University of Kentucky

2018 Financial Statements

University of Kentucky
A Component Unit of the Commonwealth of Kentucky
Financial Statements
Year Ended June 30, 2018

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MESSAGE FROM THE PRESIDENT

In 1878, following a rancorous debate, the state legislature separated the young Agricultural and Mechanical college from then Kentucky University. The split yielded seemingly insurmountable financial hardship for the fledgling land grant college in central Kentucky. But Latin and civil historian professor James K. Patterson understood the importance of this place.

So, Patterson financed the construction of our first buildings on recently donated land in Lexington and set our small campus on a path to a firmer financial foundation. He led an advocacy effort to convince Kentucky lawmakers of the need for a half-cent levy to support what would later become the University of Kentucky.

"Per angusta ad augusta," Patterson likely opined at the time.

"Through difficulties to honors."

Some 40 years later, an economist, Frank L. McVey, would lead UK through the darkness of World War I and the despair of the Great Depression. Nearly 15 years into his presidency, he faced a state legislature that awarded more capital projects to the Commonwealth's normal schools than its fastest growing flagship university. It was a time when every effort to increase tax revenues to support education went down in defeat. It was a time when one of his most significant initiatives was diverted when he was called to lead against the passage of an anti-evolution bill. It was a time when opening the University was in question and faculty endured slashes in pay.

Per angusta ad augusta.

McVey created UK's first public-private partnership with a local bank to build a residence hall. He raised funds for a credit union so that faculty could secure low-interest loans to survive the Depression. And he never stopped dreaming and planning-telling people the University needed to set aside land for colleges of medicine and pharmacy.

Through difficulties to honors, McVey - with the support of many others - transformed the University of Kentucky into a modern flagship and land grant institution.

UK's story was punctuated by both challenge and success.

These are not stories of despair-ours is a history not of lost opportunity, but of resiliency and the will of our academic community to persevere. Our story is one of-through extraordinary measure in the face of uncommon odds-triumph and achievement.

Seven years ago, we faced more than $1 billion in deferred maintenance and accessibility needs in facilities across our campus, uncompetitive compensation for faculty and staff, stubborn progress in graduation and retention rates, an expressed desire to foster a more diverse and supportive community, and declining state investment in the wake of the Great Recession.

It would have been easy to succumb to our circumstance, but the uncommon commitment of the UK family-our grace under fire and shared belief of what we owe to one another and those we serve-fueled our resolve. Together, we boldly planned an ambitious path and, as a result, today we have:

- Invested $2.3 billion to rebuild and grow our academic, research, community, and health care spaces to improve access and collaborative opportunities across our campus;
- Grown our enrollment beyond 30,400 undergraduate and graduate students;
- Achieved record graduation and retention rates;
- Decreased the rate of annual tuition rate increases to the lowest in more than two decades;
- Increased our investment in financial aid and scholarships to help ensure unmet financial need would not be not a barrier to a college degree;
- Ranked among the top public universities for National Merit, National Achievement, and National Hispanic Scholars;
- Expanded our research portfolio as reflected in expenditures totaling $378 million in the last fiscal year;
- Earned a “Diversity Champion” distinction from Insight Into Diversity Magazine for our unyielding commitment to diversity and inclusion;
- Supported our faculty and staff through six consecutive years of pay raises;
- Improved the safety of our campus and invested in critical support services for the UK family;
- Welcomed new donors and friends of the University who invested more than $200 million in the last fiscal year;
- Connected with more than 1 million Kentuckians through Extension Services;
- Opened one regional campus for the College of Medicine with plans for another rapidly progressing; and
- Treated a record number of patients in UK HealthCare and clinics across the Commonwealth.

In varied and dynamic ways, the University of Kentucky showcases our journey through difficulties to honors that are the result of the extraordinary power of “we.” When I joined the University of Kentucky family seven years ago, I remarked that in my first visit to campus, Mary Lynne and I “felt in a meaningful and lasting manner its defining characterwhat I feel is the soul of the University of Kentucky."

I saw a shared commitment to identify and achieve extraordinary goals, no matter the challenges before us. I continue to be inspired by that commitment every day in your actions:

- When we face an economy that requires a well-educated workforce, we invest in student scholarships, retain and graduate Kentucky's best and brightest and out-of-state talent, and develop the curriculum that will prepare graduates for lives of meaning and purpose.
- When we confront the complex questions of our day, we innovate in our laboratories, launch private ventures, and take a team approach to identify the relevant answers that our time demands.
- When we serve a population with the highest incidence rates of cancer in the country, we earn multi-million-dollar grants to fund innovative research, forge partnerships with other institutions and agencies that improve data quality, send our people into the field to work with communities, and raise millions to improve treatment and care for the most vulnerable among us, the kids.
- When our own people find it difficult to try to comprehend the world around them, the UK family embraces the importance of a supportive and inclusive community.

That same commitment was evident in September when UK launched, "*Kentucky Can: UK's Campaign for the 21st Century.*" The $2.1 billion campaign is focused on three areas critical to the University and the Commonwealth: investing in scholarships that cultivate the best and brightest minds on our campus and equip students to be productive contributors to their community; growing our endowment from $1.5 billion to more than $2 billion to attract and retain top faculty, create innovative programs, and address the complex questions of our day; and enhancing and expanding our research enterprise in which the UK family can forge new discoveries, making UK a destination for world-class outcomes.

In ways known and unknown, our story is written by pioneers and providers, bold dreamers and strategic thinkers, and a shared commitment to one another.

Those goals, our determination to meet them, and the actions of this community have and will continue to serve us as the University ***for*** Kentucky.

Eli Capilouto
President

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Independent Auditor's Report

Board of Trustees
University of Kentucky
Lexington, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of the University of Kentucky (University), collectively, a component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the University's basic 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 opinions on these financial statements based on our audit. We did not audit the financial statements of Kentucky Medical Services Foundation, Inc. (KMSF), a blended component unit of the University, which represent 3.5 percent, 1.0 percent and 11.6 percent, respectively, of the assets, net position and revenues of the University, respectively. 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 audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of KMSF, which are included in the University's reporting entity as a blended component unit, 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 opinions.

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of the University as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Emphasis of Matter

As discussed in Note 1 of the financial statements, in 2018, the University adopted Governmental Accounting Standards Board No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, and Governmental Accounting Standards Board No. 81, *Irrevocable Split-Interest Agreements*. Our opinions are not modified with respect to these matters.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and postemployment and long-term disability benefit plan information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a 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 audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. 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.

The governing board listing and the message from the president have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2018, on our consideration of the University's internal control over financial reporting and on 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 effectiveness of the University's 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 5, 2018

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 year ended June 30, 2018. 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.

The University of Kentucky:
- Facilitates learning, informed by scholarship and research;
- Expands knowledge through research, scholarship and creative activity; and
- Serves a global community by disseminating, sharing and applying knowledge.

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

Vision. As Kentucky's indispensable 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.

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 renamed 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 the year 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*** was designed to measure the University's progress by establishing specific goals for teaching, research and service at the department, college and university level.

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). UK remains steadfast in its covenant with the Commonwealth - to produce graduates prepared for a 21st century economy; to conduct research that extends the boundaries of scientific discovery; to contribute to our economy, and addresses relevant questions; and to render service and patient care that uplifts our community and region.

The UK Board of Trustees adopted the ***Strategic Plan for 2015-2020*** at its October 2015 retreat. The plan builds 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:

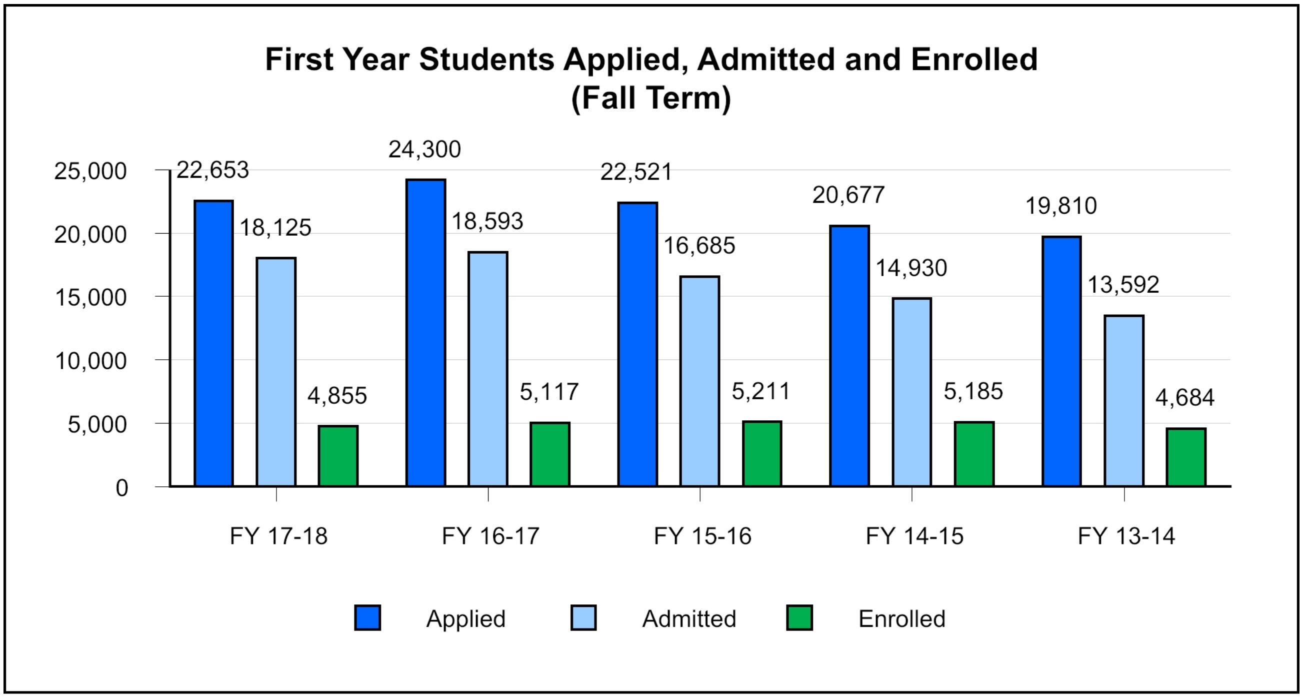
- **Undergraduate Student Success** - Be the university of choice for aspiring undergraduate students within the Commonwealth and beyond, seeking a transformational education that promotes self-discovery, experiential learning, and life-long achievement.
- **Graduate Education** - Strengthen the quality 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, promotion and retention of an increasingly diverse population of faculty, administrators, 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.

Under the leadership of Provost David Blackwell, progress on these objectives will be reported on an annual basis and presented to the UK Board of Trustees.

The University is identified as a "Research University (highest research activity)" by the Carnegie Commission on Higher Education. There are 115 such institutions in the United States (out of approximately 4,700 colleges and universities).

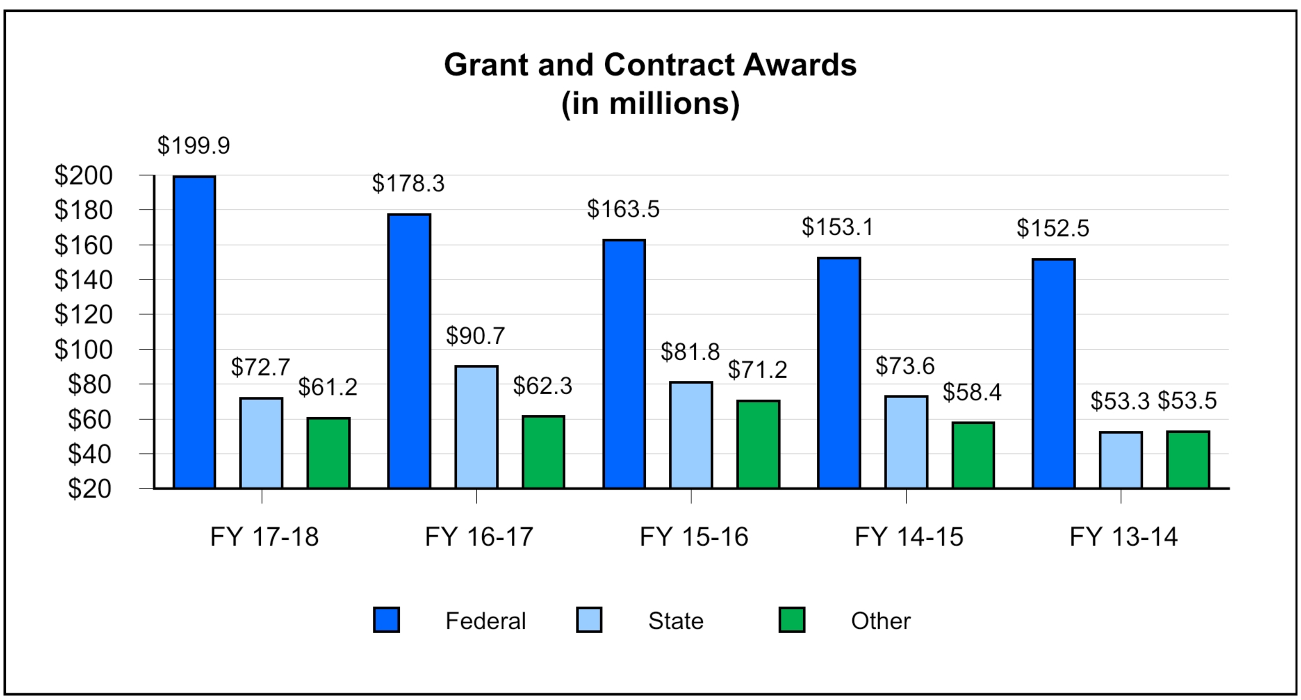
The University is accredited by the Commission on Colleges of the Southern Association of Colleges and Schools. This has been reaffirmed at approximately 10-year intervals since 1915, with the next accreditation review scheduled for 2022. In addition, several degree programs and individual units are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

Students. In Fall 2017, the University had 30,473 undergraduate, graduate and professional students. They represent all 120 Kentucky counties, every state in the U.S. and more than 100 countries. Enrollment has increased by over 3,500 students (13.2%) since Fall 2008.



Programs. The University offers more than 200 majors and degree programs in 16 academic and professional colleges that are supported by a comprehensive research library system, the Graduate School and the Lewis Honors College. 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 $387.2 million for fiscal year 2016-17, compared to $349.7 million in fiscal year 2015-16. Research awards received during fiscal year 2017-18 total $333.8 million, a one percent increase from the prior year amount of $331.3 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, the University's advanced academic medical center and clinical care network, 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 August 2018, UK HealthCare was named number one in Kentucky in the latest U.S. News Best Hospitals ranking for the third consecutive year. To be recognized as a Best Hospital, UK HealthCare had to rank high nationally on a stringent data-driven ratings system that gauges performance. The analysis includes multiple clinical specialties, procedures and conditions. Scores are based on a variety of patient outcome and care-related factors such as mortality and patient safety, as well as reputation.

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 945 licensed beds with an average daily census of 755 patients. On a monthly basis, the System provides more than 1,321 inpatient surgeries, 1,456 outpatient surgeries, 35,054 radiology procedures, 9,341 emergency department visits and 140,780 hospital based outpatient clinic visits.

Under a management contract entered into with the Kentucky Cabinet for Health and Family Services, 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.

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. Its library network and technology provide extraordinary service to students in the Colleges of Medicine, Law, Engineering and Fine Arts as well as 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

During the year ended June 30, 2018, the University adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions (OPEB)*, and GASB Statement No. 81, *Irrevocable Split Interest Agreements*. Accordingly, net position as of July 1, 2017 was restated by $245.3 million. Financial information in the MD&A was not restated. The University's overall financial position remains fiscally sound with assets of $6.71 billion, deferred outflows of resources of $42.3 million, liabilities of $2.24 billion and deferred inflows of resources of $563.1 million as of June 30, 2018. 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 $3.94 billion (59% of total assets).

- Total assets increased $488.6 million (eight percent), primarily due to increases in notes, loans and accounts receivable, net, endowment investments and capital assets, net.
- Deferred outflows of resources increased $31.5 million (291%) primarily due to the implementation of GASB Statement No. 75 effective July 1, 2017, that represents contributions subsequent to the measurement date and the net difference between projected and actual earnings in the plan investments. It also represents the amortization of the reacquisition price and the net carrying amount of refunded debt.
- Total liabilities increased $424.1 million (23%) primarily due to increases in unearned revenue and bonds and capital lease obligations offset by decreases in accounts payable and accrued liabilities.
- Deferred inflows of resources increased $129.4 million (30%) primarily due to an increase in the service concession arrangement with Education Realty Trust (EdR), as well as the implementation of GASB Statement No. 75 and GASB Statement No. 81.
- Total net position decreased $33.4 million (one percent). Unrestricted net position decreased $136.5 million primarily due to the implementation of GASB Statement No. 75. Restricted net position decreased $68.9 million due to spending on capital projects offset by gains on endowment investments due to a positive return on the endowment pool. Net investment in capital assets increased $172.0 million.
- Operating revenues were $2.92 billion and operating expenses were $3.20 billion, resulting in a net loss from operations of $281.4 million. Nonoperating and other revenues, net of nonoperating expenses, were $493.3 million, including $264.4 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
- Statement of Fiduciary Net Position
- Statement of Changes in Fiduciary Net Position
- Notes to the Financial Statements

Reporting Entity
The University is a component unit of the 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 subsidiary, Kentucky Technology, Inc.
- 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.

