UNIVERSITY OF

KENTUCKY®

Department of Intercollegiate Athletics

2015 Financial Statements

University of Kentucky
Department of Intercollegiate Athletics
An Organizational Unit of the University of Kentucky
Financial Statements
Years Ended June 30, 2015 and 2014

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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 basic financial statements, which are comprised of statements of net position as of June 30, 2015 and 2014, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended and the related notes to the basic 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 (University).

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, 2015 and 2014, 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 Matter

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, 2015 and 2014, 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.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 2, 2015

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, 2015 and 2014. 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 2014-15 report a strong financial condition at June 30, 2015. Financial operations exceeded the revenue expectations and the approved budget plan.
- Total assets and deferred outflows of resources increased $260,008,094 or 76.6%. The most significant components of the fluctuation were a $215,438,719 increase in accounts receivable, net and a $85,472,794 increase in capital assets, net, offset by a decrease of $41,448,222 in cash and cash equivalents.
- Total liabilities and deferred inflows of resources increased $241,299,173 or 160.2%. The most significant components of the fluctuation were an increase of $207,978,611 in unearned revenue and an increase of $21,141,088 in accounts payable and accrued liabilities.
- Net position increased $18,708,921 or 9.9% caused mainly by an increase of $8,743,205 in net investment in capital assets and an increase of $7,783,206 in total restricted position.
- Operating revenues increased $14,970,807 to $88,927,707.
- Operating expenses increased $8,555,661 to $100,456,382.
- Nonoperating revenues, net, decreased $5,390,014, primarily due to decreases of $10,238,174 in capital grants and gifts and $2,301,054 in investment income, offset by an increase of $6,257,251 in gifts.

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, capital, 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

	2015	2014	2013
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
Current assets	$ 108,240,141	$ 69,182,028	$ 60,800,868
Capital assets, net	216,153,191	130,680,397	107,095,508
Other noncurrent assets	274,840,371	139,608,782	41,097,085
Deferred outflows of resources	245,598	-	-
Total assets and deferred outflows of resources	599,479,301	339,471,207	208,993,461
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES			
Current liabilities	65,451,478	25,454,577	22,541,980
Noncurrent liabilities	315,091,414	125,144,955	15,263,595
Deferred inflows of resources	11,355,813	-	-
Total liabilities and deferred inflows of resources	391,898,705	150,599,532	37,805,575
NET POSITION			
Net investment in capital assets	102,573,185	93,829,980	92,195,508
Restricted			
Nonexpendable	5,559,525	5,477,755	5,504,111
Expendable	81,220,938	73,519,502	59,155,254
Unrestricted	18,226,948	16,044,438	14,333,013
Total net position	$ 207,580,596	$ 188,871,675	$ 171,187,886

Assets. As of June 30, 2015, Athletics' assets totaled $599,233,703. Accounts receivable, net represented Athletics' largest asset, totaling $243,859,855 or 40.7% of total assets. Capital assets, net totaled $216,153,191 or 36.1% and cash and cash equivalents totaled $115,017,948 or 19.2%.

Total assets increased $259,762,496 or 76.5% due to a $215,438,719 increase in accounts receivable, net, primarily from a receivable recorded this year as part of the new media rights contract with JMI Sports and an increase of $85,472,794 in capital assets, net resulting primarily from construction in process for the Commonwealth Stadium expansion and renovation project.

Deferred Outflows of Resources. As of June 30, 2015, Athletics' deferred outflows of resources totaled $245,598, 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.

Liabilities. At June 30, 2015, Athletics' liabilities totaled $380,542,892. Unearned revenue, primarily comprised of unearned revenue from JMI Sports, the new media rights holder for Athletics, and advance sales of football tickets and reserved parking, totaled $220,614,406 and represented 58.0% of total liabilities. Long term liabilities, consisting of bonds and capital leases issued for Commonwealth Stadium and Memorial Coliseum renovations, and coach longevity and retention bonuses, totaled $128,366,203 or 33.7% of total liabilities.

Total liabilities increased $229,943,360 or 152.7% during the year ended June 30, 2015 due to an increase of $207,978,611 in unearned revenue mainly from the new media rights contract with JMI Sports, and an increase of $22,141,088 in accounts payable and accrued liabilities mainly in the amount owed to vendors and contractors working on the project to renovate Commonwealth Stadium.

Deferred Inflows of Resources. As of June 30, 2015, Athletics' deferred inflows of resources totaled $11,355,813 composed of guaranteed Aramark commissions.

Net Position. Net position at June 30, 2015, totaled $207,580,596, or 34.6% of total assets. Net investment in capital assets totaled $102,573,185 or 49.4% of total net position. Restricted net position totaled $86,780,463 or 41.8% of total net position. Unrestricted net position accounted for $18,226,948 or 8.8% of total net position.

