



2017 Financial Statements

 University of
Kentucky®

Department of
Intercollegiate Athletics

University of Kentucky
Department of Intercollegiate Athletics
An Organizational Unit of the University of Kentucky
Financial Statements
Years Ended June 30, 2017 and 2016

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Independent Auditor's Report

Board of Trustees
University of Kentucky
Department of Intercollegiate Athletics
Lexington, Kentucky

We have audited the accompanying financial statements of the University of Kentucky Department of Intercollegiate Athletics (Athletics), an organizational unit of the University of Kentucky (University), as of and for the years ended June 30, 2017 and 2016, and the related notes to financial statements, which collectively comprise Athletics' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Athletics as of June 30, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the financial statements of Athletics are intended to present the financial position, the changes in financial position and cash flows of only that portion of the business-type activities that is attributable to the transactions of Athletics. They do not purport to, and do not, present fairly the financial position of the University as of June 30, 2017 and 2016, the changes in its financial position or its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 15 to the financial statements, the 2016 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

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

BKD, LLP

Louisville, Kentucky
October 19, 2017

UNIVERSITY OF KENTUCKY
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS
AN ORGANIZATIONAL UNIT OF THE UNIVERSITY OF KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2017 AND 2016

The University of Kentucky Department of Intercollegiate Athletics' (Athletics) Management's Discussion and Analysis (MD&A) of its financial condition provides an overview of the financial performance of Athletics for the years ended June 30, 2017 and 2016. Management has prepared this discussion, which provides summary financial information, along with the financial statements and related footnotes. MD&A should be read in conjunction with the accompanying financial statements.

Financial Highlights

- Total assets and deferred outflows of resources decreased \$14,032,741 or 2.5%. The most significant components of the fluctuation was a decrease of \$16,931,958 in accounts receivable, net, offset by an increase of \$1,869,955 in capital assets, net.
- Total liabilities and deferred inflows of resources decreased \$22,540,736 or 6.4%. The most significant components of the fluctuation were decreases of \$12,361,092 in unearned revenue and \$5,499,046 in accounts payable and accrued liabilities.
- Net position increased \$8,507,995 or 3.9% caused by an increase of \$10,919,088 in total restricted net position and \$6,632,151 in net investment in capital assets, offset by a decrease of \$9,043,244 in unrestricted net position.
- Operating revenues decreased \$653,951 to \$102,340,956.
- Operating expenses increased \$8,746,713 to \$129,332,229.
- Nonoperating revenues (expenses) and other revenues, expenses, gains or losses increased \$6,414,683, primarily due to an increase in revenue of \$5,152,667 from royalties/license fees.

Using the Financial Statements

This financial report consists of three financial statements: the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; and the Statement of Cash Flows. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*.

One of the most important questions asked about Athletics' finances is whether Athletics is better off as a result of the year's activities. One key to answering this question is the financial statements of Athletics. The Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows present financial information on Athletics in a format similar to that used by corporations and present a long-term view of Athletics' finances. Athletics' net position (the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources) is one sign of Athletics' financial health. Over time, increases or decreases in net position indicate the improvement or erosion of Athletics' condition, when considered in conjunction with non-financial factors such as the graduation rates of its student athletes and the success of its athletic teams on the field.

The Statement of Net Position includes all assets, deferred outflows of resources, liabilities and deferred inflows of resources. It 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.

The Statement of Revenues, Expenses and Changes in Net Position presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. GASB 35 requires gifts and endowment and investment income to be classified as nonoperating revenues. The utilization of long-lived

assets, referred to as capital assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

Another important factor to consider when evaluating financial viability is Athletics' ability to meet financial obligations as they become due. The Statement of Cash Flows presents information related to cash inflows and outflows, summarized by operating, noncapital financing, capital and related financing and investing activities.

Reporting Entity

The University of Kentucky Department of Intercollegiate Athletics is an organizational unit of the University of Kentucky (the University) and is included in the basic financial statements of the Commonwealth of Kentucky. Athletics was established to promote athletics and physical culture for students at the University and residents of the Commonwealth of Kentucky.

Condensed Financial Information

Statements of Net Position

	2017	2016	2015
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
Current assets	\$ 70,561,788	\$ 73,792,557	\$ 108,240,141
Capital assets, net	276,086,189	274,216,234	216,153,191
Other noncurrent assets	209,868,727	222,505,761	274,840,371
Deferred outflows of resources	175,812	210,705	245,598
Total assets and deferred outflows of resources	556,692,516	570,725,257	599,479,301
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES			
Current liabilities	39,801,540	43,645,405	65,451,478
Noncurrent liabilities	279,574,855	297,460,597	315,091,414
Deferred inflows of resources	9,733,554	10,544,683	11,355,813
Total liabilities and deferred inflows of resources	329,109,949	351,650,685	391,898,705
NET POSITION			
Net investment in capital assets	164,526,175	157,894,024	102,573,185
Restricted			
Nonexpendable	5,796,992	5,724,330	5,559,525
Expendable	49,711,859	38,865,433	81,220,938
Unrestricted	7,547,541	16,590,785	18,226,948
Total net position	\$ 227,582,567	\$ 219,074,572	\$ 207,580,596

Assets. As of June 30, 2017, Athletics' assets totaled \$556,516,704. Capital assets, net represented Athletics' largest asset, totaling \$276,086,189 or 49.6% of total assets. Accounts receivable, net totaled \$208,489,737 or 37.5% and cash and cash equivalents totaled \$46,800,821 or 8.4%.

Total assets decreased \$13,997,848 or 2.5% due to a decrease of \$16,931,958 in accounts receivable, net, primarily from guaranteed media rights payments from JMI Sports, offset by an increase of \$1,869,955 in capital assets, net, resulting primarily from construction in process for the new baseball stadium and additions from the Football Training Center Facility and Nutter football facility projects, offset by an increase in accumulated depreciation.

Deferred Outflows of Resources. As of June 30, 2017, Athletics' deferred outflows of resources totaled \$175,812, representing the unamortized difference between the reacquisition price and the net carrying amount of the refunded debt. Athletics partially refunded General Receipts 2005 Bonds Series A for the Memorial Coliseum expansion with General Receipts 2014 Bonds Series D during fiscal year 2015.

Total deferred outflows of resources decreased \$34,893 or 16.6% during the year ended June 30, 2017 due to current year amortization.

Liabilities. At June 30, 2017, Athletics' liabilities totaled \$319,376,395. Unearned revenue, primarily comprised of unearned revenue from JMI Sports, the media rights partner for Athletics, and advance sales of football tickets and reserved parking, totaled \$191,937,804 and represented 60.1% of total liabilities. Long-term liabilities, consisting of bonds and capital leases issued for Kroger Field (formerly Commonwealth Stadium) and Memorial Coliseum renovations, and coach longevity and retention bonuses, totaled \$121,022,752 or 37.9% of total liabilities.

Total liabilities decreased \$21,729,607 or 6.4% during the year ended June 30, 2017 due to a decrease of \$12,361,092 in unearned revenue mainly due to recognition of revenue from the media rights contract with JMI Sports, offset by an increase in football tickets and reserved parking due to a more favorable upcoming home game schedule in fiscal year 2018 as compared to fiscal year 2017 and \$5,499,046 in accounts payable and accrued liabilities mainly in the amount owed to vendors and contractors for the Football Training Center Facility.

Deferred Inflows of Resources. As of June 30, 2017, Athletics' deferred inflows of resources totaled \$9,733,554, composed of guaranteed Aramark commissions.

Total deferred inflows of resources decreased \$811,129 or 7.7% during the year ended June 30, 2017 due to commissions earned during the year.

Net Position. Net position at June 30, 2017, totaled \$227,582,567, or 40.9% of total assets. Net investment in capital assets totaled \$164,526,175 or 72.3% of total net position. Restricted net position totaled \$55,508,851 or 24.4% of total net position. Unrestricted net position accounted for \$7,547,541 or 3.3% of total net position.

