University of Kentucky

2022 FINANCIAL STATEMENTS

University of Kentucky
A Component Unit of the Commonwealth of Kentucky
Financial Statements
Year Ended June 30, 2022

TABLE OF CONTENTS

MESSAGE FROM THE EXECUTIVE VICE PRESIDENT FOR FINANCE AND ADMINISTRATION

We were created to serve Kentucky.

We say often that our budget is an expression of our values and our ambitions. It is a demonstration of faith that we are investing heavily and thoughtfully in what will most directly serve our state - our students and our people, the research and discovery that can transform lives and the care and service we provide in every corner and community of this state.

This budget - the largest in our history and more than double what it was 10 years ago - represents a historic investment of resources by policymakers and the people of Kentucky in the work we do.

It also underscores something that makes us distinctive and essential - that we have chosen a different path that is often forged in higher education. Instead of limiting our size and being more elite, our doors will remain open widest to those who can accomplish what is wildly possible, if only given the opportunity.

We will make it possible for more young people, particularly Kentuckians, to join our community and learn from and alongside our incredible faculty.

That’s why our proposed tuition and mandatory fee increases over the last four years will now be 1.6 percent - a more than threefold decrease from only a decade ago. More than 90 percent of our full-time Kentucky undergraduates receive financial aid that doesn’t have to be repaid and those who come from families with the most need - roughly a quarter of our students - are provided the most assistance. And still, we are on the verge of another historic high in both four-year and six-year graduation rates - what will be a six-year trajectory of continued increases in student success.

So, this fall, we will welcome the largest first-year class in our history - approximately 6,000 students - as part of a sustained effort to grow for this state.

Kentucky right now is garnering incredible economic opportunity and billions in investments. But to continue that pipeline of opportunity, our state must significantly increase its skilled and educated workforce.

We also will be more diverse and welcome more young people from across the country, solidifying our role as a place that champions and encourages a free exchange of ideas so central to a vibrant community of students and scholars.

Hospital revenues will have grown by more than 200 percent in the last decade, reflecting the fact that we are treating and healing thousands more patients each year than ever before. We will again exceed $400 million in annual grants and contracts for our research efforts - efforts focused on the state’s most vexing challenges, cancer and heart disease, deaths from opioid misuse, satisfying our energy needs in a sustainable manner and seeking answers to historic and systemic issues around race and access. And we will serve - in every county of Kentucky, rebuilding farms and research facilities in Western Kentucky and rebuilding lives and communities decimated by disease across our state.

Guided by the principles and the north star of everything we do, together, we will advance Kentucky.

Eric Monday

Executive Vice President for Finance and Administration

FORVIS

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Independent Auditor's Report

Board of Trustees
University of Kentucky
Lexington, Kentucky

Report on the Audit of the Financial Statements

Opinions

We have audited the 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 year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

In our opinion, based on our audit and the report of the other auditors, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and fiduciary activities of the University, as of June 30, 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of Kentucky Medical Services Foundation (KMSF), which is a blended component unit of the University and 3.5%, 0.1% and 7.5%, respectively, of the assets, net position, and revenues of the business-type activities, as of and for the year ended June 30, 2022. Those statements were audited by other auditors whose report has been furnished to us, and our opinions, insofar as it relates to the amounts included for KMSF, are based solely on the report of the other auditors.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the University and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions. The financial statements of KMSF, which are included as a blended component unit, were not audited in accordance with *Government Auditing Standards.*

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 University's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about University's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

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

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the report to the board of trustees summarizing the 2022 audit results, the governing board, administration and deans and directors listing and the message from the executive vice president for finance and administration as listed in the table of contents, but does not include the basic financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2022, 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.

FORVIS, LLP

Louisville, Kentucky
October 7, 2022

The following Management's Discussion and Analysis (MD&A) provides an overview of the financial position and activities of the University of Kentucky (the University or UK) and its affiliated corporations for the year ended June 30, 2022. 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 was mandated to become a major comprehensive research institution ranked nationally in the top twenty public universities by the year 2020.

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 UK's newest **Strategic Plan** at its October 2021 retreat. The plan considers the current operating context for higher education and focuses on five strategic principles that support our role as Kentucky's indispensable institution:

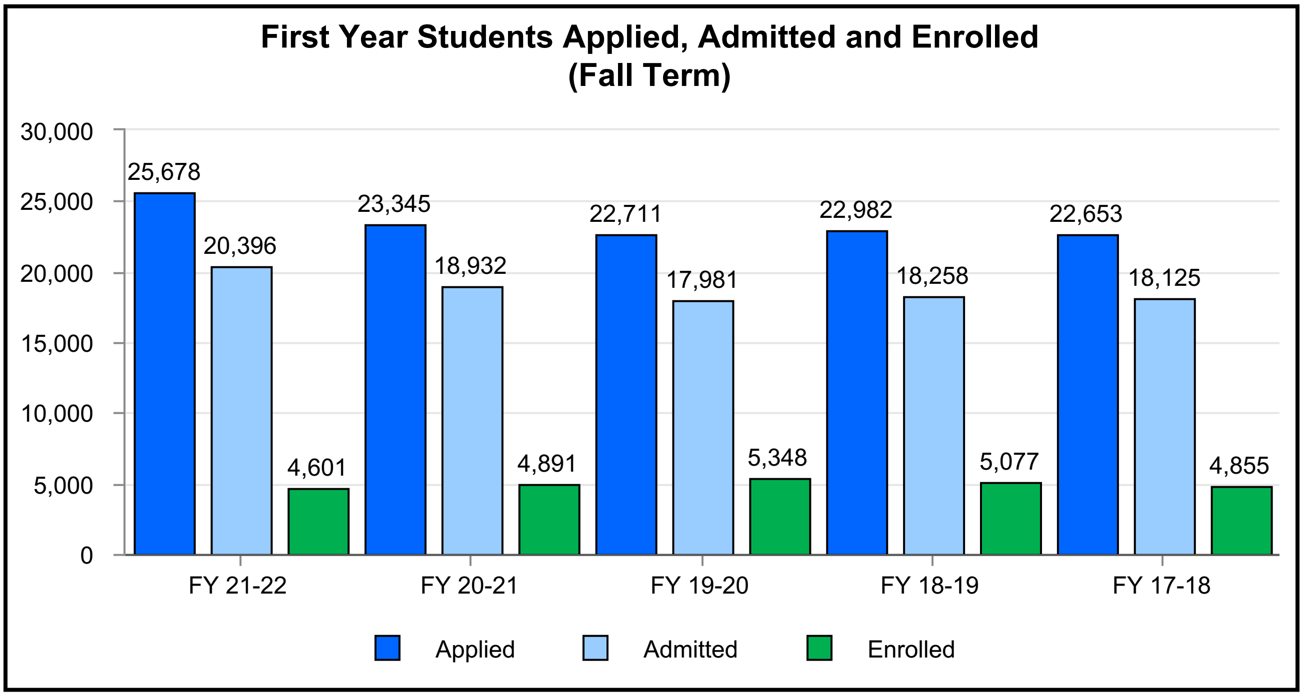
- **Putting Students First** - They are why we are here. Whether it is maintaining a modern curriculum that prepares our students for success, providing appropriate support for graduate students or ensuring that doctoral students start and complete their programs successfully, we must put students first.
- **Taking Care of Our People** - We will only accomplish our mission of advancing Kentucky when our people are compensated - in terms of pay and benefits - and supported in ways that lead the state, too.
- **Inspiring Ingenuity in Everything That We Do** - How do we embed innovation and discovery into every aspect of our institution? The breadth and depth of programming and offerings on one campus makes us distinctive in higher education. How do we incentivize the spark of ingenuity throughout our campus?
- **Ensuring Greater Trust, Transparency and Accountability** - We are Kentucky's institution. And that mantle holds with it heightened responsibilities around accountability and transparency. But we need to do more to instill a sense of trust in each other on issues ranging from shared governance to open accountability for how we perform and what we measure.
- **Many People, One Community** - UK is among the most diverse communities in the Commonwealth. Our students will enter a world with deep divisions, but more interdependent than ever before. How do we model unity amidst diversity for our state?

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.

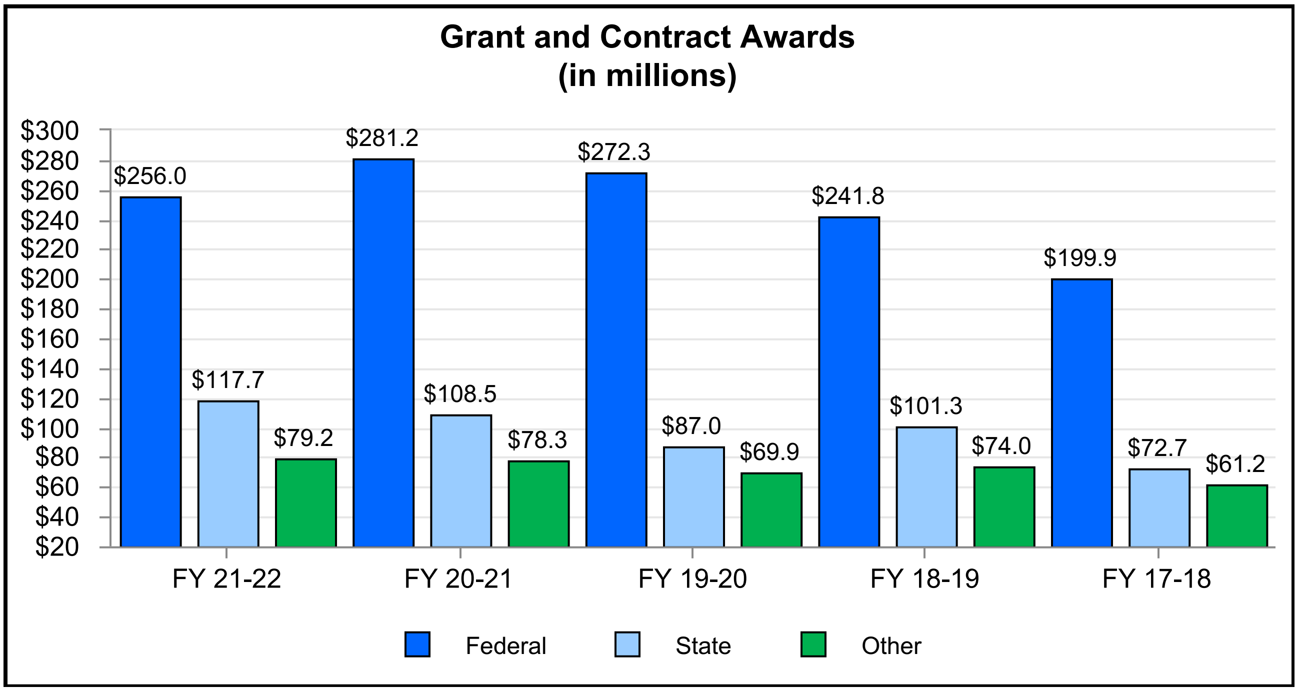
The University is accredited by the Commission on Colleges of the Southern Association of Colleges and Schools. This has been reaffirmed at approximately 10-year intervals since 1915, with the next accreditation review scheduled for 2023. In addition, several degree programs and individual units are accredited by agencies appropriate to specific professions or fields.

<u>Students.</u> In Fall 2021, the University had 31,536 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 2,600 students (nine percent) since Fall 2012.



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. The total University research expenses, as reported to the National Science Foundation, totaled $429.2 million for fiscal year 2020-21, compared to $417.7 million in fiscal year 2019-20. The research expenses include both funded and unfunded recoveries of facilities and administrative costs and purchases of capital assets, thus are not correlating to the amounts shown in the Statement of Revenues, Expenses and Changes in Net Position. The total University research expenses for fiscal year 2021-22 have not been reported yet to the National Science Foundation and are not available. University of Kentucky Research Foundation research awards received during fiscal year 2021-22 total $452.9 million, a three percent decrease from the prior year amount of $468.0 million.



Outreach. As Kentucky's flagship, land-grant university, UK engages citizens and communities across the state in a myriad of ways, including extension offices in all 120 Kentucky counties; continuing education opportunities for teachers, lawyers and health care providers; clinics providing legal, pharmaceutical and health care assistance; statewide arts and cultural contributions; 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 Hospital System (UK HealthCare or the System), 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 provide patient care on par - in terms of both volume and complexity - with the nation's top 25 percent of academic medical centers. For seven years in a row, UK HealthCare has been named the number one hospital in Kentucky by U.S. News and World Report's Best Hospitals rankings. 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 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 health system has a combined total of 965 licensed beds. On a monthly basis, UK HealthCare provides more than 1,210 inpatient surgeries, 1,657 outpatient surgeries, 38,849 radiology procedures, 9,210 emergency department visits and 97,436 ambulatory clinic visits.

Under a management contract 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. The psychiatric facility 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 medical centers in the United States that have NCI designation, a federally funded Center on Aging and a highly prized Clinical and Translational Science Award grant.

In 2021, UK HealthCare entered into a significant hospital joint venture with Kings Daughters Health System (KDHS) in Ashland, Kentucky, through Beyond Blue Corporation, a wholly owned non-profit subsidiary of the University. This is the System's most significant hospital partnership since the acquisition of Good Samaritan Hospital in 2007. The partnership with KDHS creates new opportunities to serve patients from the greater Ashland/tri-state community that reaches across northeastern Kentucky, southern Ohio and West Virginia. Working more closely together, we can expand access to specialty and subspecialty care within that very large service area, enabling the region's people to stay closer to home for treatments.

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 together 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 the System's Lexington facilities. The goal is better care at all points of the continuum.

Libraries. As the premier research library in the Commonwealth, UK Libraries empowers lifelong learners to discover, create and connect by providing ever-expanding access to quality information and collaborating with academic and creative communities worldwide to advance knowledge, enhance scholarship and preserve the history and culture of the Commonwealth.

Financial Highlights

The University's overall financial position remains fiscally sound with assets of $8.44 billion, deferred outflows of resources of $19.4 million, liabilities of $2.06 billion and deferred inflows of resources of $606.9 million as of June 30, 2022. 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 $5.79 billion (69% of total assets).

- Total assets increased $158.9 million (two percent), primarily due to increases in notes, loans, leases and accounts receivable, lease assets, net and other long-term investments offset by decreases in endowment investments and capital assets, net.
- Deferred outflows of resources decreased $22.2 million (53%) primarily due to decreases in the net difference between projected and actual earnings in the other post-employment benefit (OPEB) Plans investments, assumptions changes and contributions subsequent to the measurement date. It also represents the amortization of the acquisition price and the net carrying amount of refunded debt.
- Total liabilities decreased $213.0 million (nine percent) primarily due to decreases in net OPEB liabilities, long-term liabilities and unearned revenue offset by an increase in accounts payable and accrued liabilities.
- Deferred inflows of resources increased $52.9 million (10%) primarily due to increases in the net difference between projected and actual earnings in the OPEB Plans investments and assumption changes offset by decreases in service concessions arrangements with Aramark, Barnes and Noble and Greystar.
- Total net position increased $296.8 million (five percent). Unrestricted net position increased $339.4 million primarily due to the net increase in operating revenues in excess of operating expenses for the System. Net investment in capital asset increased $5.8 million. Restricted net position decreased $48.5 million primarily due to losses on endowment investments due to a negative return on the endowment pool.
- Operating revenues were $4.39 billion and operating expenses were $4.42 billion, resulting in a net loss from operations of $27.1 million. Nonoperating and other revenues, net of nonoperating expenses, were $323.9 million, including $271.3 million in state appropriations.

Using the Financial Statements

The University presents its financial reports in a "business-type activity" format, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* and GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities - an amendment of GASB Statement No. 34*. GASB requires that statements be presented on a comprehensive, entity-wide basis. In addition to this MD&A section, the financial report includes:

- Statement of Net Position
- Statement of Revenues, Expenses and Changes in Net Position
- Statement of Cash Flows
- Statement of Fiduciary Net Position
- Statement of Changes in Fiduciary Net Position
- Notes to the Financial Statements
- Required Supplementary Information

The University implemented GASB Statement No. 87, *Leases*, in fiscal year 2022. The financial statements for fiscal year 2021 were not restated.

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 Alumni Association, Inc.
- University of Kentucky Gluck Equine Research Foundation, Inc.
- University of Kentucky Humanities Foundation, Inc.
- University of Kentucky Mining Engineering Foundation, Inc.
- University of Kentucky Real Estate Foundation, Inc.
- University of Kentucky Research Foundation and its for-profit subsidiary, Kentucky Technology, Inc.
- Beyond Blue Corporation
- Central Kentucky Management Services, Inc.
- Kentucky Medical Services Foundation, Inc.

Statement of Net Position

The Statement of Net Position is the University's balance sheet. It reflects the total assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position (equity) of the University as of June 30, 2022. 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 deferred outflows of resources and total liabilities and deferred inflows 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, liabilities, deferred inflows of resources and deferred 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, 2022 and 2021 are as follows:

Condensed Statements of Net Position (in thousands)

	2022	2021
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current assets	$ 2,046,783	$ 1,780,676
Capital and lease assets, net	3,574,867	3,600,793
Other noncurrent assets	2,814,127	2,895,435
Deferred outflows of resources	19,436	41,608
Total assets and deferred outflows of resources	8,455,213	8,318,512
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
Current liabilities	621,640	647,558
Noncurrent liabilities	1,438,419	1,625,506
Deferred inflows of resources	606,924	553,988
Total liabilities and deferred inflows of resources	2,666,983	2,827,052
NET POSITION		
Net investment in capital assets	1,975,798	1,969,974
Restricted		
Nonexpendable	702,268	681,688
Expendable	731,376	800,444
Unrestricted	2,378,788	2,039,354
Total net position	$ 5,788,230	$ 5,491,460

Assets. As of June 30, 2022, total assets amounted to $8.44 billion. The largest asset class was capital assets, net, that totaled $3.53 billion or 42% of total assets. Endowment investments were $1.75 billion, or 21% of total assets and cash and cash equivalents totaled $1.26 billion, or 15% of total assets. Notes, loans, leases and accounts receivable, net totaled $1.17 billion or 14% of total assets. During the year, total assets increased $158.9 million primarily due to increases in notes, loans, leases and accounts receivable, net of $293.4 million, lease assets, net of $45.9 million, other long-term investments of $29.9 million and current investments of $14.3 million offset by decreases in endowment investments of $109.6 million mainly due to unfavorable market conditions, capital assets, net of $71.8 million and cash and cash equivalents of $37.9 million.

Deferred Outflows of Resources. The University's deferred outflows of resources totaled $19.4 million, a decrease of $22.2 million, due to decreases in the net difference between projected and actual earnings in the OPEB Plans investments and contributions subsequent to the measurement date of $21.0 million. It also includes the unamortized difference between the reacquisition price and the net carrying amount of refunded debt that decreased $1.1 million.

Liabilities. As of June 30, 2022, total liabilities amounted to $2.06 billion. Bonds, notes and capital debt obligations issued for educational buildings, housing, UK HealthCare facilities, Athletics' football stadium, student center and equipment totaled $1.11 billion or 54% of total liabilities. During the year, total liabilities decreased $213.0 million primarily due to decreases in net OPEB liabilities - retiree health of $117.4 million mainly due to a net gain in investments as of the July 1, 2021 measurement date; bonds, notes and capital debt obligations of $57.8 million primarily due to principal payments and unearned revenue of $43.6 million offset by an increase in accounts payable and accrued liabilities of $12.1 million.