Total net position increased $18,708,921 during the year ended June 30, 2015, primarily because of an increase of $8,743,205 in net investment in capital assets due to increases in capital additions, net of debt, and $7,783,206 in total restricted position due to increases in funding for capital projects, mainly for the new Football Training Facility.

2014 Versus 2013. During the year ended June 30, 2014:

- Total assets increased $130,477,746 or 62.4% primarily due to a $101,411,586 increase in cash and cash equivalents mainly from issuing General Receipts 2014 Bonds Series A for Commonwealth Stadium and General Receipts 2014 Bonds Series C for Commonwealth Stadium Taxable for the renovation of Commonwealth Stadium and an increase of $23,584,889 in capital assets, net resulting from substantial completion of the renovation of the softball stadium and the soccer/softball field locker room facility.

- Total liabilities increased $112,793,957 or 298.4%. Long term liabilities increased $108,587,810 mainly from issuing General Receipts 2014 Bonds Series A for Commonwealth Stadium and General Receipts 2014 Bonds Series C for Commonwealth Stadium Taxable for the renovation of Commonwealth Stadium.

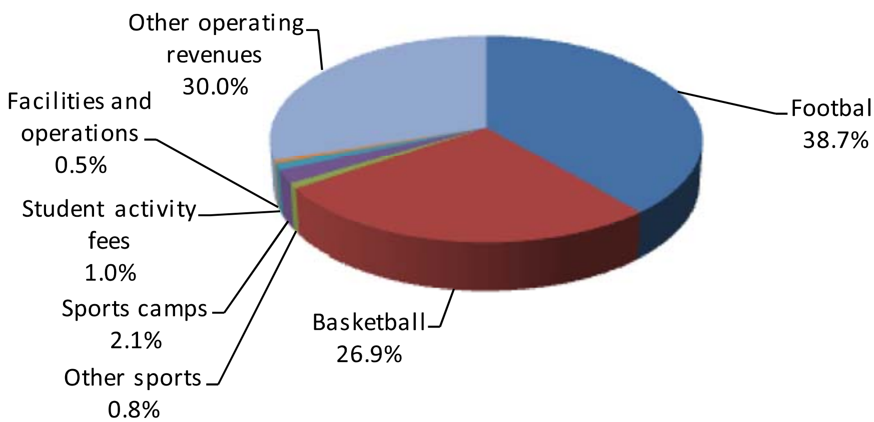
- Total net position increased $17,683,789, primarily because of an increase of $14,337,892 in total restricted position mainly due to increases in capital gifts and pledges this year due to an increased effort by Athletics to encourage donors to contribute to future projects.

Statements of Revenues, Expenses and Changes in Net Position

	2015	2014	2013
OPERATING REVENUES			
Football	$ 34,379,041	$ 33,151,666	$ 29,682,824
Basketball	23,883,735	22,797,091	22,337,508
Other sports	726,393	773,695	796,221
Total sports	58,989,169	56,722,452	52,816,553
Sports camps	1,867,595	2,123,664	2,271,888
Student activity fees	901,107	861,548	847,079
Facilities and operations	438,681	509,047	605,345
Other operating revenue, primarily media rights and sponsorships	26,731,155	13,740,189	15,492,413
Total operating revenues	88,927,707	73,956,900	72,033,278
OPERATING EXPENSES			
Football	18,569,240	16,729,910	17,776,333
Basketball	18,886,184	15,075,268	12,608,341
Other sports	22,898,199	21,361,607	19,481,697
Total sports	60,353,623	53,166,785	49,866,371
Sports camps	1,807,381	2,010,567	2,229,660
Facilities and operations	11,208,254	11,714,261	10,586,998
Administrative and general	21,056,535	19,274,763	16,482,119
Depreciation	6,030,589	5,734,345	5,282,085
Total operating expenses	100,456,382	91,900,721	84,447,233
NET LOSS FROM OPERATIONS	(11,528,675)	(17,943,821)	(12,413,955)
NONOPERATING REVENUES (EXPENSES)			
Royalties/license fees	2,726,562	2,185,525	3,097,658
Gifts	24,136,787	17,879,536	19,151,600
Investment income	398,271	2,699,325	1,919,759
Interest on capital asset-related debt	(2,122,488)	(1,775,671)	(755,160)
Grants (to) from the University of Kentucky for noncapital purposes	(4,081,552)	(3,936,474)	(4,101,899)
Net nonoperating revenues and expenses	21,057,580	17,052,241	19,311,958
Net income (loss) before other revenues, expenses, gains, or losses	9,528,905	(891,580)	6,898,003
Capital gifts and grants	9,132,573	19,370,747	18,698,980
Additions to permanent endowments	81,770	29,936	67,251
Grants (to) from the University of Kentucky for capital purposes	-	682	(3,870)
Other, net	(34,327)	(825,996)	(806,004)
Total other revenues (expenses)	9,180,016	18,575,369	17,956,357
Total increase in net position	18,708,921	17,683,789	24,854,360
Net position, beginning of year	188,871,675	171,187,886	146,333,526
Net position, end of year	$ 207,580,596	$ 188,871,675	$ 171,187,886