Total net position increased \$8,507,995 during the year ended June 30, 2017, primarily because of an increase of \$6,632,151 in net investment in capital assets due to increases in capital additions, net of debt. There was an increase in total restricted position of \$10,919,088 and a decrease in unrestricted position of \$9,043,244, which was primarily caused by less transfers from restricted to unrestricted this year due to less needed for operating purposes as compared to last year.

2016 Versus 2015. During the year ended June 30, 2016:

- Total assets decreased \$28,719,151 or 4.8% due to a \$67,068,521 decrease in cash and cash equivalents, primarily from spending on the Kroger Field expansion and renovation project and an \$18,438,160 decrease in accounts receivable, net, primarily from guaranteed media rights payments from JMI Sports. Offsetting those decreases was an increase of \$58,063,043 in capital assets, net, resulting primarily from construction in process for the Football Training Center Facility and additions from the Kroger Field expansion and renovation project.
- Total liabilities decreased \$39,436,890 or 10.4% due to a decrease of \$19,647,398 in accounts payable and accrued liabilities mainly in the amount owed to vendors and contractors working on the project to renovate Kroger Field and a decrease of \$16,315,510 in unearned revenue mainly due to recognition of revenue from the media rights contract with JMI Sports and a decrease in football tickets and reserved parking due to the home game schedule in fiscal year 2017 not being as favorable as the schedule in fiscal year 2016.

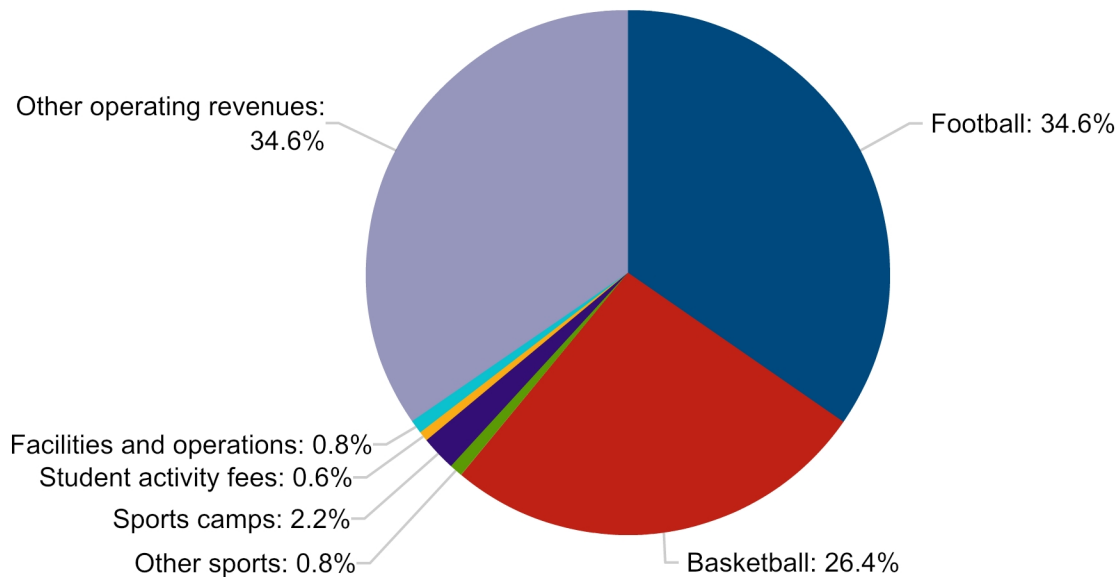
- Total net position increased \$11,493,976 primarily because of an increase of \$55,320,839 in net investment in capital assets due to increases in capital additions, net of debt, offset by a decrease of \$42,190,700 in total restricted position due to increases in spending for capital projects, mainly for the new Football Training Facility.

Statements of Revenues, Expenses and Changes in Net Position

	<u>2017</u>	<u>2016</u>	<u>2015</u>
OPERATING REVENUES			
Football	\$ 35,435,880	\$ 38,501,186	\$ 34,379,041
Basketball	26,991,467	26,299,720	23,883,735
Other sports	831,019	804,521	726,393
Total sports	<u>63,258,366</u>	<u>65,605,427</u>	<u>58,989,169</u>
Sports camps	2,212,433	2,267,418	1,867,595
Student activity fees	629,285	912,981	901,107
Facilities and operations	856,055	642,354	438,681
Other operating revenue, primarily media rights and sponsorships	<u>35,384,817</u>	<u>33,566,727</u>	<u>26,731,155</u>
Total operating revenues	<u>102,340,956</u>	<u>102,994,907</u>	<u>88,927,707</u>
OPERATING EXPENSES			
Football	25,732,075	22,357,019	18,569,240
Basketball	17,833,572	17,665,167	18,886,184
Other sports	26,403,940	25,559,825	22,898,199
Total sports	<u>69,969,587</u>	<u>65,582,011</u>	<u>60,353,623</u>
Sports camps	2,150,787	2,195,250	1,807,381
Facilities and operations	17,582,560	15,887,197	11,208,254
Administrative and general	24,252,224	23,850,038	21,056,535
Depreciation	15,377,071	13,071,020	6,030,589
Total operating expenses	<u>129,332,229</u>	<u>120,585,516</u>	<u>100,456,382</u>
NET LOSS FROM OPERATIONS	<u>(26,991,273)</u>	<u>(17,590,609)</u>	<u>(11,528,675)</u>
NONOPERATING REVENUES (EXPENSES)			
Royalties/license fees	8,667,558	3,514,891	2,726,562
Gifts	25,467,983	25,162,318	24,136,787
Investment income (loss)	1,741,484	(203,867)	398,271
Interest on capital asset-related debt	(3,959,626)	(174,149)	(2,122,488)
Grants (to) from the University of Kentucky for noncapital purposes	<u>(8,180,085)</u>	<u>(8,100,546)</u>	<u>(4,081,552)</u>
Net nonoperating revenues (expenses)	<u>23,737,314</u>	<u>20,198,647</u>	<u>21,057,580</u>
Net income (loss) before other revenues, expenses, gains, or losses	<u>(3,253,959)</u>	<u>2,608,038</u>	<u>9,528,905</u>
Capital gifts and grants	10,399,746	10,124,072	9,132,573
Additions to permanent endowments	72,662	57,033	81,770
Grants (to) from the University of Kentucky for capital purposes	1,075,567	(765,118)	—
Other, net	<u>213,979</u>	<u>(530,049)</u>	<u>(34,327)</u>
Total other revenues (expenses)	<u>11,761,954</u>	<u>8,885,938</u>	<u>9,180,016</u>
INCREASE IN NET POSITION	8,507,995	11,493,976	18,708,921
NET POSITION, beginning of year	<u>219,074,572</u>	<u>207,580,596</u>	<u>188,871,675</u>
NET POSITION, end of year	<u>\$ 227,582,567</u>	<u>\$ 219,074,572</u>	<u>\$ 207,580,596</u>

2017. Total operating revenues were \$102,340,956 for the year ended June 30, 2017. The most significant sources of operating revenue for Athletics were football (34.6%), basketball (26.4%), and other operating revenues, primarily media rights and sponsorships (34.6%). Operating revenues decreased \$653,951 primarily due to a decrease in sports revenues of \$2,347,061, mainly from less ticket revenue in football due to a less favorable home game schedule in fiscal year 2017 as compared to fiscal year 2016. This was offset by an increase in other operating revenues of \$1,818,090 attributable to an increase in payments from the NCAA for a one-time distribution for academic programs for student athletes and from the SEC Network for broadcasting revenues.