The Center on Aging Foundation, Inc. (the Foundation) was dissolved on July 1, 2018 at 12:01 a.m. All assets held by the Foundation were transferred to the University according to the Articles of Dissolution of the Foundation on July 1, 2018.

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, 2018. 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 (the difference between total assets and total liabilities and deferred

inflows and outflows of resources) is 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 eroded 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, net, 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, 2018 and 2017 are as follows:

Condensed Statements of Net Position (in thousands)

	2018	2017
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current assets	$ 1,100,972	$ 1,096,226
Capital assets, net	3,382,542	3,033,426
Other noncurrent assets	2,224,176	2,089,451
Deferred outflows of resources	42,293	10,808
Total assets and deferred outflows of resources	6,749,983	6,229,911
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
Current liabilities	554,786	540,417
Noncurrent liabilities	1,688,768	1,279,070
Deferred inflows of resources	563,137	433,729
Total liabilities and deferred inflows of resources	2,806,691	2,253,216
NET POSITION		
Net investment in capital assets	1,835,152	1,663,197
Restricted		
Nonexpendable	626,717	613,522
Expendable	465,444	547,497
Unrestricted	1,015,979	1,152,479
Total net position	$ 3,943,292	$ 3,976,695

Assets. As of June 30, 2018, total assets amounted to $6.71 billion. The largest asset class was capital assets, net, that totaled $3.38 billion or 50% of total assets. Endowment investments were $1.33 billion, or 20% of total assets and cash and cash equivalents totaled $897.2 million, or 13% of total assets. During the year, total assets increased by a net $488.6 million primarily due to increases in capital assets, net of $349.1 million, endowment investments of $66.1 million, notes, loans and accounts receivable, net of $64.2 million and other long-term investments of $21.4 million.

Deferred Outflows of Resources. The University's deferred outflows of resources totaled $42.3 million, an increase of $31.5 million, primarily due to OPEB contributions subsequent to the measurement date and the net difference between projected and actual earnings in the plan investments of $33.1 million. It also includes the unamortized difference between the reacquisition price and the net carrying amount of refunded debt that decreased $1.6 million.

Liabilities. As of June 30, 2018, total liabilities amounted to $2.24 billion. Bonds, notes and capital leases issued for educational buildings, housing, the UK HealthCare Hospital System facilities, Athletics' football stadium, student center and equipment totaled $1.20 billion, or 54% of total liabilities. During the year, total liabilities increased $424.1 million primarily attributable to the implementation of GASB Statement No. 75 of $236.6 million, increases in unearned revenue of $16.1 million primarily in the System and long-term liabilities of $184.4 million which was comprised of an increase in bonds, notes and capital leases. The offsetting decrease was in accounts payable and accrued liabilities totaling $13.0 million.

Deferred Inflows of Resources. The University's deferred inflows of resources totaled $563.1 million that represents service concession arrangements with EdR of $386.9 million, Aramark of $121.3 million and Barnes and Noble of $2.4 million. Deferred inflows of resources also includes trusts and annuities of $15.9 million that represents the beneficial interest that the University will receive in future years and OPEB long-term disability and retiree health of $36.6 million. During the year, deferred inflows of resources increased $129.4 million primarily due to an increase in EdR of $87.9 million due to the completion of two new residence halls offset by a decrease in Aramark of $10.1 million due to the amortization of revenue as earned for the service concession arrangement. Additionally OPEB increased $36.6 million and trusts and annuities increased $15.9 million.

Net Position. The University's net position of $3.94 billion as of June 30, 2018 is reported on the Statement of Net Position in three net position categories: net investment in capital assets, $1.84 billion (46%); restricted nonexpendable, $626.7 million (16%) and restricted expendable, $465.4 million (12%); and unrestricted, $1.02 billion (26%).

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 decreased $33.4 million during the year ended June 30, 2018. Unrestricted net position decreased $136.5 million, primarily due to the implementation of GASB Statement No. 75 offset by an increase in the net increase in operating revenues in excess of operating expenses for the System. Restricted net position decreased $68.9 million primarily as a result of spending on capital projects including the construction of the new research building and the renovation of the College of Law building offset by gains on endowment investments due to a positive return on the endowment pool. Net investment in capital assets increased $172.0 million due to excess of additions of capital assets and principal payments of capital debt offset by depreciation expense.

Statement of Revenues, Expenses and Changes in Net Position

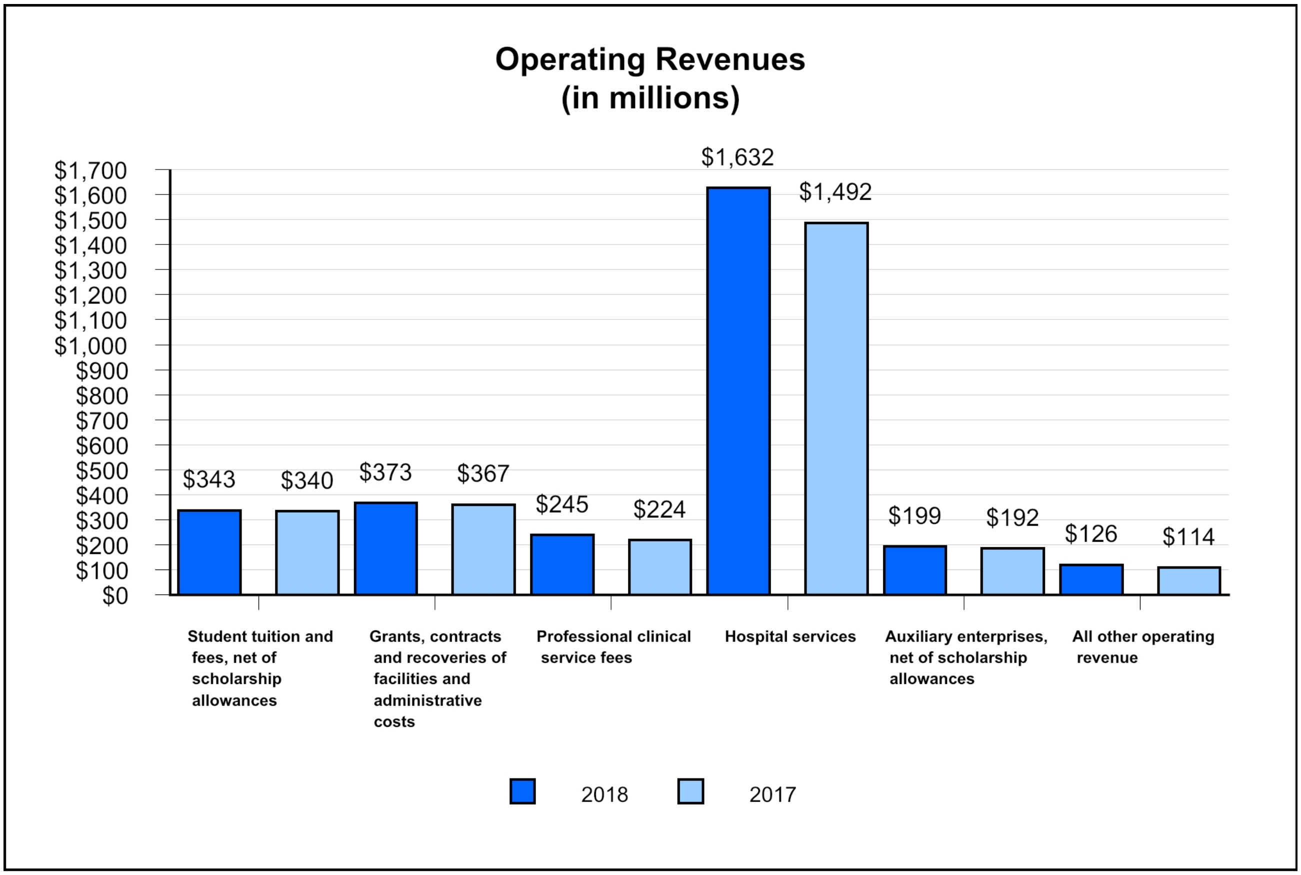
The Statement of Revenues, Expenses and Changes in Net Position is the University's income statement. It details how net position has changed during the year ended June 30, 2018, with comparative information for the year ended June 30, 2017. This statement is prepared on the accrual basis of accounting 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 loss from operations prior to the addition of nonoperating revenues (expenses). 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 the years ended June 30, 2018 and 2017 are as follows:

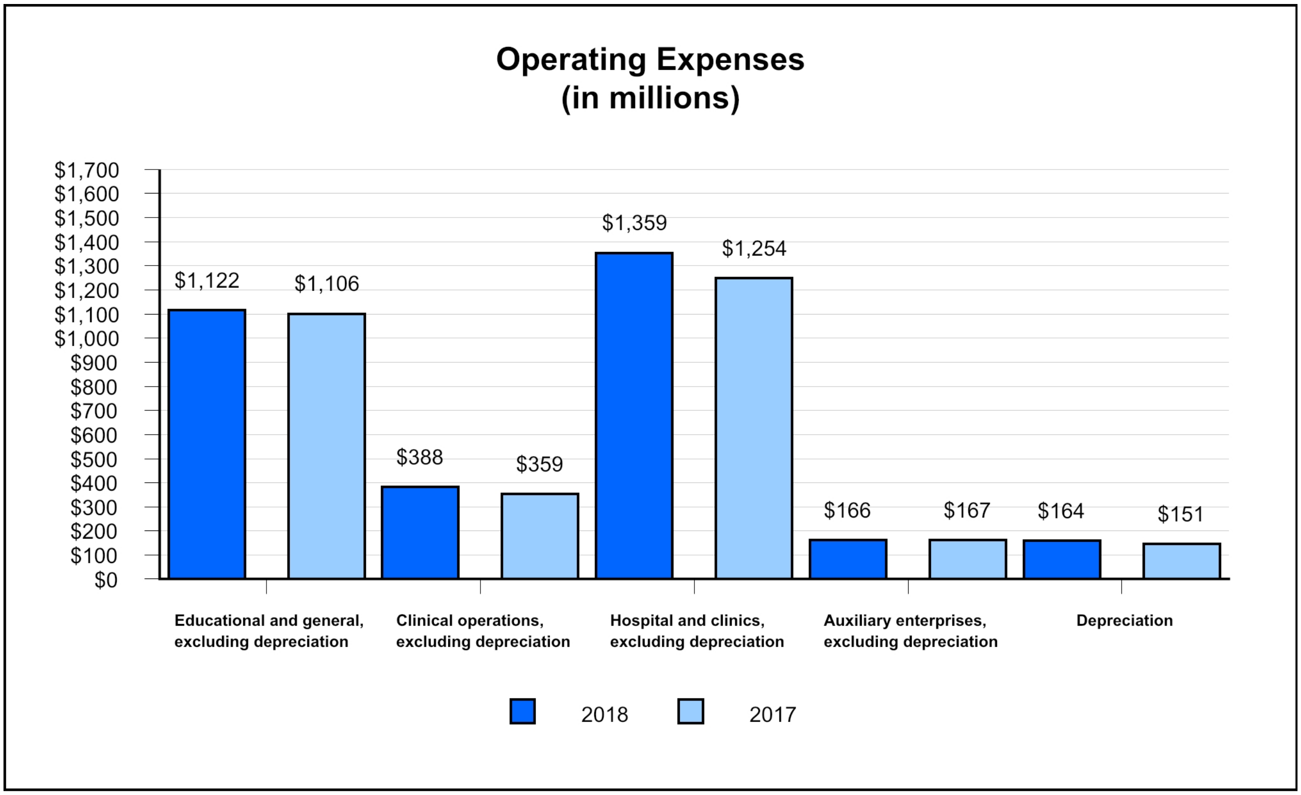
Condensed Statements of Revenues, Expenses and Changes in Net Position (in thousands)

	2018	2017
OPERATING REVENUES		
Student tuition and fees, net of scholarship allowances	$ 342,981	$ 339,665
Grants and contracts	313,079	312,451
Recoveries of facilities and administrative costs	60,062	54,507
Sales and services	58,456	50,696
Federal and county appropriations	45,063	41,238
Professional clinical service fees	244,805	223,630
Hospital services	1,631,737	1,492,388
Auxiliary enterprises, net of scholarship allowances	198,921	192,197
Other operating revenues	22,831	22,299
Total operating revenues	2,917,935	2,729,071
OPERATING EXPENSES		
Educational and general, excluding depreciation	1,122,041	1,105,693
Clinical operations, excluding depreciation	387,875	359,002
Hospital and clinics, excluding depreciation	1,358,571	1,253,804
Auxiliary enterprises, excluding depreciation	165,507	167,358
Depreciation	164,361	151,445
Other operating expenses	993	594
Total operating expenses	3,199,348	3,037,896
NET LOSS FROM OPERATIONS	(281,413)	(308,825)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	264,418	267,029
Gift and non-exchange grants	118,442	112,918
Investment income (loss)	89,893	114,018
Interest on capital asset-related debt	(34,695)	(35,086)
Capital grants and gifts	28,086	69,398
Additions to permanent endowments	10,470	9,760
Other, net	16,732	20,956
Total nonoperating revenues (expenses)	493,346	558,993
INCREASE IN NET POSITION	211,933	250,168
NET POSITION, beginning of year, as previously reported	3,976,695	3,726,527
Cumulative effect of adoption of accounting principles	(245,336)	—
NET POSITION, beginning of year, as restated	3,731,359	3,726,527
NET POSITION, end of year	$ 3,943,292	$ 3,976,695



Total operating revenues were $2.92 billion for the year ended June 30, 2018, an increase of $188.9 million (seven percent). The primary components of operating revenues were student tuition and fees, net of scholarship allowances, of $343.0 million; grants and contracts and recoveries of facilities and administrative costs of $373.1 million; professional clinical service fees of $244.8 million; and hospital services of $1.63 billion.

The major increase was in hospital services revenue of $139.3 million attributable to an increase in rates, partially driven by patient acuity, and improved payer mix. Other significant increases in operating revenues related to net student tuition and fees of $3.3 million due to tuition and fee rate increases; grants and contracts and recoveries of facilities and administrative costs of $6.2 million due to increases in federal and nongovernmental grants and contracts; and professional clinical service fees of $21.2 million.



Operating expenses totaled $3.20 billion, an increase of $161.5 million (five percent). Of this amount, $1.12 billion, excluding depreciation, was expended for educational and general programs, including instruction, research and public service. Clinical operations expenses, excluding depreciation, were $387.9 million; hospital and clinics expenses, excluding depreciation, amounted to $1.36 billion; and auxiliary enterprises expenses, excluding depreciation, were $165.5 million. Depreciation expense for the year amounted to $164.4 million.

Educational and general expenses, excluding depreciation, increased $16.3 million due primarily to increases in research of $4.1 million, public service of $12.5 million and student services of $3.4 million offset by a decrease in operations and maintenance of plant of $5.5 million. Clinical operations expenses, excluding depreciation, increased $28.9 million primarily due to salary market adjustments for clinical faculty and staff. Hospital and clinics expenses, excluding depreciation, increased $104.8 million primarily due to additional staffing and supplies required for increased patient volume and market adjustments for clinical staff. Auxiliary enterprises expenses, excluding depreciation, decreased $1.9 million primarily attributable to decreases in Housing and Dining of $1.5 million due to decreases in in-kind expenses associated with the Aramark contingency and maintenance and repair funds based on the terms of the contract. Depreciation expense increased $12.9 million primarily due to new buildings and renovations.

The net loss from operations for the year was $281.4 million. Nonoperating and other revenues, net of expenses, totaled $493.3 million and included state appropriations of $264.4 million, a decrease of $2.6 million. Investment income totaled $89.9 million, a decrease of $24.1 million; capital grants and gifts totaled $28.1 million, a decrease of $41.3 million; and additions to permanent endowments totaled $10.5 million, an increase of $710 thousand. Gifts and non-exchange grants totaled $118.4 million, an increase of $5.5 million.

Statement of Cash Flows

The Statement of Cash Flows details how cash has increased or decreased during the fiscal year ended June 30, 2018, with comparative financial information for the fiscal year ended June 30, 2017. The sources and uses of cash are arranged in the following categories:

- Operating activities
- Noncapital financing activities
- Capital and related 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 capital debt, and capital debt repayments. Purchases of investments and proceeds from sales and maturities 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 the years ended June 30, 2018 and 2017 are as follows:

Condensed Statements of Cash Flows (in thousands)

	2018	2017
CASH PROVIDED (USED) BY:		
Operating activities	$ (183,717)	$ (159,464)
Noncapital financing activities	410,663	395,282
Capital and related financing activities	(258,190)	(381,081)
Investing activities	2,752	(21,170)
Net increase (decrease) in cash and cash equivalents	(28,492)	(166,433)
CASH AND CASH EQUIVALENTS, beginning of year	925,674	1,092,107
CASH AND CASH EQUIVALENTS, end of year	$ 897,182	$ 925,674

The University's cash and cash equivalents decreased $28.5 million in fiscal year 2018. Total cash provided by noncapital financing activities was $410.7 million, an increase of $15.4 million compared to fiscal year 2017. Total cash used by operating activities was $183.7 million, an increase of $24.3 million; cash used by capital and related financing activities was $258.2 million, a decrease of $122.9 million reflecting both capital funding sources (debt proceeds) and uses (purchases of capital assets and debt service). Total cash provided by investing activities was $2.8 million, an increase of $23.9 million.