2015. Total operating revenues were $88,927,707 for the year ended June 30, 2015. The most significant sources of operating revenue for Athletics were football (38.7%), basketball (26.9%), and other operating revenues, primarily media rights and sponsorships (30.0%). Operating revenues increased $14,970,807 primarily due to an increase in media rights and sponsorships of $12,990,966 attributable to payments from the new SEC Network and from JMI Sports, the new media rights vendor, and sports revenues of $2,266,717 mainly from additional SEC football bowl game revenue received due to a new college football playoff structure.

TOTAL OPERATING REVENUES

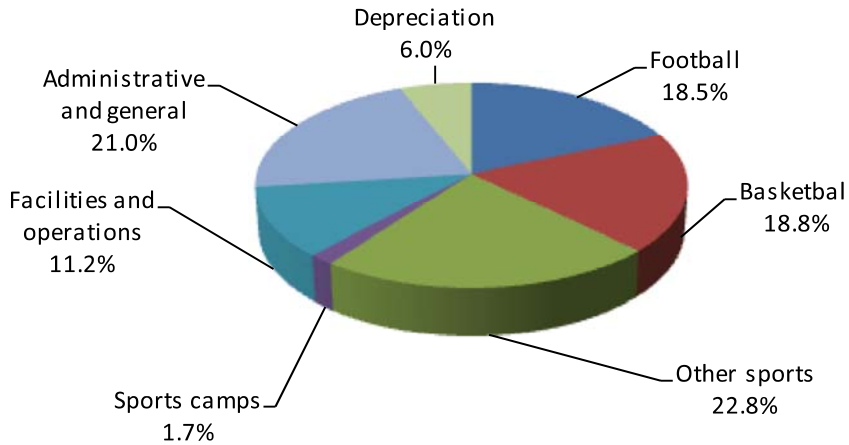


Operating expenses, including $6,030,589 of depreciation, totaled $100,456,382. Of this amount, $60,353,623 or 60.1% was used in direct support of sports programs and $21,056,535 or 21.0% supported Athletics' administrative operations.

Operating expenses increased $8,555,661 or 9.3% primarily due to increases in sports related expenses of $7,186,838 or 13.5% and administrative and general expenses of $1,781,772 or 9.2%. Sports related expenses increased mainly because of contractual increases in coaches salaries. Administrative and general expenses increased mainly due to increases in salaries because of new positions and raises.

Athletics' expenses for operating sports programs include scholarship expenses of $12,485,368.

TOTAL OPERATING EXPENSES



2014 Versus 2013.

- Total operating revenues were $73,956,900. The most significant sources of operating revenue for Athletics were football (44.8%), basketball (30.8%), and other operating revenues, primarily media rights and sponsorships (18.6%). Operating revenues increased $1,923,622 primarily due to an increase in sports revenues of $3,905,899 caused by more football tickets sold, offset by a decrease in other operating revenues of $1,752,244 because fiscal year 2013 included revenues from the renewal of the NIKE sponsorship.

- Operating expenses increased $7,453,488 or 8.8% primarily caused by increases in sports related expenses of $3,300,414 or 6.6%, administrative and general expenses of $2,792,644 or 16.9%, and facilities and operations expenses of $1,127,263 or 10.6%. Sports related expenses increased mainly due to increased costs for team travel. Administrative and general expenses increased mainly due to increases in salaries because of promotions and for new strength and conditioning coaches. Facilities and operations expenses increased primarily due to increased utility costs based on higher rates and salaries due to increased game day operations.

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

	2015	2014	2013
CASH PROVIDED (USED) BY :			
Operating activities	$ (8,712,485)	$ (14,166,061)	$ (7,174,294)
Noncapital financing activities	22,998,548	16,167,149	18,131,224
Capital and related financing activities	(55,997,534)	98,765,892	(16,938,498)
Investing activities	263,249	644,606	5,668,666
Net increase (decrease) in cash and cash equivalents	(41,448,222)	101,411,586	(312,902)
Cash and cash equivalents, beginning of year	156,466,170	55,054,584	55,367,486
Cash and cash equivalents, end of year	$ 115,017,948	$ 156,466,170	$ 55,054,584

2015. During the year ended June 30, 2015, sources of funds in operating activities were revenue from sports of $60,353,277 and other receipts of $26,574,445. The largest cash payments for operating activities were made to suppliers and for salaries, wages and benefits of $56,519,420 and $39,120,787, respectively. Cash used by operating activities decreased $5,453,576 due to an increase of $9,736,586 of cash provided by other receipts and an increase of $5,965,723 provided by sports revenues, offset by increases of $8,834,448 in payments to suppliers and $1,414,285 in payments to employees for salaries, wages and benefits.