TOTAL OPERATING REVENUES

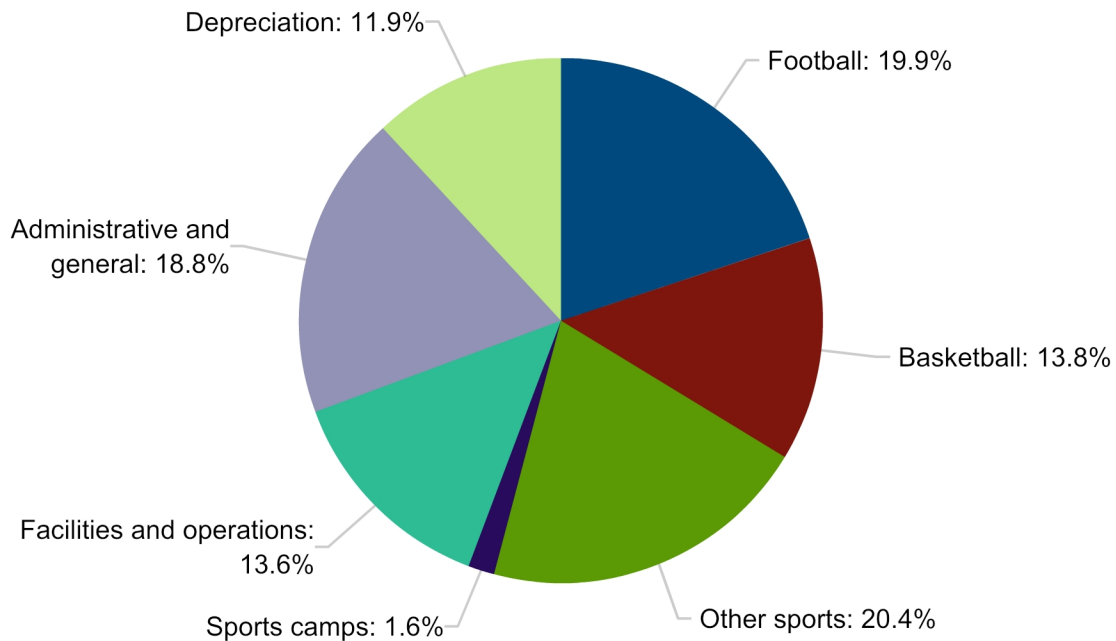


Operating expenses, including \$15,377,071 of depreciation, totaled \$129,332,229. Of this amount, \$69,969,587 or 54.1% was used in direct support of sports programs and \$24,252,224 or 18.8% supported Athletics' administrative operations.

Operating expenses increased \$8,746,713 or 7.3% primarily due to increases in sports related expenses of \$4,387,576 or 6.7%, depreciation of \$2,306,051 or 17.6%, and facilities and operations expense of \$1,695,363 or 10.7%. Sports related expenses increased mainly because of contractual increases in coaches' salaries. Depreciation increased in the amount for the Football Training Facility due to the portion of renovation completed this year. Facilities and operations expenses increased mainly due to uncapitalized renovation and maintenance costs at the Football Training Facility.

Athletics' expenses for operating sports programs include scholarship expenses of \$14,666,618, an increase of \$731,134 or 5.2%.

TOTAL OPERATING EXPENSES



2016 Versus 2015.

- Total operating revenues were \$102,994,907. The most significant sources of operating revenue for Athletics were football (37.4%), basketball (25.5%), and other operating revenues, primarily media rights and sponsorships (32.6%). Operating revenues increased \$14,067,200 primarily due to an increase in media rights and sponsorships of \$6,835,572 attributable to an increase in payments from the SEC Network and from JMI Sports, the media rights partner, and sports revenues of \$6,616,258 mainly from additional ticket revenue in football and men's basketball.
- Operating expenses, including \$13,071,020 of depreciation, totaled \$120,585,516. Of this amount, \$65,582,011 or 54.4% was used in direct support of sports programs and \$23,850,038 or 19.8% supported Athletics' administrative operations. Operating expenses increased \$20,129,134 or 20.0% primarily due to increases in depreciation of \$7,040,431 or 116.7%, sports related expenses of \$5,228,388 or 8.7% and facilities and operations expense increases of \$4,678,943 or 41.7%. Depreciation increased in the amount for Kroger Field due to the portion of expansion and renovation completed. Sports related expenses increased mainly because of contractual increases in coaches' salaries. Facilities and operations expenses increased mainly due to uncapitalized renovation and maintenance costs at Kroger Field.

Statement of Cash Flows

Another way to assess the financial health of an organization is to look at the Statement of Cash Flows. The primary purpose of the Statement of Cash Flows is to provide information about the cash receipts and cash payments made by Athletics during the period. The Statement of Cash Flows also helps financial statement readers assess Athletics':

- ability to generate future net cash flows,
- ability to meet obligations as they become due, and
- need for external financing.

Condensed Statements of Cash Flows

	2017	2016 (Restated)	2015
CASH PROVIDED (USED) BY :			
Operating activities	\$ (5,118,445)	\$ (273,476)	\$ (8,712,485)
Noncapital financing activities	26,076,226	20,739,071	22,998,548
Capital and related financing activities	(22,435,492)	(88,272,672)	(55,997,534)
Investing activities	329,105	738,556	263,249
Net increase (decrease) in cash and cash equivalents	(1,148,606)	(67,068,521)	(41,448,222)
Cash and cash equivalents, beginning of year	<u>47,949,427</u>	<u>115,017,948</u>	<u>156,466,170</u>
Cash and cash equivalents, end of year	<u>\$ 46,800,821</u>	<u>\$ 47,949,427</u>	<u>\$ 115,017,948</u>

2017. During the year ended June 30, 2017, sources of funds in operating activities were revenues from sports of \$62,849,951 and other receipts of \$44,426,986. The largest cash payments for operating activities were made to suppliers and for salaries, wages and benefits of \$63,120,535 and \$49,274,847, respectively. Cash used by operating activities increased \$4,844,969 due to an increase of \$8,651,903 in payments to employees for salaries, wages and benefits and a decrease of \$264,011 in cash provided by sports revenues, offset by an increase of \$2,170,635 in cash provided by other receipts and a decrease of \$1,900,310 in payments to suppliers.

During the year ended June 30, 2017, cash receipts in the noncapital financing activities group were generated by gifts for other than capital purposes of \$25,516,091, royalties and license fees of \$8,667,558 and private gifts for endowment purposes of \$72,662, offset by grants of \$8,180,085 to the University, primarily as reimbursement for various educational and support functions and for support of non-athletic scholarships.

Cash used by capital and related financing activities was used for purchases of capital assets of \$22,730,439, interest paid on capital debt and leases of \$4,553,696, principal paid on capital debt and leases of \$4,497,754, offset by cash provided from capital grants and gifts of \$8,270,830 and grants from the University for capital purposes of \$1,075,567.

During the year ended June 30, 2017, cash provided by investing activities reflects proceeds from sales and maturities of investments of \$18,104,789 and interest and dividend income on investments of \$280,774, net of cash used to purchase investments of \$18,056,458.

2016 Versus 2015. Cash decreased \$67,068,521 primarily due to cash used by capital and related financing activities and operating activities, offset by cash provided by noncapital financing activities and investing activities.

Capital Assets and Debt Administration

Capital Assets. Capital assets, net of accumulated depreciation, totaled \$276,086,189 at June 30, 2017, an increase of \$1,869,955. Capital assets as of June 30, 2017, and significant changes in capital assets during the years ended June 30, 2017, 2016 and 2015 are as follows (in thousands):

	Net		Net		Balance June 30, 2017
	Balance June 30, 2015	Additions FY 15-16	Balance June 30, 2016	Additions FY 16-17	
Land improvements	\$ 12,482	\$ 4,217	\$ 16,699	\$ 8,771	\$ 25,470
Buildings	155,777	130,701	286,478	42,566	329,044
Fixed equipment	1,950	655	2,605	683	3,288
Equipment	6,741	3,358	10,099	726	10,825
Vehicles	739	94	833	(30)	803
Construction in progress	114,133	(69,568)	44,565	(35,964)	8,601
Accumulated depreciation	(75,669)	(11,394)	(87,063)	(14,882)	(101,945)
Total	\$ 216,153	\$ 58,063	\$ 274,216	\$ 1,870	\$ 276,086

At June 30, 2017, Athletics had committed to capital construction projects in progress totaling \$57,091,059 in scope. The estimated cost to complete the projects in progress is \$48,284,707.

