

# UNIVERSITY OF KENTUCKY®



## University of Kentucky 2015 Financial Statements

University of Kentucky  
A Component Unit of the Commonwealth of Kentucky  
Financial Statements  
Years Ended June 30, 2015 and 2014

TABLE OF CONTENTS

Message from the President	i
Independent Auditor's Report	1
Management's Discussion and Analysis	4
Financial Statements	
Statements of Net Position	19
Statements of Revenues, Expenses and Changes in Net Position	20
Statements of Cash Flows	21
Notes to Financial Statements	22
Required Supplementary Information	59
Governing Board	61

## MESSAGE FROM THE PRESIDENT



This year, in celebration of the University of Kentucky's 150<sup>th</sup> anniversary, UK Associate Professor and 2014 Kentucky Poet Laureate Frank X Walker captured the spirit of this place we love in his poem titled, "Seedtime in the Commonwealth."

*"There is no vaccination against ignorance, but there is us. There is this university. And we still have heavy doors to open, unmet obligations to the land and its people. There are still leadership opportunities to advance the Commonwealth, this nation, and our world towards fulfilling its potential, towards meeting its lofty promises ... Let men and women come here as seeds, let us invest in them until they form sufficient roots and leaves to obtain their own food. Let them grow from here not just trees, but a fruit-bearing, deeply-rooted forest."*

"There is us." There is this university. We were founded for Kentucky.

Through the education we provide, the creative research we conduct, and the care and service we render, we are the university for Kentucky—the institution our Commonwealth has charged with asking and addressing the most penetrating questions confronting our state and our people, the vexations that challenge us in education, economic development, health care, and cultural, and societal advancement. Because of you, our success is evident across campus:

- At 30,131 students, UK broke its enrollment record for the fifth year in a row; and set new records for non-resident, African American, Hispanic and International student enrollment.
- The mean ACT Composite for the Fall 2014 first-year class was 25.5, and included 674 students with a 31-36 composite score – an 80% increase from 2009.
- The first-year class included 113 National Merit, National Achievement and National Hispanic Scholars, placing UK in the top 10 of public universities with these scholars.
- In the 2014-15 academic year, we awarded more than 6,400 undergraduate and graduate degrees.
- We welcomed 233 new full-time faculty.
- In FY 2014-15, UK received \$285.1 million in external research grants and contracts – signifying that we are a major player among research institutions in the country.
- UK completed another historic year in philanthropy, securing record results in both gift receipts of \$118.2 million, and in new commitments received of more than \$168.3 million. These represent increases of 12% and 16%, respectively. UK received more than 101,200 gifts from 54,275 donors.

Our concerted effort to rebuild our campus continues. Our guiding principle – to build a community that fosters inclusivity and promotes success for the UK family – is manifest in the physical spaces that are coming to life.

The University's public/private partnership with EdR continues to make progress. In August, we completed the Woodland Glen community with residence halls III, IV and V opening to new students and living-learning programs.

Phase II-C is underway for Limestone Park I and II, and the Board of Trustees recently approved Phase III – University Flats. In total, the completed and approved projects will add more than 6,500 beds across 13 facilities by Fall 2017. The investment thus far – more than \$422 million – is transforming the way we house, educate and build community for our students.

The Gatton College of Business and Economics completed its expansion in August, and the revitalization of the 90's classroom wing is proceeding. The College of Fine Arts' School of Art and Visual Studies moved into its new home on Bolivar Street.

The \$126.5 million Commonwealth Stadium project finished for the 2015 SEC football season, and construction on the expansion of the Nutter Training Facility continues.

Progress is being made on the Academic Science Building and various projects in UK HealthCare. Both are critical to UK's long-term academic, research and health care missions.

Anchored by the largest single gift in the University's history, and state authorization to self-finance the project, we started construction on the \$175 million expansion and renovation of the Student Center.

We reached important milestones in our \$245 million dining partnership with Aramark. We announced the Food Connection at UK – an academic partnership with Aramark and the College of Agriculture, Food and Environment to strengthen the local food economy. Locally sourced food in our dining halls reached an all-time high, and we opened “The 90”, a modern 82,000 square foot dining facility that also provides spaces for academic programs supporting residential communities on south campus.

To build on our excellence in health research that addresses the myriad public and clinical health issues in the Commonwealth, the University recently received approval from the state legislature to build a \$265 million multi-disciplinary health science research facility. The facility will be financed with \$132.5 million from the state and \$132.5 million from various University resources.

In total, over the last four years, UK has initiated – and largely self-financed – more than \$1.81 billion to add or improve more than five million square feet in capital investment that enhances 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.

At the end of June, the University of Kentucky Board of Trustees adopted a \$3.4 billion operating and capital budget that emboldens our work. This budget fundamentally represents the priorities that have directed our work thus far and our role as a flagship and land grant research university.

The budget, more than mere numbers, is about people – our people. We are investing our resources toward creating access and quality for students and their families, while giving them the tools they need to succeed. And we are investing in our faculty and staff, who create an innovative and welcoming environment of learning, scholarship, healing and discovery that promises a bright future for our state.

Our priorities and success have gained for us the confidence of external partners and expert analysts in our industry. At a time when other major research universities are experiencing stagnant enrollment and finances, often accompanied by negative ratings outlooks, a recent upgrade from Standard & Poor's is a strong endorsement of our direction. In their report, S&P cited our increasing enrollment, revenue diversity aided by UK HealthCare, strong financial performance and a low debt burden as strengths for our future.

Where do we go from here?

For the past several months, a leadership team, comprised of individuals from across our community, has been working in earnest to develop the UK Strategic Plan. This plan will guide our actions, and how we measure our progress, as we continue to serve the Commonwealth and the world.

Our vision is grounded in and guided by five strategic objectives that mark our priorities: undergraduate student success, graduate education, diversity and inclusivity, research and scholarly work, and community engagement.

**Undergraduate education** has always been at the heart of UK's mission, and it remains so today. All outstanding research universities offer stellar undergraduate experiences. Reaffirming the commitment we have maintained over the generations, we will continue to produce graduates prepared to serve the Commonwealth in all aspects of its development. Accordingly, we will be the university of choice for qualified undergraduate students, within both the Commonwealth and the region.

For a community of scholars, **graduate education** represents the nurturing of intellectual seed for tomorrow's pedagogy and path-setting research. We will improve the quality and distinctiveness of our graduate programs to even better prepare our students for careers as accomplished scholars and professionals who contribute to the Commonwealth, the nation, and the world through their research, creative discovery and endeavors, teaching, and service.

Our ability to prepare students for success in a global and increasingly interconnected economy is, in an important sense, most determined by the learning environment we provide them. Similarly, the ability of our faculty and staff to harness and reach their potential is facilitated, in large measure, by the extent to which our campus community is **diverse, welcoming and inclusive**. Deeply understanding this dynamic – and acting upon it – means we will work each day to strengthen the diversity and inclusivity of our university community through recruitment and retention of an increasingly diverse population of faculty, staff and students, and by implementing initiatives that provide rich diversity-related experiences for all, to help ensure their success in a diverse and interconnected world.

Our **research and scholarly endeavors** offer the brightest hope for transformation and change for our Commonwealth and the broader world we serve. We will, therefore, expand our scholarly work, creative endeavors, and cutting-edge research to focus on the most important challenges of the Commonwealth and to improve the lives of our citizens.

Our sense of **connection to those we serve** and our steadfast commitment to changing lives is an integral part of what makes our campus community special. To foster that, we will build upon our engagement with – and service to – our community partners

within the Commonwealth, the nation, and the world by honoring our historic commitments as a land-grant institution. We will leverage contemporary technology, scholarship and research in innovative ways to advance the public good and to foster the development of citizen-scholars.

With the harmony of diverse voices and perspectives, but in the cadence of a common voice, the strategic plan, which our Board will consider in October, creates a blueprint for our future, guided by the values and dreams of those who built this special place.

Much has been accomplished, and our Board, alumni, faculty, staff, students, policy-makers, private partners and donors who believe in us are those to whom recognition is most due.

Challenges remain. New obstacles will appear. Still our future is hopeful and bright because of the steadfast stewardship of those who came before us and those who now have been entrusted with this precious legacy birthed 150 years ago. I look forward to sharing that future with you.

A handwritten signature in black ink that reads "Eli Capilouto". The signature is written in a cursive style with a large, stylized "E" at the beginning.

Eli Capilouto  
President

## 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, 2015 and 2014, and statements of revenues, expenses and changes in net position and of cash flows for the years then ended and the related notes to the financial statements, 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 \$195,126 and \$139,714 as of June 30, 2015 and 2014, respectively, and total revenues of \$304,167 and \$230,336, 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 entity'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 entity'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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

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, 2015 and 2014, 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.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and post-employment 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 2, 2015, 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 2, 2015



# 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, 2015 and 2014. 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.** As Kentucky's indispensable educational institution, we transform the lives of our students and advance the Commonwealth we serve and beyond through our teaching and learning, diversity and inclusion, discovery, research and creativity, promotion of health, and deep community engagement.

**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 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 21<sup>st</sup> 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 UK's next strategic plan for the years 2015-2020. The plan will build on extraordinary progress from previous planning documents, a dramatic investment in the institution's physical spaces, and the insight garnered from considerable campus conversation and constituent input. The plan considers the current operating context for higher education and focuses on five strategic objectives that support our role as Kentucky's indispensable institution:

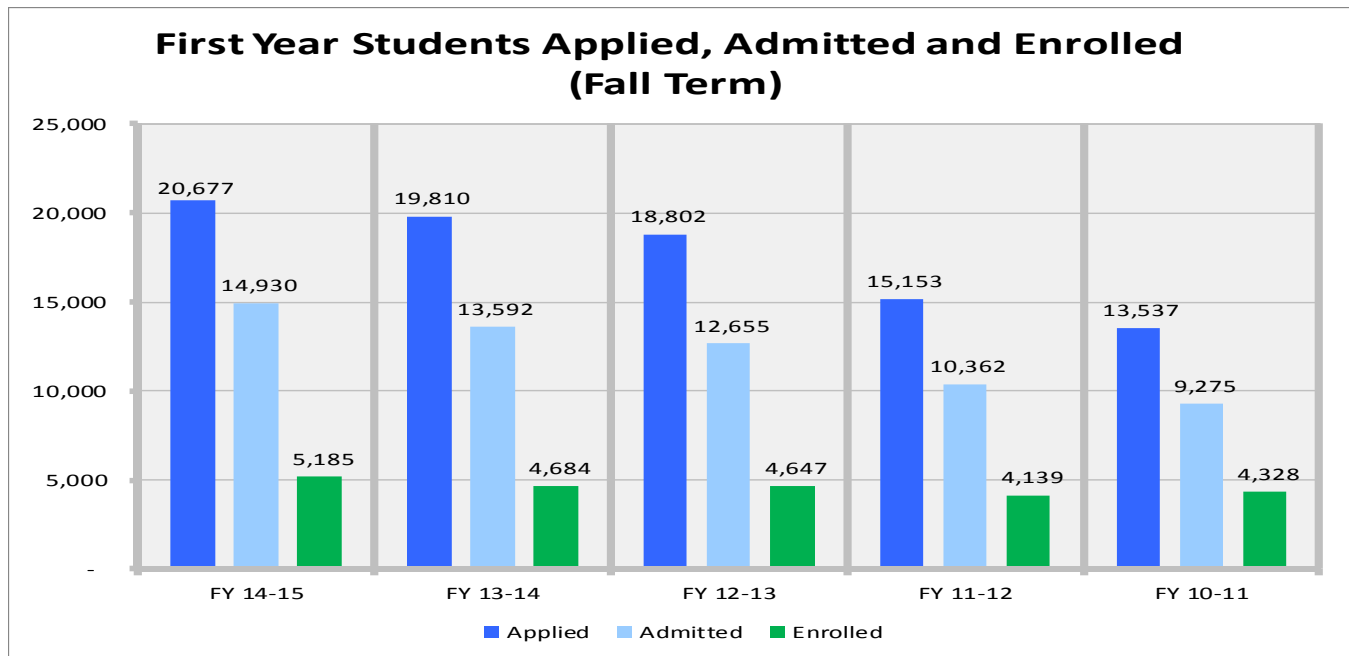
- **Undergraduate Student Success** – To be the University of choice for aspiring undergraduate students within the Commonwealth and beyond, seeking a transformational education that promotes self-discovery, experiential learning, and life-long achievement.
- **Graduate Education** – Strengthen the quality and distinctiveness of our graduate programs to transform our students into accomplished scholars and professionals who contribute to the Commonwealth, the nation, and the world through their research and discovery, creative endeavors, teaching, and service.
- **Diversity and Inclusivity** – Enhance the diversity and inclusivity of our University community through recruitment and retention of an increasingly diverse population of faculty, staff, and students, and by implementing initiatives that provide rich diversity-related experiences for all, to help ensure their success in an interconnected world.
- **Research and Scholarly Work** – Expand our scholarship, creative endeavors, and research across the full range of disciplines to focus on the most important challenges of the Commonwealth, our nation, and the world.
- **Outreach and Community Engagement** – Leverage leading-edge technology, scholarship, and research in innovative ways to advance the public good and to foster the development of citizen-scholars.

The steering committee is developing an implementation plan and metrics for review and approval by the Board of Trustees in October 2015.

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).

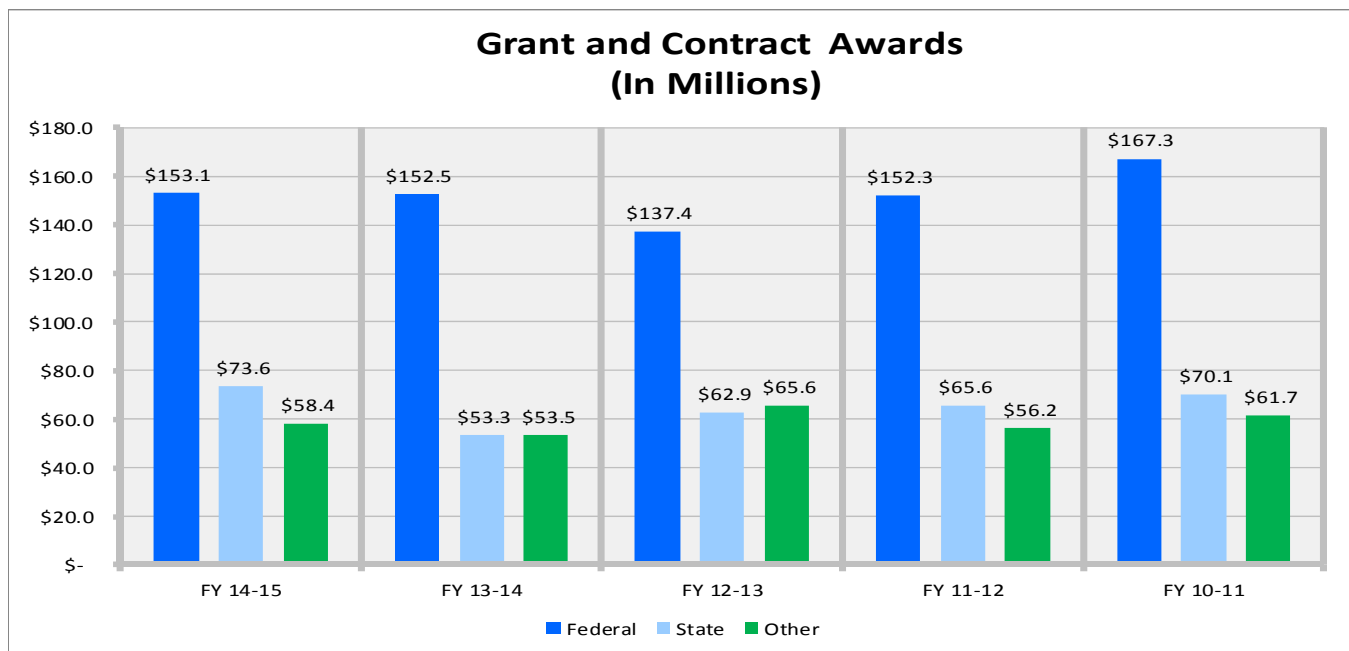
The University is accredited by the Commission on Colleges (CoC) of the Southern Association of Colleges and Schools (SACS). This has been re-affirmed at approximately 10-year intervals since 1915, with the next accreditation review scheduled for 2022. In addition, several degree programs and individual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

**Students.** In Fall 2014, the University had 30,131 undergraduate, graduate, and professional students. They represent all 120 Kentucky counties, every state in the U.S. and over 100 countries. Enrollment has increased by 3,692 students (14%) since Fall 2005.