During the year ended June 30, 2015, cash receipts in the noncapital financing activities group were generated by gifts for other purposes of $24,271,768, royalties and license fees of $2,726,562 and private gifts for endowment purposes of $81,770, offset by transfers of $4,081,552 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 $63,604,352, payments to refunding bond agents of $4,531,956, interest paid on capital debt and leases of $4,882,783, principal paid on capital debt and leases of $1,916,076, and other capital and related financing payments of $237,239, offset by cash provided from capital grants and gifts of $14,644,075 and proceeds of capital debt of $4,530,797.

During the year ended June 30, 2015, cash provided by investing activities reflects proceeds from sales and maturities of investments of $7,919,911 and interest and dividend income on investments of $219,693, net of cash used to purchase investments of $7,876,355.

2014 Versus 2013. Cash increased $101,411,586 primarily due to cash provided by capital and related financing activities, noncapital financing activities and investing activities, offset by cash used by operating activities.

Capital Asset and Debt Administration

Capital Assets. Capital assets, net of accumulated depreciation, totaled $216,153,191 at June 30, 2015, an increase of $85,472,794. Capital assets as of June 30, 2015, and significant changes in capital assets during the years ended June 30, 2015, 2014 and 2013 are as follows (in thousands):

	Balance June 30, 2013	Net Additions FY 13-14	Balance June 30, 2014	Net Additions FY 14-15	Balance June 30, 2015
Land improvements	$ 10,920	$ 1,562	$ 12,482	$ -	$ 12,482
Buildings	139,485	15,820	155,305	472	155,777
Fixed equipment	1,137	666	1,803	147	1,950
Equipment	6,415	38	6,453	288	6,741
Vehicles	579	43	622	117	739
Construction in progress	12,965	10,931	23,896	90,237	114,133
Accumulated depreciation	(64,405)	(5,476)	(69,881)	(5,788)	(75,669)
Total	$ 107,096	$ 23,584	$ 130,680	$ 85,473	$ 216,153

At June 30, 2015, Athletics had capital construction projects in progress totaling $177,433,911 in scope. The estimated cost to complete the projects in progress is $66,621,565.

Debt. As of June 30, 2015, Athletics had $110,433,061 in general receipts bonds outstanding and $6,060,000 in capital leases. As of June 30, 2014, Athletics had $111,139,963 in general receipts bonds outstanding and $7,900,000 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 2015, ticket revenues decreased slightly. It is anticipated that ticket sales will increase next year due to an increase in men's basketball ticket prices as well as a favorable home football schedule that includes eight home games. It is anticipated that donations will remain constant. Athletics expects increased revenues in the future as a result of the SEC Network.

DEPARTMENT OF INTERCOLLEGIATE ATHLETICS
AN ORGANIZATIONAL UNIT OF THE UNIVERSITY OF KENTUCKY
STATEMENTS OF NET POSITION
JUNE 30, 2015 AND 2014

	2015	2014
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current Assets		
Cash and cash equivalents	$ 75,103,136	$ 59,330,055
Accounts receivable, net	28,250,206	5,129,357
Inventories and other assets	4,886,799	4,722,616
Total current assets	108,240,141	69,182,028
Noncurrent Assets		
Restricted cash and cash equivalents	39,914,812	97,136,115
Endowment investments	19,315,306	19,136,728
Other long-term investments	604	44,160
Accounts receivable, net	215,609,649	23,291,779
Capital assets, net	216,153,191	130,680,397
Total noncurrent assets	490,993,562	270,289,179
Total assets	599,233,703	339,471,207
Deferred Outflows of Resources	245,598	-
Total assets and deferred outflows of resources	599,479,301	339,471,207
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
Current Liabilities		
Accounts payable and accrued liabilities	31,562,283	9,421,195
Unearned revenue	27,531,073	12,635,795
Long term liabilities - current portion	6,358,122	3,397,587
Total current liabilities	65,451,478	25,454,577
Noncurrent Liabilities		
Unearned revenue	193,083,333	-
Long term liabilities	122,008,081	125,144,955
Total noncurrent liabilities	315,091,414	125,144,955
Total liabilities	380,542,892	150,599,532
Deferred Inflows of Resources	11,355,813	-
Total liabilities and deferred inflows of resources	391,898,705	150,599,532
NET POSITION		
Net investment in capital assets	102,573,185	93,829,980
Restricted		
Nonexpendable		
Scholarships and fellowships	5,559,525	5,477,755
Total restricted nonexpendable	5,559,525	5,477,755
Expendable		
Scholarships and fellowships	2,729,711	2,806,027
Capital projects	70,920,837	62,906,741
Auxiliary	7,570,390	7,806,734
Total restricted expendable	81,220,938	73,519,502
Total restricted	86,780,463	78,997,257
Unrestricted	18,226,948	16,044,438
Total net position	$ 207,580,596	$ 188,871,675