Debt. As of June 30, 2017, Athletics had \$105,445,307 in general receipts bonds outstanding and \$2,115,000 in capital leases. As of June 30, 2016, Athletics had \$107,928,061 in general receipts bonds outstanding and \$4,130,000 in capital leases.

Factors Impacting Future Periods

Athletics is funded primarily by sales of tickets to athletic events and support from contributors. During fiscal year 2017 ticket revenues decreased due to a less favorable football home game schedule than the previous year. There were increases in support from contributors and in revenues received from the NCAA for a one-time distribution for academic programs for student athletes and from the SEC Network for broadcasting revenues. It is anticipated that ticket sales will increase next year due to a more favorable football home game schedule, an additional men's basketball home game and an increase in men's basketball ticket prices; however, it is anticipated that donations and revenues from the SEC Network will remain constant.

**DEPARTMENT OF INTERCOLLEGIATE ATHLETICS
AN ORGANIZATIONAL UNIT OF THE UNIVERSITY OF KENTUCKY
STATEMENTS OF NET POSITION
JUNE 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current Assets		
Cash and cash equivalents	\$ 39,525,093	\$ 45,101,266
Accounts receivable, net	25,682,604	24,137,582
Inventories and other assets	5,354,091	4,553,709
Total current assets	<u>70,561,788</u>	<u>73,792,557</u>
Noncurrent Assets		
Restricted cash and cash equivalents	7,275,728	2,848,161
Endowment investments	19,480,610	18,019,901
Other long-term investments	305,256	353,586
Accounts receivable, net	182,807,133	201,284,113
Capital assets, net	276,086,189	274,216,234
Total noncurrent assets	<u>485,954,916</u>	<u>496,721,995</u>
Total assets	<u>556,516,704</u>	<u>570,514,552</u>
Deferred Outflows of Resources	<u>175,812</u>	<u>210,705</u>
Total assets and deferred outflows of resources	<u>556,692,516</u>	<u>570,725,257</u>
 LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
Current Liabilities		
Accounts payable and accrued liabilities	6,415,839	11,914,885
Unearned revenue	25,976,842	24,751,669
Long term liabilities - current portion	7,408,859	6,978,851
Total current liabilities	<u>39,801,540</u>	<u>43,645,405</u>
Noncurrent Liabilities		
Unearned revenue	165,960,962	179,547,227
Long term liabilities	113,613,893	117,913,370
Total noncurrent liabilities	<u>279,574,855</u>	<u>297,460,597</u>
Total liabilities	<u>319,376,395</u>	<u>341,106,002</u>
Deferred Inflows of Resources	<u>9,733,554</u>	<u>10,544,683</u>
Total liabilities and deferred inflows of resources	<u>329,109,949</u>	<u>351,650,685</u>
 NET POSITION		
Net investment in capital assets	164,526,175	157,894,024
Restricted		
Nonexpendable		
Scholarships and fellowships	5,796,992	5,724,330
Total restricted nonexpendable	<u>5,796,992</u>	<u>5,724,330</u>
Expendable		
Scholarships and fellowships	16,882,646	2,274,119
Capital projects	25,095,767	29,139,121
Auxiliary	7,733,446	7,452,193
Total restricted expendable	<u>49,711,859</u>	<u>38,865,433</u>
Total restricted	<u>55,508,851</u>	<u>44,589,763</u>
Unrestricted	<u>7,547,541</u>	<u>16,590,785</u>
Total net position	<u>\$ 227,582,567</u>	<u>\$ 219,074,572</u>

See notes to financial statements

**DEPARTMENT OF INTERCOLLEGIATE ATHLETICS
AN ORGANIZATIONAL UNIT OF THE UNIVERSITY OF KENTUCKY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
OPERATING REVENUES		
Sports:		
Football	\$ 35,435,880	\$ 38,501,186
Basketball	26,991,467	26,299,720
Other sports	831,019	804,521
Total sports	<u>63,258,366</u>	<u>65,605,427</u>
Sport camps	2,212,433	2,267,418
Student activity fees	629,285	912,981
Facilities and operations	856,055	642,354
Other operating revenues, primarily media rights and sponsorships	35,384,817	33,566,727
Total operating revenues	<u>102,340,956</u>	<u>102,994,907</u>
OPERATING EXPENSES		
Sports:		
Football	25,732,075	22,357,019
Basketball	17,833,572	17,665,167
Other sports	26,403,940	25,559,825
Total sports	<u>69,969,587</u>	<u>65,582,011</u>
Sport camps	2,150,787	2,195,250
Facilities and operations	17,582,560	15,887,197
Administrative and general	24,252,224	23,850,038
Depreciation	15,377,071	13,071,020
Total operating expenses	<u>129,332,229</u>	<u>120,585,516</u>
Net income (loss) from operations	<u>(26,991,273)</u>	<u>(17,590,609)</u>
NONOPERATING REVENUES (EXPENSES)		
Royalties/license fees	8,667,558	3,514,891
Gifts	25,467,983	25,162,318
Investment income (loss)	1,741,484	(203,867)
Interest on capital asset-related debt	(3,959,626)	(174,149)
Grants (to) from the University of Kentucky for noncapital purposes	(8,180,085)	(8,100,546)
Net nonoperating revenues (expenses)	<u>23,737,314</u>	<u>20,198,647</u>
Net income (loss) before other revenues, expenses, gains, or losses	<u>(3,253,959)</u>	<u>2,608,038</u>
Capital grants and gifts	10,399,746	10,124,072
Additions to permanent endowments	72,662	57,033
Grants (to) from the University of Kentucky for capital purposes	1,075,567	(765,118)
Other, net	213,979	(530,049)
Total other revenues (expenses)	<u>11,761,954</u>	<u>8,885,938</u>
INCREASE IN NET POSITION	8,507,995	11,493,976
NET POSITION, beginning of year	<u>219,074,572</u>	<u>207,580,596</u>
NET POSITION, end of year	<u>\$ 227,582,567</u>	<u>\$ 219,074,572</u>

See notes to financial statements

**DEPARTMENT OF INTERCOLLEGIATE ATHLETICS
AN ORGANIZATIONAL UNIT OF THE UNIVERSITY OF KENTUCKY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u> (Restated - Note 15)
CASH FLOWS FROM OPERATING ACTIVITIES		
Revenues from sports	\$ 62,849,951	\$ 63,113,962
Payments to vendors and contractors	(63,120,535)	(65,020,845)
Salaries, wages and benefits	(49,274,847)	(40,622,944)
Other receipts (payments)	<u>44,426,986</u>	<u>42,256,351</u>
Net cash provided (used) by operating activities	<u>(5,118,445)</u>	<u>(273,476)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Royalties/license fees	8,667,558	3,514,891
Gifts and grants received for other than capital purposes:		
Gifts for endowment purposes	72,662	57,033
Gifts for other purposes	25,516,091	25,267,693
Grants (to) from the University of Kentucky	<u>(8,180,085)</u>	<u>(8,100,546)</u>
Net cash provided (used) by noncapital financing activities	<u>26,076,226</u>	<u>20,739,071</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital grants and gifts	8,270,830	9,341,125
Grants (to) from the University of Kentucky for capital purposes	1,075,567	(765,118)
Purchases of capital assets	(22,730,439)	(87,744,741)
Principal paid on capital debt and leases	(4,497,754)	(4,435,000)
Interest paid on capital debt and leases	<u>(4,553,696)</u>	<u>(4,668,938)</u>
Net cash provided (used) by capital and related financing activities	<u>(22,435,492)</u>	<u>(88,272,672)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	18,104,789	12,611,211
Interest and dividends on investments	280,774	266,985
Purchases of investments	<u>(18,056,458)</u>	<u>(12,139,640)</u>
Net cash provided (used) by investing activities	<u>329,105</u>	<u>738,556</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(1,148,606)</u>	<u>(67,068,521)</u>
CASH AND CASH EQUIVALENTS, beginning of year	<u>47,949,427</u>	<u>115,017,948</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 46,800,821</u>	<u>\$ 47,949,427</u>
Reconciliation of net income (loss) from operations to net cash provided (used) by operating activities:		
Net income (loss) from operations	\$ (26,991,273)	\$ (17,590,609)
Adjustments to reconcile net income (loss) from operations to net cash provided (used) by operating activities:		
Depreciation expense	15,377,071	13,071,020
Change in assets and liabilities:		
Accounts receivable, net	19,012,766	19,021,795
Inventories and other assets	(800,382)	333,090
Accounts payable and accrued liabilities	897,826	264,435
Unearned revenue	(12,361,092)	(16,315,510)
Long term liabilities	557,768	1,753,433
Deferred inflows of resources	<u>(811,129)</u>	<u>(811,130)</u>
Net cash provided (used) by operating activities	<u>\$ (5,118,445)</u>	<u>\$ (273,476)</u>
NONCASH TRANSACTIONS		
Transfer of capital equipment (to) from the University of Kentucky	\$ 3,795,756	\$ (184,882)
Capital asset change in accounts payable	\$ (3,916,872)	\$ (16,846,386)
Amortized bond premium	\$ 299,922	\$ 299,921
Capitalized interest, net of investment income	\$ 568,674	\$ 4,473,814