**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 with colleges of Agriculture, Engineering, Medicine and Pharmacy on a single contiguous campus.

**Research.** Total research expenditures, as reported to the National Science Foundation, totaled \$328.2 million for fiscal year 2013-14, compared to \$339.8 million in 2012-13. Research awards received during fiscal year 2014-15 total \$285.1 million, a 10% increase from the prior year amount of \$259.3 million.



**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 (the 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 System has a combined total of 826 licensed beds with an average daily census of 698 patients. On a monthly basis, the system provides over 1,257 inpatient surgeries, 1,343 outpatient surgeries, 31,649 radiology procedures, 8,450 emergency department visits and 111,307 hospital based outpatient clinic visits.

Under a management contract entered into with the Kentucky Cabinet for Health and Family Services (CHFS), the System also operates and manages Eastern State Hospital, a 300,000 square-foot facility located on the University's Coldstream Research Campus. Eastern State Hospital 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 (CTSA) grant.

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 \$5.48 billion, deferred outflows of resources of \$13.8 million, liabilities of \$1.80 billion and deferred inflows of resources of \$241.1 million as of June 30, 2015. Net position, which represents the University's residual interest in assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted, was \$3.46 billion (63% of total assets).

- Total assets increased \$990.5 million (22%), primarily due to increases in cash and cash equivalents, notes, loans and accounts receivable, net and capital assets, net.
- Deferred outflows of resources increased \$13.8 million due to the unamortized difference between the reacquisition price and the net carrying amount of refunded debt.
- Total liabilities increased \$449.7 million (33%), primarily due to increases in unearned revenue, bonds and capital lease obligations and accounts payable and accrued liabilities.

- Deferred inflows of resources totaled \$241.1 million due to the new service concession arrangements entered into with Education Realty Trust (EdR) of \$130.3 million, Aramark Educational Services, LLC (Aramark) of \$105.9 million and Barnes and Noble College Booksellers (Barnes and Noble) of \$4.9 million.
- Total net position increased \$313.4 million (10%). Unrestricted net position increased \$203.6 million and net investment in capital assets increased \$74.8 million. Restricted net position increased \$35.0 million mainly due to capital projects including the Gatton College of Business and Economics expansion and the University Department of Intercollegiate Athletics (Athletics) new football training facility.
- Operating revenues were \$2.46 billion and operating expenses were \$2.61 billion, resulting in a loss from operations of \$147.1 million. Nonoperating and other revenues, net of nonoperating expenses, were \$460.5 million, including \$279.6 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. (CLI)
- 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, 2015, with comparative information as of June 30, 2014. 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, deferred outflows of resources, liabilities, deferred inflows of resources, and net position as of June 30, 2015, 2014 and 2013 are as follows:

**Condensed Statements of Net Position (in thousands)**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>			
Current assets	\$ 983,253	\$ 694,839	\$ 661,164
Capital assets, net	2,336,640	1,979,404	1,955,731
Other noncurrent assets	2,161,316	1,816,476	1,327,891
Deferred outflows of resources	13,755	-	-
Total assets and deferred outflows of resources	<u>5,494,964</u>	<u>4,490,719</u>	<u>3,944,786</u>
<b>LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>			
Current liabilities	472,487	358,671	324,496
Noncurrent liabilities	1,324,095	988,196	757,223
Deferred inflows of resources	241,124	-	561
Total liabilities and deferred inflows of resources	<u>2,037,706</u>	<u>1,346,867</u>	<u>1,082,280</u>
<b>NET POSITION</b>			
Net investment in capital assets	1,422,560	1,347,778	1,304,887
Restricted			
Nonexpendable	585,074	576,265	569,589
Expendable	451,990	425,775	312,324
Unrestricted	<u>997,634</u>	<u>794,034</u>	<u>675,706</u>
Total net position	<u>\$ 3,457,258</u>	<u>\$ 3,143,852</u>	<u>\$ 2,862,506</u>

**Assets.** As of June 30, 2015, total assets amounted to \$5.48 billion. The largest asset class was capital assets, net, that totaled \$2.34 billion or 43% of total assets. Endowment investments were \$1.23 billion, or 23% of total assets and cash and cash equivalents totaled \$937.5 million, or 17% of total assets. During the year, total assets increased by a net \$990.5 million primarily due to an increase in capital assets, net of \$357.2 million, notes, loans and accounts receivable, net of \$332.2 million, cash and cash equivalents of \$256.6 million, other long-term investments of \$26.9 million and endowment investments of \$16.3 million.

**Deferred Outflows of Resources.** The University's deferred outflows of resources totaled \$13.8 million, which represents the unamortized difference between the reacquisition price and the net carrying amount of refunded debt.

**Liabilities.** As of June 30, 2015, total liabilities amounted to \$1.80 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 \$930.4 million, or 53% of total liabilities. During the year, total liabilities increased by \$449.7 million primarily in unearned revenue of \$230.9 million including the new multimedia rights contract with JMI Sports for Athletics, the issuance of new debt comprised of \$347.2 million in general receipts bonds, \$26.7 million in capital leases and \$38.5 million in unamortized bond premium offset by principal payments of \$50.4 million and refunded debt of \$231.2 million, and an increase in accounts payable and accrued liabilities of \$65.6 million.

**Deferred Inflows of Resources.** The University's deferred inflows of resources totaled \$241.1 million, that represents new service concession arrangements with EdR of \$130.3 million, Aramark of \$105.9 million and Barnes and Noble of \$4.9 million.

**Net Position.** The University's equity of \$3.46 billion as of June 30, 2015 is reported on the Statement of Net Position in three net position categories: net investment in capital assets, \$1.42 billion (41%); restricted nonexpendable, \$585.1 million (17%) and restricted expendable, \$452.0 million (13%); and unrestricted, \$997.6 million (29%).

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 \$313.4 million during the year ended June 30, 2015. Net investment in capital assets increased \$74.8 million due to excess of additions of capital assets and principal payments of capital debt offset by depreciation expense. Restricted net position increased \$35.0 million principally due to gifts for construction projects including the Gatton College of Business and Economics renovation/expansion and Athletics' new football training facility. Unrestricted net position increased \$203.6 million, primarily due to an increase in operating revenues of \$313.0 million offset by an increase in operating expenses of \$167.7 million.

**2014 Versus 2013.** During the year ended June 30, 2014:

- Total assets increased by a net \$545.9 million primarily due to 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, capital assets, net of \$23.7 million, notes, loans and accounts receivable, net of \$22.7 million and current investments of \$19.5 million.
- Liabilities increased \$265.1 million primarily as the result of the issuance of new debt of \$241.8 million offset by principal payments, an increase in accounts payable and accrued liabilities and a decrease in unearned revenue.
- Deferred inflows of resources decreased \$561 thousand due to the amendment of the Forward Delivery Agreement that eliminated the hedging instrument that provided a specified rate of return on certain debt service instruments.
- Total net position increased \$281.3 million. 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 caused an increase in quasi endowment net position of \$37.6 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, 2015, with comparative information for the year ended June 30, 2014. 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.

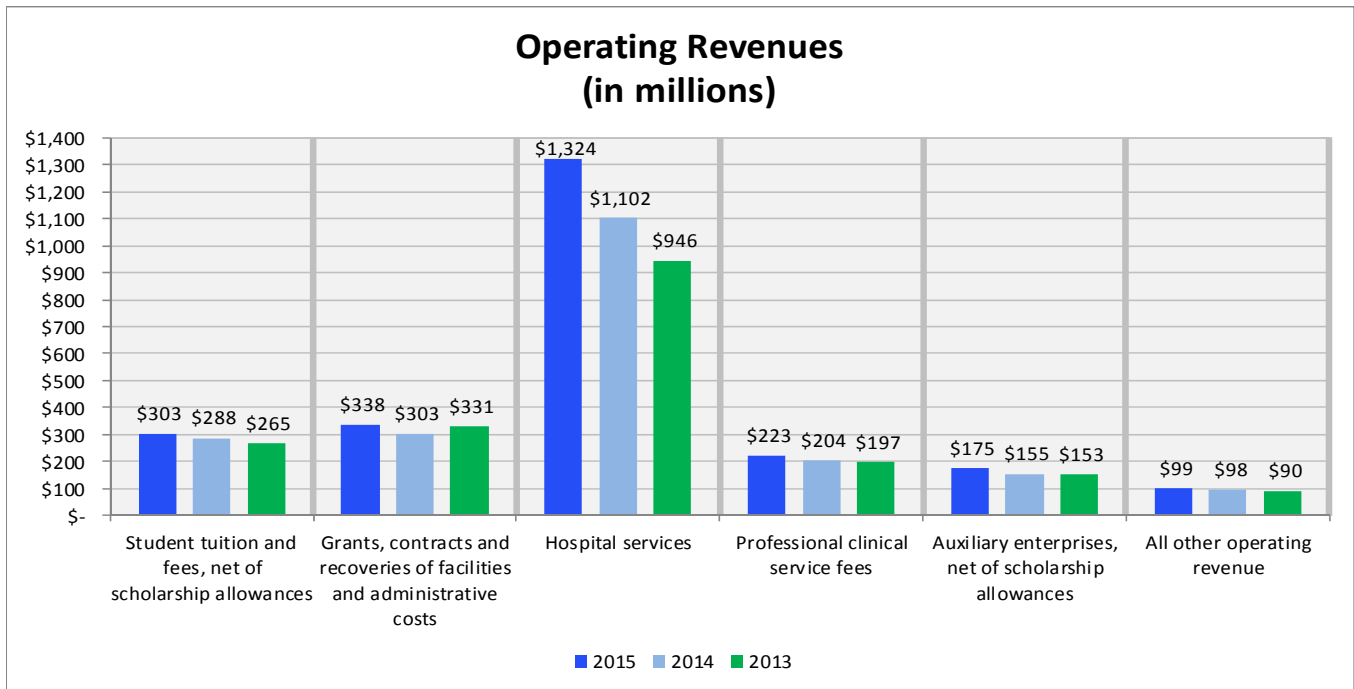
Financial activities are reported as either operating or nonoperating. GASB Statement No. 35 requires state appropriations, gifts, and investment income to be classified as nonoperating revenues. Accordingly, the University reports a net operating loss prior to the addition of nonoperating revenues. 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, 2015, 2014 and 2013 are as follows:

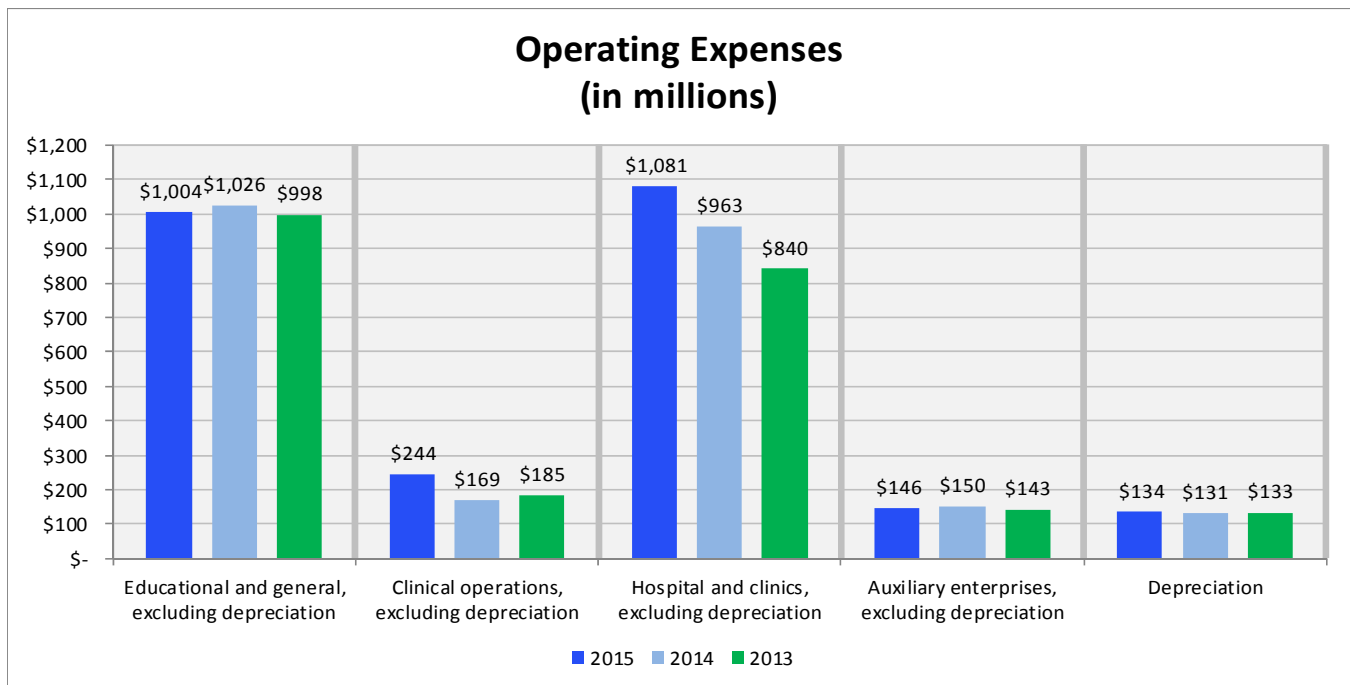
**Condensed Statements of Revenues, Expenses and Changes in Net Position (in thousands)**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>OPERATING REVENUES</b>			
Student tuition and fees, net of scholarship allowances	\$ 302,936	\$ 287,517	\$ 265,293
Grants and contracts	290,199	256,179	283,378
Hospital services	1,323,652	1,101,662	945,885
Professional clinical service fees	223,291	203,721	196,974
Auxiliary enterprises, net of scholarship allowances	175,232	155,393	153,006
Recoveries of facilities and administrative costs	48,154	47,159	47,862
Sales and services	54,112	54,765	50,473
Federal and county appropriations	39,510	38,259	36,202
Other operating revenues	5,059	4,516	3,772
Total operating revenues	<u>2,462,145</u>	<u>2,149,171</u>	<u>1,982,845</u>
<b>OPERATING EXPENSES</b>			
Educational and general, excluding depreciation	1,003,856	1,026,280	998,229
Clinical operations, excluding depreciation	243,688	168,934	184,794
Hospital and clinics, excluding depreciation	1,080,956	963,272	840,119
Auxiliary enterprises, excluding depreciation	145,739	150,451	143,028
Depreciation	134,374	131,262	133,066
Other operating expenses	640	1,384	682
Total operating expenses	<u>2,609,253</u>	<u>2,441,583</u>	<u>2,299,918</u>
<b>NET LOSS FROM OPERATIONS</b>	<u>(147,108)</u>	<u>(292,412)</u>	<u>(317,073)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
State appropriations	279,611	283,869	283,869
Gifts and non-exchange grants	105,506	96,771	98,418
Investment income (loss)	45,188	155,547	104,748
Interest on capital asset-related debt	(27,691)	(30,288)	(29,244)
Capital grants and gifts	45,341	54,068	30,672
Additions to permanent endowments	7,758	7,578	10,225
Other, net	4,801	6,213	8,179
Total nonoperating revenues (expenses)	<u>460,514</u>	<u>573,758</u>	<u>506,867</u>
Total increase in net position	313,406	281,346	189,794
Net position, beginning of year	<u>3,143,852</u>	<u>2,862,506</u>	<u>2,672,712</u>
Net position, end of year	<u>\$ 3,457,258</u>	<u>\$ 3,143,852</u>	<u>\$ 2,862,506</u>



Total operating revenues were \$2.46 billion for the year ended June 30, 2015, an increase of \$313.0 million (15%). The primary components of operating revenues were student tuition and fees of \$302.9 million; grants, contracts and recoveries of facilities and administrative costs of \$338.4 million; hospital services of \$1.32 billion; and professional clinical service fees of \$223.3 million.

