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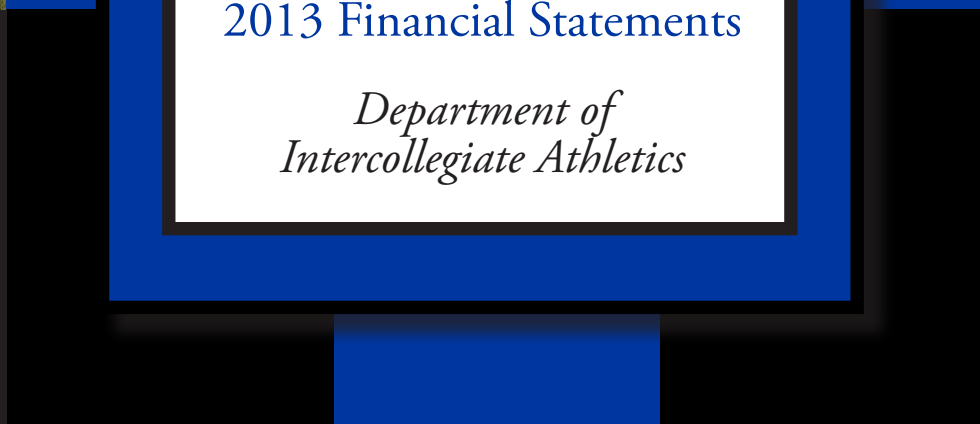


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UNIVERSITY OF
KENTUCKY[®]
 2013 Financial Statements
*Department of
 Intercollegiate Athletics*

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University of Kentucky
Department of Intercollegiate Athletics
An Organizational Unit of the University of Kentucky
Financial Statements
Years Ended June 30, 2013 and 2012

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Independent Auditor's Report

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

We have audited the accompanying basic financial statements, which are comprised of a statement of net position as of June 30, 2013, and statements of revenues, expenses and changes in net position and of cash flows for the year then ended and the related notes to the financial statements, as listed in the table of contents, of the University of Kentucky Department of Intercollegiate Athletics (Athletics), an organizational unit of the University of Kentucky.

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 audit. We conducted our audit 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 Athletics' 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 Athletics' 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 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, 2013, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

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

BKD, LLP

Louisville, Kentucky
October 1, 2013

Management's Discussion and Analysis

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, 2013 and 2012. 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

- The financial statements for FY 2012-2013 report a solid financial condition at June 30, 2013. Financial operations were in accordance with the revenue expectations and the approved budget plan.
- Total assets increased \$9,868,501 or 5.2%. The most significant component of the fluctuation was a \$10,168,146 increase in capital assets, net.
- Total liabilities decreased \$5,269,083 or 12.2%. Long term liabilities decreased \$8,248,802, offset by increases in unearned revenue of \$1,936,831.
- Net position increased \$15,137,584 or 10.3% caused mainly by an increase in net investment in capital assets of \$12,034,751.
- Operating revenues increased \$2,695,207 to \$72,033,278.
- Operating expenses increased \$8,445,277 to \$84,447,233.
- Nonoperating revenues, net, increased \$10,809,156, primarily due to a \$3,795,774 increase in capital grants and gifts, a \$3,372,654 increase in gifts and a \$2,193,033 increase in investment income.

Using the Annual Report

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, capital, financing and investing activities.

Reporting Entity

The University of Kentucky Department of Intercollegiate Athletics (Athletics) is an organizational unit of the University of Kentucky (the University) 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 of Kentucky.

Condensed Financial Information

Statements of Net Position

	<u>2013</u>	<u>2012</u>
ASSETS		
Current assets	\$ 59,271,489	\$ 55,720,614
Capital assets, net	107,095,508	96,927,362
Other noncurrent assets	<u>32,909,688</u>	<u>36,760,208</u>
Total assets	<u>199,276,685</u>	<u>189,408,184</u>
LIABILITIES		
Current liabilities	22,541,980	20,729,368
Noncurrent liabilities	<u>15,263,595</u>	<u>22,345,290</u>
Total liabilities	<u>37,805,575</u>	<u>43,074,658</u>
NET POSITION		
Net investment in capital assets	92,195,508	80,160,757
Restricted		
Nonexpendable	5,504,111	5,544,381
Expendable	49,438,478	43,529,131
Unrestricted	<u>14,333,013</u>	<u>17,099,257</u>
Total net position	<u>\$ 161,471,110</u>	<u>\$ 146,333,526</u>

Assets. As of June 30, 2013, Athletics' assets totaled \$199,276,685. Capital assets, net represented Athletics' largest asset, totaling \$107,095,508 or 53.7% of total assets. Cash and cash equivalents totaled \$55,054,584 or 27.6%.