Deferred Inflows of Resources. The University's deferred inflows of resources totaled $606.9 million that represents service concession arrangements with Greystar of $365.1 million, Aramark of $93.3 million and Barnes and Noble of $2.6 million. Deferred inflows of resources also includes trusts and annuities of $16.2 million that represent the beneficial interest that the University will receive in future years and OPEB long-term disability and retiree health of $126.6 million. During the year, deferred inflows of resources increased $52.9 million primarily due to an increase in OPEB of $69.3 million due to increases in the net difference between projected and actual earnings in the OPEB Plans investments and assumption changes primarily in retiree health. Aramark and Greystar service concession arrangements decreased $7.6 million and $5.5 million, respectively, due to the amortization of earned revenue. Trusts and annuities also decreased $3.0 million.

Net Position. The University's net position of $5.79 billion as of June 30, 2022 is reported on the Statement of Net Position in three net position categories: net investment in capital assets, $1.98 billion (34%); restricted nonexpendable, $702.3 million (12%) and restricted expendable, $731.4 million (13%); and unrestricted, $2.38 billion (41%).

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 $296.8 million during the year ended June 30, 2022. Net investment in capital assets increased $5.8 million due to excess additions of capital assets and principal payments of capital debt offset by depreciation expense. Restricted net position decreased $48.5 million primarily as a result of losses on endowment investments due to a negative return on the endowment pool. Unrestricted net position increased $339.4 million primarily due to the net increase in operating revenues in excess of operating expenses for the System.

Statement of Revenues, Expenses and Changes in Net Position

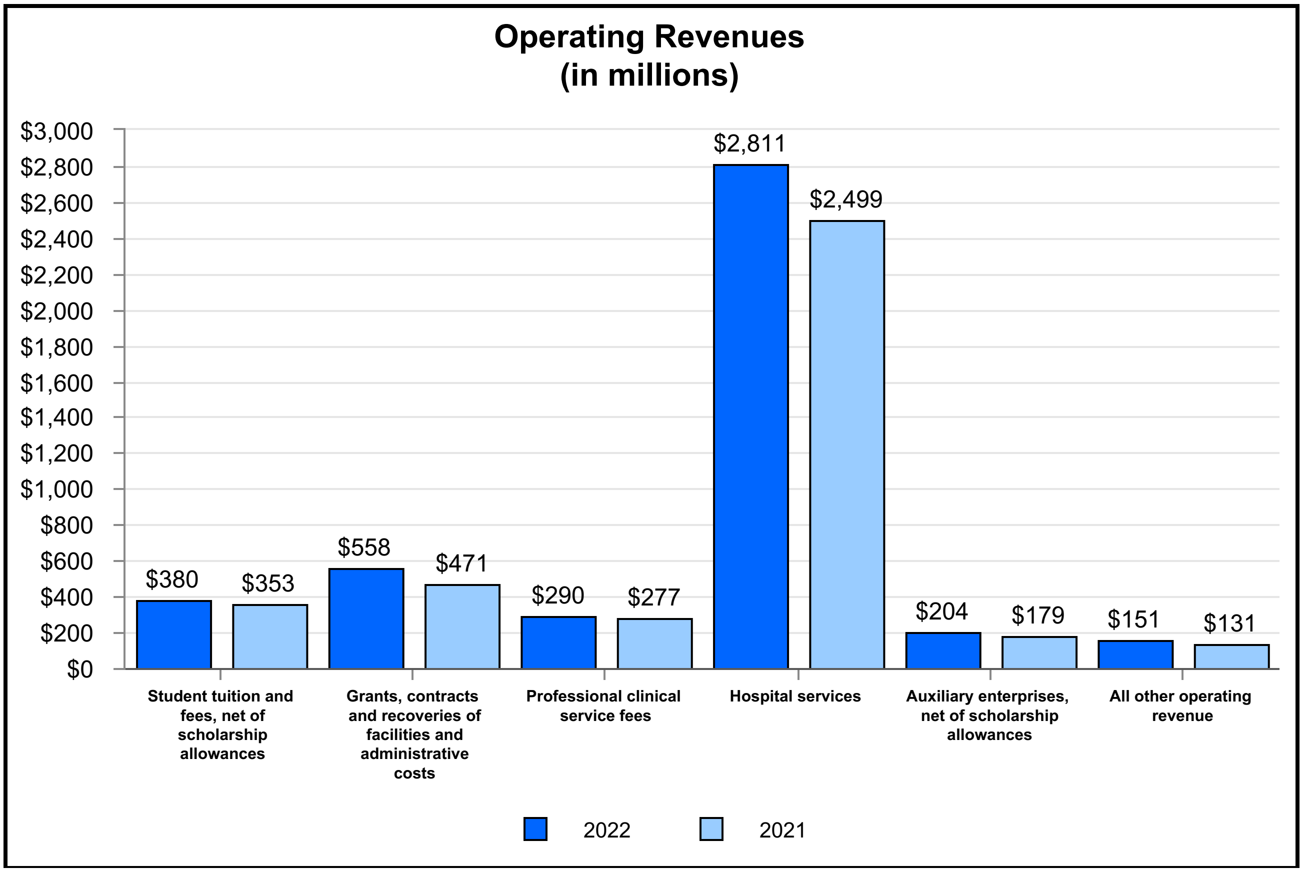
The Statement of Revenues, Expenses and Changes in Net Position is the University's income statement. It details how net position has changed during the year ended June 30, 2022. This statement is prepared on the accrual basis of accounting whereby revenues and assets are recognized when the service 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 may report 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, 2022 and 2021 are as follows:

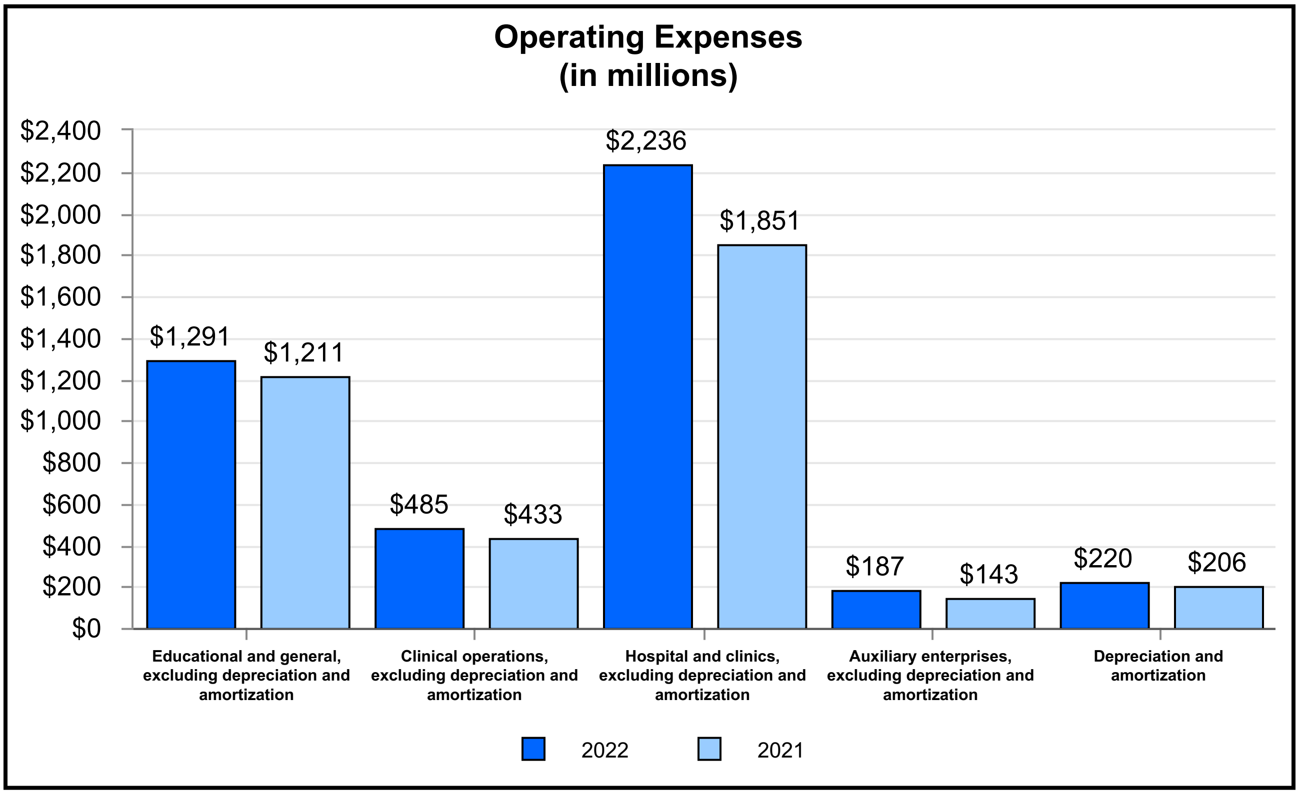
Condensed Statements of Revenues, Expenses and Changes in Net Position (in thousands)

	2022	2021
OPERATING REVENUES		
Student tuition and fees, net of scholarship allowances	$ 380,023	$ 352,808
Grants and contracts	468,306	395,872
Recoveries of facilities and administrative costs	89,891	74,938
Sales and services	78,393	61,335
Federal and county appropriations	44,404	45,094
Professional clinical service fees	289,691	276,552
Hospital services	2,811,332	2,499,193
Auxiliary enterprises, net of scholarship allowances	204,104	178,994
Other operating revenues	27,986	24,482
Total operating revenues	4,394,130	3,909,268
OPERATING EXPENSES		
Educational and general, excluding depreciation and amortization	1,291,499	1,211,227
Clinical operations, excluding depreciation and amortization	485,202	433,323
Hospital and clinics, excluding depreciation and amortization	2,235,603	1,850,919
Auxiliary enterprises, excluding depreciation and amortization	186,716	142,990
Depreciation and amortization	219,526	205,963
Other operating expenses	2,725	1,046
Total operating expenses	4,421,271	3,845,468
NET INCOME (LOSS) FROM OPERATIONS	(27,141)	63,800
NONOPERATING REVENUES (EXPENSES)		
State appropriations	271,317	259,101
COVID-19 funding	69,097	70,065
Gift and non-exchange grants	125,806	118,451
Investment income (loss)	(121,772)	449,002
Interest on capital asset-related debt	(40,928)	(37,965)
Capital grants and gifts	64,215	25,998
Additions to permanent endowments	20,404	21,141
Other, net	(64,228)	(10,003)
Total nonoperating revenues	323,911	895,790
INCREASE IN NET POSITION	296,770	959,590
NET POSITION, beginning of year	5,491,460	4,531,870
NET POSITION, end of year	$ 5,788,230	$ 5,491,460



Total operating revenues were $4.39 billion for the year ended June 30, 2022, an increase of $484.9 million (12%). The primary components of operating revenues were student tuition and fees, net of scholarship allowances, of $380.0 million; grants and contracts and recoveries of facilities and administrative costs of $558.2 million; professional clinical service fees of $289.7 million; hospital services of $2.81 billion and auxiliary enterprises of $204.1 million.

The most significant increase was in hospital services revenue of $312.1 million attributable primarily to an increase in net patient revenues due to increases in both inpatient services and outpatient services activity. Directed Payments increased due to increased eligibility of Medicaid patients and higher commercial rates and prior years' settlements for Medicaid Disproportionate Hospital revenue. Other significant increases in operating revenues are related to grants and contracts and recoveries of facilities and administrative costs of $87.4 million, net tuition and fees of $27.2 million and auxiliary enterprises of $25.1 million.



Operating expenses totaled $4.42 billion, an increase of $575.8 million (15%). Of this amount, $1.29 billion, excluding depreciation and amortization, was expended for educational and general programs, including instruction, research and public service. Clinical operations expenses, excluding depreciation and amortization, were $485.2 million; hospital and clinics expenses, excluding depreciation and amortization, amounted to $2.24 billion and auxiliary enterprises expenses, excluding depreciation and amortization, were $186.7 million. Depreciation and amortization expenses for the year amounted to $219.5 million.

Educational and general expenses, excluding depreciation and amortization, increased $80.3 million due primarily to increases in public service of $48.6 million, research of $35.0 million, student financial aid of $5.5 million, instruction of $17.4 million, academic support of $5.1 million, operations and maintenance of plant of $2.8 million and libraries of $1.9 million offset by decreases in institutional support of $30.5 million and student services of $5.6 million. Clinical operations expenses, excluding depreciation and amortization, increased $51.9 million primarily due to increases in personnel costs. Hospital and clinics expenses, excluding depreciation and amortization, increased $384.7 million primarily due to additional staffing and supplies. Auxiliary enterprises expenses, excluding depreciation and amortization, increased $43.7 million primarily due to increases in athletics expenses of $33.4 million, other auxiliary expenses of $8.8 million and housing and dining expenses of $1.5 million due to the return to normal operations after the COVID-19 pandemic. Depreciation and amortization expense increased $13.6 million primarily due to the implementation of GASB Statement No. 87.

The net loss from operations for the year was $27.1 million. Nonoperating and other revenues, net of expenses, totaled $323.9 million and included state appropriations of $271.3 million, an increase of $12.2 million. COVID-19 funding totaled $69.1 million, a decrease of $969 thousand. Gifts and non-exchange grants totaled $125.8 million, an increase of $7.4 million. Investment loss totaled $121.8 million, a decrease of $570.8 million from prior year investment income of $449.0 million; capital grants and gifts totaled $64.2 million, an increase of $38.2 million; and additions to permanent endowments totaled $20.4 million, a decrease of $737 thousand offset by other, net expenses of $64.2 million, an increase of $54.2 million.

Statement of Cash Flows
The Statement of Cash Flows details how cash has increased or decreased during the fiscal year ended June 30, 2022. 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, capital debt repayments and principal and interest paid or received on leases. 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, 2022 and 2021 are as follows:

Condensed Statements of Cash Flows (in thousands)

	2022	2021
CASH PROVIDED (USED) BY:		
Operating activities	$ (149,766)	$ 189,645
Noncapital financing activities	405,814	464,147
Capital and related financing activities	(234,405)	(320,619)
Investing activities	(59,577)	(261,738)
Net increase (decrease) in cash and cash equivalents	(37,934)	71,435
CASH AND CASH EQUIVALENTS, beginning of year	1,302,720	1,231,285
CASH AND CASH EQUIVALENTS, end of year	$ 1,264,786	$ 1,302,720

The University's cash and cash equivalents decreased $37.9 million in fiscal year 2022. Total cash used by operating activities was $149.8 million, an increase of $339.4 million. Total cash used by investing activities was $59.6 million, a decrease of $202.2 million. Total cash used by capital and related financing activities was $234.4 million, a decrease of $86.2 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 $405.8 million, a decrease of $58.3 million.

Major uses of cash for operating activities were payments to employees for salaries, wages and benefits of $2.51 billion and to vendors and contractors of $1.68 billion. Major sources of cash provided by operating activities were hospital services of $2.52 billion; grants and contracts and recoveries of facilities and administrative costs of $561.3 million; student tuition and fees of $380.4 million; and professional clinical service fees of $345.6 million.

Noncapital financing activities include state appropriations from the Commonwealth of $271.3 million, gifts and grants other than capital purposes of $134.7 million and COVID-19 funding of $51.8 million offset by other payments of $52.9 million.

Capital and related financing activities include $168.1 million that was expended for construction and purchases of capital assets and $97.4 million that was expended for principal and interest payments on capital debt obligations offset by capital grants and gifts of $41.1 million and proceeds from capital debt of $27.5 million.

Investing activities include cash of $953.5 million used for purchases of investments offset by proceeds from sales and maturities of investments of $851.6 million and interest and dividends on investments of $42.3 million.

Capital and Lease Assets and Debt Administration

Capital and Lease Assets.

Capital assets, net of accumulated depreciation, totaled $3.53 billion at June 30, 2022, a decrease of $56.1 million. Capital assets as of June 30, 2022 and significant changes in capital assets during the year are as follows (in millions):

	Balance July 1, 2021	Net Additions (Deletions)	Balance June 30, 2022
Land and land improvements	$ 339	$ 14	$ 353
Buildings, fixed equipment and infrastructure	4,385	80	4,465
Equipment, vehicles and capitalized software	1,019	28	1,047
Library materials and art	173	1	174
Certificate of need	12	—	12
Construction in progress	134	(2)	132
Accumulated depreciation	(2,477)	(177)	(2,654)
Total	$ 3,585	$ (56)	$ 3,529

At June 30, 2022, the University had commitments in construction in progress for capital projects totaling approximately $385.5 million in scope. Major projects include the construction of the new Healthy Kentucky Research Building, health care facilities and campus modernization efforts. The estimated cost to complete the projects in progress is approximately $317.8 million.

Lease assets, net of accumulated amortization, totaled $45.9 million at June 30, 2022 are as follows (in millions):

	Balance July 1, 2021	Net Additions (Deletions)	Balance June 30, 2022
Buildings	$ 24	$ 4	$ 28
Equipment	21	4	25
Vehicles	1	—	1
Accumulated amortization	—	(8)	(8)
Total	$ 46	$ —	$ 46

GASB Statement No. 87 was adopted during fiscal year 2022 resulting in the recognition of lease assets, net of $46.0 million for lessee contracts as of July 1, 2021.

Debt.

At June 30, 2022, capital obligations amounting to $1.11 billion, summarized by trust indenture and type, are as follows (in millions):

	2022		2021	
General Receipts bonds	$	975	$	1,023
Capital financed obligations		47		50
Capital debt obligations		63		68
Notes payable		23		25
Total	$	1,108	$	1,166

Debt decreased $57.8 million during the year primarily due to the annual principal payments on the University's General Receipts bonds of $48.0 million and other obligations of $9.8 million.

At June 30, 2022, lease obligations totaled $43.4 million.

Economic and Other Factors That Will Affect the Future

When the World Health Organization declared COVID-19 a global health pandemic in March 2020, disruptions to the higher education landscape were immediate and wide-ranging. Amid this unprecedented public health crisis, UK demonstrated both its resilience and its commitment to the Commonwealth of Kentucky by swiftly responding to honor its most important principles: protecting the health, safety and well-being of everyone in our community and enabling our students, faculty and staff to succeed.

As the COVID-19 pandemic transitions to an endemic phase, the University has chosen to face the ongoing disruptions as an opportunity to evolve and emerge stronger. The University will meet the emergent demands of an increasingly dynamic world of work and a changing economy. Senior leaders believe the University is well-positioned to maintain its fiscally sound condition and will continue to provide excellent services to students, patients, the community and the citizens of the Commonwealth. This outlook, along with ongoing efforts toward revenue diversification, cost containment, efficiency and effectiveness initiatives, and continued COVID-19 funding opportunities, will enable the University to obtain the resources necessary to meet its strategic objectives. The following are known facts and circumstances that will influence future financial results:

Strategic Plan and Enrollment Growth. The University begins the 2022-23 academic year flanked by a new strategic plan, The UK-PURPOSE (Plan for Unprecedented Research, Purposeful and Optimal Service and Education) a record first-year class of more than 6,100 students and an overall enrollment of nearly 33,000.