The major increase was in hospital service revenue of \$222.0 million attributable to an increase in rates, partially driven by patient acuity, and improved payer mix as a result of the Medicaid expansion program. Retail and contract pharmacy sales also increased hospital service revenues. Other significant increases in operating revenues related to net student tuition and fees of \$15.4 million due to tuition and fee rate increases as well as increased enrollment; grants and contracts of \$34.0 million due to increases in professional supplemental payments from state and federal grants and contracts; professional clinical service fees of \$19.6 million due to increased patient activity and improved reimbursements associated with the decline in the uninsured self-pay population due to Medicaid expansion; and auxiliary enterprises of \$19.8 million.



Operating expenses totaled \$2.61 billion, an increase of \$167.7 million (seven percent). Of this amount, \$1.00 billion (excluding depreciation) was expended for educational and general programs, including instruction, research and public service. Hospital and clinics expenses, excluding depreciation, amounted to \$1.08 billion and clinical operations expenses, excluding depreciation, were \$243.7 million. Depreciation expense for the year amounted to \$134.4 million.

Education and general programs expenses, excluding depreciation, decreased \$22.4 million due primarily to decreases in public service expenses of \$29.9 million, student financial aid of \$9.2 million, operation and maintenance of plant of \$5.8 million and research of \$1.8 million. Offsetting these decreases was an increase in instruction expenses of \$14.5 million, institutional support of \$6.3 million, student services expenses of \$1.9 million and academic support expenses of \$1.6 million. Clinical operations expenses, excluding depreciation, increased \$74.8 million primarily due to the increased use of funds provided by professional supplemental payments revenue and corresponding expenses reflected within this category. Hospital and clinics expenses, excluding depreciation, increased \$117.7 million primarily due to additional staffing and supplies required for increased patient volume and market adjustments for clinical staff. Auxiliary enterprise expenses, excluding depreciation, decreased \$4.7 million primarily in housing and dining due to outsourcing services to EdR and Aramark. Depreciation expense increased \$3.1 million due to new buildings, renovations and equipment depreciation.

The net loss from operations for the year was \$147.1 million. Nonoperating and other revenues, net of expenses, totaled \$460.5 million and included state appropriations of \$279.6 million. Gifts and non-exchange grants totaled \$105.5 million – an increase of \$8.7 million; capital grants and gifts of \$45.3 million – a decrease of \$8.7 million; investment income of \$45.2 million – a decrease of \$110.4 million; and additions to permanent endowments of \$7.8 million – a decrease of \$180 thousand.

**2014 Versus 2013.** Total operating revenues were \$2.15 billion for the year ended June 30, 2014, including: student tuition and fees of \$287.5 million (13%); grants, contracts, and recoveries of facilities and administrative costs of \$303.3 million (14%); professional clinical service fees of \$203.7 million (nine percent); and hospital services of \$1.10 billion (51%). Operating revenues for fiscal year 2014 increased \$166.3 million or eight percent over fiscal year 2013, primarily due to increases in hospital services revenue of \$155.8 million resulting from an increase in rates and overall case mix; student tuition and fees of \$22.2 million due to tuition and fees rate increases as well as increased enrollment; and 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 while grants and contracts decreased \$27.2 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 \$2.44 billion in fiscal year 2014. Of this amount, \$1.03 billion (42%), excluding depreciation, was expended for educational and general programs, including instruction, research and public service. Hospital and clinics expenses, excluding depreciation, totaled \$963.3 million (39%) of the total expenses, and clinical operations expenses, excluding depreciation, were \$168.9 million (seven percent). Depreciation amounted to \$131.3 million (five percent). Operating expenses for fiscal year 2014 increased \$141.7 million (six percent) compared to fiscal year 2013 primarily due to an increase in education and general program expenses of \$28.1 million (three percent); hospital and clinics expenses, excluding depreciation of \$123.2 million (15%); and auxiliary enterprises expenses of \$7.4 million (five percent). Offsetting decreases were in clinical operations expenses, excluding depreciation, of \$15.9 million (nine percent) and depreciation expense of \$1.8 million (one percent).

The net loss from operations for the 2014 fiscal year totaled \$292.4 million. Nonoperating and other revenues, net of expenses, totaled \$573.8 million, resulting in an increase in net position of \$281.3 million for the year. Nonoperating revenue included state appropriations of \$283.9 million for both June 30, 2014 and 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, 2015, with comparative financial information for the fiscal year ended June 30, 2014. 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, 2015, 2014 and 2013 are as follows:

**Condensed Statements of Cash Flows (in thousands)**

	2015	2014	2013
<b>CASH PROVIDED (USED) BY:</b>			
Operating activities	\$ 11,738	\$ (150,202)	\$ (152,097)
Noncapital financing activities	416,732	409,650	402,433
Capital and related financing activities	(178,778)	81,163	(127,067)
Investing activities	6,900	(111,587)	(19,582)
Net increase (decrease) in cash and cash equivalents	256,592	229,024	103,687
<b>Cash and cash equivalents, beginning of year</b>	680,891	451,867	348,180
<b>Cash and cash equivalents, end of year</b>	\$ 937,483	\$ 680,891	\$ 451,867

The University's cash and cash equivalents increased \$256.6 million in fiscal year 2015. Total cash provided by operating and noncapital financing activities was \$428.5 million, an increase of \$169.0 million compared to fiscal year 2014. Total cash provided by investing activities was \$6.9 million. Total cash used by capital financing activities was \$178.8 million, reflecting both capital funding sources (debt proceeds) and uses (purchases of capital assets and debt service).

Major sources of cash received from operating activities were student tuition and fees of \$301.5 million; hospital services of \$1.34 billion; grants, contracts, and recoveries of facilities and administrative costs of \$333.1 million; and professional clinical service fees of \$221.7 million. Major uses of cash for operating activities were payments to employees for salaries and benefits of \$1.64 billion and to vendors and contractors of \$781.4 million.

Noncapital financing activities include state appropriations from the Commonwealth of \$279.6 million; gifts of \$121.0 million and other noncapital financing receipts of \$16.1 million.

Capital and related financing activities include proceeds of capital debt of \$392.1 million and capital grants and gifts of \$31.0 million. Cash of \$284.0 million was expended for construction and acquisition of capital assets, \$248.6 was expended for payments to refunding bond agents and \$84.7 million was expended for principal and interest payments on debt.

Investing activities include proceeds from sales and maturities of investments of \$313.0 million and interest and dividends on investments of \$19.9 million. Net proceeds from the sale of CLI and related debt and other payments totaled \$16.6 million. Cash of \$342.5 million was used to purchase investments.

**2014 Versus 2013.** Cash balances were higher when comparing fiscal year 2014 to fiscal year 2013. The \$229.0 million net increase in cash was created from more cash provided by capital and noncapital financing activities and less cash used by operating activities offset by more cash used for investing activities.

## Capital Asset and Debt Administration

### Capital Assets

Capital assets, net of accumulated depreciation, totaled \$2.34 billion at June 30, 2015, an increase of \$357.2 million. Capital assets as of June 30, 2015, 2014 and 2013, and significant changes in capital assets during the years ended June 30, 2014 and 2015 are as follows (in millions):

	Balance June 30, 2013	Net Additions (Deletions) FY 13-14	Balance June 30, 2014	Net Additions (Deletions) FY 14-15	Balance June 30, 2015
Land and land improvements	\$ 180	\$ 5	\$ 185	\$ 9	\$ 194
Buildings, fixed equipment and infrastructure	2,369	32	2,401	231	2,632
Equipment, vehicles and capitalized software	710	25	735	22	757
Library materials and art	160	2	162	2	164
Certificate of need license	12	-	12	-	12
Construction in progress	35	57	92	175	267
Accumulated depreciation	(1,510)	(98)	(1,608)	(81)	(1,689)
<b>Total</b>	<b>\$ 1,956</b>	<b>\$ 23</b>	<b>\$ 1,979</b>	<b>\$ 358</b>	<b>\$ 2,337</b>

At June 30, 2015, the University had capital construction projects in progress totaling approximately \$845.9 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, the renovation and expansion of the Student Center and the fit-up of the 9<sup>th</sup> and 10<sup>th</sup> floors of the Patient Care Facility. The estimated cost to complete the projects in progress was approximately \$580.2 million.

Net additions also include EdR Phase II construction totaling \$136.4 million and Aramark capital renovation projects of \$10.5 million.

### Debt

At June 30, 2015, capital debt amounted to \$930.4 million, summarized by trust indenture and type are as follows (in millions):

	2015	2014	2013
General Receipts bonds and notes	\$ 821	\$ 698	\$ 479
Consolidated Educational Buildings Revenue Bonds	-	33	38
Capital lease obligations	90	86	109
Notes payable	19	21	22
<b>Total</b>	<b>\$ 930</b>	<b>\$ 838</b>	<b>\$ 648</b>

Debt increased \$92.3 million during the year primarily due to the issuance of General Receipts Bonds 2014 Series D for \$88.1 million, General Receipts Bonds 2015 Series A, B and C for \$259.0 million and additional capital leases of \$26.7 million, offset by a net decrease from principal payments of the University's debt obligations of \$50.4 million and the refunding of Consolidated Educational Building and Revenue Bonds (CEBRB) Series PQR and U, General Receipts Bonds and Notes 2005 Series A, General Receipts Bonds 2006 Series A and General Receipts Notes 2007 Series A and B of \$231.2 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 recent 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's economy is showing positive emerging trends of consistent job growth, a lower unemployment rate, and higher consumer confidence. Kentucky personal income is projected to grow faster than that of the national average for at least the next year. Home prices are increasing in urban areas such as Louisville and Northern Kentucky and the number of new home construction permits issued also is increasing. As a result of a General Fund surplus for fiscal year 2014-15, the Commonwealth's Budget Reserve Trust Fund is estimated to exceed \$209.0 million, the largest balance since fiscal year 2007-08.
- The enacted fiscal year 2015-16 budget generally reflects no change in state appropriations for state agencies and public colleges and universities. As a result, state support as a percentage of the University's total budget is expected to continue to decline. Over the past 10 years, state support decreased from 17% of the total operating budget to eight percent. In spite of significant enrollment growth and cost increases, state support for fiscal year 2015-16 will be \$39.0 million less than it was in fiscal year 2006-07.
- Student demand is expected to remain high in the coming years. Applications for the Fall 2015 incoming class will exceed 22,500 for the first time in the University's history. Preliminary numbers indicate that the Fall 2015 entering freshmen class will reach 5,217 students – an increase of 1,027 or 25% since Fall 2006.
- The University is undergoing a momentous physical transformation, part of which involves revitalization of its on-campus housing through a comprehensive public/private partnership (P3) with EdR. The multi-phase P3 is the first of its kind in the nation, entailing a substantial increase in the quantity and quality of student housing while allowing the University to reserve its debt capacity for other capital needs. Seven new residence halls came online in August 2013 and 2014 adding 2,982 beds to the housing stock and three additional residence halls were brought online in August 2015, adding another 1,610 beds. The total to date is 4,592 beds. Under construction now are three additional buildings which will bring the total to 6,504 new beds by Fall 2017. The total plan includes increasing the current on-campus housing stock up to 9,000 beds by 2018.
- Also part of the campus transformation are the following academic, research, healthcare and athletic projects authorized by the Kentucky General Assembly:
  - A \$65.0 million renovation and expansion of the Gatton College of Business and Economics, financed by the University
  - A new \$112.0 million Academic Science Building financed by the University with Athletics funding \$65.0 million of the project cost
  - A \$126.5 million renovation and expansion of Commonwealth Stadium financed completely by Athletics
  - 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, which when complete will increase licensed bed capacity to 945 beds
  - 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 by the University
  - A new \$265.0 million Research Building financed by the University and state bonds (\$132.5 million each)
- As of June 30, 2015, grants and contracts of approximately \$189.2 million, an increase of approximately \$11.5 million from the previous year, have been awarded to the University but not expended. The growth in available governmental awards will result in increased 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.
- In July 2014, the University created a public/private partnership with Aramark that will continue to transform the dining services provided for students, faculty, staff, and the community. The 15 year partnership provides for \$70.0 million in facilities investments by Aramark to be completed by fiscal year 2017-18.

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 research institution.