Total assets increased \$9,868,501 or 5.2% primarily due to a \$10,168,146 increase in capital assets, net resulting from substantial completion of the renovation of the track and field facility.

Liabilities. At June 30, 2013, Athletics' liabilities totaled \$37,805,575. Long term liabilities, consisting of bonds and capital leases issued for Commonwealth Stadium and Memorial Coliseum, and coach longevity and retention bonuses, totaled \$18,391,340 or 48.7% of total liabilities. Unearned revenue, primarily comprised of advance sales of football tickets and reserved parking, totaled \$13,581,274 and represented 35.9% of total liabilities.

Total liabilities decreased \$5,269,083 during the year ended June 30, 2013. Long term liabilities decreased \$8,248,802 primarily because Athletics paid back the University for an internal loan of \$6,900,000 received last year for additional funding of the renovation of the track and field facility. There was an offsetting increase in unearned revenue of \$1,936,831 due to higher advance sales of football season tickets.

Net Position. Net position at June 30, 2013, totaled \$161,471,110, or 81.0% of total assets. Net investment in capital assets totaled \$92,195,508 or 57.1% of total net position. Restricted net position totaled \$54,942,589 or 34.0% of total net position. Unrestricted net position accounted for \$14,333,013 or 8.9% of total net position.

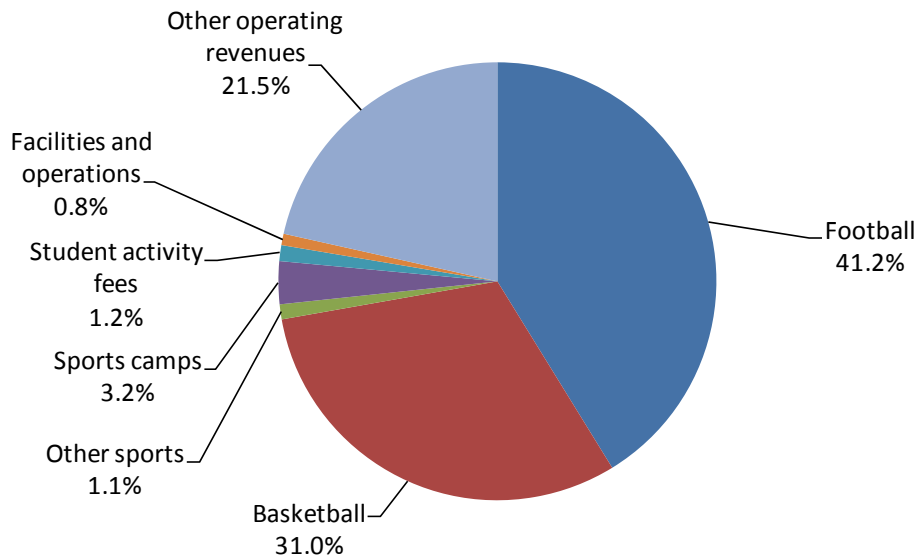
Total net position increased \$15,137,584 during the year ended June 30, 2013, primarily because of an increase of \$12,034,751 in net investment in capital assets due to substantial completion of the renovation of the track and field facility this year.

Statements of Revenues, Expenses and Changes in Net Position

	<u>2013</u>	<u>2012</u>
OPERATING REVENUES		
Football	\$ 29,682,824	\$ 32,207,392
Basketball	22,337,508	20,842,008
Other sports	796,221	667,822
Total sports	<u>52,816,553</u>	<u>53,717,222</u>
Sports camps	2,271,888	2,142,206
Student activity fees	847,079	827,172
Facilities and operations	605,345	306,015
Other operating revenue, primarily media rights and sponsorships	<u>15,492,413</u>	<u>12,345,456</u>
Total operating revenues	<u>72,033,278</u>	<u>69,338,071</u>
OPERATING EXPENSES		
Football	17,776,333	12,933,808
Basketball	12,608,341	14,159,218
Other sports	19,481,697	17,446,845
Total sports	<u>49,866,371</u>	<u>44,539,871</u>
Sports camps	2,229,660	2,110,705
Facilities and operations	10,586,998	9,642,683
Administrative and general	16,482,119	15,503,532
Depreciation	5,282,085	4,195,165
Total operating expenses	<u>84,447,233</u>	<u>75,991,956</u>
NET LOSS FROM OPERATIONS	<u>(12,413,955)</u>	<u>(6,653,885)</u>
NONOPERATING REVENUES (EXPENSES)		
Royalties/license fees	3,097,658	2,317,952
Gifts	18,919,665	15,547,011
Investment income	1,919,759	(273,274)
Interest on capital asset-related debt	(755,160)	(855,533)
Grants (to) from the University of Kentucky for noncapital purposes	<u>(4,101,899)</u>	<u>(5,430,342)</u>
Net nonoperating revenues and expenses	<u>19,080,023</u>	<u>11,305,814</u>
Net income before other revenues, expenses, gains, or losses	<u>6,666,068</u>	<u>4,651,929</u>
Capital gifts and grants	9,214,139	5,418,365
Additions to permanent endowments	67,251	42,120
Grants (to) from the University of Kentucky for capital purposes	(3,870)	(73,296)
Other, net	<u>(806,004)</u>	<u>49,380</u>
Total other expenses (net)	<u>8,471,516</u>	<u>5,436,569</u>
Total increase in net position	15,137,584	10,088,498
Net position, beginning of year	<u>146,333,526</u>	<u>136,245,028</u>
Net position, end of year	<u>\$ 161,471,110</u>	<u>\$ 146,333,526</u>

