**NEW ISSUE**
**Book-Entry-Only**

**RATINGS: Moody's: Aa2**
**S&P: AA**
**(See "Ratings" herein)**

*In the opinion of Bond Counsel for the Bonds (defined below), based upon an analysis of laws, regulations, rulings and court decisions, and assuming continuing compliance with certain covenants made by the University, and subject to the conditions and limitations set forth herein under the caption "TAX MATTERS," interest on the 2020 Series A Bonds (defined below) is excludable from gross income for Federal income tax purposes and is not a specific item of tax preference for purposes of the Federal individual or corporate alternative minimum taxes. HOWEVER, INTEREST ON THE 2020 SERIES B BONDS (DEFINED BELOW) IS NOT EXCLUDIBLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES. Interest on the Bonds is exempt from Kentucky income tax and the Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and any of its political subdivisions. See "TAX MATTERS" herein.*

# UNIVERSITY OF KENTUCKY

## $46,120,000
## GENERAL RECEIPTS BONDS,
## 2020 SERIES A

**and**

## $12,405,000
## GENERAL RECEIPTS BONDS,
## 2020 TAXABLE SERIES B

**Dated: Date of Delivery** **Due: April 1, as shown on the inside cover**

The University of Kentucky General Receipts Bonds, 2020 Series A (the "2020 Series A Bonds") are being issued as tax-exempt obligations. The University of Kentucky General Receipts Bonds, 2020 Taxable Series B (the "2020 Series B Bonds") will be issued as taxable obligations. The 2020 Series A Bonds and 2020 Series B Bonds are referred to herein, collectively as the "Series 2020 Bonds." The Series 2020 Bonds will be issued only as fully registered bonds, and when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Series 2020 Bonds. Purchasers will not receive certificates representing their ownership interest in the Series 2020 Bonds purchased. So long as DTC or its nominee is the registered owner of the Series 2020 Bonds, payments of the principal of and interest due on the Series 2020 Bonds will be made directly to DTC.

The Series 2020 Bonds are in the denomination of $5,000 or integral multiples thereof and bear interest from their dated date, payable semiannually, in amounts, having maturities, interest rates, yields, and CUSIPs as set forth on inside cover hereof. Principal of, premium, if any, and interest on the Series 2020 Bonds will be paid directly to DTC by U.S. Bank National Association, having offices in Louisville, Kentucky, as Trustee and Paying Agent. The Series 2020 Bonds shall be issued only as fully registered bonds.

The 2020 Series A Bonds are subject to optional and mandatory redemption prior to their stated maturities as described herein.

The 2020 Series B Bonds are not subject to redemption prior to their maturity.

The Series 2020 Bonds constitute special obligations of the University of Kentucky and do not constitute a debt, liability or obligation of the Commonwealth of Kentucky nor a pledge of the full faith and credit of the Commonwealth. The Series 2020 Bonds constitute Obligations under the Trust Agreement dated as of November 1, 2005 between the University and the Trustee, and the payment of the principal of, premium, if any, and interest on Series 2020 Bonds is secured by a pledge of the University's General Receipts, as defined in the Trust Agreement. See "SECURITY FOR THE BONDS."

The Series 2020 Bonds are issued subject to the approval of legality by Dinsmore & Shohl LLP, Covington, Kentucky, Bond Counsel. Delivery of the Series 2020 Bonds is expected on February 19, 2020 in New York, New York, through the facilities of DTC.

Dated: January 22, 2020

**$46,120,000**
**GENERAL RECEIPTS BONDS,**
**2020 SERIES A**

| Year (April 1) | Amount | Interest Rate | Yield | CUSIP[1] 914378 | Year (April 1) | Amount | Interest Rate | Yield | CUSIP[1] 914378 |
|---|---|---|---|---|---|---|---|---|---|
| 2026 | $1,395,000 | 5.000% | 1.010% | NK6 | 2034 | $3,245,000 | 2.000% | 2.165% | NT7 |
| 2027 | 2,535,000 | 5.000 | 1.120 | NL4 | 2035 | 3,310,000 | 3.000 | 2.050[c] | NU4 |
| 2028 | 2,665,000 | 5.000 | 1.230 | NM2 | 2036 | 3,405,000 | 2.250 | 2.306 | NV2 |
| 2029 | 2,795,000 | 4.000 | 1.360[c] | NN0 | 2037 | 3,485,000 | 3.500 | 2.130[c] | NW0 |
| 2030 | 2,910,000 | 3.000 | 1.640[c] | NP5 | 2038 | 3,605,000 | 3.000 | 2.250[c] | NX8 |
| 2031 | 2,995,000 | 3.000 | 1.810[c] | NQ3 | 2039 | 3,715,000 | 3.000 | 2.340[c] | NY6 |
| 2032 | 3,085,000 | 2.000 | 2.000 | NR1 | 2040 | 3,825,000 | 2.500 | 2.564 | NZ3 |
| 2033 | 3,150,000 | 3.000 | 1.930[c] | NS9 | | | | | |

[c] = priced to call

**$12,405,000**
**GENERAL RECEIPTS BONDS,**
**2020 TAXABLE SERIES B**

| Year (April 1) | Amount | Interest Rate | Yield | CUSIP[1] 914378 | Year (April 1) | Amount | Interest Rate | Yield | CUSIP[1] 914378 |
|---|---|---|---|---|---|---|---|---|---|
| 2021 | $2,045,000 | 1.650% | 1.650% | PA6 | 2024 | $2,350,000 | 1.780% | 1.780% | PD0 |
| 2022 | 2,270,000 | 1.680 | 1.680 | PB4 | 2025 | 2,390,000 | 1.870 | 1.870 | PE8 |
| 2023 | 2,310,000 | 1.700 | 1.700 | PC2 | 2026 | 1,040,000 | 3.000 | 1.980 | PF5 |

[1] Copyright 2020, American Bankers Association. CUSIP data herein are provided by Standard & Poor's, CUSIP Service Bureau, a Division of The McGraw-Hill Companies, Inc. The CUSIP numbers listed are being provided solely for the convenience of the bondholders only at the time of issuance of the Series 2020 Bonds and the University does not make any representations with respect to such numbers or undertake any responsibility for their accuracy now or at any time in the future. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Series 2020 Bonds as a result of various subsequent actions, including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Series 2020 Bonds.

**THE UNIVERSITY OF KENTUCKY**



## EXECUTIVE OFFICERS

Eli Capilouto, President
David W. Blackwell, Provost
Mark F. Newman, Executive Vice President for Health Affairs
Eric N. Monday, Executive Vice President for Finance and Administration

## BOND COUNSEL

Dinsmore & Shohl LLP
Covington, Kentucky

## FINANCIAL ADVISOR

Robert W. Baird & Co., Inc.
Louisville, Kentucky

## TRUSTEE AND PAYING AGENT

U.S. Bank National Association
Louisville, Kentucky

## REGARDING USE OF THIS OFFICIAL STATEMENT

This Official Statement does not constitute an offering of any security other than the original offering of the Series 2020 Bonds of the University of Kentucky identified on the cover page hereof. No person has been authorized by the University of Kentucky to give any information or to make any representation other than that contained in this Official Statement, and if given or made such other information or representation must not be relied upon as having been given or authorized by the University of Kentucky or the Financial Advisor. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, and there shall not be any sale of the Series 2020 Bonds by any person in any jurisdiction in which it is unlawful to make such offer, solicitation or sale.

The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the University of Kentucky since the date hereof.

Neither the Securities and Exchange Commission nor any other federal, state or other governmental entity or agency, except the University of Kentucky, will pass upon the accuracy or adequacy of this Official Statement or approve the Series 2020 Bonds for sale (see "APPROVAL OF ISSUANCE OF BONDS").

**TABLE OF CONTENTS**

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**OFFICIAL STATEMENT RELATING TO**

**$46,120,000**
**UNIVERSITY OF KENTUCKY**
**GENERAL RECEIPTS BONDS,**
**2020 SERIES A,**

**and**

**$12,405,000**
**UNIVERSITY OF KENTUCKY**
**GENERAL RECEIPTS BONDS,**
**2020 TAXABLE SERIES B**

## INTRODUCTORY STATEMENT

This Official Statement, which includes the cover page and the Appendices appended hereto, is being distributed by the University of Kentucky (the "University") to furnish pertinent information to all who may become owners of its General Receipts Bonds, 2020 Series A (the "2020 Series A Bonds) and General Receipts Bonds, 2020 Taxable Series B (the "2020 Series B Bonds," and together with the 2020 Series A Bonds, the "Series 2020 Bonds") being offered hereby pursuant to the provisions of Sections 162.340 to 162.380 of the Kentucky Revised Statutes and Sections 58.010 to 58.140 of the Kentucky Revised Statutes, and pursuant to the terms of a Trust Agreement dated as of November 1, 2005 as supplemented by a Fourteenth Supplemental Trust Agreement dated as of February 1, 2020 between the University and U.S. Bank National Association (together, the "Trust Agreement").

The summaries and references to Sections of the Kentucky Revised Statutes and the Trust Agreement, as included in this Official Statement, do not purport to be comprehensive or definitive and are qualified in their entirety by reference to each such document. Unless otherwise defined herein, capitalized terms will have the meanings set forth in APPENDIX C.

## THE BONDS

### General

The Series 2020 Bonds will be dated their date of delivery, will be issued in fully registered form and in denominations of $5,000 or any integral multiples thereof and will mature as to principal and will bear interest as set forth on the inside cover page. Interest accruing on the Series 2020 Bonds will be payable semiannually on April 1 and October 1 of each year commencing October 1, 2020 to Holders of record on the preceding March 15 and September 15, respectively.

### Book-Entry-Only System

The Series 2020 Bonds initially will be issued solely in book-entry form to be held in the book-entry-only system maintained by The Depository Trust Company ("DTC"), New York, New York. So long as such book-entry system is used, only DTC will receive or have the right to receive physical delivery of Series 2020 Bonds and, except as otherwise provided herein with respect to tenders by Beneficial Owners of Beneficial Ownership Interests, each as hereinafter defined, Beneficial Owners will not be or be considered to be, and will not have any rights as, owners or Holders of the Series 2020 Bonds under the Resolution and Series Resolution. For additional information about DTC and the book-entry-only system see "APPENDIX E – Book-Entry-Only System."

## Redemption Provisions

*Optional Redemption.* The 2020 Series A Bonds maturing on and after April 1, 2029 shall be subject to optional redemption prior to their maturity on any date on or after April 1, 2028, in whole or in part, in such order of maturity as may be selected by the University and by lot within a maturity at a redemption price equal to the principal amount of 2020 Series A Bonds to be redeemed, plus accrued interest to the date of redemption.

The 2020 Series B Bonds are not subject to redemption prior to their maturity.

*Selection of Bonds for Redemption.* The University has directed the Trustee to notify DTC that in the event less than all of any maturity of a series of Series 2020 Bonds are to be redeemed (including mandatory sinking fund redemption), any such redemption shall be on a pro rata basis in a principal amount equal to authorized denominations of $5,000 or any integral multiple of such series of Series 2020 Bonds thereof. The University and the Trustee are not making any representation relating to, and do not have any responsibility or obligation with respect to, whether DTC will follow the direction to redeem Series 2020 Bonds on a pro rata basis in the event of a partial redemption as described above. If a Series 2020 Bond that is subject to redemption is in a denomination larger than $5,000, a portion of such Series 2020 Bond may be redeemed, but only in a principal amount equal to $5,000 or any integral multiple thereof, if the Series 2020 Bond is one of the series and maturity or amount or part of the maturity or amount called for redemption. Upon surrender of any Series 2020 Bond for redemption in part, the Trustee and Paying Agent shall (authenticate and) deliver an exchange Series 2020 Bond or Series 2020 Bonds of the applicable series in an aggregate principal amount equal to the unredeemed portion of the Series 2020 Bond so surrendered.

*Notice of Redemption.* The Trustee and Paying Agent shall give notice of any redemption by sending at least one such notice by United States mail, first class, postage prepaid, not less than 30 and not more than 60 days prior to the date fixed for redemption to the registered owner of each Series 2020 Bond to be redeemed in whole or in part, at the address shown on the bond register as of the date of mailing of such notice. Such notice shall identify (i) by designation, letters, series, numbers or other distinguishing marks, the Series 2020 Bonds or portions thereof to be redeemed, (ii) the redemption price to be paid, (iii) the date fixed for redemption and (iv) the place or places where the amounts due upon redemption are payable.

# SECURITY FOR THE BONDS

## Pledge of General Receipts

Each Bond is an "Obligation" under the Trust Agreement and the University has pledged its General Receipts as security for its payment obligations thereunder.

"General Receipts" means, as reported in the Financial Statements (having the designations, to the extent not otherwise defined in the Trust Agreement, set forth in the Financial Statements or such successor designations that may hereafter be used in Financial Statements):

(a) certain operating and non-operating revenues of the University, being (i) Student Registration Fees, (ii) nongovernmental grants and contracts, (iii) recoveries of facilities and administrative costs, (iv) sales and services, (v) Hospital Revenues, (vi) Housing and Dining Revenues, (vii) auxiliary enterprises – other auxiliaries, (viii) auxiliary enterprises – athletics, (ix) other operating revenues, (x) state appropriations (for general operations), (xi) gifts and grants, (xii) investment income, (xiii) other nonoperating revenues, and (xiv) other;

(b) but excluding (i) any receipts described in clause (a) which are contracts, grants, gifts, donations or pledges and receipts therefrom which, under restrictions imposed in such contracts, grants, gifts, donations or pledges, or, which as a condition of the receipt thereof or of amounts payable thereunder are not available for payment of Debt Service Charges, (ii) federal grants and contracts, (iii) state and local grants and contracts, (iv) federal appropriations, (v) county appropriations, (vi) professional clinical service fees, (vii) capital appropriations, (viii) capital grants and gifts, and (ix) additions to permanent endowments, including research challenge trust funds;

provided, however, that General Receipts may

(c) include any other receipts that may be designated as General Receipts from time to time by a resolution of the Board of Trustees of the University (the "Board") delivered to the Trustee; and

(d) exclude any receipts not heretofore pledged, which may be designated from time to time by a resolution of the Board delivered to the Trustee;

(e) exclude any receipts heretofore pledged, which may be designated from time to time by a resolution of the Board delivered to the Trustee and each Rating Service then rating any Obligations, but only if each such Rating Service confirms in writing to the University that the exclusion of any such receipt would not cause a reduction or withdrawal of the then current rating on any Outstanding Obligations.

See "APPENDIX A" for information regarding Obligations outstanding under the Trust Agreement.

As described under "THE UNIVERSITY - Privatized Housing Program," the University entered into an agreement with a third party developer, Greystar (formerly Education Trust Realty or EdR) to privatize the majority of its housing facilities for University students beginning April 2012. As described under "THE UNIVERSITY" – Privatized Dining Program," the University entered into a contract with Aramark Enterprise Services, LLC to provide dining services for the Lexington campus beginning July 1, 2014. Housing and Dining Revenues are pledged as security for Outstanding Obligations as a part of the University's pledge of General Receipts. Housing revenues were approximately $19.6 million in fiscal year 2019 compared to $25 million in fiscal year 2013, prior to any privatization of the University's housing facilities. Dining revenues were approximately $15.3 million in fiscal year 2019 compared to $18.8 million in fiscal year 2014, prior to any privatization of the University's dining services. Reference is made to APPENDIX B for information regarding the University's revenues and expenses related to owning and operating the housing facilities that will be replaced by the privatization of housing facilities for students.

**State Intercept**

If the University fails to make timely payment of any Series 2020 Bond, the Secretary of the Finance and Administration Cabinet of the Commonwealth of Kentucky (the "Cabinet") is obligated, pursuant to KRS 164A.608, to apply to such payment, any funds that have been appropriated to the University that have not yet been disbursed. Payments due on the Series 2020 Bonds are required to be deposited with the Trustee on the earlier of the date that is ten days prior to (i) the payment due date and (ii) the last day of any Fiscal Year that the remaining payments due on all outstanding Series 2020 Bonds for that Fiscal Year would exceed appropriated funds yet to be disbursed to the University for that Fiscal Year. If the amount required to pay debt service is not on deposit by that date, the Trustee is obligated under the Trust Agreement to immediately notify the Secretary of the Cabinet of the default in payment. Under KRS 164A.608, the Secretary of the Cabinet is required, within five days of the default, to remit the amount required to pay the amount due on any Series 2020 Bond to the Trustee from those undisbursed funds.

**Budgetary Process in the Commonwealth**

The General Assembly is required by the Kentucky Constitution to adopt measures providing for the Commonwealth's revenues and appropriations for each fiscal year. The Governor is required by law to submit a biennial State Budget (the "State Budget") to the General Assembly during the legislative session held in each even numbered year. State Budgets have generally been adopted by the General Assembly during those legislative sessions, which end in mid-April, to be effective upon the Governor's signature for appropriations commencing for a two-year period beginning the following July 1.

The University is required to submit its budget to the General Assembly for approval as a part of the State Budget. If a State Budget has not been enacted by the date principal of or interest on the Series 2020 Bonds is due, the University would not have the budgetary authority to make that principal or interest payment. The pledge of General Receipts by the University described herein is independent of the State Budget process.

