



2019 Financial Statements

University of Kentucky
A Component Unit of the Commonwealth of Kentucky
Financial Statements
Years Ended June 30, 2019 and 2018

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MESSAGE FROM THE PRESIDENT

What is possible?

The UK family is emboldened by a simple, yet profound question that challenges us to think anew about how we are achieving more and being more for those we serve.

As Kentucky's land grant and flagship research university, we are called to boldly act in a way that educates and instills a sense of purpose in the minds of our students; asks and answers the complex questions of our day; and helps and heals countless patients and families who turn to us in an hour of need.

Our fundamental purpose is deeply rooted in our history. It is the question - what is possible - that both informs and pushes us in everything that we do.

In the last decade alone, fueled by that question and our historic mission, we have:

- Invested \$2.4 billion to rebuild and grow our academic, research, community, and health care spaces to improve access and collaborative opportunities across our campus;
- Opened the modern, \$265 million Healthy Kentucky Research Building that is a hub for addressing the state's most complex challenges;
- Opened a new "living room" for the campus community in the Gatton Student Center - a place where students, faculty, and staff can learn, convene, and create;
- Grown our enrollment by 11.4 percent, as another record-breaking first-year class joined us this fall;
- Achieved record graduation and retention rates;
- Decreased the rate of annual tuition rate increases to the lowest levels in more than three decades;
- Increased our investment in financial aid and scholarships to help reduce the likelihood that unmet financial need is a barrier to a UK degree;
- Ranked among the top public universities for National Merit, National Achievement, and National Hispanic Scholars;



- Expanded our research portfolio as reflected in grants and contracts totaling more than \$417 million in the last fiscal year;
- Earned a historic, \$87 million grant to fight opioid abuse and death;
- Earned national recognition for efforts to be a diverse and welcoming community;
- Supported our faculty and staff through seven consecutive years of pay raises;
- Launched the ambitious \$2.1 billion Kentucky Can comprehensive capital campaign and welcomed new donors and friends of the University who invested more than \$200 million in the last fiscal year;
- Finished 14th in the Learfield IMG Directors' Cup, indicating success on and off the field for UK Athletics;
- Served as an indispensable economic partner with dozens of collaborators to provide research expertise to private business owners and internship opportunities for UK students;
- Made more than 8 million contacts with Kentuckians through Extension Services; and
- Treated a record number of patients in UK HealthCare and clinics across the Commonwealth.

We benefit from a pioneering campus family that stirs and expands in an inspiring way the idea of what is possible.

Together, the University of Kentucky, its students, faculty, staff, and alumni have boldly aspired to both ask and answer a singularly important question: what is possible?

We answer that question daily. We dream of what is wildly possible, emboldened by the relentless determination and collaborative community that define our shared work and what it means to be the University *for* Kentucky.

Sincerely,



Eli Capilouto
President

Independent Auditor's Report

Board of Trustees
University of Kentucky
Lexington, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the fiduciary activities of the University of Kentucky (University), collectively, a component unit of the Commonwealth of Kentucky, as of and for the years ended June 30, 2019 and 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 audits. We did not audit the financial statements of Kentucky Medical Services Foundation, Inc. (KMSF), a blended component unit of the University, which statements reflect assets constituting 3.1% and 3.5% as of June 30, 2019 and 2018, respectively, of the University's total assets, net position constituting 0.7% and 0.9%, as of June 30, 2019 and 2018, respectively, of the University's total net position and revenues constituting 11.1% and 11.6%, respectively, of the University's total revenues for the years then ended. Those statements were audited by other auditors, whose report thereon has been furnished to us, and our opinion on the business-type activities, insofar as it relates to the amounts included for KMSF, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of KMSF, which are included in the University's reporting entity 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 audits and the reports 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 fiduciary activities of the University, as of June 30, 2019 and 2018, and the respective changes in financial position and, where applicable, cash flows thereof, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and 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 audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming 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 audits 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 also have issued our report dated October 8, 2019, 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 solely 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 8, 2019

**UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2019 and 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 years ended June 30, 2019 and 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 address 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.

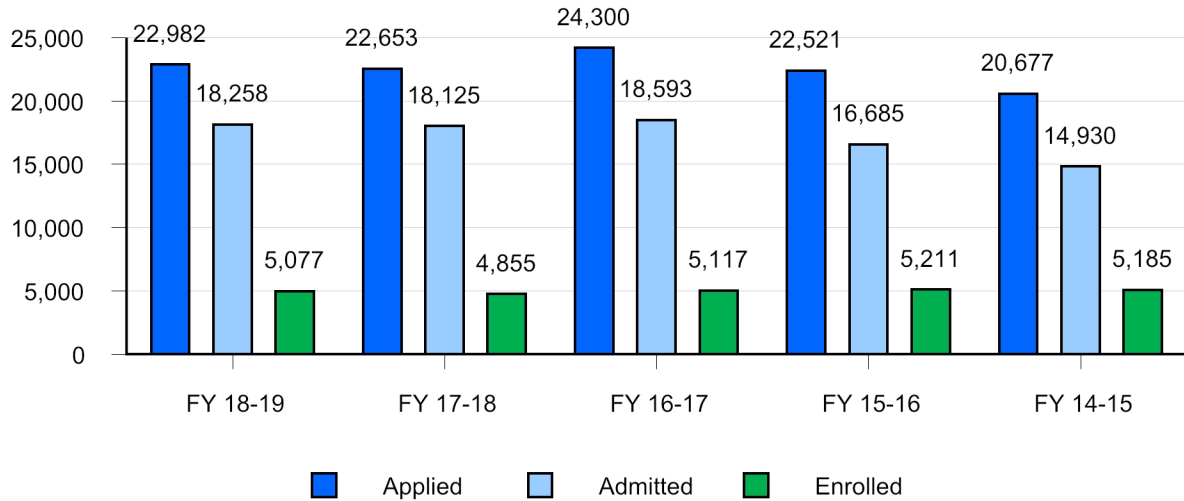
Progress on these objectives is reported on an annual basis and presented to the UK Board of Trustees at the October Board retreat.

The University is identified as a "Research University (very high research activity)" by the Carnegie Commission on Higher Education. There are 131 such institutions in the United States (out of approximately 4,300 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 2018, the University had 30,277 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 more than 3,100 students (11.4%) since Fall 2009.

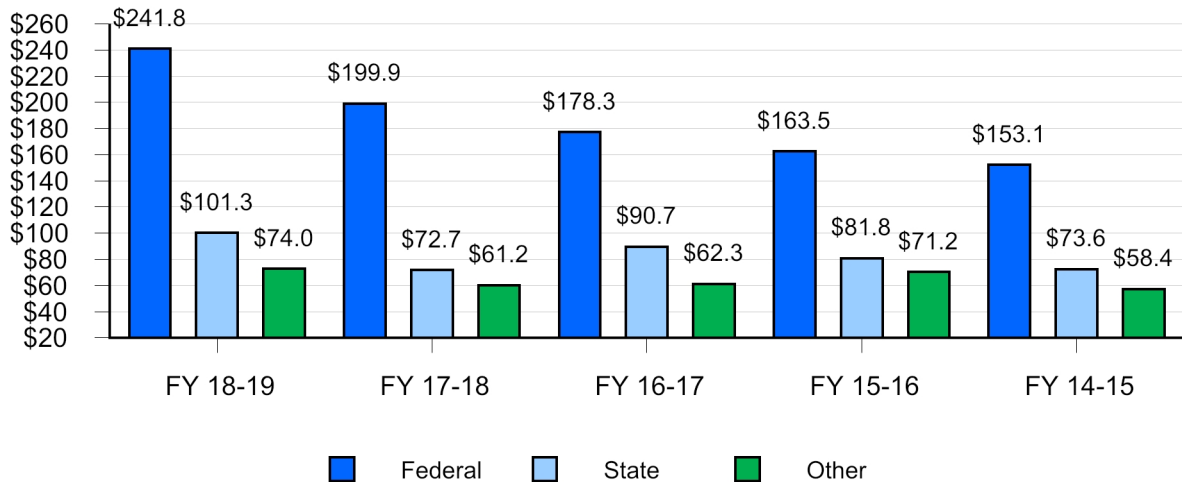
First Year Students Applied, Admitted and Enrolled (Fall Term)



Programs. The University offers more than 200 majors and degree programs in 16 academic and professional degree-granting 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 \$393.0 million for fiscal year 2017-18, compared to \$387.2 million in fiscal year 2016-17. Research awards received during fiscal year 2018-19 total \$417.1 million, a 25.0% increase from the prior year amount of \$333.8 million.

Grant and Contract Awards (in millions)



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 July 2019, UK HealthCare was named number one in Kentucky in the latest U.S. News Best Hospitals ranking for the fourth 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 774 patients. On a monthly basis, the System provides more than 1,387 inpatient surgeries, 1,470 outpatient surgeries, 36,777 radiology procedures, 9,318 emergency department visits and 178,698 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 front runner 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

The University's overall financial position remains fiscally sound with assets of \$6.90 billion, deferred outflows of resources of \$38.3 million, liabilities of \$2.22 billion and deferred inflows of resources of \$541.7 million as of June 30, 2019. 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 \$4.18 billion (61% of total assets).

- Total assets increased \$181.1 million (three percent), primarily due to increases in notes, loans and accounts receivable, net, endowment investments, other long-term investments and capital assets, net offset by decreases in cash and cash equivalents.

- Deferred outflows of resources decreased \$4.0 million (9%) that represents contributions subsequent to the measurement date and the net difference between projected and actual earnings in the OPEB plan investments. It also represents the amortization of the reacquisition price and the net carrying amount of refunded debt.
- Total liabilities decreased \$14.5 million (less than one percent) primarily due to decreases in accounts payable and accrued liabilities and bonds and capital lease obligations offset by increases in unearned revenue.
- Deferred inflows of resources decreased \$21.4 million (four percent) primarily due to decreases in the service concession arrangement with Aramark and Greystar (formerly Education Realty Trust or EdR), as well as decreases in OPEB plan net difference between expected and actual earnings on OPEB Plan investments and the assumption changes for the retiree health plan.
- Total net position increased \$213.0 million (five percent). Net investment in capital assets increased \$74.4 million. Restricted net position increased \$70.1 million due to gains on endowment investments due to a positive return on the endowment pool as well as less spending on capital projects. Unrestricted net position increased \$68.5 million primarily due to the net increase in operating revenues in excess of operating expenses for the System.
- Operating revenues were \$3.06 billion and operating expenses were \$3.41 billion, resulting in a net loss from operations of \$350.0 million. Nonoperating and other revenues, net of nonoperating expenses, were \$563.0 million, including \$258.5 million in state appropriations.

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 for 2017.

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:

- Statements of Net Position
- Statements of Revenues, Expenses, and Changes in Net Position
- Statements of Cash Flows
- Statements of Fiduciary Net Position
- Statements 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.
- Central Kentucky Management Services, Inc.
- University of Kentucky Alumni Association, Inc.
- Kentucky Medical Services Foundation, Inc.

Effective July 1, 2018, the University and the Alumni Association adopted a dual reporting/funding model which resulted in increased integration between the two entities. As a result, the University determined the Alumni Association to be a blended component unit of the University, and has restated all prior periods’ financial

statements presented for the inclusion of the Alumni Association in the University's financial statements as defined by GASB Statement No. 62.

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, 2019, with comparative information 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, 2019, 2018 and 2017 are as follows:

Condensed Statements of Net Position (in thousands)

	<u>2019</u>	<u>2018</u>	<u>2017</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
Current assets	\$ 1,037,832	\$ 1,050,812	\$ 1,081,915
Capital assets, net	3,443,772	3,382,566	3,033,435
Other noncurrent assets	2,421,614	2,288,695	2,116,255
Deferred outflows of resources	38,317	42,293	10,808
Total assets and deferred outflows of resources	<u>6,941,535</u>	<u>6,764,366</u>	<u>6,242,413</u>
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES			
Current liabilities	490,552	531,334	525,126
Noncurrent liabilities	1,730,686	1,704,385	1,285,311
Deferred inflows of resources	541,744	563,137	433,729
Total liabilities and deferred inflows of resources	<u>2,762,982</u>	<u>2,798,856</u>	<u>2,244,166</u>
NET POSITION			
Net investment in capital assets	1,909,624	1,835,176	1,663,206
Restricted			
Nonexpendable	641,255	626,717	613,522
Expendable	521,014	465,474	547,526
Unrestricted	<u>1,106,660</u>	<u>1,038,143</u>	<u>1,173,993</u>
Total net position	<u>\$ 4,178,553</u>	<u>\$ 3,965,510</u>	<u>\$ 3,998,247</u>

Assets. As of June 30, 2019, total assets amounted to \$6.90 billion. The largest asset class was capital assets, net, that totaled \$3.44 billion or 50% of total assets. Endowment investments were \$1.39 billion, or 20% of total assets and cash and cash equivalents totaled \$820.8 million, or 12% of total assets. Notes, loans and accounts receivable, net totaled \$821.6 million or 12% of total assets. During the year, total assets increased by a net \$181.1 million primarily due to increases in notes, loans and accounts receivable, net of \$111.5 million, capital assets, net of \$61.2 million, endowment investments of \$51.0 million and other long-term investments of \$37.8 million. Offsetting these increases was a decrease in cash and cash equivalents of \$76.8 million.

Deferred Outflows of Resources. The University's deferred outflows of resources totaled \$38.3 million, a decrease of \$4.0 million, primarily due to the change in OPEB contributions subsequent to the measurement date and the net difference between projected and actual earnings in the plan investments of \$2.4 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, 2019, total liabilities amounted to \$2.22 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 \$1.15 billion, or 52% of total liabilities. During the year, total liabilities decreased \$14.5 million primarily due to a decrease in accounts payable and accrued liabilities of \$79.2 million primarily due to Disproportionate Share Hospital (DSH) payables due to Medicare settlements for prior years and bonds, notes and leases of \$43.7 million primarily due to principal payments offset by an increase in unearned revenue of \$123.7 million mainly due to multimedia rights contract modifications.

Deferred Inflows of Resources. The University's deferred inflows of resources totaled \$541.7 million that represents service concession arrangements with Greystar of \$381.5 million, Aramark of \$111.3 million and Barnes and Noble of \$1.6 million. Deferred inflows of resources also includes trusts and annuities of \$16.2 million that represents the beneficial interest that the University will receive in future years and OPEB long-term disability and retiree health of \$31.2 million. During the year, deferred inflows of resources decreased \$21.4 million primarily due to a decrease in Aramark of \$10.0 million and a decrease in Greystar of \$5.4 million due to the amortization of revenue as earned for the service concession arrangement. Additionally OPEB decreased \$5.4 million representing the net difference between expected and actual earnings on OPEB Plan investments and the assumption changes for the retiree health plan.

Net Position. The University's net position of \$4.18 billion as of June 30, 2019 is reported on the Statement of Net Position in three net position categories: net investment in capital assets, \$1.91 billion (46%); restricted nonexpendable, \$641.3 million (15%) and restricted expendable, \$521.0 million (13%); and unrestricted, \$1.11 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 increased \$213.0 million during the year ended June 30, 2019. Net investment in capital assets increased \$74.4 million due to excess of additions of capital assets and principal payments of capital debt offset by depreciation expense. Restricted net position increased \$70.1 million primarily as a result of less spending on capital projects and gains on endowment investments due to a positive return on the endowment pool. Unrestricted net position increased \$68.5 million, primarily due to the net increase in operating revenues in excess of operating expenses for the System.

2018 Versus 2017. During the year ended June 30, 2018:

- Total assets increased by a net \$490.5 million primarily due to an increase in capital assets, net of \$349.1 million, endowment investments of \$66.1 million, notes, loans and accounts receivable, net of \$65.4 million and other investments of \$34.2 million offset by a decrease in cash and cash equivalents of \$29.0 million.
- Deferred outflows of resources increased \$31.5 million due primarily to OPEB contributions subsequent to the measurement date and the net difference between projected and actual earnings in the plan investments offset by a decrease in the unamortized difference between the reacquisition price and the net carrying amount of refunded debt.
- Total liabilities increased \$425.3 million primarily attributable to the implementation of GASB Statement No. 75 of \$236.6 million, increases in unearned revenue of \$16.4 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 of \$12.0 million.