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, 2015 AND 2014

	2015	2014
OPERATING REVENUES		
Sports:		
Football	$ 34,379,041	$ 33,151,666
Basketball	23,883,735	22,797,091
Other sports	726,393	773,695
Total sports	58,989,169	56,722,452
Sport camps	1,867,595	2,123,664
Student activity fees	901,107	861,548
Facilities and operations	438,681	509,047
Other operating revenues, primarily media rights and sponsorships	26,731,155	13,740,189
Total operating revenues	88,927,707	73,956,900
OPERATING EXPENSES		
Sports:		
Football	18,569,240	16,729,910
Basketball	18,886,184	15,075,268
Other sports	22,898,199	21,361,607
Total sports	60,353,623	53,166,785
Sport camps	1,807,381	2,010,567
Facilities and operations	11,208,254	11,714,261
Administrative and general	21,056,535	19,274,763
Depreciation	6,030,589	5,734,345
Total operating expenses	100,456,382	91,900,721
Net income (loss) from operations	(11,528,675)	(17,943,821)
NONOPERATING REVENUES (EXPENSES)		
Royalties/license fees	2,726,562	2,185,525
Gifts	24,136,787	17,879,536
Investment income	398,271	2,699,325
Interest on capital asset-related debt	(2,122,488)	(1,775,671)
Grants (to) from the University of Kentucky for noncapital purposes	(4,081,552)	(3,936,474)
Net nonoperating revenues (expenses)	21,057,580	17,052,241
Net income (loss) before other revenues, expenses, gains, or losses	9,528,905	(891,580)
Capital grants and gifts	9,132,573	19,370,747
Additions to permanent endowments	81,770	29,936
Grants (to) from the University of Kentucky for capital purposes	-	682
Other, net	(34,327)	(825,996)
Total other revenues (expenses)	9,180,016	18,575,369
Increase (decrease) in net position	18,708,921	17,683,789
NET POSITION, beginning of year	188,871,675	171,187,886
NET POSITION, end of year	$ 207,580,596	$ 188,871,675

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, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Revenues from sports	$ 60,353,277	$ 54,387,554
Payments to vendors and contractors	(56,519,420)	(47,684,972)
Salaries, wages and benefits	(39,120,787)	(37,706,502)
Other receipts (payments)	26,574,445	16,837,859
Net cash provided (used) by operating activities	(8,712,485)	(14,166,061)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Royalties/license fees	2,726,562	2,185,525
Gifts and grants received for other than capital purposes:		
Gifts for endowment purposes	81,770	29,936
Gifts for other purposes	24,271,768	17,888,162
Grants (to) from the University of Kentucky	(4,081,552)	(3,936,474)
Net cash provided (used) by noncapital financing activities	22,998,548	16,167,149
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital grants and gifts	14,644,075	17,339,176
Grants (to) from the University of Kentucky for capital purposes	-	682
Purchases of capital assets	(63,604,352)	(25,847,134)
Proceeds from capital debt	4,530,797	109,876,546
Payments to refunding bond agents	(4,531,956)	-
Principal paid on capital debt and leases	(1,916,076)	(2,065,000)
Interest paid on capital debt and leases	(4,882,783)	(670,083)
Other capital and related financing receipts (payments)	(237,239)	131,705
Net cash provided (used) by capital and related financing activities	(55,997,534)	98,765,892
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	7,919,911	10,697,386
Interest and dividends on investments	219,693	198,492
Purchase of investments	(7,876,355)	(10,251,272)
Net cash provided (used) by investing activities	263,249	644,606
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(41,448,222)	101,411,586
CASH AND CASH EQUIVALENTS, beginning of year	156,466,170	55,054,584
CASH AND CASH EQUIVALENTS, end of year	$ 115,017,948	$ 156,466,170
Reconciliation of net income (loss) from operations to net cash provided (used) by operating activities:		
Net income (loss) from operations	$ (11,528,675)	$ (17,943,821)
Adjustments to reconcile net income (loss) from operations to net cash provided (used) by operating activities:		
Depreciation expense	6,030,589	5,734,345
Change in assets and liabilities:		
Accounts receivable, net	(221,085,152)	(720,086)
Inventories and other assets	(164,183)	(697,208)
Accounts payable and accrued liabilities	(4,385,451)	385,038
Unearned revenue	207,978,611	(945,479)
Long term liabilities	3,085,963	21,150
Deferred inflows of resources	11,355,813	-
Net cash provided (used) by operating activities	$ (8,712,485)	$ (14,166,061)
NONCASH TRANSACTIONS		
Transfer of capital equipment (to) from the University of Kentucky	$ -	$ 20,965
Capital asset additions in accounts payable	$ 25,553,289	$ 3,661,000
Amortized bond premium	$ 300,196	$ 59,009
Capitalized interest, net of investment income	$ 2,669,467	$ -

See notes to financial statements.