Major sources of cash provided by operating activities were hospital services of $1.60 billion; grants and contracts and recoveries of facilities and administrative costs of $367.4 million; student tuition and fees of $341.7 million; and professional clinical service fees of $254.8 million. Major uses of cash for operating activities were payments to employees for salaries, wages and benefits of $1.99 billion and to vendors and contractors of $1.05 billion.

Noncapital financing activities include state appropriations from the Commonwealth of $264.4 million, gifts and grants for other than noncapital purposes of $137.6 million and other receipts of $8.3 million.

Capital and related financing activities include proceeds of capital debt of $230.4 million and capital grants and gifts of $21.4 million. Cash of $420.2 million was expended for construction and purchases of capital assets and $95.2 million was expended for principal and interest payments on capital debt and leases.

Investing activities include proceeds from sales and maturities of investments of $917.3 million and interest and dividends on investments of $37.6 million. Cash of $952.1 million was used for purchase of investments.

Capital Assets and Debt Administration

Capital Assets.

Capital assets, net of accumulated depreciation, totaled $3.38 billion at June 30, 2018, an increase of $349.1 million. Capital assets as of June 30, 2018 and 2017 and significant changes in capital assets during the year ended June 30, 2018 are as follows (in millions):

	Balance June 30, 2017	Net Additions (Deletions) FY 2017-18	Balance June 30, 2018
Land and land improvements	$ 253	$ 33	$ 286
Buildings, fixed equipment and infrastructure	3,393	463	3,856
Equipment, vehicles and capitalized software	778	47	825
Library materials and art	168	2	170
Certificate of need	12	—	12
Construction in progress	296	(64)	232
Accumulated depreciation	(1,867)	(132)	(1,999)
Total	$ 3,033	$ 349	$ 3,382

At June 30, 2018, the University had commitments in construction in progress for capital projects totaling approximately $579.7 million in scope. Major projects include the construction of the new research building, baseball stadium and health care facilities, and the renovation/expansion of the law building. The estimated cost to complete the projects in progress was approximately $348.1 million.

Net additions also include EdR Phases II and III construction totaling $92.7 million.

Debt.

At June 30, 2018 and 2017, capital debt amounting to $1.20 billion and $1.01 billion respectively, summarized by trust indenture and type, is as follows (in millions):

	2018	2017
General Receipts bonds and notes	$ 1,093	$ 910
Capital lease obligations	85	83
Notes payable	19	20
Total	$ 1,197	$ 1,013

Debt increased $184.4 million during the year primarily due the issuance of General Receipts Bonds 2018 Series A and B for $222.5 million to fund construction of HealthCare facilities, the renovation/expansion of the law building, and modernization work on various campus buildings. Also contributing to this increase are additions to capital leases and other long-term obligations of $14.5 million. Partially offsetting these increases are principal payments on the University's debt obligations of $52.7 million.

Economic and Other Factors That Will Affect the Future

Senior leadership continues to believe that the University is well-positioned to maintain its fiscally sound condition and to continue providing excellent service to students, patients, the community, and the citizens of the Commonwealth. This position, along with ongoing efforts toward revenue diversification and cost containment, will enable the University to obtain the necessary resources to meet its strategic objectives. The following are known facts and circumstances that will affect future financial results:

- According to a recent study by Fabian Pfeffer published in Demography (2018 55:1033-1068; https://doi.org/10.1007/s13524-018-0666-7), the Great Recession, beginning with the crash of the housing market in 2007, exerted a lasting impact on the wealth distribution among U.S. households. The study reports that while the college-attendance gap between students from low and high economic backgrounds has decreased, the gap in the number of students from low and high economic backgrounds that graduate has grown.
- The Kentucky Council on Postsecondary Education's 2018 Progress Report stated that Kentucky's in-state college-going rate fell from 54.0% in 2015 to 53.5% in 2016, marking the second consecutive decline. Over the next few years, the number of Kentucky high school graduates is projected to remain static, but by 2030, a seven percent decrease in high school graduates is predicted.
- State support for postsecondary education, per the Kentucky Council on Postsecondary Education's 2018 Progress Report, has declined 35% since fiscal year 2007-08, the start of the Great Recession. With the passage of Senate Bill 153 during the 2017 Session of the Kentucky General Assembly, Kentucky joined a growing majority of states which have adopted a performance based funding program to formally link state appropriations with desired student success goals. The state implemented the new Performance Funding Model in fiscal year 2017-18 using eleven metrics primarily focused on student success. For fiscal year 2017-18, the performance funds for the model came from the institutions' existing base state appropriations. No other state has implemented a performance funding model without adding new state funds.
- In April 2018, the 2018 Kentucky General Assembly passed the 2018-20 biennial budget for the Commonwealth of Kentucky. With regard to postsecondary education, the budget includes:
    - Approximately a 6.25 percent reduction ($54.3 million) in state appropriations for all public postsecondary education institutions effective July 1, 2018
    - Reduction and/or elimination of funding for several mandated programs
    - $31.0 million of the $54.3 million reduction to be allocated in fiscal year 2018-19 to the public universities and colleges using the state's Performance Funding Model
    - For FY 2019-20, capturing 1.0 percent of the remaining appropriations ($7.7 million) to be reallocated among the public institutions based on the Performance Funding Model.
- Despite challenging national and state higher education enrollment trends, senior leadership remains confident in the 2015 - 2020 UK Strategic Plan goals to move graduation rates to 70% and retention rates to 90% and implemented the UK Leveraging Economic Affordability for Developing Success (UK LEADS) program in 2016 in support of these goals. Under the UK LEADS initiative, over the next several years the University will award more of its institutional aid based on financial need, supported by predictive modeling which indicates reducing unmet need will have a positive impact on retention rates and student success. After two years of this new pilot program, preliminary data suggests that UK's overall retention rate for fall 2018 will approach 85 percent and the six-year graduation rate will near 65 percent. Both will be record highs and important steps toward achieving the strategic plan goals.
- During fiscal year 2017-18, senior leadership initiated a campus-wide, collaborative effort, known as "Our Path Forward", to develop a forward-thinking budget that addresses disruptions in higher education, including increased focus on net price to value and student debt levels, changing demographics, expectations of life-long learning, and a challenging state fiscal environment. To date, the effort has resulted in development of business plans for several new initiatives to generate recurring revenues, net savings and/or new opportunities, including improvements to energy utilization and reduced utility costs, expansion of online and summer courses, increased recruitment and retention of high-quality students from Kentucky and strategic out-of-state markets and reengineering of procurement and

payment processes to better capture strategic cost reductions. Several initiatives are now in the implementation phase and the collaborative planning effort will continue in the coming years to address and capitalize on the disruptions taking place in higher education.

- UK is one of 22 universities in the country with the trifecta of top federal grants: an NCI-designated cancer center, the Clinical and Translational Science Award, and an Alzheimer's Disease Center. UK faculty and staff researchers were awarded $331.3 million in external grants and contracts, in fiscal year 2016-17. As of June 30, 2018, grants and contracts of approximately $234.5 million, an increase of approximately $8.0 million from the previous year, have been awarded to the University but not expended.
- UK HealthCare's vision is to create a system that rationalizes care, not rations care; providing a seamless continuum of care using a network committed to value - the best outcomes delivered most efficiently. Annual discharges from UK's hospitals have increased by more than 32% over the last 10 years, with annual discharges expected to exceed 42,000 by fiscal year 2018-19. The number of outpatient visits to UK's clinics has increased by more than 98% in the last 10 years to 1.6 million visits in fiscal year 2017-18. As a result of the Affordable Care Act (ACA), Kentucky has experienced one of the largest increases in Medicaid enrollment in the country. The average increase in enrollment for the United States is 27% compared to Kentucky's 100%, (source: UK CBER 2018 Annual Report). While the long-term impact of the ACA and its status in Kentucky is unknown, UK HealthCare will develop and execute strategies in an effort to mitigate negative impacts and leverage opportunities.
- The University's momentous physical transformation continues, positively impacting its ability to attract and retain students, faculty and staff. From July 2011 to June 2018, over 130 capital projects totaling $2.26 billion have been initiated, encompassing academic, research, health care and athletic projects. The funding model for these projects has been strategically diverse (debt 34%, private partners 25%, university funds 25%, state funds 9%, and gifts 7%) to maintain the University's fiscally sound condition. The most recently completed project was the $201.3 million renovation and expansion of the Bill Gatton Student Center, which opened in May 2018, and the next major project underway is the new $265.0 million research building, which partially opened in September 2018. Future projects are expected to focus on health care and modernizing existing academic facilities.
- In September 2018, the University announced its historic fundraising campaign, "Kentucky Can: The 21st Century Campaign", to expand access to education at the University of Kentucky and accelerate UK's efforts to solve the Commonwealth's most challenging health and economic issues. Specifically, the $2.10 billion "Kentucky Can" campaign will focus on three major areas of support:
    - Funding UK LEADS and other scholarships to ensure more students have access to a UK education and can graduate on time with reduced debt
    - Enhancing academic and research initiatives focused on the state's most pressing challenges including opioid addiction, cancers, heart disease and diabetes
    - Growing the University's endowment to more than $2.00 billion to fund recruitment and retention of leading scholars and support of initiatives that provide a foundation for the work of faculty, staff and students.
- 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 maintain the purchasing power of endowment assets and insulate programs funded by the endowment from temporary market volatility.

Economic challenges will continue to have an impact on the future. However, senior leadership believes the University will be able to sustain its sound financial position and continue its progress toward enhancing student success and increasing its reputation as a nationally recognized public research institution.

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
STATEMENT OF NET POSITION (in thousands)
JUNE 30, 2018

	2018
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	
Current Assets	
Cash and cash equivalents	$ 587,492
Notes, loans and accounts receivable, net	438,441
Investments	18,399
Inventories and other assets	56,640
Total current assets	1,100,972
Noncurrent Assets	
Restricted cash and cash equivalents	309,690
Endowment investments	1,334,530
Other long-term investments	299,402
Notes, loans and accounts receivable, net	279,444
Other noncurrent assets	1,110
Capital assets, net	3,382,542
Total noncurrent assets	5,606,718
Total assets	**6,707,690**
Deferred Outflows of Resources	42,293
Total assets and deferred outflows of resources	**6,749,983**
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	
Current Liabilities	
Accounts payable and accrued liabilities	347,002
Unearned revenue	121,709
Long-term liabilities - current portion	86,075
Total current liabilities	554,786
Noncurrent Liabilities	
Unearned revenue	152,389
Long-term liabilities	1,299,806
Net other postemployment benefit liability - retiree health	232,577
Net other postemployment benefit liability - long-term disability	3,996
Total noncurrent liabilities	1,688,768
Total liabilities	**2,243,554**
Deferred Inflows of Resources	563,137
Total liabilities and deferred inflows of resources	**2,806,691**
NET POSITION	
Net investment in capital assets	1,835,152
Restricted	
Nonexpendable	
Scholarships and fellowships	164,048
Research	278,769
Instruction	85,046
Academic support	85,731
Other	13,123
Total restricted nonexpendable	626,717
Expendable	
Scholarships and fellowships	89,330
Research	98,810
Instruction	53,374
Academic support	84,065
Loans	12,484
Capital projects	54,789
Debt service	24
Auxiliary	33,725
Other	38,843
Total restricted expendable	465,444
Total restricted	1,092,161
Unrestricted	1,015,979
Total net position	**$ 3,943,292**

See notes to financial statements

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (in thousands)
FOR THE YEAR ENDED JUNE 30, 2018

	2018
OPERATING REVENUES	
Student tuition and fees	$ 508,799
Less: Scholarship allowances	(165,818)
Net student tuition and fees	342,981
Federal grants and contracts	187,996
State and local grants and contracts	85,834
Nongovernmental grants and contracts	39,249
Recoveries of facilities and administrative costs	60,062
Sales and services	58,456
Federal appropriations	19,674
County appropriations	25,389
Professional clinical service fees	244,805
Hospital services	1,631,737
Auxiliary enterprises:	
Housing and dining	35,861
Less: Scholarship allowances	(812)
Net housing and dining	35,049
Athletics	108,781
Other auxiliaries	55,091
Other operating revenues	22,831
Total operating revenues	**2,917,935**
OPERATING EXPENSES	
Educational and general:	
Instruction	313,654
Research	280,230
Public service	199,107
Libraries	23,886
Academic support	84,247
Student services	43,398
Institutional support	61,659
Operations and maintenance of plant	75,208
Student financial aid	40,652
Depreciation	67,506
Total educational and general	1,189,547
Clinical operations (including depreciation of $4,409 in 2018)	392,284
Hospital and clinics (including depreciation of $62,117 in 2018)	1,420,688
Auxiliary enterprises:	
Housing and dining (including depreciation of $13,299 in 2018)	31,232
Athletics (including depreciation of $15,837 in 2018)	131,615
Other auxiliaries (including depreciation of $1,193 in 2018)	32,989
Other operating expenses	993
Total operating expenses	**3,199,348**
Net loss from operations	**(281,413)**
NONOPERATING REVENUES (EXPENSES)	
State appropriations	264,418
Gifts and non-exchange grants	118,442
Investment income (loss)	89,893
Interest on capital asset-related debt	(34,695)
Other nonoperating revenues and expenses, net	8,836
Net nonoperating revenues (expenses)	**446,894**
Net income (loss) before other revenues, expenses, gains or losses	**165,481**
Capital grants and gifts	28,086
Additions to permanent endowments	10,470
Other, net	7,896
Total other revenues (expenses)	**46,452**
INCREASE IN NET POSITION	**211,933**
NET POSITION, beginning of year, as previously reported	**3,976,695**
Cumulative effect of adoption of accounting principle	**(245,336)**
NET POSITION, beginning of year, as restated	**3,731,359**
NET POSITION, end of year	**$ 3,943,292**

See notes to financial statements

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
STATEMENT OF CASH FLOWS (in thousands)
FOR THE YEAR ENDED JUNE 30, 2018

		2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	$	341,672
Grants and contracts		305,661
Recoveries of facilities and administrative costs		61,743
Sales and services		56,359
Federal appropriations		20,158
County appropriations		26,149
Payments to vendors and contractors		(1,050,373)
Student financial aid		(40,651)
Salaries, wages and benefits		(1,986,520)
Professional clinical service fees		254,823
Hospital services		1,603,302
Auxiliary enterprises receipts		206,373
Loans issued to students		(16,343)
Collection of loans to students		16,038
Self insurance receipts		70,463
Self insurance payments		(75,073)
Other receipts (payments)		22,502
Net cash provided (used) by operating activities		**(183,717)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations		264,418
Gifts and grants received for other than capital purposes:		
Gifts received for endowment purposes		10,470
Gifts received for other purposes		127,169
Agency and loan program receipts		252,818
Agency and loan program payments		(252,479)
Other financing receipts (payments)		8,267
Net cash provided (used) by noncapital financing activities		**410,663**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital grants and gifts		21,367
Purchases of capital assets		(420,204)
Proceeds from capital debt		230,449
Proceeds from sales of capital assets		3,950
Principal paid on capital debt and leases		(52,683)
Interest paid on capital debt and leases		(42,533)
Other financing receipts (payments)		1,464
Net cash provided (used) by capital and related financing activities		**(258,190)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments		917,277
Interest and dividends on investments		37,598
Purchases of investments		(952,123)
Net cash provided (used) by investing activities		**2,752**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(28,492)**
CASH AND CASH EQUIVALENTS, beginning of year		**925,674**
CASH AND CASH EQUIVALENTS, end of year	**$**	**897,182**

See notes to financial statements

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
STATEMENT OF CASH FLOWS (in thousands)
FOR THE YEAR ENDED JUNE 30, 2018

		2018
Reconciliation of net loss from operations		
to net cash provided (used) by operating activities:		
Net loss from operations	$	(281,413)
Adjustments to reconcile net loss from operations		
to net cash provided (used) by operating activities:		
Depreciation expense		164,361
Change in assets and liabilities:		
Notes, loans and accounts receivable, net		(44,913)
Inventories and other assets		(3,813)
Deferred outflows of resources		(7,660)
Accounts payable and accrued liabilities		(26,251)
Unearned revenue		16,138
Long-term liabilities		966
OPEB liabilities		(30,678)
Deferred inflows of resources		29,546
Net cash provided (used) by operating activities	**$**	**(183,717)**
NONCASH TRANSACTIONS		
Capital lease additions	$	14,715
Gifts of capital assets	$	5,472
Capital asset change in accounts payable	$	11,207
Capital asset additions by service concession arrangements	$	98,638
Capitalized interest, net of investment income	$	10,400
Amortized bond discount and premium	$	7,185
Amortized difference between reacquisition price and net carrying amount of refunded debt	$	1,629
Capital asset trade in	$	683

See notes to financial statements

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
STATEMENT OF FIDUCIARY NET POSITION (in thousands)
JUNE 30, 2018

		2018
ASSETS		
Cash and cash equivalents	$	3,509
Accrued interest receivable		13
Investments		176,105
Total assets		179,627
LIABILITIES		
Accounts payable and accrued liabilities		3
Total liabilities		3
NET POSITION		
Net position restricted for postemployment benefits other than pensions	$	179,624

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION (in thousands)
FOR THE YEAR ENDED JUNE 30, 2018

		2018
Additions		
Investment income:		
Interest and dividend income	$	3,147
Net appreciation (depreciation) in fair value of investments		7,106
Net investment income (loss)		10,253
Contributions:		
University of Kentucky		22,015
Beneficiaries		4,945
Total contributions		26,960
Total additions		37,213
Deductions		
Administrative expenses		821
Payments to retirees and beneficiaries		19,496
Total deductions		20,317
INCREASE (DECREASE) IN NET POSITION		16,896
NET POSITION restricted for postemployment benefits other than pensions, beginning of year		162,728
NET POSITION restricted for postemployment benefits other than pensions, end of year	$	179,624

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 (UKRF) and its for-profit subsidiary, Kentucky Technology, Inc. (KTI); University of Kentucky Gluck Equine Research Foundation, Inc.; University of Kentucky Humanities Foundation, Inc.; University of Kentucky Mining Engineering Foundation, Inc.; University of Kentucky Center on Aging Foundation, Inc.; and Central Kentucky Management Services, Inc. The affiliates are presented as blended component units since University management has operational responsibility for each affiliated corporation. The financial statements also include the operations of Kentucky Medical Services Foundation, Inc. (KMSF), a non-profit entity for which the University is financially accountable as defined by GASB, but which is not an affiliated corporation under KRS. KMSF is included within the University reporting entity as a blended component unit as KMSF provides its services entirely to the University. The financial statements also include the operations of the following organizational units of the University: the UK HealthCare Hospital System (the System), 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/ufs/financial-statements-and-investor-information.