- Deferred inflows of resources increased \$129.4 million primarily due to the completion of two new residence halls offset by a decrease in the service concession arrangements with Greystar and Aramark. Additional increases were caused by OPEB and trusts and annuities.
- Total net position decreased \$32.7 million. Unrestricted net position decreased \$135.9 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

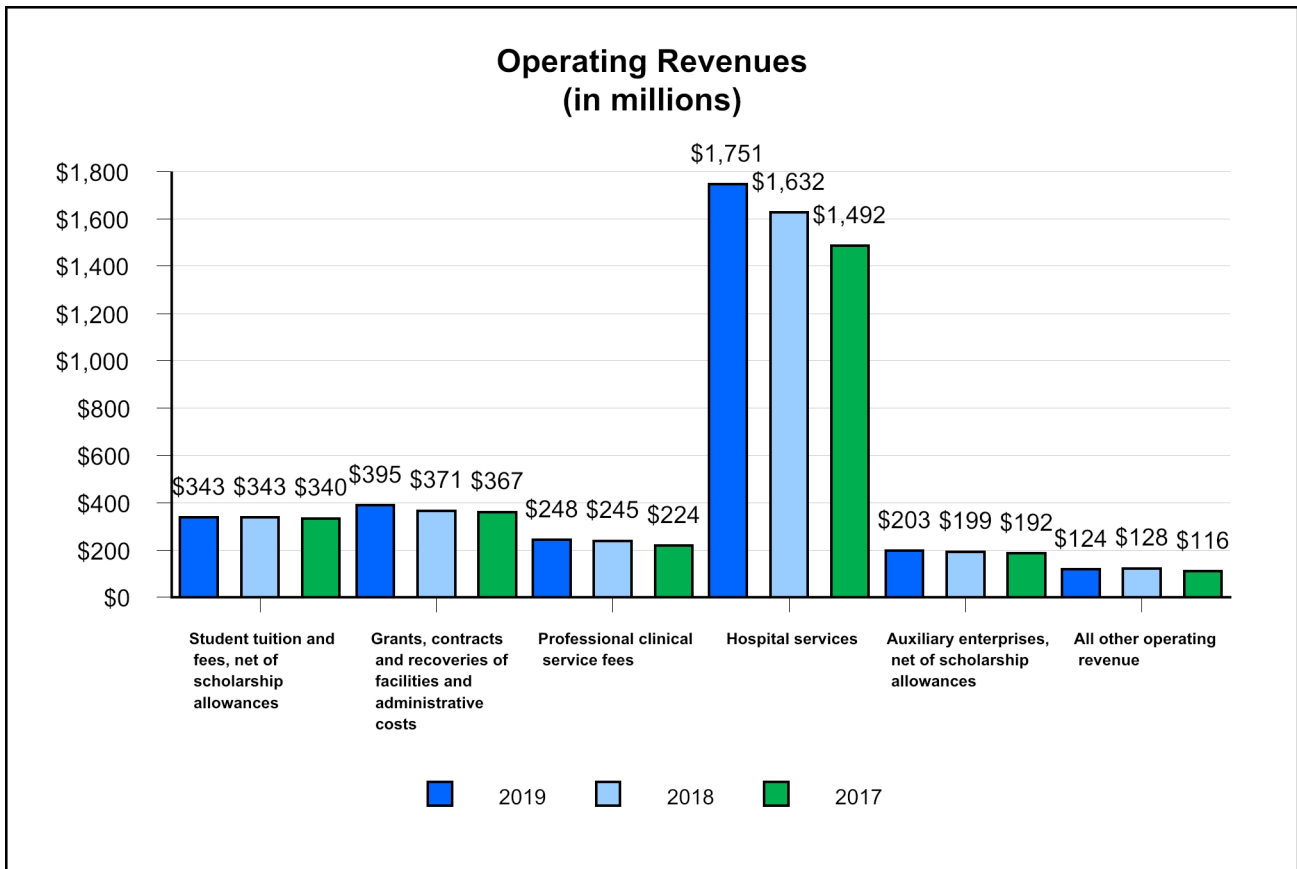
The Statement of Revenues, Expenses and Changes in Net Position is the University's income statement. It details how net position has changed during the year ended June 30, 2019, with comparative information for the year ended June 30, 2018. This statement is prepared on the accrual basis of accounting 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, 2019, 2018 and 2017 are as follows:

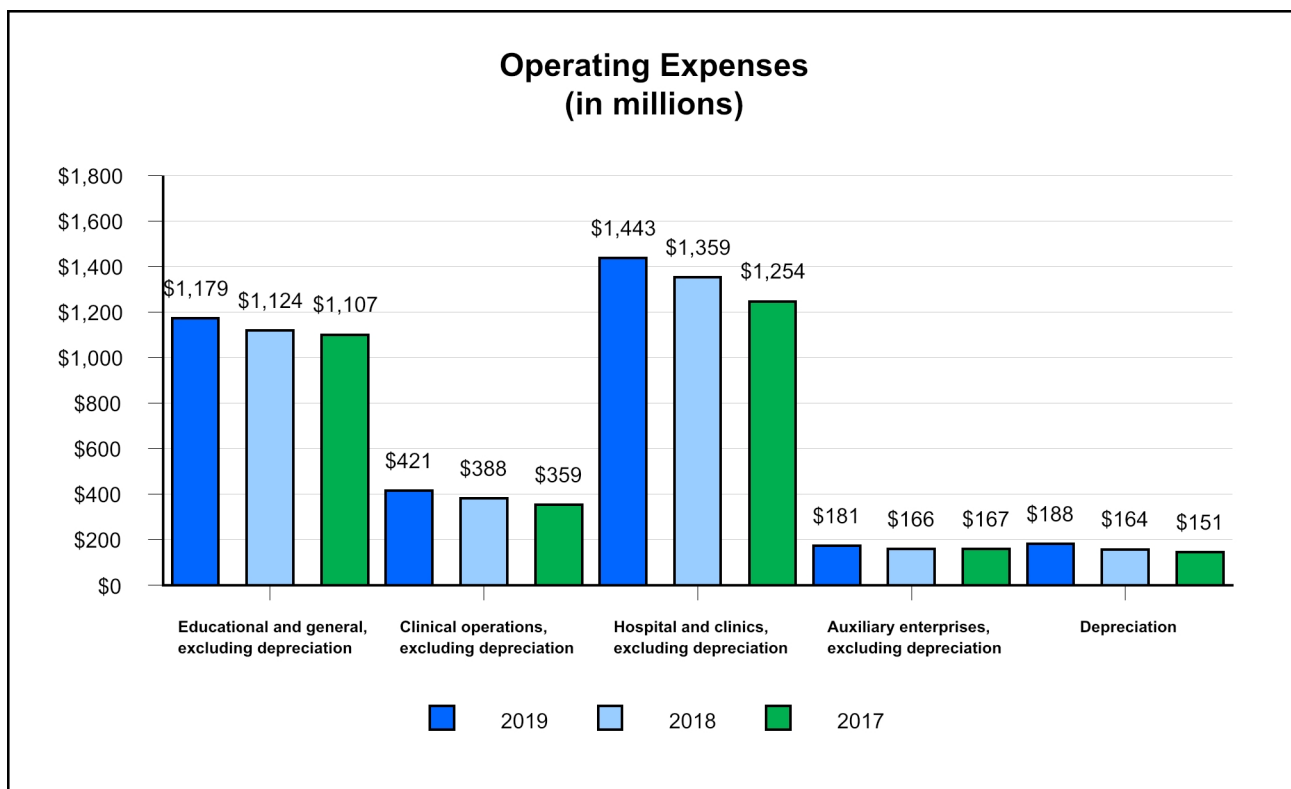
Condensed Statements of Revenues, Expenses and Changes in Net Position (in thousands)

	<u>2019</u>	<u>2018</u>	<u>2017</u>
OPERATING REVENUES			
Student tuition and fees, net of scholarship allowances	\$ 343,293	\$ 342,981	\$ 339,665
Grants and contracts	328,274	311,272	312,451
Recoveries of facilities and administrative costs	67,100	60,062	54,507
Sales and services	59,383	59,691	52,032
Federal and county appropriations	43,928	45,063	41,238
Professional clinical service fees	247,589	244,805	223,630
Hospital services	1,750,927	1,631,737	1,492,388
Auxiliary enterprises, net of scholarship allowances	203,119	198,559	191,870
Other operating revenues	21,138	22,831	22,299
Total operating revenues	<u>3,064,751</u>	<u>2,917,001</u>	<u>2,730,080</u>
OPERATING EXPENSES			
Educational and general, excluding depreciation	1,179,204	1,123,751	1,107,485
Clinical operations, excluding depreciation	421,301	387,875	359,002
Hospital and clinics, excluding depreciation	1,442,947	1,358,570	1,253,804
Auxiliary enterprises, excluding depreciation	181,119	165,503	167,356
Depreciation	188,145	164,369	151,456
Other operating expenses	2,014	993	594
Total operating expenses	<u>3,414,730</u>	<u>3,201,061</u>	<u>3,039,697</u>
NET LOSS FROM OPERATIONS	<u>(349,979)</u>	<u>(284,060)</u>	<u>(309,617)</u>
NONOPERATING REVENUES (EXPENSES)			
State appropriations	258,495	264,418	267,029
Gift and non-exchange grants	120,885	118,447	113,099
Investment income	108,293	91,149	115,988
Interest on capital asset-related debt	(44,373)	(34,695)	(35,086)
Capital grants and gifts	71,570	29,893	69,398
Additions to permanent endowments	13,606	10,451	9,751
Other, net	34,546	16,996	21,222
Total nonoperating revenues	<u>563,022</u>	<u>496,659</u>	<u>561,401</u>
INCREASE IN NET POSITION	213,043	212,599	251,784
NET POSITION, beginning of year, as previously reported	3,965,510	3,998,247	3,746,463
Cumulative effect of adoption of accounting principles	—	(245,336)	—
NET POSITION, beginning of year, as restated	<u>3,965,510</u>	<u>3,752,911</u>	<u>3,746,463</u>
NET POSITION, end of year	<u>\$ 4,178,553</u>	<u>\$ 3,965,510</u>	<u>\$ 3,998,247</u>



Total operating revenues were \$3.06 billion for the year ended June 30, 2019, an increase of \$147.8 million (five percent). The primary components of operating revenues were student tuition and fees, net of scholarship allowances, of \$343.3 million; grants and contracts and recoveries of facilities and administrative costs of \$395.4 million; professional clinical service fees of \$247.6 million; and hospital services of \$1.75 billion.

The major increase was in hospital services revenue of \$119.2 million attributable to an increase in outpatient volume and an increase in DSH revenue. Other significant increases in operating revenues related to grants and contracts and recoveries of facilities and administrative costs of \$24.0 million due to increases in federal and state grants and contracts; athletics revenue of \$5.6 million primarily due to multi-multimedia rights contract modifications including a three year extension; and professional clinical service fees of \$2.8 million.



Operating expenses totaled \$3.41 billion, an increase of \$213.7 million (seven percent). Of this amount, \$1.18 billion, excluding depreciation, was expended for educational and general programs, including instruction, research and public service. Clinical operations expenses, excluding depreciation, were \$421.3 million; hospital and clinics expenses, excluding depreciation, amounted to \$1.44 billion; and auxiliary enterprises expenses, excluding depreciation, were \$181.1 million. Depreciation expense for the year amounted to \$188.1 million.

Educational and general expenses, excluding depreciation, increased \$55.5 million due primarily to increases in instruction of \$3.6 million, research of \$20.0 million, public service of \$4.8 million, academic support of \$5.3 million, institutional support of \$11.4 million and operations and maintenance of plant of \$7.6 million. Clinical operations expenses, excluding depreciation, increased \$33.4 million primarily due to additional staffing and merit raises for clinical faculty and staff. Hospital and clinics expenses, excluding depreciation, increased \$84.4 million primarily due to additional staffing and supplies required for increased patient volume. Auxiliary enterprises expenses, excluding depreciation, increased \$15.6 million primarily attributable to increases in athletics expenses of \$8.8 million primarily for payment to Rupp Arena for multimedia rights based on contract modifications and other auxiliary expense of \$8.1 million due to increased repairs and maintenance related to utilities as well as student center expenses due to full year of operations for the new facility offset by decreases in Housing and Dining of \$1.2 million. Depreciation expense increased \$23.8 million primarily due to new buildings and renovations.

The net loss from operations for the year was \$350.0 million. Nonoperating and other revenues, net of expenses, totaled \$563.0 million and included state appropriations of \$258.5 million, a decrease of \$5.9 million. Gifts and non-exchange grants totaled \$120.9 million, an increase of \$2.4 million. Investment income totaled \$108.3 million, an increase of \$17.1 million; capital grants and gifts totaled \$71.6 million, an increase of \$41.7 million; and additions to permanent endowments totaled \$13.6 million, an increase of \$3.2 million.

2018 Versus 2017. Total operating revenues were \$2.92 billion for the year ended June 30, 2018, including: student tuition and fees, net of scholarship allowances, of \$343.0 million (12%); grants and contracts and recoveries of facilities and administrative costs of \$371.3 million (13%); professional clinical service fees of

\$244.8 million (eight percent); and hospital services of \$1.63 billion (56%). Operating revenues for fiscal year 2018 increased \$186.9 million (seven percent) over fiscal year 2017, primarily due to increases in hospital services revenue of \$139.3 million attributable to an increase in rates, partially driven by patient acuity, and improved payer mix; net student tuition and fees of \$3.3 million due to tuition and fees rate increases; grants and contracts and recoveries of facilities and administrative costs of \$4.4 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 in fiscal year 2018. Of this amount, \$1.12 billion (35%), excluding depreciation, was expended for educational and general programs, including instruction, research and public service. Clinical operations expenses, excluding depreciation, totaled \$387.9 million (12%) of the total operating expenses; hospital and clinics expenses, excluding depreciation, were \$1.36 billion (43%); and auxiliary enterprises expenses, excluding depreciation, were \$165.5 million (five percent). Depreciation expense amounted to \$164.4 million (five percent). Operating expenses for fiscal year 2018 increased \$161.4 million (five percent) compared to fiscal year 2017 primarily due to an increase in hospital and clinics expenses, excluding depreciation, of \$104.8 million (eight percent); clinical operations expenses, excluding depreciation, of \$28.9 million (eight percent); educational and general expenses, excluding depreciation, of \$16.3 million (one percent); and depreciation expense of \$12.9 million (nine percent). Auxiliary enterprises expenses, excluding depreciation, decreased \$1.9 million (one percent).

The net loss from operations for the 2018 fiscal year totaled \$284.1 million. Nonoperating and other revenues, net of expenses, totaled \$496.7 million, resulting in an increase in net position of \$212.6 million for the year. Nonoperating revenues (expenses) included state appropriations of \$264.4 million and \$267.0 million for the years ended June 30, 2018 and 2017, respectively.

Statement of Cash Flows

The Statement of Cash Flows details how cash has increased or decreased during the fiscal year ended June 30, 2019, with comparative financial information for the fiscal year ended June 30, 2018. 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, 2019, 2018 and 2017 are as follows:

Condensed Statements of Cash Flows (in thousands)

	2019	2018	2017
CASH PROVIDED (USED) BY:			
Operating activities	\$ (204,657)	\$ (186,337)	\$ (160,283)
Noncapital financing activities	409,469	410,911	395,720
Capital and related financing activities	(315,458)	(256,407)	(381,081)
Investing activities	33,893	2,829	(21,007)
	<hr/>	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(76,753)	(29,004)	(166,651)
	<hr/>	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS, beginning of year	897,544	926,548	1,093,199
	<hr/>	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 820,791</u>	<u>\$ 897,544</u>	<u>\$ 926,548</u>

The University's cash and cash equivalents decreased \$76.8 million in fiscal year 2019. Total cash used by operating activities was \$204.7 million, an increase of \$18.3 million; cash used by capital and related financing activities was \$315.5 million, an increase of \$59.1 million reflecting both capital funding sources (debt proceeds) and uses (purchases of capital assets and debt service). Total cash provided by noncapital financing activities was \$409.5 million, a decrease of \$1.4 million compared to fiscal year 2018. Total cash provided by investing activities was \$33.9 million, an increase of \$31.1 million.

Major sources of cash provided by operating activities were hospital services of \$1.71 billion; grants and contracts and recoveries of facilities and administrative costs of \$386.7 million; student tuition and fees of \$343.2 million; and professional clinical service fees of \$257.9 million. Major uses of cash for operating activities were payments to employees for salaries, wages and benefits of \$2.06 billion and to vendors and contractors of \$1.13 billion.

Noncapital financing activities include state appropriations from the Commonwealth of \$258.5 million, gifts and grants for other than capital purposes of \$135.2 million and other receipts of \$16.5 million.

Capital and related financing activities include proceeds from capital debt of \$13.4 million and capital grants and gifts of \$52.7 million. Cash of \$268.4 million was expended for construction and purchases of capital assets and \$99.4 million was expended for principal and interest payments on capital debt and leases.

Investing activities include proceeds from sales and maturities of investments of \$605.7 million and interest and dividends on investments of \$49.8 million. Cash of \$621.7 million was used for purchases of investments.

2018 Versus 2017. Cash balances were lower when comparing fiscal year 2018 to fiscal year 2017. The \$29.0 million decrease in cash and cash equivalents was created from more cash used by operating activities and offset by less cash used for capital and related financing activities and more cash provided by noncapital financing activities and investing activities.

Capital Assets and Debt Administration

Capital Assets.

Capital assets, net of accumulated depreciation, totaled \$3.44 billion at June 30, 2019, an increase of \$61.2 million. Capital assets as of June 30, 2019, 2018 and 2017, and significant changes in capital assets during the years ended June 30, 2018 and 2019 are as follows (in millions):

	Balance June, 30 2017	Net Additions (Deletions) FY 2017-18	Balance June 30, 2018	Net Additions (Deletions) FY 2018-19	Balance June 30, 2019
Land and land improvements	\$ 253	\$ 33	\$ 286	\$ 36	\$ 322
Buildings, fixed equipment and infrastructure	3,393	463	3,856	245	4,101
Equipment, vehicles and capitalized software	778	47	825	37	862
Library materials and art	168	2	170	(1)	169
Certificate of need	12	—	12	—	12
Construction in progress	296	(64)	232	(104)	128
Accumulated depreciation	(1,867)	(131)	(1,998)	(152)	(2,150)
Total	\$ 3,033	\$ 350	\$ 3,383	\$ 61	\$ 3,444

At June 30, 2019, the University had commitments in construction in progress for capital projects totaling approximately \$459.2 million in scope. Major projects include the construction of the new Healthy Kentucky Research Building and health care facilities, and the renovation/expansion of the law building. The estimated cost to complete the projects in progress was approximately \$361.2 million.

Debt.

At June 30, 2019, capital debt amounting to \$1.15 billion, summarized by trust indenture and type, is as follows (in millions):

	2019	2018	2017
General Receipts bonds and notes	\$ 1,052	\$ 1,093	\$ 910
Capital lease obligations	83	85	83
Notes payable	18	19	20
Total	\$ 1,153	\$ 1,197	\$ 1,013

Debt decreased \$43.7 million during the year primarily due to the annual principal payments on the University's debt obligations of \$49.2 million and also due to the \$1.0 million net effect of the issuance of General Receipts Bonds 2019 Series A Bonds to fully refund General Receipts 2009 Series A Bonds. Partially offsetting these decreases are net additions to capital leases and other long-term obligations of \$6.5 million.

Economic and Other Factors That Will Affect the Future

Senior leadership continues to believe the University of Kentucky 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:

- For nearly 40 years, the Western Interstate Commission for Higher Education has produced projections of high school graduates. Per the latest report, graduating classes across the nation are projected to become smaller and more diverse. In addition, per Kentucky's Council on Postsecondary Education's 2019 Progress Report, Kentucky's in-state college-going rate continued to fall from 54.0% in 2015 to 53.5% in 2016 to 53.0% in 2017. These changes will impact future recruitment efforts for both resident and non-resident undergraduate students.
- Based on the 2008-10 and 2018-20 Budgets of the Commonwealth of Kentucky, State support for postsecondary education declined 13% over the last 10 years. In fiscal year 2009-10, UK's state appropriations were originally budgeted to exceed \$316 million and \$261 million is expected for fiscal year 2019-20, representing a reduction of \$55 million or 17% in ten years. However, the fiscal year 2019-20 budget includes the first increase in state funds in over a decade attributable to a performance funding model adopted in 2017.
- 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 formally linking state appropriations with desired student success goals. Fiscal year 2019-20 is the third year the State is using the funding model to allocate a portion of state appropriations to the public universities and the Kentucky Community and Technical College System. The model is based on 11 metrics primarily focused on student success. UK is excelling with its student success efforts as reflected in the performance funding results. For fiscal year 2019-20, the UK's rate of improvement was above the system average for 10 out of the 11 metrics, the highest number of all the public universities.
- In April 2018, the Kentucky General Assembly passed the 2018-20 biennial budget for the Commonwealth of Kentucky. With regard to postsecondary education, the budget included:
 - An approximate 6.25% 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, the majority of which belong to the University of Kentucky
 - \$31.0 million of the \$54.3 million reduction was reallocated in fiscal year 2018-19 to the public universities and colleges using the state's new Performance Funding Model and in fiscal year 2019-20, one percent of the remaining appropriations (\$7.7 million) was reallocated using the funding model.