Increased State Funding. The Commonwealth entered the 2022 legislative session with substantially more money to budget for the 2022-24 biennium. Federal aid allocated to states during the COVID-19 pandemic and austere budgeting by the Kentucky General Assembly during the pandemic provided the legislature financial flexibility. As a result, the 2022 Kentucky General Assembly invested significant funds in postsecondary education and the University for the upcoming biennium. For fiscal year 2022-23, state appropriations are expected to increase by $47.3 million or 17.4%. This is the first time in recent memory that the percentage increase in state appropriations will exceed the percentage increase in tuition revenue (9.8%).

State Performance Funding Model. The performance funding model allocates state appropriations to the public universities and the Kentucky Community and Technical College System. This is the sixth year the Kentucky General Assembly used the performance funding model and is the second year the Commonwealth has invested new state funds into the model. For fiscal year 2022-23, the Commonwealth is placing $75.8 million of state funds in the performance funding pool for the universities, including the $13.5 million from the prior year. UK has performed extremely well - achieving the highest number of growth rates above the sector average for every year the model has been in use. For fiscal year 2022-23, UK achieved growth rates above the sector average on every metric, earning $30.9 million or 40.8% of the available state funds to the universities.

Resource Allocation Models. The University continues to refine resource allocation models to align shared financial risk and reward among the academic colleges. For the fiscal year 2022-23 budget, academic colleges will participate in three performance-based incentive models: Net Tuition Revenue model, College Productivity Model and the Performance Funding Allocation model. Together, these models represent $20.4 million that the University will distribute directly to the colleges in fiscal year 2022-23 based on their performance. All three represent components of university values and principles.

Tuition Price Sensitivity. Tuition price sensitivity will continue to influence the higher education landscape. A recent report by The College Board, Trends in College Pricing and Student Aid 2021, reveals that between the 2020-21 and 2021-22 academic years, the average tuition and fees paid by in-state students at public four-year institutions increased by 1.6%. When adjusting for inflation (the Consumer Price Index for all urban dwellers is used for the inflation adjustment - CPI-U), most public flagship universities, including the University of Kentucky, had lower in-state tuition and fees in fiscal year 2021-22 than in fiscal year 2016-17. Over the past 10 years, the four-year average annual increase for resident undergraduate tuition at UK will have dropped from 5.8% to 1.6%.

National Dips in Enrollment and Student Attrition. Both trends could have multi-year revenue implications. Even before the pandemic, lower birth rates over the past twenty years resulted in fewer high school graduates. Challenges associated with COVID-19 obscure a decade of decline across the nation in college enrollment. Additionally, Kentucky's in-state college rate continues to decline. According to the most recent data from the Kentucky Council on Postsecondary Education, the rate has fallen from 54.0% in 2015 to 50.5% in 2019. These trends will impact future enrollment efforts for both resident and non-resident undergraduate students.

The National Student Clearinghouse Research Center (Clearinghouse) reported a four percent drop in undergraduate enrollment for fall 2020 compared to fall 2019 and a 2.7% increase in graduate enrollment. UK freshmen entering college for the first time dropped by 8.5% in fall 2020 compared to fall 2019. In contrast, graduate enrollment increased by 8.3%. The Clearinghouse also released its 2021 Persistence and Retention Report. Persistence rate is measured by the percentage of students who return to college at any institution for their second year and retention rate measures the percentage of students who return to the same institution. Of the 2.6 million students who entered college as first-time freshmen in fall 2019, 74% returned to college for their second year. Following several years of marked stability, this rate represents a pandemic-related, unprecedented one-year drop of two percent in this important student success indicator.

Curricula Flexibility. According to a recent report by Hanover Research, more than 50% of Generation Z (born 1995-2012) say they are open to something other than a four-year bachelor's degree to prepare for their futures. The report also notes a nearly 20% decline between 2013 and 2019 in the number of U.S. adults who consider a college education to be "very important." Rather than relying on name recognition, academic prestige and long-standing traditional instructional models, campuses will need to be nimble, promoting flexibility and transparency in types of training and credentials as well as in tuition pricing strategies to remain relevant and competitive. The Hanover Report cites the World Economic Forum and estimates that 50% of employees worldwide will need reskilling by 2025. UK, like other universities, was already responding to the pandemic's impact on the job market boosted interest in non-degree and certificate credentials that support in-demand fields like health, informatics and business. Graduate enrollment at the University increased almost 19% in fall 2021 compared to fall 2019, a data point likely indicative of this trend.

UK HealthCare. For the seventh consecutive year, UK HealthCare is ranked as the No. 1 hospital in Kentucky in the 2022-23 Best Hospitals rankings and ratings from U.S. News & World Report. Annual inpatient discharges from UK's hospitals are expected to exceed 40,500 for fiscal year 2023 an increase of over 18% in the last 10 years. Markey Cancer Center, Kentucky's only NCI-designated cancer center, moved up to No. 33 the U.S. News Top 50 national ranking for cancer care. This makes the sixth consecutive year

Markey has been ranked in the Top 50. In support of Markey Cancer Center's mission to increase access for Kentucky's most complex patients, in December of 2021, the UK Board of Trustees approved a purchase agreement to acquire residential parcels across from UK Albert B. Chandler Hospital for the construction of a new outpatient cancer treatment center and advanced ambulatory complex. The design phase of the capital project was approved by the UK Board of Trustees' health care committee in May 2021. The proposed complex - with an estimated 260,000 square feet for cancer services - includes space for other advanced ambulatory (outpatient) clinics and structured parking as well as space for services such as outpatient operating rooms, procedures rooms, diagnostics and imaging services, pharmacy and lab services and room for meetings and support services. In June 2022, UK HealthCare announced plans to enter a purchase agreement to initially acquire approximately 27 acres of property in the Hamburg development along U.S. Interstate I-75 - noted as a fast-growing area of the Bluegrass region.

UK Research. With thoughtful planning, multi-disciplinary collaboration and execution, UK Research has achieved extraordinary growth in external funding. In fiscal year 2021-22, UK faculty again exceeded $400.0 million in annual grants and contracts awarded. As of June 30, 2022, grants and contracts of approximately $359.9 million have been awarded to the University but not expended. We recognize the essential nature and value of all scholarly and creative activity undertaken at a flagship, land-grant institution, the University's mission, and current financial environment compel a focus on research where the needs of Kentuckians and the Commonwealth are most pressing. We identified research areas where the University can continue to compete successfully for external research support. The seven research priority areas are cancer, cardiovascular disease, diabetes and obesity, energy, neuroscience, substance use and diversity and inclusion. UK Research is using strategic investment funds to seed innovative collaborative research and help investigators secure federal funding.

Investment in Facilities and Infrastructure. In partnership with the Commonwealth, in July 2011, the University initiated the modernization of many of its facilities. Since then, over $3.00 billion has been invested to protect historically significant buildings, increase building accessibility and provide the facilities and infrastructure necessary to ensure student success and healthcare advancements that benefit all Kentuckians. Furthermore, the 2022 Kentucky General Assembly authorized and funded, for the 2022-24 biennium, a significant investment in the University's facilities including:

Project	State bonds	University funds	Total
Asset preservation	$154.2 million	30% match or $46.3 million	$200.5 million
New health education facility	$250.0 million	$130.0 million	$380.0 million
New Cancer and Ambulatory Facility Project		$450.0 million	$450.0 million
Modernization pool to upgrade older campus facilities		$375.0 million	$375.0 million

Summary. Now, more than ever, the future of higher education and the Commonwealth depend on the University to uplift the individuals and communities it so proudly serves. UK's Strategic Plan – UK-PURPOSE provides five principles that serve as a north star for guiding institutional decisions. With compassion and grit, the University has adopted new technology, business models and revamped campus operations. The University's wide array of programs allows us to excel in multidisciplinary studies and foster an environment of cooperative engagement across all colleges, programs and research endeavors.

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
STATEMENT OF NET POSITION (in thousands)
JUNE 30, 2022

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	
Current Assets	
Cash and cash equivalents	$ 1,070,208
Notes, loans, leases and accounts receivable, net	830,582
Investments	63,567
Inventories and other assets	82,426
Total current assets	2,046,783
Noncurrent Assets	
Restricted cash and cash equivalents	194,578
Endowment investments	1,754,168
Other long-term investments	523,197
Notes, loans, leases and accounts receivable, net	334,575
Other noncurrent assets	7,609
Capital assets, net	3,528,975
Lease assets, net	45,892
Total noncurrent assets	6,388,994
Total assets	**8,435,777**
Deferred Outflows of Resources	19,436
Total assets and deferred outflows of resources	**8,455,213**
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	
Current Liabilities	
Accounts payable and accrued liabilities	390,141
Unearned revenue	131,766
Long-term liabilities - current portion	99,733
Total current liabilities	621,640
Noncurrent Liabilities	
Unearned revenue	216,971
Long-term liabilities	1,206,574
Net other postemployment benefit liability - retiree health	14,874
Total noncurrent liabilities	1,438,419
Total liabilities	**2,060,059**
Deferred Inflows of Resources	606,924
Total liabilities and deferred inflows of resources	**2,666,983**
NET POSITION	
Net investment in capital assets	1,975,798
Restricted	
Nonexpendable	
Scholarships and fellowships	216,630
Research	294,354
Instruction	88,071
Academic support	87,777
Other	15,436
Total restricted nonexpendable	702,268
Expendable	
Scholarships and fellowships	134,719
Research	126,638
Instruction	71,329
Academic support	143,562
Loans	12,108
Capital projects	116,157
Debt service	1,447
Auxiliary	48,088
Other	77,328
Total restricted expendable	731,376
Total restricted	1,433,644
Unrestricted	2,378,788
Total net position	**$ 5,788,230**

See notes to financial statements

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (in thousands)
FOR THE YEAR ENDED JUNE 30, 2022

OPERATING REVENUES	
Student tuition and fees	$ 557,950
Less: Scholarship allowances	(177,927)
Net student tuition and fees	380,023
Federal grants and contracts	318,628
State and local grants and contracts	118,436
Nongovernmental grants and contracts	31,242
Recoveries of facilities and administrative costs	89,891
Sales and services	78,393
Federal appropriations	15,748
County appropriations	28,656
Professional clinical service fees	289,691
Hospital services	2,811,332
Auxiliary enterprises:	
Housing and dining	29,568
Less: Scholarship allowances	(429)
Net housing and dining	29,139
Athletics	126,311
Other auxiliaries	48,654
Other operating revenues	27,986
Total operating revenues	**4,394,130**
OPERATING EXPENSES	
Educational and general:	
Instruction	318,057
Research	349,607
Public service	266,942
Libraries	23,572
Academic support	96,065
Student services	55,077
Institutional support	35,197
Operations and maintenance of plant	91,864
Student financial aid	55,118
Depreciation and amortization	83,398
Total educational and general	1,374,897
Clinical operations (including depreciation and amortization of $8,462)	493,665
Hospital and clinics (including depreciation and amortization of $91,917)	2,327,519
Auxiliary enterprises:	
Housing and dining (including depreciation and amortization of $10,863)	26,771
Athletics (including depreciation and amortization of $16,876)	159,437
Other auxiliaries (including depreciation and amortization of $8,010)	36,257
Other operating expenses	2,725
Total operating expenses	**4,421,271**
Net loss from operations	**(27,141)**
NONOPERATING REVENUES (EXPENSES)	
State appropriations	271,317
COVID-19 funding	69,097
Gifts and non-exchange grants	125,806
Investment loss	(121,772)
Interest on capital asset-related debt	(40,928)
Other nonoperating revenues and expenses, net	(53,264)
Net nonoperating revenues	**250,256**
Net income before other revenues, expenses, gains or losses	**223,115**
Capital grants and gifts	64,215
Additions to permanent endowments	20,404
Other, net	(10,964)
Total other revenues	**73,655**
INCREASE IN NET POSITION	**296,770**
NET POSITION, beginning of year	**5,491,460**
NET POSITION, end of year	**$ 5,788,230**

See notes to financial statements

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
STATEMENT OF CASH FLOWS (in thousands)
FOR THE YEAR ENDED JUNE 30, 2022

CASH FLOWS FROM OPERATING ACTIVITIES	
Student tuition and fees	$ 380,367
Grants and contracts	473,047
Recoveries of facilities and administrative costs	88,284
Sales and services	18,232
Federal appropriations	14,652
County appropriations	26,785
Payments to vendors and contractors	(1,680,670)
Payments on short-term leases	(602)
Student financial aid	(56,645)
Salaries, wages and benefits	(2,507,797)
Professional clinical service fees	345,599
Hospital services	2,523,412
Auxiliary enterprises receipts	199,795
Loans issued to students	(19,215)
Collection of loans to students	21,435
Self insurance receipts	74,628
Self insurance payments	(76,985)
Other receipts	25,912
Net cash used by operating activities	**(149,766)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State appropriations	271,317
COVID-19 funding	51,758
Gifts and grants received for other than capital purposes:	
Gifts received for endowment purposes	20,404
Gifts received for other purposes	114,322
Agency and loan program receipts	343,970
Agency and loan program payments	(343,029)
Other financing payments	(52,928)
Net cash provided by noncapital financing activities	**405,814**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital grants and gifts	41,118
Purchases of capital assets	(168,110)
Proceeds from capital debt	27,520
Payments to refunding bond agents	(27,977)
Proceeds from sales of capital assets	1,433
Principal paid on capital debt	(58,289)
Interest paid on capital debt	(39,157)
Principal payments received on leases receivable	32
Interest payments received on leases receivable	(1)
Principal paid on leases payable	(10,819)
Interest paid on leases payable	(1,338)
Other financing receipts	1,183
Net cash used by capital and related financing activities	**(234,405)**
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales and maturities of investments	851,599
Interest and dividends on investments	42,315
Purchases of investments	(953,491)
Net cash used by investing activities	**(59,577)**
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(37,934)**
CASH AND CASH EQUIVALENTS, beginning of year	**1,302,720**
CASH AND CASH EQUIVALENTS, end of year	**$ 1,264,786**

See notes to financial statements

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
STATEMENT OF CASH FLOWS (in thousands)
FOR THE YEAR ENDED JUNE 30, 2022

Reconciliation of net loss from operations		
to net cash used by operating activities:		
Net loss from operations	$	(27,141)
Adjustments to reconcile net loss from operations		
to net cash used by operating activities:		
Depreciation and amortization expense		219,526
Change in assets and liabilities:		
Notes, loans, leases and accounts receivable, net		(259,895)
Inventories and other assets		5,374
Deferred outflows of resources		21,024
Accounts payable and accrued liabilities		12,348
Unearned revenue		(26,725)
Long-term liabilities		(36,367)
Net OPEB liabilities		(121,386)
Deferred inflows of resources		63,476
Net cash used by operating activities	**$**	**(149,766)**
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Lease obligation incurred for lease assets	$	8,097
Gifts of capital assets	$	1,218
Gifts of other assets held for sale	$	2,130
Capital asset change in accounts payable and long-term liabilities	$	7,456
Amortized bond discount and premium	$	5,894
Amortized difference between reacquisition price and net carrying amount of refunded debt	$	1,147
Capital asset trade in	$	645
Investment unrealized losses	$	(220,528)

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
STATEMENT OF FIDUCIARY NET POSITION (in thousands)
JUNE 30, 2022

ASSETS		
Cash and cash equivalents	$	7,362
Accrued interest receivable		26
Investments		240,151
Total assets		247,539
LIABILITIES		
Accounts payable and accrued liabilities		—
Total liabilities		—
NET POSITION		
Net position restricted for postemployment benefits other than pensions	$	247,539

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION (in thousands)
FOR THE YEAR ENDED JUNE 30, 2022

Revenues (losses)		
Investment income (loss):		
Interest and dividend income	$	4,017
Net depreciation in fair value of investments		(22,228)
Net investment loss		(18,211)
Contributions:		
University of Kentucky		10,968
Beneficiaries		4,238
Total contributions		15,206
Total losses		(3,005)
Expenses		
Administrative expenses		2,233
Payments to retirees and beneficiaries		15,407
Total expenses		17,640
DECREASE IN NET POSITION		(20,645)
NET POSITION restricted for postemployment benefits other than pensions, beginning of year		268,184
NET POSITION restricted for postemployment benefits other than pensions, end of year	$	247,539

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, *The Financial Reporting Entity* and amended by Statement No. 39, *Determining Whether Certain Organizations are Component Units,* Statement No. 61, *The Financial Reporting Entity: Omnibus - An Amendment of GASB Statements No.14 and No. 34* and Statement No. 80, *Blending Requirements for Certain Component Units,* of the Governmental Accounting Standards Board (GASB) and which meet the definition of an affiliated corporation under Kentucky Revised Statutes (KRS) section 164A.550). The affiliates are presented as blended component units since University management has operational responsibility for each affiliated corporation and are as follows:

- University of Kentucky Research Foundation (UKRF) and its for-profit subsidiary, Kentucky Technology, Inc. (KTI). KTI has a calendar-year based fiscal year from January 1 through December 31. Therefore, the financial statement of KTI as of December 31, 2021 is included in the UKRF's financial statement as of June 30, 2022.
- University of Kentucky Gluck Equine Research Foundation, Inc. (UKGERF)
- University of Kentucky Humanities Foundation, Inc. (UKHF)
- University of Kentucky Mining Engineering Foundation, Inc. (UKMEF)
- Central Kentucky Management Services, Inc. (CKMS)

The financial statements of the University also include non-profit entities for which the University is financially accountable as defined by GASB, but which are not affiliated corporations under KRS and are as follows:

- Kentucky Medical Services Foundation, Inc. (KMSF)
- University of Kentucky Alumni Association (UKAA)
- University of Kentucky Real Estate Foundation (UKREF)

KMSF and UKREF are included within the University reporting entity as blended component units as they provide services entirely to the University. UKAA is included within the University reporting entity as a blended component unit as it has a dual reporting/funding model which integrates UKAA with the University.

The financial statements of the University also include the operations of organizational units of the University and are as follows:

- Kentucky Tobacco Research and Development Center (KTRDC)
- WUKY Radio
- UK HealthCare Hospital System (the System) which includes the following:
  - Beyond Blue Corporation (BBC), a wholly owned non-profit subsidiary that manages the joint venture between the System and King's Daughters Health System that began on April 1, 2021.
  - Kentucky Healthcare Enterprise, Inc., a wholly owned for-profit subsidiary.
  - Surgery Blue, LLC, a wholly owned for-profit subsidiary and its for-profit subsidiary, Surgery Center of Lexington, LLC (SCL) (51% ownership). SCL has a calendar-year based fiscal year from January 1 through December 31. Therefore, the financial statement of SCL as of December 31, 2021 is included in the System's financial statements as of June 30, 2022.

- Separate financial statements were not issued in fiscal year 2022 for BBC or Surgery Blue, LLC. Nevertheless, these affiliated corporations are included in the University's financial statements and are alter egos of the University.

The separate financial statements for the above entities can be found at: www.uky.edu/ufs/financial-statements.