2013. Total operating revenues were \$72,033,278 for the year ended June 30, 2013. The most significant sources of operating revenue for Athletics were football (41.2%), basketball (31.0%), and other operating revenues, primarily media rights and sponsorships (21.5%). Operating revenues increased \$2,695,207 primarily due to an increase in other operating revenue of \$3,146,957 caused by the renewal of the NIKE sponsorship this year, offset by a decrease in sports revenue of \$900,669 caused by less football tickets sold this year.

TOTAL OPERATING REVENUES

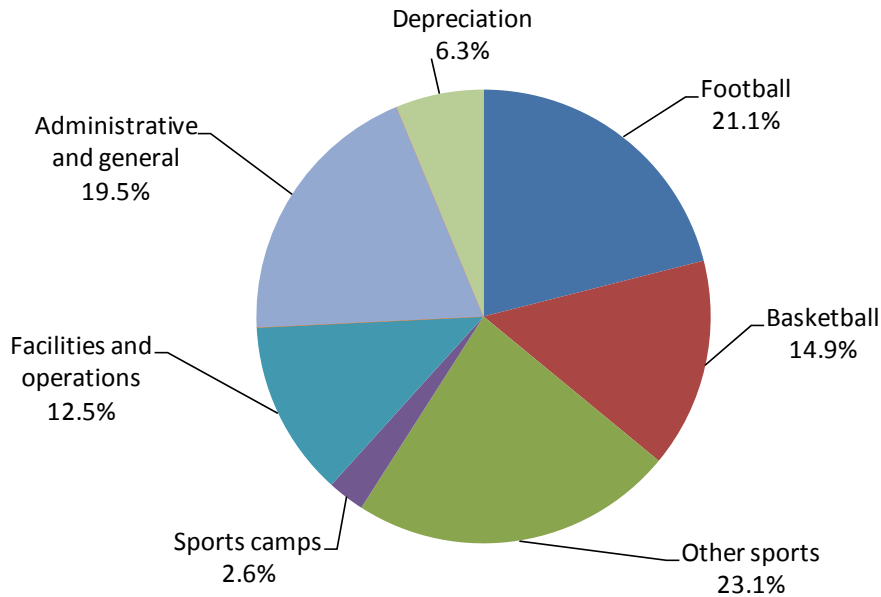


Operating expenses, including \$5,282,085 of depreciation, totaled \$84,447,233. Of this amount, \$49,866,371 or 59.1% was used in direct support of sports programs and \$16,482,119 or 19.5% supported Athletics' administrative operations.

Operating expenses increased \$8,445,277 or 11.1% primarily caused by increases in sports related expenses of \$5,326,500 or 12.0%, administrative and general expenses of \$978,587 or 6.3%, and facilities and operations expenses of \$944,315 or 9.8%. Sports related expenses increased mainly due to increased coaches' salaries caused by a payout to the departing head football coach and increases for the new head football coach and staff. Administrative and general expenses increased mainly due to increases in salaries and supplies for new strength and conditioning coaches. Facilities and operations expenses increased primarily due to additional routine maintenance on buildings.

Athletics' expenses for operating sports programs include scholarship expenses of \$10,280,502.

TOTAL OPERATING EXPENSES



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.