DEPARTMENT OF INTERCOLLEGIATE ATHLETICS
AN ORGANIZATIONAL UNIT OF THE UNIVERSITY OF KENTUCKY
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.

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 2,100 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.

Effective for fiscal year 2015 and thereafter, 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 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. For fiscal year 2014, spending was based on four percent of the average endowment market value for the preceding 60 months.

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, 2015 and 2014, the University’s annual endowment management fee was 0.25%.

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 $603,165 and $586,267 for the years ended June 30, 2015 and 2014, respectively.

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 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 $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.

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 $245,598, as of June 30, 2015, 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 ticket 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 athletics 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.

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, 2015, consisted of $11,355,813 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 Commonwealth Stadium and Memorial Coliseum.

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.

Reclassifications. Certain reclassifications have been made to the fiscal year 2014 financial statements to conform to the fiscal year 2015 financial statement presentation. These reclassifications had no effect on the change in net position.

2. DEPOSITS AND INVESTMENTS

The fair value of deposits and investments, by type, at June 30, 2015 and 2014 are as follows:

	2015	2014
Cash on deposit with the University	$ 115,017,948	$ 156,466,170
Investment in University pooled endowment fund	19,315,306	19,136,728
Other long-term investments	604	44,160
Total	$ 134,333,858	$ 175,647,058

	2015	2014
Statement of Net Position classification		
Cash and cash equivalents	$ 75,103,136	$ 59,330,055
Restricted cash and cash equivalents	39,914,812	97,136,115
Endowment investments	19,315,306	19,136,728
Other long-term investments	604	44,160
Total	$ 134,333,858	$ 175,647,058

The composition of the University's pooled endowment fund based upon fair value at June 30, 2015 and 2014 is as follows:

	2015	2014
Cash and cash equivalents	0.4%	0.4%
Common and preferred stock	3.5%	4.6%
Corporate fixed income funds	0.7%	0.5%
Government agency fixed income funds	0.2%	0.2%
Pooled absolute return funds	10.0%	11.6%
Pooled equity funds	26.2%	28.3%
Pooled fixed income funds	7.3%	7.5%
Pooled global tactical asset allocation funds	7.2%	7.6%
Pooled long/short equity funds	14.2%	12.1%
Pooled private equity funds	12.8%	9.9%
Pooled real estate funds	8.5%	6.7%
Pooled real return funds	8.3%	9.6%
U.S. Treasury fixed income	0.7%	1.0%
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, as follows:

- Cash on deposit with the University, which the University invests in deposits, money market funds, and repurchase agreements with banks, the Commonwealth, and other financial institutions, 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 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. 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 excess of FDIC coverage and on repurchase agreements with local banks is mitigated by the issuing financial institution's pledge of specific U.S. Treasury or agency securities, held in the name of the University by the Federal Reserve Bank. 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. Money market fund portfolios consist of securities eligible for short-term investments.
- 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 is invested in deposits, money market funds, and repurchase agreements. These investments are not exposed to custodial credit risk other than repurchase agreements with the Commonwealth, which are held in the Commonwealth's name. Deposits and money market investments are held in the University's name by various financial institutions. 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 deposit insurance are required to be fully collateralized by U.S. Treasury and/or U.S. agency securities or other similar investments as provided by KRS 41.240.
- 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, 2015, 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 core-plus fixed income managers are limited to a duration that is within two years of the duration of the Barclays Aggregate Bond Index and new unconstrained fixed income strategies have been implemented to further protect against rising interest rates.

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, 2015 and 2014 are summarized as follows:

	2015		
	Gross Receivable	Allowance	Net Receivable
Multimedia rights receivable	$ 210,000,000	$ -	$ 210,000,000
Pledges receivable	30,617,902	(9,369,117)	21,248,785
Service concession receivable	11,723,485	-	11,723,485
Student receivables	33,373	(25,177)	8,196
Other	879,389	-	879,389
Total	$ 253,254,149	$ (9,394,294)	$ 243,859,855
Current portion			$ 28,250,206
Noncurrent portion			215,609,649
Total			$ 243,859,855

	2014		
	Gross Receivable	Allowance	Net Receivable
Pledges receivable	$ 40,279,642	$ (13,384,374)	$ 26,895,268
Student receivables	26,616	(19,395)	7,221
Other	1,518,647	-	1,518,647
Total	$ 41,824,905	$ (13,403,769)	$ 28,421,136
Current portion			$ 5,129,357
Noncurrent portion			23,291,779
Total			$ 28,421,136

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

A multimedia rights partnership was formed in July 2014 between the University and JMI Sports providing athletics and campus multimedia marketing rights in a 15 year, $210,000,000 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.

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 Commonwealth Stadium and Memorial Coliseum.