The other post-employment benefit plans (OPEB Plans or Plans) are single-employer defined OPEB benefit plans included in the financial statements as OPEB trust fiduciary funds. The University Board of Trustees (the Board) performs the governing duties of the Plans, as the Plans do not have a separate Board. The fiduciary fund statements are presented as of June 30, 2022, the Plans' fiscal year-end.

The Plans are presented as fiduciary component units in the University's financial statements. The Plans are legal separate entities and the University appoints a voting majority of the Plans' governing body, provides specific financial benefits to the Plans and the Plans impose financial burden on the University.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the GASB. 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 and lease assets, net of accumulated depreciation, outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets, lease liabilities, deferred outflows of resources and deferred inflows of resources.

- 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 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 OPEB Plans and focuses on the fiduciary net position and the changes in fiduciary 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, equity securities and negotiable certificates of deposit are carried at fair value, as determined by the major securities markets. Alternative investments are stated at net asset value. Life insurance policies, negotiable certificates of deposit and guaranteed investment contracts are stated at cost. See note 2 for more information on the fair value determination. Changes in unrealized gains (losses) on the carrying value of investments are reported as a component of investment income (loss) in the Statement of Revenues, Expenses and Changes in Net Position.

Notes, Loans, Leases 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 various lessees; amounts due from the Commonwealth for capital projects; amounts due from sponsors for reimbursement of expenses made pursuant to grants and contracts; amounts due under multimedia rights contract and service concession arrangements; and pledges that are verifiable, measurable and expected to be collected. Accounts receivable is recorded net of estimated uncollectible amounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

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

Pooled Endowment Funds. All endowments are managed in a consolidated investment pool, which consists of more than 2,500 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 3.5%, and not more than five 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 0.5%, for a maximum annual assessment of one percent, to support additional expenses related to the capital campaign. For the year ended June 30, 2022, the University's annual endowment management fee was 0.9%.

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

The components of the University's spending policy distribution and management fee for the year ended June 30, 2022 are as follows (in thousands):

Gross spending policy distribution	$	55,796
Reinvested spending policy distribution		(26,925)
Net spending policy distribution	$	28,871
Management fee	$	14,928

Capital Assets. Capital assets are stated at cost at the date of acquisition or, in the case of gifts, at acquisition value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*.

Equipment with a unit cost of $5 thousand or more ($2 thousand or more for KMSF and $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 thousand 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 student housing buildings under the Greystar service concession agreement, 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.

Lease Assets. Lease assets are initially recorded at the initial measurement of the lease liability, plus lease payment made at/or before the commencement of the lease term, less any incentives received from the lessor at/or before the commencement of the lease, plus initial direct costs that are ancillary to place the asset into service. Lease assets are amortized on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset.

Capital and Lease Assets Impairment. The University evaluates capital and lease assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital or lease asset has occurred. If a capital or lease asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, the accumulated depreciation or amortization 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 impairment of $173 thousand was recognized during the year ended June 30, 2022.

Deferred Outflows of Resources. A deferred outflow of resources is a loss in net position by the University that is applicable to a future reporting period. Deferred outflows of resources are reported in the Statement of Net Position, but are not recognized in the financial statements as expense until in the related period.

Unearned Revenue. Unearned revenue consists primarily of amounts received from grant and contract sponsors that have not yet been earned under the terms of the agreement. Unearned revenue also includes amounts received from multimedia rights pursuant to contract agreement and amounts received in advance of an event, such as athletic ticket sales relating to future fiscal years, unearned hospital reimbursement revenue 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, 2022 is recorded as a liability by the University. Temporary disability leave payable upon termination under the University's payout policy is also recorded as a liability. Compensated absence liabilities are computed using the pay rates in effect at the Statement of Net Position date plus an additional amount for compensation-related payments, such as Social Security and Medicare taxes computed using rates in effect at that date.

Deferred Inflows of Resources. A deferred inflow of resources is a gain in net position by the University that is applicable to a future reporting period. Deferred inflows of resources are reported in the Statement of Net Position but are not recognized in the financial statements as revenue until in the related period.

Scholarship Allowances. Student tuition and fees are presented net of scholarship allowances applied to student accounts. Stipends and other payments made directly to students are presented as student financial aid expenses. Scholarship allowances are the difference between the stated charge for goods and services provided by the University and the amount that is paid by students or third parties on behalf of the students. Certain governmental grants, such as Pell grants and other similar federal and state programs, 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 non-acute 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 36% and 30%, respectively, of the System's net patient services revenues before the provision for doubtful accounts for the year ended June 30, 2022. 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 the impact of the COVID-19 pandemic and unemployment, more Kentuckians applied for and received presumptive Medicaid. These changes have an impact on Medicaid payments. Prior year audits were completed and the System was able to recognize $51.5 million of Medicaid Disproportionate Share Hospital revenue and other settlements during fiscal year 2022. The calculation methodology for supplemental payments was adjusted during fiscal year 2020 and is now referred to as Directed Payments. These payments replaced the Medicaid Managed Care Organization's portion of Intensity Operating Allowance and Physician Supplemental Payments. The Directed Payments are the difference between the System's average commercial rate and the rates Medicaid Managed Care Organizations pay for health care services. The payments are applicable to both inpatient and outpatient hospital services. A per day and per visit gap has been calculated and is applied to Medicaid Managed Care volume. The program is based upon data two years in arrears. The payments are based upon two components: access and quality. For fiscal year 2022, access was 90% of the program and quality was 10%. The Commonwealth withholds the quality component as well as an additional 5% for reconciliation, which occurs 14 months following the end of the first quarter, i.e., November 2022 for July through September 2021. A receivable for these dollars has been applied to the third party liability account for fiscal year 2022. Directed Payments of $554.9 million were recognized in net patient service revenue in fiscal year 2022.

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.

Charity Care. 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 $54.4 million for the year ended June 30, 2022. The costs of charity care provided under the System's charity care policy were $15.5 million for the year ended June 30, 2022. 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 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 for ESH for the year ended June 30, 2022; and $2.2 million for CKRC for the year ended June 30, 2022. 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. The contract was renewed for the period of July 1, 2022 to June 30, 2023 with substantially the same terms.

Higher Education Emergency Relief Funds III (HEERFIII). The Higher Education Emergency Relief Fund III (HEERF III) was authorized by the American Rescue Plan (ARP), Public Law 117-2, signed into law on March 11, 2021 and provided $39.60 billion in support to institutions of higher education to serve students and ensure learning continued during the COVID-19 pandemic.

ARP funds are in addition to funds authorized by the Coronavirus Response and Relief Supplemental Appropriations Act, 2021 (CRRSAA), Public Law 116-260 and the Coronavirus Aid, Recovery and Economic Security (CARES) Act, Public Law 116-136. Emergency funds available to institutions and their students under all emergency funds total $76.20 billion. HEERF III was also one of the largest single investments ever made in American higher education for both students and institutions. It provided resources for many of our nation's most under-resourced institutions that educate the students most impacted by the pandemic. HEERF III required the institution to implement evidence-based practices to monitor and suppress coronavirus in accordance with public health guidelines and conduct direct outreach to financial aid applicants about the opportunity to receive a financial aid adjustment due to the recent unemployment of a family member or independent student.

The University applied for and received $47.2 million in HEERF III funding, consisting of $23.6 million in institutional aid and $23.6 million in student aid. The student aid portion was distributed to students in the form of emergency financial aid grants to generally cover any component of the cost attendance for the distribution of education or emergency costs that arose due to the COVID-19 pandemic. The institutional portion could be used for multiple items but primarily to cover lost revenue, defray and pay for expenses related to the disruption of campus operations due to COVID-19 and reimburse for costs associated with a transition to a distance education environment. The total amount of $47.2 million of HEERF III has been recorded as nonoperating revenue - COVID-19 funding in the Statement of Revenues, Expenses and Changes in Net Position for the year ended June 30 2022.

The American Rescue Plan Act. The American Rescue Plan Act is a $1.9 trillion economic stimulus bill passed by Congress and signed into law by President Joe Biden on March 11, 2021, to speed up the country's recovery from the economic and health effects of the COVID-19 pandemic and the ongoing recession. The American Rescue Plan Act of 2021 is designed to facilitate the United States' recovery from the devastating economic and health effects of the COVID-19 pandemic and to provide additional relief to address the continued impact of COVID-19 on the economy, public health, state and local governments, individuals and businesses. Based on the ARP Act, the federal government distributed direct payments through APR rural payments to the System in the amount of $21.7 million in fiscal year 2022. The University is accounting for such payments as voluntary nonexchange transactions. Revenue is recognized when all eligibility requirements have been met. These payments are recognized as nonoperating revenue - COVID-19 funding in the University's Statement of Revenues, Expenses and Changes in Net Position. In fiscal year 2022, ARP, if used within the terms and conditions of the program, does not need to be repaid to the federal government. The recipient is required to use it to prevent, prepare for and respond to COVID-19, and the payment shall reimburse only for healthcare-related expenses or lost revenues that are attributable to COVID-19. Appropriate expenses include healthcare-related expenses or lost revenue due to the coronavirus, which includes prevention, preparation, training, reporting, treatment and declined services. The ARP is subject to government oversight including potential audits.

CARES Act. The CARES Act provides for a deferral of payments of the employer portion of payroll tax incurred during the pandemic, allowing half of such payroll taxes be deferred until December 2021 and the remaining half until December 2022. At June 30, 2022, the University had deferred $22.4 million of payroll taxes recorded in accounts payable and accrued liabilities in the accompanying Statement of Net Position.

Income Taxes. The University is an agency and instrumentality of the Commonwealth, pursuant to KRS 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 (IRC) 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 IRC section 501(c)(3). KMSF and UKAA are not-for-profit corporations as described in section 501(c)(3) of the IRC.

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 22. During fiscal year 2022, departmental research in non-sponsored accounts of approximately $99.1 million was recorded as research expense in the Statement of Revenues, Expenses and Changes in Net Position.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The accompanying financial statements include estimates for items such as bad debt and contractual allowances, estimated third-party payer settlements, self-insurance reserves, accrued expenses and other liability accounts.

The University has elected to self-insure certain costs related to medical malpractice, health insurance, workers' compensation and unemployment claims. See note 19.

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 Disability plan (LTD). For purposes of measuring the net OPEB liability (asset), 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. 87. In June 2017, GASB issued Statement No. 87, *Leases*, which provided guidance regarding lease accounting. It establishes a single model for lease accounting based on the foundational principle that a lease is financing the right to use an underlying asset. It requires the University to recognize lease liabilities and the intangible right-to-use lease assets as lessee, and leases receivable and deferred inflows of resources as lessor. The provisions of the statement were effective for fiscal years beginning after December 15, 2019 (fiscal year 2021). Due to the COVID-19 pandemic, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, extending the provisions of this statement by 18 months to fiscal year 2022.

GASB Statement No. 87 was adopted on July 1, 2021 resulting in recognition of leases receivable of $199 thousand and deferred inflows of resources of $199 thousand for lessor contracts, which were reported at present value using the University's implicit interest rate unless otherwise noted in the contract; and lease assets of $46.0 million and lease liabilities of $46.1 million for lessee contracts, which were reported at present value using the University's incremental borrowing rate unless otherwise noted in the contract as of July 1, 2021.

Adoption of GASB Statement No. 89. In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the end of a Construction Period*, which 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. GASB Statement No. 89 was adopted during fiscal year 2022. Interest cost incurred before the end of a construction period is no longer included in the historical cost of capital assets in a business-type activity or enterprise fund. There was no impact to net position as of July 1, 2021.

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

- GASB Statement No. 91, *Conduit Debt Obligations*, issued May 2019. The provisions of this statement are effective for fiscal years beginning after December 15, 2021 (fiscal year 2023). This statement provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations and (3) related note disclosures. This statement achieves those objectives by clarifying the existing definition of a conduit debt obligation, establishing that a conduit debt obligation is not a liability of the issuer, establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations, and improving required note disclosures. The University has determined GASB Statement No. 91 will have no material impact on its financial statements.
- GASB Statement No. 94, *Accounting for Public-private and Public-public Partnership Arrangements*, issued April 20, 2020. The provisions of this statement are effective for the fiscal years beginning after June 15, 2022 (fiscal year 2023). This statement provides guidance on accounting and financial

reporting for availability payment arrangements (APAs). It defines an APA as an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining or operating an underlying nonfinancial asset for a period in an exchange or exchange-like transaction. The University has yet to determine the impact GASB Statement No. 94 will have on its financial statements.

- GASB Statement No. 96, *Accounting for Subscription-based Information Technology Arrangements*, issued May, 2020. The provisions of this statement are effective for the fiscal years beginning after June 15, 2022 (fiscal year 2023). This statement provides guidance on accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users. This statement requires the University to recognize a right-to-use subscription asset, an intangible asset and corresponding subscription liability. The University has yet to determine the impact GASB Statement No. 96 will have on its financial statements.
- GASB Statement No. 101, *Compensated Absences*, issued June 2022. The provisions of this statement are effective for fiscal years beginning after December 15, 2023 (fiscal year 2025). It provides guidance for measuring liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities. With respect to financial statements prepared using the current financial resources measurement focus, it requires that expenditures be recognized for the amount that normally would be liquidated with expendable available financial resources. The University has yet to determine the impact GASB Statement No. 101 will have on its financial statements.

2. DEPOSITS AND INVESTMENTS

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

- Overnight investments include money market funds, certificates of deposit, 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.

<u>Deposit and Investment Policies.</u> 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, 2022 is as follows (in thousands):

Statement of Net Position classification		
Deposits		
Current cash and cash equivalents	$	1,070,208
Restricted cash and cash equivalents		194,578
Total deposits		1,264,786
Investments		
Current investments		63,567
Endowment investments		1,754,168
Other long-term investments		523,197
Total investments		2,340,932
Total deposits and investments	$	3,605,718

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 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 net asset value (NAV) per share (or its equivalent) practical expedient, amortized cost, or historical cost and therefore have not been classified in the fair value hierarchy. These investments have been included in the following table to permit reconciliation of the fair value hierarchy to the amounts presented in the Statement of Net Position.

The University has the following valuation measurements, by type, at June 30, 2022 (in thousands):

	Total value	Fair Value Measurement Using: Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total measured at fair value	Net asset value (NAV)	Amortized or historical cost
Non-endowed deposits and investments							
Cash and cash equivalents	$ 381,263	$ —	$ —	$ —	$ —	$ —	$ 381,263
Cash surrender value of life insurance policies	9,166	—	—	—	—	—	9,166
Certificates of deposit	43,708	—	43,214	—	43,214	—	494
Diversifying strategies[1]	838	833	—	—	833	5	—
Deposits with the Commonwealth of Kentucky[2]	8,638	—	—	—	—	—	8,638
Global equity - international	9,199	9,196	—	—	9,196	3	—
Global equity - private	263	—	—	—	—	8	255
Global equity - U.S.	26,196	26,186	—	—	26,186	6	4
Global fixed income - public fixed income[3]	1,358,118	10,993	584,691	—	595,684	55,848	706,586
Global fixed income - private credit	1	—	—	—	—	1	—
Guaranteed investment contracts	12,415	—	—	—	—	—	12,415
Other	3	—	—	—	—	—	3
Real assets - private	5	—	—	1	1	4	—
Real assets - public	1,737	1,737	—	—	1,737	—	—
Total non-endowed deposits and investments	1,851,550	48,945	627,905	1	676,851	55,875	1,118,824
Endowed deposits and investments							
Cash and cash equivalents	4,589	—	—	—	—	—	4,589
Diversifying strategies[1]	257,585	—	—	—	—	257,585	—
External trusts	13,830	—	—	13,830	13,830	—	—
Global equity - international	263,537	155,728	210	13	155,951	107,586	—
Global equity - private	373,267	—	—	—	—	373,267	—
Global equity - U.S.	356,061	43,342	953	—	44,295	311,766	—
Global fixed income - public fixed income	158,523	96,361	62,162	—	158,523	—	—
Global fixed income - private credit	57,839	—	—	—	—	57,839	—
Other	1	—	1	—	1	—	—
Real assets - private	231,105	—	—	45,720	45,720	185,385	—
Real assets - public	37,831	21,933	139	—	22,072	15,759	—
Total endowed deposits and investments	1,754,168	317,364	63,465	59,563	440,392	1,309,187	4,589
Total deposits and investments	$ 3,605,718	$ 366,309	$ 691,370	$ 59,564	$ 1,117,243	$ 1,365,062	$ 1,123,413

1) Diversifying strategies include investments in various diversified, unconstrained strategies including hedge funds and global tactical asset allocation strategies.
2) 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.
3) Non-endowed global fixed income - public fixed income includes deposits and investments in the Commonwealth's limited pool and intermediate pool funds. As of June 30, 2022, $706.6 million was held in the Commonwealth's limited-term investment pool and $207.8 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.

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, 2022 are as follows (in thousands):

		Redemption Frequency/Notice Period						
	Net asset value (NAV)	Daily, weekly/ 1 - 7 days	Semi-monthly, monthly/ 15 - 75 days	Quarterly/ 60 - 90 days	Semi-annually/ 60 - 180 days	Annually/ 90 - 180 days	End of term/ 5 to 10 years	Unfunded commitments
Diversifying strategies	$ 257,590	$ 13,352	$ 46,222	$ 106,725	$ 21,629	$ 26,092	$ 43,570	$ 2,432
Global equity - international	107,589	—	84,835	14,547	—	8,207	—	—
Global equity - private	373,275	—	—	—	—	—	373,275	192,663
Global equity - U.S.	311,772	280,593	31,179	—	—	—	—	—
Global fixed income - public fixed income	55,848	55,848	—	—	—	—	—	—
Global fixed income - private credit	57,840	—	—	—	—	—	57,840	19,748
Real assets - private	185,389	—	—	—	—	—	185,389	49,817
Real assets - public	15,759	—	15,759	—	—	—	—	—
Total measured at net asset value	$1,365,062	$ 349,793	$ 177,995	$ 121,272	$ 21,629	$ 34,299	$ 660,074	$ 264,660

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 Statement of Net Position.

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

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

- Overnight investments (deposits and money market funds) policies minimize credit risk in several ways. The University deposits, in Federal Deposit Insurance Corporation (FDIC) insured financial institutions, are covered up to $250 thousand 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 thousand 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 B and a minimum commercial paper quality of A3/P3. Issuer quality below BBB is limited to 10% and a minimum A- portfolio average quality is maintained. The low duration strategies have been classified as global fixed income - public fixed income in the note 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, 2022, the credit quality of the University's fixed income investments is summarized below (in thousands):

	S&P/Moody's Credit Ratings							
	AAA/Aaa	AA/Aa	A	BBB/Baa	Below BBB/Baa	Not rated	Rating not applicable	Total
Non-endowed deposits and investments								
Cash and cash equivalents	$ 262,225	$ —	$ —	$ —	$ —	$ 119,038	$ —	$ 381,263
Certificates of deposit	—	—	—	—	—	43,708	—	43,708
Global fixed income - public fixed income	83,691	96,045	85,801	81,513	1,858	925,388	83,822	1,358,118
Global fixed income - private credit	—	—	—	—	—	1	—	1
Guaranteed investment contracts	—	508	—	—	—	11,907	—	12,415
Total non-endowed fixed income investments	345,916	96,553	85,801	81,513	1,858	1,100,042	83,822	1,795,505
Endowed deposits and investments								
Cash and cash equivalents	4,589	—	—	—	—	—	—	4,589
Global fixed income - public fixed income	48,716	1,292	9,944	15,382	1,099	63,608	18,482	158,523
Global fixed income - private credit	—	—	—	—	—	57,839	—	57,839
Total endowed fixed income investments	53,305	1,292	9,944	15,382	1,099	121,447	18,482	220,951
Total fixed income investments	$ 399,221	$ 97,845	$ 95,745	$ 96,895	$ 2,957	$ 1,221,489	$ 102,304	$ 2,016,456

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 - public fixed income investments whose fair market value was $914.4 million as of June 30, 2022, 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.