**UNIVERSITY OF KENTUCKY**  
**A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY**  
**STATEMENTS OF NET POSITION (in thousands)**  
**JUNE 30, 2015 AND 2014**

	2015	2014
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 621,961	\$ 387,863
Notes, loans and accounts receivable, net	292,776	240,088
Investments	21,702	26,452
Inventories and other assets	46,814	40,436
Total current assets	<u>983,253</u>	<u>694,839</u>
<b>Noncurrent Assets</b>		
Restricted cash and cash equivalents	315,522	293,028
Endowment investments	1,231,557	1,215,226
Other long-term investments	275,001	248,108
Notes, loans and accounts receivable, net	338,953	59,412
Other noncurrent assets	283	702
Capital assets, net	2,336,640	1,979,404
Total noncurrent assets	<u>4,497,956</u>	<u>3,795,880</u>
Total assets	<u>5,481,209</u>	<u>4,490,719</u>
<b>Deferred Outflows of Resources</b>		
Total assets and deferred outflows of resources	<u>5,494,964</u>	<u>4,490,719</u>
<b>LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	293,223	227,576
Unearned revenue	97,861	60,017
Long-term liabilities - current portion	81,403	71,078
Total current liabilities	<u>472,487</u>	<u>358,671</u>
<b>Noncurrent Liabilities</b>		
Unearned revenue	193,094	-
Long-term liabilities	1,131,001	988,196
Total noncurrent liabilities	<u>1,324,095</u>	<u>988,196</u>
Total liabilities	<u>1,796,582</u>	<u>1,346,867</u>
<b>Deferred Inflows of Resources</b>		
Total liabilities and deferred inflows of resources	<u>2,037,706</u>	<u>1,346,867</u>
<b>NET POSITION</b>		
<b>Net investment in capital assets</b>	<u>1,422,560</u>	<u>1,347,778</u>
<b>Restricted</b>		
Nonexpendable		
Scholarships and fellowships	140,739	134,970
Research	271,579	269,972
Instruction	80,062	78,897
Academic support	84,083	83,904
Other	8,611	8,522
Total restricted nonexpendable	<u>585,074</u>	<u>576,265</u>
Expendable		
Scholarships and fellowships	75,608	77,594
Research	92,833	95,614
Instruction	54,951	57,031
Academic support	59,860	56,801
Loans	10,908	10,445
Capital projects	128,734	101,357
Debt service	724	774
Auxiliary	15,523	15,198
Other	12,849	10,961
Total restricted expendable	<u>451,990</u>	<u>425,775</u>
Total restricted	<u>1,037,064</u>	<u>1,002,040</u>
<b>Unrestricted</b>		
Total net position	<u>\$ 3,457,258</u>	<u>\$ 3,143,852</u>

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, 2015 AND 2014**

	2015	2014
<b>OPERATING REVENUES</b>		
Student tuition and fees	\$ 425,805	\$ 385,989
Less: Scholarship allowances	(122,869)	(98,472)
Net tuition and fees	302,936	287,517
Federal grants and contracts	168,125	160,384
State and local grants and contracts	92,269	67,755
Nongovernmental grants and contracts	29,805	28,040
Recoveries of facilities and administrative costs	48,154	47,159
Sales and services	54,112	54,765
Federal appropriations	17,535	17,921
County appropriations	21,975	20,338
Professional clinical service fees	223,291	203,721
Hospital services	1,323,652	1,101,662
Auxiliary enterprises:		
Housing and dining	42,246	51,347
Less: Scholarship allowances	(2,695)	(7,193)
Net housing and dining	39,551	44,154
Athletics	88,928	73,957
Other auxiliaries	46,753	37,282
Other operating revenues	5,059	4,516
Total operating revenues	2,462,145	2,149,171
<b>OPERATING EXPENSES</b>		
Educational and general:		
Instruction	286,377	271,857
Research	243,511	245,313
Public service	181,537	211,479
Libraries	21,084	21,070
Academic support	73,078	71,482
Student services	38,648	36,790
Institutional support	55,623	49,295
Operations and maintenance of plant	71,104	76,895
Student financial aid	32,894	42,099
Depreciation	65,548	65,522
Total educational and general	1,069,404	1,091,802
Clinical operations (including depreciation of \$2,743 in 2015 and \$2,021 in 2014)	246,431	170,955
Hospital and clinics (including depreciation of \$53,167 in 2015 and \$51,460 in 2014)	1,134,123	1,014,732
Auxiliary enterprises:		
Housing and dining (including depreciation of \$5,279 in 2015 and \$5,446 in 2014)	31,240	48,208
Athletics (including depreciation of \$6,031 in 2015 and \$5,734 in 2014)	101,696	92,088
Other auxiliaries (including depreciation of \$1,606 in 2015 and \$1,079 in 2014)	25,719	22,414
Other operating expenses	640	1,384
Total operating expenses	2,609,253	2,441,583
Net loss from operations	(147,108)	(292,412)
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations	279,611	283,869
Gifts and non-exchange grants	105,506	96,771
Investment income (loss)	45,188	155,547
Interest on capital asset-related debt	(27,691)	(30,288)
Other nonoperating revenues and expenses, net	8,988	7,449
Net nonoperating revenues (expenses)	411,602	513,348
Net income (loss) before other revenues, expenses, gains or losses	264,494	220,936
Capital grants and gifts	45,341	54,068
Additions to permanent endowments	7,758	7,578
Other, net	(4,187)	(1,236)
Total other revenues (expenses)	48,912	60,410
<b>INCREASE IN NET POSITION</b>	313,406	281,346
<b>NET POSITION, beginning of year</b>	3,143,852	2,862,506
<b>NET POSITION, end of year</b>	\$ 3,457,258	\$ 3,143,852

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, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Student tuition and fees	\$ 301,454	\$ 288,922
Grants and contracts	284,664	247,522
Recoveries of facilities and administrative costs	48,457	45,917
Sales and services	53,465	53,836
Federal appropriations	18,749	17,117
County appropriations	22,640	21,400
Payments to vendors and contractors	(781,388)	(721,086)
Student financial aid	(32,896)	(42,082)
Salaries, wages and benefits	(1,644,420)	(1,529,995)
Professional clinic service fees	221,728	212,424
Hospital services	1,338,659	1,096,977
Auxiliary enterprise receipts	171,385	153,659
Loans issued to students	(18,231)	(21,188)
Collection of loans to students	18,425	19,818
Self insurance receipts	61,352	51,230
Self insurance payments	(56,750)	(48,217)
Other operating receipts (payments), net	4,445	3,544
Net cash provided (used) by operating activities	<u>11,738</u>	<u>(150,202)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State appropriations	279,611	283,869
Gifts and grants received for other than capital purposes:		
Gifts received for endowment purposes	7,782	7,554
Gifts received for other purposes	113,225	88,716
Agency and loan program receipts	227,347	225,252
Agency and loan program payments	(229,398)	(226,011)
Other noncapital financing receipts (payments), net	18,165	30,270
Net cash provided (used) by noncapital financing activities	<u>416,732</u>	<u>409,650</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital grants and gifts	30,974	46,989
Purchases of capital assets	(284,031)	(139,955)
Proceeds from capital debt	392,077	251,920
Payments to refunding bond agents	(248,642)	-
Proceeds from sales of capital assets	10,180	-
Principal paid on capital debt and leases	(49,872)	(50,900)
Interest paid on capital debt and leases	(34,849)	(28,460)
Other capital and related financing receipts (payments), net	5,385	1,569
Net cash provided (used) by capital and related financing activities	<u>(178,778)</u>	<u>81,163</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments	312,958	717,482
Interest and dividends on investments	19,850	13,723
Purchase of investments	(342,511)	(842,792)
Net proceeds from sale of CLI stock, net of cash acquired	19,877	-
Repayment of debt and other related to sale of CLI stock	(3,274)	-
Net cash provided (used) by investing activities	<u>6,900</u>	<u>(111,587)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<u>256,592</u>	<u>229,024</u>
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>680,891</u>	<u>451,867</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>\$ 937,483</u>	<u>\$ 680,891</u>
<b>Reconciliation of net loss from operations</b>		
<b>to net cash provided (used) by operating activities:</b>		
Net loss from operations	\$ (147,108)	\$ (292,412)
Adjustments to reconcile net loss from operations		
<b>to net cash provided (used) by operating activities:</b>		
Depreciation expense	134,374	131,262
Change in assets and liabilities:		
Notes, loans and accounts receivable, net	(327,943)	(11,745)
Inventories and other assets	(5,800)	(4,472)
Accounts payable and accrued liabilities	22,358	26,255
Unearned revenue	230,882	(4,510)
Long-term liabilities	13,959	5,420
Deferred inflows of resources	91,016	-
<b>Net cash provided (used) by operating activities</b>	<u>\$ 11,738</u>	<u>\$ (150,202)</u>

See notes to financial statements.

**UNIVERSITY OF KENTUCKY**  
**A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

The University of Kentucky (the University) is a component unit of the Commonwealth of Kentucky (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 (The Fund); 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 organizational units of the University: the UK HealthCare Hospital System (the System), the Department of Intercollegiate Athletics (Athletics), the Kentucky Tobacco Research and Development Center (KTRDC), and WUKY Radio. The separate financial statements for the above entities can be found at: [www.uky.edu/evpfa/controller/finst](http://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 (the board) 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. BTAs 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, amounts due under multimedia rights contract and service concession arrangements, 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 with the long-term objective to maintain the purchasing power of each endowment and provide a predictable and sustainable level of income to support current operations.

Effective for fiscal year 2015 and thereafter, the University 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 is 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 is constrained so that the calculated rate is at least three percent, and not more than six percent, of the current endowment market value. For fiscal year 2014, spending was based on four percent of the average endowment market value for the preceding 60 months.

The University also utilizes an endowment management fee to support internal management and fundraising costs related to the endowment. For the years ended June 30, 2015 and 2014, the University's annual endowment management fee was 0.25%.

To protect endowment funds from permanent impairment of value, spending and management fee withdrawals are suspended on endowments with a market value less than the contributed value by more than 20%. Additionally, endowments with a market value less than the contributed value by more than 10% undergo a formal review to determine the appropriate level of spending in accordance with various factors set forth in UPMIFA. All donor restrictions and stipulations prevail in decisions regarding preservation and spending of endowment funds.

The components of the University's spending policy distribution and management fee for the years ended June 30, 2015 and 2014 are as follows (in thousands):

	2015	2014
Gross spending policy distribution	\$ 38,340	\$ 36,381
Reinvested spending policy distribution	(17,903)	(16,640)
Net spending policy distribution	\$ 20,437	\$ 19,741
Management fee	\$ 2,718	\$ 2,525

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, 2015 and 2014, as adjusted by cash receipts, cash disbursements, and securities distributions through June 30, 2015 and 2014, at a total estimated fair value of \$211.4 million and \$154.1 million, respectively. Other alternative investments are carried at estimated fair values as of December 31, 2014 and 2013, at a total estimated value of \$950,000 and \$1.3 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 \$484.6 million and \$492.9 million at June 30, 2015 and 2014, respectively. The University believes that the total carrying amount of its alternative investments valued at \$747.9 million and \$695.6 million at June 30, 2015 and 2014, respectively, is a reasonable estimate of fair value. The University's outstanding commitment to alternative investments is approximately \$195.4 million and \$122.5 million as of June 30, 2015 and 2014, 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 a currently active project, net of interest earned on investments acquired with the proceeds of the borrowing. The University also capitalizes interest costs as a component of construction in progress on projects funded by unrestricted funds based on the interest costs of borrowings no longer associated with a specific project. The calculation is based on a project's average expenditures times the weighted average interest rate on borrowings.

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 75 years for new student housing buildings, 40 years for other 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.

Deferred Outflows of Resources. A deferred outflow of resources is a loss in net position by the University that is applicable to a future reporting period. Deferred outflows of resources are reported in the statement of net position, but are not recognized in the financial statements as expense until in the related period. Deferred outflows of resources of \$13.8 million as of June 30, 2015, consisted of unamortized difference between the reacquisition price and net carrying amount of the refunded debt.

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 from multimedia rights pursuant to contract agreement and 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, 2015 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.

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 28% and 27%, respectively, of the System's net patient services revenues before the provision for doubtful accounts for the year ended June 30, 2015 and approximately 25% and 24%, respectively for the year ended June 30, 2014. 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, dentists 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, The Fund 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 2015, the System was in the fourth year under the Medicare programs and recorded \$1.1 million, which is included in hospital services revenue within operating revenues in the Statement of Revenues, Expenses, and Changes in Net Position. In fiscal year 2014, the System was in the third year of the programs and recorded \$1.7 million.

In fiscal year 2015, the System received no revenue under the Medicaid program as their program ended in fiscal year 2014. In fiscal year 2014, the System recorded \$564,000 in hospital services revenue.

In addition, during the years ended June 30, 2015 and 2014, KMSF applied for and received \$366,000 and \$269,000, respectively, in Medicaid health information technology (HIT) funds and \$1.3 million and \$1.0 million, respectively, in Medicare HIT funds, which is included in professional clinical service fees in the Statement of Revenues, Expenses and changes in Net Position.

In fiscal year 2015, The Fund completed the first-year requirements under the Medicaid program and recorded \$298,000 in state and local grants and contracts within operating revenues in the Statement of Revenues, Expenses and Changes in Net Position.

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 2015 and 2014, departmental research in nonsponsored accounts of approximately \$61.6 million and \$67.7 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.

Recent Accounting Pronouncements. As of June 30, 2015, the GASB has issued the following applicable statements to the University but not yet implemented.

- GASB Statement No. 72, *Fair Value Measurement and Application*, issued February 2015. The provisions of this Statement are effective for fiscal years beginning after June 15, 2015. This statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. The University is currently evaluating the effect Statement No. 72 will have on its financial statements.
- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and 68*, issued June 2015. The provisions of this Statement are effective for fiscal years beginning after June 15, 2016. This statement establishes requirements for defined contribution pensions plans not administered through trusts that meet certain criteria. The University has certain employees who were age 40 or older prior to the establishment of each group retirement plan that qualify for minimum annual retirement benefits. (see note 17) The University is currently evaluating the effect statement No. 73 will have on its financial statements.
- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, issued June 2015. The provisions of this Statement are effective for fiscal years beginning after June 15, 2017. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. This statement addresses employers whose employees are provided defined contribution OPEB. The University is working with an actuary to determine the impact of the pronouncement. Although specific amounts are not yet known, this is expected to result in a significant liability for the unfunded portion being recorded on the University's financial statements.
- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles (GAAP) for State and Local Governments*, issued June 2015. The provisions of this Statement are effective for fiscal years beginning after June 15, 2015. This statement supersedes Statement No. 55 and raises the category of GASB Implementation Guides in the GAAP hierarchy. The University is currently evaluating the effect Statement No. 76 will have on its financial statements.

Reclassifications. Certain reclassifications have been made to the fiscal year 2014 financial statements to conform to the fiscal year 2015 financial statement presentation. These reclassifications had no effect on change in net position.

## 2. DEPOSITS AND INVESTMENTS

The fair value of deposits and investments, by type, at June 30, 2015 and 2014 are as follows (in thousands):

	2015	2014
Cash and cash equivalents	\$ 213,775	\$ 109,551
Certificates of deposit	36,729	26,715
Common and preferred stocks	51,026	63,668
Corporate fixed income securities	60,817	56,742
Deposits with banks and the Commonwealth of Kentucky	81,871	111,619
Government agency fixed income securities	91,926	69,423
Guaranteed investment contracts	3,786	2,726
Other	148	152
Pooled absolute return funds	122,347	140,497
Pooled equity funds	332,258	353,946
Pooled fixed income funds	821,949	615,555
Pooled global tactical allocation funds	88,047	91,544
Pooled long/short equity funds	173,669	145,705
Pooled private equity funds	157,977	120,515
Pooled real estate funds	105,708	81,454
Pooled diversified inflation strategy funds	101,210	115,915
Repurchase agreements	487	39,998
State and municipal fixed income securities	12,967	13,258
U.S. Treasury fixed income securities	9,046	11,694
	<u>\$ 2,465,743</u>	<u>\$ 2,170,677</u>
Total		
	2015	2014
Statement of Net Position classification		
Current cash and cash equivalents	\$ 621,961	\$ 387,863
Current investments	21,702	26,452
Restricted cash and cash equivalents	315,522	293,028
Endowment investments	1,231,557	1,215,226
Other long-term investments	275,001	248,108
	<u>\$ 2,465,743</u>	<u>\$ 2,170,677</u>
Total		

Alternative investments totaling approximately \$747.9 million and \$695.6 million as of June 30, 2015 and 2014, 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 diversified inflation strategy funds in the summary schedule of investments above (refer to Note 1, Summary of Significant Accounting Policies, regarding valuation of alternative investments).