**Additional Obligations**

The University has reserved the right to issue additional Obligations secured by a pledge of General Receipts. See "THE UNIVERSITY – Future Debt" and "APPENDIX C" – SUMMARY OF THE TRUST AGREEMENT."

## THE PROJECT

Proceeds of the 2020 Bonds will be used by the University to (i) finance the costs of the acquisition, construction, installation and equipping of the project identified in H.B. 200 of the General Assembly of the Commonwealth of Kentucky, 2018 Regular Session, as enacted, as "Renew/Modernize Facilities," and (ii) pay the costs of issuing the 2020 Bonds.

The University's Renew/Modernize Facilities Capital Project is a multi-phase effort to renew and modernize buildings that make up the core of central campus. By rehabilitating, restoring, and modernizing these facilities, the University can better preserve its heritage, conserve energy, create an environment for more efficient and effective teaching, and attract productive researchers. The project will include modernization efforts on the Chemistry-Physics Building, Frazee Hall, Patterson Office Tower, White Hall Classroom Building as well as other buildings in the core of central campus.

## SOURCES AND USES OF FUNDS

The sources and uses of funds in connection with the issuance of the 2020 Series A Bonds are as follows:

| | |
|---|---|
| Sources of Funds | |
| Principal Amount of 2020 Series A Bonds | $46,120,000.00 |
| Plus Net Original Issue Premium | 3,997,798.55 |
| Total Sources of Funds | $50,117,798.55 |
| | |
| Uses of Funds | |
| Deposit to 2020 Series A Project Fund | $49,600,000.00 |
| Deposit to 2020 Series A Cost of Issuance Account | 167,214.51 |
| Underwriter's Discount | 350,584.04 |
| Total Uses of Funds | $50,117,798.55 |

The sources and uses of funds in connection with the issuance of the 2020 Series B Bonds are as follows:

| | |
|---|---|
| Sources of Funds | |
| Principal Amount of 2020 Series B Bonds | $12,405,000.00 |
| Plus Original Issue Premium | 60,808.80 |
| Total Sources of Funds | $12,465,808.80 |
| | |
| Uses of Funds | |
| Deposit to 2020 Series B Project Fund | $12,400,000.00 |
| Deposit to 2020 Series B Cost of Issuance Account | 49,854.46 |
| Underwriter's Discount | 15,954.34 |
| Total Uses of Funds | $12,465,808.80 |

## THE TRUST AGREEMENT

The terms and provisions of the Trust Agreement control both outstanding Obligations and all Obligations that may be issued pursuant to the Trust Agreement, including the Series 2020 Bonds. Please see APPENDIX C – "SUMMARY OF THE TRUST AGREEMENT."

## THE UNIVERSITY

### General

*Mission*. The University of Kentucky is a public, land grant university dedicated to improving people's lives through excellence in education, research and creative work, service and health care. As Kentucky's flagship institution, the University plays a critical leadership role by promoting diversity, inclusion, economic development and human well-being.

The University of Kentucky:

- Facilitates learning, informed by scholarship and research;
- Expands knowledge through research, scholarship and creative activity; and
- Serves a global community by disseminating, sharing and applying knowledge.

The University plays a critical leadership role for the Commonwealth of Kentucky (the Commonwealth) by contributing to the economic development and quality of life within Kentucky's borders and beyond. The University nurtures a diverse community characterized by fairness and equal opportunity.

*Vision*. As Kentucky's indispensable institution, we transform the lives of our students and advance the Commonwealth we serve-and beyond-through our teaching and learning, diversity and inclusion, discovery, research and creativity, promotion of health, and deep community engagement.

*Background*. Under provisions of the federal Morrill Land-Grant Colleges Act (1862), Kentucky State Agricultural and Mechanical College was established in 1865 as part of Kentucky University (now Transylvania University). The College separated from Kentucky University in 1878 and was established on a 52 acre site (the University's current location) donated by the city of Lexington. In 1908, the College was re-named the State University, Lexington, Kentucky. In 1916 it became the University of Kentucky.

According to the Kentucky Revised Statutes (KRS) 164.125(2):

> In carrying out its statewide mission, the University of Kentucky shall conduct statewide research and provide statewide services, including, but not limited to, agricultural research and extension services, industrial and scientific research, industrial technology extension services to Kentucky employers and research related to the doctoral, professional and postdoctoral programs offered within the University. The University may establish and operate centers and utilize state appropriations and other resources to carry out the necessary research and service activities throughout the state. The University may enter into joint research and service activities with other universities in order to accomplish its statewide mission.

In 1997, the Kentucky General Assembly reformed the state's public system of colleges and universities. According to the Kentucky Postsecondary Education Improvement Act of 1997: The University of Kentucky is mandated to become a major comprehensive research institution ranked nationally in the top twenty public universities by 2020.

The UK Board of Trustees adopted the Strategic Plan for 2015-2020 at its October 2015 retreat. The plan builds on extraordinary progress from previous planning documents, a dramatic investment in the institution's physical spaces, and the insight garnered from considerable campus conversation and constituent input. The plan considers the current operating context for higher education and focuses on five strategic objectives that support our role as Kentucky's indispensable institution:

- Undergraduate Student Success
- Graduate Education
- Diversity and Inclusivity
- Research and Scholarship
- Outreach and Community Engagement

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

The University is identified as a "Research University (very high research activity)" by the Carnegie Commission on Higher Education. There are 131 such institutions in the United States (out of approximately 4,300 colleges and universities).

The University is accredited by the Commission on Colleges (CoC) of the Southern Association of Colleges and Schools. This has been re-affirmed at approximately 10-year intervals since 1915, with the next accreditation review scheduled for 2022. In addition, several degree programs and individual units are accredited by agencies appropriate to specific professions or fields.

*Students*. In Fall 2018, the University had 30,277 undergraduate, graduate, and professional students. They represent all 120 Kentucky counties, every state in the U.S. and over 100 countries. Enrollment has increased by more than 3,100 students (11.4%) since Fall 2009.

*Programs*. The University offers more than 200 majors and degree programs in 16 academic and professional degree-granting colleges that are supported by a comprehensive research library system, the Graduate School and the Lewis Honors College. UK is one of only eight public universities nationally to house Colleges of Agriculture, Engineering, Medicine and Pharmacy on a single contiguous campus.

*Research*. Total research expenditures, as reported to the National Science Foundation, totaled $393.0 million for fiscal year 2017-18, compared to $387.2 million in 2016-17. Research awards received during fiscal year 2018-19 totaled $417.1 million, a 25.0% increase from the prior year amount of $333.8 million.

*Outreach*. As Kentucky's flagship, land-grant university, UK engages citizens and communities across the state in a myriad of ways, including extension offices in all 120 Kentucky counties; continuing education opportunities for teachers, lawyers and health care providers; clinics providing legal, pharmaceutical and health care assistance; and a multitude of research efforts aimed at Kentucky's most difficult problems in economic development, health care, infrastructure and education.

*Medical Centers*. UK HealthCare, the University's advanced academic medical center and clinical care network, is uniquely equipped to provide advanced subspecialty care to the people of Kentucky. The academic medical center and health system provides patient care on par – in terms of both volume and complexity – with the nation's top 25% of academic medical centers. In July 2019, UK HealthCare was named number one in Kentucky in the latest U.S. News Best Hospitals ranking for the fourth consecutive year. To be recognized as a Best Hospital, UK HealthCare had to rank high nationally on a stringent data-driven ratings system that gauges performance. The analysis includes multiple clinical specialties, procedures and conditions. Scores are based on a variety of patient outcome and care-related factors such as mortality and patient safety, as well as reputation.

UK HealthCare Hospital System (the System) operates two hospital units under one Joint Commission Accreditation and two licenses in addition to ambulatory services. The major service units include Albert B. Chandler Hospital, Good Samaritan Hospital and the Kentucky Clinic. The System has a combined total of 945 licensed beds with an average daily census of 774 patients. On a monthly basis, the System provides more than 1,387 inpatient surgeries, 1,470 outpatient surgeries, 36,777 radiology procedures, 9,318 emergency department visits and 178,698 hospital-based outpatient clinic visits.

Under a management contract entered into with the Kentucky Cabinet for Health and Family Services, the System also operates and manages Eastern State Hospital, a 300,000 square-foot facility located on the University's Coldstream Research Campus. Eastern State Hospital provides a modern setting for both acute and long-term inpatient psychiatric treatment for adults living within Fayette County and the 50 surrounding counties.

UK HealthCare's Markey Cancer Center remains the state's only cancer center designated by the National Cancer Institute (NCI), which reflects UK's position as a front runner in cancer treatment and research. UK HealthCare is one of an elite group of only 22 medical centers in the United States that have NCI designation, a federally funded Center on Aging, and a highly prized Clinical and Translational Science Award.

UK HealthCare's dramatic growth within the last decade is in large part the result of a commitment to support the state's overall system of care by working hand-in-hand with local community providers to bring specialty care closer to the patient. These relationships take on different dimensions in each locality (management agreements, affiliate networks, outreach, etc.) and support keeping less acute care in the local community and smoothing the process for more complex, serious cases to be treated in UK HealthCare's Lexington facilities. The goal is better care at all points of the continuum.

*Libraries*. UK operates a nationally recognized research library system, with the capstone being the world-class William T. Young Library. Its library network and technology provide extraordinary service to students in the Colleges of Medicine, Law, Engineering and Fine Arts as well as other programs. Meanwhile, students, faculty and Kentucky residents can use UK Libraries' advanced technology to access the most up-to-date information from online journals, government publications and private studies.

**Governing Board**

The governing body of the University is the Board consisting of twenty members, sixteen appointed by the Governor of the Commonwealth of Kentucky; two faculty members elected by the faculty; one student member, who is the President of the student body, or if he or she is not a full-time student who maintains permanent residence in the Commonwealth, a full-time student who does maintain permanent residency in the Commonwealth elected by the student body; and one staff member elected by staff. Pursuant to Section 164.160 of the Kentucky Revised Statutes, the Board is a body corporate with the powers usually vested in corporations and, as such, subject to the statutes of the Commonwealth, has control and management of the University, together with the properties and funds thereof. The University also has one ex officio board member who has been appointed as an honorary lifetime Trustee.

**Administrative Officers**

The President of the University is Dr. Eli Capilouto; the Provost is Dr. David W. Blackwell; the Executive Vice President for Health Affairs is Dr. Mark F. Newman; and the Executive Vice President for Finance and Administration is Dr. Eric N. Monday.

**Future Debt**

During the 2018 regular session of the Kentucky General Assembly, the University received authorization to issue bonds in the amount of $300 million to finance multiple capital projects across campus, including $125 million for modernization projects. At this time, the University anticipates issuing the remaining authorization for modernization projects in early 2021, subject to reauthorization by the Kentucky General Assembly.

State Budgets may authorize other projects at the University to be directly funded from proceeds of Obligations, including Agency Fund Revenue Bonds issued by the State Property and Buildings Commission or the Kentucky Asset/Liability Commission. In addition to the 2020 Bonds, Obligations may be issued to achieve debt service savings.

Subject to Board of Trustees' approval, the University anticipates entering into a lease/purchase schedule with Apple, Inc. in the approximate amount of $5,700,000 to lease/purchase iPads for the incoming freshman class, transfer students, and instructors. A Material Event notice will be filed when the lease is executed.

**Privatized Housing Program**

The University entered an agreement in April 2012 with a third party developer, Greystar (formerly Education Realty Trust or EdR), to construct two four-story buildings, which comprised a 601 bed living-learning community with three classrooms, 16 active-learning spaces, Honor's Program offices, and nine multipurpose meeting spaces on the former site of Haggin Field. This Phase I project, costing $25.2 million, is on land owned by the University and leased to Greystar for a 50 year term with options for additional 10 year and 15 year terms thereafter. At the conclusion of the initial 50 year term or the first renewal option, the University will be required to purchase the buildings from Greystar for an appraised value, unless the ground lease is renewed for the first or second optional extension. At the conclusion of the second optional extension, the University is required to purchase the buildings for the greater of current net book value or $10. Ground rent is a percentage of gross revenues and the University accounts for the ground lease as an operating lease. The Phase I facilities are subject to ad valorem tax. These two residence halls opened on August 16, 2013 for the Fall 2013 semester.

Phases II and III contractual agreements for the long-term housing plan have also been signed with Greystar. These phases included construction of twelve additional residence halls between October 2012 and August 2017. The University received authorization from the Kentucky legislature for the projects, which the Commonwealth must approve statutorily even though Greystar, not the University, funded the projects.

Phase II-A, which came on line in August 2014, included the development of five residence halls at an approximate cost of $138.0 million and provided 2,381 beds. Phase II-B, which came on line in August 2015, included the construction of three residence halls at an approximate cost of $101.2 million and provided 1,610 beds. Phase II-C, which came on line in August 2016, included the development of two residence halls at an approximate cost of $83.9 million and provided 1,141 beds.

Phase III-A, came on line in August 2017, at a cost of $74 million and included a 771 bed facility which provides apartment style units for upper class, graduate and professional students. Phase III-B, also opened in August 2017, for a total cost of $37.1 million, $26.9 million of which was provided by Greystar. This residence hall provides a 346 bed facility to house undergraduate students and includes 20,000 sq. ft. of space dedicated to the new Lewis Honors College. Overall, a total of fourteen residence halls, 6,850 new beds, totaling $449.3 million with 100% equity funding from Greystar were operational in August 2017.

The 75 year term lease with Greystar, for phases subsequent to Phase I, includes maintenance standards for the facilities and parameters for the room rental rates for the duration. The University will receive a percentage of the total revenues and a share of the net income, after Greystar achieves a minimum internal rate of return. The facilities subsequent to Phase I are exempt from ad valorem tax. The University accounts for the lease as a service concession arrangement in accordance with GASB Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements. Greystar acquired EdR in 2018 and took over all contractual relationships with the University of Kentucky. All terms of the agreements remain intact.

**Privatized Dining Program**

In July 2014, the University entered into an approximately $250 million contract with Aramark Enterprise Services, LLC (Aramark), forming a 15 year public/private partnership. This partnership has transformed dining services offered to students, faculty, staff and the community served. Under the partnership, numerous new food brands were opened on campus in the Fall of 2014 and in subsequent years. Aramark provides meals covered under the University's student board plans and declining balance flex accounts. The 15-year contract allows for dining commissions to be paid to the University with guaranteed minimum amounts for each contract year. Aramark provided approximately $70 million in facilities investments, including $40 million approved by the Board in new facilities to be completed by fiscal year 2017-2018. As part of these facilities investments, Aramark constructed a new K Lair Grill at Haggin Hall, constructed a new 80,000 square foot 1,000-seat residential dining facility "The 90", made substantial upgrades to incorporate dining venues into academic facilities, and opened a new 750-seat residential dining facility in the new Student Center in January 2018. In October 2018, the University executed a five-year contract extension for dining services through June 30, 2034.

**Mixed-Use Parking Garage**

In October 2018, the University issued a Request for Proposals (the "RFP") seeking proposals for the construction of a mixed-use parking garage at the corner of South Limestone and Winslow Streets in Lexington, Kentucky (the "Winslow Site") and selected the proposal of Signet Real Estate Group. The mixed-use parking garage project includes a five-story structure for parking, retail, educational, administrative, support and other uses. The project is an extension of the University's existing Parking Structure #5.

Under the plan of development, the University, as fee owner of the Winslow Site, and Signet KY RE, LLC, as ground lessee, entered into a ground lease with a term that began on July 10, 2019 and leased the project back from Signet KY Development, LLC (the "Developer") under a facilities lease on that same date, which is the date that the certificates of participation were issued to finance the project. Those leases terminate on May 1, 2049, unless sooner terminated under certain circumstances. The Developer will oversee the construction, equipping and development of the project, pursuant to the RFP and a development agreement between the University and the Developer. Following completion of the project, the University will be responsible for the operations and maintenance of the parking garage portion of the project as well as approximately 12,000 square feet of first floor retail. The project also includes an exterior electronic video board to be operated by the University. The University will sublease a separate portion of the first floor space (approximately 10,000 square feet) to Signet KY Retail (an affiliate of Signet KY RE, LLC) under a sublease agreement. Signet KY Retail will be responsible for the cost of the build-out and the operation and maintenance of that space. Substantial completion of the project is expected in August 2020. Upon expiration or termination of the ground lease and facilities lease, the entire development will revert to the University by termination of the leases.

The University has pledged, on a subordinated basis, its General Receipts as security for the payment of base rent under the facilities lease. See "APPENDIX A – Outstanding Bonds."

## TAX MATTERS

### General

In the opinion of Bond Counsel for the Series 2020 Bonds, based upon an analysis of existing laws, regulations, rulings and court decisions, interest on the 2020 Series A Bonds will be excludible from gross income for federal income tax purposes and that interest on the 2020 Series A Bonds will not be a specific item of tax preference under Section 57 of the Internal Revenue Code of 1986 (the "Code") for purposes of the federal alternative minimum tax. Interest on the 2020 Series B Bonds is <u>not</u> excludable from gross income for Federal income tax purposes. Furthermore, Bond Counsel for the Series 2020 Bonds is of the opinion that interest on the Series 2020 Bonds is exempt from income taxation by the Commonwealth and the Series 2020 Bonds are exempt from ad valorem taxation by the Commonwealth and any of its political subdivisions.