See notes to financial statements

UNIVERSITY OF KENTUCKY
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS
AN ORGANIZATIONAL UNIT OF THE UNIVERSITY OF KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The University of Kentucky Department of Intercollegiate Athletics (Athletics) is an organizational unit of the University of Kentucky (the University) which is a component unit of the Commonwealth of Kentucky (the Commonwealth) and is included in the basic financial statements of the Commonwealth. Athletics was established to promote athletics and physical culture for students at the University and residents of the Commonwealth.

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 Governmental Accounting Standards Board (GASB). GASB establishes standards for external financial reporting for public colleges and universities and requires that resources be classified for accounting and reporting purposes into the following net position categories:

- Net investment in capital assets: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- Restricted:
 - Nonexpendable* – Net position subject to externally imposed stipulations that they be maintained permanently by Athletics. Such assets include the principal of Athletics' permanent endowment funds.
 - Expendable* – Net position whose use by Athletics is subject to externally imposed stipulations that can be fulfilled by actions of Athletics pursuant to those stipulations or that expire by the passage of time.
- Unrestricted: Net position whose use by Athletics is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management 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 Athletics' assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, expenses, changes in net position and cash flows.

Summary of Significant Accounting Policies

Accrual Basis. The financial statements have been prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when an obligation has been incurred. Athletics reports as a Business-Type Activity (BTA) as defined by GASB Statement No. 35. BTA's are those activities that are financed in whole or part by fees charged to external parties for goods and services.

Cash and Cash Equivalents. Athletics considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Noncurrent cash and cash equivalents include plant funds allocated for capital projects and endowment fund cash pending transfer to the custodian for investment. Cash and cash equivalents held by the University's endowment fund managers are included in endowment investments.

Accounts Receivable. This classification consists of amounts due for multimedia rights and reimbursement of expenses made pursuant to contract agreements. Also included are pledges that are verifiable, measurable and expected to be collected. Accounts receivable are recorded net of estimated uncollectible amounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Inventories. Inventories are stated principally at the lower of average cost or market. Inventories primarily consist of sports equipment and supplies.

Pooled Endowment Funds. All endowments are managed in a consolidated investment pool, which consists of more than 2,200 named funds. All contributing endowments participate in the income and appreciation of the pool on a per unit basis commensurate with their contribution to the pool. New endowments purchase units in the pool at the current unit value, which is calculated each month based on the fair value of the pool investments divided by the number of pool units outstanding. The market value method of accounting for pooled endowment funds is employed to ensure proper distribution of market price changes, realized gains (losses) on sales, accrued income earned, and distribution of investment earnings for expenditure by participating funds.

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

The adopted spending policy is a “hybrid” policy, which includes both the market value of the endowment and the current level of inflation in determining spending each year. Annual spending is calculated by taking a weighted average comprising 60% of the prior year’s spending, adjusted for inflation, and 40% of the amount that results when the target annual spending rate of four percent is applied to the average market value of the endowment over the preceding 36 months. The spending amount determined by the formula is constrained so that the calculated rate is at least three percent, and not more than six percent, of the current endowment market value.

The University also utilizes an endowment management fee to support internal management and fundraising costs related to the endowment. For the years ended June 30, 2017 and 2016, the University’s annual endowment management fee was 0.50%.

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 amount of gross spending policy distribution in accordance with the University’s endowment spending policy was \$643,577 and \$621,837 for the years ended June 30, 2017 and 2016, respectively.

Investments. Investments in marketable securities are carried at fair value, see footnote 2 for more information on the fair value determination. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the Statement of Revenues, Expenses and Changes in Net Position.

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

Athletics capitalizes interest costs as a component of construction in progress, based on the interest cost of borrowing specifically for a currently active project, net of interest earned on investments acquired with the proceeds of the borrowing. Athletics also capitalizes interest costs as a component of construction in progress of projects funded by unrestricted funds based on the interest costs of borrowings no longer associated with a specific project. The calculation is based on projects' average expenditures times the weighted average interest rate of borrowing.

Equipment with a unit cost of \$5,000 or more and having an estimated useful life of greater than one year is capitalized. Renovations to buildings, infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred.

Depreciation of capital assets is computed on a straight-line basis over the estimated useful lives of the respective assets, generally 40 years for buildings, 10 – 25 years for land and building improvements and infrastructure and 5 – 20 years for equipment and vehicles.

Title of all capital assets of Athletics belongs to the University. The financial information relating to capital assets represents assets that Athletics occupies and uses. Transfer of capital assets to/from the University represents changes in control of individual assets within divisions of the University from one period to another.

Deferred Outflows of Resources. A deferred outflow of resources is a loss in net position by Athletics 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 the related period. Deferred outflows of resources of \$175,812 and \$210,705, as of June 30, 2017 and 2016, respectively, consisted of the unamortized difference between the reacquisition price and the net carrying amount of the refunded debt. Athletics partially refunded General Receipts 2005 Bonds Series A for the Memorial Coliseum expansion with General Receipts 2014 Bonds Series D.

Unearned Revenue. Unearned revenue consists of amounts received from multimedia rights pursuant to contract agreements and amounts also received in advance of an event, primarily football tickets and football reserved parking sales relating to the upcoming season. Revenue is recognized in the period in which the event occurs.

A multimedia rights partnership was formed in July 2014 between the University and JMI Sports which provides athletic and campus multimedia marketing rights in a 15 year, \$210,000,000 agreement. Under the contract, the University will receive a guaranteed rights fee in each of the 15 years of the partnership, starting at \$9,100,000 in 2015-16 and increasing to \$16,000,000 in 2029-30. The agreement also included a \$29,400,000 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 \$29,943,980, which will now be paid over the first three years of the contract. This modification increased the total amount to be received to \$210,543,980.

In June 2017, a new apparel licensing arrangement was finalized in an agreement between J.America and the University's licensing company Fermata Partners. J.America was designated as the University's apparel licensing vendor. As part of this agreement, J.America included a clawback provision applied to the first payment sent to the University. The portion of this clawback amount in Athletics was \$450,000. This amount will decline on a prorated basis by \$50,000 annually beginning in December 31, 2018.

Compensated Absences. The amount of vacation leave earned but not taken by University employees at June 30 is recorded as a liability owed to the University by Athletics. 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 Athletics 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 the related period. Deferred inflows of resources, as of June 30, 2017 and 2016 consisted of \$9,733,554 and \$10,544,683, respectively in guaranteed Aramark

commissions. In July 2014, the University entered into a nearly \$250,000,000 contract with Aramark, forming a 15 year public/private partnership. As part of this contract, Athletics will receive guaranteed commissions from Aramark on sales of concessions at sporting events located at Kroger Field (formerly Commonwealth Stadium), Memorial Coliseum, and other facilities.