Deposit and Investment Policies. The Board 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 Statute KRS 42.500 for the investment of public funds, which lists allowable investment instruments including: obligations of the United States or a United States government agency; obligations of any corporation of the United States government or government-sponsored enterprise; various highly rated fixed income securities including collateralized and uncollateralized certificates of deposit, bankers acceptances, commercial paper, state or local government securities, United States denominated

corporate, Yankee and Eurozone securities and asset-backed securities; highly rated mutual funds comprised of any of the above allowable investments; and state and local property tax certificates of delinquency secured by interests in real property.

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 market funds 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 and intermediate-term investments:
  - managed by the University, including individual securities purchased and held by the University,
  - managed by the Commonwealth in pooled fixed income funds, and
  - managed by an external manager in a low duration strategy.
- Debt service sinking 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 overnight, short-term and intermediate-term investments 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 Board 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, money market funds 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, asset-backed securities or qualified mutual funds rated in the highest category by a nationally recognized statistical rating organization; 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 statistical rating organization; and state and local property tax certificates of delinquency secured by interests in real property.

- Short-term and intermediate-term investments managed by the University and those held in the Commonwealth's investment pools are subject to the same credit quality restrictions as denoted above for bond revenue fund investments. The investment guidelines for the low duration strategy managed by an external manager require that a minimum of 85% of the portfolio holdings are investment grade and a minimum A- portfolio average quality is maintained, 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, 2015, and 2014, respectively, the credit quality of the University's fixed income investments is summarized below (in thousands):

2015										
<u>S&amp;P/Moody's Credit Ratings</u>										
	AAA/Aaa	AA/Aa	A	BBB/ Baa	BB/Ba	B	Below B	Not rated	Rating Not Applicable	Total
Cash and cash equivalents	\$ 200,080	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 13,695	\$ -	\$ 213,775
Certificates of deposit	-	-	-	-	-	-	-	36,729	-	36,729
Corporate fixed income	8,088	3,148	19,277	21,859	5,604	2,075	375	391	-	60,817
Government agency fixed income	10	90,858	-	195	863	-	-	-	-	91,926
Guaranteed investment contracts	-	159	-	-	-	-	-	3,627	-	3,786
Pooled fixed income	-	1,175	-	-	-	-	-	820,774	-	821,949
Repurchase agreements	-	-	-	-	-	-	-	487	-	487
State and municipal fixed income	1,834	11,133	-	-	-	-	-	-	-	12,967
U.S. Treasury fixed income	-	-	-	-	-	-	-	-	9,046	9,046
<b>Total</b>	<b>\$ 210,012</b>	<b>\$ 106,473</b>	<b>\$ 19,277</b>	<b>\$ 22,054</b>	<b>\$ 6,467</b>	<b>\$ 2,075</b>	<b>\$ 375</b>	<b>\$ 875,703</b>	<b>\$ 9,046</b>	<b>\$ 1,251,482</b>

2014										
<u>S&amp;P/Moody's Credit Ratings</u>										
	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	6,005	2,471	15,569	23,844	5,607	2,355	496	395	-	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
<b>Total</b>	<b>\$ 81,519</b>	<b>\$ 73,882</b>	<b>\$ 24,387</b>	<b>\$ 24,577</b>	<b>\$ 5,607</b>	<b>\$ 2,355</b>	<b>\$ 496</b>	<b>\$ 721,145</b>	<b>\$ 11,694</b>	<b>\$ 945,662</b>

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

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

- Overnight investments (deposits, money market funds 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. Deposits and money market investments are held in the University's name by various financial institutions.
- 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 and intermediate-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 and intermediate-term investments managed by the University are held in the University's name in a safekeeping account. The low duration strategy investments managed by an external manager are held in the University's name by the University's custodian.
- Investment securities held in bond debt service sinking 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, 2015 and 2014, 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):

	2015				
	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	\$ -	\$ -	\$ -	\$ -	\$ -
Uninsured, not registered in the name of the University and held by the counterparty but not in the University's name	-	643,430	60,000	25,536	728,966
Total	\$ -	\$ 643,430	\$ 60,000	\$ 25,536	\$ 728,966

	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

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



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

- Overnight investments (deposits, money market funds and repurchase agreements) are not limited to a 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 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 35% of an individual pool and \$25.0 million per issuer, inclusive of commercial paper, bankers acceptances and certificates of deposit per individual pool; and U.S. dollar denominated sovereign debt shall not exceed five percent of any individual portfolio and \$25.0 million per issuer.
- Short-term and intermediate-term investments managed by the University and those held in the Commonwealth's investment pools are subject to the same credit concentration restrictions as denoted above for the bond revenue fund investments. Investments in the low duration strategy managed by an external manager are limited such 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 sinking 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, 2015 and 2014, the University had no investments in any one issuer, other than U.S. Treasury and/or agency securities, that represented 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 market funds 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 an average maturity that does not exceed 90 days. Such investments in the Commonwealth's intermediate-term investment pool must maintain an effective duration of less than three years.
- Short-term and intermediate-term investments managed by the University are generally limited to a maximum maturity of 24 months and those held in the Commonwealth's investment pools are subject to the same maturity and duration limits as denoted above for bond revenue fund investments. The portfolio duration of the low duration strategy investment managed by an external manager must be within a range of +/- 0.5 years of the Barclays Capital U.S. Government/Credit 1-5 Year Index.
- Investment securities held in bond debt service sinking 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 Capital U.S. Aggregate Bond Index and unconstrained fixed income strategies have been implemented to further protect against rising interest rates.

For June 30, 2015, below is the maturity distribution of the University's fixed income investments (in thousands):

<u>Investment Type</u>	2015						<u>Total</u>
	<u>Maturities in Years</u>					Managed based on duration	
	Less than 1	1-3	3-5	5-10	Greater than 10		
Cash and cash equivalents	\$ 213,775	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 213,775
Certificates of deposit	36,729	-	-	-	-	-	36,729
Corporate fixed income	2,410	21,178	17,349	7,009	4,822	8,049	60,817
Government agency fixed income	1,613	17,306	68,606	1,336	507	2,558	91,926
Guaranteed investment contracts	-	56	-	159	3,571	-	3,786
Pooled fixed income	-	-	-	-	-	821,949	821,949
Repurchase agreements	487	-	-	-	-	-	487
State and municipal fixed income	5,116	7,271	580	-	-	-	12,967
U.S. Treasury fixed income	-	54	47	-	-	8,945	9,046
<b>Total</b>	<b>\$ 260,130</b>	<b>\$ 45,865</b>	<b>\$ 86,582</b>	<b>\$ 8,504</b>	<b>\$ 8,900</b>	<b>\$ 841,501</b>	<b>\$ 1,251,482</b>

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

<u>Investment Type</u>	2014						<u>Total</u>
	<u>Maturities in Years</u>					Managed based on duration	
	Less than 1	1-3	3-5	5-10	Greater than 10		
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
<b>Total</b>	<b>\$ 178,829</b>	<b>\$ 22,830</b>	<b>\$ 81,249</b>	<b>\$ 14,940</b>	<b>\$ 11,899</b>	<b>\$ 635,915</b>	<b>\$ 945,662</b>

At June 30, 2015 and 2014, the University had the following investments managed based on duration (in thousands):

<u>Investment Type</u>	2015		2014	
	Fair Value	Modified Duration (Years)	Fair Value	Modified Duration (Years)
Corporate fixed income	\$ 8,049	0.7	\$ 6,141	0.4
Government agency fixed income	2,558	0.4	2,634	0.5
Pooled fixed income				
Commonwealth of Kentucky intermediate pool	110,494	1.1	60,028	1.3
Commonwealth of Kentucky limited pool	618,471	0.1	461,218	0.1
Kentucky Technology, Inc.	57	2.3	52	2.2
KMSF	1,776	2.9	1,860	3.6
Other endowment investments	2,149	5.8	2,283	5.4
Pooled endowment fund	89,002	1.6	90,114	0.6
U.S. Treasury fixed income	8,945	3.2	11,585	2.5
Total	<u>\$ 841,501</u>		<u>\$ 635,915</u>	

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, 2015 and 2014, the following endowment investments were subject to foreign currency risk (in thousands):

	Fair Value	
	2015	2014
Common stock	\$ 38,289	\$ 51,320
Pooled private equity funds	6,971	8,712
Pooled real estate funds	5,174	-
Cash equivalents	720	372
Total	<u>\$ 51,154</u>	<u>\$ 60,404</u>

### 3. NOTES, LOANS AND ACCOUNTS RECEIVABLE, NET

Notes, loans and accounts receivable as of June 30, 2015 and 2014 are as follows (in thousands):

	2015		
	Gross Receivable	Allowance	Net Receivable
Accrued interest receivable	\$ 1,885	\$ -	\$ 1,885
Dentistry patient accounts	2,766	(696)	2,070
Hospital patient accounts	176,436	(40,923)	135,513
KMSF patient accounts	32,421	(4,003)	28,418
Multimedia rights receivable	210,000	-	210,000
Pledges receivable	78,537	(26,650)	51,887
Reimbursement receivable - federal appropriations	1,604	-	1,604
Reimbursement receivable - grants and contracts	32,793	(400)	32,393
Service concession arrangements	98,832	-	98,832
Student loans	29,747	(3,103)	26,644
Student receivables	28,189	(16,328)	11,861
Other	30,622	-	30,622
<b>Total</b>	<b>\$ 723,832</b>	<b>\$ (92,103)</b>	<b>\$ 631,729</b>
Current portion			\$ 292,776
Noncurrent portion			338,953
<b>Total</b>			<b>\$ 631,729</b>
	2014		
	Gross Receivable	Allowance	Net Receivable
Accrued interest receivable	\$ 2,807	\$ -	\$ 2,807
Dentistry patient accounts	2,584	(690)	1,894
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
Pledges receivable	76,279	(28,316)	47,963
Reimbursement receivable - federal appropriations	2,699	-	2,699
Reimbursement receivable - grants and contracts	31,663	(575)	31,088
Student loans	29,701	(2,854)	26,847
Student receivables	22,934	(13,256)	9,678
Other	26,520	-	26,520
<b>Total</b>	<b>\$ 377,598</b>	<b>\$ (78,098)</b>	<b>\$ 299,500</b>
Current portion			\$ 240,088
Noncurrent portion			59,412
<b>Total</b>			<b>\$ 299,500</b>

#### 4. CAPITAL ASSETS, NET

Capital assets as of June 30, 2015 and capital asset activity for the year ended June 30, 2015 are summarized below (in thousands):

	<u>June 30, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2015</u>
Land	\$ 72,394	\$ 953	\$ -	\$ 73,347
Land improvements - nonexhaustible	42,643	3,583	-	46,226
Land improvements - exhaustible	70,231	4,048	-	74,279
Buildings	2,209,332	247,090	24,873	2,431,549
Fixed equipment - communications	96,579	4,253	216	100,616
Infrastructure	95,385	4,619	48	99,956
Equipment	571,221	59,158	51,250	579,129
Vehicles	21,400	1,750	1,247	21,903
Library materials	144,330	2,565	962	145,933
Nondepreciable library materials	6,651	-	-	6,651
Capitalized software	142,580	13,486	151	155,915
Art	11,459	327	-	11,786
Certificate of need license	11,609	-	-	11,609
Construction in progress	91,637	213,434	38,180	266,891
	<u>3,587,451</u>	<u>555,266</u>	<u>116,927</u>	<u>4,025,790</u>
<u>Accumulated Depreciation</u>				
Land improvements - exhaustible	55,278	2,741	-	58,019
Buildings	822,366	59,489	15,860	865,995
Fixed equipment - communications	59,347	6,276	191	65,432
Infrastructure	33,001	3,631	17	36,615
Equipment	408,068	45,707	36,025	417,750
Vehicles	18,252	1,461	1,157	18,556
Library materials	134,477	2,706	-	137,183
Capitalized software	77,258	12,363	21	89,600
	<u>1,608,047</u>	<u>134,374</u>	<u>53,271</u>	<u>1,689,150</u>
Capital assets, net	<u>\$ 1,979,404</u>	<u>\$ 420,892</u>	<u>\$ 63,656</u>	<u>\$ 2,336,640</u>

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

	<u>June 30, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2014</u>
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
	<u>3,465,462</u>	<u>188,589</u>	<u>66,600</u>	<u>3,587,451</u>
<u>Accumulated Depreciation</u>				
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
	<u>1,509,731</u>	<u>131,262</u>	<u>32,946</u>	<u>1,608,047</u>
Capital assets, net	<u>\$ 1,955,731</u>	<u>\$ 57,327</u>	<u>\$ 33,654</u>	<u>\$ 1,979,404</u>

At June 30, 2015, the University had construction projects in progress totaling approximately \$845.9 million in scope. The estimated cost to complete these projects was approximately \$580.2 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 \$8.0 million for 2015 and \$454,000 for 2014.

During fiscal years 2015 and 2014, the University utilized capital leases to acquire various items of equipment. As of June 30, 2015 and 2014, the net book value of land, buildings, equipment and software acquired through capital leases included in the above schedules totaled \$115.5 million and \$130.9 million, respectively.

During fiscal year 2015, five student housing buildings were demolished with an original cost of \$7.3 million and accumulated depreciation of \$7.0 million, for a total net book value written off of \$331,000.

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 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 \$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.

Non-cash capital asset and related financing activities as of June 30, 2015 and 2014 are summarized below (in thousands):

	2015	2014
Capital lease additions	\$ 26,063	\$ 1,353
Gifts of capital assets	\$ 2,750	\$ 4,934
Capital asset additions in accounts payable	\$ 39,976	\$ 11,982
Capital asset additions by service concession arrangements	\$ 150,107	\$ -
Capitalized interest, net of investment income	\$ 8,037	\$ 454
Amortized bond discount and premium	\$ 7,719	\$ 2,667
Amortized difference between reacquisition price and net carrying amount of refunded debt	\$ 828	\$ -
Capital asset trade in	\$ 1,594	\$ 295

## 5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2015 and 2014 are as follows (in thousands):

	2015	2014
Payable to vendors and contractors	\$ 165,744	\$ 113,574
Accrued expenses, including vacation and sick leave	78,311	68,705
Employee withholdings and deposits payable to third parties	49,168	45,297
Total	<u>\$ 293,223</u>	<u>\$ 227,576</u>

## 6. UNEARNED REVENUE

Unearned revenues as of June 30, 2015 and 2014 are as follows (in thousands):

	2015					
	June 30, 2014	Additions	Reductions	June 30, 2015	Current Portion	Non-current Portion
Unearned summer school revenue	\$ 8,934	\$ 9,259	\$ 9,091	\$ 9,102	\$ 9,102	\$ -
Unearned hospital revenue	7,545	94,403	73,241	28,707	28,707	-
Unearned grants and contracts revenue	23,140	59,967	57,140	25,967	25,967	-
Unearned multimedia rights revenue	-	210,000	2,916	207,084	14,001	193,083
Prepaid athletic ticket sales	12,636	14,557	13,662	13,531	13,531	-
Other	7,762	10,151	11,349	6,564	6,553	11
Total	<u>\$ 60,017</u>	<u>\$ 398,337</u>	<u>\$ 167,399</u>	<u>\$ 290,955</u>	<u>\$ 97,861</u>	<u>\$ 193,094</u>

	2014					
	June 30, 2013	Additions	Reductions	June 30, 2014	Current Portion	Non-current Portion
Unearned summer school revenue	\$ 7,330	\$ 8,934	\$ 7,330	\$ 8,934	\$ 8,934	\$ -
Unearned hospital revenue	6,928	33,170	32,553	7,545	7,545	-
Unearned grants and contracts revenue	29,509	57,686	64,055	23,140	23,140	-
Prepaid athletic ticket sales	13,581	14,354	15,299	12,636	12,636	-
Other	7,204	23,661	23,103	7,762	7,762	-
Total	<u>\$ 64,552</u>	<u>\$ 137,805</u>	<u>\$ 142,340</u>	<u>\$ 60,017</u>	<u>\$ 60,017</u>	<u>\$ -</u>

A multimedia rights partnership was 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 fiscal year 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.