A copy of the form of opinion of Bond Counsel for the Series 2020 Bonds is set forth in APPENDIX D.

The Code imposes various restrictions, conditions, and requirements relating to the exclusion from gross income for Federal income tax purposes of interest on obligations such as the 2020 Series A Bonds. The University has covenanted to comply with certain restrictions designed to ensure that interest on the 2020 Series A Bonds will not be includable in gross income for Federal income tax purposes. Failure to comply with these covenants could result in interest on the 2020 Series A Bonds being includable in gross income for Federal income tax purposes and such inclusion could be required retroactively to the date of issuance of the 2020 Series A Bonds. The opinion of Bond Counsel assumes compliance with these covenants. However, Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the 2020 Series A Bonds may adversely affect the Federal tax status of the interest on the 2020 Series A Bonds.

Certain requirements and procedures contained or referred to in the Indenture and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the 2020 Series A Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any 2020 Series A Bonds or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Dinsmore & Shohl LLP.

Although on the date the Series 2020 Bonds are issued, Bond Counsel will render an opinion that interest on the 2020 Series A Bonds is excludible from gross income for Federal income tax purposes and that interest on the Series 2020 Bonds is exempt from Kentucky income taxation, the ownership or disposition of, or the accrual or receipt of interest on, the Series 2020 Bonds may otherwise affect a Holder's Federal, state or local tax liabilities. The nature and extent of these other tax consequences may depend upon the particular tax status of the Holder or the Holder's other items of income or deduction. For example, such effects may include, without limitation, increasing the federal tax liability of certain foreign corporations subject to the branch profits tax imposed by Section 884 of the Code, increasing the federal tax liability of certain insurance companies, under Section 832 of the Code, increasing the federal tax liability and affecting the status of certain S Corporations subject to Sections 1362 and 1375 of the Code, increasing the federal tax liability of certain individual recipients of Social Security or the Railroad Retirement benefits under Section 86 of the Code and limiting the amount of the Earned Income Credit under Section 32 of the Code that might otherwise be available. Ownership of any of the Series 2020 Bonds may also result in the limitation of interest and certain other deductions for financial institutions and certain other taxpayers, pursuant to Section 265 of the Code. Finally, residence of the holder of the Series 2020 Bonds in a state other than Kentucky or being subject to tax in a state other than Kentucky may result in income or other tax liabilities being imposed by such states or their political subdivisions based on the interest or other income from the Series 2020 Bonds. Bond Counsel expresses no opinions regarding any tax consequences other than what is set forth in its opinion and each Holder or potential Holder is urged to consult with tax counsel with respect to the effects of purchasing, holding or disposing of the Series 2020 Bonds on the tax liabilities of the individual or entity.

The University has not designated the 2020 Series A Bonds and 2020 Series B Bonds as "qualified tax-exempt obligations" under Section 265 of the Code.

**Tax Treatment of Original Issue Premium**

"Acquisition Premium" is the excess of the cost of a bond over the stated redemption price of such bond at maturity or, for bonds that have one or more earlier call dates, the amount payable at the next earliest call date. The Series 2020 Bonds that have an interest rate that is greater than the yield, as shown on the inside cover page hereto (the "Premium Bonds"), are being initially offered and sold to the public at an Acquisition Premium. For federal income tax purposes, the amount of Acquisition Premium on the Series 2020 Bonds must be amortized and will reduce the Holder's adjusted basis in those Series 2020 Bonds. However, no amount of amortized Acquisition Premium on Series 2020 Bonds may be deducted in determining Holder's taxable income for federal income tax purposes. The amount of any Acquisition Premium paid on the Premium Bonds, or on any of the Series 2020 Bonds, that must be amortized during any period will be based on the "constant yield" method, using the original Holder's basis in such bonds and compounding semiannually. This amount is amortized ratably over that semiannual period on a daily basis.

Holders of any Series 2020 Bonds, including any Premium Bonds, purchased at an Acquisition Premium should consult their own tax advisors as to the actual effect of such Acquisition Premium with respect to their own tax situation and as to the treatment of Acquisition Premium for state tax purposes.

**Tax Treatment of Original Issue Discount**

Certain Series 2020 Bonds that have an interest rate that is lower than the yield on the Series 2020 Bonds and Series 2020 Bonds that have a maturity amount that is greater than their initial principal amount, all as shown on the inside cover page hereto (the "Discount Bonds"), are being offered and sold to the public at an original issue discount ("OID"). OID is the excess of the stated redemption price of a bond at maturity (the face amount) over the "issue price" of such bond. The issue price is the initial offering price to the public (other than to bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which a substantial amount of bonds of the same maturity are sold pursuant to that initial offering. For federal income tax purposes, OID on each bond will accrue over the term of the bond, and for the Discount Bonds, the amount of accretion will be based on a single rate of interest, compounded semiannually (the "yield to maturity"). The amount of OID that accrues during each semi-annual period will do so ratably over that period on a daily basis. With respect to an initial purchaser of a Discount Bond at its issue price, the portion of OID that accrues during the period that such purchaser owns the Discount Bond is added to such purchaser's tax basis for purposes of determining gain or loss at the maturity, redemption, sale or other disposition of that Discount Bond and thus, in practical effect, is treated as stated interest, which is (with respect to 2020 Series A Bonds) excludable from gross income for federal income tax purposes.

Holders of Discount Bonds should consult their own tax advisors as to the treatment of OID and the tax consequences of the purchase of such Discount Bonds other than at the issue price during the initial public offering and as to the treatment of OID for state tax purposes.

## CONTINUING DISCLOSURE

In accordance with Securities and Exchange Commission Rule 15c2-12 (the "Rule"), the University (the "Obligated Person") will agree, pursuant to a Continuing Disclosure Agreement to be dated the first day of the month in which the Series 2020 Bonds are sold (the "Disclosure Agreement"), to be delivered on the date of delivery of the Series 2020 Bonds, to cause the following information to be provided:

(a) to the Municipal Securities Rulemaking Board (the "MSRB"), certain annual financial information and operating data, including audited financial statements prepared in accordance with generally accepted accounting principles, generally consistent with the information contained in Appendices A and B; such information shall be provided on or before 180 days following the fiscal year ending on the preceding June 30, commencing with the fiscal year ending June 30, 2020;

(b) to the MSRB, in a timely manner, not in excess of ten business days after the occurrence of the event, notice of the occurrence of the following events with respect to the Series 2020 Bonds; and

(i) Principal and interest payment delinquencies;
(ii) Non-payment related defaults, if material;
(iii) Unscheduled draws on debt service reserves reflecting financial difficulties;
(iv) Unscheduled draws on credit enhancements reflecting financial difficulties;
(v) Substitution of credit or liquidity providers, or their failure to perform;
(vi) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax-exempt status of the security;
(vii) Modifications to rights of security holders, if material;
(viii) Bond calls, if material, and tender offers (except for mandatory scheduled redemptions not otherwise contingent upon the occurrence of an event);
(ix) Defeasances;
(x) Release, substitution or sale of property securing repayment of the securities, if material;
(xi) Rating changes;
(xii) Bankruptcy, insolvency, receivership or similar event of the obligated person (Note: For the purposes of this event, the event is considered to occur when any of the following occur: The appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or

officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person);

(xiii) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(xiv) Appointment of a successor or additional trustee or the change of name of a trustee, if material; and

(xv) Incurrence of a financial obligation of the Obligated Person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of an Obligated Person, any of which affect security holders, if material; and

(xvi) Default and event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the Obligated Person, any of which reflect financial difficulties.

(c) to the MSRB, notice of a failure (of which the Obligated Persons have knowledge) of an Obligated Person to provide the required Annual Financial Information on or before the date specified in the Disclosure Agreement.

The Disclosure Agreement provides a Holder of the Series 2020 Bonds, including Beneficial Owners of the Series 2020 Bonds, with certain enforcement rights in the event of a failure by the University to comply with the terms thereof; however, default under the Disclosure Agreement does not constitute an event of default under the Resolutions. The Disclosure Agreement may also be amended or terminated under certain circumstances in accordance with the Rule as more fully described therein. Holders of the Series 2020 Bonds are advised that the Disclosure Agreement, the form of which is obtainable from the Financial Advisor, should be read in its entirety for more complete information regarding its contents.

The University executed continuing disclosure agreements in connection with the issuance of certain general receipts bonds, pursuant to which the University agreed to provide a schedule of information in the Annual Update to Bondholders entitled “Total Annual Debt Service Requirements” (the “Schedule”). The University did not include a Schedule for fiscal years ending June 30, 2013 to and including June 30, 2017. The information in the Schedules was provided in the University’s public offering documents that were filed for Bonds issued during this period, but was not also included in the Annual Update to Bondholders. The Schedules and a failure to file notice related to the Schedules were filed on September 25, 2018.

Financial information regarding the University may be obtained from the Treasurer, University of Kentucky, 301 Peterson Service Building, South Limestone Street, Lexington, Kentucky 40506-0005.

## PENDING LITIGATION

There is no controversy or litigation of any nature now pending or threatened against the University or its officers in their official capacity restraining or enjoining the issuance, sale, execution or delivery of the Series 2020 Bonds, or in any way contesting or affecting the validity of the Series 2020 Bonds or any proceedings of the University taken with respect to the issuance of sale thereof, or contesting or affecting the University’s authority to pledge or apply the moneys or security provided for the payment of the Series 2020 Bonds or the due existence or powers of the University.

Due to its size and broad range of activities, the University, its officers and employees in their official capacities from time to time are named as parties in various legal proceedings seeking damages or injunctive relief that are generally incidental to the University's operations but unrelated to the Series 2020 Bonds. The ultimate disposition of such proceedings is not presently determinable, but will not, in the opinion of the University's general counsel, have a material adverse effect on the Series 2020 Bonds or the security for the Series 2020 Bonds.

## APPROVAL OF LEGALITY

Legal matters incident to the authorization, issuance, sale and delivery of the Series 2020 Bonds are subject to the approval of Dinsmore & Shohl LLP, Covington, Kentucky, Bond Counsel to the University. The approving legal opinion of Bond Counsel will be printed on the Series 2020 Bonds and will contain a statement of tax exemption as represented herein. Bond Counsel has reviewed the information herein pertaining to the Series 2020 Bonds under the headings "THE BONDS," "SECURITY FOR THE BONDS," "THE TRUST AGREEMENT," "TAX MATTERS," APPENDIX C, APPENDIX D and APPENDIX F, and is of the opinion that such information is a fair summary of the principal provisions of the instruments and information therein described. Said firm has not otherwise participated in the preparation of the Official Statement or the Appendices attached hereto and has not verified the accuracy or completeness of the information contained under any heading other than those stated above, nor of any financial information, enrollment numbers, projections, or computations relating thereto, and therefore, can make no representation with respect to such information. A certification as to the matters set forth under "PENDING LITIGATION" will be delivered by the University with the Series 2020 Bonds.

## FINANCIAL ADVISOR

Robert W. Baird & Co., Inc., Louisville, Kentucky, has acted as Financial Advisor to the University in connection with the issuance of the Series 2020 Bonds and will receive a fee, payable from bond proceeds, for its services as Financial Advisor.

## APPROVAL OF ISSUANCE OF BONDS

Pursuant to Chapter 42 of the Kentucky Revised Statutes, issuance of the Series 2020 Bonds must be approved by the Office of Financial Management of the Finance and Administration Cabinet of the Commonwealth of Kentucky.

## FINANCIAL STATEMENTS

The financial statements of the University as of and for the year ended June 30, 2019, included in this Official Statement in APPENDIX B, have been audited by BKD LLP ("BKD"), independent auditors, as stated in their report appearing herein. The University did not request BKD to perform any updating procedures subsequent to the date of its audit report on the financial statements in APPENDIX B.

## CERTIFICATE CONCERNING OFFICIAL STATEMENT

Concurrently with the delivery of the Series 2020 Bonds, the Treasurer will certify that, to the best of her knowledge, the Official Statement did not as of the date of delivery of the Series 2020 Bonds, contain any untrue statements of a material fact or omit to state a material fact which should be included therein for the purpose for which the Official Statement is to be used, or which is necessary in order to make the statements contained therein, in light of the circumstances under which they were made, not misleading in any material respect.

## COMPLETENESS OF OFFICIAL STATEMENT

The Board has approved and caused this Official Statement to be executed and delivered by its Chair. This Official Statement is deemed final by the Board for purposes of Securities and Exchange Commission Rule 15c2-12(b)(1) as of the date hereof.

The financial information supplied by the Board and reported in APPENDIX A and APPENDIX B herein is represented by the Board to be correct. With respect to APPENDIX A, accounts required by Federal and State laws, rules and regulations to be audited annually by independent certified public accountants have been so audited and the financial information extracted from the annual audits and presented herein is incomplete to the degree that accounts not required to be so audited have not been included in the annual audits contained in APPENDIX B.

## RATINGS

Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc. ("S&P") have assigned the Series 2020 Bonds the respective ratings of "Aa2" and "AA," respectively. Each rating reflects only the views of the respective Rating Agency. Explanations of the significance of the ratings may be obtained from each Rating Agency as follows: Moody's Investors Service, Inc., 7 World Trade Center, 250 Greenwich Street, New York, New York 10007, (212) 553-0300; and Standard & Poor's Ratings Services, a Division of the McGraw-Hill Companies, Inc., 55 Water Street, New York, New York 10041 (212) 438-2124.

A rating is not a recommendation to buy, sell or hold the Series 2020 Bonds. There is no assurance that such ratings will continue for any given period of time or that they may not be lowered or withdrawn entirely. Any such downward change in or withdrawal of such ratings could have an adverse effect on the market price of the Series 2020 Bonds.

## UNDERWRITING

The 2020 Series A Bonds are to be purchased by UBS Financial Services, Inc. (the "Underwriter"). The Underwriter has agreed, subject to certain conditions, to purchase the 2020 Series A Bonds at an aggregate purchase price of $49,767,214.51 (which is equal to the principal amount of the 2020 Series A Bonds plus net original issue premium of $3,997,798.55 and less underwriting discount of $350,584.04). The Underwriter will be obligated to purchase all of the 2020 Series A Bonds if any are purchased. The Underwriter has advised the University that it intends to make a public offering of the 2020 Series A Bonds at the initial public offering yields set forth on the cover page hereof, provided, however, that the Underwriter has reserved the right to make concessions to dealers and to change such initial public offering prices as the Underwriter shall deem necessary in connection with the marketing of the 2020 Series A Bonds.

The 2020 Series B Bonds are to be purchased by Janney Montgomery Scott LLC (the "Underwriter"). The Underwriter has agreed, subject to certain conditions, to purchase the 2020 Series B Bonds at an aggregate purchase price of $12,449,854.46 (which is equal to the principal amount of the 2020 Series B Bonds plus net original issue premium of $60,808.80 and less underwriting discount of $15,954.34). The Underwriter will be obligated to purchase all of the 2020 Series B Bonds if any are purchased. The Underwriter has advised the University that it intends to make a public offering of the 2020 Series B Bonds at the initial public offering yields set forth on the cover page hereof, provided, however, that the Underwriter has reserved the right to make concessions to dealers and to change such initial public offering prices as the Underwriter shall deem necessary in connection with the marketing of the 2020 Series B Bonds.

## MISCELLANEOUS

All quotations from, and summaries and explanations of, the Kentucky Revised Statutes, the Resolution and the Series Resolution, contained herein do not purport to be complete, and reference is made to such laws and documents for full and complete statements of their provisions. The Appendices attached hereto are a part of this Official Statement. Copies, in reasonable quantity, of the Official Statement, Resolution or the Series Resolution may be obtained from Robert W. Baird & Co., Inc., 500 West Jefferson Street, Suite 700, Louisville, Kentucky 40202, Attention Ms. Tammey Bibb (502) 588-1124.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. Except when otherwise indicated, the information set forth herein has been obtained from the University and has not been verified as to accuracy or completeness by, and is not to be construed as a representation of, the Financial Advisor or Bond Counsel. This Official Statement is not to be construed as a contract or agreement between the University and the purchasers or owners of any of the Series 2020 Bonds.

**UNIVERSITY OF KENTUCKY**

By: /s/ Robert D. Vance
Chair, Board of Trustees

Attest:

**UNIVERSITY OF KENTUCKY**

By: /s/ Cammie DeShields Grant
Secretary, Board of Trustees

## APPENDIX A

## INFORMATION PERTAINING TO THE UNIVERSITY OF KENTUCKY

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# Appendix A

## General

The University of Kentucky (the University) is a public, land-grant university dedicated to improving people's lives through excellence in education, research and creative work, service and health care. As Kentucky's flagship institution, the University plays a critical leadership role by promoting diversity, inclusion, economic development and human well-being.

The University of Kentucky:

- Facilitates learning, informed by scholarship and research;
- Expands knowledge through research, scholarship and creative activity; and
- Serves a global community by disseminating, sharing and applying knowledge.

The University plays a critical leadership role for the Commonwealth of Kentucky by contributing to the economic development and quality of life within Kentucky's borders and beyond. The University nurtures a diverse community characterized by fairness and equal opportunity.