Income Taxes. The University, of which Athletics is an organizational unit, is an agency and instrumentality of the Commonwealth, pursuant to Kentucky Revised Statutes sections 164.100 through 164.280. Accordingly, the University is excluded from federal income taxes as an organization described in Section 115 of the Internal Revenue Code of 1986, as amended.

Restricted Asset Spending Policy. Athletics' policy is that restrictions on assets cannot be fulfilled by the expenditure of unrestricted funds for similar purposes. The determination of 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. Athletics defines operating activities, as reported on the Statement of Revenues, Expenses and Changes in Net Position, as those that generally result from exchange transactions, such as payments received for providing goods and services and payments made for goods and services received. Nearly all of Athletics' expenses are from exchange transactions. Certain revenues relied upon for operations, such as gifts and investment income, are recorded as nonoperating revenues, in accordance with GASB Statement No. 35.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to use estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The accompanying financial statements include estimates for items such as accrued expenses and other liability accounts.

2. DEPOSITS AND INVESTMENTS

The fair value of deposits and investments, by statement of net position classification, at June 30, 2017 and 2016 are as follows:

	2017	2016
<u>Statement of Net Position classification</u>		
Cash and cash equivalents	\$ 39,525,093	\$ 45,101,266
Restricted cash and cash equivalents	7,275,728	2,848,161
Total cash and cash equivalents	46,800,821	47,949,427
Endowment investments	19,480,610	18,019,901
Other long-term investments	305,256	353,586
Total	\$ 66,586,687	\$ 66,322,914

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

Athletics has the following valuation measurements, by type, at June 30, 2017 and 2016:

	2017			
	Total Value	Fair Value Measurement Using		
		Significant Unobservable Inputs (Level 3)	Total Measured at Fair Value	Amortized or Historical Cost
Cash and cash equivalents	\$ 46,801,668	\$ —	\$ —	\$ 46,801,668
Cash surrender value of life insurance policies	304,409	—	—	304,409
Endowed deposits and investments	<u>19,480,610</u>	<u>19,480,610</u>	<u>19,480,610</u>	<u>—</u>
Total	<u>\$ 66,586,687</u>	<u>\$ 19,480,610</u>	<u>\$ 19,480,610</u>	<u>\$ 47,106,077</u>
	2016			
		Fair Value Measurement Using		
	Total Value	Significant Unobservable Inputs (Level 3)	Total Measured at Fair Value	Amortized or Historical Cost
Cash and cash equivalents	\$ 47,950,041	\$ —	\$ —	\$ 47,950,041
Cash surrender value of life insurance policies	352,972	—	—	352,972
Endowed deposits and investments	<u>18,019,901</u>	<u>18,019,901</u>	<u>18,019,901</u>	<u>—</u>
Total	<u>\$ 66,322,914</u>	<u>\$ 18,019,901</u>	<u>\$ 18,019,901</u>	<u>\$ 48,303,013</u>

Where quoted market prices are available in an active market, securities are classified within level 1 of the valuation hierarchy. If quoted 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, volatiles, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in level 2 of the valuation hierarchy. There are no level 1 or 2 deposits or investments measured at fair value as of June 30, 2017 and 2016.

The investment in the University pooled endowment fund is derived based on the per unit calculation as described in footnote 1. For more information regarding the fair value measurements, refer to the University's financial statements, footnote 2. There have been no significant changes in the valuation techniques during the year ended June 30, 2017.

The composition of the University's pooled endowment fund based upon fair value at June 30, 2017 and 2016 is as follows:

	2017	2016
Cash and cash equivalents	0.4%	0.7%
Diversifying strategies	18.8%	16.2%
Global equity - hedged fund	8.3%	13.5%
Global equity - international	13.8%	13.9%
Global equity - private	14.2%	14.2%
Global equity - U.S.	9.6%	13.7%
Global fixed income - high quality/rate sensitive	8.2%	3.7%
Global fixed income - private credit	3.0%	2.0%
Global fixed income - public credit	4.9%	4.1%
Real assets - private	9.6%	10.8%
Real assets - public	9.2%	7.2%
Total	100.0%	100.0%

Deposit and Investment Policies. Athletics 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 Athletics' funds.

For purposes of investment management, Athletics' deposits and investments can be grouped into two significant categories:

- Cash on deposit with the University, which the University invests in deposits with banks and the Commonwealth of Kentucky (the Commonwealth). The University also invests cash on deposit in money market funds and the University's pooled endowment fund.
- Endowment investments in the University's pooled endowment fund.

Cash on deposit with the University is managed based on the University's Operating Fund Investment Policy established by the Treasurer of the University.

Endowment investments are managed within guidelines established by the University's Endowment Investment Policy, as approved by the Investment Committee of the University's Board of Trustees, which governs the University's pooled endowment fund.

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

Credit Risk. Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligation, causing Athletics 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:

- Cash on deposit with the University is governed by policy that minimizes risk in several ways. The University's deposits in Federal Deposit Insurance Corporation (FDIC) insured financial institutions are covered up to \$250,000 at each FDIC insured institution, state law requires that deposits in excess of this coverage be fully collateralized. Depository institutions issue a pledge of specific U.S. Treasury or agency securities, held in the name of the University by the Federal Reserve Bank, to cover all amounts over the \$250,000 coverage.

- Deposits with the Commonwealth consist of securities eligible for short-term investments under state law. Money market funds held by the University are invested in U.S. Treasury and agency securities.
- Endowment managers are permitted to use derivative instruments to limit credit risk.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of the failure of the counterparty, Athletics 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:

- Cash on deposit with the University invested in deposits and money market funds are held in the University's name by various financial institutions. Deposits with the Commonwealth are held in the Commonwealth's name. The University maintains records evidencing the Athletics' ownership interest in such balances.
- Endowment investments are held in the University's name by the University's custodian. The University maintains records of Athletics' ownership interest (units) in the University's pooled endowment fund.

Concentrations of Credit Risk. Athletics' 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:

- Cash on deposit with the University is not limited as to the maximum amount that may be invested in one issuer. However, the University's cash deposits in local banks are governed by state law which requires full collateralization of balances exceeding amounts covered by the Federal Deposit Insurance Corporation (FDIC).
- The University's endowment core-plus fixed income manager is limited to a maximum investment in any one issuer of no more than three percent of total investments excluding sovereign debt of governments belonging to the Organization for Economic Cooperation and Development and U.S. agencies.

At June 30, 2017, Athletics had no underlying investments in any one issuer which represented more than three percent of total investments, other than U.S. Treasury and agency obligations.

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:

- Cash on deposit with the University has 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.
- Endowment managers are permitted to use derivative instruments to limit interest rate risk. Additionally, endowment investments held by the University's core-plus fixed income managers are limited to a duration that is within two years of the duration of the Barclays U.S. Aggregate Bond Index and unconstrained fixed income strategies have been implemented to further mitigate interest rate risk.

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.

Athletics' exposure to foreign currency risk derives from certain endowment investments of the University's pooled endowment fund. The University's 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.

3. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net as of June 30, 2017 and 2016 are summarized as follows:

	2017		
	Gross Receivable	Allowance	Net Receivable
Multimedia rights receivable	\$ 172,413,758	\$ —	\$ 172,413,758
Pledges receivable (less discounts of \$3,067,318)	34,076,783	(10,163,505)	23,913,278
Service concession receivable	10,449,003	—	10,449,003
Student receivables	33,451	(18,171)	15,280
Other	1,698,418	—	1,698,418
Total	<u>\$ 218,671,413</u>	<u>\$ (10,181,676)</u>	<u>\$ 208,489,737</u>
Current portion			\$ 25,682,604
Noncurrent portion			182,807,133
Total			<u>\$ 208,489,737</u>
	2016		
	Gross Receivable	Allowance	Net Receivable
Multimedia rights receivable	\$ 191,643,980	\$ —	\$ 191,643,980
Pledges receivable (less discounts of \$2,824,245)	31,228,242	(9,395,772)	21,832,470
Service concession receivable	11,103,880	—	11,103,880
Student receivables	35,104	(26,337)	8,767
Other	832,598	—	832,598
Total	<u>\$ 234,843,804</u>	<u>\$ (9,422,109)</u>	<u>\$ 225,421,695</u>
Current portion			\$ 24,137,582
Noncurrent portion			201,284,113
Total			<u>\$ 225,421,695</u>

The above pledges receivable are shown net of present value discount.