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

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

- Overnight 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 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. Additionally, no single issuer, with the exception of government and agency issuers, shall exceed three percent of the portfolio at purchase and high yield issuers may not exceed one percent of the portfolio at purchase. 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. Specific mortgage pools and trusts are considered separate issuers and each tranche within a collateralized mortgage obligation is considered a separate issue;
    - issuer quality below BBB at 10%;
    - non-U.S. dollar denominated at 30% excluding money market securities and money market futures;
    - emerging markets at five percent and
    - foreign currency exposure at five percent.
- 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 governments and U.S. agencies.

At June 30, 2022, 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/intermediate-term investments managed by the University are limited to a maximum duration of five years, intermediate/long-term investments managed by the University are limited to a maximum duration of 10 years, 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 investments 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 one year.
- 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 the University's actively managed intermediate-term fixed income manager are limited to a duration that is within two years of the duration of the Barclays Capital U.S. Intermediate Aggregate Bond Index and unconstrained fixed income strategies have been implemented to further mitigate interest rate risk.

For June 30, 2022, the maturity distribution of the University's fixed income investments is summarized below (in thousands):

	Maturities in Years						
	Less than 1	1-5	5-10	Greater than 10	Managed based on duration	Alternative strategy[1]	Total
Non-endowed deposits and investments							
Cash and cash equivalents	$ 381,263	$ —	$ —	$ —	$ —	$ —	$ 381,263
Certificates of deposit	40,332	3,376	—	—	—	—	43,708
Global fixed income - public fixed income	46,179	70,112	12,074	77	1,229,676	—	1,358,118
Global fixed income - private credit[1]	—	—	—	—	—	1	1
Guaranteed investment contracts	—	12,415	—	—	—	—	12,415
Total non-endowed fixed income investments	467,774	85,903	12,074	77	1,229,676	1	1,795,505
Endowed deposits and investments							
Cash and cash equivalents	4,589	—	—	—	—	—	4,589
Global fixed income - public fixed income	—	—	—	—	158,523	—	158,523
Global fixed income - private credit[1]	—	—	—	—	—	57,839	57,839
Total endowed fixed income investments	4,589	—	—	—	158,523	57,839	220,951
Total fixed income investments	$ 472,363	$ 85,903	$ 12,074	$ 77	$ 1,388,199	$ 57,840	$ 2,016,456

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

At June 30, 2022, the University had the following investments managed based on duration (in thousands):

	Fair Value	Modified Duration (Years)
Non-endowed deposits and investments		
Global fixed income - public fixed income		
415(m) matching plan	$ 5,329	7.3
UKAA	611	6.9
Commonwealth of Kentucky intermediate pool	207,810	1.5
Commonwealth of Kentucky limited pool	706,586	0.1
Externally managed low duration strategy funds	304,285	1.0
KMSF	4,182	3.9
KTI	873	4.8
Total non-endowment investments	1,229,676	
Endowed deposits and investments		
Global fixed income - public fixed income	158,523	5.0
Total managed based on duration	$ 1,388,199	

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 operating and endowment investments. One of the University's low duration strategies allows for non-U.S. dollar denominated securities limited to 30% excluding money market securities and money market futures. Within the same portfolio, foreign currency exposure is limited to five percent with any currency hedging requirements met through either hedged cash bond exposure or a combination of forward and derivative positions coupled with a long currency position in the same currency. The value of these investments included in the following table was $23.8 million as of June 30, 2022 and the fair market value of the hedges related to those investments was $1.3 million as of June 30, 2022. 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, 2022, the following endowment and operating investments were subject to foreign currency risk (in thousands):

	Fair Value
Global equity - international	$ 13
Global equity - private	1,394
Global fixed income - public fixed income	23,812
Real assets - private	2,036
Total	$ 27,255

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

Notes, loans, leases and accounts receivable as of June 30, 2022 is as follows (in thousands):

	Gross Receivable	Allowance	Net Receivable
Accrued interest receivable	$ 1,565	$ —	$ 1,565
Commonwealth funded capital projects	547	—	547
Dentistry patient accounts (net of contractual allowances)	3,564	(90)	3,474
Hospital patient accounts (net of contractual allowances)	489,304	(65,452)	423,852
Hospital third-party payer settlements	208,377	—	208,377
KMSF patient accounts (net of contractual allowances)	65,278	(23,265)	42,013
Leases receivable	165	—	165
Multimedia rights receivable	242,595	—	242,595
Pledges receivable (less discounts of $8,332)	93,675	(16,783)	76,892
Reimbursement receivable - federal appropriations	2,526	—	2,526
Reimbursement receivable - grants and contracts	54,922	(387)	54,535
Service concession arrangements	50,504	—	50,504
Student accounts	18,605	(1,304)	17,301
Student loans	36,238	(17,700)	18,538
Other	22,281	(8)	22,273
Total	$ 1,290,146	$ (124,989)	$ 1,165,157
Current portion			$ 830,582
Noncurrent portion			334,575
Total			$ 1,165,157

In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions,* the University is required to record operating and capital pledges as revenue when all eligibility requirements have been met. Endowment pledges are not recognized as revenue until the gifts are actually received. For the year ended June 30, 2022, 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 $356.6 million at June 30, 2022. The University records these amounts as revenue when the cash is received.

The University leases a portion of its property to various third parties, the terms of which expire 2023 through 2028. Payments are constant based on the individual contract terms and conditions. Leases receivable and deferred inflows of resources are reported at the present values using the University's implicit interest rate unless otherwise noted in the contract terms. Leases receivable are reported in notes, loans, leases and accounts receivable, net. The amortization of the discount for lessor contracts is recorded as accrued interest receivable in notes, loans, leases and accounts receivable, net current in the Statement of Net Position and recorded as interest income in the Statement of Revenues, Expenses and Changes in Net Position.

Revenue recognized under lease contracts during the year ended June 30, 2022 was $34 thousand, which includes both lease revenue and interest income.

4. CAPITAL AND LEASE ASSETS, NET

Capital assets as of June 30, 2022 and capital asset activity for the year ended June 30, 2022 are summarized below (in thousands):

	July 1, 2021	Additions	Deletions	June 30, 2022
Land	$ 93,395	$ 12,580	$ —	$ 105,975
Land improvements - nonexhaustible	91,319	1,473	—	92,792
Land improvements - exhaustible	153,808	976	898	153,886
Buildings	4,065,004	82,243	19,208	4,128,039
Fixed equipment - communications	178,466	9,150	221	187,395
Infrastructure	144,996	6,689	—	151,685
Equipment	701,006	59,549	30,785	729,770
Vehicles	24,829	2,197	3,333	23,693
Library materials	149,096	808	119	149,785
Nondepreciable library materials	7,943	147	—	8,090
Capitalized software	292,800	8	909	291,899
Art	15,697	374	—	16,071
Certificate of need	11,609	—	—	11,609
Intangible assets	100	—	—	100
Construction in progress	133,581	66,466	68,609	131,438
Total	6,063,649	242,660	124,082	6,182,227
Accumulated Depreciation				
Land improvements - exhaustible	99,364	9,396	224	108,536
Buildings	1,367,792	110,016	4,613	1,473,195
Fixed equipment - communications	119,253	10,339	55	129,537
Infrastructure	64,210	5,661	—	69,871
Equipment	493,693	55,987	27,114	522,566
Vehicles	20,461	1,713	3,147	19,027
Library materials	146,314	935	—	147,249
Capitalized software	165,426	17,765	—	183,191
Intangible assets	60	20	—	80
Total	2,476,573	211,832	35,153	2,653,252
Capital assets, net	$ 3,587,076	$ 30,828	$ 88,929	$ 3,528,975

At June 30, 2022, the University had commitments for capital projects currently underway in which the total budgeted costs were $385.5 million. Of this amount, $317.8 million remain to be incurred. Such construction was principally financed by cash reserves, gifts and grants, and proceeds from the University's general receipts bonds.

During fiscal year 2022, the University utilized capital financing to acquire various capital assets. As of June 30, 2022, the net book value of land, buildings and software acquired through capital financing included in the above schedule totaled $92.6 million.

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 2023. In Phase II, 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 $232 thousand, for a future gain of approximately $11.8 million.

Lease assets as of June 30, 2022 and lease asset activity for the year ended June 30, 2022 are summarized below (in thousands):

	July 1, 2021	Additions	Deletions	June 30, 2022
Buildings	$ 24,493	$ 4,045	$ —	$ 28,538
Equipment	20,766	3,585	—	24,351
Vehicles	697	—	—	697
Total	45,956	7,630	—	53,586
Accumulated Amortization				
Buildings	—	5,313	—	5,313
Equipment	—	2,381	—	2,381
Total	—	7,694	—	7,694
Lease assets, net	$ 45,956	$ (64)	$ —	$ 45,892

The University adopted GASB Statement No. 87 and recorded its lease assets of $46.0 million as of July 1, 2021.

5. DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources as of June 30, 2022 are as follows (in thousands):

OPEB long-term disability	$ 2,994
OPEB retiree health	12,812
Refunding bonds	3,630
Total	$ 19,436

Deferred outflows of resources from OPEB are more fully described in notes 17 and 18.

Deferred outflows of resources from refunding bonds represents the difference between the reacquisition price and net carrying amount of refunded debt with 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 $1.1 million for fiscal year 2022.

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2022 are as follows (in thousands):

Payable to vendors and contractors	$	190,727
Accrued expenses, including vacation and sick leave		141,542
Accrued interest payable		10,185
Employee withholdings and deposits payable to third parties		47,687
Total	$	390,141

7. UNEARNED REVENUE

Unearned revenues as of June 30, 2022 and unearned revenue activity for the year ended June 30, 2022 are summarized below (in thousands):

	July 1, 2021	Additions	Reductions	June 30, 2022	Current Portion	Noncurrent Portion
Unearned summer school revenue	$ 12,167	$ 13,640	$ 12,167	$ 13,640	$ 13,640	$ —
Unearned hospital revenue	76,426	110,545	149,577	37,394	37,394	—
Unearned grants and contracts revenue	41,668	143,964	142,730	42,902	39,949	2,953
Unearned multimedia rights revenue	227,098	30,210	24,040	233,268	19,692	213,576
Athletic ticket sales and contracts	12,511	32,311	29,705	15,117	14,896	221
Other	22,452	34,055	50,091	6,416	6,195	221
Total	$ 392,322	$ 364,725	$ 408,310	$ 348,737	$ 131,766	$ 216,971

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. This agreement was modified again in November 2020 which extended the contract for an additional year.

8. LONG-TERM LIABILITIES

Long-term liabilities as of June 30, 2022 and long-term liability activity for the year ended June 30, 2022 are summarized below (in thousands):

	July 1, 2021	Additions	Reductions	June 30, 2022	Current Portion	Noncurrent Portion
Bonds, notes and capital debt						
General receipts bonds	$ 1,022,585	$ 27,520	$ 75,470	$ 974,635	$ 50,040	$ 924,595
Capital financed obligations	17,065	—	1,965	15,100	2,055	13,045
Capital debt obligations	68,373	472	5,732	63,113	5,107	58,006
Notes payable	8,537	—	799	7,738	822	6,916
Total	1,116,560	27,992	83,966	1,060,586	58,024	1,002,562
Notes and leases from direct borrowings and direct placements						
Capital financed obligations	32,990	—	1,050	31,940	1,085	30,855
Notes payable	16,495	—	793	15,702	598	15,104
Total	49,485	—	1,843	47,642	1,683	45,959
Total bonds, notes and capital debt	1,166,045	27,992	85,809	1,108,228	59,707	1,048,521
Other liabilities						
Annuities payable	2,146	1,075	461	2,760	386	2,374
Automobile and property self insurance	50	275	269	56	56	—
Compensated absences	5,421	—	663	4,758	907	3,851
Deferred employer social security taxes	22,433	—	22,433	—	—	—
Federal loan programs	15,226	1,687	3,819	13,094	—	13,094
Health insurance	14,822	71,065	72,006	13,881	13,881	—
Insurance executory costs	17,186	—	252	16,934	253	16,681
Medical malpractice	31,969	1,241	5,158	28,052	6,532	21,520
Lease obligations	46,099	8,097	10,819	43,377	11,467	31,910
Unamortized bond premium	43,843	203	6,617	37,429	—	37,429
Unemployment compensation	547	488	696	339	339	—
Workers' compensation	18,913	786	3,736	15,963	5,312	10,651
Other	29,978	42,319	50,861	21,436	893	20,543
Total other liabilities	248,633	127,236	177,790	198,079	40,026	158,053
Total	$ 1,414,678	$ 155,228	$ 263,599	$ 1,306,307	$ 99,733	$ 1,206,574

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 8.2%.

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

Bonds payable consists of general receipts bonds in the original amount of $1.23 billion dated November 24, 2009 through January 11, 2022, which bear interest at 1.0% to 3.9%. 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. Other capital debt obligations are due in periodic installments through May 1, 2049 and bear interest at 2.1% to 4.3%. All bonds, except for the General Receipts 2009 Bonds Series B, General Receipts 2012 Bonds Series A, General Receipts 2017 Bonds Series A and B, General Receipts 2018 Bonds Series B, General Receipts 2019 Bonds Series A, General Receipts 2020 Bonds Series B and General Receipts 2022 Bonds Series A, totaling $1.00 billion, are callable between now and April 2028. The General Receipts 2009 Bonds Series B are 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.

The University entered into a bond purchase agreement with Morgan Stanley on February 17, 2021, granting Morgan Stanley the option to purchase the General Receipts Refunding Bonds, 2022 Series A in the future. The University received $3.2 million forward delivery from Morgan Stanley, representing the net present value savings of the refunding on February 23, 2021. On October 15, 2021, Morgan Stanley notified the University of its intent to exercise its purchase option and on January 11, 2022, $27.5 million of University of Kentucky General Receipts Bonds Series A were issued at a net interest cost of 1.7%. These bonds were issued for the purpose of refunding General Receipts 2014 Bonds Series B which funded the Gatton College of Business and Economics building renovation and expansion.

In prior fiscal years, certain general receipts bonds series were issued as Build America Bonds (BAB) as authorized under the American Recovery and Reinvestment Act of 2009 and as Qualified Energy Conservation Bonds (QECB) as authorized under the Recovery Act and the Hiring Incentive to Restore Employment Act of 2010. The University receives an annual cash subsidy from the U.S. Treasury equal to 35% (BAB) and 80% (QECB) of the interest payable on the bonds. The subsidy, which was approximately $2.0 million for fiscal year 2022, was included in gifts and non-exchange grants in the Statement of Revenues, Expenses and Changes in Net Position. The subsidy payment is contingent on federal regulations and may be subject to change. On March 1, 2013, President Barack Obama signed an executive order reducing the budgetary authority in accounts subject to sequestration. As a result, the BAB subsidy was reduced to approximately 33% and the QECB subsidy was reduced to approximately 76% in fiscal year 2022.

The University's outstanding capital financed obligation from direct placement contains a provision that in an event of default, outstanding amounts on State Property and Buildings Commission 102A become immediately due if the University is unable to make payment. This debt was approximately $795 thousand as of June 30, 2022.

The University General Receipts 2019 Bonds Series A and B, Certificates of Participation from direct placement, contain a provision that in an event of default, the trustee shall seek to enforce the pledge of General Receipts to satisfy the payment of base rent then due and payable under the facilities lease. Additionally, the facilities lessor may terminate the lease and the University's right to occupy the project on the 30th day following such event of default. This debt was approximately $31.1 million as of June 30, 2022.

KMSF's outstanding notes from direct placements are secured with all assets, tangible and intangible. These outstanding notes contain a provision that in the event of default, the secured party takes possession of these assets up to the amount in default. This debt was approximately $15.7 million as of June 30, 2022.

The University's outstanding capital financed obligations from direct placements are secured with all assets related to the financing.

Principal maturities and interest on bonds, notes and capital debt obligations for the next five fiscal years and in subsequent five-year fiscal periods as of June 30, 2022, are as follows (in thousands):

			Notes and capital financed obligations from direct borrowings and direct placements		
	Principal	Interest	Principal	Interest	Total
2023	$ 58,024	$ 42,629	$ 1,683	$ 1,859	$ 104,195
2024	54,214	40,207	1,750	1,797	97,968
2025	67,844	37,541	1,397	1,726	108,508
2026	54,837	34,973	1,447	1,676	92,933
2027	57,055	32,558	1,500	1,621	92,734
2028-2032	255,790	131,813	8,472	7,190	403,265
2033-2037	227,943	81,315	13,563	5,182	328,003
2038-2042	192,144	37,458	6,480	2,701	238,783
2043-2047	91,220	7,815	7,845	1,340	108,220
2048-2049	1,515	27	3,505	165	5,212
Total	$ 1,060,586	$ 446,336	$ 47,642	$ 25,257	$ 1,579,821

The University leases buildings and equipment, the terms of which expire in various years through 2030. The University adopted GASB Statement No. 87 and recorded lease liabilities of $46.1 million as of July 1, 2021. The lease liabilities are reported at net present value using the University's incremental borrowing rate unless otherwise noted in the contract term.

Principal and interest on lease obligations for the next five fiscal years and in subsequent five-year fiscal periods as of June 30, 2022, are as follows (in thousands):

	Principal	Interest	Total
2023	$ 11,467	$ 773	$ 12,240
2024	10,510	545	11,055
2025	8,499	349	8,848
2026	7,631	204	7,835
2027	3,322	95	3,417
2028-2030	1,948	36	1,984
Total	$ 43,377	$ 2,002	$ 45,379

9. DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources as of June 30, 2022 are as follows (in thousands):

Aramark service concession arrangement	$	93,288
Barnes and Noble service concession arrangement		2,591
Forward delivery agreement		2,883
Greystar service concession arrangement		365,132
Lessor contracts		163
OPEB long-term disability		7,709
OPEB retiree health		118,919
Trusts and annuities		16,239
Total	$	606,924

The University 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 capital assets with a carrying value of $290.3 million at June 30, 2022, and deferred inflows of resources in the amount of $278.3 million at June 30, 2022, 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 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 Lewis Honors College. These residence halls are reported as capital assets with a carrying value of $101.3 million at June 30, 2022, and deferred inflows of resources in the amount of $86.8 million at June 30, 2022, 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 Phase 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. In September 2018, this contract was extended 5 years and $1.3 million was added with price contract modification number 20 and in December 2019 an additional 5 years and $2.6 million was added with price contract modification number 23. 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 $92.0 million in facilities investments, including $59.0 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 capital assets with a carrying value of $42.8 million at June 30, 2022, and deferred inflows of resources in the amount of $36.2 million at June 30, 2022, pursuant to the service concession arrangement. The present value of the guaranteed minimum payments over the remaining 17 years of the contract is reported as a receivable of $50.3 million and deferred inflows of resources in the amount of $57.1 million pursuant to the service concession arrangement at June 30, 2022.