The members of the University's Board of Trustees as of June 30, 2019 and the year in which their respective terms expire are as follows:

# Appendix A

## OUTSTANDING BONDS

The University has the following obligations outstanding under the General Receipts Trust Agreement as of September 30, 2019 (in thousands):

| | Year of Issue | Amount of General Receipts Issue | Amount Outstanding | Year of Final Maturity |
|---|---|---|---|---|
| **Senior** | | | | |
| University of Kentucky | | | | |
| 2009 Series B Bonds | 2009 | $100,605 | $94,595 | 2039 |
| 2010 Series B Bonds[1] | 2010 | 12,955 | 12,955 | 2024 |
| 2012 Series A Bonds | 2012 | 25,370 | 11,665 | 2024 |
| 2014 Series A Bonds | 2014 | 190,255 | 180,930 | 2044 |
| 2014 Series B Bonds | 2014 | 38,665 | 32,765 | 2034 |
| 2014 Series C Bonds | 2014 | 10,055 | 1,300 | 2020 |
| 2014 Series D Bonds | 2014 | 88,145 | 57,165 | 2025 |
| 2015 Series A Bonds | 2015 | 141,905 | 141,655 | 2045 |
| 2015 Series B Bonds | 2015 | 97,440 | 93,710 | 2027 |
| 2015 Series C Bonds | 2015 | 19,695 | 15,190 | 2026 |
| 2016 Series A Bonds | 2016 | 107,470 | 107,470 | 2046 |
| 2016 Series B Bonds | 2016 | 48,310 | 40,580 | 2032 |
| 2017 Series A Bonds | 2017 | 29,265 | 19,655 | 2022 |
| 2017 Series B Bonds | 2017 | 7,540 | 5,760 | 2024 |
| 2018 Series A Bonds | 2018 | 212,470 | 212,470 | 2047 |
| 2018 Series B Bonds | 2018 | 10,060 | 10,060 | 2025 |
| 2019 Series A Bonds | 2019 | 13,900 | 13,860 | 2024 |
| Total University | | $1,154,105 | $1,051,785 | |
| Kentucky Association of Counties Lease | 2009 | $35,000 | $20,745 | 2028 |
| Total Senior | | $1,189,105 | $1,072,530 | |
| **Subordinate** | | | | |
| 2019 Series A COPs[2] | 2019 | $25,000 | $25,000 | 2049 |
| 2019 Series B COPs[3] | 2019 | 7,485 | 7,485 | 2030 |
| Total Subordinate | | $32,485 | $32,485 | |
| Total Under Trust Agreement | | $1,221,590 | $1,105,015 | |

[1] The 2010 Series B Bonds are Taxable Qualified Energy Conservation Bonds that require the University to make annual sinking fund payments to an account held with the Trustee.
[2] Certificates of Participation, Series 2019A (University of Kentucky Mixed-Use Parking Project)
[3] Certificates of Participation, Taxable Series 2019B (University of Kentucky Mixed-Use Parking Project)

# Appendix A

## PLEDGED REVENUES

Total operating and nonoperating revenues and pledged revenues as defined by the General Receipts Trust Indenture for the most recent five fiscal years are as follows (in thousands):

| | 2019 | 2018 [1] | 2017 [1] | 2016 [2] | 2015 |
|---|---|---|---|---|---|
| Actual Revenue Type | | | | | |
| Student tuition and fees | $ 343,293 | $ 342,981 | $ 339,665 | $ 319,627 | $ 302,936 |
| Federal grants and contracts | 208,669 | 187,996 | 181,888 | 169,291 | 168,125 |
| State and local grants and contracts | 86,543 | 84,027 | 97,268 | 91,216 | 92,269 |
| Nongovernmental grants and contracts | 33,062 | 39,249 | 33,295 | 34,979 | 29,805 |
| Recoveries of facilities and administrative costs | 67,100 | 60,062 | 54,507 | 51,088 | 48,154 |
| Sales and services | 59,383 | 59,691 | 52,032 | 49,399 | 54,112 |
| Federal appropriations | 17,239 | 19,674 | 16,332 | 19,266 | 17,535 |
| County appropriations | 26,689 | 25,389 | 24,906 | 23,717 | 21,975 |
| Professional clinical service fees | 247,589 | 244,805 | 223,630 | 229,075 | 223,291 |
| Hospital services | 1,750,927 | 1,631,737 | 1,492,388 | 1,417,243 | 1,323,652 |
| Auxiliary enterprises: | | | | | |
| Housing and dining | 34,958 | 35,049 | 37,578 | 39,103 | 39,265 |
| Athletics | 114,069 | 108,427 | 102,020 | 102,995 | 88,928 |
| Other auxiliaries | 54,092 | 55,083 | 52,272 | 49,434 | 47,039 |
| Other operating revenues | 21,138 | 22,831 | 22,299 | 7,931 | 5,059 |
| State appropriations | 258,495 | 264,418 | 267,029 | 279,611 | 279,611 |
| Gifts and non-exchange grants | 120,885 | 118,447 | 113,100 | 127,796 | 105,506 |
| Investment income (loss) | 108,293 | 91,149 | 115,989 | (3,241) | 45,188 |
| Other nonoperating revenues and expenses, net | 16,674 | 9,100 | 16,915 | 16,653 | 8,988 |
| Capital grants and gifts | 71,570 | 29,893 | 69,398 | 165,896 | 45,341 |
| Additions to permanent endowments | 13,606 | 10,451 | 9,751 | 13,052 | 7,758 |
| Other, net[3] | 17,872 | 7,896 | 4,306 | (18,379) | (4,187) |
| Total operating and nonoperating revenues | $ 3,672,146 | $ 3,448,355 | $ 3,326,568 | $ 3,185,752 | $ 2,950,350 |
| | | | | | |
| Pledged Revenue Type | | | | | |
| Student tuition and fees | $ 343,293 | $ 342,981 | $ 339,665 | $ 319,627 | $ 302,936 |
| Nongovernmental grants and contracts | 1,015 | 1,288 | 1,217 | 1,145 | 849 |
| Recoveries of facilities and administrative costs | 67,100 | 60,062 | 54,507 | 51,088 | 48,154 |
| Sales and services | 58,356 | 59,691 | 50,696 | 49,399 | 40,004 |
| Hospital services | 1,748,146 | 1,631,737 | 1,492,388 | 1,417,243 | 1,323,652 |
| Auxiliary enterprises: | | | | | |
| Housing and dining | 34,958 | 35,049 | 37,578 | 39,103 | 39,265 |
| Athletics | 114,456 | 108,427 | 102,341 | 102,995 | 88,928 |
| Other auxiliaries | 54,609 | 55,083 | 52,278 | 49,434 | 47,039 |
| Other operating revenues | 833 | 819 | 825 | 838 | 852 |
| State appropriations | 258,495 | 264,418 | 267,029 | 279,611 | 279,611 |
| Gifts and non-exchange grants | 3,796 | 4,052 | 4,350 | 4,583 | 4,955 |
| Investment income | 36,520 | 18,705 | 10,969 | 10,761 | 21,774 |
| Total pledged revenues | $ 2,721,577 | $ 2,582,312 | $ 2,413,843 | $ 2,325,827 | $ 2,198,019 |

# Appendix A

## PLEDGED REVENUES CONTINUED

[1] Effective July 1, 2018, the University and the Alumni Association adopted a dual reporting/funding model which resulted in increased integration between the two entities. As a result, the University determined the Alumni Association to be a blended component unit of the University, and has restated fiscal year 2018 and 2017 amounts for the inclusion of the Alumni Association. Furthermore, other revisions have been made to fiscal year 2018 comparative amounts to conform with the fiscal year 2019 financial statement classifications of certain grant funds.

[2] Fiscal year 2016 has been revised for the adoption of GASB Statement No. 74 and to conform with fiscal year 2017.

[3] Actual Revenues have been revised to include "Other, net" since at least one year in the reporting period included positive results.

# Appendix A

## DEBT SERVICE REQUIREMENTS

**DEBT SERVICE REQUIREMENTS AS OF SEPTEMBER 30, 2019**

| | Existing Senior Lien Debt Service | | | Debt Service Requirements on the 2020 Series A Bonds | | | Debt Service Requirements on the 2020 Series B Bonds | | | New Total Senior Lien Debt Service | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| As of September 30 | Principal [1] | Net Interest[2] | Total Debt Service | Principal | Interest | Debt Service | Principal | Interest | Debt Service | Principal [1] | Net Interest[2] | Total Debt Service | Subordinated Net Debt Service[3] |
| 2020 | $44,535,000 | $41,971,975 | $86,506,975 | - | - | - | - | - | - | $44,535,000 | $41,971,975 | $86,506,975 | - |
| 2021 | 46,760,000 | 39,977,023 | 86,737,023 | - | $1,622,419 | $1,622,419 | $2,045,000 | $255,573 | $2,300,573 | 48,805,000 | 41,855,015 | 90,660,015 | $1,808,028 |
| 2022 | 48,347,433 | 37,933,113 | 86,280,546 | - | 1,452,913 | 1,452,913 | 2,270,000 | 195,129 | 2,465,129 | 50,617,433 | 39,581,155 | 90,198,588 | 1,810,538 |
| 2023 | 49,785,000 | 35,792,587 | 85,577,587 | - | 1,452,913 | 1,452,913 | 2,310,000 | 156,993 | 2,466,993 | 52,095,000 | 37,402,493 | 89,497,493 | 1,807,518 |
| 2024 | 45,900,000 | 33,697,092 | 79,597,092 | - | 1,452,913 | 1,452,913 | 2,350,000 | 117,723 | 2,467,723 | 48,250,000 | 35,267,728 | 83,517,728 | 1,809,100 |
| 2025 | 46,370,000 | 31,629,562 | 77,999,562 | - | 1,452,913 | 1,452,913 | 2,390,000 | 75,893 | 2,465,893 | 48,760,000 | 33,158,368 | 81,918,368 | 1,810,153 |
| 2026 | 46,065,000 | 29,672,403 | 75,737,403 | $1,395,000 | 1,452,913 | 2,847,913 | 1,040,000 | 31,200 | 1,071,200 | 48,500,000 | 31,156,516 | 79,656,516 | 1,810,675 |
| 2027 | 48,105,000 | 27,699,304 | 75,804,304 | 2,535,000 | 1,383,163 | 3,918,163 | - | - | - | 50,640,000 | 29,082,467 | 79,722,467 | 1,808,025 |
| 2028 | 48,405,000 | 25,706,050 | 74,111,050 | 2,665,000 | 1,256,413 | 3,921,413 | - | - | - | 51,070,000 | 26,962,463 | 78,032,463 | 1,809,775 |
| 2029 | 36,800,000 | 24,064,270 | 60,864,270 | 2,795,000 | 1,123,163 | 3,918,163 | - | - | - | 39,595,000 | 25,187,433 | 64,782,433 | 1,810,775 |
| 2030 | 38,335,000 | 22,591,072 | 60,926,072 | 2,910,000 | 1,011,363 | 3,921,363 | - | - | - | 41,245,000 | 23,602,435 | 64,847,435 | 1,806,025 |
| 2031 | 39,875,000 | 20,991,061 | 60,866,061 | 2,995,000 | 924,063 | 3,919,063 | - | - | - | 42,870,000 | 21,915,124 | 64,785,124 | 1,835,675 |
| 2032 | 41,315,000 | 19,543,900 | 60,858,900 | 3,085,000 | 834,213 | 3,919,213 | - | - | - | 44,400,000 | 20,378,113 | 64,778,113 | 1,835,675 |
| 2033 | 42,940,000 | 17,923,218 | 60,863,218 | 3,150,000 | 772,513 | 3,922,513 | - | - | - | 46,090,000 | 18,695,731 | 64,785,731 | 1,837,875 |
| 2034 | 44,510,000 | 16,349,842 | 60,859,842 | 3,245,000 | 678,013 | 3,923,013 | - | - | - | 47,755,000 | 17,027,855 | 64,782,855 | 1,833,475 |
| 2035 | 39,195,000 | 14,773,119 | 53,968,119 | 3,310,000 | 613,113 | 3,923,113 | - | - | - | 42,505,000 | 15,386,232 | 57,891,232 | 1,837,675 |
| 2036 | 40,545,000 | 13,418,659 | 53,963,659 | 3,405,000 | 513,813 | 3,918,813 | - | - | - | 43,950,000 | 13,932,472 | 57,882,472 | 1,835,075 |
| 2037 | 42,110,000 | 11,858,346 | 53,968,346 | 3,485,000 | 437,200 | 3,922,200 | - | - | - | 45,595,000 | 12,295,546 | 57,890,546 | 1,835,875 |
| 2038 | 43,790,000 | 10,175,962 | 53,965,962 | 3,605,000 | 315,225 | 3,920,225 | - | - | - | 47,395,000 | 10,491,187 | 57,886,187 | 1,834,875 |
| 2039 | 39,905,000 | 8,581,558 | 48,486,558 | 3,715,000 | 207,075 | 3,922,075 | - | - | - | 43,620,000 | 8,788,633 | 52,408,633 | 1,837,075 |
| 2040 | 41,455,000 | 7,038,152 | 48,493,152 | 3,825,000 | 95,625 | 3,920,625 | - | - | - | 45,280,000 | 7,133,777 | 52,413,777 | 1,837,275 |
| 2041 | 26,690,000 | 5,709,900 | 32,399,900 | - | - | - | - | - | - | 26,690,000 | 5,709,900 | 32,399,900 | 1,835,475 |
| 2042 | 27,740,000 | 4,664,031 | 32,404,031 | - | - | - | - | - | - | 27,740,000 | 4,664,031 | 32,404,031 | 1,836,675 |
| 2043 | 28,830,000 | 3,574,697 | 32,404,697 | - | - | - | - | - | - | 28,830,000 | 3,574,697 | 32,404,697 | 1,835,675 |
| 2044 | 29,960,000 | 2,438,125 | 32,398,125 | - | - | - | - | - | - | 29,960,000 | 2,438,125 | 32,398,125 | 1,837,475 |
| 2045 | 21,060,000 | 1,254,888 | 22,314,888 | - | - | - | - | - | - | 21,060,000 | 1,254,888 | 22,314,888 | 1,836,875 |
| 2046 | 9,900,000 | 468,525 | 10,368,525 | - | - | - | - | - | - | 9,900,000 | 468,525 | 10,368,525 | 1,837,656 |
| 2047 | 1,470,000 | 78,750 | 1,548,750 | - | - | - | - | - | - | 1,470,000 | 78,750 | 1,548,750 | 1,836,875 |
| 2048 | 1,515,000 | 26,513 | 1,541,513 | - | - | - | - | - | - | 1,515,000 | 26,513 | 1,541,513 | 1,834,531 |
| 2049 | - | - | - | - | - | - | - | - | - | - | - | - | 1,835,625 |
| | $1,062,212,433 | $509,603,697 | $1,571,816,130 | $46,120,000 | $19,051,939 | $65,171,939 | $12,405,000 | $832,511 | $13,237,511 | $1,120,737,433 | $529,488,147 | $1,650,225,580 | $52,978,024 |

(1) Only includes amount to be deposited in the sinking fund for the 2010 Series B Bonds which are Taxable Qualified Energy Conservation Bonds (investment earnings on sinking fund deposits under an investment agreement are required for debt service payments).

(2) Due to sequestration, the federal direct payments on the Series 2009B Build America Bonds ("BABs") and the Series 2010B Qualified Energy Conservation Bonds ("QECBs") were reduced by amounts of approximately 6% to 9% in prior years. It is not currently known whether federal direct payments will be restored to their original amounts. Federal direct payments received between October 1, 2019 through June 30, 2020 are reduced by the current sequestration rate of 5.9%. For fiscal years 2020 through 2040, the federal direct payments are assumed at their original rates payable on the outstanding Series 2009B BABs and 2010B QECBs.

(3) Reflects outstanding principal and interest amounts on the Certificates of Participation, Series 2019A and Taxable Series 2019B (University of Kentucky Mixed-Use Parking Project). The debt service is net of the capitalized interest.