In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, Athletics is required to record operating and capital pledges as revenue when all eligibility requirements have been met. For each of the years ended June 30, 2017 and 2016, Athletics recorded the discounted value of operating and capital pledges using a rate of two percent.

A multimedia rights partnership was formed in July 2014 between the University and JMI Sports providing athletic and campus multimedia marketing rights in a 15 year, \$210,000,000 agreement. Under the contract, the University will receive a guaranteed rights fee in each of the 15 years of the partnership, starting at \$9,100,000 in 2015-16 and increasing to \$16,000,000 in 2029-30. The agreement also included a \$29,400,000 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 \$29,943,980, which will now be paid over the first three years of the contract. This modification increased the total amount to be received by Athletics to \$210,543,980.

In July 2014, the University entered into a nearly \$250,000,000 contract with Aramark, forming a 15 year public/private partnership. As part of this contract, Athletics will receive guaranteed commissions from Aramark on sales of concessions at sporting events located at Kroger Field, Memorial Coliseum, and other facilities.

4. CAPITAL ASSETS, NET

Capital assets, net as of June 30, 2017 are summarized as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Land improvements	\$ 16,699,354	\$ 8,771,189	\$ —	\$ 25,470,543
Buildings	286,477,551	42,566,662	—	329,044,213
Fixed equipment	2,605,486	682,168	—	3,287,654
Equipment	10,098,329	1,592,902	865,913	10,825,318
Vehicles	833,033	—	29,923	803,110
Construction in process	44,565,382	6,994,616	42,959,392	8,600,606
	<u>361,279,135</u>	<u>60,607,537</u>	<u>43,855,228</u>	<u>378,031,444</u>
<u>Accumulated Depreciation</u>				
Land improvements	4,667,137	1,497,552	—	6,164,689
Buildings	76,327,401	12,577,985	—	88,905,386
Fixed equipment	1,238,526	224,957	—	1,463,483
Equipment	4,182,561	1,031,755	488,234	4,726,082
Vehicles	647,276	44,822	6,483	685,615
	<u>87,062,901</u>	<u>15,377,071</u>	<u>494,717</u>	<u>101,945,255</u>
Net capital assets	<u>\$ 274,216,234</u>	<u>\$ 45,230,466</u>	<u>\$ 43,360,511</u>	<u>\$ 276,086,189</u>

Capital assets, net as of June 30, 2016 are summarized as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Land improvements	\$ 12,482,496	\$ 4,216,858	\$ —	\$ 16,699,354
Buildings	155,777,106	130,700,445	—	286,477,551
Fixed equipment	1,950,102	655,384	—	2,605,486
Equipment	6,740,610	5,868,262	2,510,543	10,098,329
Vehicles	739,145	93,888	—	833,033
Construction in process	114,132,699	36,049,494	105,616,811	44,565,382
	<u>291,822,158</u>	<u>177,584,331</u>	<u>108,127,354</u>	<u>361,279,135</u>
<u>Accumulated Depreciation</u>				
Land improvements	3,687,498	979,639	—	4,667,137
Buildings	66,152,965	10,174,436	—	76,327,401
Fixed equipment	1,081,300	157,226	—	1,238,526
Equipment	4,163,545	1,734,479	1,715,463	4,182,561
Vehicles	583,659	63,617	—	647,276
	<u>75,668,967</u>	<u>13,109,397</u>	<u>1,715,463</u>	<u>87,062,901</u>
Net capital assets	<u>\$ 216,153,191</u>	<u>\$ 164,474,934</u>	<u>\$ 106,411,891</u>	<u>\$ 274,216,234</u>

At June 30, 2017, Athletics had commitments in capital construction projects in progress totaling \$57,091,059 in scope. The estimated cost to complete the projects in progress is \$48,284,707. Such construction was principally financed by cash reserves, proceeds from general receipts bonds and private donations.

Interest costs incurred during construction, net of related investment income, are capitalized. Total interest capitalized was \$568,674 and \$4,473,814 during the years ended June 30, 2017 and 2016, respectively.

As of June 30, 2017, Hagan Baseball Stadium was scheduled for demolition in a subsequent fiscal year and the estimated useful life was reevaluated for recording depreciation expense. The total original cost of the building was \$4,284,429, with accumulated depreciation of \$2,999,801, and a total net book value written off in fiscal year 2017 of \$642,314. The remaining net book value will be written off in fiscal year 2018.

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2017 and June 30, 2016 are as follows:

	2017	2016
Payable to vendors and contractors	\$ 4,466,684	\$ 9,922,878
Accrued payroll and vacation	850,025	867,481
Accrued interest payable	1,099,130	1,124,526
Total	<u>\$ 6,415,839</u>	<u>\$ 11,914,885</u>

6. UNEARNED REVENUE

Unearned revenue as of June 30, 2017 and June 30, 2016 are as follows:

	2017					
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Noncurrent Portion
Multimedia rights	\$ 193,583,493	\$ 14,036,265	\$ 28,072,531	\$ 179,547,227	\$ 14,036,265	\$ 165,510,962
Football tickets	10,540,988	12,828,769	11,570,981	11,798,776	11,798,776	—
Other	174,415	1,653,182	1,235,796	591,801	141,801	450,000
Total	\$ 204,298,896	\$ 28,518,216	\$ 40,879,308	\$ 191,937,804	\$ 25,976,842	\$ 165,960,962

	2016					
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Noncurrent Portion
Multimedia rights	\$ 207,083,333	\$ 543,980	\$ 14,043,820	\$ 193,583,493	\$ 14,036,266	\$ 179,547,227
Football tickets	13,412,284	12,128,252	14,999,548	10,540,988	10,540,988	—
Other	118,789	335,986	280,360	174,415	174,415	—
Total	\$ 220,614,406	\$ 13,008,218	\$ 29,323,728	\$ 204,298,896	\$ 24,751,669	\$ 179,547,227

7. LONG TERM LIABILITIES

Long-term liabilities as of June 30, 2017 are summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Noncurrent Portion
<u>Bonds and capital leases</u>						
General receipts bonds	\$ 107,928,061	\$ —	\$ 2,482,754	\$ 105,445,307	\$ 2,514,862	\$ 102,930,445
Capital leases	4,130,000	—	2,015,000	2,115,000	2,115,000	—
Total bonds and capital leases	112,058,061	—	4,497,754	107,560,307	4,629,862	102,930,445
<u>Other liabilities</u>						
Unamortized bond premium	4,475,454	—	299,923	4,175,531	293,472	3,882,059
Noncurrent construction retainage	6,820	377,260	6,820	377,260	—	377,260
Deferred compensation	8,351,886	2,738,943	2,181,175	8,909,654	2,485,525	6,424,129
Total other liabilities	12,834,160	3,116,203	2,487,918	13,462,445	2,778,997	10,683,448
Total	\$ 124,892,221	\$ 3,116,203	\$ 6,985,672	\$ 121,022,752	\$ 7,408,859	\$ 113,613,893

Long-term liabilities as of June 30, 2016 are summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Noncurrent Portion
<u>Bonds and capital leases</u>						
General receipts bonds	\$ 110,433,061	\$ —	\$ 2,505,000	\$ 107,928,061	\$ 2,482,754	\$ 105,445,307
Capital leases	6,060,000	—	1,930,000	4,130,000	2,015,000	2,115,000
Total bonds and capital leases	116,493,061	—	4,435,000	112,058,061	4,497,754	107,560,307
<u>Other liabilities</u>						
Unamortized bond premium	4,775,375	—	299,921	4,475,454	299,922	4,175,532
Noncurrent construction retainage	499,314	6,820	499,314	6,820	—	6,820
Deferred compensation	6,598,453	3,376,633	1,623,200	8,351,886	2,181,175	6,170,711
Total other liabilities	11,873,142	3,383,453	2,422,435	12,834,160	2,481,097	10,353,063
Total	\$ 128,366,203	\$ 3,383,453	\$ 6,857,435	\$ 124,892,221	\$ 6,978,851	\$ 117,913,370

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

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

Bonds payable consist of general receipts bonds in the original amount of \$110,106,093, dated March 18, 2014 through July 28, 2014, which bear interest at 1.46% to 3.90%. The bonds are payable in annual installments through April 1, 2044. Athletics 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 Athletics and other revenues of the University under the bond indenture agreements. Capital leases are due in periodic installments through May 1, 2018 and bear interest at 2.13% to 4.34%.