Looking forward, the future of state funding for postsecondary education does not look promising as the pension system, Medicaid, and the criminal justice system continue to require more state revenues.

- Despite challenging national and state enrollment trends, senior leadership remains confident in the 2015 - 2020 UK Strategic Plan goals to move graduation and retention rates to 70% and 90%, respectively, and implemented the UK Leveraging Economic Affordability for Developing Success (UK LEADS) program in 2016 in support of these goals. Over the next several years under the UK LEADS initiative, the University will award more of its institutional aid based on financial need, supported by predictive modeling, which indicates reducing unmet need will positively impact retention rates and student success. After three years, preliminary data suggests UK's overall retention rate for fall 2019 will exceed 85 percent and the six-year graduation rate will exceed 65%. Both are 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 multi-year financial plan addressing disruptions in higher education, including increased focus on students' net price, changing demographics, and the challenging state fiscal environment. As part of Phase I, several ideas were selected involving enrollment growth, procure to pay initiatives, and a carbon reduction program. In fiscal year 2018-19, seed funding was provided to create 26 new online programs, increasing UK's online program offerings to 61. Additional tuition

- revenue is projected to come from new and expanded programs, many of which target online students, and a significant amount of UK's future enrollment growth is expected through online program offerings.
- 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 \$417.1 million in external grants and contracts in fiscal year 2018-19, representing an increase of 25.0% over fiscal year 2017-18. UK's Center on Drug and Alcohol Research, with faculty and academic units across several colleges, earned the University's largest, single grant in its history, \$87 million, to reduce opioid overdose deaths by 40% in 16 Kentucky counties.
 - For the fourth year in a row, UK HealthCare was named the #1 hospital in Kentucky by U.S. News & World Report, with the Markey Cancer Center ranked among the best cancer centers in the nation. Annual inpatient discharges from UK's hospitals are expected to exceed 45,600 by fiscal year 2019-20, an increase of 41% over ten years. The number of outpatient visits to UK's clinics are expected to exceed two million in fiscal year 2019-20, an increase of 123.8% over ten years.
 - The University's momentous physical transformation continues, positively impacting its ability to attract and retain students, faculty and staff. From July 2011 to April 2019, 147 capital projects totaling \$2.4 billion have been initiated, encompassing quality of life and community; academics and research; health care; infrastructure; and athletic projects. The funding model for the transformation has been strategically diverse (debt, private partners, university funds, state funds, and gifts) to maintain the University's fiscally sound condition. Future projects are expected to focus primarily on health care and modernizing existing academic facilities. During the 2018 regular session of the Kentucky General Assembly, the University received authorization to issue agency bonds in the amount of \$300 million to finance multiple capital projects across campus, providing flexibility to utilize agency bonds as a potential funding source on future capital projects.
 - In September 2018, the University announced its historic \$2.1 billion 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 health and economic issues challenging the Commonwealth. The \$2.1 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 UK's endowment to more than \$2 billion to fund recruitment and retention of leading scholars and support of initiatives providing a foundation for the work of the University community.
 - 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
STATEMENTS OF NET POSITION (in thousands)
JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current Assets		
Cash and cash equivalents	\$ 554,775	\$ 572,315
Notes, loans and accounts receivable, net	415,598	403,426
Investments	4,107	18,399
Inventories and other assets	<u>63,352</u>	<u>56,672</u>
Total current assets	<u>1,037,832</u>	<u>1,050,812</u>
Noncurrent Assets		
Restricted cash and cash equivalents	266,016	325,229
Endowment investments	1,385,507	1,334,530
Other long-term investments	358,976	321,142
Notes, loans and accounts receivable, net	405,966	306,684
Other noncurrent assets	5,149	1,110
Capital assets, net	<u>3,443,772</u>	<u>3,382,566</u>
Total noncurrent assets	<u>5,865,386</u>	<u>5,671,261</u>
Total assets	6,903,218	6,722,073
Deferred Outflows of Resources		
Total assets and deferred outflows of resources	<u>38,317</u>	<u>42,293</u>
	6,941,535	6,764,366
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
Current Liabilities		
Accounts payable and accrued liabilities	259,754	338,925
Unearned revenue	145,607	106,334
Long-term liabilities - current portion	<u>85,191</u>	<u>86,075</u>
Total current liabilities	<u>490,552</u>	<u>531,334</u>
Noncurrent Liabilities		
Unearned revenue	252,386	168,006
Long-term liabilities	1,241,373	1,299,806
Net other postemployment benefit liability - retiree health	231,491	232,577
Net other postemployment benefit liability - long-term disability	<u>5,436</u>	<u>3,996</u>
Total noncurrent liabilities	<u>1,730,686</u>	<u>1,704,385</u>
Total liabilities	2,221,238	2,235,719
Deferred Inflows of Resources		
Total liabilities and deferred inflows of resources	<u>541,744</u>	<u>563,137</u>
	2,762,982	2,798,856
NET POSITION		
Net investment in capital assets	<u>1,909,624</u>	<u>1,835,176</u>
Restricted		
Nonexpendable		
Scholarships and fellowships	174,077	164,048
Research	286,191	278,769
Instruction	81,306	85,046
Academic support	85,896	85,731
Other	<u>13,785</u>	<u>13,123</u>
Total restricted nonexpendable	<u>641,255</u>	<u>626,717</u>
Expendable		
Scholarships and fellowships	96,982	89,330
Research	96,915	98,810
Instruction	54,438	53,374
Academic support	100,832	84,065
Loans	12,380	12,484
Capital projects	74,027	54,789
Debt service	1,069	24
Auxiliary	37,280	33,725
Other	<u>47,091</u>	<u>38,873</u>
Total restricted expendable	<u>521,014</u>	<u>465,474</u>
Total restricted	<u>1,162,269</u>	<u>1,092,191</u>
Unrestricted		
Total net position	<u>1,106,660</u>	<u>1,038,143</u>
	\$ 4,178,553	\$ 3,965,510

See notes to financial statements

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (in thousands)
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
OPERATING REVENUES		
Student tuition and fees	\$ 519,817	\$ 508,799
Less: Scholarship allowances	<u>(176,524)</u>	<u>(165,818)</u>
Net student tuition and fees	343,293	342,981
Federal grants and contracts	208,669	187,996
State and local grants and contracts	86,543	84,027
Nongovernmental grants and contracts	33,062	39,249
Recoveries of facilities and administrative costs	67,100	60,062
Sales and services	59,383	59,691
Federal appropriations	17,239	19,674
County appropriations	26,689	25,389
Professional clinical service fees	247,589	244,805
Hospital services	1,750,927	1,631,737
Auxiliary enterprises:		
Housing and dining	36,023	35,861
Less: Scholarship allowances	<u>(1,065)</u>	<u>(812)</u>
Net housing and dining	34,958	35,049
Athletics	114,069	108,427
Other auxiliaries	54,092	55,083
Other operating revenues	<u>21,138</u>	<u>22,831</u>
Total operating revenues	<u>3,064,751</u>	<u>2,917,001</u>
OPERATING EXPENSES		
Educational and general:		
Instruction	317,236	313,653
Research	300,255	280,228
Public service	203,903	199,106
Libraries	24,384	23,886
Academic support	89,595	84,245
Student services	45,254	43,396
Institutional support	74,759	63,377
Operations and maintenance of plant	82,832	75,208
Student financial aid	40,986	40,652
Depreciation	<u>73,379</u>	<u>67,514</u>
Total educational and general	1,252,583	1,191,265
Clinical operations (including depreciation of \$12,067 in 2019 and \$4,409 in 2018)	433,368	392,284
Hospital and clinics (including depreciation of \$66,959 in 2019 and \$62,117 in 2018)	1,509,906	1,420,687
Auxiliary enterprises:		
Housing and dining (including depreciation of \$11,639 in 2019 and \$13,299 in 2018)	28,335	31,232
Athletics (including depreciation of \$17,156 in 2019 and \$15,837 in 2018)	141,732	131,615
Other auxiliaries (including depreciation of \$6,945 in 2019 and \$1,193 in 2018)	46,792	32,985
Other operating expenses	<u>2,014</u>	<u>993</u>
Total operating expenses	<u>3,414,730</u>	<u>3,201,061</u>
Net loss from operations	<u>(349,979)</u>	<u>(284,060)</u>
NONOPERATING REVENUES (EXPENSES)		
State appropriations	258,495	264,418
Gifts and non-exchange grants	120,885	118,447
Investment income	108,293	91,149
Interest on capital asset-related debt	(44,373)	(34,695)
Other nonoperating revenues and expenses, net	16,674	9,100
Net nonoperating revenues (expenses)	<u>459,974</u>	<u>448,419</u>
Net income before other revenues, expenses, gains or losses	<u>109,995</u>	<u>164,359</u>
Capital grants and gifts	71,570	29,893
Additions to permanent endowments	13,606	10,451
Other, net	<u>17,872</u>	<u>7,896</u>
Total other revenues (expenses)	<u>103,048</u>	<u>48,240</u>
INCREASE IN NET POSITION	<u>213,043</u>	<u>212,599</u>
NET POSITION, beginning of year	<u>3,965,510</u>	<u>3,752,911</u>
NET POSITION, end of year	<u>\$ 4,178,553</u>	<u>\$ 3,965,510</u>

See notes to financial statements

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
STATEMENTS OF CASH FLOWS (in thousands)
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	\$ 343,194	\$ 341,672
Grants and contracts	321,013	303,965
Recoveries of facilities and administrative costs	65,661	61,769
Sales and services	59,316	57,579
Federal appropriations	17,590	20,158
County appropriations	27,227	26,149
Payments to vendors and contractors	(1,132,873)	(1,050,343)
Student financial aid	(40,987)	(40,650)
Salaries, wages and benefits	(2,056,001)	(1,988,363)
Professional clinical service fees	257,916	254,823
Hospital services	1,713,408	1,603,302
Auxiliary enterprises receipts	194,602	206,015
Loans issued to students	(11,428)	(16,343)
Collection of loans to students	15,478	16,038
Self insurance receipts	73,313	70,463
Self insurance payments	(73,108)	(75,073)
Other receipts	21,022	22,502
Net cash used by operating activities	(204,657)	(186,337)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	258,495	264,418
Gifts and grants received for other than capital purposes:		
Gifts received for endowment purposes	13,606	10,451
Gifts received for other purposes	121,605	127,174
Agency and loan program receipts	244,475	252,818
Agency and loan program payments	(245,211)	(252,479)
Other financing receipts (payments)	16,499	8,529
Net cash provided by noncapital financing activities	409,469	410,911
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital grants and gifts	52,652	23,174
Purchases of capital assets	(268,390)	(420,228)
Proceeds from capital debt	13,397	230,449
Payments to refunding bond agents	(15,165)	—
Proceeds from sales of capital assets	—	3,950
Principal paid on capital debt and leases	(49,215)	(52,683)
Interest paid on capital debt and leases	(50,169)	(42,533)
Other financing receipts	1,432	1,464
Net cash used by capital and related financing activities	(315,458)	(256,407)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	605,733	917,875
Interest and dividends on investments	49,838	37,933
Purchases of investments	(621,678)	(952,979)
Net cash provided by investing activities	33,893	2,829
NET DECREASE IN CASH AND CASH EQUIVALENTS	(76,753)	(29,004)
CASH AND CASH EQUIVALENTS, beginning of year	897,544	926,548
CASH AND CASH EQUIVALENTS, end of year	\$ 820,791	\$ 897,544

See notes to financial statements

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
STATEMENTS OF CASH FLOWS (in thousands)
FOR THE YEARS ENDED JUNE 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Reconciliation of net loss from operations		
to net cash used by operating activities:		
Net loss from operations	\$ (349,979)	\$ (284,060)
Adjustments to reconcile net loss from operations		
to net cash used by operating activities:		
Depreciation expense	188,145	164,369
Change in assets and liabilities:		
Notes, loans and accounts receivable, net	(95,481)	(43,850)
Inventories and other assets	(8,939)	(3,812)
Deferred outflows of resources	2,407	(7,660)
Accounts payable and accrued liabilities	(44,550)	(27,433)
Unearned revenue	123,487	16,275
Long-term liabilities	(8,001)	966
OPEB liabilities	354	(30,678)
Deferred inflows of resources	(12,100)	29,546
Net cash used by operating activities	<u>\$ (204,657)</u>	<u>\$ (186,337)</u>
NONCASH TRANSACTIONS		
Capital lease additions	\$ 6,517	\$ 14,715
Gifts of capital assets	\$ 2,856	\$ 5,472
Capital asset change in accounts payable	\$ 32,910	\$ 11,207
Capital asset additions by service concession arrangements	\$ 39	\$ 98,638
Capitalized interest, net of investment income	\$ 4,470	\$ 10,400
Amortized bond discount and premium	\$ 7,473	\$ 7,185
Amortized difference between reacquisition price and net carrying		
amount of refunded debt	\$ 1,572	\$ 1,629
Capital asset trade in	\$ 9,764	\$ 683

See notes to financial statements

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
STATEMENTS OF FIDUCIARY NET POSITION (in thousands)
JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and cash equivalents	\$ 5,614	\$ 3,509
Accrued interest receivable	21	13
Investments	191,823	176,105
Total assets	<u>197,458</u>	<u>179,627</u>
LIABILITIES		
Accounts payable and accrued liabilities	—	3
Total liabilities	<u>—</u>	<u>3</u>
NET POSITION		
Net position restricted for postemployment benefits other than pensions	<u>\$ 197,458</u>	<u>\$ 179,624</u>

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION (in thousands)
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Additions		
Investment income:		
Interest and dividend income	\$ 3,662	\$ 3,147
Net appreciation in fair value of investments	7,253	7,106
Net investment income	<u>10,915</u>	<u>10,253</u>
Contributions:		
University of Kentucky	20,867	22,015
Beneficiaries	4,379	4,945
Total contributions	<u>25,246</u>	<u>26,960</u>
Total additions	<u>36,161</u>	<u>37,213</u>
Deductions		
Administrative expenses	1,440	821
Payments to retirees and beneficiaries	16,887	19,496
Total deductions	<u>18,327</u>	<u>20,317</u>
INCREASE IN NET POSITION	17,834	16,896
NET POSITION restricted for postemployment benefits other than pensions, beginning of year	<u>179,624</u>	<u>162,728</u>
NET POSITION restricted for postemployment benefits other than pensions, end of year	<u>\$ 197,458</u>	<u>\$ 179,624</u>

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

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.; 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) and University of Kentucky Alumni Association, non-profit entities for which the University is financially accountable as defined by GASB, but which are not affiliated corporations 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 Kentucky Tobacco Research and Development Center (KTRDC), WUKY Radio and the UK HealthCare Hospital System (the System) which includes Kentucky Healthcare Enterprise, Inc., a wholly owned for-profit subsidiary and Surgery Blue, LLC, a wholly owned for-profit subsidiary and its for-profit subsidiary, Surgery Center of Lexington, LLC (51% ownership). 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.

Effective July 1, 2018, the University of Kentucky and the Alumni Association adopted a new dual reporting/funding model which resulted in increased integration between the two entities. As a result, the University determined the Alumni Association to be a blended component unit of the University, and has restated all prior periods' financial statements presented for inclusion of the Alumni Association in the University's financial statements as defined by GASB No. 62.

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. The GASB establishes standards for external financial reporting for public colleges and universities and requires that resources be classified for accounting and financial reporting purposes into the following net position categories:

- Net investment in capital assets: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- Restricted:
Nonexpendable - Net position subject to externally imposed stipulations that they be maintained permanently by the University. Such assets include the principal of the University's permanent endowment funds.

Expendable - Net position whose use by the University is subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time.

- Unrestricted: Net position whose use by the University is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Trustees (the Board) or may otherwise be limited by contractual agreements with outside parties.

The financial statement presentation is intended to provide a comprehensive, entity-wide perspective of the University's assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, expenses, changes in net position and cash flows. 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, grant funds with restricted purposes 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 Statements 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 the 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 are recorded net of estimated uncollectible amounts based upon a review of outstanding receivables, historical collection information, and existing economic conditions.

Inventories. Inventories are stated 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 2,300 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. Effective July 1, 2018, the management fee can 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. For the years ended June 30, 2019 and 2018, the University’s annual endowment management fee was 0.82% and 0.50%, respectively.

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

The components of the University’s spending policy distribution and management fee for the years ended June 30, 2019 and 2018 are as follows (in thousands):

	2019	2018
Gross spending policy distribution	\$ 46,124	\$ 44,091
Reinvested spending policy distribution	(26,708)	(24,998)
Net spending policy distribution	<u>\$ 19,416</u>	<u>\$ 19,093</u>
Management fee	<u>\$ 9,745</u>	<u>\$ 5,853</u>

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 the 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 weighted average accumulated expenditures times the weighted average interest rate on borrowings.

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 3 - 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.

The University evaluates capital assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital asset has occurred. If a capital asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, the accumulated depreciation will be accelerated. The amount of the impairment loss will be recorded as the net book value divided proportionately over its remaining years of useful life. Asset impairments of \$802 thousand and \$2.6 million were recognized during the years ended June 30, 2019 and 2018, respectively.

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 Statements 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, 2019 and 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 Statements 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 24% and 26%, respectively, of the System's net patient services revenues before the provision for doubtful accounts for the year ended June 30, 2019 and approximately 26% and 29%, respectively, 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 (DSH) payments from Medicaid. Prior year audits were completed and the System was able to recognize \$61.4 million of DSH revenue and other settlements during the current fiscal year, of which \$51.5 million was previously reserved in estimated third-party payer settlements in the fiscal year 2018 Statement of Net Position.

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 \$73.7 million and \$58.8 million for the years ended June 30, 2019 and 2018, respectively. The costs of charity care provided under the System's charity care policy were \$19.5 million and \$16.1 million for the years ended June 30, 2019 and 2018. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.

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 \$37.3 million and \$39.7 million for ESH and \$2.1 million and \$1.9 million for CKRC for the years ended June 30, 2019 and 2018, 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 additional one-year terms. Subsequent to year end, the contract was renewed for the period of July 1, 2019 to June 30, 2020 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 and the Alumni Association are not-for-profit corporations 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 in 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 2019 and 2018, departmental research in nonsponsored accounts of approximately \$89.8 million and \$79.2 million, respectively, was recorded as research expense in the Statements of Revenues, Expenses and Changes in Net Position.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to 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. 88. In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. 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; terms specified in debt agreements; significant termination events; and significant subjective acceleration clauses. The University adopted GASB Statement No. 88 during fiscal year 2019. See note 8 for information related to long-term debt from direct borrowings.