# Appendix A

## ACADEMIC

### ENROLLMENT

The following schedule summarizes the University's headcount the most recent five fall semesters:

| | Fall 2019 | Fall 2018 | Fall 2017 | Fall 2016 | Fall 2015 |
|---|---|---|---|---|---|
| Undergraduate resident | 15,128 | 15,135 | 15,373 | 15,656 | 15,967 |
| Undergraduate non-resident | 7,217 | 7,001 | 7,052 | 6,965 | 6,738 |
| Graduate resident | 4,242 | 4,181 | 4,142 | 4,179 | 4,137 |
| Graduate non-resident | 2,922 | 2,865 | 2,898 | 2,981 | 2,885 |
| Total headcount (IPEDS) [1] | 29,509 | 29,182 | 29,465 | 29,781 | 29,727 |
| Non-resident enrollment (IPEDS) | 34.4% | 33.8% | 33.8% | 33.4% | 32.4% |
| Undergraduate auditor resident | 43 | 52 | 52 | 52 | 56 |
| Undergraduate auditor non-resident | 0 | 0 | 0 | 1 | 0 |
| Professional resident [2] | 865 | 833 | 767 | 724 | 727 |
| Professional non-resident [2] | 218 | 210 | 189 | 203 | 210 |
| Total headcount (CPE) [3] | 30,635 | 30,277 | 30,473 | 30,761 | 30,720 |
| Non-resident enrollment (CPE) | 33.8% | 33.3% | 33.3% | 33.0% | 32.0% |

The following is a summary of the University's full-time equivalent enrollment for the most recent five academic years:

| | 2019-20 | 2018-19 | 2017-18 | 2016-17 | 2015-16 |
|---|---|---|---|---|---|
| Full-time equivalent (IPEDS) [4] | N/A | 26,483 | 26,838 | 27,079 | 27,299 |
| Full-time equivalent (CPE) [5] | 29,054 | 28,378 | 28,552 | 28,770 | 29,318 |

### ADMISSIONS INFORMATION

The following is a summary of first-time freshman admissions information for the most recent five fall semesters:

| | Fall 2019 | Fall 2018 | Fall 2017 | Fall 2016 | Fall 2015 |
|---|---|---|---|---|---|
| Number of applications [6] | 18,759 | 19,324 | 18,925 | 20,480 | 18,725 |
| Number admitted (%) | 17,981 (95.9%) | 18,258 (94.5%) | 18,125 (95.8%) | 18,593 (90.8%) | 16,685 (89.1%) |
| Number enrolled (%) | 5,396 (30.0%) | 5,077 (27.8%) | 4,855 (26.8%) | 5,117 (27.5%) | 5,211 (31.2%) |
| Average ACT score | 25.8 | 25.9 | 25.5 | 25.6 | 25.5 |

## ACADEMIC CONTINUED

### RETENTION AND GRADUATION RATES

The following is a summary of the retention and graduation rates:

| | Fall 2018 | Fall 2017 | Fall 2016 | Fall 2015 | Fall 2014 |
|---|---|---|---|---|---|
| Retention rate (2nd fall) | 84.9% | 84.5% | 83.3% | 81.7% | 82.7% |

| Six year graduation rate | Fall 2013 | Fall 2012 | Fall 2011 | Fall 2010 | Fall 2009 |
|---|---|---|---|---|---|
| Original Cohort [7] | 66.5% | 66.2% | 65.0% | 64.0% | 61.7% |
| Bachelor Seeking Cohort [8] | 66.1% | 65.8% | 64.6% | 63.6% | 61.3% |

### TUITION AND FEES

The University's annual tuition and fees for the most recent five academic years are as follows:

| | 2019-20[10] | 2018-19 | 2017-18 | 2016-17 | 2015-16 |
|---|---|---|---|---|---|
| Resident tuition and fees | | | | | |
| Undergraduate | $ 12,360 | $ — | $ — | $ — | $ — |
| Undergraduate lower division | $ — | $ 12,070 | $ 11,772 | $ 11,320 | $ 10,780 |
| Undergraduate upper division | $ — | $ 12,420 | $ 12,112 | $ 11,646 | $ 11,092 |
| Graduate [9] | $ 13,404 | $ 13,052 | $ 12,726 | $ 12,236 | $ 11,652 |
| Non-resident tuition and fees | | | | | |
| Undergraduate | $ 30,680 | $ — | $ — | $ — | $ — |
| Undergraduate lower division | $ — | $ 28,902 | $ 27,856 | $ 26,156 | $ 24,104 |
| Undergraduate upper division | $ — | $ 29,296 | $ 28,236 | $ 26,512 | $ 24,432 |
| Graduate [9] | $ 32,564 | $ 31,364 | $ 30,224 | $ 28,380 | $ 26,154 |
| Online (per credit hour) | $ 601 | $ — | $ — | $ — | $ — |

### FACULTY INFORMATION

The following is a summary of full-time faculty for the most recent five academic years:

| | 2019-20 | 2018-19 | 2017-18 | 2016-17 | 2015-16 |
|---|---|---|---|---|---|
| Instructional faculty[11] | 1,749 | 1,737 | 1,690 | 1,677 | 1,686 |
| Other faculty | 878 | 849 | 812 | 747 | 732 |
| Total | 2,627 | 2,586 | 2,502 | 2,424 | 2,418 |
| Tenured/tenure track | 1,625 | 1,611 | 1,585 | 1,574 | 1,599 |
| Non-tenured track | 1,002 | 975 | 917 | 850 | 819 |
| Total | 2,627 | 2,586 | 2,502 | 2,424 | 2,418 |

## ACADEMIC CONTINUED

### STUDENT FINANCIAL AID

The following summarizes the University's student financial aid for the most recent five fiscal years (in thousands):

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| Scholarships and grants | $ 193,163 | $ 180,118 | $ 164,366 | $ 148,055 | $ 128,449 |
| Federal grants: | | | | | |
| Pell | 24,163 | 25,012 | 22,705 | 23,274 | 23,500 |
| Supplemental Educational Opportunity Grant (SEOG) | 742 | 601 | 565 | 513 | 487 |
| Other federal grants | 54 | 47 | 16 | 4 | 50 |
| Federal Work Study | 1,207 | 997 | 909 | 965 | 1,015 |
| Financial aid from outside agencies: | | | | | |
| State grants | 29,292 | 29,110 | 28,436 | 27,926 | 26,775 |
| Loans: | | | | | |
| National direct student loans (Perkins) | — | 3,247 | 5,021 | 1,404 | 3,057 |
| Federal direct loans | 193,326 | 199,793 | 195,637 | 187,669 | 183,022 |
| Health professions loans | 530 | 524 | 483 | 393 | 440 |
| Federal primary care loans | 39 | 348 | — | — | — |
| Loans from outside agencies | 34,608 | 32,054 | 28,969 | 27,687 | 22,336 |
| Other loans (institutional) | 846 | 878 | 1,007 | 887 | 958 |
| Total | $ 477,970 | $ 472,729 | $ 448,114 | $ 418,777 | $ 390,089 |

[1] The IPEDS headcount is calculated in accordance with the method used by the United States Department of Education. IPEDS headcount includes undergraduate and graduate students. Students who are auditing all of their classes, house staff, and post-doctorals are not included by IPEDS definition.

[2] The professional headcount includes post-doctorals and house staff.

[3] The Council on Postsecondary Education (CPE) headcount is calculated in accordance with the methods used by the Council. The headcount includes undergraduate and graduate students, including those students who are auditing all of their classes, house staff, and post-doctorals.

[4] The IPEDS full-time equivalent enrollment calculation is based on 12-month enrollment figures. The final 2019-20 IPEDS FTE enrollment figure is not available at this time.

[5] The CPE full-time equivalent enrollment calculation is based on fall enrollment figures.

# Appendix A

## ACADEMIC CONTINUED

[6]The number of applications for Fall 2015 has been updated to more accurately reflect the IPEDS definition of completed applications.

[7]The Original Cohort represents full-time, first-time undergraduate students who are seeking a Bachelor's degree upon entry to the University. The graduation rate for the Original Cohorts includes these students as well as those who were Bachelor's degree-seeking at their time of entry, but were accepted into a PharmD program after completing 2 to 3 years of undergraduate studies.

[8]The Bachelor's Degree-Seeking Subcohort represents a subset of the Original Cohort. Students in the Bachelor's Degree-Seeking Subcohort are Bachelor's degree-seeking throughout their time at the University.

[9]Several graduate programs (e.g., MBA) have differential tuition rates.

[10]As part of the University of Kentucky's "Our Path Forward" initiative, a work group analyzed the University's current tuition and mandatory fee pricing structure in terms of transparency, flexibility, simplicity, and sustainability. As a result, the AY 2019-20 tuition and mandatory fee schedule includes several structural changes to modernize the pricing structure. The changes include: (1) elimination of the lower and upper division rate differentials for undergraduate students; (2) establishment of a new online learning rate for undergraduate students; (3) establishment of a new per credit hour pricing strategy for select graduate programs; and (4) assessment of mandatory fees based on the availability of services to students.

[11]Instructional faculty data updated to reflect new definition including College of Medicine faculty similarly to faculty in other colleges. This was adopted in April 2018.

# Appendix A

## FINANCIAL

### BUDGET

The following is a summary of the University's budget for the most recent five fiscal years (in thousands):

| | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| University budget [1] | $ 4,190,940 | $ 3,927,976 | $ 3,707,388 | $ 3,573,483 | $ 3,380,187 |
| Change from prior year | $ 262,964 | $ 220,588 | $ 133,905 | $ 193,296 | $ 363,552 |

### STATE APPROPRIATIONS

The University's General Fund state appropriations for the five most recent fiscal years are as follows (in thousands):

| Fiscal Year | Appropriation |
|---|---|
| 2020 | $ 261,056 |
| 2019 | $ 258,495 |
| 2018 | $ 264,418 |
| 2017 | $ 267,029 |
| 2016 | $ 279,611 |

The Board of Trustees presently intends, but is not obligated, to continue to seek to have funds appropriated by the General Assembly to partially support the operations of the University. The General Assembly is not now obligated, nor will there be an obligation in the future, to make appropriations to the University. In addition, there can be no assurance that in the performance of his or her obligation to balance the state budget annually, the governor will not reduce or eliminate any appropriations which are made.

### SUMMARY OF NET POSITION

The following is a summary of the University's net position for the most recent five fiscal years (in thousands):

| | 2019 | 2018 [2, 3] | 2017 [3] | 2016 | 2015 |
|---|---|---|---|---|---|
| Net investment in capital assets | $ 1,909,624 | $ 1,835,176 | $ 1,663,206 | $ 1,527,034 | $ 1,422,560 |
| Restricted | | | | | |
| Nonexpendable | 641,255 | 626,717 | 613,522 | 601,703 | 585,074 |
| Expendable | 521,014 | 465,474 | 547,526 | 494,154 | 451,990 |
| Unrestricted | 1,106,660 | 1,038,143 | 1,173,993 | 1,103,636 | 997,634 |
| Total net position | $ 4,178,553 | $ 3,965,510 | $ 3,998,247 | $ 3,726,527 | $ 3,457,258 |

# Appendix A

## FINANCIAL CONTINUED

### SUMMARY OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The following is a summary of the University's revenues, expenses and changes in net position for the most recent five fiscal years (in thousands):

| | 2019 | 2018 [3] | 2017 [3] | 2016 [4] | 2015 [4] |
|---|---|---|---|---|---|
| Operating revenues | $ 3,064,751 | $ 2,917,001 | $ 2,730,080 | $ 2,604,364 | $ 2,462,408 |
| Operating expenses | 3,414,730 | 3,201,061 | 3,039,697 | 2,888,039 | 2,609,253 |
| Net loss from operations | (349,979) | (284,060) | (309,617) | (283,675) | (146,845) |
| Nonoperating revenues (expenses), including state appropriations | 563,022 | 496,659 | 561,401 | 552,944 | 460,251 |
| Increase in net position | $ 213,043 | $ 212,599 | $ 251,784 | $ 269,269 | $ 313,406 |

### SUMMARY OF CASH FLOWS

The following summarizes the University's statement of cash flows for the most recent five fiscal years (in thousands):

| | 2019 | 2018 [3] | 2017 [3] | 2016 [4] | 2015 [4] |
|---|---|---|---|---|---|
| CASH PROVIDED (USED) BY: | | | | | |
| Operating activities | $ (204,657) | $ (186,337) | $ (160,283) | $ (89,874) | $ 12,002 |
| Noncapital financing activities | 409,469 | 410,911 | 395,720 | 422,807 | 405,234 |
| Capital and related financing activities | (315,458) | (256,407) | (381,081) | (176,131) | (178,778) |
| Investing activities | 33,893 | 2,829 | (21,007) | (1,202) | 17,315 |
| Net increase (decrease) in cash and cash equivalents | (76,753) | (29,004) | (166,651) | 155,600 | 255,773 |
| Cash and cash equivalents, beginning of year | 897,544 | 926,548 | 1,093,199 | 936,507 | 680,734 |
| Cash and cash equivalents, end of year | $ 820,791 | $ 897,544 | $ 926,548 | $ 1,092,107 | $ 936,507 |

## FINANCIAL CONTINUED

### ENDOWMENTS

Endowment investments, classified as noncurrent assets, for the most recent five fiscal years are summarized as follows (in thousands):

| Fiscal Year | Market Value |
|---|---|
| 2019 | $ 1,385,507 |
| 2018 | $ 1,334,530 |
| 2017 | $ 1,268,396 |
| 2016 [4] | $ 1,101,772 |
| 2015 [4] | $ 1,123,718 |

The long-term returns for the period ending June 30, 2019 are summarized below:

| Period | Return Value |
|---|---|
| 1 year | 5.5% |
| 3 year | 7.4% |
| 5 year | 4.5% |
| 10 year | 8.0% |

### GIFTS AND NON-EXCHANGE GRANTS

The following schedule summarizes the University's gifts and non-exchange grants, classified as nonoperating revenues, for the most recent five fiscal years (in thousands):

| | 2019 | 2018 [3] | 2017 [3] | 2016 | 2015 |
|---|---|---|---|---|---|
| Gifts and non-exchange grants | $ 120,885 | $ 118,447 | $ 113,100 | $ 127,796 | $ 105,506 |
| Additions to permanent endowments | 13,606 | 10,451 | 9,751 | 13,052 | 7,758 |
| Capital grants and gifts | 71,570 | 29,893 | 69,398 | 165,896 | 45,341 |
| Total | $ 206,061 | $ 158,791 | $ 192,249 | $ 306,744 | $ 158,605 |

### GRANTS AND CONTRACTS

The following is a summary of grant and contract awards for the five most recent fiscal years (in thousands):

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| Federal awards | $ 241,809 | $ 199,967 | $ 178,341 | $ 163,477 | $ 153,071 |
| State awards | 101,278 | 72,687 | 90,700 | 81,824 | 73,672 |
| Other awards | 74,049 | 61,162 | 62,286 | 71,223 | 58,350 |
| Total | $ 417,136 | $ 333,816 | $ 331,327 | $ 316,524 | $ 285,093 |

## FINANCIAL CONTINUED

[1] The fiscal year 2019 budget has been revised to reflect the finalized University budget.

[2] Adjustments recorded to beginning of year net position to reflect adoption of GASB 75 (-$241.8 million) and GASB 81 (-$3.5 million).

[3] Effective July 1, 2018, the University and the Alumni Association adopted a dual reporting/funding model which resulted in increased integration between the two entities. As a result, the University determined the Alumni Association to be a blended component unit of the University, and has restated fiscal year 2018 and 2017 amounts for the inclusion of the Alumni Association. The fiscal year 2017 beginning cash balance does not match the fiscal year 2016 ending cash balance as a result of this change in reporting entity. Furthermore, other revisions have been made to fiscal year 2018 comparative amounts to conform with the fiscal year 2019 financial statement classifications of certain grant funds.

[4] Fiscal year 2016 and 2015 have been revised for the adoption of GASB Statement No. 74 and to conform with fiscal year 2017.

# Appendix A

## UK HEALTHCARE HOSPITAL SYSTEM

UK HealthCare, the University's advanced academic medical center and clinical care network, is uniquely equipped to provide advanced subspecialty care to the people of Kentucky. UK HealthCare Hospital System operates two hospital units under one Joint Commission Accreditation and two licenses in addition to ambulatory services. The major service units include Albert B. Chandler Hospital, Good Samaritan Hospital and the Kentucky Clinic.