## 7. LONG-TERM LIABILITIES

Long-term liabilities as of June 30, 2015 and long-term liability activity for the year ended June 30, 2015 are summarized below (in thousands):

	June 30, 2014	Additions	Reductions	June 30, 2015	Current Portion	Non-current Portion
<u>Bonds, notes and capital leases</u>						
General receipts notes	\$ 265,180	\$ -	\$ 195,985	\$ 69,195	\$ 16,440	\$ 52,755
General receipts bonds	432,500	347,185	27,950	751,735	14,845	736,890
Educational buildings bonds	33,350	-	33,350	-	-	-
Capital leases and other						
long-term obligations	86,485	26,693	23,194	89,984	17,298	72,686
Notes payable	20,664	-	1,135	19,529	600	18,929
Total bonds, notes and capital leases	<u>838,179</u>	<u>373,878</u>	<u>281,614</u>	<u>930,443</u>	<u>49,183</u>	<u>881,260</u>
<u>Other liabilities</u>						
Annuities payable	5,701	653	2,552	3,802	565	3,237
Arbitrage rebate	27	-	27	-	-	-
Automobile and property self insurance	440	1,491	1,469	462	462	-
Compensated absences	7,634	-	334	7,300	721	6,579
Federal loan programs	20,533	375	531	20,377	-	20,377
Health insurance	7,189	40,620	39,229	8,580	8,580	-
Insurance executory costs	-	6,157	82	6,075	82	5,993
Long-term disability	-	2	-	2	2	-
Medical malpractice	29,297	8,959	7,659	30,597	6,006	24,591
Retiree health benefits trust	97,317	11,498	-	108,815	-	108,815
Unamortized bond premium	22,160	46,250	7,781	60,629	6,437	54,192
Unemployment compensation	622	705	752	575	575	-
Workers compensation	21,773	9,967	6,660	25,080	7,167	17,913
Other	8,402	7,812	6,547	9,667	1,623	8,044
Total other liabilities	<u>221,095</u>	<u>134,489</u>	<u>73,623</u>	<u>281,961</u>	<u>32,220</u>	<u>249,741</u>
Total	<u>\$ 1,059,274</u>	<u>\$ 508,367</u>	<u>\$ 355,237</u>	<u>\$ 1,212,404</u>	<u>\$ 81,403</u>	<u>\$ 1,131,001</u>



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
<u>Bonds, notes and capital leases</u>						
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	<u>647,790</u>	<u>241,815</u>	<u>51,426</u>	<u>838,179</u>	<u>47,473</u>	<u>790,706</u>
<u>Other liabilities</u>						
Annuities payable	4,788	1,473	560	5,701	566	5,135
Arbitrage rebate	5	22	-	27	-	27
Automobile and property self insurance	414	1,119	1,093	440	440	-
Compensated absences	7,634	-	-	7,634	651	6,983
Federal loan programs	20,992	375	834	20,533	-	20,533
Health insurance	6,038	36,447	35,296	7,189	7,189	-
Long-term disability	6	-	6	-	-	-
Medical malpractice	26,346	8,440	5,489	29,297	5,235	24,062
Retiree health benefits trust	75,362	21,955	-	97,317	-	97,317
Unamortized bond premium	11,144	12,715	1,699	22,160	2,137	20,023
Unemployment compensation	629	744	751	622	622	-
Workers compensation	19,765	7,743	5,735	21,773	5,445	16,328
Other	5,644	6,460	3,702	8,402	1,320	7,082
Total other liabilities	<u>178,767</u>	<u>97,493</u>	<u>55,165</u>	<u>221,095</u>	<u>23,605</u>	<u>197,490</u>
Total	<u>\$ 826,557</u>	<u>\$ 339,308</u>	<u>\$ 106,591</u>	<u>\$ 1,059,274</u>	<u>\$ 71,078</u>	<u>\$ 988,196</u>

Annuities payable consists of the present value of future payments due under charitable remainder annuity trusts, charitable remainder unitrusts, lead trusts, irrevocable trusts and charitable gift annuities, discounted at 3.6% 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 and general receipts notes in the original amount of \$1.10 billion dated October 27, 2005 through April 15, 2015, which bear interest at 1.46% to 4.66%. The bonds are payable in annual installments through April 1, 2045. 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%. All bonds except for the General Receipts 2012 Bonds Series A and General Receipts 2014 Bonds Series C, totaling \$791.0 million, are callable between 2016 and 2025.

The indenture agreements require that certain funds be established with the trustee and with the Commonwealth.

On July 28, 2014, approximately \$88.1 million of University of Kentucky General Receipts 2014 Bonds Series D were issued at a true interest cost of 2.04%. These bonds were issued for the purpose of refunding University of Kentucky General Receipts 2005 Bonds Series A (originally issued to fund the renovation of Memorial Coliseum), University of Kentucky General Receipts 2005 Notes Series A (originally issued to fund the construction of the Patient Care Facility) and Consolidated Educational Buildings Revenue Bonds (CEBRB) Series PQR (originally issued to fund various projects). These bonds will reduce the University's total debt service payments over the next 11 years by approximately \$16.8 million, representing an economic gain (difference between the present value of the debt service payments on the old and the new bonds) of

approximately \$15.0 million. Also, on April 15, 2015, approximately \$259.0 million of University of Kentucky General Receipts 2015 Bonds Series A, B and C were issued at a true interest cost of 3.52%, 2.33% and 1.97%, respectively. These bonds were issued for the purpose of funding various construction projects for the System and refunding University of Kentucky General Receipts 2007 Notes Series A and B (originally issued to fund the construction of the Patient Care Facility), CEBRB Series U (originally issued to fund parking and infrastructure projects) and University of Kentucky General Receipts 2006 Bonds Series A (originally issued to fund the construction of the student health facility). The refunding portion of these bonds will reduce the University's total debt service payments over the next 13 years by approximately \$17.3 million, representing an economic gain of approximately \$14.9 million.

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 during fiscal year 2015 and 2014, was 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 32% and 33% in 2015 and 2014, respectively. The QECB subsidy was reduced to approximately 74% in 2015 and 2014.

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, 2015, are as follows (in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 49,183	\$ 38,774	\$ 87,957
2017	66,548	37,355	103,903
2018	48,356	35,003	83,359
2019	44,010	33,190	77,200
2020	45,347	31,451	76,798
2021-2025	236,674	130,494	367,168
2026-2030	151,635	77,841	229,476
2031-2035	105,030	52,729	157,759
2036-2040	103,900	29,904	133,804
2041-2045	<u>79,760</u>	<u>9,044</u>	<u>88,804</u>
Total	<u>\$ 930,443</u>	<u>\$ 475,785</u>	<u>\$ 1,406,228</u>

At June 30, 2015, assets with a fair market value of approximately \$213.7 million have been placed on deposit with trustees to totally defease bonds with a par amount of approximately \$199.9 million. The liability for these fully defeased bonds is not included in the financial statements.

## 8. DEFERRED INFLOWS OF RESOURCES

As of June 30, 2015 and 2014, deferred inflows of resources are as follows (in thousands):

	<u>2015</u>	<u>2014</u>
Aramark service concession arrangement	\$ 105,900	\$ -
Barnes and Noble service concession arrangement	4,924	-
EdR service concession arrangement	130,300	-
Total	<u>\$ 241,124</u>	<u>\$ -</u>

The University has entered into a multi-phase housing project with a third party developer, Education Realty Trust (EdR), to construct new residence halls. Phase I, signed in April 2012, was for two four-story buildings, (601 beds) and opened in August 2013. 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.

Phase II-A, which opened in August 2014, included the development of five residence halls at an approximate cost of \$138.2 million. The residence halls are reported as a capital asset with carrying value of \$136.4 million at June 30, 2015 and deferred inflows of resources in the amount of \$130.3 million pursuant to the service concession arrangement. The 75 year term lease with EdR includes maintenance standards for the facilities and parameters for the room rental rates for the contract 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. Phase II-A and subsequent phases are exempt from ad valorem tax.

Future plans include Phase II-B, online in August 2015, for the construction of three residence halls at an approximate cost of \$101.2 million. Phase II-C, expected to open in August 2016, includes residence halls at an approximate cost of \$83.9 million. Phase III-A, expected to open in August 2017, will be a \$74.0 million, 771 bed facility which will provide apartment style units for upper class, graduate and professional students.

In July 2014, the University entered into an approximately \$250.0 million contract with Aramark Enterprise Services, LLC (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 were located on campus starting in the Fall of 2014 and continuing the next year. Aramark provides 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. 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 constructed a new K Lair Grill at Haggin Hall and made substantial upgrades to the Student Center Food Court and will construct "The 90's" dining facility for the Fall 2015 semester. The completed projects are reported as capital asset with carrying value of \$11.3 million at June 30, 2015 and deferred inflows of resources in the amount of \$11.1 million pursuant to the service concession arrangement. The present value of the guaranteed minimum payments over the 15 year contract period include a receivable of \$94.6 million and deferred inflows of resources in the amount of \$94.8 million pursuant to the service concession arrangement.

In June 2015, the University entered into a contract with Barnes and Noble College Booksellers (Barnes and Noble) to operate and provide services for the bookstore for ten years with an additional five year renewal option period. Barnes and Noble constructed a temporary bookstore for use until the new student center opens in January 2018. The present value of the guaranteed minimum payments over the 181 month contract period is reported as receivable of \$4.3 million and deferred inflows of resources in the amount of \$4.9 million pursuant to the service concession arrangement.

## 9. 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, 2015 and 2014 restricted expendable net position is composed of the following (in thousands):

	<u>2015</u>	<u>2014</u>
Appreciation on permanent endowments	\$ 158,121	\$ 164,726
Term endowments	9,123	9,515
Quasi-endowments initially funded with restricted assets	50,775	50,997
Funds restricted for capital projects and debt service	129,458	102,131
Funds restricted for noncapital purposes	93,605	87,961
Loan funds (primarily University funds required for federal match)	10,908	10,445
Total	<u>\$ 451,990</u>	<u>\$ 425,775</u>

## 10. DESIGNATIONS OF UNRESTRICTED NET POSITION

Unrestricted net position is designated for specific purposes by action of the Board or management or may otherwise be limited by contractual agreements. Commitments for the use of unrestricted net position as of June 30, 2015 and 2014 are as follows (in thousands):

	<u>2015</u>	<u>2014</u>
Working capital requirements	\$ 109,072	\$ 115,282
Budget appropriations for future year fiscal operations	180,535	145,083
Designated for capital projects	36,831	55,201
Designated for renewal and replacement of capital assets	31,021	25,559
UK HealthCare Hospital System	585,764	414,062
Affiliated corporations and component units	54,411	38,847
Total	<u>\$ 997,634</u>	<u>\$ 794,034</u>

## 11. PLEDGED REVENUES

Pledged revenues for 2015 and 2014 as defined by the General Receipts Trust Indenture, are as follows (in thousands):

	<u>2015</u>	<u>2014</u>
Student tuition and fees	\$ 302,936	\$ 287,517
Nongovernmental grants and contracts	849	716
Recoveries of facilities and administrative costs	48,154	47,159
Sales and services	40,004	41,637
Hospital services	1,323,652	1,101,662
Auxiliary enterprises - housing and dining	39,551	44,154
Auxiliary enterprises - athletics	88,928	73,957
Auxiliary enterprises - other	46,753	37,282
Other operating revenue	852	967
State appropriations	279,611	283,869
Gifts and grants	4,955	4,809
Investment income	21,774	6,208
Total	<u>\$ 2,198,019</u>	<u>\$ 1,929,937</u>

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 2015. 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 revenues, operating and nonoperating, and are payable through 2045. Annual principal and interest payments on bonds are expected to require approximately three percent of pledged revenue. The total principal and interest remaining to be paid on the bonds is approximately \$1.28 billion and \$1.07 billion in 2015 and 2014, respectively. Principal and interest paid for 2015 and 2014 was \$55.5 million and \$43.2 million, respectively.

## 12. INVESTMENT INCOME

Components of investment income (loss) for the years ended June 30, 2015 and 2014 are as follows (in thousands):

	2015	2014
Interest and dividends earned on endowment investments	\$ 12,154	\$ 14,369
Realized and unrealized gains and losses on endowment investments	9,877	135,759
Interest and dividends on cash and non-endowment investments	3,242	3,964
Realized and unrealized gains and losses on non-endowment investments	18,293	(317)
Investment income from external trusts	1,622	1,772
Total	<u>\$ 45,188</u>	<u>\$ 155,547</u>

## 13. 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, 2015 and 2014, the University received income from these trusts of approximately \$1.6 million and \$1.8 million, respectively. The market value of the external trust assets as of June 30, 2015 and 2014 was approximately \$41.5 million and \$42.1 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.

## 14. PLEDGES AND DEFERRED GIFTS

At June 30, 2015 and 2014, respectively, pledges are expected to be collected primarily over the next 10 years, as follows (in thousands):

	2015	2014
Operating purposes	\$ 10,939	\$ 11,541
Capital projects	74,974	70,046
Total pledges	<u>85,913</u>	<u>81,587</u>
Less discounts	<u>(7,376)</u>	<u>(5,308)</u>
Total gross pledges receivable	78,537	76,279
Less allowances	<u>(26,650)</u>	<u>(28,316)</u>
Total net pledges receivable	<u>\$ 51,887</u>	<u>\$ 47,963</u>

In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the University is required to record operating and capital pledges as revenue when all eligibility requirements have been met. Endowment pledges are not recognized as revenue until the gifts are actually received. For the years ended June 30, 2015 and 2014, 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 \$115.7 million and \$94.5 million at June 30, 2015 and 2014, respectively. The University records these amounts as revenue when the cash is received.

## 15. GRANTS AND CONTRACTS AWARDED

At June 30, 2015 and 2014, grants and contracts of approximately \$189.2 million and \$177.7 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.

## 16. RETIREMENT 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 2015 and 2014 were approximately \$97.7 million and \$91.4 million, respectively. Employees contributed approximately \$48.6 million in 2015 and \$45.3 million in 2014. The University's total payroll costs were approximately \$1.26 billion and \$1.18 billion for the years ended June 30, 2015 and 2014, respectively. The payroll for employees covered by the retirement plan was approximately \$975.0 million and \$912.1 million for the years ended 2015 and 2014, 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 2015 and 2014 were approximately \$695,000 and \$700,000, respectively. The total payroll costs for employees

covered by the defined contribution plan were approximately \$7.1 million and \$7.2 million for the years ended June 30, 2015 and 2014, 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 17).