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. 89, *Accounting for Interest Cost Incurred before the end of a Construction Period*, issued June 2018. The provisions of the statement are effective for fiscal years beginning after December 15, 2019 (fiscal year 2021). This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The University has yet to determine the impact Statement No. 89 will have on its financial statements.

Revisions and reclassifications. Certain revisions and reclassifications to fiscal year 2018 comparative amounts have been made to conform with the fiscal year 2019 financial statement classifications. In order to properly reflect unearned revenue, accounts payable and accrued liabilities, and capital-related restricted cash and receivables, the financial statements were revised to reduce current cash and cash equivalents \$15.5 million, current accounts receivable \$35.2 million, accounts payable and accrued liabilities \$8.1 million and current unearned revenue \$15.5 million and to increase noncurrent restricted cash and cash equivalents \$15.5 million, noncurrent accounts receivable \$27.2 million, and noncurrent unearned revenue \$15.5 million. In addition, state and local grants and contracts decreased \$1.8 million and capital grants and gifts increased \$1.8 million. Such revisions and reclassifications had no effect on the change in net position.

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 external managers in low duration strategies.
- 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, 2019 and 2018 are as follows (in thousands):

	2019	2018
<u>Statement of Net Position classification</u>		
Deposits		
Current cash and cash equivalents	\$ 554,775	\$ 572,315
Restricted cash and cash equivalents	266,016	325,229
Total deposits	820,791	897,544
Investments		
Current investments	4,107	18,399
Endowment investments	1,385,507	1,334,530
Other long-term investments	358,976	321,142
Total investments	1,748,590	1,674,071
Total deposits and investments	\$ 2,569,381	\$ 2,571,615

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 Statements of Net Position.

The University has the following valuation measurements, by type, at June 30, 2019 (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
<u>Non-ended deposits and investments</u>							
Cash and cash equivalents	\$ 288,422	\$ 209,356	\$ —	\$ —	\$ 209,356	\$ —	\$ 79,066
Cash surrender value of life insurance policies	6,473	—	—	—	—	—	6,473
Certificates of deposit	22,463	—	22,463	—	22,463	—	—
Deposits with the Commonwealth of Kentucky ¹	9,503	—	—	—	—	—	9,503
Global equity - international	8,787	8,787	—	—	8,787	—	—
Global equity - private	302	—	—	—	—	—	302
Global equity - U.S.	22,165	22,161	—	—	22,161	—	4
Global fixed income - high quality/rate sensitive ²	804,470	1,717	504,169	—	505,886	—	298,584
Global fixed income - public credit	10,017	3,286	6,731	—	10,017	—	—
Guaranteed investment contracts	8,983	—	—	—	—	—	8,983
Other	3	—	—	—	—	—	3
Real assets - public	2,286	2,286	—	—	2,286	—	—
Total non-ended deposits and investments	1,183,874	247,593	533,363	—	780,956	—	402,918
<u>Endowed deposits and investments</u>							
Cash and cash equivalents	2,794	—	—	—	—	—	2,794
Diversifying strategies ³	203,095	10,769	—	—	10,769	192,326	—
External trusts	12,473	—	—	12,473	12,473	—	—
Global equity - hedged	81,871	—	—	—	—	81,871	—
Global equity - international	243,772	98,057	687	15	98,759	145,013	—
Global equity - private ⁴	219,120	—	—	1	1	219,119	—
Global equity - U.S.	172,997	8,241	964	—	9,205	163,792	—
Global fixed income - high quality/rate sensitive	93,718	33,830	59,888	—	93,718	—	—
Global fixed income - private credit ⁴	41,557	—	—	—	—	41,557	—
Global fixed income - public credit	81,613	42,921	545	—	43,466	38,147	—
Other	125	124	1	—	125	—	—
Real assets - private ⁴	136,071	—	—	—	—	136,071	—
Real assets - public	96,301	63,329	123	—	63,452	32,849	—
Total endowed deposits and investments	1,385,507	257,271	62,208	12,489	331,968	1,050,745	2,794
Total deposits and investments	\$ 2,569,381	\$ 504,864	\$ 595,571	\$ 12,489	\$ 1,112,924	\$ 1,050,745	\$ 405,712

- 1) Non-ended 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-ended 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, 2019, \$298.6 million was held in the Commonwealth's limited-term investment pool and \$229.1 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.

- 3) Endowed diversifying strategies include investments in various diversified, unconstrained strategies including hedge funds and global tactical asset allocation strategies.
- 4) 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, 2019 of \$219.1 million, \$10.6 million, and \$136.1 million, respectively.

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

	Total value	Fair Value Measurement Using			Total measured at fair value	Net asset value (NAV)	Amortized or historical cost
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)			
<u>Non-endowed deposits and investments</u>							
Cash and cash equivalents	\$ 384,855	\$ 265,079	\$ —	\$ —	\$ 265,079	\$ —	\$ 119,776
Cash surrender value of life insurance policies	5,921	—	—	—	—	—	5,921
Certificates of deposit	25,311	—	25,311	—	25,311	—	—
Deposits with the Commonwealth of Kentucky ¹	14,523	—	—	—	—	—	14,523
Global equity - international	9,200	9,200	—	—	9,200	—	—
Global equity - private ²	343	—	—	—	—	—	343
Global equity - U.S.	20,644	20,640	—	—	20,640	—	4
Global fixed income - high quality/rate sensitive ³	755,664	22	378,547	—	378,569	—	377,095
Global fixed income - public credit	11,285	4,280	7,005	—	11,285	—	—
Guaranteed investment contracts	7,819	—	—	—	—	—	7,819
Other	3	—	—	—	—	—	3
Real assets - public	1,517	1,517	—	—	1,517	—	—
Total non-endowed deposits and investments	1,237,085	300,738	410,863	—	711,601	—	525,484
<u>Endowed deposits and investments</u>							
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	78,692	—	—	—	—	78,692	—
Global equity - international	193,989	159,403	1,351	13	160,767	33,222	—
Global equity - private ⁵	197,091	—	—	1	1	197,090	—
Global equity - U.S.	125,729	8,575	877	—	9,452	116,277	—
Global fixed income - high quality/rate sensitive	99,137	50,609	48,528	—	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	—
Other	119	118	1	—	119	—	—
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	376,388	53,371	12,320	442,079	888,591	3,860
Total deposits and investments	\$ 2,571,615	\$ 677,126	\$ 464,234	\$ 12,320	\$ 1,153,680	\$ 888,591	\$ 529,344

- 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, 2019 and 2018 are as follows (in thousands):

	2019							
	Net asset value (NAV)	Redemption Frequency/Notice Period						Unfunded commitments
		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	
Diversifying strategies	\$ 192,326	\$ —	\$ 27,448	\$ 117,398	\$ 13,427	\$ 34,053	\$ —	\$ —
Global equity - hedged	81,871	—	—	34,055	—	47,816	—	—
Global equity - international	145,013	70,288	45,829	21,103	—	7,793	—	—
Global equity - private	219,119	—	—	—	—	—	219,119	238,754
Global equity - U.S.	163,792	141,274	22,518	—	—	—	—	—
Global fixed income - private credit	41,557	—	—	—	—	—	41,557	17,803
Global fixed income - public credit	38,147	—	—	—	11,598	26,549	—	—
Real assets - private	136,071	—	—	—	—	—	136,071	71,928
Real assets - public	32,849	—	32,849	—	—	—	—	—
Total measured at net asset value	<u>\$ 1,050,745</u>	<u>\$ 211,562</u>	<u>\$ 128,644</u>	<u>\$ 172,556</u>	<u>\$ 25,025</u>	<u>\$ 116,211</u>	<u>\$ 396,747</u>	<u>\$ 328,485</u>

	2018							
	Net asset value (NAV)	Redemption Frequency/Notice Period						Unfunded commitments
		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	
Diversifying strategies	\$ 230,656	\$ 8,374	\$ 45,328	\$ 131,544	\$ 12,994	\$ 22,915	\$ 9,501	\$ —
Global equity - hedged	78,692	—	—	28,122	—	50,570	—	—
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	<u>\$ 888,591</u>	<u>\$ 107,666</u>	<u>\$ 115,583</u>	<u>\$ 179,867</u>	<u>\$ 37,252</u>	<u>\$ 95,065</u>	<u>\$ 353,158</u>	<u>\$ 276,202</u>

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

Credit Risk. Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligation, causing the University to experience a loss of principal.

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

- Overnight investments (deposits and money market funds) policies minimize credit risk in several ways. The University deposits, in Federal Deposit Insurance Corporation (FDIC) insured financial institutions, are covered up to \$250,000 at each FDIC insured institution. State law requires that deposits in excess of this coverage be fully collateralized, therefore depository institutions issue a pledge of specific U.S. Treasury or agency securities, held in the name of the University by the Federal Reserve Bank, to cover all amounts over the \$250,000 coverage. The University invests a portion of its operating cash in a diversified pool of money market funds. Fund investments include U.S. Treasury and agency securities, certificates of deposit, commercial paper, repurchase agreements and other short-term fixed income securities. KMSF's financial institution maintains a letter of credit for amounts on deposit over and above FDIC insured balances through the Federal Home Loan Bank of Cincinnati.
- 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 low duration strategies managed by external managers must adhere to certain investment guidelines. For one of the portfolios, the investment guidelines 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. For the other portfolio, the investment guidelines require a minimum issue quality of BBB-/Baa3 and a minimum commercial paper quality of A3/P3. The low duration strategies have been classified as global fixed income - high quality/rate sensitive in the footnote 2 tables.
- 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, 2019 and 2018 the credit quality of the University's fixed income investments is summarized below (in thousands):

	2019							
	S&P/Moody's Credit Ratings							
	AAA/Aaa	AA/Aa	A	BBB/Baa	Below BBB/Baa	Not rated	Rating not applicable	Total
<u>Non-endowed deposits and investments</u>								
Cash and cash equivalents	\$ 281,124	\$ —	\$ —	\$ —	\$ —	\$ 7,298	\$ —	\$ 288,422
Certificates of deposit	—	—	—	—	—	22,463	—	22,463
Global fixed income - high quality/rate sensitive	34,305	16,089	55,676	48,563	1,574	529,352	118,911	804,470
Global fixed income - public credit	—	995	3,826	1,909	1	3,286	—	10,017
Guaranteed investment contracts	—	741	—	—	—	8,242	—	8,983
Total non-endowed fixed income investments	<u>315,429</u>	<u>17,825</u>	<u>59,502</u>	<u>50,472</u>	<u>1,575</u>	<u>570,641</u>	<u>118,911</u>	<u>1,134,355</u>
<u>Endowed deposits and investments</u>								
Cash and cash equivalents	—	—	—	—	—	2,794	—	2,794
Global fixed income - high quality/rate sensitive	1,875	893	6,821	2,335	—	3,307	78,487	93,718
Global fixed income - private credit	—	—	—	—	—	41,557	—	41,557
Global fixed income - public credit	332	60	151	327	1,072	78,743	928	81,613
Total endowed fixed income investments	<u>2,207</u>	<u>953</u>	<u>6,972</u>	<u>2,662</u>	<u>1,072</u>	<u>126,401</u>	<u>79,415</u>	<u>219,682</u>
Total fixed income investments	<u>\$ 317,636</u>	<u>\$ 18,778</u>	<u>\$ 66,474</u>	<u>\$ 53,134</u>	<u>\$ 2,647</u>	<u>\$ 697,042</u>	<u>\$ 198,326</u>	<u>\$ 1,354,037</u>
	2018							
	S&P/Moody's Credit Ratings							
	AAA/Aaa	AA/Aa	A	BBB/Baa	Below BBB/Baa	Not rated	Rating not applicable	Total
<u>Non-endowed deposits and investments</u>								
Cash and cash equivalents	\$ 365,114	\$ —	\$ —	\$ —	\$ —	\$ 19,741	\$ —	\$ 384,855
Certificates of deposit	—	—	—	—	—	25,311	—	25,311
Global fixed income - high quality/rate sensitive	25,301	10,617	41,397	22,983	2,605	516,885	135,876	755,664
Global fixed income - public credit	532	1,433	3,623	1,415	2	4,280	—	11,285
Guaranteed investment contracts	—	804	—	—	—	7,015	—	7,819
Total non-endowed fixed income investments	<u>390,947</u>	<u>12,854</u>	<u>45,020</u>	<u>24,398</u>	<u>2,607</u>	<u>573,232</u>	<u>135,876</u>	<u>1,184,934</u>
<u>Endowed deposits and investments</u>								
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	<u>2,611</u>	<u>1,414</u>	<u>5,896</u>	<u>1,541</u>	<u>657</u>	<u>126,188</u>	<u>86,078</u>	<u>224,385</u>
Total fixed income investments	<u>\$ 393,558</u>	<u>\$ 14,268</u>	<u>\$ 50,916</u>	<u>\$ 25,939</u>	<u>\$ 3,264</u>	<u>\$ 699,420</u>	<u>\$ 221,954</u>	<u>\$ 1,409,319</u>

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 external managers 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 \$527.6 million and \$516.9 million, as of June 30, 2019 and 2018, respectively, 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, the University's cash 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 strategies managed by external managers are also subject to certain credit concentration restrictions. For one portfolio no single credit industry shall exceed 15% of the portfolio at purchase and for the other portfolio concentrations are limited to the following:
 - issue or issuer at five percent excluding sovereign debt of Organization for Economic Co-operation and Development governments and U.S. agencies;
 - emerging markets at 10%;
 - corporate securities at 60% excluding commercial paper and supranationals;
 - asset-backed securities at 20%; and
 - privately issued mortgage-backed securities at 10%.
- 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.

- The University's 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, 2019 and 2018, the University had no investments in any one issuer that represented five percent or more of total investments, other than U.S. Treasury and/or U.S. agency securities.

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 one 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 while the other portfolio is limited to a maximum duration of 1.5 years.
- 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 managers are limited to a duration that is within two years of the duration of the Barclays Capital U.S. Aggregate Bond Index and unconstrained fixed income strategies have been implemented to further mitigate interest rate risk.

For June 30, 2019 and 2018, the maturity distribution of the University's fixed income investments is summarized below (in thousands):

	2019						Total
	Maturities in Years						
	Less than 1	1-5	5-10	Greater than 10	Managed based on duration	Alternative strategy	
<u>Non-endowed deposits and investments</u>							
Cash and cash equivalents	\$ 288,422	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 288,422
Certificates of deposit	22,463	—	—	—	—	—	22,463
Global fixed income - high quality/rate sensitive	13,280	110,543	1,121	678	678,848	—	804,470
Global fixed income - public credit	790	4,845	1,096	—	3,286	—	10,017
Guaranteed investment contracts	—	741	8,242	—	—	—	8,983
Total non-endowed fixed income investments	324,955	116,129	10,459	678	682,134	—	1,134,355
<u>Endowed deposits and investments</u>							
Cash and cash equivalents	2,794	—	—	—	—	—	2,794
Global fixed income - high quality/rate sensitive	25	—	—	—	93,693	—	93,718
Global fixed income - private credit ¹	—	—	—	—	—	41,557	41,557
Global fixed income - public credit ¹	—	—	—	—	43,465	38,148	81,613
Total endowed fixed income investments	2,819	—	—	—	137,158	79,705	219,682
Total fixed income investments	\$ 327,774	\$ 116,129	\$ 10,459	\$ 678	\$ 819,292	\$ 79,705	\$ 1,354,037
<u>2018</u>							
<u>Maturities in Years</u>							
	Less than 1	1-5	5-10	Greater than 10	Managed based on duration	Alternative strategy	Total
<u>Non-endowed deposits and investments</u>							
Cash and cash equivalents	\$ 384,855	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 384,855
Certificates of deposit	23,109	2,202	—	—	—	—	25,311
Global fixed income - high quality/rate sensitive	7,252	137,317	697	464	609,934	—	755,664
Global fixed income - public credit	872	3,275	2,858	—	4,280	—	11,285
Guaranteed investment contracts	—	804	7,015	—	—	—	7,819
Total non-endowed fixed income investments	416,088	143,598	10,570	464	614,214	—	1,184,934
<u>Endowed deposits and investments</u>							
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	\$ 419,974	\$ 143,622	\$ 10,570	\$ 464	\$ 757,553	\$ 77,136	\$ 1,409,319

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, 2019 and 2018, the University had the following investments managed based on duration (in thousands):

	2019		2018	
	Fair Value	Modified Duration (Years)	Fair Value	Modified Duration (Years)
<u>Non-endowed deposits and investments</u>				
Global fixed income - high quality/rate sensitive				
Alumni Association	\$ 1	3.9	\$ —	—
Commonwealth of Kentucky intermediate pool	229,052	1.0	139,767	0.7
Commonwealth of Kentucky limited pool	298,584	—	377,095	—
Externally managed low duration strategy funds	149,495	1.6	93,050	2.5
Kentucky Medical Services Foundation	1,674	2.6	—	—
Kentucky Technology, Inc.	41	5.1	22	4.4
Global fixed income - public credit				
Kentucky Medical Services Foundation	2,943	3.5	4,269	3.2
Kentucky Technology, Inc.	344	2.8	11	0.2
Total non-endowment investment	<u>682,134</u>		<u>614,214</u>	
<u>Endowed deposits and investments</u>				
Global fixed income - high quality/rate sensitive	93,693	4.7	99,087	5.8
Global fixed income - public credit	43,465	0.8	44,252	3.3
Total endowment investment	<u>137,158</u>		<u>143,339</u>	
Total managed based on duration	<u>\$ 819,292</u>		<u>\$ 757,553</u>	

Foreign Currency Risk. Foreign currency risk is the risk that fluctuations in exchange rates will adversely affect the fair value of an investment or deposit.

