debt and leases	(54,471)	(1,246)	-	-	-	-	-	-	(702)	-	(56,419)
Interest paid on capital debt and leases	(28,554)	(61)	-	-	-	-	-	-	(920)	-	(29,535)
Grants (to) from the University for capital purposes	11,560	(9,964)	(1,582)	(14)	-	-	-	-	-	-	-
Other capital and related financing receipts (payments), net	(258)	387	-	-	-	-	-	-	(170)	-	(41)
Net cash provided (used) by capital and related financing activities	(115,117)	(7,508)	(1,582)	(14)	-	-	-	(10)	(2,725)	(111)	(127,067)
CASH FLOWS FROM INVESTING ACTIVITIES											
Proceeds from sales and maturities of investments	725,914	3,145	120	5,209	805	1,070	-	-	4,896	-	741,159
Interest and dividends on investments	17,477	64	15	133	21	29	-	1	(1,194)	(1,070)	15,476
Purchase of investments	(766,315)	(2,688)	(150)	(4,919)	(760)	(1,081)	-	-	(304)	-	(776,217)
Net cash provided (used) by investing activities	(22,924)	521	(15)	423	66	18	-	1	3,398	(1,070)	(19,582)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	97,117	7,665	(1,209)	120	35	(60)	71	(57)	5	-	103,687
CASH AND CASH EQUIVALENTS, beginning of year	298,785	39,008	8,201	8	63	66	11	555	1,483	-	348,180
CASH AND CASH EQUIVALENTS, end of year	$ 395,902	$ 46,673	$ 6,992	$ 128	$ 98	$ 6	$ 82	$ 498	$ 1,488	$ -	$ 451,867

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, 2012	$57,722	$239,068	$181,346	24.1%	$560,092	32.4%
July 1, 2013	$75,362	$252,938	$177,576	29.8%	$526,073	33.7%
July 1, 2014	$97,317	$268,335	$171,018	36.3%	$513,748	33.3%

Schedule of Employer Contributions
(In thousands)

Year Ended	Annual Required Contributions	Percentage Contributed
June 30, 2012	$19,798	98.2%
June 30, 2013	$20,392	100.4%
June 30, 2014	$19,801	100.0%

2. LONG-TERM DISABILITY BENEFIT PLAN

The University is self-funded 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, 2012	$11,883	$20,898	$9,015	56.9%	$532,303	1.7%
July 1, 2013	$13,362	$22,667	$9,305	58.9%	$725,189	1.3%
July 1, 2014	$15,977	$23,650	$7,673	67.6%	$768,214	1.0%

Schedule of Employer Contributions
(In thousands)

Year Ended	Annual Required Contributions	Percentage Contributed
June 30, 2012	$1,953	120.9%
June 30, 2013	$2,012	99.8%
June 30, 2014	$2,139	100.5%

University of Kentucky
Governing Board as of June 30, 2014

University of Kentucky

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www.uky.edu/EVPFA/Controller

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