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. The bookstore is reported as a capital asset with a carrying value of $3.0 million at June 30, 2022, and deferred inflows of resources in the amount of $2.0 million at June 30, 2022, pursuant to the service concession arrangement. The present value of the guaranteed minimum payments over the remaining eight years is reported after the contract period as a receivable of $211 thousand and deferred inflows of resources in the amount of $580 thousand pursuant to the service concession arrangement as of June 30, 2022.

Deferred inflows for leases receivable is more fully described in note 3. As of June 30, 2022, the deferred inflows for leases of University property to various third parties were $163 thousand and amortized on a straight line basis according to the contract terms.

As of June 30, 2022, the beneficial interests from trusts and annuities that the University will receive in the future years of $16.2 million, were recorded in deferred inflows of resources.

As of June 30, 2022, 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 $118.9 million; and the corresponding amounts for the LTD Plan were $7.7 million.

The University entered into a bond purchase agreement with Morgan Stanley on February 17, 2021, granting Morgan Stanley the option to purchase the General Receipts 2022 Bonds Series A in the future. Upon the closing date on February 23, 2021, the University received $3.2 million from Morgan Stanley as a forward delivery agreement, representing the net present value savings of the refunding. As of June 30, 2022, the deferred inflows for the net present value savings of these refunding bonds were $2.9 million.

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, 2022, restricted expendable net position is composed of the following (in thousands):

Appreciation on permanent endowments	$	300,622
Term endowments		9,464
Quasi-endowments initially funded with restricted assets		244,262
Funds restricted for capital projects and debt service		117,604
Funds restricted for noncapital purposes		47,316
Loan funds (primarily University funds required for federal match)		12,108
Total	$	731,376

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, 2022 are as follows (in thousands):

Working capital requirements	$	93,408
Designated for future year fiscal operations		153,637
Designated for OPEB liability (see notes 17 and 18)		(123,900)
Designated for capital projects		69,576
Designated for renewal and replacement of capital assets		49,562
UK HealthCare Hospital System		1,964,964
Affiliated corporations and component units		171,541
Total	$	2,378,788

12. PLEDGED REVENUES

Pledged revenues for the year ended June 30, 2022 as defined by the General Receipts Trust Indenture are as follows (in thousands):

Student tuition and fees	$	380,023
Nongovernmental grants and contracts		1,402
Recoveries of facilities and administrative costs		89,891
Sales and services		77,822
Hospital services		2,792,752
Auxiliary enterprises - housing and dining		29,139
Auxiliary enterprises - athletics		126,311
Auxiliary enterprises - other		48,654
Other operating revenue		2,085
State appropriations		271,317
Gifts and grants		2,808
Investment income		2,345
Total	$	3,824,549

The University has substantially pledged all of the unrestricted operating and nonoperating revenues to repay the general receipts bonds and capital debt obligations issued from 2009 to 2022. Proceeds from the bonds and capital debt obligations 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 2049. Annual principal and interest payments on bonds are expected to require approximately two percent of pledged revenue. The total principal and interest remaining to be paid on the bonds is approximately $1.41 billion in fiscal year 2022. Principal and interest paid for fiscal year 2022 was $89.4 million.

13. INVESTMENT INCOME (LOSS)

Components of investment income (loss) for the year ended June 30, 2022 are as follows (in thousands):

Interest and dividends earned on endowment investments	$	25,077
Realized and unrealized losses on endowment investments		(130,902)
Interest and dividends on cash and non-endowment investments		11,227
Realized and unrealized losses on non-endowment investments		(29,882)
Investment income from external trusts		2,708
Total	$	(121,772)

14. FUNDS HELD IN TRUST BY OTHERS

The University is the income beneficiary of various perpetual trusts that are held and controlled by external trustees. For the year ended June 30, 2022, the University received income from these trusts of approximately $2.3 million. The market value of the perpetual external trust assets as of June 30, 2022 was approximately $44.3 million. As the University does not have ownership of the trust assets held by external trustees, the trusts are recorded at a nominal value of $1 each.

The University is the residual principal and income beneficiary of various irrevocable trusts that are held and controlled by external trustees. For the year ended June 30, 2022, the University received income from these trusts of approximately $458 thousand. The market value of the irrevocable external trust assets as of June 30, 2022 was approximately $13.8 million 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 year ended June 30, 2022, the University received income from these self-administered trusts of approximately $108 thousand. The market value of the self-administered trusts as of June 30, 2022 was approximately $1.8 million and is included in endowment investments.

15. GRANTS AND CONTRACTS AWARDED

At June 30, 2022, grants and contracts of approximately $359.9 million have been awarded to the University 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 (Plan), a defined contribution plan. The 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 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 Plan, the University and Plan participants make contributions to provide retirement benefits to employees in individually owned contracts. All payments are vested immediately for employees hired prior to January 1, 2010. For employees hired after January 1, 2010, employer contributions are vested after three years. The University's contributions and costs for fiscal year 2022 was approximately $153.0 million. Employees contributed approximately $76.6 million in fiscal year 2022. The University's total payroll costs were approximately $2.01 billion for the year ended June 30, 2022. The payroll for employees covered by the retirement plan was approximately $1.98 billion for the year ended June 30, 2022.

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 following attainment of age 20 1/2. KMSF contributes 10% of the employee's earnings and employee contributions are optional. KMSF contributions for 2022 were approximately $1.2 million. The total payroll costs for employees covered by the defined contribution plan were approximately $11.6 million for the year ended June 30, 2022. Participants become vested 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 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, Statement of Changes in Fiduciary Net Position and Required Supplementary Information.

For Plan reporting purposes, GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, measures net OPEB liability as of June 30, 2022 for fiscal year 2022. For employer reporting purposes, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, measures net OPEB liability as of July 1, 2021 for fiscal year 2022. The following note disclosure is presented in order to comply with GASB Statement No. 75 and GASB Statement No. 74.

The OPEB liabilities measured as of July 1, 2021 and June 30 2022, were based upon the plan members as of January 1, 2021:

Inactive members receiving benefits	3,378
Inactive members entitled not yet receiving benefits	493
Active plan members	4,406
Total plan members	8,277

The contribution requirements of plan members and the University are established and may be amended by the president of the University. For employees hired before January 1, 2006, the University provides a pre-65 credit of up to 90% of the "true retiree" cost of the least expensive pre-65 medical plan. For post-65 benefits, the University provides a credit equal to 90% of the "true retiree" cost of the post-65 medical plan. For fiscal year 2022, the University contributed $9.1 million to the plan. Plan members receiving benefits contributed 46.4% of the premium costs, an average for combined single and family coverage. In fiscal year 2022, total member contributions were approximately $4.2 million.

The University's employer net OPEB liability of $14.9 million was measured as of July 1, 2021 for the fiscal year ended June 30, 2022. The University's Plan net OPEB liability of $42.5 million was measured as of June 30, 2022 for the fiscal year ended June 30, 2022. 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, 2021 and June 30, 2022 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 9.6% for 2021 decreasing to an ultimate rate of 4.5% in 2030. Post-65 RX 9.6% initial rate for 2021 decreasing to an ultimate rate of 4.5% in 2030; Pre-65 6.4% initial rate for 2021 decreasing to an ultimate rate of 4.5% in 2030. For Plan reporting: Post-65 Medical rate is 9.2% for 2022 decreasing to an ultimate rate of 4.5% in 2030. Post-65 RX 9.2% initial rate for 2022 decreasing to an ultimate rate of 4.5% in 2030; Pre-65 6.2% initial rate for 2022 decreasing to an ultimate rate of 4.5% in 2030.
Salary scale	Three percent 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.
Discount rate and investment rate of return	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, 2021, PUB-2010 Amounts Weighted Mortality Table, with mortality improvement projected generationally using scale Mortality Projection-2020 for the employer. For June 30, 2022, PUB-2010 Amounts Weighted Mortality Table, with mortality improvement projected generationally using scale Mortality Projection-2021 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.
Change in benefit terms	Postretirement medical benefits for Medicare eligible retirees was updated from a self-insured retiree Medical Carveout program with a deductible that is tied to the Medicare Part B deductible to a fully-insured Medicare Advantage plan effective 1/1/2019.

The actuarial assumptions used as of July 1, 2021 and June 30, 2022 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 2022 are as follows (in thousands):

Total OPEB liability	$	254,841
Less: Plan fiduciary net position		(239,967)
Total net OPEB liability	$	14,874
Plan fiduciary net position as percentage of the total OPEB liability		94.2%

The components of the Plan's net OPEB liability of the University measured at June 30 for fiscal year 2022 are as follows (in thousands):

Total OPEB liability	$	266,213
Less: Plan fiduciary net position		(223,732)
Total net OPEB liability	$	42,481
Plan fiduciary net position as a percentage of the total OPEB liability		84.0%

The OPEB Plan follows the deposit and investment policies established by the University's Board of Trustees. Such policies are developed to establish and maintain sound financial management practices for the investment and management of the OPEB funds. The fair value of deposits and investments, by Statement of Fiduciary Net Position classification, at June 30, 2022 is as follows (in thousands):

Statement of Fiduciary Net Position classification		
Cash and cash equivalents	$	6,019
Investments		217,713
Total deposits and investments	$	223,732

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

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

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

The OPEB Plan has the following valuation measurements, by type, at June 30, 2022 (in thousands):

		Fair Value Measurement Using					
	Total value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total measured at fair value	Net asset value (NAV)	Amortized or historical cost
Cash and cash equivalents	$ 6,532	$ —	$ —	$ —	$ —	$ —	$ 6,532
Diversifying strategies	32,388	—	—	—	—	32,388	—
Global equity - international	33,055	19,526	—	2	19,528	13,527	—
Global equity - private	46,933	—	—	—	—	46,933	—
Global equity - U.S.	44,156	4,956	—	—	4,956	39,200	—
Global fixed income - public fixed income	19,646	11,879	7,767	—	19,646	—	—
Global fixed income - private credit	7,272	—	—	—	—	7,272	—
Real assets - private	29,059	—	—	5,749	5,749	23,310	—
Real assets - public	4,691	2,709	—	—	2,709	1,982	—
Total deposits and investments	$ 223,732	$ 39,070	$ 7,767	$ 5,751	$ 52,588	$ 164,612	$ 6,532

Cash on deposit with the University, included in cash and cash equivalents, 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.

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

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

The following reflects the approved asset allocation for both the employer and Plan as of June 30, 2022.

Asset Category	Target Allocation
Diversifying strategies	15%
Global equity	61%
Global fixed income	12%
Real assets	12%

For the year ended June 30, 2022, the annual money-weighted rate of return on the OPEB Plan investments, net of OPEB Plan investment expense, was (5.0%). 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, 2021:

Asset Category	Long-term Expected Real Rate of Return
Diversifying strategies	3.3%
Global equity	5.7%
Global fixed income	1.9%
Real assets	6.1%

The following reflects the expected rates of return for the Plan, presented as geometric means, by asset allocation as of June 30, 2022:

Asset Category	Long-term Expected Real Rate of Return
Diversifying strategies	4.4%
Global equity	6.8%
Global fixed income	3.1%
Real assets	4.8%

The discount rate used to measure the total OPEB liability for the employer and Plan was 7.5% for the year ended June 30, 2022, which was the same from the July 1, 2021 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 contributions. Based on those assumptions, the OPEB Plan 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, 2022 are as follows (in thousands):

	Increase (decrease)		
	Total OPEB liability	Plan fiduciary net position	Net OPEB liability
Balance recognized at 7/1/2021			
(based on 7/1/2020 measurement date)	$ 310,902	$ 178,621	$ 132,281
Change recognized for the fiscal year:			
Service cost	2,593	—	2,593
Interest on the total OPEB liability	23,185	—	23,185
Differences between expected and actual experience	(21,244)	—	(21,244)
Changes of assumptions	(51,723)	—	(51,723)
Benefit payments	(8,872)	(8,872)	—
Contributions from the employer	—	13,245	(13,245)
Net investment income	—	58,787	(58,787)
Administrative expense	—	(1,814)	1,814
Net changes	(56,061)	61,346	(117,407)
Balance recognized at 6/30/2022 (based on 7/1/2021 measurement date)	$ 254,841	$ 239,967	$ 14,874

The following presents the employer's fiscal year 2022 net OPEB liability of the University, as well as what the University’s net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.5%) or one-percentage-point higher (8.5%) than the current discount rate (in thousands):

	1% Decrease (6.5%)	Current Rate (7.5%)	1% Increase (8.5%)
Total OPEB liability	$ 289,042	$ 254,841	$ 226,590
Plan fiduciary net position	(239,967)	(239,967)	(239,967)
Net OPEB liability (asset)	$ 49,075	$ 14,874	$ (13,377)

The following presents what the employer's fiscal year 2022 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):

	1% Decrease	Trend Rate	1% Increase
Total OPEB liability	$ 224,389	$ 254,841	$ 291,812
Plan fiduciary net position	(239,967)	(239,967)	(239,967)
Net OPEB liability (asset)	$ (15,578)	$ 14,874	$ 51,845

The following presents the Plan's fiscal year 2022 net OPEB liability of the University, as well as what the University's Plan net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.5%) or one-percentage-point higher (8.5%) than the current discount rate (in thousands):

	1% Decrease (6.5%)	Current Rate (7.5%)	1% Increase (8.5%)
Total OPEB liability	$ 301,335	$ 266,213	$ 237,715
Plan fiduciary net position	(223,732)	(223,732)	(223,732)
Net OPEB liability	$ 77,603	$ 42,481	$ 13,983

The following presents what the Plan's fiscal year 2022 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):

	1% Decrease	Trend Rate	1% Increase
Total OPEB liability	$ 233,394	$ 266,213	$ 306,796
Plan fiduciary net position	(223,732)	(223,732)	(223,732)
Net OPEB liability	$ 9,662	$ 42,481	$ 83,064

For the year ended June 30, 2022, the University recorded OPEB expense reduction of $23.3M million and reported deferred outflows of resources and deferred inflows of resources (in thousands) from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between actual and expected experience	$ 3,122	$ (17,377)
Net difference between expected and actual earnings on OPEB Plan investment	—	(26,294)
Assumption changes	547	(75,248)
Contributions made subsequent to the measurement date of the net OPEB liability	9,143	—
Total	$ 12,812	$ (118,919)

At June 30, 2022, the University reported $9.1 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 during the year ending June 30, 2023. Other amounts (in thousands) reported as deferred outflows of resources and deferred inflows of resources at June 30, 2022, related to OPEB will be recognized in OPEB expense as follows:

2023	$	(36,398)
2024		(32,103)
2025		(22,055)
2026		(23,263)
2027		(1,431)
Total thereafter		—
	$	(115,250)

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 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, Statement of Changes in Fiduciary Net Position and Required Supplementary Information.

For Plan reporting purposes, GASB Statement No. 74 measures net LTD liability as of June 30, 2022 for fiscal year 2022. For employer reporting purposes, GASB Statement No. 75 measures net LTD liability as of July 1, 2021 for fiscal year 2022. The following note disclosure is presented in order to comply with GASB Statement No. 75 and GASB Statement No.74.

The LTD liabilities measured as of July 1, 2021 and June 30, 2022 were based upon the following plan participants as of January 1, 2021:

Disabled members	
Count of members	130
Average age at valuation date	56.7
Average duration since disability (in years)	9.0
Average monthly income net benefit	$857.00
Active (healthy) members	
Count of members	19,145
Average age at valuation date	43.7
Average years of service	9.2

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, 2022, the University's contribution was approximately $1.8 million.

The University's employer net LTD asset of $1.8 million was measured as of July 1, 2021, for the fiscal year ended June 30, 2022. The University's Plan net LTD liability $4.1 million was measured as of June 30, 2022 for the fiscal year ended June 30, 2022. The total LTD liability used to calculate the net LTD liability was determined by an actuarial valuation as of the measurement date. The University's employer net LTD is recorded as other noncurrent assets in the Statement of Net Position.

The total LTD liabilities measured as of July 1, 2021 and June 30, 2022 were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Discount rate and investment rate of return	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	Six 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, 2021, PUB-2010 Public Plans, with mortality improvement projected generationally using Mortality Projection-2020 for the employer. For June 30, 2022 PUB-2010 Public Plans, with mortality improvement projected generationally using Mortality Projection-2021 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	Three percent per year.
Change in assumptions and benefit terms	For July 1, 2021, the mortality table was updated from the PUB-2010 Amounts Weighted Mortality Table, with mortality improvement projected generationally using scale Mortality Projection-2019 to PUB-2010 Amounts Weighted Mortality Table, with mortality improvement projected generationally using scale Mortality Projection-2020; For June 30, 2022, the mortality table was updated from the PUB-2010 Amounts Weighted Mortality Table, with mortality improvement projected generationally using scale Mortality Projection-2020 to PUB-2010 Amounts Weighted Mortality Table, with mortality improvement projected generationally using scale Mortality Projection-2021.

The actuarial assumptions used as of July 1, 2021 and June 30, 2022 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 asset of the University measured at July 1, for fiscal year 2022 are as follows (in thousands):

Total LTD liability	$	26,421
Less: Plan fiduciary net position		(28,217)
Total net LTD asset	$	(1,796)
Plan fiduciary net position as a percentage of the total LTD liability		106.8%

The components of the Plan's net LTD liability of the University measured at June 30, for fiscal year 2022 are as follows (in thousands):

Total LTD liability	$	27,880
Less: Plan fiduciary net position		(23,807)
Total net LTD liability	$	4,073
Plan fiduciary net position as a percentage of the total LTD liability		85.4%

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, 2022.

The fair value of deposits and investments, by Statement of Fiduciary Net Position classification, at June 30, 2022 is as follows (in thousands):

Statement of Fiduciary Net Position classification		
Cash and cash equivalents	$	1,343
Investments		22,438
Total deposits and investments	$	23,781

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

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

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

The LTD Plan has the following valuation measurements, by type, at June 30, 2022 (in thousands):

		Fair Value Measurement Using		
	Total value	Quoted prices in active markets for identical assets (Level 1)	Total measured at fair value	Amortized or historical cost
Cash and cash equivalents	$ 1,343	$ —	$ —	$ 1,343
Diversifying strategies	1,144	1,144	1,144	—
Global equity - international	5,207	5,207	5,207	—
Global equity - U.S.	9,137	9,137	9,137	—
Global fixed income - public fixed income	6,335	6,335	6,335	—
Real assets - public	615	615	615	—
Total deposits and investments	$ 23,781	$ 22,438	$ 22,438	$ 1,343

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

The trustee of the LTD trust diversifies the investments to minimize the risk of losses due to credit risk, interest rate risk, currency and other risks, as appropriate, based on market conditions. At June 30, 2022, 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. See note 2 for a description of credit, interest rate, foreign currency and concentration of credit risks.