### OPERATIONS

UK HealthCare Hospital System's operating information for the five most recent fiscal years is summarized as follows:

**Certain Operating Information**

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| Average licensed beds | 945 | 945 | 945 | 825 | 826 |
| Available beds | 942 | 914 | 883 | 816 | 816 |
| Patient days | 282,367 | 275,463 | 263,538 | 259,662 | 251,334 |
| Patient days equivalents [1] | 535,854 | 470,205 | 448,468 | 443,630 | 407,767 |
| Admissions | 42,152 | 41,044 | 38,739 | 37,792 | 37,073 |
| Discharges | 41,589 | 40,909 | 38,706 | 37,789 | 37,043 |
| Average length of stay (days) | 6.79 | 6.73 | 6.81 | 6.87 | 6.78 |
| Occupancy | 82.13% | 82.57% | 81.77% | 82.50% | 84.39% |
| Emergency visits | 111,819 | 112,093 | 111,920 | 108,417 | 101,395 |
| Outpatient visits with hospital charge | 600,712 | 565,903 | 538,256 | 501,943 | 479,782 |

**Payer Mix**

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| Medicaid | 35.53% | 36.72% | 38.21% | 39.05% | 38.57% |
| Medicare | 36.21% | 35.61% | 34.78% | 33.61% | 33.98% |
| Commercial/other | 25.81% | 25.85% | 25.30% | 25.55% | 25.70% |
| Patient/charity | 2.45% | 1.82% | 1.71% | 1.79% | 1.75% |
| Total | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |

## UK HEALTHCARE HOSPITAL SYSTEM CONTINUED

### FINANCIAL

**Summary of Net Position**

The following is a summary of UK HealthCare Hospital System's net position for the most recent five fiscal years (in thousands):

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| Net investment in capital assets | $ 509,782 | $ 514,863 | $ 521,040 | $ 455,374 | $ 437,489 |
| Restricted | | | | | |
| Nonexpendable | 1,590 | 1,255 | 751 | 195 | 119 |
| Expendable | 14,667 | 19,668 | 11,662 | 11,902 | 10,538 |
| Unrestricted | 905,335 | 773,522 | 678,364 | 630,294 | 565,604 |
| Total net position | $ 1,431,374 | $ 1,309,308 | $ 1,211,817 | $ 1,097,765 | $ 1,013,750 |

**Summary of Revenues, Expenses and Changes in Net Position**

The following summarizes UK HealthCare Hospital System's revenues, expenses and changes in net position for the most recent five fiscal years (in thousands):

| | 2019 | 2018 | 2017 | 2016 [2] | 2015 [2] |
|---|---|---|---|---|---|
| Operating revenues | $ 1,758,613 | $ 1,639,281 | $ 1,500,781 | $ 1,423,695 | $ 1,329,133 |
| Operating expenses | 1,507,368 | 1,418,630 | 1,311,342 | 1,237,129 | 1,072,918 |
| Net income from operations | 251,245 | 220,651 | 189,439 | 186,566 | 256,215 |
| Net nonoperating revenues (expenses) | 13,038 | 13,525 | 16,573 | (24,209) | (5,863) |
| Transfers to the University | (142,217) | (136,685) | (91,960) | (78,342) | (58,319) |
| Increase in net position | $ 122,066 | $ 97,491 | $ 114,052 | $ 84,015 | $ 192,033 |

## UK HEALTHCARE HOSPITAL SYSTEM CONTINUED

### Summary of Cash Flows

The following is a summary of UK HealthCare Hospital System's cash flows for the most recent five fiscal years (in thousands):

| | 2019 | 2018 | 2017 | 2016 [2] | 2015 [2] |
|---|---|---|---|---|---|
| CASH PROVIDED (USED) BY: | | | | | |
| Operating activities | $ 287,166 | $ 248,174 | $ 231,047 | $ 246,288 | $ 320,721 |
| Noncapital financing activities | (128,937) | (121,431) | (90,616) | (67,937) | (42,011) |
| Capital and related financing activities | (117,904) | (4,046) | (198,145) | (165,993) | 38,487 |
| Investing activities | 14,524 | 10,252 | 5,826 | 876 | 2,774 |
| Net increase (decrease) in cash and cash equivalents | 54,849 | 132,949 | (51,888) | 13,234 | 319,971 |
| Cash and cash equivalents, beginning of year | 525,934 | 392,985 | 444,873 | 431,639 | 111,668 |
| Cash and cash equivalents, end of year | $ 580,783 | $ 525,934 | $ 392,985 | $ 444,873 | $ 431,639 |

[1] Total patient activity computed by converting outpatient activity to an inpatient equivalent.

[2] Fiscal year 2016 and 2015 have been revised to reflect the reclassification of certain transactions between UK HealthCare Hospital System and the University.

# APPENDIX B

## FINANCIAL STATEMENTS OF THE UNIVERSITY OF KENTUCKY
## AS OF AND FOR THE YEAR ENDED JUNE 30, 2019

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University of Kentucky

# 2019 Financial Statements

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

TABLE OF CONTENTS

**MESSAGE FROM THE PRESIDENT**

What is possible?

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

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

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

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

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

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

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

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

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

Sincerely,

Eli Capilouto
President

BKD
CPAs & Advisors

600 N. Hurstbourne Parkway, Suite 350 | P.O. Box 22127 | Louisville, KY 40252-0127
502.581.0435 | Fax 502.581.0723 | bkd.com

# Independent Auditor's Report

Board of Trustees
University of Kentucky
Lexington, Kentucky

## Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the fiduciary activities of the University of Kentucky (University), collectively, a component unit of the Commonwealth of Kentucky, as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of Kentucky Medical Services Foundation, Inc. (KMSF), a blended component unit of the University, which statements reflect assets constituting 3.1% and 3.5%, as of June 30, 2019 and 2018, respectively, of the University's total assets, net position constituting 0.7% and 0.9%, as of June 30, 2019 and 2018, respectively, of the University's total net position and revenues constituting 11.1% and 11.6%, respectively, of the University's total revenues for the years then ended. Those statements were audited by other auditors, whose report thereon has been furnished to us, and our opinion on the business-type activities, insofar as it relates to the amounts included for KMSF, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 opinions.

## *Opinions*

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and fiduciary activities of the University as of June 30, 2019 and 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

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

### *Other Information*

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The governing board listing and the message from the president, as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The governing board listing and the message from the president have not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

BKD, LLP

Louisville, Kentucky
October 8, 2019

**UNIVERSITY OF KENTUCKY**
**A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY**
**MANAGEMENT'S DISCUSSION AND ANALYSIS**
**YEARS ENDED JUNE 30, 2019 and 2018**

The following Management's Discussion and Analysis (MD&A) provides an overview of the financial position and activities of the University of Kentucky (the University or UK) and its affiliated corporations for the years ended June 30, 2019 and 2018. Management has prepared this discussion, and suggests that it be read in conjunction with the financial statements and the notes appearing in this report.

## About the University of Kentucky

***Mission.*** The University of Kentucky is a public, land-grant university dedicated to improving people's lives through excellence in education, research and creative work, service and health care. As Kentucky's flagship institution, the University plays a critical leadership role by promoting diversity, inclusion, economic development and human well-being.

The University of Kentucky:

- Facilitates learning, informed by scholarship and research;
- Expands knowledge through research, scholarship and creative activity; and
- Serves a global community by disseminating, sharing and applying knowledge.

The University plays a critical leadership role for the Commonwealth of Kentucky (the Commonwealth) by contributing to the economic development and quality of life within Kentucky's borders and beyond. The University nurtures a diverse community characterized by fairness and equal opportunity.

***Vision.*** As Kentucky's indispensable institution, we transform the lives of our students and advance the Commonwealth we serve-and beyond-through our teaching and learning, diversity and inclusion, discovery, research and creativity, promotion of health, and deep community engagement.

***Background.*** Under provisions of the federal Morrill Land-Grant Colleges Act (1862), Kentucky State Agricultural and Mechanical College was established in 1865 as part of Kentucky University (now Transylvania University). The College separated from Kentucky University in 1878 and was established on a 52 acre site (the University's current location) donated by the city of Lexington. In 1908, the College was renamed the State University, Lexington, Kentucky. In 1916 it became the University of Kentucky.

According to the Kentucky Revised Statutes (KRS) 164.125(2):

> In carrying out its statewide mission, the University of Kentucky shall conduct statewide research and provide statewide services including, but not limited to, agricultural research and extension services, industrial and scientific research, industrial technology extension services to Kentucky employers, and research related to the doctoral, professional and postdoctoral programs offered within the University. The University may establish and operate centers and utilize state appropriations and other resources to carry out the necessary research and service activities throughout the state. The University may enter into joint research and service activities with other universities in order to accomplish its statewide mission.

In 1997, the Kentucky General Assembly reformed the state's public system of colleges and universities. According to the ***Kentucky Postsecondary Education Improvement Act of 1997***: The University of Kentucky is mandated to become a major comprehensive research institution ranked nationally in the top twenty public universities by the year 2020.

At its December 2005 meeting, the UK Board of Trustees approved the ***Top 20 Business Plan***.

The University's ***Strategic Plan for 2009-2014*** was adopted by the UK Board of Trustees at its June 2009 meeting. The ***Strategic Plan*** was designed to measure the University's progress by establishing specific goals for teaching, research and service at the department, college and university level.

Today, the University continues to focus on the core academic mission of the institution and the original tenets of the Morrill Land-Grant Colleges Act (1862). UK remains steadfast in its covenant with the Commonwealth - to produce graduates prepared for a 21$^{st}$ century economy; to conduct research that extends the boundaries of scientific discovery; to contribute to our economy, and address relevant questions; and to render service and patient care that uplifts our community and region.

The UK Board of Trustees adopted the ***Strategic Plan for 2015-2020*** at its October 2015 retreat. The plan builds on extraordinary progress from previous planning documents, a dramatic investment in the institution's physical spaces, and the insight garnered from considerable campus conversation and constituent input. The plan considers the current operating context for higher education and focuses on five strategic objectives that support our role as Kentucky's indispensable institution:

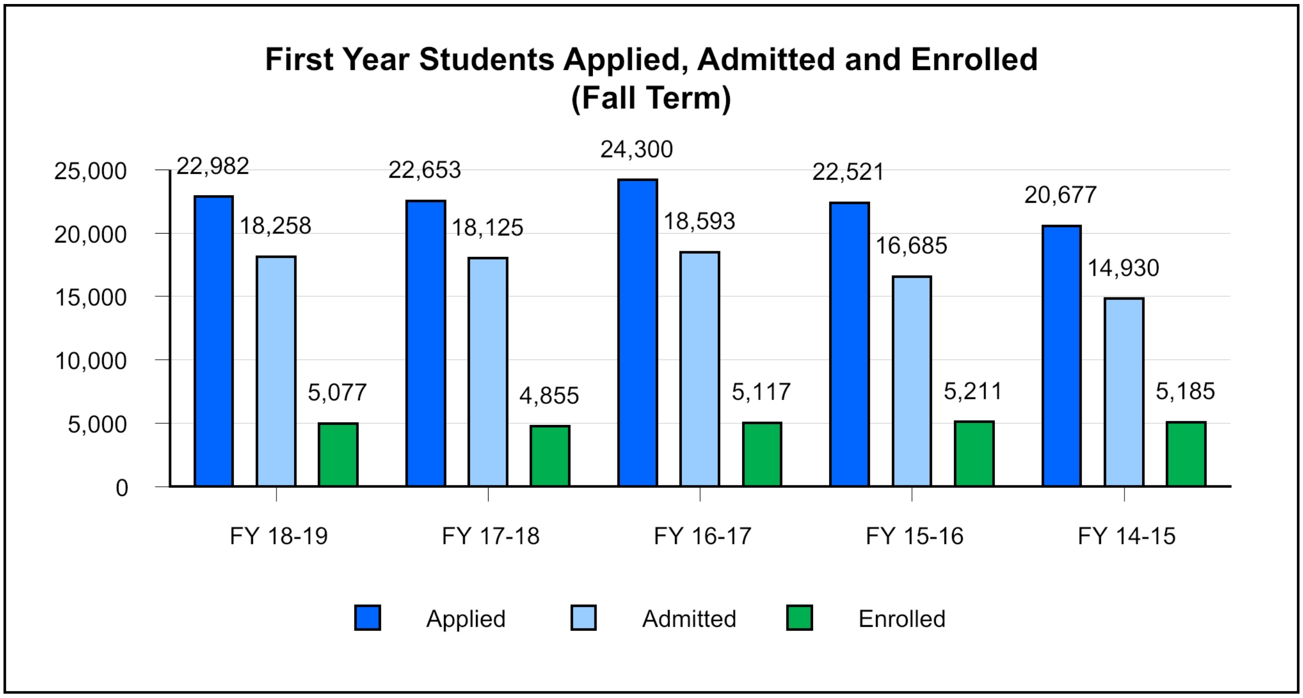
- **Undergraduate Student Success** - Be the university of choice for aspiring undergraduate students within the Commonwealth and beyond, seeking a transformational education that promotes self-discovery, experiential learning, and life-long achievement.
- **Graduate Education** - Strengthen the quality and distinctiveness of our graduate programs to transform our students into accomplished scholars and professionals who contribute to the Commonwealth, the nation, and the world through their research and discovery, creative endeavors, teaching, and service.
- **Diversity and Inclusivity** - Enhance the diversity and inclusivity of our university community through recruitment, promotion and retention of an increasingly diverse population of faculty, administrators, staff and students, and by implementing initiatives that provide rich diversity-related experiences for all, to help ensure their success in an interconnected world.
- **Research and Scholarly Work** - Expand our scholarship, creative endeavors and research across the full range of disciplines to focus on the most important challenges of the Commonwealth, our nation and the world.
- **Outreach and Community Engagement** - Leverage leading-edge technology, scholarship and research in innovative ways to advance the public good and to foster the development of citizen-scholars.

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

The University is identified as a "Research University (very high research activity)" by the Carnegie Commission on Higher Education. There are 131 such institutions in the United States (out of approximately 4,300 colleges and universities).

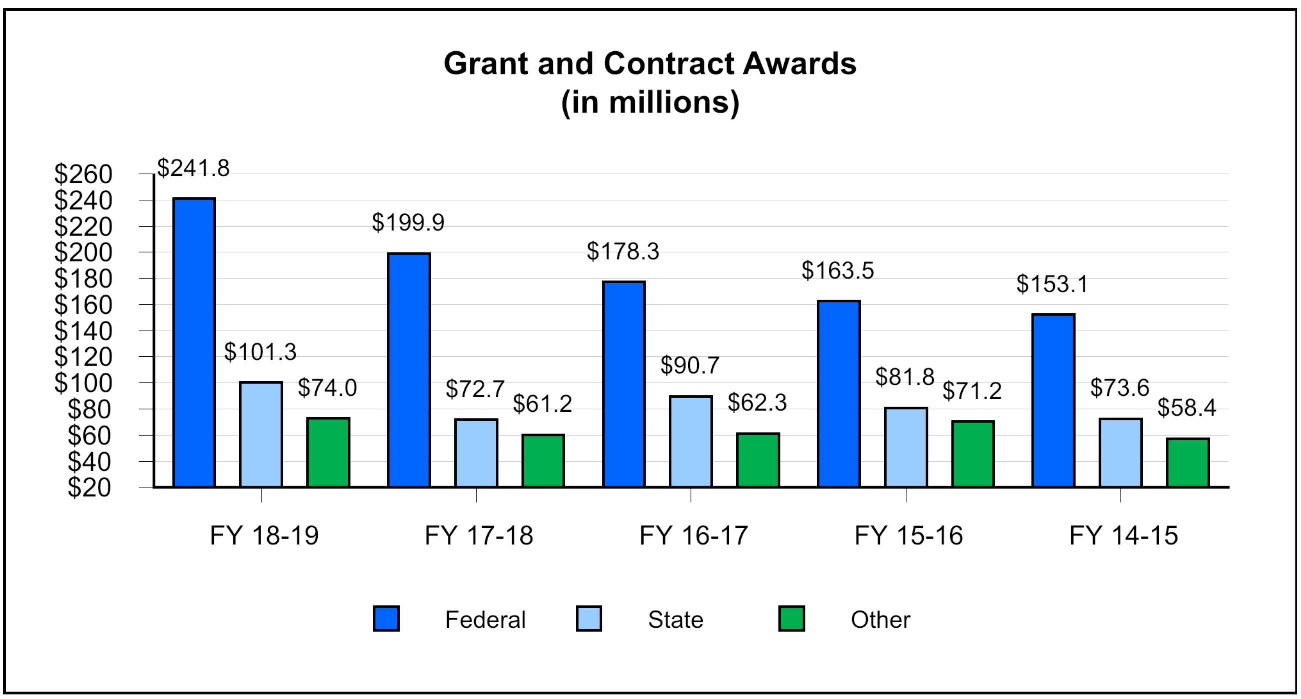
The University is accredited by the Commission on Colleges of the Southern Association of Colleges and Schools. This has been reaffirmed at approximately 10-year intervals since 1915, with the next accreditation review scheduled for 2022. In addition, several degree programs and individual units are accredited by agencies appropriate to specific professions or fields.

***Students.*** In Fall 2018, the University had 30,277 undergraduate, graduate and professional students. They represent all 120 Kentucky counties, every state in the U.S. and more than 100 countries. Enrollment has increased by more than 3,100 students (11.4%) since Fall 2009.




***Programs.*** The University offers more than 200 majors and degree programs in 16 academic and professional degree-granting colleges that are supported by a comprehensive research library system, the Graduate School and the Lewis Honors College. UK is one of only eight public universities nationally with Colleges of Agriculture, Engineering, Medicine and Pharmacy on a single contiguous campus.

***Research.*** Total research expenditures, as reported to the National Science Foundation, totaled $393.0 million for fiscal year 2017-18, compared to $387.2 million in fiscal year 2016-17. Research awards received during fiscal year 2018-19 total $417.1 million, a 25.0% increase from the prior year amount of $333.8 million.



***Outreach.*** As Kentucky's flagship, land-grant university, UK engages citizens and communities across the state in a myriad of ways, including extension offices in all 120 Kentucky counties; continuing education opportunities for teachers, lawyers and health care providers; clinics providing legal, pharmaceutical and health care assistance; and a multitude of research efforts aimed at Kentucky's most difficult problems in economic development, health care, infrastructure and education.

***Medical Centers.*** UK HealthCare, the University's advanced academic medical center and clinical care network, is uniquely equipped to provide advanced subspecialty care to the people of Kentucky. The academic medical center and health system provides patient care on par - in terms of both volume and complexity - with the nation's top 25% of academic medical centers. In July 2019, UK HealthCare was named number one in Kentucky in the latest U.S. News Best Hospitals ranking for the fourth consecutive year. To be recognized as a Best Hospital, UK HealthCare had to rank high nationally on a stringent data-driven ratings system that gauges performance. The analysis includes multiple clinical specialties, procedures and conditions. Scores are based on a variety of patient outcome and care-related factors such as mortality and patient safety, as well as reputation.