The Center on Aging Foundation (the Foundation) was dissolved on July 1, 2018 12:01 a.m. All assets held by the Foundation were transferred to the University according to the Articles of Dissolution of the Foundation on July 1, 2018.

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:

- <u>Net investment in capital assets:</u> Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

- <u>Restricted:</u>

  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.

- <u>Unrestricted:</u> 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. The fiduciary funds financial statement presentation is intended to report the assets held in trust for the beneficiaries of the other postemployment benefit plans and focuses on the net position and the changes in net position.

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 Investments. The University considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. The University also considers the investments held in the investment pool with the commonwealth 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.

Investments in marketable debt and equity securities are carried at fair value, as determined by the major securities markets. Alternative investments are stated at net asset value. Life insurance policies are stated at cost. See note 2 for more information on the fair value determination. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income (loss) in the Statement of Revenues, Expenses and Changes in Net Position.

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 commonwealth for capital projects; 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 is recorded net of estimated uncollectible amounts based upon a review of outstanding receivables, historical collection information, and existing economic conditions.

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

Pooled Endowment Funds. All endowments are managed in a consolidated investment pool, which consists of more than 2,200 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.

The adopted spending policy is a “hybrid” 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.

The University also utilizes an endowment management fee to support internal management and fundraising costs related to the endowment. For the year ended June 30, 2018, the University’s annual endowment management fee was 0.50%.

Effective July 1, 2018, the management fee will be temporarily increased by up to 0.50%, for a maximum annual assessment of 1.00%, to support additional expenses related to the capital campaign.

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 year ended June 30, 2018 are as follows (in thousands):

Gross spending policy distribution	$	44,091
Reinvested spending policy distribution		(24,998)
Net spending policy distribution	$	19,093
Management fee	$	5,853

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

Effective July 1, 2015, equipment with a unit cost of $5,000 or more ($2,000 or more for KMSF, $2,500 or more for KTI) 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.

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 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, 2018 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 or third parties on behalf of the students. 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 26% and 29%, respectively, of the System's net patient services revenues before the provision for doubtful accounts for the year ended June 30, 2018. 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. With expanded Medicaid, more Kentuckians are becoming insured, resulting in a decrease in the System's self-pay population. This has led to the System's inability to qualify for Disproportionate Share Hospital payments from Medicaid. The monies received from Medicaid which will be recouped are represented as third-party payer settlements and included in accrued liabilities on the Statement of Net position totaled $66.2 million as of June 30, 2018.

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. The amount of charges forgone for the services and supplies furnished under the System's charity care policy aggregated to approximately $58.8 million for the year ended June 30, 2018.

Management Contract Revenue. The System entered into a contract with the Kentucky Cabinet for Health and Family Services (CHFS) to manage Eastern State Hospital (ESH) and Central Kentucky Recovery Center (CKRC). Under the contract the System is reimbursed 100% of the related operating expenses up to a limit of $39.7 million, and $1.9 million, for ESH and CKRC, respectively. The System also receives an eight percent management fee. The initial contract term was August 13, 2013 to June 30, 2014 with the option to renew the contract for two additional one-year terms. Subsequent to year end, the contract was renewed for the period of July 1, 2018 to June 30, 2019 with substantially the same terms.

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 23. During fiscal year 2018, departmental research in nonsponsored accounts of approximately $79.2 million was recorded as research expense in the Statement 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 make 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.

University of Kentucky Other Postemployment Benefit (OPEB) Plan. The University has a single-employer defined OPEB benefit, Health Insurance Benefits for Retirees Plan and Long Term Liability Plan. For purposes of measuring the net OPEB liability, deferred outflows of resources related to OPEB, deferred inflows of resources related to OPEB, and OPEB expenses, information about the fiduciary net position have been determined on the same basis as they are reported by the OPEB Plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Adoption of GASB Statement No. 75 and GASB Statement No. 81. In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* which intended to improve financial reporting by requiring recognition of the entire OPEB liability and a more comprehensive measure of OPEB expense. GASB Statement No. 75, was adopted during fiscal year 2018 resulting in a restatement of net position as of July 1, 2017 of $241.8 million to record the unfunded portion of the liability. See notes 17 and 18 for information on the OPEB plans and funds held in trust.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which is intended to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary. GASB Statement No. 81 was adopted during fiscal year 2018, resulting in a restatement of net position as of July 1, 2017 of $3.5 million to record the deferred inflows of resources for the beneficial interests that the University will receive in the future years. See note 14 for information on funds held in trust by others.

Recent Accounting Pronouncements. The GASB has issued the following statements applicable to the University, which have not yet been implemented.

- GASB Statement No. 84, *Fiduciary Activities*, issued January 2017. The provisions of this statement are effective for fiscal years beginning after December 15, 2018 (fiscal year 2020). This statement provides guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and will require the University to include fiduciary fund financial statements for material fiduciary activities before the notes to the financial statements. The University has yet to determine the impact Statement No. 84 will have on its financial statements.
- GASB Statement No. 87, *Leases*, issued June 2017. The provisions of the statement are effective for fiscal years beginning after December 15, 2019 (fiscal year 2021). This statement requires certain lease assets and liabilities for leases that were previously classified as operating leases to be recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The University has yet to determine the impact GASB Statement No. 87 will have on its financial statements.
- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, issued June 2017. The provisions of the statement are effective for fiscal years beginning after June 15, 2018 (fiscal year 2019). This statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This statement requires additional disclosures, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements; significant termination events; and significant subjective acceleration clauses. The University does not expect the adoption of this statement to have a material effect on its financial statements.

2. DEPOSITS AND INVESTMENTS

The University's deposits and investments can be grouped into five significant categories, as follows:

- Overnight investments include money market funds and deposits with local banks and the Commonwealth.
- Bond revenue fund and bond project fund investments held by the Treasurer of the Commonwealth as required by the University's bond trust indentures and invested in high quality global 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 and
  - managed by an external manager in a low duration strategy.
- Debt service reserve fund investments required by the University's bond trust indentures and held by the bond trustees.
- Endowment investments:
  - administered by the University and managed using external investment managers and
  - held in external trusts administered by external trustees.

Deposit and Investment Policies. The Board is responsible for establishing deposit and investment policies. The policies are developed to ensure compliance with state laws and regulations and to maintain sound financial management practices. The day-to-day management of the deposits and investments has been delegated to the Treasurer of the University.

The Treasurer of the University 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.

The fair value of deposits and investments by Statement of Net Position classification at June 30, 2018 is as follows (in thousands):

Statement of Net Position classification	
Deposits	
Current cash and cash equivalents	$ 587,492
Restricted cash and cash equivalents	309,690
Total deposits	897,182
Investments	
Current investments	18,399
Endowment investments	1,334,530
Other long-term investments	299,402
Total investments	1,652,331
Total deposits and investments	$ 2,549,513

Fair Value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at a measurement date. The framework for measuring fair value established by GAAP provides a fair value hierarchy as follows:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities.

The University categorizes its fair value measurements within the fair value hierarchy. Certain investments are measured at fair value using net asset value (NAV) per share (or its equivalent) practical expedient, amortized costs, or historical costs and therefore have not been classified in the fair value hierarchy. These investments have been included in the following table to permit reconciliation of the fair value hierarchy to the amounts presented in the Statement of Net Position.

The University has the following valuation measurements, by type, at June 30, 2018 is as follows (in thousands):

		Fair Value Measurement Using					
	Total value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total measured at fair value	Net asset value (NAV)	Amortized or historical cost
Non-endowed deposits and investments							
Cash and cash equivalents	$ 384,490	$ 265,079	$ —	$ —	$ 265,079	$ —	$ 119,411
Cash surrender value of life insurance policies	5,921	—	—	—	—	—	5,921
Certificates of deposit	25,146	—	25,146	—	25,146	—	—
Deposits with the Commonwealth of Kentucky[1]	14,523	—	—	—	—	—	14,523
Global equity - international	4,249	4,249	—	—	4,249	—	—
Global equity - private[2]	404	61	—	—	61	—	343
Global equity - U.S.	11,069	11,065	—	—	11,065	—	4
Global fixed income - high quality/rate sensitive[3]	755,123	33	377,995	—	378,028	—	377,095
Global fixed income - public credit	5,299	4,269	1,030	—	5,299	—	—
Guaranteed investment contracts	7,819	—	—	—	—	—	7,819
Other	3	—	—	—	—	—	3
Real assets - public	937	937	—	—	937	—	—
Total non-endowed deposits and investments	1,214,983	285,693	404,171	—	689,864	—	525,119
Endowed deposits and investments							
Cash and cash equivalents	3,860	—	—	—	—	—	3,860
Diversifying strategies[4]	249,797	19,141	—	—	19,141	230,656	—
External trusts	12,306	—	—	12,306	12,306	—	—
Global equity - hedged funds	78,692	—	—	—	—	78,692	—
Global equity - international	192,059	157,839	985	13	158,837	33,222	—
Global equity - private[5]	197,091	—	—	1	1	197,090	—
Global equity - U.S.	127,778	10,257	1,244	—	11,501	116,277	—
Global fixed income - high quality/rate sensitive	99,137	52,291	46,846	—	99,137	—	—
Global fixed income - private credit[5]	38,486	—	—	—	—	38,486	—
Global fixed income - public credit	82,902	41,797	2,454	—	44,251	38,651	—
Real assets - private[5]	108,081	—	—	—	—	108,081	—
Real assets - public	144,341	96,745	160	—	96,905	47,436	—
Total endowed deposits and investments	1,334,530	378,070	51,689	12,320	442,079	888,591	3,860
Total deposits and investments	$ 2,549,513	$ 663,763	$ 455,860	$ 12,320	$ 1,131,943	$ 888,591	$ 528,979

1) Non-endowed deposits with the Commonwealth include deposits held by the state for capital construction, tobacco research and state appropriations. The University does not earn investment income on these funds; all investment income accrues to the Commonwealth.
2) Non-endowed global equity - private includes a limited partnership whose fair market value is measured using its cost basis of $160,000 as of December 31, 2017.
3) Non-endowed global fixed income - high quality/rate sensitive includes deposits and investments in the Commonwealth's limited pool and intermediate pool funds. As of June 30, 2018, $377.1 million was held in the Commonwealth's limited-term investment pool and $139.8 million was held in the intermediate-term pool. The limited-term pool fund's fair value is measured at amortized cost and the intermediate-term pool fund's fair value is measured using level 2 observable inputs. Both investment pools provide same day liquidity with no limitations, fees or restrictions on withdrawals.
4) Endowed diversifying strategies include investments in various diversified, unconstrained strategies including hedge funds and

global tactical asset allocation strategies.

5) Endowed global equity - private, global fixed income - private credit and real assets - private include alternative investments whose fair market value is measured using its net asset value as of March 31, 2018 of $197.1 million, $4.3 million, and $108.1 million, respectively.

Where quoted market prices are available in an active market, securities are classified within level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in level 2 of the valuation hierarchy. In certain cases, where level 1 or level 2 inputs are not available, securities are classified within level 3 of the hierarchy.

Level 3 valuation for global equity investments are valued using either discounted cash flow or market comparable companies technique. External trusts are based on level 3 valuations provided by the external trustee.

Investments valued using NAV per share (or its equivalent) as of June 30, 2018 is as follows (in thousands):

		Redemption Frequency/Notice Period						
	Net asset value (NAV)	Daily, weekly/ 1 - 7 days	Semi-monthly, monthly/ 15 - 75 days	Quarterly/ 60 - 90 days	Semi-annually/ 60 - 180 days	Annually/ 90 - 180 days	End of term/ 5 to 10 years	Unfunded commitments
Diversifying strategies	$ 230,656	$ 8,374	$ 34,636	$ 131,544	$ 12,994	$ 33,607	$ 9,501	$ —
Global equity - hedged funds	78,692	—	—	44,677	—	34,015	—	—
Global equity - international	33,222	—	5,834	20,201	—	7,187	—	—
Global equity - private	197,090	—	—	—	—	—	197,090	185,242
Global equity - U.S.	116,277	99,292	16,985	—	—	—	—	—
Global fixed income - private credit	38,486	—	—	—	—	—	38,486	23,336
Global fixed income - public credit	38,651	—	—	—	24,258	14,393	—	—
Real assets - private	108,081	—	—	—	—	—	108,081	67,624
Real assets - public	47,436	—	47,436	—	—	—	—	—
Total measured at net asset value	$ 888,591	$ 107,666	$ 104,891	$ 196,422	$ 37,252	$ 89,202	$ 353,158	$ 276,202

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 reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could affect the investment amounts in the Statement 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 investments (deposits and money market funds) 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 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. Money market fund portfolios consist of securities eligible for short-term investments.
- Bond revenue fund and bond project 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 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, 2018, the credit quality of the University's fixed income investments is summarized below (in thousands):

	S&P/Moody's Credit Ratings							
	AAA/Aaa	AA/Aa	A	BBB/Baa	Below BBB/Baa	Not rated	Rating not applicable	Total
Non-endowed deposits and investments								
Cash and cash equivalents	$ 365,114	$ —	$ —	$ —	$ —	$ 19,376	$ —	$ 384,490
Certificates of deposit	—	—	—	—	—	25,146	—	25,146
Global fixed income - high quality/rate sensitive	25,150	10,461	41,204	22,983	2,605	516,895	135,825	755,123
Global fixed income - public credit	101	295	479	155	—	4,269	—	5,299
Guaranteed investment contracts	—	804	—	—	—	7,015	—	7,819
Total non-endowed fixed income investments	390,365	11,560	41,683	23,138	2,605	572,701	135,825	1,177,877
Endowed deposits and investments								
Cash and cash equivalents	—	—	—	—	—	3,860	—	3,860
Global fixed income - high quality/rate sensitive	1,326	1,362	5,739	1,169	67	3,416	86,058	99,137
Global fixed income - private credit	—	—	—	—	—	38,486	—	38,486
Global fixed income - public credit	1,285	52	157	372	590	80,426	20	82,902
Total endowed fixed income investments	2,611	1,414	5,896	1,541	657	126,188	86,078	224,385
Total fixed income investments	$ 392,976	$ 12,974	$ 47,579	$ 24,679	$ 3,262	$ 698,889	$ 221,903	$ 1,402,262

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

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

- Overnight investments (deposits and money market funds) are not exposed to custodial credit risk. Deposits and money market funds are held in the University's name by various financial institutions.
- Bond revenue fund and bond project 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 debt service reserve funds are held by the respective bond trustee in a specific trust account for the benefit of the University and its bondholders.
- Endowment investments in external trusts are held in the name of the trust. Other endowment investments are held in the University's name by the University's custodian.

Non-endowed global fixed income - high quality/rate sensitive investments whose fair market value was $516.9 million, as of June 30, 2018, were exposed to custodial credit risk. These bond revenue fund investments were held by the Commonwealth, uninsured and not registered in the name of the University.

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

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

- Overnight investments (deposits and money market funds) are not limited to a maximum amount that may be invested in one issuer. However, 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 and bond project 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 debt service reserve funds that may be invested in one issuer. However, such investments are limited to bonds or interest bearing notes of the U.S. government.
- Endowment fixed income managers are limited to a maximum investment in any one issuer of no more than five percent of total investments excluding sovereign debt of governments belonging in the Organization for Economic Co-operation and Development and U.S. agencies.

At June 30, 2018, the University had no investments in any one issuer, other than U.S. Treasury and/or U.S. 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 and money market funds) have limited exposure to interest rate risk due to the short-term nature of the investment. The University requires that all deposits and money market funds be available for use on the next business day.
- Bond revenue fund and bond project fund investments held in the Commonwealth's limited-term investment pool are limited to a weighted average maturity that does not exceed 60 days, adjusted for interest rate resets and demand features. 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 36 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 Bond Index.

- Investment securities held in debt service reserve funds are required to have a maturity no later than two years from the date of the investment.
- Endowment managers are permitted to use derivative instruments to limit interest rate risk. Additionally, endowment investments held by core-plus fixed income manager 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 mitigate interest rate risk.