	2013	2012
CASH PROVIDED (USED) BY :		
Operating activities	\$ (7,174,294)	\$ (685,614)
Noncapital financing activities	18,131,224	12,491,891
Capital and related financing activities	(16,938,498)	(13,859,627)
Investing activities	5,668,666	1,277,443
Net increase in cash and cash equivalents	(312,902)	(775,907)
Cash and cash equivalents, beginning of year	55,367,486	56,143,393
Cash and cash equivalents, end of year	\$ 55,054,584	\$ 55,367,486

2013. The major source of funds included in operating activities is revenue from sports of \$53,927,429 for the year ended June 30, 2013. The largest cash payments for operating activities were made to suppliers and for salaries and wages of \$44,534,094 and \$36,187,186, respectively. Cash used by operating activities increased \$6,488,680 due to increases of \$6,732,251 in payments to suppliers and \$6,175,662 in payments to employees for salaries and wages, offset by increases of other receipts of \$4,205,724 and sports revenues of \$2,213,509.

During the year ended June 30, 2013, cash receipts in the noncapital financing activities group were generated mainly by private gifts for other purposes of \$19,068,214, royalties and license fees of \$3,097,658 and private gifts for endowment purposes of \$67,251, offset by transfers of \$4,101,899 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 were primarily from \$13,408,312 for purchases of capital assets, principal paid on capital debt and leases of \$8,955,351, payments to refunding bond agents of \$1,423,576 and interest paid on capital debt and leases of \$681,391, offset mainly by cash provided by capital grants and gifts of \$6,109,027 and proceeds of capital debt of \$1,423,576.

During the year ended June 30, 2013, cash provided by investing activities reflects proceeds from sales and maturities of investments of \$17,163,535 and interest and dividend income on investments of \$345,832, net of cash used to purchase investments of \$11,840,701.

Capital Asset and Debt Administration

Capital Assets. Capital assets, net of accumulated depreciation, totaled \$107,095,508 at June 30, 2013, an increase of \$10,168,146. Capital assets as of June 30, 2013, and significant changes in capital assets during the years ended June 30, 2013 and 2012 are as follows (in thousands):

	Balance June 30, 2011	Net Additions FY 11-12	Balance June 30, 2012	Net Additions FY 12-13	Balance June 30, 2013
Land improvements	\$ 3,291	\$ 461	\$ 3,752	\$ 7,168	\$ 10,920
Buildings	122,955	14,326	137,281	2,204	139,485
Fixed equipment	992	-	992	145	1,137
Equipment	5,359	155	5,514	901	6,415
Vehicles	583	2	585	(6)	579
Construction in progress	3,373	8,095	11,468	1,497	12,965
Accumulated depreciation	(58,954)	(3,711)	(62,665)	(1,740)	(64,405)
Total	<u>\$ 77,599</u>	<u>\$ 19,328</u>	<u>\$ 96,927</u>	<u>\$ 10,169</u>	<u>\$ 107,096</u>

Debt. As of June 30, 2013, Athletics had \$5,250,000 in general receipts bonds outstanding and \$9,650,000 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 2013, ticket revenues slightly decreased, but donations have increased. It is anticipated that ticket sales will increase next year due to the increase in unearned revenue this year for advanced football ticket sales.

DEPARTMENT OF INTERCOLLEGIATE ATHLETICS
AN ORGANIZATIONAL UNIT OF THE UNIVERSITY OF KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2013

	<u>2013</u>
ASSETS	
Current Assets	
Cash and cash equivalents	\$ 52,870,717
Accounts receivable, net	2,372,627
Inventories and other assets	4,028,145
Total current assets	<u>59,271,489</u>
Noncurrent Assets	
Restricted cash and cash equivalents	2,183,867
Endowment investments	17,126,169
Accounts receivable, net	13,588,702
Other noncurrent assets	10,950
Capital assets, net	107,095,508
Total noncurrent assets	<u>140,005,196</u>
Total assets	<u>199,276,685</u>
LIABILITIES	
Current Liabilities	
Accounts payable and accrued liabilities	5,832,961
Unearned revenue	13,581,274
Long term liabilities - current portion	3,127,745
Total current liabilities	<u>22,541,980</u>
Noncurrent Liabilities	
Long term liabilities	15,263,595
Total noncurrent liabilities	<u>15,263,595</u>
Total liabilities	<u>37,805,575</u>
NET POSITION	
Net investment in capital assets	92,195,508
Restricted	
Nonexpendable	
Scholarships and fellowships	5,504,111
Total restricted nonexpendable	<u>5,504,111</u>
Expendable	
Scholarships and fellowships	2,014,592
Capital projects	40,387,456
Auxiliary	7,036,430
Total restricted expendable	<u>49,438,478</u>
Total restricted	54,942,589
Unrestricted	<u>14,333,013</u>
Total net position	<u>\$ 161,471,110</u>

See notes to financial statements.