4. CAPITAL ASSETS, NET

Capital assets, net as of June 30, 2015 and June 30, 2014 are summarized as follows:

	2015			
	Beginning Balance	Additions	Deletions	Ending Balance
Land improvements	$ 12,482,496	$ -	$ -	$ 12,482,496
Buildings	155,304,686	472,420	-	155,777,106
Fixed equipment	1,802,741	147,361	-	1,950,102
Equipment	6,453,508	894,803	607,701	6,740,610
Vehicles	622,198	116,947	-	739,145
Construction in process	23,895,613	90,237,086	-	114,132,699
	200,561,242	91,868,617	607,701	291,822,158
Accumulated Depreciation				
Land improvements	2,916,827	770,671	-	3,687,498
Buildings	61,408,702	4,744,263	-	66,152,965
Fixed equipment	980,356	100,944	-	1,081,300
Equipment	4,025,844	380,168	242,467	4,163,545
Vehicles	549,116	34,543	-	583,659
	69,880,845	6,030,589	242,467	75,668,967
Net capital assets	$ 130,680,397	$ 85,838,028	$ 365,234	$ 216,153,191

	2014			
	Beginning Balance	Additions	Deletions	Ending Balance
Land improvements	$ 10,920,103	$ 1,562,393	$ -	$ 12,482,496
Buildings	139,484,840	15,819,846	-	155,304,686
Fixed equipment	1,136,683	666,058	-	1,802,741
Equipment	6,415,039	516,686	478,217	6,453,508
Vehicles	579,272	42,926	-	622,198
Construction in process	12,965,476	22,515,299	11,585,162	23,895,613
	171,501,413	41,123,208	12,063,379	200,561,242
Accumulated Depreciation				
Land improvements	2,190,908	725,919	-	2,916,827
Buildings	57,017,477	4,391,225	-	61,408,702
Fixed equipment	927,621	52,735	-	980,356
Equipment	3,771,274	534,940	280,370	4,025,844
Vehicles	498,625	50,491	-	549,116
	64,405,905	5,755,310	280,370	69,880,845
Net capital assets	$ 107,095,508	$ 35,367,898	$ 11,783,009	$ 130,680,397

At June 30, 2014, additions to vehicle and vehicle depreciation included $20,965 for a fully depreciated vehicle from the University.

At June 30, 2015, Athletics had capital construction projects in progress totaling $177,433,911 in scope. The estimated cost to complete the projects in progress is $66,621,565. 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 $2,669,467 as of June 30, 2015.

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2015 and June 30, 2014 are as follows:

	2015	2014
Payable to vendors and contractors	$ 29,467,896	$ 7,337,488
Accrued payroll and vacation	948,885	847,377
Accrued interest payable	1,145,502	1,236,330
Total	$ 31,562,283	$ 9,421,195

6. UNEARNED REVENUE

Unearned revenue as of June 30, 2015 and June 30, 2014 are as follows:

	2015					
	Beginning Balance	Additions	Deletions	Ending Balance	Current Portion	Noncurrent Portion
Multimedia rights	$ -	$ 207,083,333	$ -	$ 207,083,333	$ 14,000,000	$ 193,083,333
Football tickets	12,523,301	14,322,604	13,433,621	13,412,284	13,412,284	-
Other	112,494	234,518	228,223	118,789	118,789	-
Total	$ 12,635,795	$ 221,640,455	$ 13,661,844	$ 220,614,406	$ 27,531,073	$ 193,083,333

	2014					
	Beginning Balance	Additions	Deletions	Ending Balance	Current Portion	Noncurrent Portion
Multimedia rights	$ -	$ -	$ -	$ -	$ -	$ -
Football tickets	13,444,636	14,005,004	14,926,339	12,523,301	12,523,301	-
Other	136,638	348,722	372,685	112,675	112,675	-
Total	$ 13,581,274	$ 14,353,726	$ 15,299,024	$ 12,635,976	$ 12,635,976	$ -

7. LONG TERM LIABILITIES

Long-term liabilities as of June 30, 2015 and 2014 are summarized as follows:

2015	Beginning Balance	Additions	Deletions	Ending Balance	Current Portion	Noncurrent Portion
Bonds and capital leases						
General receipts bonds	$ 111,139,963	$ 3,901,130	$ 4,608,032	$ 110,433,061	$ 2,505,000	$ 107,928,061
Capital leases	7,900,000	-	1,840,000	6,060,000	1,930,000	4,130,000
Total bonds and capital leases	119,039,963	3,901,130	6,448,032	116,493,061	4,435,000	112,058,061
Other liablities						
Unamortized bond premium	4,426,697	566,766	218,088	4,775,375	299,922	4,475,453
Noncurrent construction retainage	1,563,392	499,314	1,563,392	499,314	-	499,314
Deferred compensation	3,512,490	4,100,463	1,014,500	6,598,453	1,623,200	4,975,253
Total other liabilites	9,502,579	5,166,543	2,795,980	11,873,142	1,923,122	9,950,020
Total	$ 128,542,542	$ 9,067,673	$ 9,244,012	$ 128,366,203	$ 6,358,122	$ 122,008,081