Principal maturities and interest on bonds and capital leases for the next five fiscal years and in subsequent five-year periods as of June 30, 2017 are as follows (in thousands):

	Principal	Interest	Total
2018	\$ 4,630	\$ 4,418	\$ 9,048
2019	2,557	4,283	6,840
2020	2,615	4,227	6,842
2021	2,709	4,134	6,843
2022	2,843	3,998	6,841
2023-2027	15,950	17,758	33,708
2028-2032	17,233	14,537	31,770
2033-2037	20,931	10,839	31,770
2038-2042	26,107	5,663	31,770
2043-2044	11,985	725	12,710
Total	\$ 107,560	\$ 70,582	\$ 178,142

8. INVESTMENT INCOME (LOSS)

Components of investment income (loss) for the years ended June 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Interest and dividends earned on endowment investments	\$ 263,978	\$ 212,302
Realized and unrealized gains and (losses) on endowment investments	1,460,710	(470,852)
Interest on cash and non-endowment investments	<u>16,796</u>	<u>54,683</u>
Total	<u>\$ 1,741,484</u>	<u>\$ (203,867)</u>

9. PLEDGED REVENUES

Starting in fiscal year 2014, the University substantially pledged all of the unrestricted operating and nonoperating revenues, including Athletics revenue, to repay the general receipt bonds and notes issued during 2014 and 2015. Athletics has substantially pledged all of the unrestricted operating and nonoperating revenues to repay the General Receipts Bonds 2014 Series A for Kroger Field and General Receipts Bonds 2014 Taxable Series C for Kroger Field issued in 2014, that provided funding for the renovation of Kroger Field and to repay the General Receipts Refunding Bonds 2014 Series D, which partially refunded General Receipts Bonds 2005 Series A that provided funding for the renovation of Memorial Coliseum. The bonds are payable from unrestricted operating and nonoperating revenues and are payable through 2044. Annual principal and interest payments on bonds are expected to require approximately seven percent of pledged revenue. The total principal and interest remaining to be paid on the bonds is \$175,937,428 and \$182,782,871 as of June 30, 2017 and 2016, respectively. Principal and interest payment began in fiscal year 2015.

10. PENSION PLANS

Regular full-time employees of Athletics are participants in the University of Kentucky Retirement Plan, a defined contribution plan. Athletics' employees participate in one of the following three groups of the University of Kentucky Retirement Plan:

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.

Participation in these groups of the University of Kentucky Retirement Plan is mandatory for all regular full-time employees age 30 and older. Participation is voluntary until age 30. Athletics contributes 10% and each employee contributes five percent of eligible compensation. 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 has authorized two retirement plan carriers, as follows:

- Teachers Insurance and Annuity Association (TIAA)
- Fidelity Investments Institutional Services Company

In addition to retirement benefits provided from the group retirement plan, the University provides supplemental retirement income benefits to certain eligible employees of the University.

The total contributions charged to operations for the various retirement plans were \$4,002,936 and \$3,192,013 for the years ended June 30, 2017 and 2016, respectively. Employees contributed \$1,334,125 and \$1,063,971 during 2017 and 2016, respectively. The payroll for employees covered by the retirement plan was approximately \$26,688,106 and \$21,280,412 for the years ended June 30, 2017 and 2016, respectively.

11. HEALTH INSURANCE BENEFITS FOR RETIREES

The University administers a single-employer defined-benefit healthcare plan including medical and prescription drug benefits. The plan provides lifetime healthcare insurance benefits for eligible retirees and their surviving spouses. Human Resources Policies and Procedures define retiree health benefits and can be amended by the President of the University as delegated by the University's Board of Trustees.

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. However, retirees must pay the greater of \$25 per month or 10% of total plan cost.

The University has established a trust fund to segregate plan assets, and currently plans to contribute amounts to the trust fund sufficient to fully fund the annual required contribution, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45.

As an organizational unit of the University, Athletics has recognized its share of the contribution in employee benefit costs and has no additional liability for this benefit at June 30, 2017.

12. RISK MANAGEMENT

Athletics is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omission; and natural disasters. These risks are covered by the State Fire and Tornado Insurance Fund (the Fund), commercial insurance, extension of coverage by the University's participation in an insurance risk retention group, and self-insurance.

The Fund covers losses to property from fire, wind, earthquake, flood and other named perils between \$5,000 and \$1,000,000 per occurrence. Losses in excess of \$1,000,000 are insured by commercial carriers up to \$1.25 billion per occurrence. Buildings and contents are insured at replacement cost. Claims against directors, officers and employees for wrongful acts (errors and omission) are insured through a risk retention group. There have been no significant reductions in insurance coverage from 2016 to 2017. Settlements have not exceeded insurance coverage during the past three years.

13. TRANSACTIONS WITH THE UNIVERSITY

Due to the relationship of Athletics with the University, Athletics has substantial transactions with the University, including purchases of various supplies and services. In 2017 and 2016, noncapital grants to the University primarily included \$2,005,100 and \$1,909,600, respectively, for reimbursement of various educational and support functions and \$1,660,000 each year for non-athletic scholarships. In fiscal year 2016, Athletics agreed to annually fund the principal and interest payments on a total of \$65,000,000 of the \$100,000,000 for General Receipts Bonds 2014 Series A for the academic science building. In 2017 and 2016, the amount transferred to the University under this agreement was \$3,723,700 and 3,726,800, respectively.

14. RECLASSIFICATION

Certain reclassifications have been made to the fiscal year 2016 financial statements to conform to the fiscal year 2017 financial statement presentation. These reclassifications had no effect on the change in net position.

15. RESTATEMENT OF PRIOR YEAR'S FINANCIAL STATEMENTS

The Athletics' audited Statement of Cash Flows for June 30, 2016, issued on October 3, 2016, has been restated to properly reflect the amount of accounts payable and accrued liabilities in the purchase of capital assets. This restatement did not result in a change in net position for the year ended June, 30, 2016.

The items restated for the year ended June 30, 2016 were as follows:

	<u>As Restated</u>	<u>As Previously Reported</u>	<u>Effect of Change</u>
Statement of Cash Flow:			
Payments to vendors and contractors	\$ (65,020,845)	\$ (86,216,699)	\$ 21,195,854
Net cash used by operating activities	\$ (273,476)	\$ (21,469,330)	\$ 21,195,854
Purchases of capital assets	\$ (87,744,741)	\$ (66,548,887)	\$ (21,195,854)
Net cash used by capital and related financing activities	\$ (88,272,672)	\$ (67,076,818)	\$ (21,195,854)
Adjustments to reconcile net loss from operations - accounts payable and accrued liabilities	\$ 264,435	\$ (20,931,419)	\$ 21,195,854
Adjustments to reconcile net loss from operations - net cash used by operating activities	\$ (273,476)	\$ (21,469,330)	\$ 21,195,854
Noncash transactions - capital assets change in accounts payable	\$ (16,846,386)	\$ 4,349,468	\$ (21,195,854)



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