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

As of June 30, 2019 and 2018, the following endowment investments were subject to foreign currency risk (in thousands):

	Fair Value	
	2019	2018
Global equity - international	\$ 13	\$ 13
Global equity - private	2,812	3,525
Real assets - private	5,443	6,166
Total	<u>\$ 8,268</u>	<u>\$ 9,704</u>

3. NOTES, LOANS AND ACCOUNTS RECEIVABLE, NET

Notes, loans and accounts receivable as of June 30, 2019 is as follows (in thousands):

	2019		
	Gross Receivable	Allowance	Net Receivable
Accrued interest receivable	\$ 2,052	\$ —	\$ 2,052
Commonwealth funded capital projects	45,607	—	45,607
Dentistry patient accounts	3,819	(935)	2,884
Hospital patient accounts (net of contractual allowances)	294,601	(63,576)	231,025
Hospital third-party payer settlements	8,104	—	8,104
KMSF patient accounts (net of contractual allowances)	53,180	(15,487)	37,693
Multimedia rights receivable	257,000	—	257,000
Pledges receivable (less discounts of \$6,505)	81,026	(25,654)	55,372
Reimbursement receivable - federal appropriations	1,690	—	1,690
Reimbursement receivable - grants and contracts	37,195	(180)	37,015
Service concession arrangements	78,828	—	78,828
Student accounts	30,026	(14,683)	15,343
Student loans	26,095	(3,244)	22,851
Other	26,100	—	26,100
Total	<u>\$ 945,323</u>	<u>\$ (123,759)</u>	<u>\$ 821,564</u>
Current portion			\$ 415,598
Noncurrent portion			405,966
Total			<u>\$ 821,564</u>

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

	2018		
	Gross Receivable	Allowance	Net Receivable
Accrued interest receivable	\$ 1,796	\$ —	\$ 1,796
Commonwealth funded capital projects	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	6,100	—	6,100
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 accounts	29,475	(14,167)	15,308
Student loans	30,198	(3,311)	26,887
Other	28,044	—	28,044
Total	<u>\$ 859,774</u>	<u>\$ (149,664)</u>	<u>\$ 710,110</u>
Current portion			\$ 403,426
Noncurrent portion			306,684
Total			<u>\$ 710,110</u>

In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the University is required to record operating and capital pledges as revenue when all eligibility requirements have been met. Endowment pledges are not recognized as revenue until the gifts are actually received. For the years ended June 30, 2019 and 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 \$259.1 million and \$215.6 million at June 30, 2019 and 2018, respectively. The University records these amounts as revenue when the cash is received.

4. CAPITAL ASSETS, NET

Capital assets as of June 30, 2019 and capital asset activity for the year ended June 30, 2019 are summarized below (in thousands):

	June 30, 2018	Additions	Deletions	June 30, 2019
Land	\$ 86,021	\$ 5,992	\$ 685	\$ 91,328
Land improvements - nonexhaustible	76,465	7,462	—	83,927
Land improvements - exhaustible	123,171	23,163	132	146,202
Buildings	3,595,504	225,115	6,839	3,813,780
Fixed equipment - communications	143,955	11,391	21	155,325
Infrastructure	116,830	14,931	—	131,761
Equipment	607,837	64,428	28,719	643,546
Vehicles	22,968	2,165	1,633	23,500
Library materials	149,026	1,331	2,623	147,734
Nondepreciable library materials	6,716	37	—	6,753
Capitalized software	195,506	1,828	898	196,436
Art	13,894	467	—	14,361
Certificate of need	11,609	—	—	11,609
Intangible assets	—	100	—	100
Construction in progress	231,480	90,998	194,846	127,632
	<u>5,380,982</u>	<u>449,408</u>	<u>236,396</u>	<u>5,593,994</u>
<u>Accumulated Depreciation</u>				
Land improvements - exhaustible	71,932	8,270	132	80,070
Buildings	1,089,548	102,531	6,754	1,185,325
Fixed equipment - communications	89,122	9,411	21	98,512
Infrastructure	49,087	4,850	—	53,937
Equipment	406,333	49,907	27,801	428,439
Vehicles	19,277	1,312	1,631	18,958
Library materials	143,163	1,160	—	144,323
Capitalized software	129,954	10,684	—	140,638
Intangible assets	—	20	—	20
	<u>1,998,416</u>	<u>188,145</u>	<u>36,339</u>	<u>2,150,222</u>
Capital assets, net	<u>\$ 3,382,566</u>	<u>\$ 261,263</u>	<u>\$ 200,057</u>	<u>\$ 3,443,772</u>

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	570,508	69,058	31,729	607,837
Vehicles	22,967	1,499	1,498	22,968
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
Intangible Assets	—	—	—	—
Construction in progress	295,855	155,383	219,758	231,480
	<u>4,900,393</u>	<u>736,259</u>	<u>255,670</u>	<u>5,380,982</u>
<u>Accumulated Depreciation</u>				
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	392,460	43,755	29,882	406,333
Vehicles	19,009	1,735	1,467	19,277
Library materials	141,457	1,706	—	143,163
Capitalized software	119,038	10,916	—	129,954
Intangible Assets	—	—	—	—
	<u>1,866,958</u>	<u>164,369</u>	<u>32,911</u>	<u>1,998,416</u>
Capital assets, net	<u>\$ 3,033,435</u>	<u>\$ 571,890</u>	<u>\$ 222,759</u>	<u>\$ 3,382,566</u>

At June 30, 2019, the University had commitments in construction in progress for capital projects totaling approximately \$459.2 million in scope. The estimated cost to complete these projects was approximately \$361.2 million. Such construction was principally financed by cash reserves, gifts and grants, and proceeds from the University's general receipts bonds.

Interest costs incurred during construction, net of related investment income, are capitalized. Total interest capitalized was \$4.5 million for fiscal year 2019 and \$10.4 million for fiscal year 2018.

During fiscal years 2019 and 2018, the University utilized capital leases to acquire various items of equipment. As of June 30, 2019 and 2018, the net book value of land, buildings, equipment and software acquired through capital leases included in the above schedules totaled \$74.2 million and 79.5 million, respectively.

During fiscal year 2019, 19 properties were demolished with an original cost of \$6.8 million and accumulated depreciation of \$4.9 million, for a total net book value written off of \$1.9 million. As of June 30, 2019, two 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 \$29.3 million with accumulated depreciation of \$28.1 million, and a total net book value written off in fiscal year 2019 of \$802 thousand, with the remaining amount to be written off in subsequent fiscal years.

On January 3, 2019, the University finalized Phase I of the land swap transaction with the Lexington Fayette Urban County Government. In this phase, the University took ownership of certain campus streets at a value of \$9.2 million in exchange for 50 acres of the Coldstream Research Campus property, which had a historical booked value of \$58 thousand, for a gain of approximately \$9.1 million. Phase II is expected to be finalized in fiscal year 2022. In this phase, the University will take ownership of additional campus streets at a value of \$12.0 million in exchange for 199 acres of the Coldstream property, which has a historical booked value of \$234 thousand, for a future gain of approximately \$11.8 million.

5. DEFERRED OUTFLOWS OF RESOURCES

As of June 30, 2019 and 2018, deferred outflows of resources are as follows (in thousands):

	2019	2018
OPEB long-term disability	\$ 3,914	\$ 3,063
OPEB retiree health	26,794	30,053
Refunding bonds	7,609	9,177
Total	<u>\$ 38,317</u>	<u>\$ 42,293</u>

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.

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 2019. Amortization of the deferred outflows of resources from these refunding bonds was \$1.6 million for the years ended June 30, 2019 and 2018, respectively.

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2019 and 2018 are as follows (in thousands):

	2019	2018
Payable to vendors and contractors	\$ 143,252	\$ 170,007
Hospital third party payer settlements	—	58,262
Accrued expenses, including vacation and sick leave	90,577	81,375
Accrued interest payable	10,361	11,686
Employee withholdings and deposits payable to third parties	15,564	17,595
Total	<u>\$ 259,754</u>	<u>\$ 338,925</u>

7. UNEARNED REVENUE

Unearned revenues as of June 30, 2019 and 2018 are as follows (in thousands):

	June 30, 2018	Additions	Reductions	June 30, 2019	Current Portion	Noncurrent Portion
Unearned summer school revenue	\$ 8,786	\$ 8,750	\$ 8,786	\$ 8,750	\$ 8,750	\$ —
Unearned hospital revenue	39,917	68,483	44,434	63,966	63,966	—
Unearned grants and contracts revenue	41,362	63,904	66,363	38,903	33,048	5,855
Unearned multimedia rights revenue	165,511	118,935	19,572	264,874	19,138	245,736
Athletic ticket sales and contracts	12,281	33,473	31,939	13,815	13,457	358
Other	6,483	30,861	29,659	7,685	7,248	437
Total	<u>\$ 274,340</u>	<u>\$ 324,406</u>	<u>\$ 200,753</u>	<u>\$ 397,993</u>	<u>\$ 145,607</u>	<u>\$ 252,386</u>

	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	32,976	86,317	77,931	41,362	25,823	15,539
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	7,238	9,451	10,206	6,483	5,912	571
Total	<u>\$ 257,980</u>	<u>\$ 212,836</u>	<u>\$ 196,476</u>	<u>\$ 274,340</u>	<u>\$ 106,334</u>	<u>\$ 168,006</u>

A multimedia rights partnership was formed in July 2014 between the University and JMI Sports providing athletics and campus multimedia marketing rights in a 15 year, \$210.0 million agreement. Under the contract, the University will receive a guaranteed rights fee in each of the 15 years of the partnership, that started 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. A three year contract extension of \$51.0 million along with a modification to add Rupp Arena media rights of \$67.5 million was signed in July 2018, which increased the total amount to be received to \$329.0 million.

8. LONG-TERM LIABILITIES

Long-term liabilities as of June 30, 2019 and long-term liability activity for the year ended June 30, 2019 are summarized below (in thousands):

	June 30, 2018	Additions	Reductions	June 30, 2019	Current Portion	Noncurrent Portion
<u>Bonds, notes and capital leases</u>						
General receipts notes	\$ 3,190	\$ —	\$ 3,190	\$ —	\$ —	\$ —
General receipts bonds	1,090,310	13,900	52,425	1,051,785	41,765	1,010,020
Capital leases and other						
long-term obligations	82,642	6,561	7,455	81,748	7,446	74,302
Notes payable	35	—	17	18	18	—
Total	<u>1,176,177</u>	<u>20,461</u>	<u>63,087</u>	<u>1,133,551</u>	<u>49,229</u>	<u>1,084,322</u>
<u>Notes and leases from direct borrowings and direct placements</u>						
Capital leases	2,175	—	320	1,855	335	1,520
Notes payable	18,822	—	753	18,069	774	17,295
Total	<u>20,997</u>	<u>—</u>	<u>1,073</u>	<u>19,924</u>	<u>1,109</u>	<u>18,815</u>
Total bonds, notes and capital leases	<u>1,197,174</u>	<u>20,461</u>	<u>64,160</u>	<u>1,153,475</u>	<u>50,338</u>	<u>1,103,137</u>
<u>Other liabilities</u>						
Annuities payable	2,968	582	565	2,985	482	2,503
Automobile and property self insurance	256	435	362	329	329	—
Compensated absences	6,600	20	400	6,220	905	5,315
Federal loan programs	20,525	565	400	20,690	—	20,690
Health insurance	10,413	58,264	57,517	11,160	11,160	—
Insurance executory costs	17,945	—	253	17,692	253	17,439
Medical malpractice	32,099	6,784	7,612	31,271	5,925	25,346
Unamortized bond premium	58,204	1,380	7,481	52,103	6,954	45,149
Unemployment compensation	635	478	718	395	395	—
Workers' compensation	20,815	8,734	6,934	22,615	7,338	15,277
Other	18,247	1,309	11,927	7,629	1,112	6,517
Total other liabilities	<u>188,707</u>	<u>78,551</u>	<u>94,169</u>	<u>173,089</u>	<u>34,853</u>	<u>138,236</u>
Total	<u>\$ 1,385,881</u>	<u>\$ 99,012</u>	<u>\$ 158,329</u>	<u>\$ 1,326,564</u>	<u>\$ 85,191</u>	<u>\$ 1,241,373</u>

Long-term liabilities as of June 30, 2018 and long-term liability 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
<u>Bonds, notes and capital leases</u>						
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	78,367	14,525	10,250	82,642	7,748	74,894
Notes payable	—	53	18	35	17	18
Total	<u>988,597</u>	<u>237,108</u>	<u>49,528</u>	<u>1,176,177</u>	<u>48,395</u>	<u>1,127,782</u>
<u>Notes and leases from direct borrowings and direct placements</u>						
Capital leases	4,600	—	2,425	2,175	320	1,855
Notes payable	19,552	—	730	18,822	753	18,069
Total	<u>24,152</u>	<u>—</u>	<u>3,155</u>	<u>20,997</u>	<u>1,073</u>	<u>19,924</u>
Total bonds, notes and capital leases	<u>1,012,749</u>	<u>237,108</u>	<u>52,683</u>	<u>1,197,174</u>	<u>49,468</u>	<u>1,147,706</u>
<u>Other liabilities</u>						
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	<u>188,767</u>	<u>92,432</u>	<u>92,492</u>	<u>188,707</u>	<u>36,607</u>	<u>152,100</u>
Total	<u>\$ 1,201,516</u>	<u>\$ 329,540</u>	<u>\$ 145,175</u>	<u>\$ 1,385,881</u>	<u>\$ 86,075</u>	<u>\$ 1,299,806</u>

Annuities payable consists of the present value of future payments due under charitable remainder annuity trusts, charitable remainder unitrusts, lead trusts, irrevocable trusts and charitable gift annuities, discounted at 3.6% to 10.6%.

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 \$1.27 billion dated November 8, 2007 through February 25, 2019, 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 4.3%. All bonds, except for the General Receipts 2009 Bonds Series B, General Receipts 2012 Bonds Series A, General Receipts 2014 Bonds Series C, General Receipts 2017 Bonds Series A and B, General Receipts 2018 Bonds Series B and General Receipts 2019 Bonds Series A, totaling \$989.5 million, are callable between October 2017 and April 2026. The General Receipts 2009 Bonds Series B and callable on any date at the make-whole redemption price.

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

On February 25, 2019, approximately \$13.9 million of University of Kentucky General Receipts 2019 Bonds Series A were issued at a net interest cost of 2.0%. These bonds were issued for the purpose of fully refunding General Receipts 2009 Bonds Series A.

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 (QECCB) 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% (QECCB) of the interest payable on the bonds. The subsidy, which was approximately \$2.2 million for both fiscal years 2019 and 2018, was included in gifts and non-exchange grants in the Statements of Revenues, Expenses and Changes in Net Position. The subsidy payment is contingent on federal regulations and may be subject to change. On March 1, 2013, 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 33% and 32% in 2019 and 2018, respectively. The QECCB subsidy was reduced to approximately 75% in 2019 and 2018.

The University's outstanding lease from direct placement contains a provision that in an event of default, outstanding amounts become immediately due if the University is unable to make payment. This debt was approximately \$1.8 million and \$2.2 million as of June 30, 2019 and 2018, respectively.

KMSF's outstanding notes from direct placements are secured with all assets, tangible and intangible. These outstanding notes contain a provision that in an event of default, the secured party takes possession of these assets up to the amount in default. This debt was approximately \$18.1 million and \$18.8 million as of June 30, 2019 and 2018, respectively.

Principal maturities and interest on bonds, notes and capital leases for the next five fiscal years and in subsequent five-year fiscal periods as of June 30, 2019, are as follows (in thousands):

	Principal	Interest	Notes and leases from direct borrowings and direct placements		Total
			Principal	Interest	
2020	\$ 49,229	\$ 47,042	\$ 1,109	\$ 622	\$ 98,002
2021	48,451	44,957	1,160	582	95,150
2022	50,317	42,730	1,199	540	94,786
2023	52,705	40,393	1,244	496	94,838
2024	49,025	38,087	1,284	454	88,850
2025-2029	282,684	159,404	4,817	1,748	448,653
2030-2034	206,975	102,062	5,589	974	315,600
2035-2039	205,545	60,893	3,522	163	270,123
2040-2044	154,675	23,488	—	—	178,163
2045-2048	33,945	1,829	—	—	35,774
Total	<u>\$ 1,133,551</u>	<u>\$ 560,885</u>	<u>\$ 19,924</u>	<u>\$ 5,579</u>	<u>\$ 1,719,939</u>

9. DEFERRED INFLOWS OF RESOURCES

As of June 30, 2019 and 2018, deferred inflows of resources are as follows (in thousands):

	2019	2018
Aramark service concession arrangement	\$ 111,296	\$ 121,319
Barnes and Noble service concession arrangement	1,565	2,405
Greystar service concession arrangement	381,481	386,893
Trusts and annuities	16,222	15,931
OPEB long-term disability	463	561
OPEB retiree health	30,717	36,028
Total	<u>\$ 541,744</u>	<u>\$ 563,137</u>

The University has entered into a multi-phase housing project with a third party developer, Greystar (formerly Education Realty Trust), 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 Greystar 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 Greystar 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 \$303.3 million and \$307.6 million at June 30, 2019 and 2018, respectively, and deferred inflows of resources in the amount of \$290.8 million and \$295.0 million at June 30, 2019 and 2018, respectively, 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 \$36.4 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 \$105.8 million and \$107.3 million at June 30, 2019 and 2018, respectively, and deferred inflows of resources in the amount of \$90.7 million and \$91.9 million at June 30, 2019 and 2018, respectively, pursuant to the service concession arrangement.

The 75-year term lease with Greystar 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 Greystar 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 provided \$70.0 million in facilities investments, including \$40.0 million in new facilities. 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 \$49.7 million and \$54.0 million at June 30, 2019 and 2018, respectively, and deferred inflows of resources

in the amount of \$41.7 million and \$45.9 million at June 30, 2019 and 2018, respectively, pursuant to the service concession arrangement. The present value of the guaranteed minimum payments over the remaining 15 years of the contract is reported as a receivable of \$77.3 million and deferred inflows of resources in the amount of \$69.6 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 11 years of the contract period is reported as a receivable of \$1.5 million and deferred inflows of resources in the amount of \$1.6 million pursuant to the service concession arrangement.

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 \$16.2 million is recorded in deferred inflows of resources.

As of June 30, 2019 and 2018, the deferred inflows for the net difference between expected and actual earnings on OPEB Plan investments and the assumption changes for the retiree health plan were \$30.7 million and \$36.0 million, respectively; and the corresponding amounts for the LTD plan were \$463 thousand and \$561 thousand, respectively.