The following reflects the approved asset allocation for the employer and Plan as of June 30, 2022:

Asset Category	Target Allocation
Global equity	70%
Global fixed income	30%

The annual money-weighted rate of return on the LTD Plan investments, net of LTD Plan investment expense was (15.4%) for the year ended June 30, 2022. 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, 2021:

Asset Category	Long-term Expected Real Rate of Return
Diversifying strategies	4.2%
Global equity	7.5%
Global fixed income	2.1%

The following reflects the expected rates of return for the Plan, presented as arithmetic means, by asset allocation as of June 30, 2022:

Asset Category	Long-term Expected Real Rate of Return
Diversifying strategies	4.2%
Global equity	7.5%
Global fixed income	2.1%

The discount rate used to measure the total LTD liability for the employer and Plan was 6.5% for the year ended June 30, 2022, which was the same from the July 1, 2021 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, LTD Plan 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, 2022, are as follows (in thousands):

	Increase (decrease)		
	Total LTD liability	Plan fiduciary net position	Net LTD liability (asset)
Balance recognized at 7/1/2021 (based on 7/1/2020 measurement date)	$ 26,045	$ 22,066	$ 3,979
Change recognized for the fiscal year:			
Service cost	2,309	—	2,309
Interest on the total LTD liability	1,790	—	1,790
Differences between expected and actual experience	(2,058)	—	(2,058)
Changes of assumptions	1	—	1
Benefit payments	(1,666)	(1,666)	—
Contributions from the employer	—	1,894	(1,894)
Net investment income	—	5,994	(5,994)
Administrative expense	—	(71)	71
Net changes	376	6,151	(5,775)
Balance recognized at 6/30/2022 (based on 7/1/2021 measurement date)	$ 26,421	$ 28,217	$ (1,796)

The following presents the employer's 2022 net LTD liability of the University, as well as what the University's net LTD liability would be if it were calculated using a discount rate that is one-percentage-point lower (5.5%) or one-percentage-point higher (7.5%) than the current discount rate (in thousands):

	1% Decrease (5.5%)	Current Rate (6.5%)	1% Increase (7.5%)
Total LTD liability	$ 27,595	$ 26,421	$ 25,322
Plan fiduciary net position	(28,217)	(28,217)	(28,217)
Total net LTD asset	$ (622)	$ (1,796)	$ (2,895)

The following presents the Plan's 2022 net LTD liability of the University, as well as what the University's net LTD liability would be if it were calculated using a discount rate that is one-percentage-point lower (5.5%) or one-percentage-point higher (7.5%) than the current discount rate (in thousands):

	1% Decrease (5.5%)	Current Rate (6.5%)	1% Increase (7.5%)
Total LTD liability	$ 28,925	$ 27,880	$ 26,900
Plan fiduciary net position	(23,807)	(23,807)	(23,807)
Total net LTD liability	$ 5,118	$ 4,073	$ 3,093

For the year ended June 30, 2022, the University recorded LTD expense of $1.4 million and reported deferred outflows of resources and deferred inflows of resources, in thousands, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between actual and expected experience	$ 651	$ (4,637)
Net difference between expected and actual earnings on LTD Plan investment	—	(2,980)
Assumption changes	518	(92)
Contributions made subsequent to the measurement date of the net LTD liability	1,825	—
Total	$ 2,994	$ (7,709)

At June 30, 2022, the University reported $1.8 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 during the year ending June 30, 2023. Other amounts, in thousands, reported as deferred outflows of resources and deferred inflows of resources at June 30, 2022, related to OPEB will be recognized in LTD expense as follows:

2023	$ (1,205)
2024	(1,197)
2025	(1,150)
2026	(1,406)
2027	(504)
Total thereafter	(1,078)
	$ (6,540)

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 Commonwealth's 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 thousand 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 Board of Claims, under which the University's liability for certain negligence claims is limited to $250 thousand for any one person or $400 thousand 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 2021 to 2022. 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, 2022 is based on the requirements of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, 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, 2022.

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, 2022.

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.

The University invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit 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 changes could materially affect the amounts reported in the accompanying Statement of Net Position.

The University is currently participating in numerous grants from various departments and agencies of the federal and state governments. The expenditures of grant proceeds must be allowable for eligible purposes. Single audits and audits by the granting department or agency may result in request for reimbursement of unused grant proceeds or disallowed expenditures. Upon notification of final approval by the granting department or agency, the grants are considered closed.

The University has a defined benefit postretirement health care plan whereby it agrees to provide certain postretirement benefits to eligible employees. The benefit obligation is the actuarial present value of all benefits attributed to service rendered prior to the valuation date. It is reasonably possible that events could occur that would change the estimated amount of this liability materially in the near term.

21. CANCER RESEARCH MATCH

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, 2022 is as follows (in thousands):

Funds from private sources approved for match	$ 9,491
Cigarette excise tax funds distributed	1,661
Total cancer research matching fund revenues	$ 11,152
Cancer research matching fund expenses	$ 9,766

22. NATURAL CLASSIFICATION

The University's operating expenses by natural classification for the year ended June 30, 2022 is as follows (in thousands):

Salaries and wages	$	2,015,028
Employee benefits		448,613
Supplies and services		1,425,880
Depreciation and amortization		219,526
Student scholarships and financial aid		87,237
Purchased utilities		47,626
Other, various		177,361
Total	$	4,421,271

23. CURRENT ECONOMIC UNCERTAINTIES

While inflation continues to impact the economy, the duration of this uncertainty and the ultimate financial effects cannot be reasonably estimated at this time. Management and staff anticipate increased costs to impact the upcoming year.

24. SUBSEQUENT EVENTS

On August 16, 2022, the University sold $90.7 million of bonds in two series. The General Receipts 2022 Bonds Series B in the amount of $67.8 million were tax-exempt. The General Receipts 2022 Bond Series C in the amount of $22.9 million were taxable. The par value of $90.7 million plus premium of $6.9 million, for total bond proceeds of $97.6 million, partially funded projects providing $74.0 million for the modernization pool to upgrade older campus facilities capital project and $23.1 million for the first year of the asset preservation capital project. Both bonds series close on September 6, 2022.

25. COMBINED CONDENSED STATEMENTS

The University of Kentucky and its blended component units' condensed statements for the year ended June 30, 2022 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, 2022
(in thousands)

	UK	UKRF	UKGERF	UKHF	UKMEF	CKMS	UKAA	KMSF	UKREF	BBC	Eliminations	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES												
Current Assets												
Cash and cash equivalents	$ 913,499	$ 128,648	$ 218	$ —	$ 131	$ 1,245	$ 3,485	$ 16,723	$ 298	$ 5,961	$ —	$ 1,070,208
Notes, loans, leases and accounts receivable, net	821,389	55,057	—	2	—	1,415	186	47,810	504	2,691	(98,472)	830,582
Investments	—	—	—	—	—	—	—	63,567	—	—	—	63,567
Inventories and other assets	76,554	2,453	—	—	—	16	107	1,300	2,130	—	(134)	82,426
Total current assets	1,811,442	186,158	218	2	131	2,676	3,778	129,400	2,932	8,652	(98,606)	2,046,783
Noncurrent Assets												
Restricted cash and cash equivalents	194,578	—	—	—	—	—	—	—	—	—	—	194,578
Endowment investments	1,721,949	18,069	10,317	1,675	2,194	—	—	—	—	—	(36)	1,754,168
Other long-term investments	432,791	3,556	—	—	—	—	22,947	66,196	—	—	(2,293)	523,197
Notes, loans, leases and accounts receivable, net	334,821	4	—	5	—	—	49	696	—	—	(1,000)	334,575
Other noncurrent assets	7,609	—	—	—	—	—	—	—	—	—	—	7,609
Capital assets, net	3,423,462	6,893	—	—	—	—	28	98,592	—	—	—	3,528,975
Lease assets, net	78,182	2,111	—	—	—	3	—	—	—	—	(34,404)	45,892
Total noncurrent assets	6,193,392	30,633	10,317	1,680	2,194	3	23,024	165,484	—	—	(37,733)	6,388,994
Total assets	8,004,834	216,791	10,535	1,682	2,325	2,679	26,802	294,884	2,932	8,652	(136,339)	8,435,777
Deferred Outflows of Resources	19,436	—	—	—	—	—	—	—	—	—	—	19,436
Total assets and deferred outflows of resources	8,024,270	216,791	10,535	1,682	2,325	2,679	26,802	294,884	2,932	8,652	(136,339)	8,455,213
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES												
Current Liabilities												
Accounts payable and accrued liabilities	371,377	13,553	—	—	1	2,676	2,132	194,398	—	135	(194,131)	390,141
Unearned revenue	90,150	39,843	—	—	—	—	12	1,895	—	—	(134)	131,766
Long-term liabilities - current portion	102,040	747	—	—	—	2	—	5,366	—	—	(8,422)	99,733
Total current liabilities	563,567	54,143	—	—	1	2,678	2,144	201,659	—	135	(202,687)	621,640
Noncurrent Liabilities												
Unearned revenue	214,019	2,952	—	—	—	—	—	—	—	—	—	216,971
Long-term liabilities	1,163,398	1,918	—	—	—	1	1,000	67,444	—	—	(27,187)	1,206,574
Net OPEB retiree health liabilities	14,874	—	—	—	—	—	—	—	—	—	—	14,874
Total noncurrent liabilities	1,392,291	4,870	—	—	—	1	1,000	67,444	—	—	(27,187)	1,438,419
Total liabilities	1,955,858	59,013	—	—	1	2,679	3,144	269,103	—	135	(229,874)	2,060,059
Deferred Inflows of Resources	606,924	—	—	—	—	—	—	—	—	—	—	606,924
Total liabilities and deferred inflows of resources	2,562,782	59,013	—	—	1	2,679	3,144	269,103	—	135	(229,874)	2,666,983
NET POSITION												
Net investment in capital assets	1,943,171	6,799	—	—	—	—	28	25,800	—	—	—	1,975,798
Restricted												
Nonexpendable	695,184	856	4,931	618	679	—	30	—	—	—	(30)	702,268
Expendable	720,964	5,099	5,604	1,064	1,645	—	6	—	—	—	(3,006)	731,376
Total restricted	1,416,148	5,955	10,535	1,682	2,324	—	36	—	—	—	(3,036)	1,433,644
Unrestricted	2,102,169	145,024	—	—	—	—	23,594	(19)	2,932	8,517	96,571	2,378,788
Total net position	$ 5,461,488	$ 157,778	$ 10,535	$ 1,682	$ 2,324	$ —	$ 23,658	$ 25,781	$ 2,932	$ 8,517	$ 93,535	$ 5,788,230

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, 2022
(in thousands)

	UK	UKRF	UKGERF	UKHF	UKMEF	CKMS	UKAA	KMSF	UKREF	BBC	Eliminations	Total
OPERATING REVENUES												
Student tuition and fees, net	$ 380,023	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 380,023
Federal grants and contracts	37,416	281,194	—	—	—	—	—	18	—	—	—	318,628
State and local grants and contracts	95,746	22,690	—	—	—	—	—	—	—	—	—	118,436
Nongovernmental grants and contracts	318,966	29,849	—	—	—	—	—	—	—	—	(317,573)	31,242
Recoveries of facilities and administrative costs	184	89,707	—	—	—	—	—	—	—	—	—	89,891
Sales and services	67,543	10,889	—	—	—	37,903	846	—	57	—	(38,845)	78,393
Federal appropriations	15,748	—	—	—	—	—	—	—	—	—	—	15,748
County appropriations	28,656	—	—	—	—	—	—	—	—	—	—	28,656
Professional clinical service fees	—	—	—	—	—	—	—	292,025	—	—	(2,334)	289,691
Hospital services	2,805,597	—	—	—	—	—	—	—	—	10,877	(5,142)	2,811,332
Auxiliary enterprises:												
Housing and dining, net	29,151	—	—	—	—	—	—	—	—	—	(12)	29,139
Athletics	126,686	—	—	—	—	—	—	—	—	—	(375)	126,311
Other auxiliaries	48,670	—	—	—	—	—	—	—	—	—	(16)	48,654
Other operating revenues	2,084	—	—	—	—	—	—	36,449	—	—	(10,547)	27,986
Total operating revenues	3,956,470	434,329	—	—	—	37,903	846	328,492	57	10,877	(374,844)	4,394,130
OPERATING EXPENSES												
Educational and general:												
Instruction	305,186	12,855	—	—	45	—	—	—	—	—	(29)	318,057
Research	107,002	243,571	3	—	—	—	—	—	—	—	(969)	349,607
Public service	146,945	120,397	—	—	—	—	—	—	—	—	(400)	266,942
Libraries	23,572	—	—	—	—	—	—	—	—	—	—	23,572
Academic support	93,429	2,668	—	—	—	—	—	—	—	—	(32)	96,065
Student services	54,745	337	—	1	—	—	—	—	—	—	(6)	55,077
Institutional support	33,621	864	—	—	—	37,901	6,921	—	226	—	(44,336)	35,197
Operations and maintenance of plant	91,829	208	—	—	—	—	—	—	—	—	(173)	91,864
Student financial aid	52,759	2,319	—	40	—	—	—	—	—	—	—	55,118
Depreciation and amortization	82,283	1,169	—	—	—	2	19	—	—	—	(75)	83,398
Total educational and general	991,371	384,388	3	41	45	37,903	6,940	—	226	—	(46,020)	1,374,897
Clinical operations (including depreciation and amortization of $8,462)	452,313	—	—	—	—	—	—	326,875	—	—	(285,523)	493,665
Hospital and clinics (including depreciation and amortization of $91,917)	2,337,090	—	—	—	—	—	—	—	—	4,248	(13,819)	2,327,519
Auxiliary enterprises:												
Housing and dining (including depreciation and amortization of $10,863)	27,024	—	—	—	—	—	—	—	—	—	(253)	26,771
Athletics (including depreciation and amortization of $16,876)	159,710	—	—	—	—	—	—	—	—	—	(273)	159,437
Other auxiliaries (including depreciation and amortization of $8,010)	36,374	—	—	—	—	—	—	—	—	—	(117)	36,257
Other operating expenses	2,725	—	—	—	—	—	—	—	—	—	—	2,725
Total operating expenses	4,006,607	384,388	3	41	45	37,903	6,940	326,875	226	4,248	(346,005)	4,421,271
Net income (loss) from operations	(50,137)	49,941	(3)	(41)	(45)	—	(6,094)	1,617	(169)	6,629	(28,839)	(27,141)
NONOPERATING REVENUES (EXPENSES)												
State appropriations	271,317	—	—	—	—	—	—	—	—	—	—	271,317
COVID-19 funding	69,097	—	—	—	—	—	—	—	—	—	—	69,097
Gifts and non-exchange grants	125,228	230	—	15	—	—	2,303	—	1,516	—	(3,486)	125,806
Investment income (loss)	(114,976)	(647)	(635)	(96)	(138)	—	(3,528)	390	—	—	(2,142)	(121,772)
Interest on capital asset-related debt	(39,108)	(58)	—	—	—	—	—	(2,855)	—	—	1,093	(40,928)
Grants to (from) the University for noncapital purposes	19,009	(18,724)	(249)	(15)	(21)	—	—	—	—	—	—	—
Other nonoperating revenues and expenses, net	(46,050)	1,355	—	—	—	—	252	—	(8,821)	—	—	(53,264)
Net nonoperating revenues (expenses)	284,517	(17,844)	(884)	(96)	(159)	—	(973)	(2,465)	(7,305)	—	(4,535)	250,256
Net income (loss) before other revenues, expenses, gains, or losses	234,380	32,097	(887)	(137)	(204)	—	(7,067)	(848)	(7,474)	6,629	(33,374)	223,115
Capital grants and gifts	57,673	9,542	—	—	—	—	—	—	—	—	(3,000)	64,215
Additions to permanent endowments	20,419	—	323	—	1	—	—	—	—	—	(339)	20,404
Grants to (from) the University for capital purposes	22,543	(22,543)	—	—	—	—	—	—	—	—	—	—
Other, net	(11,136)	172	—	—	—	—	—	—	—	—	—	(10,964)
Total other revenues (expenses)	89,499	(12,829)	323	—	1	—	—	—	—	—	(3,339)	73,655
INCREASE (DECREASE) IN NET POSITION	323,879	19,268	(564)	(137)	(203)	—	(7,067)	(848)	(7,474)	6,629	(36,713)	296,770
NET POSITION, beginning of year	5,137,609	138,510	11,099	1,819	2,527	—	30,725	26,629	10,406	1,888	130,248	5,491,460
NET POSITION, end of year	$ 5,461,488	$ 157,778	$ 10,535	$ 1,682	$ 2,324	$ —	$ 23,658	$ 25,781	$ 2,932	$ 8,517	$ 93,535	$ 5,788,230

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
COMBINED CONDENSED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2022
(in thousands)