## **17. MINIMUM ANNUAL RETIREMENT BENEFITS AND SUPPLEMENTAL RETIREMENT INCOME**

Employees in retirement groups I, II and III, (see note 16), who were age 40 or older prior to the date of establishment of each group plan, and who were employed by the University prior to that date, qualify for the minimum annual retirement benefit provisions of the retirement plan. Benefits for these eligible employees are based upon a percentage, determined through years of service, of the participant's annual salary in the last year of employment prior to retirement. Retirement benefits as determined are funded by each individual retiree's accumulation in the group retirement plan, with the balance, if necessary, provided by the University as supplemental retirement income. No active employees were eligible for this benefit for the years ended June 30, 2015 and 2014.

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 \$1.4 million and \$1.6 million for the years ended June 30, 2015 and 2014, 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.

## **18. 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 they 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 Board. 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 it 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 2015, the University contributed \$20.8 million to the plan. Plan members receiving benefits contributed 30.8% of the premium costs, an average for combined single and family coverage. In fiscal year 2015, total member contributions were approximately \$4.9 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 \$20.4 million is 4.0% 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 2015 (in thousands):

Annual required contribution	\$ 20,395
Contributions made	(20,543)
	<hr/>
Increase in net OPEB obligation/(asset)	(148)
Net OPEB obligation/(asset) - beginning of year	(239)
	<hr/>
Net OPEB obligation/(asset) - end of year	<u>\$ (387)</u>

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for fiscal year 2015, 2014 and 2013, are as follows (in thousands):

Fiscal Year Ended	Annual OPEB cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation/(Asset)
6/30/2013	\$20,392	100.4%	(\$240)
6/30/2014	\$19,801	100.0%	(\$239)
6/30/2015	\$20,395	100.7%	(\$387)

As of July 1, 2015, the actuarial accrued liability (AAL) for benefits was \$337.7 million, with an actuarial value of assets of \$108.8 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$228.9 million. The July 1, 2015 valuation reflects updates in the following assumptions to better anticipate future experience under the plan: healthcare trend rates, mortality rates, retirement rates, termination rates and participation rates. The covered payroll (annual payroll of active employees covered by the plan) was \$509.6 million and the ratio of the UAAL to the covered payroll was 44.9% at June 30, 2015. The University implemented the University of Kentucky OPEB Trust in July 2007, after the July 1, 2007 actuarial valuation date. As of June 30, 2015, net trust fund assets totaled \$108.8 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 ARC funding policy 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 eight percent for the pre-65 members and 6.5% for the post-65 members initially, reduced in decrements to an ultimate rate of 2.5% for pre-65 members and five percent for post-65 members after eight years and seven years respectively. 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, 2014 was 23 years.

## **19. 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 measurable. Investments are reported at fair market value and based on published prices and quotations from major investment brokers at current exchange rates, as available. The 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 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 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 \$2.2 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 2015 (in thousands):

Annual required contribution	\$ 2,203
Contributions made	<u>(2,197)</u>
Increase in net OPEB obligation/(asset)	6
Net OPEB obligation/(asset) - beginning of year	<u>(4)</u>
Net OPEB obligation/(asset) - end of year	<u><u>\$ 2</u></u>

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for fiscal year 2015, 2014 and 2013 are as follows (in thousands):

Fiscal Year Ended	Annual OPEB cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation/(Asset)
6/30/2013	\$2,012	99.8%	\$6
6/30/2014	\$2,139	100.5%	(\$4)
6/30/2015	\$2,203	99.7%	\$2

As of July 1, 2015, the actuarial accrued liability (AAL) for benefits was \$22.7 million and the actuarial value of assets was \$16.6 million, resulting in an UAAL of \$6.1 million. The July 1, 2015 valuation reflects updates in the following assumptions to better anticipate future experience under the plan: disability recovery rates, mortality rates, termination rates and retirement rates. The covered payroll (annual payroll of active employees covered by the plan) was \$813.2 million and the ratio of the UAAL to the covered payroll was 0.8% at June 30, 2015.

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 the long-term disability 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 long-term disability 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 other similar government programs, veterans' or other governmental disability payments, or other employer-sponsored disability benefits.

The University provides supplemental payment benefits for 42 months following the date of disability onset based on the following schedule (for current long-term disability participants or employees approved for long-term disability benefits prior to October 1, 2006):

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

Claimants that file applications and who are approved for benefits on October 1, 2006 or after 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, 2014 was 23 years.

## 20. 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 insurance fund), (2) Sovereign Immunity and the State Board of Claims, or (3) in the case of risks not covered by the insurance fund and Sovereign Immunity, commercial insurance, participation in insurance risk retention groups or self-insurance.

The insurance 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 2014 to 2015. 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, 2015 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, 2015.

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, 2015.

## 21. 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.

## 22. 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 House Bill 1, 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 Board 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, 2015, is summarized below (in thousands):

	Kentucky General Assembly Funding	University of Kentucky Share of Funding	State Funds Received to Date
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
2008 Biennium: RCTF	28,073	11,406	11,406
Total	<u>\$ 350,000</u>	<u>\$ 235,524</u>	<u>\$ 235,524</u>

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

### 23. 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, 2015 and 2014 are as follows (in thousands):

	<u>2015</u>	<u>2014</u>
Funds from private sources approved for match	\$ 7,749	\$ 5,715
Cigarette excise tax funds distributed	<u>1,953</u>	<u>1,901</u>
Total cancer research matching fund revenues	<u>\$ 9,702</u>	<u>\$ 7,616</u>
Cancer research matching fund expenses	<u>\$ 7,763</u>	<u>\$ 7,028</u>

### 24. NATURAL CLASSIFICATION

The University's operating expenses by natural classification for the years ended June 30, 2015 and 2014 are as follows (in thousands):

	<u>2015</u>	<u>2014</u>
Salaries and wages	\$ 1,265,729	\$ 1,179,988
Employee benefits	390,057	358,804
Supplies and services	621,350	582,175
Depreciation	134,374	131,262
Student scholarships and financial aid	54,676	60,401
Purchased utilities	50,970	53,093
Other, various	<u>92,097</u>	<u>75,860</u>
Total	<u>\$ 2,609,253</u>	<u>\$ 2,441,583</u>

### 25. COMBINED CONDENSED STATEMENTS

The University of Kentucky and its blended component units' condensed statements for the years ended June 30, 2015 and 2014 were summarized as follows (in thousands):

UNIVERSITY OF KENTUCKY  
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY  
COMBINED CONDENSED STATEMENT OF NET POSITION AS OF JUNE 30, 2015  
(in thousands)

**ASSETS AND DEFERRED OUTFLOWS OF RESOURCES**

	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
<b>Current Assets</b>											
Cash and cash equivalents	\$ 560,450	\$ 49,592	\$ 10,308	\$ 247	\$ 63	\$ 21	\$ 170	\$ 549	\$ 561	\$ -	\$ 621,961
Notes, loans and accounts receivable, net	285,519	32,559	2,597	-	-	-	-	1,035	41,333	(50,267)	292,776
Investments	-	-	-	-	-	-	-	-	21,702	-	21,702
Inventories and other assets	44,609	2,129	1	-	-	-	-	18	57	-	46,814
Total current assets	870,578	84,280	12,906	247	63	21	170	1,602	63,653	(50,267)	983,253
<b>Noncurrent Assets</b>											
Restricted cash and cash equivalents	315,522	-	-	-	-	-	-	-	-	-	315,522
Endowment investments	1,214,848	4,296	165	8,941	1,383	1,924	-	-	-	-	1,231,557
Other long-term investments	219,257	1,080	-	-	-	-	-	-	54,927	(263)	275,001
Notes, loans and accounts receivable, net	338,149	2	-	-	-	-	-	-	802	-	338,953
Other noncurrent assets	283	-	-	-	-	-	-	-	-	-	283
Capital assets, net	2,251,254	9,504	-	-	-	-	-	137	75,745	-	2,336,640
Total noncurrent assets	4,339,313	14,882	165	8,941	1,383	1,924	170	137	131,474	(263)	4,497,956
Total assets	5,209,891	99,162	13,071	9,188	1,446	1,945	170	1,739	195,127	(50,530)	5,481,209
Deferred Outflows of Resources	13,755	-	-	-	-	-	-	-	-	-	13,755
Total assets and deferred outflows of resources	5,223,646	99,162	13,071	9,188	1,446	1,945	170	1,739	195,127	(50,530)	5,494,964
<b>LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>											
<b>Current Liabilities</b>											
Accounts payable and accrued liabilities	281,889	10,489	661	1	-	11	5	1,602	119,325	(120,760)	293,223
Unearned revenue	67,990	29,783	88	-	-	-	-	-	-	-	97,861
Long-term liabilities - current portion	78,337	-	-	-	-	-	-	-	3,066	-	81,403
Total current liabilities	428,216	40,272	749	1	-	11	5	1,602	122,391	(120,760)	472,487
<b>Noncurrent Liabilities</b>											
Unearned revenue	193,094	-	-	-	-	-	-	-	-	-	193,094
Long-term liabilities	1,091,295	480	-	-	-	-	-	-	39,226	-	1,131,001
Total noncurrent liabilities	1,284,389	480	-	-	-	-	-	-	39,226	-	1,324,095
Total liabilities	1,712,605	40,752	749	1	-	11	5	1,602	161,617	(120,760)	1,796,582
Deferred Inflows of Resources	241,124	-	-	-	-	-	-	-	-	-	241,124
Total liabilities and deferred inflows of resources	1,953,729	40,752	749	1	-	11	5	1,602	161,617	(120,760)	2,037,706
<b>INTERFUND BALANCES</b>	(934)	-	934	-	-	-	-	-	-	-	-
<b>NET POSITION</b>											
Net investment in capital assets	1,379,409	9,504	-	-	-	-	-	137	33,510	-	1,422,560
<b>Restricted</b>											
Nonexpendable	578,336	823	31	4,607	618	659	-	-	-	-	585,074
Expendable	440,113	4,395	634	4,580	828	1,275	165	-	-	-	451,990
Total restricted	1,018,449	5,218	665	9,187	1,446	1,934	165	-	-	-	1,037,064
<b>Unrestricted</b>											
Total net position	872,993	43,688	10,723	-	-	-	-	-	-	70,230	997,634
Total net position	\$ 3,270,851	\$ 58,410	\$ 11,388	\$ 9,187	\$ 1,446	\$ 1,934	\$ 165	\$ 137	\$ 33,510	\$ 70,230	\$ 3,457,258

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
<b>ASSETS</b>											
<b>Current Assets</b>											
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	2,888	-	-	-	-	-	14	53	(12)	40,436
Total current assets	594,940	73,610	10,706	377	94	4	109	601	51,491	(37,083)	694,839
<b>Noncurrent Assets</b>											
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
<b>LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>											
<b>Current Liabilities</b>											
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	69,647	178	-	-	-	-	-	-	1,373	(120)	71,078
Total current liabilities	311,811	42,910	528	-	1	-	-	601	96,499	(93,679)	358,671
<b>Noncurrent Liabilities</b>											
Long-term liabilities	967,148	1,061	-	-	-	-	-	-	20,267	(280)	988,196
Total noncurrent liabilities	967,148	1,061	-	-	-	-	-	-	20,267	(280)	988,196
Total liabilities	1,278,959	43,971	528	-	1	-	-	601	116,766	(93,959)	1,346,867
<b>INTERFUND BALANCES</b>	(2,369)	1,564	806	-	-	(1)	-	-	-	-	-
<b>NET POSITION</b>											
<b>Net investment in capital assets</b>	1,317,483	13,440	-	-	-	-	-	202	16,653	-	1,347,778
<b>Restricted</b>											
Nonexpendable	569,533	823	31	4,607	617	654	-	-	-	-	576,265
Expendable	414,046	4,192	653	4,629	846	1,300	109	-	-	-	425,775
Total restricted	983,579	5,015	684	9,236	1,463	1,954	109	-	-	-	1,002,040
<b>Unrestricted</b>	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 REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE YEAR ENDED JUNE 30, 2015  
(in thousands)

	UK	Research Foundation	The Fund	Gluck Equine Research Foundation	Humanities Foundation	Mining Engineering Foundation	Center on Aging Services	Central Kentucky Management Services	Kentucky Medical Services Foundation	Eliminations	Total
<b>OPERATING REVENUES</b>											
Student tuition and fees, net	\$ 302,936	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 302,936
Federal grants and contracts	1,552	166,573	-	-	-	-	-	-	-	-	168,125
State and local grants and contracts	73,425	16,890	1,954	-	-	-	-	-	-	-	92,269
Nongovernmental grants and contracts	201,138	28,851	6,311	-	-	-	-	-	-	(206,495)	29,805
Recoveries of facilities and administrative costs	271	47,883	-	-	-	-	-	-	-	-	48,154
Sales and services	25,479	15,273	14,210	1	-	-	29	26,370	-	(27,250)	54,112
Federal appropriations	17,535	-	-	-	-	-	-	-	-	-	17,535
County appropriations	21,975	-	-	-	-	-	-	-	-	(3,906)	21,975
Professional clinical service fees	-	-	-	-	-	-	-	-	227,197	(4,978)	223,291
Hospital services	-	-	-	-	-	-	-	-	-	-	1,323,652
Auxiliary enterprises:	1,328,630	-	-	-	-	-	-	-	-	-	-
Housing and dining, net	40,207	-	-	-	-	-	-	-	-	(656)	39,551
Athletics	88,928	-	-	-	-	-	-	-	-	-	88,928
Other auxiliaries	46,754	-	-	-	-	-	-	-	-	(1)	46,753
Other operating revenues	853	-	-	-	-	-	-	-	-	(74,979)	5,059
Total operating revenues	2,149,683	275,470	22,475	1	-	-	29	26,370	306,382	(318,265)	2,462,145
<b>OPERATING EXPENSES</b>											
Educational and general:											
Instruction	274,970	10,555	1,028	-	1	59	-	-	-	(236)	286,377
Research	84,883	160,755	180	42	-	-	-	-	-	(2,349)	243,511
Public service	174,908	75,675	3,550	-	-	-	-	-	-	(72,596)	181,537
Libraries	21,085	-	-	-	-	-	-	-	-	(1)	21,084
Academic support	67,472	1,825	3,812	-	-	-	-	-	-	(31)	73,078
Student services	37,748	-	1,038	-	1	-	-	-	-	(139)	38,648
Institutional support	55,013	569	125	6	-	-	102	26,357	-	(26,549)	55,623
Operations and maintenance of plant	70,904	1	391	-	-	-	-	-	-	(192)	71,104
Student financial aid	30,261	1,328	1,266	-	40	-	-	-	-	(1)	32,894
Depreciation	64,125	1,380	-	-	-	-	-	43	-	-	65,548
Total educational and general	881,369	252,088	11,390	48	42	59	102	26,400	-	(102,094)	1,069,404
Clinical operations (including depreciation of \$2,743)	179,675	-	-	-	-	-	-	-	289,627	(222,871)	246,431
Hospital (including depreciation of \$53,167)	1,141,835	-	60	-	-	-	-	-	-	(7,772)	1,134,123
Auxiliary enterprises:											
Housing and dining (including depreciation of \$5,279)	31,249	-	-	-	-	-	-	-	-	(9)	31,240
Athletics (including depreciation of \$6,031)	102,156	-	-	-	-	-	-	-	-	(460)	101,696
Other auxiliaries (including depreciation of \$1,606)	26,221	-	-	-	-	-	-	-	-	(502)	25,719
Other operating expenses	640	-	-	-	-	-	-	-	-	-	640
Total operating expenses	2,363,145	252,088	11,450	48	42	59	102	26,400	289,627	(333,708)	2,609,253
Net income (loss) from operations	(213,462)	23,382	11,025	(47)	(42)	(59)	(73)	(30)	16,755	15,443	(147,108)
<b>NONOPERATING REVENUES (EXPENSES)</b>											
State appropriations	279,611	-	-	-	-	-	-	-	-	-	279,611
Gifts and non-exchange grants	105,557	461	190	118	1	-	129	-	-	(950)	105,506
Investment income (loss)	27,338	18,047	9	175	27	39	-	1	102	(550)	45,188
Interest on capital asset-related debt	(26,710)	(49)	-	-	-	-	-	-	(932)	-	(27,691)
Grant to/(from) the University for non-capital purposes	36,167	(26,431)	(9,433)	(295)	(3)	(5)	-	-	-	-	-
Other nonoperating revenues and expenses, net	7,145	1,843	-	-	-	-	-	-	-	-	-
Net nonoperating revenues (expenses)	429,108	(6,129)	(9,234)	(2)	25	34	129	1	(830)	(1,500)	8,988
Net income (loss) before other revenues, expenses, gains, or losses	215,646	17,253	1,791	(49)	(17)	(25)	56	(29)	15,925	13,943	264,494
Capital grants and gifts	38,999	6,424	-	-	-	-	-	-	-	(82)	45,341
Additions to permanent endowments	7,752	1	-	-	-	5	-	-	-	-	7,758
Grant to/(from) the University for capital purposes	11,088	(11,176)	88	-	-	-	-	-	-	-	-
Other, net	(2,516)	(1,524)	-	-	-	-	-	(36)	(111)	-	(4,187)
Total other revenues (expenses)	55,323	(6,275)	88	-	-	5	-	(36)	(111)	(82)	48,912
<b>INCREASE (DECREASE) IN NET POSITION</b>											
NET POSITION, beginning of year	2,999,882	10,978	1,879	(49)	(17)	(20)	56	(65)	15,814	13,861	3,143,406
NET POSITION, end of year	3,270,851	47,432	9,509	9,236	1,463	1,954	109	202	17,696	56,369	3,143,852
	\$ 58,410	\$ 11,388	\$ 9,187	\$ 1,446	\$ 137	\$ 165	\$ 137	\$ 33,510	\$ 70,230	\$ 3,457,258	