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, 2019 and 2018, restricted expendable net position is composed of the following (in thousands):

	2019	2018
Appreciation on permanent endowments	\$ 201,784	\$ 186,856
Term endowments	4,769	4,614
Quasi-endowments initially funded with restricted assets	133,044	130,452
Funds restricted for capital projects and debt service	75,096	54,813
Funds restricted for noncapital purposes	93,941	76,255
Loan funds (primarily University funds required for federal match)	12,380	12,484
Total	\$ 521,014	\$ 465,474

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, 2019 and 2018 are as follows (in thousands):

	2019	2018
Working capital requirements	\$ 69,305	\$ 66,725
Designated for future year fiscal operations	149,396	242,801
Designated for OPEB liability (see footnotes 17 and 18)	(237,987)	(240,638)
Designated for capital projects	39,576	29,784
Designated for renewal and replacement of capital assets	45,021	50,024
UK HealthCare Hospital System	914,796	785,299
Affiliated corporations and component units	126,553	104,148
Total	<u>\$ 1,106,660</u>	<u>\$ 1,038,143</u>

12. PLEDGED REVENUES

Pledged revenues for the years ended June 30, 2019 and 2018 as defined by the General Receipts Trust Indenture, are as follows (in thousands):

	2019	2018
Student tuition and fees	\$ 343,293	\$ 342,981
Nongovernmental grants and contracts	1,015	1,288
Recoveries of facilities and administrative costs	67,100	60,062
Sales and services	58,356	59,691
Hospital services	1,748,146	1,631,737
Auxiliary enterprises - housing and dining	34,958	35,049
Auxiliary enterprises - athletics	114,456	108,427
Auxiliary enterprises - other	54,609	55,083
Other operating revenue	833	819
State appropriations	258,495	264,418
Gifts and grants	3,796	4,052
Investment income	36,520	18,705
Total	<u>\$ 2,721,577</u>	<u>\$ 2,582,312</u>

The University has substantially pledged all of the unrestricted operating and nonoperating revenues to repay the general receipts bonds, notes and capital leases issued from 2007 to 2019. Proceeds from the bonds, notes and leases provided funding for new construction, major renovations, facility leases, and for the refunding of bonds and notes issued over the years. These debts 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 \$1.61 billion and \$1.70 billion in fiscal years 2019 and 2018, respectively. Principal and interest paid for fiscal years 2019 and 2018 was \$87.3 million and \$78.0 million, respectively.

13. INVESTMENT INCOME (LOSS)

Components of investment income (loss) for the years ended June 30, 2019 and 2018 are as follows (in thousands):

	2019	2018
Interest and dividends earned on endowment investments	\$ 20,660	\$ 21,139
Realized and unrealized gains on endowment investments	51,605	54,477
Interest and dividends on cash and non-endowment investments	29,011	17,383
Realized and unrealized gains (losses) on non-endowment investments	4,526	(3,667)
Investment income from external trusts	2,491	1,817
Total	<u>\$ 108,293</u>	<u>\$ 91,149</u>

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 years ended June 30, 2019 and 2018, the University received income from these trusts of approximately \$2.1 million and \$1.6 million, respectively. The market value of the perpetual external trust assets as of June 30, 2019 and 2018 was approximately \$44.7 million and \$45.2 million, respectively. As the University does not have ownership of the trust assets held by external trustees, the trusts are recorded at a nominal value of \$1 each.

The University is the residual principal and income beneficiary of various irrevocable trusts that are held and controlled by external trustees. For the years ended June 30, 2019 and 2018, the University received income from these trusts of approximately \$391,000 and \$153,000, respectively. The market value of the irrevocable external trust assets as of June 30, 2019 and 2018 was approximately \$12.5 million and \$12.3 million, respectively, and is 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 years ended June 30, 2019 and 2018, the University received income from these self-administered trusts of approximately \$94,000 and \$96,000, respectively. The market value of the self-administered trusts was approximately \$1.9 million for both June 30, 2019 and 2018, respectively, and is included in endowment investments.

15. GRANTS AND CONTRACTS AWARDED

At June 30, 2019 and 2018, grants and contracts of approximately \$291.5 million and \$234.5 million, respectively, 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 years 2019 and 2018 was approximately \$133.5 million and \$120.5 million, respectively. Employees contributed approximately \$63.1 million in fiscal year 2019 and \$60.0 million in fiscal year 2018. The University's total payroll costs were approximately \$1.61 billion and \$1.54 billion for the years ended June 30, 2019 and 2018, respectively. The payroll for employees covered by the retirement plan was approximately \$1.60 billion and \$1.53 billion for the years ended June 30, 2019 and 2018, respectively.

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 2019 and 2018 were approximately \$1.0 million and \$1.1 million, respectively. The total payroll costs for employees covered by the defined contribution plan were approximately \$10.5 million and \$10.9 million for the years ended June 30, 2019 and 2018, respectively. 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, 2019. For GASB Statement No. 75 (Employer) reporting purposes, net OPEB liability is measured as of July 1, 2018 for fiscal year 2019. 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 June 30, 2019 were based upon the plan members as of January 1, 2019:

Inactive members receiving benefits	3,087
Inactive members entitled not yet receiving benefits	395
Active plan members	5,325
Total plan members	<u><u>8,807</u></u>

The OPEB liabilities measured as of July 1, 2018 were based upon the 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	<u><u>9,130</u></u>

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 years 2019 and 2018, the University contributed \$18.8 million and \$20.0 million to the plan, respectively. Plan members receiving benefits contributed for fiscal years 2019 and 2018 were 23.3% and 24.7%, respectively, of the premium costs, an average for combined single and family coverage. In fiscal year 2019 and 2018, total member contributions were approximately \$4.4 million and \$4.9 million, respectively.

The University's Employer net OPEB liability of \$231.5 and \$232.6 million was measured as of July 1, 2018 and 2017, respectively. The University's Plan net OPEB liability of \$117.9 million and \$231.5 million was measured as of June 30, 2019 and 2018, for the fiscal year ended June 30, 2019 and 2018, respectively. 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, 2018 and June 30, 2019 were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Health care trend rate For employer reporting: Post-65 Medical rate is 5%; Post-65 RX 10.0% initial rate decreasing 0.5% per year to an ultimate rate of 5% in 2028. Pre-65 7.63% initial rate decreasing 0.32%-0.39% per year to an ultimate rate of 2.20% in 2022.

For plan reporting: Post-65 Medical rate is 1.1% for 2019 and 2020 followed by 312.2% in 2021 decreasing to an ultimate rate of 4.5% in 2031. Post-65 RX 6.4% initial rate decreasing to an ultimate rate of 4.5% in 2029; Pre-65 6.44% initial rate decreasing to an ultimate rate of 2.20% in 2029.

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	For July 1, 2019, 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 for the Employer. For June 30, 2019, PUB-2010 Amounts Weighted Mortality Table, with faculty employees classified as "Teachers" and non-faculty employees classified as "General", with mortality improvement projected generationally using scale Mortality Projection-2018 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, 2018 and June 30, 2019 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, for fiscal year 2019 and 2018 are as follows (in thousands):

	<u>2019</u>	<u>2018</u>
Total OPEB liability	\$ 391,034	\$ 376,521
Less: plan fiduciary net position	(159,543)	(143,944)
University of Kentucky net OPEB liability	<u>\$ 231,491</u>	<u>\$ 232,577</u>
Plan fiduciary net position as a percentage of the total OPEB liability	40.8%	38.2%

The components of the Plan's net OPEB liability of the University measured at June 30, for fiscal year 2019 and 2018 are as follows (in thousands):

	2019	2018
Total OPEB liability	\$ 293,455	\$ 391,034
Less: plan fiduciary net position	(175,514)	(159,543)
University of Kentucky net OPEB liability	\$ 117,941	\$ 231,491
Plan fiduciary net position as a percentage of the total OPEB liability	59.8%	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 Statements of Fiduciary Net Position classification, at June 30, 2019 and 2018 are as follows (in thousands):

	2019	2018
<u>Statement of Fiduciary Net Position classification</u>		
Cash and cash equivalents	\$ 4,489	\$ 3,148
Investments	171,025	156,395
Total deposits and investments	\$ 175,514	\$ 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 Statements of Net Position.

The OPEB Plan has the following valuation measurements, by type, at June 30, 2019 and 2018 (in thousands):

2019							
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	\$ 4,804	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 4,804
Diversifying strategies	25,498	1,352	—	—	1,352	24,146	—
Global equity - hedged	10,279	—	—	—	—	10,279	—
Global equity - international	30,265	12,057	—	2	12,059	18,206	—
Global equity - private	27,509	—	—	—	—	27,509	—
Global equity - U.S.	21,204	641	—	—	641	20,563	—
Global fixed income - high quality/rate sensitive	11,763	4,247	7,516	—	11,763	—	—
Global fixed income - private credit	5,217	—	—	—	—	5,217	—
Global fixed income - public credit	9,885	5,096	—	—	5,096	4,789	—
Real assets - private	17,083	—	—	—	—	17,083	—
Real assets - public	12,007	7,883	—	—	7,883	4,124	—
Total deposits and investments	\$ 175,514	\$ 31,276	\$ 7,516	\$ 2	\$ 38,794	\$ 131,916	\$ 4,804

2018							
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	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	6,036	5,781	—	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	\$ 44,223	\$ 5,781	\$ 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 Statements 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 Employer and Plan, as of June 30, 2019 and 2018.

Asset Category	Target Allocation	
	2019	2018
Diversifying strategies	15%	20%
Global equity	52%	40%
Global fixed income	16%	20%
Real assets	17%	20%

For the years ended June 30, 2019 and 2018, the annual money-weighted rate of return on the OPEB plan investments, net of OPEB plan investment expense was 5.5% and 6.5%, respectively. 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, 2018 and 2017:

Asset Category	Long-term Expected Real Rate of Return	
	2019	2018
Diversifying strategies	2.9%	3.3%
Global equity	5.8%	6.7%
Global fixed income	2.9%	3.3%
Real assets	7.4%	7.2%

The following reflects the expected rates of return for the Plan, presented as geometric means, by asset allocation as of June 30, 2019 and 2018:

Asset Category	Long-term Expected Real Rate of Return	
	2019	2018
Diversifying strategies	3.4%	2.9%
Global equity	5.9%	5.8%
Global fixed income	3.5%	2.9%
Real assets	6.8%	7.4%

The discount rate used to measure the total OPEB liability for the Employer and Plan was 7.5% for the year ended June 30, 2019, which was the same from the July 1, 2018 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, 2019 and 2018 are as follows (in thousands):

	2019		
	Increase (decrease)		
	Total OPEB liability (a)	Plan fiduciary net Position (b)	Net OPEB liability (c) = (a) - (b)
Balance recognized at 7/1/2018 (based on 7/1/2017 measurement date)	\$ 376,521	\$ 143,944	\$ 232,577
Change recognized for the fiscal year:			
Service cost	3,710	—	3,710
Interest on the total OPEB liability	28,053	—	28,053
Differences between expected and actual experience	(1,071)	—	(1,071)
Changes of assumptions	(3,559)	—	(3,559)
Benefit payments	(12,620)	(12,620)	—
Contributions from the employer	—	20,013	(20,013)
Net investment income	—	8,989	(8,989)
Administrative expense	—	(783)	783
Net changes	<u>14,513</u>	<u>15,599</u>	<u>(1,086)</u>
Balance recognized at 6/30/2019 (based of 7/1/2018 measurement date)	<u>\$ 391,034</u>	<u>\$ 159,543</u>	<u>\$ 231,491</u>
	2018		
	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	<u>(7,187)</u>	<u>23,932</u>	<u>(31,119)</u>
Balance recognized at 6/30/2018 (based of 7/1/2017 measurement date)	<u>\$ 376,521</u>	<u>\$ 143,944</u>	<u>\$ 232,577</u>

The following presents the Employer's 2019 and 2018 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):

	2019		
	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	<u>\$ 288,983</u>	<u>\$ 231,491</u>	<u>\$ 184,629</u>

	2018		
	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	<u>\$ 289,844</u>	<u>\$ 232,577</u>	<u>\$ 186,073</u>

The following presents what the Employer's 2019 and 2018 net OPEB liability would be if it were 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 rate (in thousands):

	2019		
	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	<u>\$ 177,893</u>	<u>\$ 231,491</u>	<u>\$ 297,921</u>

	2018		
	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	<u>\$ 182,492</u>	<u>\$ 232,577</u>	<u>\$ 294,679</u>

The following presents the Plan's 2019 and 2018 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):

	2019		
	1% Decrease (6.5%)	Current Rate (7.5%)	1% Increase (8.5%)
Total OPEB liability	\$ 338,357	\$ 293,455	\$ 256,851
Plan fiduciary net position	(175,514)	(175,514)	(175,514)
Net OPEB liability	<u>\$ 162,843</u>	<u>\$ 117,941</u>	<u>\$ 81,337</u>

	2018		
	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	<u>\$ 288,983</u>	<u>\$ 231,491</u>	<u>\$ 184,629</u>

The following presents what the Plan's 2019 and 2018 net OPEB liability would be if it were 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 rate (in thousands):

	2019		
	1% Decrease	Trend Rate	1% Increase
Total OPEB liability	\$ 254,821	\$ 293,455	\$ 340,953
Plan fiduciary net position	(175,514)	(175,514)	(175,514)
Net OPEB liability	<u>\$ 79,307</u>	<u>\$ 117,941</u>	<u>\$ 165,439</u>

	2018		
	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	<u>\$ 177,893</u>	<u>\$ 231,491</u>	<u>\$ 297,921</u>

For the year ended June 30, 2019, the University recognized OPEB expense of \$15.7 million. At June 30, 2019, the University reported deferred outflows of resources and deferred inflows of resources, in thousands, related to OPEB from the following sources:

	2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between actual and expected experience	\$ 7,990	\$ (878)
Net difference between expected and actual earnings on OPEB plan investment	—	(212)
Assumption changes	—	(29,627)
Contributions made subsequent to the measurement date of the net OPEB liability	18,804	—
Total	<u>\$ 26,794</u>	<u>\$ (30,717)</u>

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:

	2018	
	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, 2019, the University reported \$18.8 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, 2020. Other amounts, in thousands, reported as deferred outflows of resources and deferred inflows of resources at June 30, 2019, related to OPEB will be recognized as a reduction to OPEB expense as follows:

	2019
2020	\$ (5,843)
2021	(5,843)
2022	(5,843)
2023	(4,746)
2024	(452)
Total thereafter	—
	\$ (22,727)

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, 2019. For GASB Statement No. 75 (Employer) reporting purposes, net LTD liability is measured as of July 1, 2018 for fiscal year 2019. 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 LTD liabilities measured as of June 30, 2019 were based upon the following plan participants as of January 1, 2019:

Disabled members	
Count of members	149
Average age at valuation date	56.7
Average duration since disability (in years)	8.7
Average monthly income net benefit	\$672.74
Active (healthy) members	
Count of members	18,266
Average age at valuation date	43.9
Average years of service	9.7

The LTD liabilities measured as of July 1, 2018 were based upon the 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, 2019 and 2018, the University's contribution was approximately \$2.1 million and \$2.0 million, respectively.

The University's Employer net LTD liability of \$5.4 million and \$4.0 million was measured as of July 1, 2018 and 2017, respectively. The University's Plan's net LTD liability of \$4.0 million and \$5.4 million was measured as of June 30, 2019 and 2018, for the fiscal year ended June 30, 2019 and 2018, respectively. 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, 2018 and June 30, 2019 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 group long-term disability table.
Mortality (only for life benefit)	Canadian Institute of Actuaries 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	For July 1, 2019, 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 for the Employer. For June 30, 2019 PUB-2010 Amounts Weighted Mortality Table, with faculty employees classified as "Teachers" and non-faculty employees classified as "General", with mortality improvement projected generationally using Mortality Projection-2018 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, 2018 and June 30, 2019 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 July 1, for fiscal year 2019 and 2018 is as follows (in thousands):

	<u>2019</u>	<u>2018</u>
Total LTD liability	\$ 25,517	\$ 22,780
Less: plan fiduciary net position	(20,081)	(18,784)
University of Kentucky net LTD liability	<u>\$ 5,436</u>	<u>\$ 3,996</u>
Plan fiduciary net position as a percentage of the total LTD liability	78.7%	82.5%

The components of the Plan's net LTD liability of the University measured at June 30, for fiscal year 2019 and 2018 were as follows (in thousands):

	<u>2019</u>	<u>2018</u>
Total LTD liability	\$ 25,919	\$ 25,517
Less: plan fiduciary net position	(21,944)	(20,081)
University of Kentucky net LTD liability	<u>\$ 3,975</u>	<u>\$ 5,436</u>
Plan fiduciary net position as a percentage of the total LTD liability	84.7%	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, 2019.

The fair value of deposits and investments, by Statements of Fiduciary Net Position classification, at June 30, 2019 and 2018 is as follows (in thousands):

	<u>2019</u>	<u>2018</u>
<u>Statement of Fiduciary Net Position classification</u>		
Cash and cash equivalents	\$ 1,125	\$ 361
Investments	20,798	19,710
Total deposits and investments	<u>\$ 21,923</u>	<u>\$ 20,071</u>

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 Statements of Net Position.

The LTD Plan has the following valuation measurements, by type, at June 30, 2019 and 2018 (in thousands):

	2019			
	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	\$ 1,125	\$ —	\$ —	\$ 1,125
Diversifying strategies	527	527	527	—
Global equity - hedged	349	349	349	—
Global equity - international	3,702	3,702	3,702	—
Global equity - U.S.	9,817	9,817	9,817	—
Global fixed income - public credit	6,403	6,403	6,403	—
Total deposits and investments	<u>\$ 21,923</u>	<u>\$ 20,798</u>	<u>\$ 20,798</u>	<u>\$ 1,125</u>

	2018			
	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	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	<u>\$ 20,071</u>	<u>\$ 19,710</u>	<u>\$ 19,710</u>	<u>\$ 361</u>

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 Statements 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, 2019, 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 Employer and Plan as of June 30, 2019 and 2018:

Asset Category	Target Allocation	
	2019	2018
Diversifying strategies	—%	5.0%
Global equity	70%	57.5%
Global fixed income	30%	37.5%

The annual money-weighted rate of return on the LTD plan investments, net of LTD plan investment expense was 7.5% and 7.1% for the years ended June 30, 2019 and 2018, respectively. 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 and 2017:

Asset Category	Long-term Expected Real Rate of Return	
	2019	2018
Diversifying strategies	5.0%	5.8%
Global equity	5.4%	5.5%
Global fixed income	1.0%	0.8%

The following reflects the expected rates of return for the Plan, presented as arithmetic means, by asset allocation as of June 30, 2019 and 2018:

Asset Category	Long-term Expected Real Rate of Return	
	2019	2018
Diversifying strategies	5.0%	5.0%
Global equity	5.9%	5.4%
Global fixed income	0.8%	1.0%

The discount rate used to measure the total LTD liability for the Employer and Plan was 6.5% for year ended June 30, 2019, which was the same from the July 1, 2018 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.