For June 30, 2018, the maturity distribution of the University's fixed income investments is summarized below (in thousands):

	Maturities in Years						
	Less than 1	1-5	5-10	Greater than 10	Managed based on duration	Alternative strategy[1]	Total
Non-endowed deposits and investments							
Cash and cash equivalents	$ 384,490	$ —	$ —	$ —	$ —	$ —	$ 384,490
Certificates of deposit	22,944	2,202	—	—	—	—	25,146
Global fixed income - high quality/rate sensitive	7,252	136,959	503	464	609,945	—	755,123
Global fixed income - public credit	40	498	492	—	4,269	—	5,299
Guaranteed investment contracts	—	804	7,015	—	—	—	7,819
Total non-endowed fixed income investments	414,726	140,463	8,010	464	614,214	—	1,177,877
Endowed deposits and investments							
Cash and cash equivalents	3,860	—	—	—	—	—	3,860
Global fixed income - high quality/rate sensitive	26	24	—	—	99,087	—	99,137
Global fixed income - private credit[1]	—	—	—	—	—	38,486	38,486
Global fixed income - public credit[1]	—	—	—	—	44,252	38,650	82,902
Total endowed fixed income investments	3,886	24	—	—	143,339	77,136	224,385
Total fixed income investments	$ 418,612	$ 140,487	$ 8,010	$ 464	$ 757,553	$ 77,136	$ 1,402,262

1) Endowment global fixed income - private and public credit includes alternative investments that are not managed within traditional maturity or duration constraints.

At June 30, 2018, the University had the following investments managed based on duration (in thousands):

	Fair Value	Modified Duration (Years)
Non-endowed deposits and investments		
Global fixed income - high quality/rate sensitive		
Commonwealth of Kentucky intermediate pool	$ 139,767	0.7
Commonwealth of Kentucky limited pool	377,095	—
Externally managed low duration strategy fund	93,050	2.5
Kentucky Technology, Inc.	33	3.0
Global fixed income - public credit	4,269	3.2
Total non-endowment investment	614,214	
Endowed deposits and investments		
Global fixed income - high quality/rate sensitive	99,087	5.8
Global fixed income - public credit	44,252	3.3
Total endowment investment	143,339	
Total managed based on duration	$ 757,553	

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, 2018, the following endowment investments were subject to foreign currency risk (in thousands):

	Fair Value
Global equity - international	$ 4,261
Global equity - private	3,525
Real assets - private	6,166
Total	$ 13,952

3. NOTES, LOANS AND ACCOUNTS RECEIVABLE, NET

Notes, loans and accounts receivable as of June 30, 2018 is as follows (in thousands):

	Gross Receivable	Allowance	Net Receivable
Accrued interest receivable	$ 1,796	$ —	$ 1,796
Commonwealth funded capital project	27,158	—	27,158
Dentistry patient accounts	2,955	(759)	2,196
Hospital patient accounts (net of contractual allowances)	322,124	(88,696)	233,428
Hospital third-party payer settlements	14,097	—	14,097
KMSF patient accounts (net of contractual allowances)	51,534	(8,594)	42,940
Multimedia rights receivable	152,750	—	152,750
Pledges receivable (less discounts of $7,614)	92,412	(33,952)	58,460
Reimbursement receivable - federal appropriations	2,062	—	2,062
Reimbursement receivable - grants and contracts	31,944	(185)	31,759
Service concession arrangements	81,222	—	81,222
Student loans	30,198	(3,311)	26,887
Student accounts	29,475	(14,167)	15,308
Other	27,822	—	27,822
Total	$ 867,549	$ (149,664)	$ 717,885
Current portion			$ 438,441
Noncurrent portion			279,444
Total			$ 717,885

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 year ended June 30, 2018, 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 is estimated to be approximately $215.6 million at June 30, 2018. The University records these amounts as revenue when the cash is received.

4. CAPITAL ASSETS, NET

Capital assets as of June 30, 2018 and capital asset activity for the year ended June 30, 2018 are summarized below (in thousands):

	June 30, 2017	Additions	Deletions	June 30, 2018
Land	$ 83,031	$ 2,990	$ —	$ 86,021
Land improvements - nonexhaustible	66,013	10,452	—	76,465
Land improvements - exhaustible	104,060	19,111	—	123,171
Buildings	3,148,883	448,855	2,234	3,595,504
Fixed equipment - communications	128,930	15,151	126	143,955
Infrastructure	115,246	1,584	—	116,830
Equipment	570,115	69,035	31,729	607,421
Vehicles	22,945	1,499	1,498	22,946
Library materials	148,121	1,230	325	149,026
Nondepreciable library materials	6,673	43	—	6,716
Capitalized software	185,520	9,986	—	195,506
Art	12,977	917	—	13,894
Certificate of need	11,609	—	—	11,609
Construction in progress	295,855	155,383	219,758	231,480
	4,899,978	736,236	255,670	5,380,544
Accumulated Depreciation				
Land improvements - exhaustible	66,348	5,584	—	71,932
Buildings	1,003,243	87,839	1,534	1,089,548
Fixed equipment - communications	80,685	8,465	28	89,122
Infrastructure	44,718	4,369	—	49,087
Equipment	392,076	43,747	29,882	405,941
Vehicles	18,987	1,735	1,467	19,255
Library materials	141,457	1,706	—	143,163
Capitalized software	119,038	10,916	—	129,954
	1,866,552	164,361	32,911	1,998,002
Capital assets, net	$ 3,033,426	$ 571,875	$ 222,759	$ 3,382,542

At June 30, 2018, the University had commitments in construction in progress for capital projects totaling approximately $579.7 million in scope. The estimated cost to complete these projects was approximately $348.1 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 $10.4 million for fiscal year 2018.

During fiscal year 2018, the University utilized capital leases to acquire various items of equipment. As of June 30, 2018, the net book value of land, buildings, equipment and software acquired through capital leases included in the above schedules totaled $79.5 million.

During fiscal year 2018, 17 properties were demolished with an original cost of $2.2 million and accumulated depreciation of $1.5 million, for a total net book value written off of $724 thousand. As of June 30, 2018, three buildings and the Kirwan-Blanding Complex are scheduled for demolition in a subsequent fiscal year and changes were made to estimated useful lives to record depreciation expense. A portion of the net book value of each building was written off with the remainder to be written off in subsequent fiscal years. The total original cost was $33.7 million with accumulated depreciation of $27.9 million, and a total net book value written off in fiscal year 2018 of $2.6 million.

5. DEFERRED OUTFLOWS OF RESOURCES

As of June 30, 2018, deferred outflows of resources are as follows (in thousands):

OPEB long-term disability	$	3,063
OPEB retiree health		30,051
Refunding bonds		9,179
Total	$	42,293

Deferred outflows of resources from OPEB represents contributions subsequent to the measurement date and the net difference between projected and actual earnings in the plan investments. The implementation of GASB Statement No. 75, effective July 1, 2017, added $33.1 million to deferred outflows of resources this year.

Deferred outflows of resources from refunding bonds represents the difference between the reacquisition price and net carrying amount of refunded debt, the reacquisition price being the amount sent to the escrow agent. This consists of refunding bonds issued between 2014 and 2017. This year's amortization of the deferred outflows of resources from these refunding bonds was $1.6 million.

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2018 are as follows (in thousands):

Payable to vendors and contractors	$	236,402
Accrued expenses, including vacation and sick leave		93,061
Employee withholdings and deposits payable to third parties		17,539
Total	$	347,002

7. UNEARNED REVENUE

Unearned revenues as of June 30, 2018 and unearned revenue activity for the year ended June 30, 2018 are summarized below (in thousands):

	June 30, 2017	Additions	Reductions	June 30, 2018	Current Portion	Noncurrent Portion
Unearned summer school revenue	$ 9,325	$ 8,786	$ 9,325	$ 8,786	$ 8,786	$ —
Unearned hospital revenue	16,503	94,867	71,453	39,917	39,917	—
Unearned grants and contracts revenue	32,977	86,180	77,931	41,226	41,226	—
Unearned multimedia rights revenue	179,547	—	14,036	165,511	14,036	151,475
Athletic ticket sales and contracts	12,391	13,415	13,525	12,281	11,860	421
Other	7,236	9,347	10,206	6,377	5,884	493
Total	$ 257,979	$ 212,595	$ 196,476	$ 274,098	$ 121,709	$ 152,389

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. This agreement was modified in April 2016 to increase the signing bonus to $29.9 million, which was paid over the first three years of the contract. This modification increased the total amount to be received to $210.5 million.

8. LONG-TERM LIABILITIES

Long-term liabilities as of June 30, 2018 and long-term liability activity for the year ended June 30, 2018 is summarized below (in thousands):

	June 30, 2017	Additions	Reductions	June 30, 2018	Current Portion	Noncurrent Portion
Bonds, notes and capital leases						
General receipts notes	$ 10,140	$ —	$ 6,950	$ 3,190	$ 3,190	$ —
General receipts bonds	900,090	222,530	32,310	1,090,310	37,440	1,052,870
Capital leases and other long-term obligations	82,967	14,525	12,675	84,817	8,068	76,749
Notes payable	19,552	53	748	18,857	770	18,087
Total bonds, notes and capital leases	1,012,749	237,108	52,683	1,197,174	49,468	1,147,706
Other liabilities						
Annuities payable	3,399	224	655	2,968	493	2,475
Automobile and property self insurance	481	321	546	256	256	—
Compensated absences	6,900	—	300	6,600	885	5,715
Federal loan programs	20,597	426	498	20,525	—	20,525
Health insurance	11,036	55,313	55,936	10,413	10,413	—
Insurance executory costs	13,114	5,084	253	17,945	252	17,693
Medical malpractice	32,686	8,870	9,457	32,099	6,407	25,692
Unamortized bond premium	55,237	10,160	7,193	58,204	7,177	51,027
Unemployment compensation	446	1,014	825	635	635	—
Workers' compensation	21,107	6,812	7,104	20,815	6,482	14,333
Other	23,764	4,208	9,725	18,247	3,607	14,640
Total other liabilities	188,767	92,432	92,492	188,707	36,607	152,100
Total	$ 1,201,516	$ 329,540	$ 145,175	$ 1,385,881	$ 86,075	$ 1,299,806

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 consists of general receipts bonds and general receipts notes in the original amount of $1.33 billion dated October 26, 2007 through February 20, 2018, which bear interest at 1.0% to 4.7%. The bonds are payable in annual installments through October 1, 2047. 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 1.4% to 4.5%. All bonds, except for the General Receipts 2012 Bonds Series A, General Receipts 2014 Bonds Series C, General Receipts 2017 Bonds Series A and B and General Receipts 2018 Bonds Series B, totaling $1.04 billion, are callable between October 2017 and April 2026.

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

On February 20, 2018, approximately $222.5 million of University of Kentucky General Receipts 2018 Bonds Series A and B were issued at a true interest cost of 3.4% and 2.7%, respectively. These bonds were issued for the purpose of funding UKHC construction, as well as campus modernization projects.

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 receives 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 $2.2 million for fiscal year 2018 was included in gifts and non-exchange grants in the Statement 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, President Barack Obama signed an executive order reducing the budgetary authority in accounts subject to sequestration. As a result, the BAB subsidy was reduced to approximately 32% in 2018. The QECB subsidy was reduced to approximately 75% in 2018.

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, 2018, are as follows (in thousands):

	Principal	Interest	Total
2019	$ 49,468	$ 50,012	$ 99,480
2020	51,071	47,099	98,170
2021	50,204	44,961	95,165
2022	52,264	42,694	94,958
2023	54,707	40,305	95,012
2024-2028	301,520	169,551	471,071
2029-2033	199,265	110,230	309,495
2034-2038	210,150	69,217	279,367
2039-2043	164,620	29,818	194,438
2044-2048	63,905	4,267	68,172
Total	$ 1,197,174	$ 608,154	$ 1,805,328

9. DEFERRED INFLOWS OF RESOURCES

As of June 30, 2018, deferred inflows of resources are as follows (in thousands):

Aramark service concession arrangement	$ 121,319
Barnes and Noble service concession arrangement	2,405
EdR service concession arrangement	386,893
Trusts and annuities	15,931
OPEB long-term disability	561
OPEB retiree health	36,028
Total	$ 563,137

The University has entered into a multi-phase housing project with a third party developer, Education Realty Trust (EdR), to complete a long-term housing plan. Phase I, signed in April 2012, was for two four-story buildings (601 beds), and opened in August 2013. The project, with a 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 lease 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, Phase II-B and Phase II-C, which opened in August 2014, August 2015 and August 2016 respectively, included the development of 10 residence halls at a cost of $321.3 million. The residence halls are reported as a capital asset with a carrying value of $307.6 million at June 30, 2018 and deferred inflows of resources in the amount of $295.0 million pursuant to the service concession arrangement.

Phase III-A, which opened in August 2017, included the construction of one residence hall at a cost of $72.5 million. This is a 771 bed facility provides apartment style units for upper class, graduate and professional students. Phase III-B, which also opened in August 2017, cost $36.3 million. This is a 346 bed facility to house undergraduate students and includes space dedicated to the new Lewis Honors College. These residence halls are reported as a capital asset with a carrying value of $107.3 million at June 30, 2018 and deferred inflows of resources in the amount of $91.9 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 through III-B are exempt from ad valorem tax.

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 is transforming dining services offered to students, faculty, staff, and the community served. Under the partnership, several new food brands are located on campus. 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 is providing $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, made substantial upgrades to the student center food court and constructed "The 90" dining facility for the Fall 2015 semester. The completed projects are reported as a capital asset with a carrying value of $54.0 million at June 30, 2018 and deferred inflows of resources in the amount of $45.9 million pursuant to the service concession arrangement. The present value of the guaranteed minimum payments over the remaining 11 years of the contract is reported as a receivable of $78.4 million and deferred inflows of resources in the amount of $75.4 million pursuant to the service concession arrangement. The contract is extended for a five year period ending in 2034.

In June 2015, the University entered into a contract with Barnes and Noble College Booksellers, LLC (Barnes and Noble) to operate and provide services for the bookstore for 10 years with an additional five year renewal option period. Barnes and Noble constructed a temporary bookstore for use until the new student center opened in June 2018. The present value of the guaranteed minimum payments over the remaining 12 years of the contract period is reported as a receivable of $2.8 million and deferred inflows of resources in the amount of $2.4 million pursuant to the service concession arrangement.

The University adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Other than Pensions*, in fiscal year 2018. The net difference between expected and actual earnings on OPEB Plan investments and the assumption changes for the retiree health plan of $36.0 million and LTD plan of $561 thousand are recorded in deferred inflows of resources, respectively.

The University adopted GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, in fiscal year 2018. The beneficial interests from trusts and annuities that the University will receive in the future years of $15.9 million is recorded in deferred inflows of resources.

10. COMPONENTS OF RESTRICTED EXPENDABLE NET POSITION

Restricted expendable net position is 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, 2018, restricted expendable net position is composed of the following (in thousands):

Appreciation on permanent endowments	$	186,856
Term endowments		4,614
Quasi-endowments initially funded with restricted assets		130,452
Funds restricted for capital projects and debt service		54,813
Funds restricted for noncapital purposes		76,225
Loan funds (primarily University funds required for federal match)		12,484
Total	$	465,444

11. 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 with outside parties. Commitments for the use of unrestricted net position as of June 30, 2018 are as follows (in thousands):

Working capital requirements	$	66,725
Designated for future year fiscal operations		12,157
Designated for capital projects		33,581
Designated for renewal and replacement of capital assets		46,227
UK HealthCare Hospital System		785,299
Affiliated corporations and component units		71,990
Total	$	1,015,979

12. PLEDGED REVENUES

Pledged revenues for the year ended June 30, 2018 as defined by the General Receipts Trust Indenture, is as follows (in thousands):

Student tuition and fees	$	342,981
Nongovernmental grants and contracts		1,288
Recoveries of facilities and administrative costs		60,062
Sales and services		58,456
Hospital services		1,631,737
Auxiliary enterprises - housing and dining		35,049
Auxiliary enterprises - athletics		108,781
Auxiliary enterprises - other		55,091
Other operating revenue		819
State appropriations		264,418
Gifts and grants		4,052
Investment income (loss)		18,705
Total	$	2,581,439

The University has substantially pledged all of the unrestricted operating and nonoperating revenues to repay the general receipts bonds and notes issued from 2007 to 2018. Proceeds from the bonds and notes provided funding for new construction, 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 fiscal year 2048. 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 $1.67 billion in fiscal year 2018. Principal and interest paid for fiscal year 2018 was $75.4 million.

13. INVESTMENT INCOME (LOSS)

Components of investment income (loss) for the year ended June 30, 2018 are as follows (in thousands):

Interest and dividends earned on endowment investments	$	21,139
Realized and unrealized gains (losses) on endowment investments		54,477
Interest and dividends on cash and non-endowment investments		16,127
Realized and unrealized gains (losses) on non-endowment investments		(3,667)
Investment income from external trusts		1,817
Total	$	89,893

14. FUNDS HELD IN TRUST BY OTHERS

The University is the income beneficiary of various perpetual trusts that are held and controlled by external trustees. For the year ended June 30, 2018, the University received income from these trusts of approximately $1.6 million. The market value of the perpetual external trust assets as of June 30, 2018 was approximately $45.2 million. 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.