UK HealthCare Hospital System (the System) operates two hospital units under one Joint Commission Accreditation and two licenses in addition to ambulatory services. The major service units include Albert B. Chandler Hospital, Good Samaritan Hospital and the Kentucky Clinic. The System has a combined total of 945 licensed beds with an average daily census of 774 patients. On a monthly basis, the System provides more than 1,387 inpatient surgeries, 1,470 outpatient surgeries, 36,777 radiology procedures, 9,318 emergency department visits and 178,698 hospital based outpatient clinic visits.

Under a management contract entered into with the Kentucky Cabinet for Health and Family Services, the System also operates and manages Eastern State Hospital, a 300,000 square-foot facility located on the University's Coldstream Research Campus. Eastern State Hospital provides a modern setting for both acute and long-term inpatient psychiatric treatment for adults living within Fayette County and the 50 surrounding counties.

UK HealthCare's Markey Cancer Center remains the state's only cancer center designated by the National Cancer Institute (NCI), which reflects UK's position as a front runner in cancer treatment and research. UK HealthCare is one of an elite group of only 22 medical centers in the United States that have NCI designation, a federally funded Center on Aging and a highly prized Clinical and Translational Science Award.

UK HealthCare's dramatic growth within the last decade is in large part the result of a commitment to support the state's overall system of care by working hand-in-hand with local community providers to bring specialty care closer to the patient. These relationships take on different dimensions in each locality (management agreements, affiliate networks, outreach, etc.) and support keeping less acute care in the local community and smoothing the process for more complex, serious cases to be treated in UK HealthCare's Lexington facilities. The goal is better care at all points of the continuum.

***Libraries.*** UK operates a nationally recognized research library system, with the capstone being the world-class William T. Young Library. Its library network and technology provide extraordinary service to students in the Colleges of Medicine, Law, Engineering and Fine Arts as well as other programs. Meanwhile, students, faculty and Kentucky residents can use UK Libraries' advanced technology to access the most up-to-date information from online journals, government publications and private studies.

**Financial Highlights**

The University's overall financial position remains fiscally sound with assets of $6.90 billion, deferred outflows of resources of $38.3 million, liabilities of $2.22 billion and deferred inflows of resources of $541.7 million as of June 30, 2019. Net position, which represents the University's residual interest in assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted, was $4.18 billion (61% of total assets).

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

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

During the year ended June 30, 2018, the University adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions (OPEB)*, and GASB Statement No. 81, *Irrevocable Split Interest Agreements*. Accordingly, net position as of July 1, 2017 was restated by $245.3 million. Financial information in the MD&A was not restated for 2017.

**Using the Financial Statements**

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

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

**Reporting Entity**

The University is a component unit of the Commonwealth. The financial statements of the University include the operations of the University and the following entities:

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

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

The Center on Aging Foundation, Inc. (the Foundation) was dissolved on July 1, 2018 at 12:01 a.m. All assets held by the Foundation were transferred to the University according to the Articles of Dissolution of the Foundation on July 1, 2018.

**Statement of Net Position**

The Statement of Net Position is the University's balance sheet. It reflects the total assets, liabilities, net position (equity), and deferred outflows and inflows of resources of the University as of June 30, 2019, with comparative information as of June 30, 2018. Liabilities due within one year, and assets available to pay those liabilities, are classified as current. Other assets and liabilities are classified as noncurrent. Net position (the difference between total assets and total liabilities and deferred inflows and outflows of resources) is an important indicator of the University's current financial condition, while the change in net position is an indicator of whether the overall financial position has improved or eroded during the year. Generally, assets and liabilities and deferred inflows and outflows of resources are reported using current values. A major exception is capital assets, net, which are stated at historical cost less accumulated depreciation.

A summarized comparison of the University's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position as of June 30, 2019, 2018 and 2017 are as follows:

***Condensed Statements of Net Position (in thousands)***

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

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

***Deferred Outflows of Resources.*** The University's deferred outflows of resources totaled $38.3 million, a decrease of $4.0 million, primarily due to the change in OPEB contributions subsequent to the measurement date and the net difference between projected and actual earnings in the plan investments of $2.4 million. It also includes the unamortized difference between the reacquisition price and the net carrying amount of refunded debt that decreased $1.6 million.

***Liabilities.*** As of June 30, 2019, total liabilities amounted to $2.22 billion. Bonds, notes and capital leases issued for educational buildings, housing, the UK HealthCare Hospital System facilities, Athletics' football stadium, student center and equipment totaled $1.15 billion, or 52% of total liabilities. During the year, total liabilities decreased $14.5 million primarily due to a decrease in accounts payable and accrued liabilities of $79.2 million primarily due to Disproportionate Share Hospital (DSH) payables due to Medicare settlements for prior years and bonds, notes and leases of $43.7 million primarily due to principal payments offset by an increase in unearned revenue of $123.7 million mainly due to multimedia rights contract modifications.

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

***Net Position.*** The University's net position of $4.18 billion as of June 30, 2019 is reported on the Statement of Net Position in three net position categories: net investment in capital assets, $1.91 billion (46%); restricted nonexpendable, $641.3 million (15%) and restricted expendable, $521.0 million (13%); and unrestricted, $1.11 billion (26%).

Restricted net position is subject to externally imposed restrictions governing its use. Although unrestricted net position is not subject to externally imposed stipulations, most of the unrestricted net position has been internally designated for support of academic and research programs and initiatives, capital projects and working capital requirements.

Total net position increased $213.0 million during the year ended June 30, 2019. Net investment in capital assets increased $74.4 million due to excess of additions of capital assets and principal payments of capital debt offset by depreciation expense. Restricted net position increased $70.1 million primarily as a result of less spending on capital projects and gains on endowment investments due to a positive return on the endowment pool. Unrestricted net position increased $68.5 million, primarily due to the net increase in operating revenues in excess of operating expenses for the System.

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

- Total assets increased by a net $490.5 million primarily due to an increase in capital assets, net of $349.1 million, endowment investments of $66.1 million, notes, loans and accounts receivable, net of $65.4 million and other investments of $34.2 million offset by a decrease in cash and cash equivalents of $29.0 million.
- Deferred outflows of resources increased $31.5 million due primarily to OPEB contributions subsequent to the measurement date and the net difference between projected and actual earnings in the plan investments offset by a decrease in the unamortized difference between the reacquisition price and the net carrying amount of refunded debt.
- Total liabilities increased $425.3 million primarily attributable to the implementation of GASB Statement No. 75 of $236.6 million, increases in unearned revenue of $16.4 million primarily in the System and long-term liabilities of $184.4 million which was comprised of an increase in bonds, notes and capital leases. The offsetting decrease was in accounts payable and accrued liabilities of $12.0 million.

- Deferred inflows of resources increased $129.4 million primarily due to the completion of two new residence halls offset by a decrease in the service concession arrangements with Greystar and Aramark. Additional increases were caused by OPEB and trusts and annuities.
- Total net position decreased $32.7 million. Unrestricted net position decreased $135.9 million, primarily due to the implementation of GASB Statement No. 75 offset by an increase in the net increase in operating revenues in excess of operating expenses for the System. Restricted net position decreased $68.9 million primarily as a result of spending on capital projects including the construction of the new research building and the renovation of the College of Law building offset by gains on endowment investments due to a positive return on the endowment pool. Net investment in capital assets increased $172.0 million due to excess of additions of capital assets and principal payments of capital debt offset by depreciation expense.

**Statement of Revenues, Expenses and Changes in Net Position**

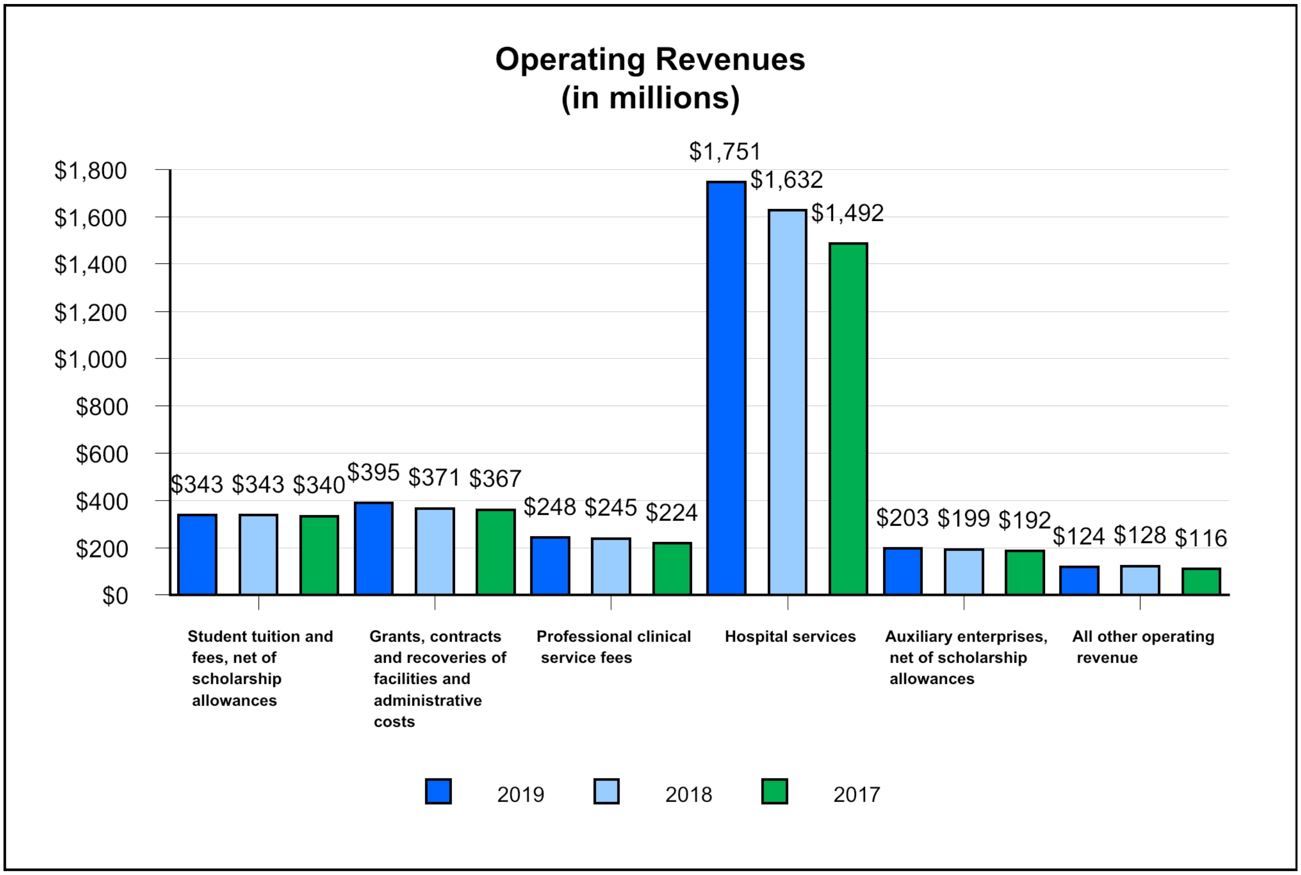
The Statement of Revenues, Expenses and Changes in Net Position is the University's income statement. It details how net position has changed during the year ended June 30, 2019, with comparative information for the year ended June 30, 2018. This statement is prepared on the accrual basis of accounting whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged. Items that increase or decrease net position appear on the Statement of Revenues, Expenses and Changes in Net Position as revenues, expenses, gains or losses.

Financial activities are reported as either operating or nonoperating. GASB Statement No. 35 requires state appropriations, gifts and investment income to be classified as nonoperating revenues. Accordingly, the University reports a net loss from operations prior to the addition of nonoperating revenues (expenses). The utilization of long-lived capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life. Tuition revenue is reduced by external scholarships and institutional aid and is reported net of the scholarship allowance.

A summarized comparison of the University's revenues, expenses and changes in net position for the years ended June 30, 2019, 2018 and 2017 are as follows:

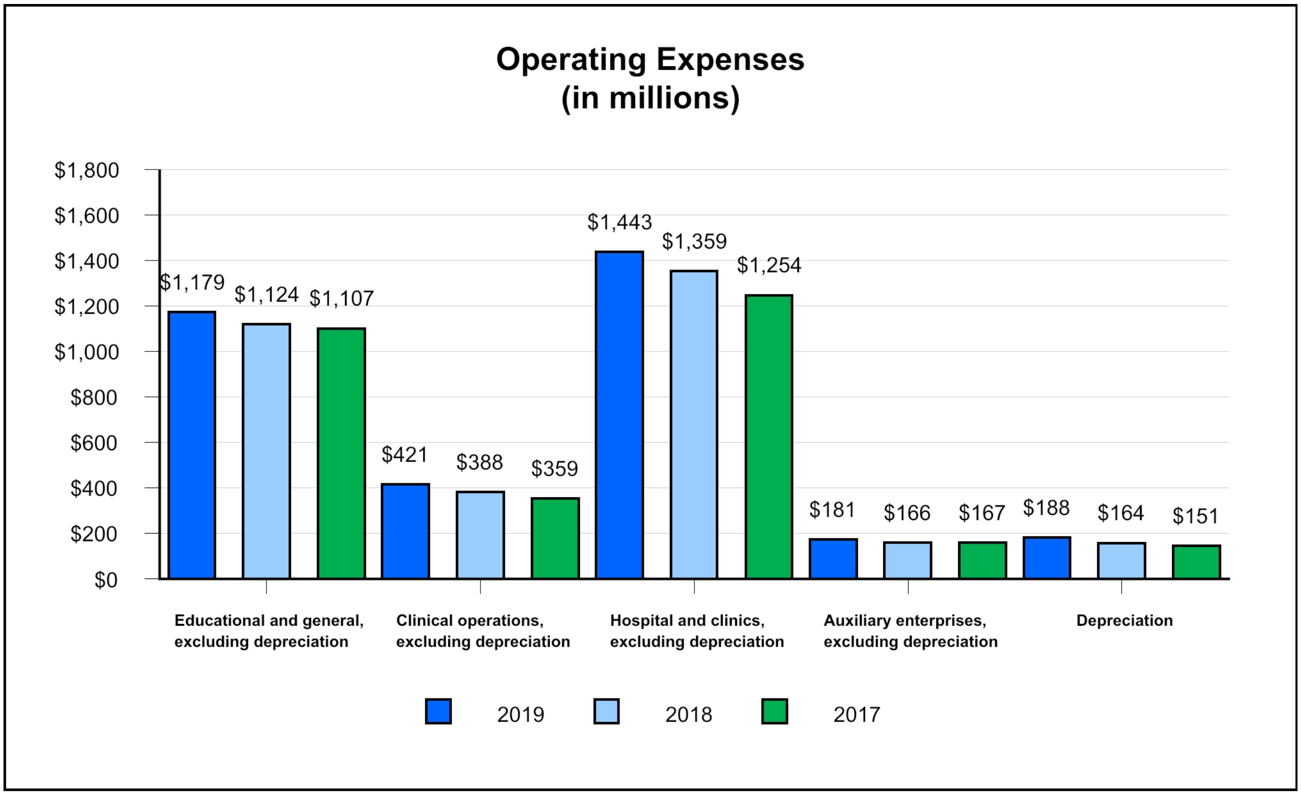
***Condensed Statements of Revenues, Expenses and Changes in Net Position (in thousands)***

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




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

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




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

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

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

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

$244.8 million (eight percent); and hospital services of $1.63 billion (56%). Operating revenues for fiscal year 2018 increased $186.9 million (seven percent) over fiscal year 2017, primarily due to increases in hospital services revenue of $139.3 million attributable to an increase in rates, partially driven by patient acuity, and improved payer mix; net student tuition and fees of $3.3 million due to tuition and fees rate increases; grants and contracts and recoveries of facilities and administrative costs of $4.4 million due to increases in federal and nongovernmental grants and contracts; and professional clinical service fees of $21.2 million.

Operating expenses totaled $3.20 billion in fiscal year 2018. Of this amount, $1.12 billion (35%), excluding depreciation, was expended for educational and general programs, including instruction, research and public service. Clinical operations expenses, excluding depreciation, totaled $387.9 million (12%) of the total operating expenses; hospital and clinics expenses, excluding depreciation, were $1.36 billion (43%); and auxiliary enterprises expenses, excluding depreciation, were $165.5 million (five percent). Depreciation expense amounted to $164.4 million (five percent). Operating expenses for fiscal year 2018 increased $161.4 million (five percent) compared to fiscal year 2017 primarily due to an increase in hospital and clinics expenses, excluding depreciation, of $104.8 million (eight percent); clinical operations expenses, excluding depreciation, of $28.9 million (eight percent); educational and general expenses, excluding depreciation, of $16.3 million (one percent); and depreciation expense of $12.9 million (nine percent). Auxiliary enterprises expenses, excluding depreciation, decreased $1.9 million (one percent).