The components of the Employer net LTD liability of the University at June 30, 2019, and 2018 are as follows (in thousands):

	2019		
	Increase (decrease)		
	Total LTD liability (a)	Plan fiduciary net Position (b)	Net LTD liability (c) = (a) - (b)
Balance recognized at 7/1/2018 (based on 7/1/2017 measurement date)	\$ 22,780	\$ 18,784	\$ 3,996
Change recognized for the fiscal year:			
Service cost	2,104	—	2,104
Interest on the total LTD liability	1,555	—	1,555
Differences between expected and actual experience	1,017	—	1,017
Changes of assumptions	(8)	—	(8)
Benefit payments	(1,931)	(1,931)	—
Contributions from the employer	—	2,002	(2,002)
Net investment income	—	1,264	(1,264)
Administrative expense	—	(38)	38
Net changes	<u>2,737</u>	<u>1,297</u>	<u>1,440</u>
Balance recognized at 6/30/2019 (based of 7/1/2018 measurement date)	<u>\$ 25,517</u>	<u>\$ 20,081</u>	<u>\$ 5,436</u>
	2018		
	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	<u>2,592</u>	<u>2,152</u>	<u>440</u>
Balance recognized at 6/30/2018 (based of 7/1/2017 measurement date)	<u>\$ 22,780</u>	<u>\$ 18,784</u>	<u>\$ 3,996</u>

The following presents the Employer's 2019 and 2018 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):

	2019		
	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

	2018		
	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 2019 and 2018 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):

	2019		
	1% Decrease (5.5%)	Current Rate (6.5%)	1% Increase (7.5%)
Total LTD liability	\$ 27,079	\$ 25,919	\$ 24,813
Plan fiduciary net position	(21,944)	(21,944)	(21,944)
Net LTD liability	\$ 5,135	\$ 3,975	\$ 2,869

	2018		
	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, 2019, the University recognized LTD expense of \$2.6 million. At June 30, 2019 and 2018, the University reported deferred outflows of resources and deferred inflows of resources, in thousands, related to LTD from the following sources:

	2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between actual and expected experience	\$ 1,019	\$ —
Net difference between expected and actual earnings on LTD plan investment	—	(455)
Assumption changes	832	(8)
Contributions made subsequent to the measurement date of the net LTD liability	2,063	—
Total	<u>\$ 3,914</u>	<u>\$ (463)</u>

	2018	
	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	<u>\$ 3,063</u>	<u>\$ (561)</u>

At June 30, 2019, the University reported \$2.1 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, 2020. Other amounts, in thousands, reported as deferred outflows of resources and deferred inflows of resources at June 30, 2019, related to OPEB will be recognized in LTD expense as follows:

	2019
2020	\$ 78
2021	78
2022	78
2023	218
2024	226
Total thereafter	710
	<u>\$ 1,388</u>

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 2018 to 2019. 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, 2019 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, 2019.

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, 2019.

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, 2019 is summarized below (in thousands):

	Kentucky General Assembly Funding	University of Kentucky Share of Funding	State Funds Received to Date
1998 Biennium	\$ 100,000	\$ 66,667	\$ 66,667
2000 Biennium	100,000	68,857	68,857
2002 Biennium	100,000	66,667	66,667
2008 Biennium: Capital Projects	21,927	21,927	21,927
2008 Biennium: RCTF	28,073	11,406	11,406
Total	<u>\$ 350,000</u>	<u>\$ 235,524</u>	<u>\$ 235,524</u>

Interest income of approximately \$2.2 million was earned on the state matching funds and included in the University's share of the 2000 biennium funding. As of June 30, 2019, 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, 2019 and 2018 are as follows (in thousands):

	2019	2018
Funds from private sources approved for match	\$ 5,080	\$ 6,704
Cigarette excise tax funds distributed	1,852	1,766
Total cancer research matching fund revenues	<u>\$ 6,932</u>	<u>\$ 8,470</u>
Cancer research matching fund expenses	<u>\$ 7,334</u>	<u>\$ 11,496</u>

23. NATURAL CLASSIFICATION

The University's operating expenses by natural classification for the years ended June 30, 2019 and 2018 are as follows (in thousands):

	2019	2018
Salaries and wages	\$ 1,621,742	\$ 1,546,762
Employee benefits	434,434	406,208
Supplies and services	902,613	834,297
Depreciation	188,145	164,369
Student scholarships and financial aid	71,002	69,233
Purchased utilities	43,628	52,743
Other, various	153,166	127,449
Total	<u>\$ 3,414,730</u>	<u>\$ 3,201,061</u>

24. SUBSEQUENT EVENTS

In September 2019, the System executed a contract to expend resources for a capital project to replace UK HealthCare's current electronic health records system with a fully integrated patient centric electronic single enterprise platform to modernize UK HealthCare's digital infrastructure. The scope of this project is \$280.0 million and is scheduled to be completed by June 2021.

25. COMBINED CONDENSED STATEMENTS

The University of Kentucky and its blended component units' condensed statements for the years ended June 30, 2019 and 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, 2019
(in thousands)

	UK	Research Foundation	Gluck Equine Research Foundation	Humanities Foundation	Mining Engineering Foundation	Central Kentucky Management Services	Alumni Association	Kentucky Medical Services Foundation	Eliminations	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES										
Current Assets										
Cash and cash equivalents	\$ 448,293	\$ 92,573	\$ 7	\$ —	\$ 50	\$ 1,174	\$ 677	\$ 12,001	\$ —	\$ 554,775
Notes, loans and accounts receivable, net	400,950	37,275	—	—	—	527	156	48,526	(71,836)	415,598
Investments	—	—	—	—	—	—	—	4,107	—	4,107
Inventories and other assets	58,182	3,670	—	—	—	17	35	1,538	(90)	63,352
Total current assets	907,425	133,518	7	—	50	1,718	868	66,172	(71,926)	1,037,832
Noncurrent Assets										
Restricted cash and cash equivalents	259,793	6,223	—	—	—	—	—	—	—	266,016
Endowment investments	1,357,684	15,089	9,254	1,495	2,005	—	—	—	—	1,385,507
Other long-term investments	292,264	2,320	—	—	—	—	22,826	43,056	(1,490)	358,976
Notes, loans and accounts receivable, net	405,243	73	—	—	—	—	55	595	—	405,966
Other noncurrent assets	—	—	—	—	—	—	—	—	(180)	5,149
Capital assets, net	3,331,072	7,929	—	—	—	42	58	104,671	—	3,443,772
Total noncurrent assets	5,651,385	31,614	9,254	1,495	2,005	42	22,939	148,322	(1,670)	5,865,386
Total assets	6,558,810	165,132	9,261	1,495	2,055	1,760	23,807	214,494	(73,596)	6,903,218
38,317	—	—	—	—	—	—	—	—	—	38,317
6,597,127	165,132	9,261	1,495	2,055	1,760	23,807	214,494	(73,596)	6,941,535	
Deferred Outflows of Resources										
Total assets and deferred outflows of resources										
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES										
Current Liabilities										
Accounts payable and accrued liabilities	252,982	9,082	1	—	1	1,718	99	107,465	(111,594)	259,754
Unearned revenue	110,470	33,023	—	—	—	—	26	2,358	(270)	145,607
Long-term liabilities - current portion	81,040	22	—	—	—	—	—	4,129	—	85,191
Total current liabilities	444,492	42,127	1	—	1	1,718	125	113,952	(111,864)	490,552
Noncurrent Liabilities										
Unearned revenue	246,479	5,855	—	—	—	—	52	—	—	252,386
Long-term liabilities	1,168,502	388	—	—	—	—	—	72,483	—	1,241,373
Net OPEB retiree health liabilities	231,491	—	—	—	—	—	—	—	—	231,491
Net OPEB long-term disability liabilities	5,436	—	—	—	—	—	—	—	—	5,436
Total noncurrent liabilities	1,651,908	6,243	—	—	—	—	52	72,483	—	1,730,686
Total liabilities	2,096,400	48,370	1	—	1	1,718	177	186,435	(111,864)	2,221,238
541,744	—	—	—	—	—	—	—	—	—	541,744
2,638,144	48,370	1	—	1	1,718	177	186,435	(111,864)	2,762,982	
1,873,554	7,911	—	—	—	42	58	28,059	—	1,909,624	
NET POSITION										
Net investment in capital assets										
Restricted										
Nonexpendable	634,503	853	4,607	618	674	—	—	—	—	641,255
Expendable	509,095	4,979	4,653	877	1,380	—	30	—	—	521,014
Total restricted	1,143,598	5,832	9,260	1,495	2,054	—	30	—	—	1,162,269
Unrestricted										
Total net position	941,831	103,019	—	—	—	—	23,542	—	38,268	1,106,660
3,958,983	\$ 116,762	\$ 9,260	\$ 1,495	\$ 2,054	\$ 42	\$ 23,630	\$ 28,059	\$ 28,059	\$ 38,268	\$ 4,178,553

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 (restated)	Gluck Equine Research Foundation	Humanities Foundation	Mining Engineering Foundation	Central Kentucky Management Services	Alumni Association	Kentucky Medical Services Foundation	Eliminations	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES										
Current Assets										
Cash and cash equivalents	\$ 494,307	\$ 70,561	\$ 336	\$ 20	\$ 37	\$ 1,148	\$ 362	\$ 5,544	\$ —	\$ 572,315
Notes, loans and accounts receivable, net	383,596	32,091	—	—	—	441	140	54,800	(67,642)	403,426
Investments	—	—	—	—	—	—	—	18,399	—	18,399
Inventories and other assets	52,229	3,686	—	—	—	18	32	1,160	(453)	56,672
Total current assets	930,132	106,338	336	20	37	1,607	534	79,903	(68,095)	1,050,812
Noncurrent Assets										
Restricted cash and cash equivalents	309,690	15,539	—	—	—	—	—	—	—	325,229
Endowment investments	1,307,728	14,478	8,904	1,445	1,975	—	—	—	—	1,334,530
Other long-term investments	254,271	502	—	—	—	—	21,740	44,858	(229)	321,142
Notes, loans and accounts receivable, net	305,691	205	—	—	—	—	82	706	—	306,684
Other noncurrent assets	1,381	—	—	—	—	—	—	—	(271)	1,110
Capital assets, net	3,263,402	8,324	—	—	—	52	24	110,764	—	3,382,566
Total noncurrent assets	5,442,163	39,048	8,904	1,445	1,975	52	21,846	156,328	(500)	5,671,261
Total assets	6,372,295	145,386	9,240	1,465	2,012	1,659	22,380	236,231	(68,595)	6,722,073
Deferred outflows of resources	42,293	—	—	—	—	—	—	—	—	42,293
Total assets and deferred outflows of resources	6,414,588	145,386	9,240	1,465	2,012	1,659	22,380	236,231	(68,595)	6,764,366
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES										
Current Liabilities										
Accounts payable and accrued liabilities	332,314	8,242	—	—	1	1,607	57	122,979	(126,275)	338,925
Unearned revenue	78,712	25,831	—	—	—	—	26	2,489	(724)	106,334
Long-term liabilities - current portion	81,588	22	—	—	—	—	—	4,465	—	86,075
Total current liabilities	492,614	34,095	—	—	1	1,607	83	129,933	(126,999)	531,334
Noncurrent Liabilities										
Unearned revenue	152,388	15,539	—	—	—	—	79	—	—	168,006
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	1,618,382	16,017	—	—	—	—	79	69,907	—	1,704,385
Total liabilities	2,110,996	50,112	—	—	1	1,607	162	199,840	(126,999)	2,235,719
Deferred inflows of resources	563,137	—	—	—	—	—	—	—	—	563,137
Total liabilities and deferred inflows of resources	2,674,133	50,112	—	—	1	1,607	162	199,840	(126,999)	2,798,856
NET POSITION										
Net investment in capital assets										
Restricted										
Nonexpendable	1,790,428	8,281	—	—	—	52	24	36,391	—	1,835,176
Expendable	619,986	839	4,607	618	667	—	—	—	—	626,717
Total restricted	454,461	4,159	4,633	847	1,344	—	30	—	—	465,474
Unrestricted	1,074,447	4,998	9,240	1,465	2,011	—	30	—	—	1,092,191
Total net position	875,580	81,995	—	—	—	—	22,164	—	58,404	1,038,143
Total net position	3,740,455	95,274	9,240	1,465	2,011	52	22,218	36,391	58,404	3,965,510

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, 2019
(in thousands)

	UK	Research Foundation	Gluck Equine Research Foundation	Humanities Foundation	Mining Engineering Foundation	Central Kentucky Management Services	Alumni Association	Kentucky Medical Services Foundation	Eliminations	Total
OPERATING REVENUES										
Student tuition and fees, net	\$ 343,293	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 343,293
Federal grants and contracts	1,970	206,699	—	—	—	—	—	—	—	208,669
State and local grants and contracts	68,730	17,813	—	—	—	—	—	—	—	86,543
Nongovernmental grants and contracts	289,518	32,047	—	—	—	—	—	(288,503)	—	33,062
Recoveries of facilities and administrative costs	153	66,947	—	—	—	—	—	—	—	67,100
Sales and services	57,553	1,390	6	—	—	30,473	1,476	(31,515)	—	59,383
Federal appropriations	17,239	—	—	—	—	—	—	—	—	17,239
County appropriations	26,689	—	—	—	—	—	—	—	—	26,689
Professional clinical service fees	—	—	—	—	—	—	—	251,237	(3,648)	247,589
Hospital services	1,756,951	—	—	—	—	—	—	—	(6,024)	1,750,927
Auxiliary enterprises:										
Housing and dining, net	34,978	—	—	—	—	—	—	—	(20)	34,958
Athletics	114,456	—	—	—	—	—	—	—	(387)	114,069
Other auxiliaries	54,610	—	—	—	—	—	—	—	(518)	54,092
Other operating revenues	833	—	—	—	—	—	—	88,477	(68,172)	21,138
Total operating revenues	2,766,973	324,896	6	—	—	30,473	1,476	339,714	(398,787)	3,064,751
OPERATING EXPENSES										
Educational and general:										
Instruction	305,187	12,014	—	—	57	—	—	—	(22)	317,236
Research	110,668	191,611	105	—	—	—	—	—	(2,129)	300,255
Public service	121,489	83,070	—	—	—	—	—	—	(656)	203,903
Libraries	24,384	—	—	—	—	—	—	—	—	24,384
Academic support	87,397	2,371	—	—	—	—	—	—	(173)	89,595
Student services	45,299	7	—	—	—	—	—	—	(52)	45,254
Institutional support	72,799	850	12	—	—	30,473	4,315	—	(33,690)	74,759
Operations and maintenance of plant	75,635	391	—	—	—	—	—	—	6,806	82,832
Student financial aid	38,950	2,002	—	38	—	—	—	—	(4)	40,986
Depreciation	72,905	451	—	—	—	10	13	—	—	73,379
Total educational and general	954,713	292,767	117	38	57	30,483	4,328	—	(29,920)	1,252,683
Clinical operations (including depreciation of \$12,067 in 2019 and \$4,409 in 2018)	424,382	—	—	—	—	—	—	344,207	(335,221)	433,368
Hospital and clinics (including depreciation of \$66,959 in 2019 and \$62,117 in 2018)	1,528,866	—	—	—	—	—	—	—	(18,960)	1,509,906
Auxiliary enterprises:										
Housing and dining (including depreciation of \$11,639 in 2019 and \$13,299 in 2018)	28,348	—	—	—	—	—	—	—	(13)	28,335
Athletics (including depreciation of \$17,156 in 2019 and \$15,837 in 2018)	141,560	—	—	—	—	—	—	—	172	141,732
Other auxiliaries (including depreciation of \$6,945 in 2019 and \$1,193 in 2018)	47,358	—	—	—	—	—	—	—	(566)	46,792
Other operating expenses	2,014	—	—	—	—	—	—	—	—	2,014
Total operating expenses	3,127,241	292,767	117	38	57	30,483	4,328	344,207	(384,508)	3,414,730
Net income (loss) from operations	(360,268)	32,129	(111)	(38)	(57)	(10)	(2,852)	(4,493)	(14,279)	(349,979)
NONOPERATING REVENUES (EXPENSES)										
State appropriations	258,495	—	—	—	—	—	—	—	—	258,495
Gifts and non-exchange grants	121,491	209	152	1	—	—	1,951	—	(2,919)	120,885
Investment income (loss)	105,461	2,087	496	78	110	—	2,027	804	(2,770)	108,293
Interest on capital asset-related debt	(40,973)	—	—	—	—	—	—	(3,400)	—	(44,373)
Grants to (from) the University for noncapital purposes	13,206	(12,662)	(517)	(11)	(16)	—	—	—	—	—
Other nonoperating revenues and expenses, net	14,041	2,347	—	—	—	—	—	—	—	16,674
Net nonoperating revenues (expenses)	471,721	(8,019)	131	68	94	—	2,864	(2,596)	(5,688)	459,974
Net income (loss) before other revenues, expenses, gains, or losses	111,453	24,110	20	30	37	(10)	1,412	(7,069)	(19,968)	109,995
Capital grants and gifts	57,536	14,034	—	—	—	—	—	—	—	71,570
Additions to permanent endowments	13,754	14	—	—	6	—	—	—	(168)	13,606
Grants to (from) the University for capital purposes	16,712	(16,712)	—	—	—	—	—	—	—	—
Other, net	19,073	42	—	—	—	—	—	(1,243)	—	17,872
Total other revenues (expenses)	107,075	(2,622)	—	—	6	—	—	(1,243)	(168)	103,048
INCREASE (DECREASE) IN NET POSITION										
NET POSITION, beginning of year	218,528	21,488	20	30	43	(10)	1,412	(8,332)	(20,136)	213,043
NET POSITION, end of year	3,740,455	95,274	9,240	1,465	2,011	52	22,218	36,391	58,404	3,965,510
NET POSITION, end of year	\$ 3,958,983	\$ 116,762	\$ 9,260	\$ 1,495	\$ 2,054	\$ 42	\$ 23,630	\$ 28,059	\$ 38,268	\$ 4,178,555