The University is the residual principal and income beneficiary of various irrevocable trusts that are held and controlled by external trustees. For the year ended June 30, 2018, the University received income from these trusts of approximately $153,000. The market value of the irrevocable external trust assets as of June 30, 2018 was approximately $12.3 million and included in endowment investments.

Effective January 1, 2016, the University became the administrator of five trusts that were previously held and controlled by external trustees. For the year ended June 30, 2018, the University received income from these self-administered trusts of approximately $96,000. The market value of the self-administered trusts as of June 30, 2018 was approximately $1.9 million and included in endowment investments.

15. GRANTS AND CONTRACTS AWARDED

At June 30, 2018, grants and contracts of approximately $234.5 million have been awarded to 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 (TIAA)
- 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 fiscal year 2018 was approximately $120.5 million. Employees contributed approximately $60.0 million in fiscal year 2018 . The University's total payroll costs were approximately $1.54 billion for the year ended June 30, 2018. The payroll for employees covered by the retirement plan was approximately $1.53 billion for the year ended June 30, 2018.

Regular full-time KMSF employees become eligible to participate in a defined contribution plan on the employee's regular full-time hire date coinciding with or next following attainment of age 20 1/2. KMSF contributes 10% of the employee's earnings and employees do not contribute to this plan. KMSF contributions for 2018 were approximately $1.1 million. The total payroll costs for employees covered by the defined contribution plan were approximately $10.9 million for the year ended June 30, 2018. Participants become vested in the plan according to years of service, with 100% vesting after one year of service.

17. UNIVERSITY OF KENTUCKY OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLAN TRUST

The University's OPEB plan is administered through the University's OPEB trust fund as an irrevocable trust. The single-employer defined benefit OPEB plan provides medical and prescription drug benefits. The trust is not a separate legal entity and is governed by the University's Board.

The plan provides lifetime health care 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 health care 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. The University's 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 OPEB plan's trust activity is reported in the University's Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position, and Required Supplementary Information.

For GASB Statement No. 74 (Plan) reporting purposes, net OPEB liability was measured as of June 30, 2018. For GASB Statement No. 75 (Employer) reporting purposes, net OPEB liability is measured as of July 1, 2017 for fiscal year 2018. GASB Statement No. 74 was implemented in fiscal year 2017, and GASB Statement No. 75 was implemented in fiscal year 2018. The following footnote disclosure is presented in order to comply with GASB Statement No. 75 and GASB Statement No. 74.

The OPEB liabilities measured as of July 1, 2017 and June 30, 2018 were based upon the following plan members as of January 1, 2017:

Inactive members receiving benefits	3,119
Inactive members entitled not yet receiving benefits	351
Active plan members	5,660
Total plan members	9,130

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 2018, the University contributed $20.0 million to the plan. Plan members receiving benefits contributed 24.7% of the premium costs, an average for combined single and family coverage. In fiscal year 2018, total member contributions were approximately $4.9 million.

The University's Employer net OPEB liability of $232.6 million was measured as of July 1, 2017, and the University's Plan net OPEB liability of $231.5 million was measured as of June 30, 2018, for the fiscal year ended June 30, 2018. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of the measurement date.

The total OPEB liabilities measured as of July 1, 2017 and June 30, 2018 were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Health care trend rate	Post-65 medical 5%, Post-65 RX 10.5% (Employer) and 10% (Plan) for 2018, decreasing 0.5% per year to an ultimate rate of 5%. Pre-65 8.25% (Employer) and 7.94% (Plan) for 2018, decreasing .31% - .39% per year to an ultimate rate of 2.20% in 2022.
Salary scale	3% per year.
Retirement rate	Faculty from 0.00 to 1.00 from age 50 to 85; staff from 0.03 to 1.00 from age 50 to 85.
Discount rate	7.5% based on the University's funding policy and the expected long-term return on the separate trust assets that will be used to finance the payment of plan benefits. The University has stated a funding policy to contribute an amount to the segregated and protected trust fund, such that the assets available will always be sufficient to cover the expected benefit payments.
Mortality	Aggregate base rates for healthy lives from the Retirement Projection-2014 mortality study with a fully generational projection from 2006 using scale Mortality Projection-2016 for the Employer and using scale Mortality Projection-2017 for the Plan.
Disability	Gender and age-related disability incidence rates based on 1987 GLTD (six-month elimination period).
Plan participation	80% elect coverage.
Dependent coverage	80% of active employees are assumed to be married at their retirement. 60% of those married retirees are assumed to have spousal coverage in effect upon death. Female spouses of male retirees are assumed to be three years younger than their husbands. Male spouses of female retirees are assumed to be three years older than their wives.

The actuarial assumptions used as of July 1, 2017 and June 30, 2018 were based on the results of an actuarial experience study for the period January 1, 2013 to December 31, 2014.

The components of the Employer's net OPEB liability of the University measured at July 1, 2017 for fiscal year 2018 is as follows (in thousands):

Total OPEB liability	$	376,521
Less: Plan fiduciary net position		(143,944)
University of Kentucky net OPEB liability	$	232,577
Plan fiduciary net position as a percentage of the total OPEB liability		38.2%

The components of the Plan's net OPEB liability of the University measured at June 30, 2018 for fiscal year 2018 is as follows (in thousands):

Total OPEB liability	$	391,034
Less: Plan fiduciary net position		(159,543)
University of Kentucky net OPEB liability	$	231,491
Plan fiduciary net position as a percentage of the total OPEB liability		40.8%

The OPEB Plan follows the deposit and investment policies established by the University's Board of Trustees. Such policies are developed to establish and maintain sound financial management practices for the investment and management of the OPEB funds. The fair value of deposits and investments, by Statement of Fiduciary Net Position classification, at June 30, 2018 is as follows (in thousands):

Statement of Fiduciary Net Position classification		
Cash and cash equivalents	$	3,148
Investments		156,395
Total deposits and investments	$	159,543

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at a measurement date. The framework for measuring fair value established by generally accepted accounting principles provides a fair value hierarchy as follows:

Level 1	Quoted prices in active markets for identical assets or liabilities.
Level 2	Observable inputs other than level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
Level 3	Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities.

The University categorizes its fair value measurements within the fair value hierarchy. Certain investments are measured at fair value using amortized costs or historical costs and therefore have not been classified in the fair value hierarchy. These investments have been included in the table below to permit reconciliation of the fair value hierarchy to the amounts presented in the Statement of Net Position.

The OPEB Plan has the following valuation measurements, by type, at June 30, 2018 (in thousands):

		Fair Value Measurement Using					
	Total value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total measured at fair value	Net asset value (NAV)	Amortized or historical cost
Cash and cash equivalents	$ 3,569	$ —	$ —	$ —	$ —	$ —	$ 3,569
Diversifying strategies	29,790	2,283	—	—	2,283	27,507	—
Global equity - hedged fund	9,384	—	—	—	—	9,384	—
Global equity - international	22,787	18,823	—	2	18,825	3,962	—
Global equity - private	23,504	—	—	—	—	23,504	—
Global equity - U.S.	14,467	601	—	—	601	13,866	—
Global fixed income - high quality/rate sensitive	11,817	6,236	5,581	—	11,817	—	—
Global fixed income - private credit	4,590	—	—	—	—	4,590	—
Global fixed income - public credit	9,590	4,981	—	—	4,981	4,609	—
Real assets - private	12,889	—	—	—	—	12,889	—
Real assets - public	17,156	11,499	—	—	11,499	5,657	—
Total deposits and investments	$ 159,543	$ 44,423	$ 5,581	$ 2	$ 50,006	$ 105,968	$ 3,569

Cash on deposit with the University, included in cash and cash equivalents above, is managed based on the University's Operating Fund Investment Policy established by the Treasurer of the University. All other OPEB trust investments are managed within guidelines established by the University's Endowment Investment Policy, as approved by the Investment Committee of the University's Board, which governs the University's pooled endowment fund.

The OPEB's deposits and investments are exposed to various risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could affect the investment amounts in the Statement of Fiduciary Net Position.

Endowment managers are permitted to use derivative instruments to limit credit risk, interest rate risk and foreign currency risk. For more information regarding the policies in place to mitigate these and other risks see note 2.

The following reflects the approved asset allocation for both the Plan and Employer, as of June 30, 2018 and 2017:

Asset Category	Target Allocation
Diversifying strategies	20%
Global equity	40%
Global fixed income	20%
Real assets	20%

The annual money-weighted rate of return on the OPEB plan investments, net of OPEB plan investment expense was 6.5% for the year ended June 30, 2018. The money-weighted rate of return expresses investment performance, net of investment expenses, adjusted for the changing amounts actually invested.

The long-term expected rate of return on OPEB plan investments was determined using efficient frontier modeling software for Monte Carlo simulations that analyze risk, return and the probability of meeting return objectives over multi-year periods. The modeling, which incorporates forward-looking return forecasts as well as historical risk and correlation data, identifies portfolios with the highest expected return at each level of risk.

The following reflects the expected rates of return for the Employer, presented as geometric means, by asset allocation as of July 1, 2017:

Asset Category	Long-term Expected Real Rate of Return
Diversifying strategies	3.3%
Global equity	6.7%
Global fixed income	3.3%
Real assets	7.2%

The following reflects the expected rates of return for the Plan, presented as geometric means, by asset allocation as of June 30, 2018:

Asset Category	Long-term Expected Real Rate of Return
Diversifying strategies	2.9%
Global equity	5.8%
Global fixed income	2.9%
Real assets	7.4%

The discount rate used to measure the total OPEB liability for the Plan and Employer was 7.5% for the year ended June 30, 2018, which was the same from the July 1, 2017, measurement date. The projection of cash flows used to determine the discount rate assumed that University contributions will be made at rates equal to actuarially determined contribution. Based on those assumptions, the OPEB Plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB Plan investments of 7.5% was applied to all periods of projected benefit payments to determine the total OPEB liability.

The components of the Employer net OPEB liability of the University at June 30, 2018, is as follows (in thousands):

	Increase (decrease) Total OPEB liability (a)	Plan fiduciary net Position (b)	Net OPEB liability (c) = (a) - (b)
Balance recognized at 7/1/2017 (based on 7/1/2016 measurement date)	$ 383,708	$ 120,012	$ 263,696
Change recognized for the fiscal year:			
Service cost	4,356	—	4,356
Interest on the total OPEB liability	28,667	—	28,667
Differences between expected and actual experience	12,087	—	12,087
Changes of assumptions	(40,408)	—	(40,408)
Benefit payments	(11,889)	(11,889)	—
Contributions from the employer	—	23,987	(23,987)
Net investment income	—	12,508	(12,508)
Administrative expense	—	(674)	674
Net changes	(7,187)	23,932	(31,119)
Balance recognized at 6/30/2018 (based of 7/1/2017 measurement date)	$ 376,521	$ 143,944	$ 232,577

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate and Health Care Cost Trend Rates.

The following presents the Employer's net OPEB liability of the University, as well as what the University's net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.5%) or one-percentage-point higher (8.5%) than the current discount rate (in thousands):

	1% Decrease (6.5%)	Current Rate (7.5%)	1% Increase (8.5%)
Total OPEB liability	$ 433,788	$ 376,521	$ 330,017
Plan fiduciary net position	(143,944)	(143,944)	(143,944)
Net OPEB liability	$ 289,844	$ 232,577	$ 186,073

The following presents what the Employer's net OPEB liability would be if it was calculated using the health care cost trend rate that is one-percentage-point lower or one-percentage-point higher than the current health care cost trend rates (in thousands):

	1% Decrease	Trend Rate	1% Increase
Total OPEB liability	$ 326,436	$ 376,521	$ 438,623
Plan fiduciary net position	(143,944)	(143,944)	(143,944)
Net OPEB liability	$ 182,492	$ 232,577	$ 294,679

The following presents the Plan's net OPEB liability of the University, as well as what the University's Plan net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.5%) or one-percentage-point higher (8.5%) than the current discount rate (in thousands):

	1% Decrease (6.5%)	Current Rate (7.5%)	1% Increase (8.5%)
Total OPEB liability	$ 448,526	$ 391,034	$ 344,172
Plan fiduciary net position	(159,543)	(159,543)	(159,543)
Net OPEB liability	$ 288,983	$ 231,491	$ 184,629

The following presents what the Plan's net OPEB liability would be if it was calculated using the health care cost trend rate that is one-percentage-point lower or one-percentage-point higher than the current health care cost trend rates (in thousands):

	1% Decrease	Trend Rate	1% Increase
Total OPEB liability	$ 337,436	$ 391,034	$ 457,464
Plan fiduciary net position	(159,543)	(159,543)	(159,543)
Net OPEB liability	$ 177,893	$ 231,491	$ 297,921

For the year ended June 30, 2018, the University recognized OPEB expense of $18.9 million. At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources, in thousands, related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between actual and expected experience	$ 10,040	$ —
Net difference between expected and actual earnings on OPEB plan investment	—	(2,469)
Assumption changes	—	(33,559)
Contributions made subsequent to the measurement date of the net OPEB liability	20,013	—
Total	$ 30,053	$ (36,028)

At June 30, 2018, the University reported $24.0 million as deferred outflows of resources related to OPEB resulting from University contributions subsequent to the measurement date and prior to year end that will be recognized as a reduction of the net OPEB liability at June 30, 2019. Other amounts, in thousands, reported as deferred outflows of resources and deferred inflows of resources at June 30, 2018, related to OPEB will be recognized as a reduction to OPEB expense as follows:

2019	$ (5,417)
2020	(5,417)
2021	(5,417)
2022	(5,417)
2023	(4,320)
Total thereafter	—
	$ (25,988)

18. UNIVERSITY OF KENTUCKY LONG TERM DISABILITY (LTD) PLAN TRUST

The University of Kentucky LTD plan is administered through the University's LTD trust fund as an irrevocable trust. The trust pays claims and establishes necessary reserves. The trust is not a separate legal entity and is governed by the University's Board. The coverage of the LTD benefits is established and may be amended by the President of the University.

Regular employees with a full-time equivalent of 0.75 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 plan 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 LTD plan's trust activity is reported in the University's Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position, and Required Supplementary Information.

For GASB Statement No. 74 (Plan) reporting purposes, net LTD liability is measured as of June 30, 2018. For GASB Statement No. 75 (Employer) reporting purposes, net LTD liability is measured as of July 1, 2017 for fiscal year 2018. GASB Statement No. 74 was implemented in fiscal year 2017, and GASB Statement No. 75 is implemented in fiscal year 2018. The following footnote disclosure is presented in order to comply with GASB Statement No. 75 and GASB Statement No.74.

The LTD liabilities measured as of July 1, 2017 and June 30, 2018 were based upon the following plan participants as of January 1, 2017:

Disabled members	
Count of members	146
Average age at valuation date	56.1
Average duration since disability (in years)	9.2
Average monthly income net benefit	$ 610.16
Active (healthy) members	
Count of members	17,919
Average age at valuation date	43.3
Average years of service	8.9

The contribution requirements of the University are established and may be amended by the President of the University. The University contributes to the LTD trust based on the actuarially determined contribution. For the year ended June 30, 2018 the University's contribution was approximately $2.0 million.

The University’s Employer net LTD liability of $4.0 million was measured as of July 1, 2017, and the University's Plan's net LTD liability of $5.4 million was measured as of June 30, 2018, for the fiscal year ended June 30, 2018. The total LTD liability used to calculate the net LTD liability was determined by an actuarial valuation as of the measurement date.

The total LTD liabilities measured as of July 1, 2017 and June 30, 2018 were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Discount rate	6.5% based on the University’s funding policy and the expected long-term return on the separate trust assets that will be used to finance the payment of plan benefits. The University has stated that its funding policy is to contribute an amount to a segregated and protected trust. The amount will be such that the assets available will always be sufficient to cover the expected benefit payments.
Elimination period	6 month.
Termination (mortality and recovery from disability)	2012 Society of Actuaries (SOA) group long-term disability table.
Mortality (only for life benefit)	Canadian Institute of Actuaries (CIA) 1988-94 LTD table.
Retirement rates	Faculty from 0.00 to 1.00 from age 50 to 85; staff from 0.03 to 1.00 from age 50 to 85.
Mortality rates for actives	Aggregate base rates for healthy lives from the Retirement Projection-2014 mortality study with a fully generational projection from 2006 using scale Mortality Projection-2016 for the Employer and using Mortality Projection-2017 for the Plan.
Incidence of disability	Gender and age-related disability incidence rates based on 1987 Commissioner's Group Long-term Disability table.
Duration of payment	Payments are assumed to be made until the later of i) age 65 and ii) five years after date of disability.
LTD income benefit	
Disability benefit	Actual net benefit currently being paid (if currently disabled).
Social Security offset	Assume that 90% of the members who have been disabled for less than 24 months and currently not entitled to a Social Security offset will immediately receive an offset.
Future salary increase for active members	3% per year.

The actuarial assumptions used as of July 1, 2017 and June 30, 2018 were based on an actuarial experience study for the period January 1, 2013 to December 31, 2014.