	UK	UKRF	UKGERF	UKHF	UKMEF	CKMS	UKAA	KMSF	UKREF	BBC	Eliminations	Total
CASH FLOWS FROM OPERATING ACTIVITIES												
Student tuition and fees	$ 380,367	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 380,367
Grants and contracts	462,353	328,267	—	—	—	—	—	—	—	—	(317,573)	473,047
Recoveries of facilities and administrative costs	218	88,048	—	—	—	—	—	18	—	—	—	88,284
Sales and services	8,826	10,861	—	—	—	37,151	881	(181)	(432)	—	(38,874)	18,232
Federal appropriations	14,652	—	—	—	—	—	—	—	—	—	—	14,652
County appropriations	26,785	—	—	—	—	—	—	—	—	—	—	26,785
Payments to vendors and contractors	(1,578,873)	(135,953)	(3)	(41)	(16)	(1,613)	(2,045)	(289,424)	(226)	(4,322)	331,846	(1,680,670)
Payments on short-term leases	(602)	—	—	—	—	—	—	—	—	—	—	(602)
Student financial aid	(56,645)	—	—	—	—	—	—	—	—	—	—	(56,645)
Salaries, wages and benefits	(2,222,244)	(244,647)	—	—	(29)	(35,540)	(1,842)	(2,901)	—	(594)	—	(2,507,797)
Professional clinical service fees	—	—	—	—	—	—	—	301,613	—	—	43,986	345,599
Hospital services	2,516,842	—	—	—	—	—	—	—	—	10,877	(4,307)	2,523,412
Auxiliary enterprises receipts	200,197	—	—	—	—	—	—	—	—	—	(402)	199,795
Loans issued to students	(19,215)	—	—	—	—	—	—	—	—	—	—	(19,215)
Collection of loans to students	21,435	—	—	—	—	—	—	—	—	—	—	21,435
Self-insurance receipts	78,584	—	—	—	—	—	—	(3,956)	—	—	—	74,628
Self-insurance payments	(76,985)	—	—	—	—	—	—	—	—	—	—	(76,985)
Other receipts (payments)	67	—	—	—	—	—	—	36,449	—	—	(10,604)	25,912
Net cash provided (used) by operating activities	(244,238)	46,576	(3)	(41)	(45)	(2)	(3,006)	41,618	(658)	5,961	4,072	(149,766)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES												
State appropriations	271,317	—	—	—	—	—	—	—	—	—	—	271,317
COVID-19 funding	51,758	—	—	—	—	—	—	—	—	—	—	51,758
Gifts and grants received for other than capital purposes:												
Gifts received for endowment purposes	20,419	—	323	—	1	—	—	—	—	—	(339)	20,404
Gifts received for other purposes	106,470	233	—	16	—	—	2,303	—	8,786	—	(3,486)	114,322
Agency and loan program receipts	343,970	—	—	—	—	—	—	—	—	—	—	343,970
Agency and loan program payments	(343,029)	—	—	—	—	—	—	—	—	—	—	(343,029)
Grants (to) from the University for noncapital purposes	19,010	(18,724)	(249)	(16)	(21)	—	—	—	—	—	—	—
Other financing receipts (payments)	(45,611)	1,242	—	—	—	—	262	—	(8,821)	—	—	(52,928)
Net cash provided (used) by noncapital financing activities	424,304	(17,249)	74	—	(20)	—	2,565	—	(35)	—	(3,825)	405,814
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES												
Capital grants and gifts	31,576	9,542	—	—	—	—	—	—	—	—	—	41,118
Purchases of capital assets	(167,147)	(66)	—	—	—	—	—	(897)	—	—	—	(168,110)
Proceeds from capital debt	27,520	—	—	—	—	—	—	—	—	—	—	27,520
Payments to refunding bond agents	(27,977)	—	—	—	—	—	—	—	—	—	—	(27,977)
Proceeds from sales of capital assets	1,433	—	—	—	—	—	—	—	—	—	—	1,433
Principal paid on capital debt	(53,095)	—	—	—	—	—	—	(5,194)	—	—	—	(58,289)
Interest paid on capital debt	(37,395)	—	—	—	—	—	—	(2,855)	—	—	1,093	(39,157)
Principal payments received on leases receivable	34	—	—	—	—	(2)	—	—	—	—	—	32
Interest payments received on leases receivable	(1)	—	—	—	—	—	—	—	—	—	—	(1)
Principal paid on leases payable	(9,958)	(655)	—	—	—	—	—	—	—	—	(206)	(10,819)
Interest paid on leases payable	(1,502)	(42)	—	—	—	—	—	—	—	—	206	(1,338)
Grants (to) from the University for capital purposes	22,498	(22,498)	—	—	—	—	—	—	—	—	—	—
Other financing receipts (payments)	1,116	172	—	—	—	—	(6)	(99)	—	—	—	1,183
Net cash provided (used) by capital and related financing activities	(212,898)	(13,547)	—	—	—	(2)	(6)	(9,045)	—	—	1,093	(234,405)
CASH FLOWS FROM INVESTING ACTIVITIES												
Proceeds from sales and maturities of investments	825,237	8,969	4,468	744	1,011	—	11,170	—	—	—	—	851,599
Interest and dividends on investments	37,178	603	147	22	32	—	453	5,217	—	—	(1,337)	42,315
Purchases of investments	(894,488)	(9,228)	(4,468)	(725)	(950)	—	(8,318)	(35,311)	—	—	(3)	(953,491)
Net cash provided (used) by investing activities	(32,073)	344	147	41	93	—	3,305	(30,094)	—	—	(1,340)	(59,577)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(64,905)	16,124	218	—	28	(4)	2,858	2,479	(693)	5,961	—	(37,934)
CASH AND CASH EQUIVALENTS, beginning of year	1,172,982	112,524	—	—	103	1,249	627	14,244	991	—	—	1,302,720
CASH AND CASH EQUIVALENTS, end of year	$ 1,108,077	$ 128,648	$ 218	$ —	$ 131	$ 1,245	$ 3,485	$ 16,723	$ 298	$ 5,961	$ —	$ 1,264,786

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
COMBINED STATEMENT OF FIDUCIARY NET POSITION (in thousands)
JUNE 30, 2022

	OPEB Plan	LTD Plan	Total
ASSETS			
Cash and cash equivalents	$ 6,019	$ 1,343	$ 7,362
Accrued interest receivable	—	26	26
Investments	217,713	22,438	240,151
Total assets	223,732	23,807	247,539
LIABILITIES			
Accounts payable and accrued liabilities	—	—	—
Total liabilities	—	—	—
NET POSITION			
Net position restricted for postemployment benefits other than pensions	$ 223,732	$ 23,807	$ 247,539

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
COMBINED STATEMENT OF CHANGES IN FIDUCIARY NET POSITION (in thousands)
FOR THE YEAR ENDED JUNE 30, 2022

	OPEB Plan	LTD Plan	Total
Revenues (losses)			
Investment income (loss):			
Interest and dividend income	$ 3,190	$ 827	$ 4,017
Net depreciation in fair value of investments	(17,280)	(4,948)	(22,228)
Net investment loss	(14,090)	(4,121)	(18,211)
Contributions:			
University	9,143	1,825	10,968
Beneficiaries	4,238	—	4,238
Total contributions	13,381	1,825	15,206
Total losses	(709)	(2,296)	(3,005)
Expenses			
Administrative expenses	2,152	81	2,233
Payments to retirees and beneficiaries	13,374	2,033	15,407
Total expenses	15,526	2,114	17,640
DECREASE IN NET POSITION	(16,235)	(4,410)	(20,645)
NET POSITION restricted for the postemployment benefits other than pensions, beginning of year	239,967	28,217	268,184
NET POSITION restricted for the postemployment benefits other than pensions, end of year	$ 223,732	$ 23,807	$ 247,539

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

	2022	2021	2020	2019	2018	2017
Total OPEB liability						
Service cost	$ 1,973	$ 2,593	$ 2,668	$ 3,953	$ 3,710	$ 4,356
Interest cost	18,924	23,185	21,888	29,225	28,053	28,667
Change of benefit terms	—	—	—	(58,343)	—	—
Differences between expected and actual experience	(1,187)	(21,244)	757	1,921	(1,071)	12,087
Changes of assumptions	798	(51,723)	870	(63,511)	(3,559)	(40,408)
Benefit payments	(9,136)	(8,872)	(8,736)	(10,824)	(12,620)	(11,889)
Net change in total OPEB liability	11,372	(56,061)	17,447	(97,579)	14,513	(7,187)
Total OPEB liability, beginning	254,841	310,902	293,455	391,034	376,521	383,708
Total OPEB liability, ending	266,213	254,841	310,902	293,455	391,034	376,521
Plan fiduciary net position						
Contributions - employer	9,143	13,245	14,292	18,804	20,013	23,987
Contributions - beneficiaries	4,238	3,951	3,719	4,379	4,945	5,500
Net investment income (loss)	(14,090)	58,787	(839)	9,367	8,989	12,508
Benefit payments	(13,374)	(12,823)	(12,454)	(15,203)	(17,565)	(17,389)
Administrative expense	(2,152)	(1,814)	(1,611)	(1,376)	(783)	(674)
Net change in Plan fiduciary net position	(16,235)	61,346	3,107	15,971	15,599	23,932
Plan fiduciary net position, beginning	239,967	178,621	175,514	159,543	143,944	120,012
Plan fiduciary net position, ending	223,732	239,967	178,621	175,514	159,543	143,944
Net OPEB liability, ending	$ 42,481	$ 14,874	$ 132,281	$ 117,941	$ 231,491	$ 232,577
Plan fiduciary net position as a percentage of OPEB liability	84.0%	94.2%	57.5%	59.8%	40.8%	38.2%
Covered employee payroll	$ 545,798	$ 544,901	$ 563,859	$ 459,655	$ 480,320	$ 494,158
Net OPEB liability as a percentage of covered employee payroll	7.8%	2.7%	23.5%	25.7%	48.2%	47.1%

Notes to schedule:

The Schedules of Changes in Net OPEB Liability and Related Ratios 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.

Change of assumptions and benefit terms:

2022: The mortality table was updated to the PUB-2010 Amounts Weighted Mortality Table, with mortality improvement projected generationally using scale Mortality Projection-2021.

2021: The mortality table was updated to the PUB-2010 Amounts Weighted Mortality Table, with mortality improvement projected generationally using scale Mortality Projection-2020; the health care trend rates have been updated to better anticipate future experience under the Plan.

2020: The mortality table was updated to the PUB-2010 Amounts Weighted Mortality Table, with mortality improvement projected generationally using scale Mortality Projection-2019; the health care trend rates have been updated to better anticipate future experience under the Plan.

2019: The mortality table was updated to the PUB-2010 Amounts Weighted Mortality Table, with mortality improvement projected generationally using scale Mortality Projection-2018; the health care trend rates have been updated to better anticipate future experience under the plan. 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.

2018: The mortality table was updated to the aggregate base rates for healthy lives from the Retirement Plans-2014 mortality study with a fully generational projection from 2006 using scale Mortality Projection-2017.

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

SCHEDULE OF OPEB INVESTMENT RETURNS

Year	Annual money-weighted rate of return, net of investment expenses
2022	(5.0%)
2021	27.8%
2020	(3.1%)
2019	5.5%
2018	6.5%
2017	10.3%

SCHEDULE OF OPEB CONTRIBUTIONS (in thousands)

	2022	2021	2020	2019	2018	2017
Actuarially determined contribution	$ 3,597	$ 12,958	$ 11,917	$ 20,600	$ 20,000	$ 24,454
Contribution in relation to actuarially determined contribution	(9,143)	(13,245)	(14,292)	(18,804)	(20,013)	(23,987)
Contribution deficiency (excess)	$ (5,546)	$ (287)	$ (2,375)	$ 1,796	$ (13)	$ 467
Covered employee payroll	$ 545,798	$ 544,901	$ 563,859	$ 459,655	$ 480,320	$ 494,158
Contribution as a percentage of covered employee payroll	1.7%	2.4%	2.5%	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. Ten years of data for the OPEB Plan is required and will be added as information becomes available.

Methods and assumptions used to determine contribution rates:

Funding policy	For 2022, 2021 and 2020, funding contribution determined as the sum of estimated administrative expenses plus 30-year amortization of the initial unfunded present value of projected benefits and subsequent asset gains/losses and liability gains/losses. For 2019 and 2018, funding contribution was determined as the minimum of the 15-year amortization of unfunded present value of benefits and contribution limit of $20,600,000 and $20,000,000, respectively, not less than than $250,000. For 2017, funding contribution was determined as the GASB 45 Annual Required Contribution, which equals the sum of projected unit credit normal cost plus 30-year amortization of initial unfunded accrued liability and subsequent asset gains/ losses and liability gains/losses.
Amortization	For 2022, 2021 and 2020, the amortization period was a 30 year closed period. For 2019 and 2018, the amortization period was a 15 year open period. For 2017, the amortization period was a 30 year closed period.
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 a 7.5% interest rate.
Health care trend rates	For 2022, post-65 medical 9.6% for 2022 and decreasing to an ultimate rate of 4.5% in 2030. Post-65 RX trend rate is 9.6% decreasing to an ultimate rate of 4.5% in 2030. Pre-65 rate is 6.4% decreasing to an ultimate rate of 4.5% in 2030. For 2021, post-65 medical 1.1% increasing to 312.2% for 2021 followed by 75.7% in 2022 and decreasing to an ultimate rate of 4.5% in 2031. Post-65 RX trend rate is 6.2% decreasing to an ultimate rate of 4.5% in 2031. Pre-65 rate is 6.3% decreasing to an ultimate rate of 4.5% in 2031. For 2020, post-65 medical 1.1% increasing to 312.2% in 2021 and decreasing to an ultimate rate of 4.5% in 2031. Post-65 RX trend rate is 6.4% decreasing to an ultimate rate of 4.5% in 2029. Pre-65 rate is 6.4% decreasing to an ultimate rate of 2.20% in 2029. For 2019, post-65 medical 5%, Post-65 RX 10.0%, decreasing 0.5% per year to an ultimate rate of 5%. Pre-65 7.94%, decreasing .31% - .39% per year to an ultimate rate of 2.20% in 2022. For 2018, post-65 medical 5%, Post-65 RX 10.5%, decreasing 0.5% per year to an ultimate rate of 5%. Pre-65 8.25%, decreasing .31% - .39 per year to an ultimate rate of 2.20% in 2022. For 2017, post-65 medical 5% and post-65 prescription 10%, decreasing .5% per year to an ultimate rate of 5%. Pre-65 6.75%, decreasing .12% - 3.49% per year to an ultimate rate of 2.20% in 2024.
Salary scale	Three percent 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.

Discount rate and investment rate of return	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.
Mortality	For 2022, PUB-2010 Amounts Weighted Mortality Table, with mortality improvement projected generationally using scale Mortality Projection-2020. For 2021, PUB-2010 Amounts Weighted Mortality Table, with mortality improvement projected generationally using scale Mortality Projection-2019. For 2020, PUB-2010 Amounts Weighted Mortality Table, with mortality improvement projected generationally using scale Mortality Projection-2018. For 2019, aggregate base rates for healthy lives from the Retirement Plans-2014 mortality study with a fully generational projection from 2006 using scale Mortality Projection-2017. For 2018, aggregate base rates for healthy lives from the Retirement Plans-2014 mortality study with a fully generational projection from 2006 using scale Mortality Projection-2016. For 2017, aggregate base rates for healthy lives from the Retirement Plans-2014 mortality study with fully generational projection from 2006 using scale Mortality Projection-2015.
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.

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

	2022	2021	2020	2019	2018	2017
Total LTD liability						
Service cost	$ 2,597	$ 2,309	$ 2,242	$ 2,241	$ 2,104	$ 1,606
Interest cost	1,821	1,790	1,775	1,750	1,555	1,569
Differences between expected and actual experience	(927)	(2,058)	(2,140)	(1,782)	1,017	138
Changes of assumptions	1	1	(3)	(123)	(8)	1,042
Benefit payments	(2,033)	(1,666)	(1,748)	(1,684)	(1,931)	(1,763)
Net change in total LTD liability	1,459	376	126	402	2,737	2,592
Total LTD liability, beginning	26,421	26,045	25,919	25,517	22,780	20,188
Total LTD liability, ending	27,880	26,421	26,045	25,919	25,517	22,780
Plan fiduciary net position						
Contributions - employer	1,825	1,894	1,789	2,063	2,002	2,020
Net investment income	(4,121)	5,994	145	1,548	1,264	1,956
Benefit payments	(2,033)	(1,666)	(1,748)	(1,684)	(1,931)	(1,763)
Administrative expense	(81)	(71)	(64)	(64)	(38)	(61)
Net change in plan fiduciary net position	(4,410)	6,151	122	1,863	1,297	2,152
Plan fiduciary net position, beginning	28,217	22,066	21,944	20,081	18,784	16,632
Plan fiduciary net position, ending	23,807	28,217	22,066	21,944	20,081	18,784
Net LTD liability (asset), ending	$ 4,073	$ (1,796)	$ 3,979	$ 3,975	$ 5,436	$ 3,996
Plan fiduciary net position as a percentage of LTD liability	85.4%	106.8%	84.7%	84.7%	78.7%	82.5%
Covered-employee payroll	$1,224,432	$1,153,833	$1,097,046	$1,095,104	$ 977,928	$ 940,951
Net LTD liability as a percentage of covered-employee payroll	0.3%	(0.2)%	0.4%	0.4%	0.6%	0.4%

Notes to schedule:

The Schedules of Changes in the Net LTD Liability and Related Ratios is presented as of the measurement date for the fiscal year. Ten years of data for the LTD Plan is required and will be added as information becomes available.

Change of assumptions and benefit terms:

2022: The mortality table was updated to PUB-2010 Amounts Weighted Mortality Table, with mortality improvement projected generationally using scale Mortality Projection-2021.

2021: The mortality table was updated to PUB-2010 Amounts Weighted Mortality Table, with mortality improvement projected generationally using scale Mortality Projection-2020.

2020: The mortality table was updated to PUB-2010 Amounts Weighted Mortality Table, with mortality improvement projected generationally using scale Mortality Projection-2019.

2019: The mortality table was updated to the PUB-2010 Amounts Weighted Mortality Table, with mortality improvement projected generationally using scale Mortality Projection-2018.

2018: The mortality table was updated to the aggregate base rates for healthy lives from a Retirement Plans-2014 mortality study with a fully generational projection from 2006 using scale Mortality Projection-2017.

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

SCHEDULE OF LTD INVESTMENT RETURNS

Year	Annual money-weighted rate of return, net of investment expenses
2022	(15.4%)
2021	27.7%
2020	0.5%
2019	7.5%
2018	7.1%
2017	12.0%

SCHEDULE OF LTD CONTRIBUTIONS (in thousands)

	2022	2021	2020	2019	2018	2017
Actuarially determined contribution	$ 1,828	$ 1,935	$ 1,786	$ 2,060	$ 2,000	$ 1,984
Contribution in relation to actuarially determined contribution	(1,825)	(1,894)	(1,789)	(2,063)	(2,002)	(2,020)
Contribution deficiency (excess)	$ 3	$ 41	$ (3)	$ (3)	$ (2)	$ (36)
Covered employee payroll	$1,224,432	$1,153,833	$1,097,046	$1,095,104	$ 977,928	$ 940,951
Contribution as a percentage of covered employee payroll	0.1%	0.2%	0.2%	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. Ten years of data for the LTD Plan is required and will be added as information becomes available.

Methods and assumptions used to determine contribution rates:

Funding policy	For 2022, 2021 and 2020, funding contribution is determined as the sum of estimated administrative expenses plus 15-year amortization of the initial unfunded present value of projected benefits and subsequent asset gain/losses and liability gains/losses. For 2019 and 2018, funding contribution was determined as the minimum of the ten year amortization of unfunded present value of benefits and contribution limit of $2,060,000 and $2,000,000, respectively, not less than $250,000.

	For 2017, funding contribution was determined as the GASB 45 Annual Required Contribution, which equals the sum of projected unit credit normal cost plus 30-year amortization of initial unfunded accrued liability and subsequent asset gains/losses and liability gains/losses.
Amortization	For 2022, 2021 and 2020, the amortization period was a 15 year closed period. For 2019 and 2018, the amortization period was a 10 year open period. For 2017, the amortization period was a 30 year closed period.
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, 2019).
Plan Assets	Market value of assets as of the beginning of the fiscal year.
Discount rate and investment rate of return	For 2022, 2021, 2020, 2019 and 2018, 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. For 2017, 7.5% based on the University's annual required contribution funding policy and the expected long-term return on the separate trust assets that were used to finance the payment of plan benefits.
Elimination period	Six 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 2022, PUB-2010 Amounts Weighted Mortality Table, with mortality improvement projected generationally using Mortality Projection-2020. For 2021, PUB-2010 Amounts Weighted Mortality Table, with mortality improvement projected generationally using Mortality Projection-2019. For 2020, PUB-2010 Amounts Weighted Mortality Table, with mortality improvement projected generationally using Mortality Projection-2018. For 2019, aggregate base rates for healthy lives from the Retirement Plans-2014 mortality study with a fully generational projection from 2006 using scale Mortality Projection-2017. For 2018, aggregate base rates for healthy lives from the Retirement Plans-2014 mortality study with a fully generational projection from 2006 using scale Mortality Projection-2016. For 2017, aggregate base rates for healthy lives from the Retirement Plans-2014 mortality study with fully generational projection from 2006 using scale Mortality Projection-2015.
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	Three percent per year.

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

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