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	Central Kentucky Management Services	Alumni Association	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	17,672	—	—	—	—	—	—	—	84,027
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	1,255	(33,239)	—	59,691
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	108,780	—	—	—	—	—	—	—	(353)	108,427
Other auxiliaries	55,178	—	—	—	—	—	—	—	(95)	55,083
Other operating revenues	819	—	—	—	—	—	—	89,100	(67,088)	22,831
Total operating revenues	2,611,133	303,854	—	—	—	32,247	1,255	337,630	(369,118)	2,917,001
OPERATING EXPENSES										
Educational and general:										
Instruction	302,896	10,703	—	6	54	—	—	—	(6)	313,653
Research	105,146	178,004	58	—	—	—	—	—	(2,980)	280,228
Public service	119,342	80,463	—	—	—	—	—	—	(699)	199,106
Libraries	23,886	—	—	—	—	—	—	—	—	23,886
Academic support	82,259	2,143	—	—	—	—	—	—	(157)	84,245
Student services	43,428	23	—	1	—	—	—	—	(56)	43,396
Institutional support	61,034	732	—	—	—	32,247	3,774	—	(34,410)	63,377
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	8	—	—	67,514
Total educational and general	886,085	275,061	58	55	54	32,257	3,782	—	(6,087)	1,191,265
Clinical operations (including depreciation of \$4,409)	391,378	—	—	—	—	—	—	333,070	(332,164)	392,284
Hospital and clinics (including depreciation of \$62,117)	1,464,523	—	—	—	—	—	—	—	(43,836)	1,420,687
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	—	—	—	—	—	—	—	(572)	32,985
Other operating expenses	993	—	—	—	—	—	—	—	—	993
Total operating expenses	2,939,689	275,061	58	55	54	32,257	3,782	333,070	(382,945)	3,201,061
Net income (loss) from operations	(328,556)	28,793	(58)	(55)	(54)	(10)	(2,527)	4,560	13,827	(284,060)
NONOPERATING REVENUES (EXPENSES)										
State appropriations	264,418	—	—	—	—	—	—	—	—	264,418
Gifts and non-exchange grants	119,435	174	2	1	—	—	—	—	(2,838)	118,447
Investment income (loss)	87,624	1,751	527	82	116	—	1,256	465	(662)	91,149
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	—	—	—	—	—	—	—	—
Net nonoperating revenues (expenses)	458,979	(8,381)	284	76	106	—	264	(2,338)	(3,500)	448,419
Net income (loss) before other revenues, expenses, gains, or losses	130,443	20,412	226	21	52	(10)	666	2,222	10,327	164,359
Capital grants and gifts	22,054	7,852	—	—	—	—	—	—	(13)	29,893
Additions to permanent endowments	10,479	7	—	—	4	—	—	—	(39)	10,451
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	(6,754)	(2)	—	4	—	—	(12)	(62)	48,240
Total other revenues (expenses)	185,499	13,658	224	21	56	(10)	666	2,210	10,275	212,599
INCREASE (DECREASE) IN NET POSITION										
NET POSITION, beginning of year	\$ 3,740,455	\$ 95,274	\$ 9,240	\$ 1,465	\$ 2,011	\$ 52	\$ 22,218	\$ 36,391	\$ 58,404	\$ 3,965,510
NET POSITION, end of year										

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
COMBINED CONDENSED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2019
(in thousands)

	UK	Research Foundation	Gluck Equine Research Foundation	Humanities Foundation	Mining Engineering Foundation	Central Kentucky Management Services	Alumni Association	Kentucky Medical Services Foundation	Eliminations	Total
CASH FLOWS FROM OPERATING ACTIVITIES										
Student tuition and fees	\$ 343,194	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 343,194
Grants and contracts	359,084	250,432	—	—	—	—	—	—	(288,503)	321,013
Recoveries of facilities and administrative costs	276	65,385	—	—	—	—	—	—	—	65,661
Sales and services	59,213	—	6	—	—	29,821	1,463	(131)	(31,056)	59,316
Federal appropriations	17,590	—	—	—	—	—	—	—	—	17,590
County appropriations	27,227	—	—	—	—	—	—	—	—	27,227
Payments to vendors and contractors	(1,095,063)	(98,306)	(115)	(38)	(24)	(1,331)	(2,054)	(334,679)	398,737	(1,132,873)
Student financial aid	(40,987)	—	—	—	—	—	—	—	—	(40,987)
Salaries, wages and benefits	(1,817,920)	(193,106)	(1)	—	(33)	(28,464)	(2,222)	(14,255)	295	(2,056,001)
Professional clinical service fees	—	—	—	—	—	—	—	257,621	(5,778)	257,916
Hospital services	1,719,186	—	—	—	—	—	—	—	(925)	1,713,408
Auxiliary enterprises receipts	195,527	—	—	—	—	—	—	—	—	194,602
Loans issued to students	(11,428)	—	—	—	—	—	—	—	—	(11,428)
Collection of loans to students	15,478	—	—	—	—	—	—	—	—	15,478
Self-insurance receipts	72,408	—	—	—	—	—	—	905	—	73,313
Self-insurance payments	(73,108)	—	—	—	—	—	—	—	—	(73,108)
Other receipts (payments)	(784)	1,502	—	—	—	—	—	88,477	(68,173)	21,022
Net cash provided (used) by operating activities	(230,107)	25,907	(110)	(38)	(57)	26	(2,813)	(2,062)	4,597	(204,657)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES										
State appropriations	258,495	—	—	—	—	—	—	—	—	258,495
Gifts and grants received for other than capital purposes:										
Gifts received for endowment purposes	13,754	14	—	—	6	—	—	—	(168)	13,606
Gifts received for other purposes	122,230	190	152	1	—	—	1,951	—	(2,919)	121,605
Agency and loan program receipts	244,475	—	—	—	—	—	—	—	—	244,475
Agency and loan program payments	(245,211)	—	—	—	—	—	—	—	—	(245,211)
Grants (to) from the University for noncapital purposes	13,206	(12,662)	(517)	(11)	(16)	—	—	—	—	—
Other financing receipts (payments)	13,724	2,490	—	—	—	—	285	—	—	16,499
Net cash provided (used) by noncapital financing activities	420,673	(9,988)	(365)	(10)	(10)	—	2,236	—	(3,087)	409,469
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES										
Capital grants and gifts	38,618	14,034	—	—	—	—	—	—	—	52,652
Purchases of capital assets	(268,680)	(65)	—	—	—	—	(47)	392	—	(268,390)
Proceeds from capital debt	13,397	—	—	—	—	—	—	—	—	13,397
Payments to refunding bond agents	(15,165)	—	—	—	—	—	—	—	—	(15,165)
Principal paid on capital debt and leases	(45,069)	(18)	—	—	—	—	—	(4,128)	—	(49,215)
Interest paid on capital debt and leases	(46,769)	—	—	—	—	—	—	(3,400)	—	(50,169)
Grants (to) from the University for capital purposes	16,947	(16,947)	—	—	—	—	—	—	—	—
Other financing receipts (payments)	2,632	42	—	—	—	—	—	(1,242)	—	1,432
Net cash provided (used) by capital and related financing activities	(304,089)	(2,944)	—	—	—	—	(47)	(8,378)	—	(315,458)
CASH FLOWS FROM INVESTING ACTIVITIES										
Proceeds from sales and maturities of investments	571,965	5,547	3,266	532	755	—	1,169	22,499	—	605,733
Interest and dividends on investments	48,421	1,615	146	24	33	—	374	735	(1,510)	49,838
Purchases of investments	(602,774)	(7,461)	(3,266)	(528)	(708)	—	(604)	—	—	(621,678)
Net cash provided (used) by investing activities	(7,612)	(289)	146	28	80	—	939	16,897	(1,510)	33,893
Net INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(95,911)	12,696	(329)	(20)	13	26	315	6,457	—	(76,753)
CASH AND CASH EQUIVALENTS, beginning of year	803,997	86,100	336	20	37	1,148	362	5,544	—	897,544
CASH AND CASH EQUIVALENTS, end of year	\$ 708,086	\$ 98,796	\$ 7	\$ —	\$ 50	\$ 1,174	\$ 677	\$ 12,001	\$ —	\$ 820,791

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	Central Kentucky Management Services	Alumni Association	Kentucky Medical Services Foundation	Eliminations	Total
CASH FLOWS FROM OPERATING ACTIVITIES										
Student tuition and fees	\$ 341,672	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 341,672
Grants and contracts	312,917	248,398	—	—	—	—	—	—	(257,350)	303,965
Recoveries of facilities and administrative costs	226	61,543	—	—	—	—	—	—	—	61,769
Sales and services	58,399	—	—	—	—	31,596	1,240	(145)	(33,511)	57,579
Federal appropriations	20,158	—	—	—	—	—	—	—	—	20,158
County appropriations	26,149	—	—	—	—	—	—	—	—	26,149
Payments to vendors and contractors	(1,016,892)	(96,405)	(56)	(55)	(22)	(1,344)	(1,897)	(289,859)	356,187	(1,050,343)
Student financial aid	(40,650)	—	—	—	—	—	—	—	—	(40,650)
Salaries, wages and benefits	(1,765,130)	(176,588)	(2)	—	(32)	(29,920)	(1,844)	(14,847)	12,918	(1,988,363)
Professional clinical service fees	—	—	—	—	—	—	—	241,905	(7,122)	1,603,302
Hospital services	1,610,424	—	—	—	—	—	—	—	(469)	206,015
Auxiliary enterprises receipts	206,484	—	—	—	—	—	—	—	—	(16,343)
Loans issued to students	(16,343)	—	—	—	—	—	—	—	—	16,038
Collection of loans to students	16,038	—	—	—	—	—	—	—	—	70,463
Self-insurance receipts	68,489	—	—	—	—	—	—	1,974	—	(75,073)
Self-insurance payments	(75,073)	—	—	—	—	—	—	—	—	—
Other receipts (payments)	(1,407)	1,897	—	—	—	—	—	89,100	(67,088)	22,502
Net cash provided (used) by operating activities	(254,539)	38,845	(58)	(55)	(54)	332	(2,501)	28,128	3,565	(186,337)
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	—	—	—	(39)	10,451
Gifts received for other purposes	128,163	174	2	—	—	—	1,674	—	(2,839)	127,174
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	—	—	—	—	262	—	—	8,529
Net cash provided (used) by noncapital financing activities	422,543	(10,434)	(243)	(7)	(6)	—	1,936	—	(2,878)	410,911
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES										
Capital grants and gifts	15,335	7,852	—	—	—	—	—	—	(13)	23,174
Purchases of capital assets	(402,657)	(162)	—	—	—	—	(24)	(17,395)	—	(420,228)
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)	(6,691)	(2)	—	—	—	(24)	(9,424)	(13)	(256,407)
CASH FLOWS FROM INVESTING ACTIVITIES										
Proceeds from sales and maturities of investments	899,238	9,699	6,078	916	1,293	—	598	53	—	917,875
Interest and dividends on investments	38,240	886	144	23	32	—	335	(1,053)	(674)	37,933
Purchases of investments	(922,939)	(9,182)	(5,643)	(916)	(1,251)	—	(856)	(12,192)	—	(952,979)
Net cash provided (used) by investing activities	14,539	1,403	579	23	74	—	77	(13,192)	(674)	2,829
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(57,710)	23,123	276	(39)	14	332	(512)	5,512	—	(29,004)
CASH AND CASH EQUIVALENTS, beginning of year	861,707	62,977	60	59	23	816	874	32	—	926,548
CASH AND CASH EQUIVALENTS, end of year	\$ 803,997	\$ 86,100	\$ 336	\$ 20	\$ 37	\$ 1,148	\$ 362	\$ 5,544	\$ —	\$ 897,544

**UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
COMBINED STATEMENTS OF FIDUCIARY NET POSITION (in thousands)
JUNE 30, 2019 and 2018**

	2019			2018		
	OPEB Plan	LTD Plan	Total	OPEB Plan	LTD Plan	Total
ASSETS						
Cash and cash equivalents	\$ 4,489	\$ 1,125	\$ 5,614	\$ 3,148	\$ 361	\$ 3,509
Accrued interest receivable	—	21	21	—	13	13
Investments	171,025	20,798	191,823	156,395	19,710	176,105
Total assets	175,514	21,944	197,458	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	\$ 175,514	\$ 21,944	\$ 197,458	\$ 159,543	\$ 20,081	\$ 179,624

**UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
COMBINED STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION (in thousands)
FOR THE YEARS ENDED JUNE 30, 2019 and 2018**

	2019			2018		
	OPEB Plan	LTD Plan	Total	OPEB Plan	LTD Plan	Total
Additions						
Investment income:						
Interest and dividend income	\$ 2,709	\$ 953	\$ 3,662	\$ 2,464	\$ 683	\$ 3,147
Net appreciation in fair value of investments	6,658	595	7,253	6,525	581	7,106
Net investment income	9,367	1,548	10,915	8,989	1,264	10,253
Contributions:						
University	18,804	2,063	20,867	20,013	2,002	22,015
Beneficiaries	4,379	—	4,379	4,945	—	4,945
Total contributions	23,183	2,063	25,246	24,958	2,002	26,960
Total additions	32,550	3,611	36,161	33,947	3,266	37,213
Deductions						
Administrative expenses	1,376	64	1,440	783	38	821
Payments to retirees and beneficiaries	15,203	1,684	16,887	17,565	1,931	19,496
Total deductions	16,579	1,748	18,327	18,348	1,969	20,317
INCREASE IN NET POSITION	15,971	1,863	17,834	15,599	1,297	16,896
NET POSITION restricted for the postemployment benefits other than pensions, beginning of year	159,543	20,081	179,624	143,944	18,784	162,728
NET POSITION restricted for the postemployment benefits other than pensions, end of year	\$ 175,514	\$ 21,944	\$ 197,458	\$ 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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total OPEB liability			
Service cost	\$ 3,953	\$ 3,710	\$ 4,356
Interest cost	29,225	28,053	28,667
Change of benefit terms	(58,343)	—	—
Difference between expected and actual experience	1,921	(1,071)	12,087
Changes of assumptions	(63,511)	(3,559)	(40,408)
Benefit payments	(10,824)	(12,620)	(11,889)
Net change in total OPEB liability	<u>(97,579)</u>	<u>14,513</u>	<u>(7,187)</u>
Total OPEB liability, beginning	<u>391,034</u>	<u>376,521</u>	<u>383,708</u>
Total OPEB liability, ending	<u>293,455</u>	<u>391,034</u>	<u>376,521</u>
Plan fiduciary net position			
Contributions - employer	18,804	20,013	23,987
Contributions - beneficiaries	4,379	4,945	5,500
Net investment income	9,367	8,989	12,508
Benefit payments	(15,203)	(17,565)	(17,389)
Administrative expense	(1,376)	(783)	(674)
Net change in plan fiduciary net position	<u>15,971</u>	<u>15,599</u>	<u>23,932</u>
Plan fiduciary net position, beginning	<u>159,543</u>	<u>143,944</u>	<u>120,012</u>
Plan fiduciary net position, ending	<u>175,514</u>	<u>159,543</u>	<u>143,944</u>
Net OPEB liability, ending	<u>\$ 117,941</u>	<u>\$ 231,491</u>	<u>\$ 232,577</u>
Plan fiduciary net position as a percentage of OPEB liability	59.8%	40.8%	38.2%
Covered-employee payroll	\$ 459,655	\$ 480,320	\$ 494,158
Net OPEB liability as a percentage of covered-employee payroll	25.7%	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-2017 to the PUB-2010 Amounts Weighted Mortality Table with a fully generational projection using scale Mortality Projection-2018; the health care trend rates have been updated to better anticipate future experience under the plan.

Benefit changes: Effective January 1, 2019, post retirement medical benefits for Medicare eligible retirees was updated from a self-insured retiree Medicare Carveout program with a deductible that is tied to the Medicare Part B deductible to a fully-insured Medicare Advantage 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	6.5%
2019	5.5%

SCHEDULE OF OPEB CONTRIBUTIONS (in thousands)

	2019	2018	2017
Actuarially determined contribution	\$ 20,600	\$ 20,000	\$ 24,454
Contribution in relation to actuarially determined contribution	(18,804)	(20,013)	(23,987)
Contribution deficiency (excess)	\$ 1,796	\$ (13)	\$ 467
Covered employee payroll	\$ 459,655	\$ 480,320	\$ 494,158
Contribution as a percentage of covered employee payroll	4.1%	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	\$20,600,000 for fiscal 2019; indexed annually at a rate of 3% per annum.
Health care trend rate	Post-65 medical 5%, Post-65 RX 10.0% for 2019, decreasing 0.5% per year to an ultimate rate of 5%. Pre-65 7.94% for 2019, 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	For July 1, 2019, 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 for the Employer. For June 30, 2019, PUB-2010 Amounts Weighted Mortality Table, with faculty employees classified as "Teachers" and non-faculty employees classified as "General", with mortality improvement projected generationally using scale Mortality Projection-2018 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 assumed to be three years younger than their husbands. Male spouses of female retirees are assumed to be three years older 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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total LTD liability			
Service cost	\$ 2,241	\$ 2,104	\$ 1,606
Interest cost	1,750	1,555	1,569
Difference between expected and actual experience	(1,782)	1,017	138
Changes of assumptions	(123)	(8)	1,042
Benefit payments	<u>(1,684)</u>	<u>(1,931)</u>	<u>(1,763)</u>
Net change in total LTD liability	402	2,737	2,592
Total LTD liability, beginning	<u>25,517</u>	<u>22,780</u>	<u>20,188</u>
Total LTD liability, ending	<u>25,919</u>	<u>25,517</u>	<u>22,780</u>
Plan fiduciary net position			
Contributions - employer	2,063	2,002	2,020
Net investment income	1,548	1,264	1,956
Benefit payments	(1,684)	(1,931)	(1,763)
Administrative expense	<u>(64)</u>	<u>(38)</u>	<u>(61)</u>
Net change in plan fiduciary net position	1,863	1,297	2,152
Plan fiduciary net position, beginning	<u>20,081</u>	<u>18,784</u>	<u>16,632</u>
Plan fiduciary net position, ending	<u>21,944</u>	<u>20,081</u>	<u>18,784</u>
Net LTD liability, ending	<u>\$ 3,975</u>	<u>\$ 5,436</u>	<u>\$ 3,996</u>
Net position as a percentage of LTD liability	84.7%	78.7%	82.5%
Covered-employee payroll	\$ 1,095,104	\$ 977,928	\$ 940,951
Net LTD liability as a percentage of payroll	0.4%	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-2017 to the PUB-2010 Amounts Weighted Mortality Table with a fully generational projection using scale Mortality Projection-2018.

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%
2019	7.5%

SCHEDULE OF LTD CONTRIBUTIONS (in thousands)

	2019	2018	2017
Actuarially determined contribution	\$ 2,060	\$ 2,000	\$ 1,984
Contribution in relation to actuarially determined contribution	(2,063)	(2,002)	(2,020)
Contribution excess	<u>\$ (3)</u>	<u>\$ (2)</u>	<u>\$ (36)</u>
Covered employee payroll	\$ 1,095,104	\$ 977,928	\$ 940,951
Contribution as a percentage of covered employee payroll	0.2%	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	\$2,060,000 for fiscal 2019; 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 group LTD table.
Mortality (only for life insurance)	Canadian Institute of Actuaries 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	For July 1, 2019, 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 for the Employer. For June 30, 2019 PUB-2010 Amounts Weighted Mortality Table, with faculty employees classified as "Teachers" and non-faculty employees classified as "General", with mortality improvement projected generationally using Mortality Projection-2018 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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