**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
<b>OPERATING REVENUES</b>											
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	-	-	-	-	-	-	-	-	(11,791)	-	1,101,662
Auxiliary enterprises:											
Housing and dining, net	46,402	-	-	-	-	-	-	-	(2,248)	-	44,154
Athletics	73,957	-	-	-	-	-	-	-	-	-	73,957
Other auxiliaries	39,346	-	-	-	-	-	-	-	(2,064)	-	37,282
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
<b>OPERATING EXPENSES</b>											
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	76,878	7	237	-	-	-	-	-	(227)	-	76,895
Student financial aid	37,960	1,281	2,876	-	40	-	-	-	(58)	-	42,099
Depreciation	63,980	1,480	-	-	-	-	62	-	65,522	-	65,522
Total educational and general	852,099	246,536	13,413	24	48	52	125	6,738	(27,233)	-	1,091,802
Clinical operations (including depreciation of \$2,021)	116,783	-	-	-	-	-	-	226,917	(172,745)	-	170,955
Hospital (including depreciation of \$51,460)	1,023,011	-	59	-	-	-	-	-	(8,338)	-	1,014,732
Auxiliary enterprises:											
Housing and dining (including depreciation of \$5,446)	48,722	-	-	-	-	-	-	-	(514)	-	48,208
Athletics (including depreciation of \$5,734)	93,550	-	-	-	-	-	-	-	(1,462)	-	92,088
Other auxiliaries (including depreciation of \$1,079)	22,951	-	-	-	-	-	-	-	(537)	-	22,414
Other operating expenses	1,384	-	-	-	-	-	-	-	-	-	1,384
Total operating expenses	2,158,500	246,536	13,472	24	48	52	125	6,738	(210,829)	-	2,441,583
Net income (loss) from operations	(340,963)	19,584	10,502	(24)	(48)	(52)	(91)	41	16,090	-	(292,412)
<b>NONOPERATING REVENUES (EXPENSES)</b>											
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	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	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	-	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 CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2015  
(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
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>											
Student tuition and fees	\$ 301,454	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 301,454
Grants and contracts	267,304	213,631	10,224	-	-	-	-	-	-	(206,495)	284,664
Recoveries of facilities and administrative costs	275	48,182	-	-	-	-	-	-	-	-	48,457
Sales and services	28,595	16,166	14,061	1	-	-	29	24,771	-	(30,158)	53,465
Federal appropriations	18,749	-	-	-	-	-	-	-	-	-	18,749
County appropriations	22,640	-	-	-	-	-	-	-	-	-	22,640
Payments to vendors and contractors	(737,485)	(86,551)	(7,730)	(18)	(42)	(22)	(95)	(1,347)	(254,657)	306,559	(781,388)
Student financial aid	(31,630)	(1,266)	(1,266)	-	-	-	-	-	-	-	(32,896)
Salaries, wages and benefits	(1,447,924)	(162,243)	(2,248)	(29)	-	(24)	(2)	(23,449)	(8,501)	11,131	(1,644,420)
Professional clinic service fees	-	-	-	-	-	-	-	-	210,597	(4,205)	221,728
Hospital services	1,342,864	-	-	-	-	-	-	-	-	(657)	1,338,659
Auxiliary enterprise receipts	172,042	-	-	-	-	-	-	-	-	-	171,385
Loans issued to students	(18,231)	-	-	-	-	-	-	-	-	-	(18,231)
Collection of loans to students	18,425	-	-	-	-	-	-	-	-	-	18,425
Self insurance receipts	60,882	-	-	-	-	-	-	-	470	-	61,352
Self insurance payments	(56,750)	-	-	-	-	-	-	-	-	-	(56,750)
Other operating receipts (payments), net	375	-	-	-	-	-	-	-	78,648	(74,578)	4,445
Net cash provided (used) by operating activities	(58,415)	29,185	13,041	(46)	(42)	(46)	(66)	(25)	26,557	1,597	11,738
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>											
State appropriations	279,611	-	-	-	-	-	-	-	-	-	279,611
Gifts and grants received for other than capital purposes:											
Gifts received for endowment purposes	7,776	1	-	-	-	5	-	-	-	-	7,782
Gifts received for other purposes	113,296	442	190	118	-	-	129	-	-	(950)	113,225
Agency and loan program receipts	227,347	-	-	-	-	-	-	-	-	-	227,347
Agency and loan program payments	(229,398)	-	-	-	-	-	-	-	-	-	(229,398)
Grants (to) from the University for non-capital purposes	37,602	(27,994)	(9,305)	(295)	(3)	(5)	-	-	-	-	-
Other noncapital financing receipts (payments), net	14,438	3,727	-	-	-	-	-	-	-	-	18,165
Net cash provided (used) by noncapital financing activities	450,672	(23,824)	(9,115)	(177)	(3)	-	129	-	-	(950)	416,732
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>											
Capital grants and gifts	24,632	6,424	-	-	-	-	-	-	-	(82)	30,974
Purchases of capital assets	(266,098)	(863)	-	-	-	-	-	(14)	(17,056)	-	(284,031)
Proceeds from capital debt	392,077	-	-	-	-	-	-	-	-	-	392,077
Payments to refunding bond agents	(248,642)	-	-	-	-	-	-	-	-	-	(248,642)
Proceeds from sales of capital assets	10,180	-	-	-	-	-	-	-	-	-	10,180
Principal paid on capital debt and leases	(47,024)	(194)	-	-	-	-	-	-	(2,654)	-	(49,872)
Interest paid on capital debt and leases	(33,868)	(49)	-	-	-	-	-	-	(932)	-	(34,849)
Grants (to) from the University for capital purposes	11,088	(11,176)	88	-	-	-	-	-	-	-	-
Other capital and related financing receipts (payments), net	5,386	(1)	-	-	-	-	-	-	-	-	5,385
Net cash provided (used) by capital and related financing activities	(152,269)	(5,859)	88	-	-	-	-	(14)	(20,642)	(82)	(178,778)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>											
Proceeds from sales and maturities of investments, net	313,635	(2,946)	4	1,589	246	385	-	-	45	-	312,958
Interest and dividends on investments	20,211	97	8	93	14	20	-	1	(29)	(565)	19,850
Purchase of investments	(333,901)	(779)	(31)	(1,589)	(246)	(342)	-	-	(5,623)	-	(342,511)
Net proceeds from sale of CLI stock, net of cash acquired	-	23,219	-	-	-	-	-	-	-	(3,342)	19,877
Repayment of debt and other related to sale of CLI stock	(55)	(6,616)	-	-	-	-	-	-	-	3,342	(6,900)
Net cash provided (used) by investing activities	239,933	12,477	3,995	(130)	(31)	17	61	(39)	308	(565)	256,592
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>											
CASH AND CASH EQUIVALENTS, beginning of year	636,039	37,115	6,313	377	94	4	109	587	253	-	680,891
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<b>\$ 875,972</b>	<b>\$ 49,592</b>	<b>\$ 10,308</b>	<b>\$ 247</b>	<b>\$ 63</b>	<b>\$ 21</b>	<b>\$ 170</b>	<b>\$ 549</b>	<b>\$ 561</b>	<b>\$ -</b>	<b>\$ 937,483</b>

**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
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>											
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)	3,198	(1,529,995)
Professional clinic service fees	-	-	-	-	-	-	-	-	209,226	(11,802)	212,424
Hospital services	1,108,779	-	-	-	-	-	-	-	-	(4,313)	1,096,977
Auxiliary enterprise receipts	157,972	-	-	-	-	-	-	-	-	-	153,659
Loans issued to students	(21,188)	-	-	-	-	-	-	-	-	-	(21,188)
Collection of loans to students	19,818	-	-	-	-	-	-	-	-	-	19,818
Self insurance receipts	47,929	-	-	-	-	-	-	-	3,301	-	51,230
Self insurance payments	(48,217)	-	-	-	-	-	-	-	-	-	(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)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>											
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
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>											
Capital grants and gifts	43,547	3,599	-	-	-	-	-	-	-	(157)	46,989
Purchases of capital assets	(136,506)	(796)	-	-	-	-	-	(104)	(2,549)	-	(139,855)
Proceeds from capital debt	251,920	-	-	-	-	-	-	-	-	-	251,920
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	(13,833)	(4)	-	-	(2)	-	(104)	(4,211)	(157)	81,163
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>											
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	(88,867)	(2,520)	(73)	(4,725)	(731)	(1,040)	-	-	(20,748)	-	(842,792)
Net cash provided (used) by investing activities	240,137	(9,568)	(679)	249	45	62	27	89	(22,693)	(533)	(111,587)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>											
CASH AND CASH EQUIVALENTS, beginning of year	395,902	46,673	6,992	128	98	6	82	498	1,488	-	451,867
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<b>\$ 636,039</b>	<b>\$ 37,115</b>	<b>\$ 6,313</b>	<b>\$ 377</b>	<b>\$ 94</b>	<b>\$ 4</b>	<b>\$ 109</b>	<b>\$ 587</b>	<b>\$ 253</b>	<b>\$ -</b>	<b>\$ 680,891</b>

**UNIVERSITY OF KENTUCKY**  
**A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY**  
**REQUIRED SUPPLEMENTARY INFORMATION**

**1. HEALTH INSURANCE BENEFITS FOR RETIREES**

The University of Kentucky's (the University) Other Postemployment Benefit (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 OPEB 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, 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%
July 1, 2015	\$108,815	\$337,665	\$228,850	32.2%	\$509,627	44.9%

Schedule of Employer Contributions  
(in thousands)

Year Ended	Annual Required Contributions	Percentage Contributed
June 30, 2013	\$20,392	100.4%
June 30, 2014	\$19,801	100.0%
June 30, 2015	\$20,395	100.7%

**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, 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%
July 1, 2015	\$16,576	\$22,730	\$6,154	72.9%	\$813,205	0.8%

Schedule of Employer Contributions  
(in thousands)

Year Ended	Annual Required Contributions	Percentage Contributed
June 30, 2013	\$2,012	99.8%
June 30, 2014	\$2,139	100.5%
June 30, 2015	\$2,203	99.7%

### **Officers of the Board**

Oliver Keith Gannon, Chair  
Barbara Young, Vice Chair  
Sheila Brothers, Secretary  
William E. Thro, Assistant Secretary

### **Board of Trustees**

C.B. Akins, Sr.  
James H. Booth  
William C. Britton  
Edward Britt Brockman  
Mark P. Bryant  
Angela L. Edwards  
William Stamps Farish, Jr.  
Carol Martin "Bill" Gatton  
Cammie DeShields Grant  
Robert Grossman  
David V. Hawpe  
Kelly Sullivan Holland  
Jacob Ingram  
Terry Mobley  
James W. Stuckert  
Robert D. Vance  
John F. Wilson

### **Executive Officers**

Eli Capilouto, President  
Timothy Tracy, Provost  
Michael Karpf, Executive Vice President for  
Health Affairs  
Eric N. Monday, Executive Vice President for  
Finance and Administration

### **Administrative Officers**

Mitchell S. Barnhart, Director of Athletics  
Lisa Cassis, Vice President for Research  
Thomas W. Harris, Vice President for University  
Relations  
Judy "J.J." Jackson, Vice President for  
Institutional Diversity  
Robert C. Mock, Vice President for Student  
Affairs  
D. Michael Richey, Vice President for  
Development  
Bill Swinford, Chief of Staff  
William E. Thro, General Counsel

### **Academic Officers**

Nancy M. Cox, Dean  
College of Agriculture  
Mark Kornbluh, Dean  
College of Arts and Sciences  
David Blackwell, Dean  
Gatton College of Business and Economics  
Dan O'Hair, Dean  
College of Communication and Information  
Sharon P. Turner, Dean  
College of Dentistry  
Ann Dickson, Interim Dean  
College of Design  
Mary John O'Hair, Dean  
College of Education  
John Y. Walz, Dean  
College of Engineering  
Michael S. Tick, Dean  
College of Fine Arts  
Susan Carvalho, Interim Dean  
Graduate School  
Scott Lephart, Dean  
College of Health Sciences  
David A. Brennen, Dean  
College of Law  
Terry Birdwhistell, Dean  
Libraries  
Frederick C. deBeer, Dean  
College of Medicine  
Janie Heath, Dean  
College of Nursing  
Kelly M. Smith, Interim Dean  
College of Pharmacy  
Wayne T. Saunderson, Interim Dean  
College of Public Health  
James P. "Ike" Adams, Jr., Dean  
College of Social Work



Office of the Treasurer  
301 Peterson Service Building  
Lexington, KY, 40506-0005

[www.uky.edu/EVPFA/Controller](http://www.uky.edu/EVPFA/Controller)

An Equal Opportunity University