The components of the Employer's net LTD liability of the University measured at June 30, 2017, were as follows (in thousands):

Total LTD liability	$	22,780
Less: plan fiduciary net position		(18,784)
University of Kentucky net LTD liability	$	3,996
Plan fiduciary net position as a percentage of the total LTD liability		82.5%

The components of the Employer's net LTD liability of the University measured at June 30, 2018, were as follows (in thousands):

Total LTD liability	$	25,517
Less: plan fiduciary net position		(20,081)
University of Kentucky net LTD liability	$	5,436
Plan fiduciary net position as a percentage of the total LTD liability		78.7%

LTD Trust investment policy guidelines are established by the LTD Employee Benefits Amended and Restated Trust Agreement. Investment objectives and targeted asset allocations are reviewed and approved by the University Treasurer. Investment objectives and asset allocations are developed to establish and maintain sound financial management practices for the investment and management of LTD funds. There were no significant investment policy changes during the fiscal year ended June 30, 2018.

The fair value of deposits and investments, by Statement of Fiduciary Net Position classification, at June 30, 2018 is as follows (in thousands):

Statement of Fiduciary Net Position classification		
Cash and cash equivalents	$	361
Investments		19,710
Total deposits and investments	$	20,071

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at a measurement date. The framework for measuring fair value established by generally accepted accounting principles provides a fair value hierarchy as follows:

Level 1	Quoted prices in active markets for identical assets or liabilities.
Level 2	Observable inputs other than level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
Level 3	Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities.

The University categorizes its fair value measurements within the fair value hierarchy. Certain investments are measured at amortized costs or historical costs and therefore have not been classified in the fair value hierarchy. These investments have been included in the table below to permit reconciliation of the fair value hierarchy to the amounts presented in the Statement of Net Position.

The LTD Plan has the following valuation measurements, by type, at June 30, 2018 (in thousands):

		Fair Value Measurement Using		
	Total value	Quoted prices in active markets for identical assets (Level 1)	Total measured at fair value	Amortized or historical cost
Cash and cash equivalents	$ 361	$ —	$ —	$ 361
Diversifying strategies	516	516	516	—
Global equity - hedged funds	370	370	370	—
Global equity - international	2,538	2,538	2,538	—
Global equity - U.S.	8,904	8,904	8,904	—
Global fixed income - public credit	7,382	7,382	7,382	—
Total deposits and investments	$ 20,071	$ 19,710	$ 19,710	$ 361

The LTD trust investments are exposed to various risks. Due to the level of risk associated with certain investments securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could affect the investment amounts in the Statement of Fiduciary Net Position.

The Trustee of the LTD trust diversifies the investments to minimize the risk of losses due to credit risk, interest rate risk, currency and other risks, as appropriate, based on market conditions. At June 30, 2018, the LTD trust had no underlying investments in any one issuer which represented more than five percent of total investments, other than U.S. Treasury and agency obligations, as a way to limit concentration of credit risks. For a description of credit, interest rate, foreign currency and concentration of credit risks see note 2.

The following reflects the approved asset allocation for the Plan and Employer as of June 30, 2018 and 2017:

Asset Category	Target Allocation
Diversifying strategies	5.0%
Global equity	57.5%
Global fixed income	37.5%

The annual money-weighted rate of return on the LTD plan investments, net of LTD plan investment expense was 7.1% for the year ended June 30, 2018. The money weighted rate of return expresses investment performance, net of investment expenses, adjusted for the changing amounts actually invested.

The long-term expected rate of return on LTD plan investments was determined by combining market-implied equilibrium returns with the Trustee's subjective views using a Black-Litterman technique.

The following reflects the expected rates of return for the Employer, presented as arithmetic means, by asset allocation as of July 1, 2018:

Asset Category	Long-term Expected Real Rate of Return
Diversifying strategies	5.8%
Global equity	5.5%
Global fixed income	0.8%

The following reflects the expected rates of return for the Plan, presented as arithmetic means, by asset allocation as of June 30, 2018:

Asset Category	Long-term Expected Real Rate of Return
Diversifying strategies	5.0%
Global equity	5.4%
Global fixed income	1.0%

The discount rate used to measure the total LTD liability for the Plan and Employer was 6.5% for year ended June 30, 2018, which was the same from the July 1, 2017 measurement date. The projection of cash flows used to determine the discount rate assumed that University contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the LTD Plan's fiduciary net position was projected to be available to make all projected LTD payments for current active and inactive employees. Therefore, the long-term expected rate of return on LTD Plan investments was applied to all periods of projected benefit payments to determine the total LTD liability.

	Increase (decrease)		
	Total LTD liability (a)	Plan fiduciary net Position (b)	Net LTD liability (c) = (a) - (b)
Balance recognized at 7/1/2017 (based on 7/1/2016 measurement date)	$ 20,188	$ 16,632	$ 3,556
Change recognized for the fiscal year:			
Service cost	1,606	—	1,606
Interest on the total LTD liability	1,569	—	1,569
Differences between expected and actual experience	138	—	138
Changes of assumptions	1,042	—	1,042
Benefit payments	(1,763)	(1,763)	—
Contributions from the employer	—	2,020	(2,020)
Net investment income	—	1,956	(1,956)
Administrative expense	—	(61)	61
Net changes	2,592	2,152	440
Balance recognized at 6/30/2018 (based of 7/1/2017 measurement date)	$ 22,780	$ 18,784	$ 3,996

The following presents the Employer's net LTD liability of the University, as well as what the University's net LTD liability would be if it were calculated using a discount rate that is one-percentage-point lower (5.5%) or one-percentage-point higher (7.5%) than the current discount rate (in thousands):

	1% Decrease (5.5%)	Current Rate (6.5%)	1% Increase (7.5%)
Total LTD liability	$ 23,849	$ 22,780	$ 21,757
Plan fiduciary net position	(18,784)	(18,784)	(18,784)
Net LTD liability	$ 5,065	$ 3,996	$ 2,973

The following presents the Plan's net LTD liability of the University, as well as what the University's net LTD liability would be if it were calculated using a discount rate that is one-percentage-point lower (5.5%) or one-percentage-point higher (7.5%) than the current discount rate (in thousands):

	1% Decrease (5.5%)	Current Rate (6.5%)	1% Increase (7.5%)
Total LTD liability	$ 26,504	$ 25,517	$ 24,577
Plan fiduciary net position	(20,081)	(20,081)	(20,081)
Net LTD liability	$ 6,423	$ 5,436	$ 4,496

For the year ended June 30, 2018, the University recognized LTD expense of $2.0 million. At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources, in thousands, related to LTD from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between actual and expected experience	$ 124	$ —
Net difference between expected and actual earnings on LTD plan investment	—	(561)
Assumption changes	937	—
Contributions made subsequent to the measurement date of the net LTD liability	2,002	—
Total	$ 3,063	$ (561)

At June 30, 2018, the University reported $2.0 million as deferred outflows of resources related to LTD resulting from University contributions subsequent to the measurement date and prior to year end that will be recognized as a reduction of the net LTD liability at June 30, 2019. Other amounts, in thousands, reported as deferred outflows of resources and deferred inflows of resources at June 30, 2018, related to OPEB will be recognized in LTD expense as follows:

2019	$ (21)
2020	(21)
2021	(21)
2022	(21)
2023	119
Total thereafter	466
	$ 501

19. RISK MANAGEMENT

The University is exposed to various risks of loss related to torts; theft of, damage to, or 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 $5,000 and $1.0 million per occurrence. Losses in excess of $1.0 million are insured by commercial carriers up to $1.50 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 Kentucky Claims Commission, under which the University's liability for certain negligence claims is limited to $250,000 for any one person or $400,000 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 fiscal years 2017 to 2018. 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, 2018 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, 2018.

The University also self-insures certain employee benefits, including health insurance, workers' compensation and unemployment claims to the extent not covered by insurance. The University has recorded an estimate for asserted claims at June 30, 2018.

20. CONTINGENCIES

The University is a defendant in various lawsuits. The nature of the educational and health care industries is such that, from time to time, claims will be presented on account of alleged negligence, acts of discrimination, medical malpractice, breach of contract or disagreements arising from the interpretation of laws or regulations. While some of these claims may be for substantial amounts, they are not unusual in the ordinary course of providing educational and health care services at a large institution. However, University officials are of the opinion, based on advice of in-house legal counsel, that the effect of the ultimate outcome of all litigation will not be material to the future operations or financial position of the University.

21. RESEARCH CHALLENGE TRUST FUND

The Research Challenge Trust Fund (RCTF) was created by the Kentucky General Assembly with the passage of the Postsecondary Education Improvement Act of 1997 (House Bill 1). The objectives of the RCTF, as stated in 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, 2018 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	$ 350,000	$ 235,524	$ 235,524

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. As of June 30, 2018, all private gifts and pledges matched by the RCTF program have been received.

22. CANCER RESEARCH MATCHING FUND

The Kentucky General Assembly created the Cancer Research Institutions Matching Fund, which is funded by a one-cent surtax levied on every 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, 2018 is as follows (in thousands):

Funds from private sources approved for match	$ 6,704
Cigarette excise tax funds distributed	1,766
Total cancer research matching fund revenues	$ 8,470
Cancer research matching fund expenses	$ 11,496

23. NATURAL CLASSIFICATION

The University's operating expenses by natural classification for the year ended June 30, 2018 are as follows (in thousands):

Salaries and wages	$ 1,546,761
Employee benefits	406,207
Supplies and services	832,592
Depreciation	164,361
Student scholarships and financial aid	69,233
Purchased utilities	52,743
Other, various	127,451
Total	$ 3,199,348

24. RESTATEMENT OF PRIOR YEARS' NET POSITION

The University adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* and GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. The adoption of these new standards requires that net position as of July 1, 2017 be restated. Accordingly, net position as of July 1, 2017 was reduced by $245.3 million and the change in net position for the year ended June 30, 2017 was decreased by $26.0 million related to the adoption of these standards.

25. COMBINED CONDENSED STATEMENTS

The University of Kentucky and its blended component units' condensed statements for the year ended June 30, 2018 are 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, 2018
(in thousands)

	UK	Research Foundation	Gluck Equine Research Foundation	Humanities Foundation	Mining Engineering Foundation	Center on Aging Foundation	Central Kentucky Management Services	Kentucky Medical Services Foundation	Eliminations	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES										
Current Assets										
Cash and cash equivalents	$ 494,006	$ 86,100	$ 336	$ 20	$ 37	$ 301	$ 1,148	$ 5,544	$ —	$ 587,492
Notes, loans and accounts receivable, net	418,751	32,091	—	—	—	—	441	54,800	(67,642)	438,441
Investments	—	—	—	—	—	—	—	18,399	—	18,399
Inventories and other assets	52,229	3,686	—	—	—	—	18	1,160	(453)	56,640
Total current assets	964,986	121,877	336	20	37	301	1,607	79,903	(68,095)	1,100,972
Noncurrent Assets										
Restricted cash and cash equivalents	309,690	—	—	—	—	—	—	—	—	309,690
Endowment investments	1,307,728	14,478	8,904	1,445	1,975	—	—	—	—	1,334,530
Other long-term investments	254,271	502	—	—	—	—	—	44,858	(229)	299,402
Notes, loans and accounts receivable, net	278,533	205	—	—	—	—	—	706	—	279,444
Other noncurrent assets	1,381	—	—	—	—	—	—	—	(271)	1,110
Capital assets, net	3,263,402	8,324	—	—	—	—	52	110,764	—	3,382,542
Total noncurrent assets	5,415,005	23,509	8,904	1,445	1,975	—	52	156,328	(500)	5,606,718
Total assets	6,379,991	145,386	9,240	1,465	2,012	301	1,659	236,231	(68,595)	6,707,690
Deferred Outflows of Resources	42,293	—	—	—	—	—	—	—	—	42,293
Total assets and deferred outflows of resources	6,422,284	145,386	9,240	1,465	2,012	301	1,659	236,231	(68,595)	6,749,983
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES										
Current Liabilities										
Accounts payable and accrued liabilities	340,311	8,379	—	—	1	—	1,607	122,979	(126,275)	347,002
Unearned revenue	78,711	41,233	—	—	—	—	—	2,489	(724)	121,709
Long-term liabilities - current portion	81,588	22	—	—	—	—	—	4,465	—	86,075
Total current liabilities	500,610	49,634	—	—	1	—	1,607	129,933	(126,999)	554,786
Noncurrent Liabilities										
Unearned revenue	152,389	—	—	—	—	—	—	—	—	152,389
Long-term liabilities	1,229,421	478	—	—	—	—	—	69,907	—	1,299,806
Net OPEB retiree health liabilities	232,577	—	—	—	—	—	—	—	—	232,577
Net OPEB long-term disability liabilities	3,996	—	—	—	—	—	—	—	—	3,996
Total noncurrent liabilities	1,618,383	478	—	—	—	—	—	69,907	—	1,688,768
Total liabilities	2,118,993	50,112	—	—	1	—	1,607	199,840	(126,999)	2,243,554
Deferred Inflows of Resources	563,137	—	—	—	—	—	—	—	—	563,137
Total liabilities and deferred inflows of resources	2,682,130	50,112	—	—	1	—	1,607	199,840	(126,999)	2,806,691
NET POSITION										
Net investment in capital assets	1,790,428	8,281	—	—	—	—	52	36,391	—	1,835,152
Restricted										
Nonexpendable	619,986	839	4,607	618	667	—	—	—	—	626,717
Expendable	454,160	4,159	4,633	847	1,344	301	—	—	—	465,444
Total restricted	1,074,146	4,998	9,240	1,465	2,011	301	—	—	—	1,092,161
Unrestricted	875,580	81,995	—	—	—	—	—	—	58,404	1,015,979
Total net position	$ 3,740,154	$ 95,274	$ 9,240	$ 1,465	$ 2,011	$ 301	$ 52	$ 36,391	$ 58,404	$ 3,943,292

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, 2018
(in thousands)

	UK	Research Foundation	Gluck Equine Research Foundation	Humanities Foundation	Mining Engineering Foundation	Center on Aging Foundation	Central Kentucky Management Services	Kentucky Medical Services Foundation	Eliminations	Total
OPERATING REVENUES										
Student tuition and fees, net	$ 342,981	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 342,981
Federal grants and contracts	1,611	186,385	—	—	—	—	—	—	—	187,996
State and local grants and contracts	66,355	19,479	—	—	—	—	—	—	—	85,834
Nongovernmental grants and contracts	258,638	37,961	—	—	—	—	—	—	(257,350)	39,249
Recoveries of facilities and administrative costs	282	59,780	—	—	—	—	—	—	—	60,062
Sales and services	57,372	2,056	—	—	—	—	32,247	—	(33,219)	58,456
Federal appropriations	19,674	—	—	—	—	—	—	—	—	19,674
County appropriations	25,389	—	—	—	—	—	—	—	—	25,389
Professional clinical service fees	—	—	—	—	—	—	—	248,530	(3,725)	244,805
Hospital services	1,638,980	—	—	—	—	—	—	—	(7,243)	1,631,737
Auxiliary enterprises:										
Housing and dining, net	35,074	—	—	—	—	—	—	—	(25)	35,049
Athletics	108,781	—	—	—	—	—	—	—	—	108,781
Other auxiliaries	55,178	—	—	—	—	—	—	—	(87)	55,091
Other operating revenues	819	—	—	—	—	—	—	89,100	(67,088)	22,831
Total operating revenues	2,611,134	305,661	—	—	—	—	32,247	337,630	(368,737)	2,917,935
OPERATING EXPENSES										
Educational and general:										
Instruction	302,896	10,703	—	6	54	—	—	—	(5)	313,654
Research	105,147	178,004	58	—	—	—	—	—	(2,979)	280,230
Public service	119,342	80,463	—	—	—	—	—	—	(698)	199,107
Libraries	23,886	—	—	—	—	—	—	—	—	23,886
Academic support	82,259	2,143	—	—	—	—	—	—	(155)	84,247
Student services	43,428	23	—	1	—	—	—	—	(54)	43,398
Institutional support	60,992	732	—	—	—	41	32,247	—	(32,353)	61,659
Operations and maintenance of plant	42,610	373	—	—	—	—	—	—	32,225	75,208
Student financial aid	38,427	2,181	—	48	—	—	—	—	(4)	40,652
Depreciation	67,057	439	—	—	—	—	10	—	—	67,506
Total educational and general	886,044	275,061	58	55	54	41	32,257	—	(4,023)	1,189,547
Clinical operations (including depreciation of $4,409)	391,378	—	—	—	—	—	—	333,070	(332,164)	392,284
Hospital and clinics (including depreciation of $62,117)	1,464,524	—	—	—	—	—	—	—	(43,836)	1,420,688
Auxiliary enterprises:										
Housing and dining (including depreciation of $13,299)	31,240	—	—	—	—	—	—	—	(8)	31,232
Athletics (including depreciation of $15,837)	131,893	—	—	—	—	—	—	—	(278)	131,615
Other auxiliaries (including depreciation of $1,193)	33,557	—	—	—	—	—	—	—	(568)	32,989
Other operating expenses	993	—	—	—	—	—	—	—	—	993
Total operating expenses	2,939,629	275,061	58	55	54	41	32,257	333,070	(380,877)	3,199,348
Net income (loss) from operations	(328,495)	30,600	(58)	(55)	(54)	(41)	(10)	4,560	12,140	(281,413)
NONOPERATING REVENUES (EXPENSES)										
State appropriations	264,418	—	—	—	—	—	—	—	—	264,418
Gifts and non-exchange grants	119,374	174	2	1	—	61	—	—	(1,170)	118,442
Investment income (loss)	87,620	1,751	527	82	116	4	—	455	(662)	89,893
Interest on capital asset-related debt	(31,902)	—	—	—	—	—	—	(2,793)	—	(34,695)
Grants to (from) the University for noncapital purposes	12,954	(12,692)	(245)	(7)	(10)	—	—	—	—	—
Other nonoperating revenues and expenses, net	6,450	2,386	—	—	—	—	—	—	—	8,836
Net nonoperating revenues (expenses)	458,914	(8,381)	284	76	106	65	—	(2,338)	(1,832)	446,894
Net income (loss) before other revenues, expenses, gains, or losses	130,419	22,219	226	21	52	24	(10)	2,222	10,308	165,481
Capital grants and gifts	22,054	6,045	—	—	—	—	—	—	(13)	28,086
Additions to permanent endowments	10,479	7	—	—	4	—	—	—	(20)	10,470
Grants to (from) the University for capital purposes	14,664	(14,662)	(2)	—	—	—	—	—	—	—
Other, net	7,859	49	—	—	—	—	—	(12)	—	7,896
Total other revenues (expenses)	55,056	(8,561)	(2)	—	4	—	—	(12)	(33)	46,452
INCREASE (DECREASE) IN NET POSITION	185,475	13,658	224	21	56	24	(10)	2,210	10,275	211,933
NET POSITION, beginning of year as previously reported	3,800,015	81,616	9,016	1,444	1,955	277	62	34,181	48,129	3,976,695
Cumulative effect of adoption of accounting principle	(245,336)	—	—	—	—	—	—	—	—	(245,336)
NET POSITION, beginning of year as restated	3,554,679	81,616	9,016	1,444	1,955	277	62	34,181	48,129	3,731,359
NET POSITION, end of year	$ 3,740,154	$ 95,274	$ 9,240	$ 1,465	$ 2,011	$ 301	$ 52	$ 36,391	$ 58,404	$ 3,943,292