**DEPARTMENT OF INTERCOLLEGIATE ATHLETICS
AN ORGANIZATIONAL UNIT OF THE UNIVERSITY OF KENTUCKY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>2013</u>
OPERATING REVENUES	
Sports:	
Football	\$ 29,682,824
Basketball	22,337,508
Other sports	796,221
Total sports	<u>52,816,553</u>
Sport camps	2,271,888
Student activity fees	847,079
Facilities and operations	605,345
Other operating revenues, primarily media rights and sponsorships	15,492,413
Total operating revenues	<u>72,033,278</u>
OPERATING EXPENSES	
Sports:	
Football	17,776,333
Basketball	12,608,341
Other sports	19,481,697
Total sports	<u>49,866,371</u>
Sport camps	2,229,660
Facilities and operations	10,586,998
Administrative and general	16,482,119
Depreciation	5,282,085
Total operating expenses	<u>84,447,233</u>
Net income (loss) from operations	<u>(12,413,955)</u>
NONOPERATING REVENUES (EXPENSES)	
Royalties/license fees	3,097,658
Gifts	18,919,665
Investment income	1,919,759
Interest on capital asset-related debt	(755,160)
Grants (to) from the University of Kentucky for noncapital purposes	(4,101,899)
Net nonoperating revenues (expenses)	<u>19,080,023</u>
Net income (loss) before other revenues, expenses, gains, or losses	<u>6,666,068</u>
Capital grants and gifts	9,214,139
Additions to permanent endowments	67,251
Grants (to) from the University of Kentucky for capital purposes	(3,870)
Other, net	(806,004)
Total other revenues (expenses)	<u>8,471,516</u>
Increase (decrease) in net position	<u>15,137,584</u>
NET POSITION, beginning of year	<u>146,333,526</u>
NET POSITION, end of year	<u><u>\$ 161,471,110</u></u>

See notes to financial statements.

**DEPARTMENT OF INTERCOLLEGIATE ATHLETICS
AN ORGANIZATIONAL UNIT OF THE UNIVERSITY OF KENTUCKY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Revenues from sports	\$ 53,927,429
Payments to vendors and contractors	(44,534,094)
Salaries, wages and benefits	(36,187,186)
Other receipts (payments)	<u>19,619,557</u>
Net cash provided (used) by operating activities	<u>(7,174,294)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Royalties/license fees	3,097,658
Gifts and grants received for other than capital purposes:	
Private gifts for endowment purposes	67,251
Private gifts for other purposes	19,068,214
Grants (to) from the University of Kentucky	<u>(4,101,899)</u>
Net cash provided (used) by noncapital financing activities	<u>18,131,224</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital grants and gifts	6,109,027
Grants (to) from the University of Kentucky for capital purposes	(3,870)
Purchases of capital assets	(13,408,312)
Proceeds from capital debt	1,423,576
Payments to refunding bond agents	(1,423,576)
Principal paid on capital debt and leases	(8,955,351)
Interest paid on capital debt and leases	(681,391)
Other capital and related financing receipts (payments)	<u>1,399</u>
Net cash provided (used) by capital and related financing activities	<u>(16,938,498)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales and maturities of investments	17,163,535
Interest and dividends on investments	345,832
Purchase of investments	<u>(11,840,701)</u>
Net cash provided (used) by investing activities	<u>5,668,666</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(312,902)</u>
CASH AND CASH EQUIVALENTS, beginning of year	<u>55,367,486</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 55,054,584</u>
Reconciliation of net income (loss) from operations to net cash provided (used) by operating activities:	
Net income (loss) from operations	\$ (12,413,955)
Adjustments to reconcile net income (loss) from operations to net cash provided (used) by operating activities:	
Depreciation expense	5,282,085
Change in assets and liabilities:	
Accounts receivable, net	(419,079)
Inventories and other assets	(372,835)
Accounts payable and accrued liabilities	(1,753,539)
Unearned revenue	1,936,831
Long term liabilities	<u>566,198</u>
Net cash provided (used) by operating activities	<u>\$ (7,174,294)</u>
NONCASH TRANSACTIONS	
Trade in and disposal of capital equipment	\$ 1,400
Capital asset additions in accounts payable	\$ 572,658

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

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.
 - 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.

During the year ended June 30, 2013, Athletics adopted GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*.

The objective of GASB No. 63 is to provide guidance for reporting deferred outflows of resources, deferred inflows of resources and net position in a statement of financial position and related disclosures. GASB No. 63 has been applied retrospectively, by reclassifying certain 2012 financial statement line items to conform with the presentation requirements of the standard.

In addition to assets, GASB No. 63 requires the presentation of a separate financial statement element, deferred outflows of resources, which represents a consumption of net position that applies to a future period. Athletics has no items that qualify for reporting in this category.

In addition to liabilities, GASB No. 63 requires the presentation of a separate financial statement element, deferred inflows of resources, which represents an acquisition of net position that applies to a future period. Athletics has no items that qualify for reporting in this category.