2014	Beginning Balance	Additions	Deletions	Ending Balance	Current Portion	Noncurrent Portion
Bonds and capital leases						
General receipts bonds	$ 5,250,000	$ 106,204,963	$ 315,000	$ 111,139,963	$ 325,000	$ 110,814,963
Capital leases	9,650,000	-	1,750,000	7,900,000	1,840,000	6,060,000
Total bonds and capital leases	14,900,000	106,204,963	2,065,000	119,039,963	2,165,000	116,874,963
Other liablities						
Unamortized bond premium	-	4,499,393	72,696	4,426,697	218,087	4,208,610
Noncurrent construction retainage	-	1,563,392	-	1,563,392	-	1,563,392
Deferred compensation	3,491,340	1,086,375	1,065,225	3,512,490	1,014,500	2,497,990
Total other liabilites	3,491,340	7,149,160	1,137,921	9,502,579	1,232,587	8,269,992
Total	$ 18,391,340	$ 113,354,123	$ 3,202,921	$ 128,542,542	$ 3,397,587	$ 125,144,955

On July 26, 2014, the University issued $88,145,000 in General Receipts 2014 Bonds Series D. Of these proceeds, $3,901,130 was used to partially refund General Receipts 2005 Bonds Series A, which funded the Memorial Coliseum expansion project. The $3,901,130 bond proceeds, and the $608,058 in premium (net of cost of issuance) paid by underwriters, combined to provide the total amount of $4,509,188 needed to call the bonds. The debt service savings for fiscal year 2014-15 was approximately $38,673 and a total of $416,086 through fiscal year 2025-26.

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 $117,266,093, dated November 29, 2005 through July 26, 2014, which bear interest at 1.46% to 4.23%. 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, 2015 are as follows (in thousands):

	Principal	Interest	Total
2016	$ 4,435	$ 4,669	$ 9,104
2017	4,498	4,554	9,052
2018	4,630	4,418	9,048
2019	2,557	4,283	6,840
2020	2,615	4,227	6,842
2021-2025	14,957	19,240	34,197
2026-2030	16,487	15,770	32,257
2031-2035	19,329	12,441	31,770
2036-2040	23,920	7,851	31,771
2041-2044	23,065	2,352	25,417
Total	$ 116,493	$ 79,805	$ 196,298

8. INVESTMENT INCOME

Components of investment income for the years ended June 30, 2015 and 2014 are as follows:

	2015	2014
Interest and dividends earned on endowment investments	$ 200,544	$ 131,718
Realized and unrealized gains and losses on endowment investments	178,578	2,500,833
Interest on cash and non-endowment investments	19,149	66,774
Total	$ 398,271	$ 2,699,325

9. PLEDGES AND DEFERRED GIFTS

At June 30, 2015 and 2014, pledges are expected to be collected primarily over the next 10 years, as follows:

	2015	2014
Operating purposes	$ 542,139	$ 776,985
Capital projects	33,024,417	43,228,954
Total pledges	33,566,556	44,005,939
Less discounts	(2,948,654)	(3,726,297)
Total gross pledges receivable	30,617,902	40,279,642
Less allowances	(9,369,117)	(13,384,374)
Total net pledges receivable	$ 21,248,785	$ 26,895,268

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 the years ended June 30, 2015 and 2014, Athletics recorded the discounted value of operating and capital pledges using a rate of two percent each year.

10. PLEDGED REVENUES

Starting in 2013-14, 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 2014 Bonds Series A for Commonwealth Stadium and General Receipts 2014 Bonds Series C for Commonwealth Stadium Taxable issued in 2014, that provided funding for the renovation of Commonwealth Stadium and to repay the General Receipts Bonds 2014 Series D, which partially refunded General Receipts 2005 Bonds 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 $189,328,815 and $188,623,267 as of June 30, 2015 and 2014, respectively. Principal and interest payment began in 2014-15.

11. 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/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 $3,006,226 and $2,872,751 for the years ended June 30, 2015 and 2014, respectively. Employees contributed $1,001,937 and $957,684 during 2015 and 2014, respectively. The payroll for employees covered by the retirement plan was approximately $20,042,897 and $19,150,677 for the years ended 2015 and 2014, respectively.

12. 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, 2015.

13. 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 $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 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 2014 to 2015. Settlements have not exceeded insurance coverage during the past three years.

14. 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 2015 and 2014, noncapital grants to the University primarily included $1,709,600 and $1,554,200, respectively, for reimbursement of various educational and support functions and $1,660,000 each year for non-athletic scholarships.

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