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
COMBINED CONDENSED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2018
(in thousands)

	UK	Research Foundation	Gluck Equine Research Foundation	Humanities Foundation	Mining Engineering Foundation	Center on Aging Foundation	Central Kentucky Management Services	Kentucky Medical Services Foundation	Eliminations	Total
CASH FLOWS FROM OPERATING ACTIVITIES										
Student tuition and fees	$ 341,672	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 341,672
Grants and contracts	312,917	250,094	—	—	—	—	—	—	(257,350)	305,661
Recoveries of facilities and administrative costs	226	61,517	—	—	—	—	—	—	—	61,743
Sales and services	58,395	—	—	—	—	4	31,596	(145)	(33,491)	56,359
Federal appropriations	20,158	—	—	—	—	—	—	—	—	20,158
County appropriations	26,149	—	—	—	—	—	—	—	—	26,149
Payments to vendors and contractors	(1,016,341)	(96,744)	(56)	(55)	(22)	(74)	(1,344)	(289,859)	354,122	(1,050,373)
Student financial aid	(40,651)	—	—	—	—	—	—	—	—	(40,651)
Salaries, wages and benefits	(1,765,131)	(176,588)	(2)	—	(32)	—	(29,920)	(14,847)	—	(1,986,520)
Professional clinical service fees	—	—	—	—	—	—	—	241,905	12,918	254,823
Hospital services	1,610,424	—	—	—	—	—	—	—	(7,122)	1,603,302
Auxiliary enterprises receipts	206,485	—	—	—	—	—	—	—	(112)	206,373
Loans issued to students	(16,343)	—	—	—	—	—	—	—	—	(16,343)
Collection of loans to students	16,038	—	—	—	—	—	—	—	—	16,038
Self-insurance receipts	68,489	—	—	—	—	—	—	1,974	—	70,463
Self-insurance payments	(75,073)	—	—	—	—	—	—	—	—	(75,073)
Other postemployment benefit plan payments	—	—	—	—	—	—	—	—	—	—
Other receipts (payments)	(1,407)	1,897	—	—	—	—	—	89,100	(67,088)	22,502
Net cash provided (used) by operating activities	(253,993)	40,176	(58)	(55)	(54)	(70)	332	28,128	1,877	(183,717)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES										
State appropriations	264,418	—	—	—	—	—	—	—	—	264,418
Gifts and grants received for other than capital purposes:										
Gifts received for endowment purposes	10,479	7	—	—	4	—	—	—	(20)	10,470
Gifts received for other purposes	128,102	174	2	—	—	61	—	—	(1,170)	127,169
Agency and loan program receipts	252,818	—	—	—	—	—	—	—	—	252,818
Agency and loan program payments	(252,479)	—	—	—	—	—	—	—	—	(252,479)
Grants (to) from the University for noncapital purposes	12,954	(12,692)	(245)	(7)	(10)	—	—	—	—	—
Other financing receipts (payments)	6,190	2,077	—	—	—	—	—	—	—	8,267
Net cash provided (used) by noncapital financing activities	422,482	(10,434)	(243)	(7)	(6)	61	—	—	(1,190)	410,663
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES										
Capital grants and gifts	15,335	6,045	—	—	—	—	—	—	(13)	21,367
Purchases of capital assets	(402,657)	(152)	—	—	—	—	—	(17,395)	—	(420,204)
Proceeds from capital debt	215,871	53	—	—	—	—	—	14,525	—	230,449
Proceeds from sales of capital assets	3,950	—	—	—	—	—	—	—	—	3,950
Principal paid on capital debt and leases	(48,904)	(18)	—	—	—	—	—	(3,761)	—	(52,683)
Interest paid on capital debt and leases	(39,740)	—	—	—	—	—	—	(2,793)	—	(42,533)
Grants (to) from the University for capital purposes	14,478	(14,476)	(2)	—	—	—	—	—	—	—
Other financing receipts (payments)	1,414	50	—	—	—	—	—	—	—	1,464
Net cash provided (used) by capital and related financing activities	(240,253)	(8,498)	(2)	—	—	—	—	(9,424)	(13)	(258,190)
CASH FLOWS FROM INVESTING ACTIVITIES										
Proceeds from sales and maturities of investments	899,238	9,699	6,078	916	1,293	—	—	53	—	917,277
Interest and dividends on investments	37,764	1,362	144	23	32	—	—	(1,053)	(674)	37,598
Purchases of investments	(922,939)	(9,182)	(5,643)	(916)	(1,251)	—	—	(12,192)	—	(952,123)
Net cash provided (used) by investing activities	14,063	1,879	579	23	74	—	—	(13,192)	(674)	2,752
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(57,701)	23,123	276	(39)	14	(9)	332	5,512	—	(28,492)
CASH AND CASH EQUIVALENTS, beginning of year	861,397	62,977	60	59	23	310	816	32	—	925,674
CASH AND CASH EQUIVALENTS, end of year	$ 803,696	$ 86,100	$ 336	$ 20	$ 37	$ 301	$ 1,148	$ 5,544	$ —	$ 897,182

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
COMBINED STATEMENT OF FIDUCIARY NET POSITION (in thousands)
JUNE 30, 2018

	OPEB Plan	LTD Plan	Total
ASSETS			
Cash and cash equivalents	$ 3,148	$ 361	$ 3,509
Accrued interest receivable	—	13	13
Investments	156,395	19,710	176,105
Total assets	159,543	20,084	179,627
LIABILITIES			
Accounts payable and accrued liabilities	—	3	3
Total liabilities	—	3	3
NET POSITION			
Net position restricted for postemployment benefits other than pensions	$ 159,543	$ 20,081	$ 179,624

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
COMBINED STATEMENT OF CHANGES IN FIDUCIARY NET POSITION (in thousands)
FOR THE YEARS ENDED JUNE 30, 2018

	OPEB Plan	LTD Plan	Total
Additions			
Investment income:			
Interest and dividend income	$ 2,464	$ 683	$ 3,147
Net appreciation (depreciation) in fair value of investments	6,525	581	7,106
Net investment income (loss)	8,989	1,264	10,253
Contributions:			
University	20,013	2,002	22,015
Beneficiaries	4,945	—	4,945
Total contributions	24,958	2,002	26,960
Total additions	33,947	3,266	37,213
Deductions			
Administrative expenses	783	38	821
Payments to retirees and beneficiaries	17,565	1,931	19,496
Total deductions	18,348	1,969	20,317
INCREASE (DECREASE) IN NET POSITION	15,599	1,297	16,896
NET POSITION restricted for the postemployment benefits other than pensions, beginning of year	143,944	18,784	162,728
NET POSITION restricted for the postemployment benefits other than pensions, end of year	$ 159,543	$ 20,081	$ 179,624

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

1. UNIVERSITY OF KENTUCKY OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLAN

SCHEDULES OF CHANGES IN THE NET OPEB LIABILITY (in thousands) AND RELATED RATIOS

	2018	2017
Total OPEB liability		
Service cost	$ 3,710	$ 4,356
Interest cost	28,053	28,667
Difference between expected and actual experience	(1,071)	12,087
Changes of assumptions	(3,559)	(40,408)
Benefit payments	(12,620)	(11,889)
Net change in total OPEB liability	14,513	(7,187)
Total OPEB liability, beginning	376,521	383,708
Total OPEB liability, ending	391,034	376,521
Plan fiduciary net position		
Contributions - employer	20,013	23,987
Contributions - beneficiaries	4,945	5,500
Net investment income	8,989	12,508
Benefit payments	(17,565)	(17,389)
Administrative expense	(783)	(674)
Net change in plan fiduciary net position	15,599	23,932
Plan fiduciary net position, beginning	143,944	120,012
Plan fiduciary net position, ending	159,543	143,944
Net OPEB liability, ending	$ 231,491	$ 232,577
Plan fiduciary net position as a percentage of OPEB liability	40.8%	38.2%
Covered-employee payroll	$ 480,320	$ 494,158
Net OPEB liability as a percentage of covered-employee payroll	48.2%	47.1%

Notes to schedule:

Change of assumptions: The mortality table updated from the aggregate base rate for healthy lives from the Retirement Projection-2014 mortality study with a fully generational projection from 2006 using scale Mortality Projection-2016 to the aggregate base rates for healthy lives from the Retirement Projection-2014 mortality study with a fully generational projection from 2006 using scale Mortality Projection-2017; the health care trend rates have been updated to better anticipate future experience under the plan.

This schedule is presented as of the measurement date for the fiscal year. Ten years of data for the OPEB Plan is required and will be added as information becomes available.

SCHEDULE OF OPEB INVESTMENT RETURNS

Year	Annual money-weighted rate of return, net of investment expenses
2017	10.3%
2018	6.4%

SCHEDULE OF OPEB CONTRIBUTIONS (in thousands)

	2018	2017
Actuarially determined contribution	$ 20,000	$ 24,454
Contribution in relation to actuarially determined contribution	(20,013)	(23,987)
Contribution deficiency (excess)	$ (13)	$ 467
Covered employee payroll	$ 480,320	$ 494,158
Contribution as a percentage of covered employee payroll	4.2%	4.9%

Notes to Schedule:

Funding policy contribution rates are calculated as of June 30, one year prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Funding policy	Annual funding contribution to be determined as the minimum of the 15-year amortization and contribution limit not less than $250,000.
15-year amortization	Theoretical annual amount needed to fund the excess of present value of benefits over plan assets.
Present value of benefits	Actuarial present value at the beginning of the fiscal year of the net post retirement benefits expected to be paid to all current plan participants calculated using an interest rate equal to the long-term expected return on plan assets (7.5% as of July 1, 2018).
Plan assets	Market value of assets as of the beginning of the fiscal year.
Contribution limit	$20,000,000 for fiscal 2018; indexed annually at a rate of 3% per annum.
Health care trend rate	Post-65 medical 5%, Post-65 RX 10.5% (Employer) and 10% (Plan) for 2018, decreasing 0.5% per year to an ultimate rate of 5%. Pre-65 8.25% (Employer) and 7.94% (Plan) for 2018, decreasing .31% - .39% per year to an ultimate rate of 2.20% in 2022.
Discount rate	7.5% based on the University's funding policy and the expected long-term return on the separate trust assets that will be used to finance the payment of plan benefits. The University has stated that its funding policy is to contribute an amount to a segregated and protected trust fund. The amount will be such that the assets available will always be sufficient to cover the expected benefit payments.
Salary scale	3% per year.
Retirement rates	Faculty from 0.00 to 1.00 from age 50 to 85; staff from 0.03 to 1.00 from age 50 to 85
Disability	Gender and age-related disability incidence rates based on 1987 GLTD (six month elimination period)

Mortality	Aggregate base rates for healthy lives from the Retirement Projection-2014 mortality study with a fully generational projection from 2006 using scale Mortality Projection-2016 for the Employer and using scale Mortality Projection-2017 for the Plan.
Plan participation	80% elect coverage
Dependent coverage	80% of active employees are assumed to be married at their retirement. 60% of those married retirees are assumed to have spousal coverage in effect upon death. Female spouses of male retirees are assumes to be three years younger than their husbands. Male spouses of female retirees are assumed to three years old than their wives.

Ten years of data for the OPEB Plan is required and will be added as information becomes available.

2. UNIVERSITY OF KENTUCKY LONG-TERM DISABILITY (LTD) PLAN

SCHEDULES OF CHANGES IN THE NET LTD LIABILITY (in thousands) AND RELATED RATIOS

	2018	2017
Total LTD liability		
Service cost	$ 2,104	$ 1,606
Interest cost	1,555	1,569
Difference between expected and actual experience	1,017	138
Changes of assumptions	(8)	1,042
Benefit payments	(1,931)	(1,763)
Net change in total LTD liability	2,737	2,592
Total LTD liability, beginning	22,780	20,188
Total LTD liability, ending	25,517	22,780
Plan fiduciary net position		
Contributions - employer	2,002	2,020
Net investment income	1,264	1,956
Benefit payments	(1,931)	(1,763)
Administrative expense	(38)	(61)
Net change in plan fiduciary net position	1,297	2,152
Plan fiduciary net position, beginning	18,784	16,632
Plan fiduciary net position, ending	20,081	18,784
Net LTD liability, ending	$ 5,436	$ 3,996
Net position as a percentage of LTD liability	78.7%	82.5%
Covered-employee payroll	$ 977,928	$ 940,951
Net LTD liability as a percentage of payroll	0.6%	0.4%

Notes to schedule:

Changes of assumptions: The mortality table was updated from the Aggregate base rates for health lives from the Retirement Projection-2014 mortality study with a fully generational projection from 2006 using scale Mortality Projection-2016 to the Aggregate base rates for healthy lives from the Retirement Projection-2014 mortality study with a fully generational projection from 2006 using scale Mortality Projection-2017; the discount rate was updated from 7.5% to 6.5%.

This schedule is presented as of the measurement date for the fiscal year. Ten years of data for the LTD is required and will be added as information becomes available.

SCHEDULE OF OPEB INVESTMENT RETURNS

Year	Annual money-weighted rate of return, net of investment expenses
2017	12.0%
2018	7.1%

SCHEDULE OF LTD CONTRIBUTIONS (in thousands)

	2018	2017
Actuarially determined contribution	$ 2,000	$ 1,984
Contribution in relation to actuarially determined contribution	(2,002)	(2,020)
Contribution deficiency (excess)	$ (2)	$ (36)
Covered employee payroll	$ 977,928	$ 940,951
Contribution as a percentage of covered employee payroll	0.2%	0.2%

Notes to schedule:

Funding policy contribution rates are calculated as of June 30, one year prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Funding policy	Annual funding contribution to be determined as the minimum of the ten year amortization and contribution limit not less than $250,000.
10-year amortization	Theoretical annual amount needed to fund the excess of present value of benefits over plan assets.
Present value of benefits	Actuarial present value at the beginning of the fiscal year of the net post retirement benefits expected to be paid to all current plan participants calculated using an interest rate equal to the long-term expected return on plan assets (6.5% as of July 1, 2018).
Plan assets	Market value of assets as of the beginning of the fiscal year.
Contribution limit	$2,000,000 for fiscal 2018; indexed annually at a rate of 3% per annum.
Discount rate	6.5% based on the University's funding policy and the expected long-term return on the separate trust assets that will be used to finance the payment of plan benefits. The University has stated that its funding policy is to contribute an amount to a segregated and protected trust. The amount will be such that the assets available will always be sufficient to cover the expected benefit payments.
Elimination period	6 months.
Termination (mortality and recovery from disability)	2012 Society of Actuaries (SOA) group LTD table.
Mortality (only for life insurance)	Canadian Institute of Actuaries (CIA) 1988-94 LTD Table.
Retirement rates	Faculty from 0.00 to 1.00 from age 50 to 85; staff from 0.03 to 1.00 from age 50 to 85.
Mortality rates for actives	Aggregate base rates for healthy lives from the Retirement Projection-2014 mortality study with a fully generational projection from 2006 using scale Mortality Projection-2016 for the Employer and using Mortality Projection-2017 for the Plan.

Incidence of disability	Gender and age related disability incidence rates based on 1987 Commissioner's group LTD table.
Duration of payment	Payments are assumed to be made until the later of: i) age 65 and ii) five years after date of disability.
LTD income benefit	
Disability benefit	Actual net benefit currently being paid (if currently disabled).
Social Security offset	Assume 90% of the members who have been disabled for less than 24 months and currently not entitled to a Social Security offset will immediately receive an offset.
Future salary increase for active members	3% per year.

Ten years of data for the LTD Plan is required and will be added as information becomes available.

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