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 and Pledges Receivable. This classification consists of amounts due from sponsors for advertising 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 2,000 named funds. All contributing endowments participate in the income and appreciation of the pool on a per unit basis commensurate with their contribution to the pool. New endowments purchase units in the pool at the current unit value, which is calculated each month based on the fair value of the pool investments divided by the number of pool units outstanding. The market value method of accounting for pooled endowment funds is employed to ensure proper distribution of market price changes, realized gains (losses) on sales, accrued income earned, and distribution of investment earnings for expenditure by participating funds.

In accordance with the Kentucky Uniform Prudent Management of Institutional Funds Act (UPMIFA), as adopted by the Commonwealth in July 2010, the University employs a total return method for establishing investment objectives and spending policies designed to achieve financial equilibrium for endowment funds over the long term. The University has made 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 whose long-term objective is to maintain the purchasing power of each endowment and provide a predictable and sustainable level of income to support current operations.

For the year ended June 30, 2013, the University's endowment standard spending rule provided for annual distributions of 4.25% of the 60 month moving average market value of fund units. In recognition of recent adverse market performance, reduced spending rules were established for certain endowments whose market value was less than the contributed value as of December 31st, which is the measurement date for calculating spending distributions for the following fiscal year. Additionally, for the year ended June 30, 2013, the University's annual endowment management fee was 0.25%, however endowments whose market value was less than the contributed value as of December 31st were exempt from the management fee in the subsequent fiscal year.

The amount of gross spending policy distribution in accordance with the University's endowment spending policy was \$12,243,241 for the year ended June 2013.

For future years the University has established a "hybrid" spending policy, which includes both the market value of the endowment and the current level of inflation in determining spending each year. Annual spending will be 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 will be constrained so that the calculated rate is at least three percent, and not more than six percent, of the current Endowment market value. The hybrid spending policy will be phased in over two years. The year ended June 30, 2014 will serve as a transition year to the new policy and spending will be based on four percent of the average market value for the preceding 60 months. The hybrid policy will be fully implemented in the year ending June 30, 2015.

Additionally, for fiscal years ending June 30, 2014 and thereafter, spending and management fee withdrawals will be suspended on all endowments with a market value less than the contributed value by more than 20% at December 31st of the prior year. Endowments with a market value less than the contributed value by more than 10% will undergo a formal review to determine the appropriate level of spending in accordance with various factors set forth in UPMIFA.

Investments. Investments in marketable securities are carried at fair value, as determined by the major securities markets. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the Statement of Revenues, Expenses and Changes in Net Position.

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

Athletics capitalizes interest costs as a component of construction in progress, based on the interest cost of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing.

Equipment with a unit cost of \$2,000 or more (\$1,000 for computers) and having an estimated useful life of greater than one year is capitalized. 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.

Unearned Revenue. Unearned revenue consists of amounts received in advance of an event, primarily football ticket and football reserved parking sales relating to the upcoming season. Revenue is recognized in the period in which the event occurs.

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.

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.

Recent Accounting Pronouncements. In April 2012, the GASB issued Statement No. 65, *"Items Previously Reported as Assets and Liabilities"*. This statement clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. With the exception of prepaid insurance costs, costs related to the issuance of debt will no longer be recorded as a deferred charge and amortized over the life of the debt, but instead will be recognized as an expense in the period incurred. Accounting changes to comply with the standard will be applied retroactively by restating financial statements for all periods presented. The adoption of GASB 65 will require classification of certain items and a change in the recognition of items previously reported as assets and liabilities, beginning with the fiscal year ending June 30, 2014.

GASB has issued certain statements which are applicable to Athletics for fiscal years ending after June 30, 2013. Athletics does not expect the adoption of GASB Statement No. 66-70 to have a material effect on its financial statements.

2. DEPOSITS AND INVESTMENTS

The fair value of deposits and investments, by type, at June 30, 2013 is as follows:

	<u>2013</u>
Cash on deposit with the University of Kentucky	\$ 55,054,584
Investment in University of Kentucky pooled endowment fund	<u>17,126,169</u>
Total	<u>\$ 72,180,753</u>
	<u>2013</u>
Statement of Net Position classification	
Cash and cash equivalents	\$ 52,870,717
Restricted cash and cash equivalents	2,183,867
Endowment investments	<u>17,126,169</u>
Total	<u>\$ 72,180,753</u>

At June 30, 2013, the University's pooled endowment fund consisted of common and preferred stock (4.3%), pooled equity funds (37.9%), pooled private equity funds (8.3%), pooled absolute return funds (20.2%), pooled real return funds (8.5%), pooled real estate funds (6.7%), U.S. Treasury fixed income (0.8%), government agency fixed income funds (0.9%), corporate fixed income funds (2.3%), pooled fixed income funds (9.3%) and cash and cash equivalents (0.8%).

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, as follows:

- Cash on deposit with the University, which the University invests in deposits and repurchase agreements with banks and the Commonwealth, and
- 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.

Endowment investments are managed by the University's Endowment Investment Policy as established 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 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 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. Deposits are governed by state law which requires full collateralization for balances exceeding

amounts covered by the Federal Deposit Insurance Corporation (FDIC). Athletics' deposits are insured up to \$250,000 at each FDIC insured institution. Credit risk on deposits in local banks is minimized by the financial institutions' participation in the FDIC's insurance coverage.

- Credit risk on repurchase agreements is mitigated by requiring the issuing financial institution's pledge of specific U.S. Treasury or agency securities, held in the name of the University by the Federal Reserve Bank. Credit risk on repurchase agreements with the Commonwealth is mitigated by the Commonwealth's requirement that providers of overnight repurchase agreements collateralize these investments at 102% of face value with U.S. Treasury or agency securities, pledged in the name of the Commonwealth.
- Endowment managers are permitted to use derivative instruments to limit credit risk. Additionally, endowment investments held by the University's fixed income managers are generally limited to holdings of high quality fixed income securities. These managers may invest a portion of the portfolio in other below-investment grade bonds, non-U.S. dollar denominated bonds, and emerging market bonds, provided the overall credit quality of the fixed income portfolios is not lower than A-

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 is invested in deposits and repurchase agreements held in the University's name. Deposits and repurchase agreements with the Commonwealth are held in the Commonwealth's name. The University maintains records evidencing 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 deposited or invested in one issuer. However, all such deposits in excess of Federal Depository Insurance are required to be fully collateralized by U.S. Treasury and/or U.S. agency securities or other similar investments as provided by KRS 41.240.
- 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 to the Organization for Economic Cooperation and Development and U.S. agencies.

At June 30, 2013, Athletics had no underlying investments in any one issuer which represent more than five 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 repurchase agreements 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 fixed income managers are limited to a duration that is within +/-25% of the duration of the Barclays Aggregate Bond Index.

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, 2013 is summarized as follows:

	2013		
	Gross Receivable	Allowance	Net Receivable
Pledges receivable	\$ 21,860,473	\$ (6,704,926)	\$ 15,155,547
Student receivables	17,655	(14,165)	3,490
Other	802,292	-	802,292
Total	<u>\$ 22,680,420</u>	<u>\$ (6,719,091)</u>	<u>\$ 15,961,329</u>
Current portion			\$ 2,372,627
Noncurrent portion			<u>13,588,702</u>
Total			<u>\$ 15,961,329</u>

4. CAPITAL ASSETS, NET

Capital assets, net as of June 30, 2013 is summarized as follows:

	2013			
	Beginning Balance	Additions	Deletions	Ending Balance
Land improvements	\$ 3,751,840	\$ 7,867,533	\$ 699,270	\$ 10,920,103
Buildings	137,281,449	5,354,760	3,151,369	139,484,840
Fixed equipment	991,715	191,074	46,106	1,136,683
Equipment	5,513,674	1,265,018	363,653	6,415,039
Vehicles	584,876	50,502	56,106	579,272
Construction in process	11,468,042	12,511,583	11,014,149	12,965,476
	<u>159,591,596</u>	<u>27,240,470</u>	<u>15,330,653</u>	<u>171,501,413</u>
<u>Accumulated Depreciation</u>				
Land improvements	2,303,066	587,113	699,271	2,190,908
Buildings	55,271,036	4,128,225	2,381,784	57,017,477
Fixed equipment	956,091	17,635	46,105	927,621
Equipment	3,645,574	489,848	364,148	3,771,274
Vehicles	488,467	59,264	49,106	498,625
	<u>62,664,234</u>	<u>5,282,085</u>	<u>3,540,414</u>	<u>64,405,905</u>
Net capital assets	<u>\$ 96,927,362</u>	<u>\$ 21,958,385</u>	<u>\$ 11,790,239</u>	<u>\$ 107,095,508</u>

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2013 is as follows:

	2013
Payable to vendors and contractors	\$ 5,031,266
Accrued payroll and vacation	670,954
Accrued interest payable	130,741
Total	<u>\$ 5,832,961</u>

6. LONG TERM LIABILITIES

Long-term liabilities as of June 30, 2013 are summarized as follows:

	2013					
	Beginning Balance	Additions	Deletions	Ending Balance	Current Portion	Noncurrent Portion
<u>Bonds and capital leases</u>						
General receipts bonds	\$ 5,550,000		\$ 300,000	\$ 5,250,000	\$ 315,000	\$ 4,935,000
Capital leases	11,265,000	\$ 1,440,000	3,055,000	9,650,000	1,750,000	\$ 7,900,000
Total bonds and capital leases	16,815,000	1,440,000	3,355,000	14,900,000	2,065,000	12,835,000
<u>Other liabilities</u>						
Due to the University of Kentucky	6,900,000	-	6,900,000	-	-	-
Deferred compensation	2,925,142	1,580,698	1,014,500	3,491,340	1,062,745	2,428,595
Total other liabilities	9,825,142	1,580,698	7,914,500	3,491,340	1,062,745	2,428,595
Total	<u>\$ 26,640,142</u>	<u>\$ 3,020,698</u>	<u>\$ 11,269,500</u>	<u>\$ 18,391,340</u>	<u>\$ 3,127,745</u>	<u>\$ 15,263,595</u>

Principal maturities and interest on bonds and capital leases for the next five years as of June 30, 2013 are as follows:

	Principal	Interest	Total
2014	\$ 2,065,000	\$ 670,082	\$ 2,735,082
2015	2,165,000	566,544	2,731,544
2016	2,270,000	467,444	2,737,444
2017	2,370,000	363,356	2,733,356
2018	2,480,000	247,894	2,727,894
2019-2023	2,075,000	547,678	2,622,678
2024-2028	1,475,000	98,766	1,573,766
Total	<u>\$ 14,900,000</u>	<u>\$ 2,961,764</u>	<u>\$ 17,861,764</u>

On October 11, 2010, Athletics entered into an unsecured internal loan agreement with the University to acquire funding for renovation of the track and field facility. In the fiscal year ending June 30, 2012, funds of \$6,900,000 were transferred from the University for the renovation project. Athletics paid back this loan in full in the fiscal year ended June 30, 2013.

7. INVESTMENT INCOME

Components of investment income for the year ended June 30, 2013 is as follows:

	2013
Interest and dividends earned on endowment investments	\$ 290,036
Realized and unrealized gains and losses on endowment investments	1,573,927
Interest on cash and non-endowment investments	55,796
Total	<u>\$ 1,919,759</u>

8. PLEDGES AND DEFERRED GIFTS

At June 30, 2013, pledges are expected to be collected primarily over the next 10 years, as follows:

	2013
Operating purposes	\$ 365,998
Capital projects	21,494,475
Total	<u>21,860,473</u>
Less discounts and allowances	<u>(6,704,926)</u>
Total	<u><u>\$ 15,155,547</u></u>

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. Accordingly, at June 30, 2013, Athletics recorded the discounted value of operating and capital pledges using a rate of two percent.

9. PLEDGED REVENUES

Athletics has substantially pledged all of the unrestricted operating and nonoperating revenues to repay the General Receipts 2005 Series A bond issued in 2005. Proceeds from the bond provided funding for renovation of the Memorial Coliseum. The bonds are payable from unrestricted operating and nonoperating revenues and are payable through 2025. Annual principal and interest payments on bonds are expected to require less than 1% of pledged revenue. The total principal and interest remaining to be paid on the bond is \$6,824,264 in 2013. Principal and interest paid for 2013 was \$522,640.

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 five years.

The University has authorized two retirement plan carriers, as follows:

Teachers Insurance and Annuity Association/College
Retirement Equities Fund (TIAA/CREF)
Fidelity Investments Institutional Services Company

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 \$2,372,428 for the year ended June 30, 2013. Employees contributed \$790,838 during 2013. The payroll for employees covered by the retirement plans was \$15,815,895 for 2013.

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 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, 2013.

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 \$250,000 and \$500,000 per occurrence. Losses in excess of \$500,000 are insured by commercial carriers up to \$1.00 billion per occurrence, buildings at replacement cost and contents on an actual cash value basis. 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 2012 to 2013. 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 2013, noncapital grants to the University primarily included \$1,757,400 as reimbursement for various educational and support functions and \$1,660,000 for non-athletic scholarships.



The University of Kentucky is committed to a policy of providing opportunities to people regardless of economic or social status and will not discriminate on the basis of race, color, ethnic origin, creed, religion, political belief, sex, sexual orientation, marital status, age, veteran status or physical or mental disability.

The University of Kentucky is an Equal Opportunity University. Questions concerning compliance with regulations may be directed to the Equal Opportunity Office, 13 Main Building, University of Kentucky, Lexington, KY 40506-0032, (859) 257-8927 or at www.uky.edu/evpfa/eoo.

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