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

**Statement of Cash Flows**

The Statement of Cash Flows details how cash has increased or decreased during the fiscal year ended June 30, 2019, with comparative financial information for the fiscal year ended June 30, 2018. The sources and uses of cash are arranged in the following categories:

- Operating activities
- Noncapital financing activities
- Capital and related financing activities
- Investing activities

Cash flows associated with the University's expendable net position appear in the operating and noncapital financing categories. Capital financing activities include payments for capital assets, proceeds from capital debt, and capital debt repayments. Purchases of investments and proceeds from sales and maturities of investments are reflected in investing activities.

The primary purpose of the Statement of Cash Flows is to provide information about the cash receipts and cash payments made by the University during the year that will allow financial statement readers to assess the University's ability to generate future net cash flows and to meet obligations as they become due, and to assess the possible need for external financing.

A comparative summary of the University's statement of cash flows for the years ended June 30, 2019, 2018 and 2017 are as follows:

***Condensed Statements of Cash Flows (in thousands)***

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

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

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

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

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

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

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

## Capital Assets and Debt Administration

### Capital Assets.

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

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

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

### Debt.

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

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

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

**Economic and Other Factors That Will Affect the Future**

Senior leadership continues to believe the University of Kentucky is well-positioned to maintain its fiscally sound condition and to continue providing excellent service to students, patients, the community, and the citizens of the Commonwealth. This position, along with ongoing efforts toward revenue diversification and cost containment, will enable the University to obtain the necessary resources to meet its strategic objectives. The following are known facts and circumstances that will affect future financial results:

- For nearly 40 years, the Western Interstate Commission for Higher Education has produced projections of high school graduates. Per the latest report, graduating classes across the nation are projected to become smaller and more diverse. In addition, per Kentucky's Council on Postsecondary Education's 2019 Progress Report, Kentucky's in-state college-going rate continued to fall from 54.0% in 2015 to 53.5% in 2016 to 53.0% in 2017. These changes will impact future recruitment efforts for both resident and non-resident undergraduate students.
- Based on the 2008-10 and 2018-20 Budgets of the Commonwealth of Kentucky, State support for postsecondary education declined 13% over the last 10 years. In fiscal year 2009-10, UK's state appropriations were originally budgeted to exceed $316 million and $261 million is expected for fiscal year 2019-20, representing a reduction of $55 million or 17% in ten years. However, the fiscal year 2019-20 budget includes the first increase in state funds in over a decade attributable to a performance funding model adopted in 2017.
- With the passage of Senate Bill 153 during the 2017 Session of the Kentucky General Assembly, Kentucky joined a growing majority of states which have adopted a performance based funding program formally linking state appropriations with desired student success goals. Fiscal year 2019-20 is the third year the State is using the funding model to allocate a portion of state appropriations to the public universities and the Kentucky Community and Technical College System. The model is based on 11 metrics primarily focused on student success. UK is excelling with its student success efforts as reflected in the performance funding results. For fiscal year 2019-20, the UK's rate of improvement was above the system average for 10 out of the 11 metrics, the highest number of all the public universities.
- In April 2018, the Kentucky General Assembly passed the 2018-20 biennial budget for the Commonwealth of Kentucky. With regard to postsecondary education, the budget included:
  - An approximate 6.25% reduction ($54.3 million) in state appropriations for all public postsecondary education institutions effective July 1, 2018
  - Reduction and/or elimination of funding for several mandated programs, the majority of which belong to the University of Kentucky
  - $31.0 million of the $54.3 million reduction was reallocated in fiscal year 2018-19 to the public universities and colleges using the state's new Performance Funding Model and in fiscal year 2019-20, one percent of the remaining appropriations ($7.7 million) was reallocated using the funding model.

  Looking forward, the future of state funding for postsecondary education does not look promising as the pension system, Medicaid, and the criminal justice system continue to require more state revenues.
- Despite challenging national and state enrollment trends, senior leadership remains confident in the 2015 - 2020 UK Strategic Plan goals to move graduation and retention rates to 70% and 90%, respectively, and implemented the UK Leveraging Economic Affordability for Developing Success (UK LEADS) program in 2016 in support of these goals. Over the next several years under the UK LEADS initiative, the University will award more of its institutional aid based on financial need, supported by predictive modeling, which indicates reducing unmet need will positively impact retention rates and student success. After three years, preliminary data suggests UK's overall retention rate for fall 2019 will exceed 85 percent and the six-year graduation rate will exceed 65%. Both are record highs and important steps toward achieving the strategic plan goals.
- During fiscal year 2017-18, senior leadership initiated a campus-wide, collaborative effort, known as "Our Path Forward", to develop a multi-year financial plan addressing disruptions in higher education, including increased focus on students' net price, changing demographics, and the challenging state fiscal environment. As part of Phase I, several ideas were selected involving enrollment growth, procure to pay initiatives, and a carbon reduction program. In fiscal year 2018-19, seed funding was provided to create 26 new online programs, increasing UK's online program offerings to 61. Additional tuition

revenue is projected to come from new and expanded programs, many of which target online students, and a significant amount of UK's future enrollment growth is expected through online program offerings.

- UK is one of 22 universities in the country with the trifecta of top federal grants: an NCI-designated cancer center, the Clinical and Translational Science Award, and an Alzheimer's Disease Center. UK faculty and staff researchers were awarded $417.1 million in external grants and contracts in fiscal year 2018-19, representing an increase of 25.0% over fiscal year 2017-18. UK's Center on Drug and Alcohol Research, with faculty and academic units across several colleges, earned the University's largest, single grant in its history, $87 million, to reduce opioid overdose deaths by 40% in 16 Kentucky counties.
- For the fourth year in a row, UK HealthCare was named the #1 hospital in Kentucky by U.S. News & World Report, with the Markey Cancer Center ranked among the best cancer centers in the nation. Annual inpatient discharges from UK's hospitals are expected to exceed 45,600 by fiscal year 2019-20, an increase of 41% over ten years. The number of outpatient visits to UK's clinics are expected to exceed two million in fiscal year 2019-20, an increase of 123.8% over ten years.
- The University's momentous physical transformation continues, positively impacting its ability to attract and retain students, faculty and staff. From July 2011 to April 2019, 147 capital projects totaling $2.4 billion have been initiated, encompassing quality of life and community; academics and research; health care; infrastructure; and athletic projects. The funding model for the transformation has been strategically diverse (debt, private partners, university funds, state funds, and gifts) to maintain the University's fiscally sound condition. Future projects are expected to focus primarily on health care and modernizing existing academic facilities.  During the 2018 regular session of the Kentucky General Assembly, the University received authorization to issue agency bonds in the amount of $300 million to finance multiple capital projects across campus, providing flexibility to utilize agency bonds as a potential funding source on future capital projects.
- In September 2018, the University announced its historic $2.1 billion fundraising campaign, "Kentucky Can: The 21st Century Campaign", to expand access to education at the University of Kentucky and accelerate UK's efforts to solve the health and economic issues challenging the Commonwealth. The $2.1 billion "Kentucky Can" campaign will focus on three major areas of support:
    - Funding UK LEADS and other scholarships to ensure more students have access to a UK education and can graduate on time with reduced debt
    - Enhancing academic and research initiatives focused on the state's most pressing challenges including opioid addiction, cancers, heart disease and diabetes
    - Growing UK's endowment to more than $2 billion to fund recruitment and retention of leading scholars and support of initiatives providing a foundation for the work of the University community.
- The University will continue its long-term endowment investment strategy to maximize total returns, at an appropriate level of risk, while utilizing a spending rate policy to maintain the purchasing power of endowment assets and insulate programs funded by the endowment from temporary market volatility.

Economic challenges will continue to have an impact on the future. However, senior leadership believes the University will be able to sustain its sound financial position and continue its progress toward enhancing student success and increasing its reputation as a nationally recognized public research institution.

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

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

See notes to financial statements

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

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

See notes to financial statements

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

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

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

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

See notes to financial statements

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

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

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

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

See notes to financial statements

## 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Reporting Entity

The University of Kentucky (the University) is a component unit of the Commonwealth of Kentucky (the Commonwealth) and is included in the basic financial statements of the Commonwealth. The financial statements of the University include the operations of the University and its affiliated non-profit corporations (entities for which the University is financially accountable as defined by Statement No. 14 and amended by Statements No. 39 and No. 61 of the Governmental Accounting Standards Board (GASB), and which meet the definition of an affiliated corporation under Kentucky Revised Statutes (KRS) section 164A.550) as follows: the University of Kentucky Research Foundation (UKRF) and its for-profit subsidiary, Kentucky Technology, Inc. (KTI); University of Kentucky Gluck Equine Research Foundation, Inc.; University of Kentucky Humanities Foundation, Inc.; University of Kentucky Mining Engineering Foundation, Inc.; and Central Kentucky Management Services, Inc. The affiliates are presented as blended component units since University management has operational responsibility for each affiliated corporation. The financial statements also include the operations of Kentucky Medical Services Foundation, Inc. (KMSF) and University of Kentucky Alumni Association, non-profit entities for which the University is financially accountable as defined by GASB, but which are not affiliated corporations under KRS. KMSF is included within the University reporting entity as a blended component unit as KMSF provides its services entirely to the University. The financial statements also include the operations of the following organizational units of the University: the Kentucky Tobacco Research and Development Center (KTRDC), WUKY Radio and the UK HealthCare Hospital System (the System) which includes Kentucky Healthcare Enterprise, Inc., a wholly owned for-profit subsidiary and Surgery Blue, LLC, a wholly owned for-profit subsidiary and its for-profit subsidiary, Surgery Center of Lexington, LLC (51% ownership). The separate financial statements for the above entities can be found at: www.uky.edu/ufs/financial-statements-and-investor-information.

The Center on Aging Foundation (the Foundation) was dissolved on July 1, 2018 12:01 a.m. All assets held by the Foundation were transferred to the University according to the Articles of Dissolution of the Foundation on July 1, 2018.

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

### Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the GASB. The GASB establishes standards for external financial reporting for public colleges and universities and requires that resources be classified for accounting and financial reporting purposes into the following net position categories:

- Net investment in capital assets: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

- Restricted:
  *Nonexpendable* - Net position subject to externally imposed stipulations that they be maintained permanently by the University. Such assets include the principal of the University’s permanent endowment funds.

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

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

The financial statement presentation is intended to provide a comprehensive, entity-wide perspective of the University's assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, expenses, changes in net position and cash flows. The fiduciary funds financial statement presentation is intended to report the assets held in trust for the beneficiaries of the other postemployment benefit plans and focuses on the net position and the changes in net position.

**Summary of Significant Accounting Policies**

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

Cash and Investments. The University considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. The University also considers the investments held in the investment pool with the Commonwealth to be cash equivalents.

Noncurrent cash and cash equivalents include plant funds allocated for capital projects, debt service reserves, grant funds with restricted purposes and endowment fund cash pending transfer to the custodian for investment. Cash and cash equivalents held by bond trustees and the University's endowment fund managers are included in investments.

Investments in marketable debt and equity securities are carried at fair value, as determined by the major securities markets. Alternative investments are stated at net asset value. Life insurance policies are stated at cost. See note 2 for more information on the fair value determination. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income (loss) in the Statements of Revenues, Expenses and Changes in Net Position.

Notes, Loans and Accounts Receivable. This classification consists of tuition and fee charges to students; charges for auxiliary enterprise services provided to students, faculty and staff; and loans to students. Also included are patient accounts receivable; amounts due from the Commonwealth for capital projects; amounts due from sponsors for reimbursement of expenses made pursuant to contracts and grants; amounts due under multimedia rights contract and service concession arrangements; and pledges that are verifiable, measurable and expected to be collected. Accounts receivable are recorded net of estimated uncollectible amounts based upon a review of outstanding receivables, historical collection information, and existing economic conditions.

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

Pooled Endowment Funds. All endowments are managed in a consolidated investment pool, which consists of more than 2,300 named funds. All contributing endowments participate in the income and appreciation of the pool on a per unit basis commensurate with their contribution to the pool. New endowments purchase units in the pool at the current unit value, which is calculated each month based on the fair value of the pool investments divided by the number of pool units outstanding. The market value method of accounting for pooled endowment funds is employed to ensure proper distribution of market price changes, realized gains (losses) on sales, accrued income earned, and distribution of investment earnings for expenditure by participating funds.

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

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

The University also utilizes an endowment management fee to support internal management and fundraising costs related to the endowment. Effective July 1, 2018, the management fee can be temporarily increased by up to 0.50%, for a maximum annual assessment of 1.00%, to support additional expenses related to the capital campaign. For the years ended June 30, 2019 and 2018, the University’s annual endowment management fee was 0.82% and 0.50%, respectively.

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

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

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

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

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

Equipment with a unit cost of $5,000 or more ($2,000 or more for KMSF, $2,500 or more for KTI) and having an estimated useful life of greater than one year is capitalized. Institutional software costing more than $400,000 is capitalized. Renovations to buildings, infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred.

Depreciation of capital assets is computed on a straight-line basis over the estimated useful lives of the respective assets, generally 75 years for new student housing buildings, 40 years for other buildings, 10 - 25 years for land improvements, building improvements and infrastructure, 10 years for library books and capitalized software, and 3 - 20 years for equipment and vehicles.

The University capitalizes, but does not depreciate, works of art, historical treasures and certain library materials that are held for exhibition, education, research and public service.

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

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

Unearned Revenue. Unearned revenue consists primarily of amounts received from grant and contract sponsors that have not yet been earned under the terms of the agreement. Unearned revenue also includes amounts received from multimedia rights pursuant to contract agreement and amounts received in advance of an event, such as athletic ticket sales relating to future fiscal years and unearned summer school revenue. Unearned revenue is recognized in the period to which the grant, event or semester relates.

Compensated Absences. The amount of vacation leave earned but not taken by employees at June 30, 2019 and 2018 is recorded as a liability by the University. Temporary disability leave payable upon termination under the University's payout policy is also recorded as a liability. Compensated absence liabilities are computed using the pay rates in effect at the Statement of Net Position date plus an additional amount for compensation-related payments, such as Social Security and Medicare taxes computed using rates in effect at that date.

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

Scholarship Allowances. Student tuition and fees are presented net of scholarship allowances applied to student accounts. Stipends and other payments made directly to students are presented as student financial aid expenses. Scholarship allowances are the difference between the stated charge for goods and services provided by the University and the amount that is paid by students or third parties on behalf of the students. Certain governmental grants, such as Pell grants and other federal and state programs similar to Pell, are recorded as nonoperating revenues; other governmental and nongovernmental grants are recorded as operating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship allowance.

Hospital and Clinical Services Revenues. Hospital and clinical services revenues are reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered, including contractual allowances and estimated retroactive adjustments under reimbursement programs with third-party payers, less a provision for doubtful accounts. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient skilled nursing services are paid at prospectively determined per diem rates that are based on the patients' acuity. Certain inpatient nonacute services and defined medical education costs are paid based on a cost reimbursement methodology. The System is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the System and audits thereof by the Medicare fiscal intermediary.

Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology for certain services and at prospectively determined rates for all other services. The System is reimbursed for cost reimbursable services at tentative rates with final settlement determined after submission of annual cost reports by the System and audits thereof by the Medicaid fiscal intermediary.

Revenue from the Medicare and Medicaid programs accounted for approximately 24% and 26%, respectively, of the System's net patient services revenues before the provision for doubtful accounts for the year ended June 30, 2019 and approximately 26% and 29%, respectively, for the year ended June 30, 2018. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. With expanded Medicaid, more Kentuckians are becoming insured, resulting in a decrease in the System's self-pay population. This has led to the System's inability to qualify for Disproportionate Share Hospital (DSH) payments from Medicaid. Prior year audits were completed and the System was able to recognize $61.4 million of DSH revenue and other settlements during the current fiscal year, of which $51.5 million was previously reserved in estimated third-party payer settlements in the fiscal year 2018 Statement of Net Position.

The System also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the System under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

The System provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Since the System does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of charges forgone for the services and supplies furnished under the System's charity care policy aggregated to approximately $73.7 million and $58.8 million for the years ended June 30, 2019 and 2018, respectively. The costs of charity care provided under the System's charity care policy were $19.5 million and $16.1 million for the years ended June 30, 2019 and 2018. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.

Management Contract Revenue. The System entered into a contract with the Kentucky Cabinet for Health and Family Services (CHFS) to manage Eastern State Hospital (ESH) and Central Kentucky Recovery Center (CKRC). Under the contract the System is reimbursed 100% of the related operating expenses up to a limit of $37.3 million and $39.7 million for ESH and $2.1 million and $1.9 million for CKRC for the years ended June 30, 2019 and 2018, respectively. The System also receives an eight percent management fee. The initial contract term was August 13, 2013 to June 30, 2014 with the option to renew the contract for additional one-year terms. Subsequent to year end, the contract was renewed for the period of July 1, 2019 to June 30, 2020 with substantially the same terms.

Income Taxes. The University is an agency and instrumentality of the Commonwealth, pursuant to Kentucky Revised Statutes sections 164.100 through 164.280. Accordingly, the University is excluded from federal income taxes as an organization described in section 115 of the Internal Revenue Code of 1986, as amended. Each of the University's affiliated non-profit organizations has received a determination from the Internal Revenue Service granting exemption from federal income taxation pursuant to the provisions of Internal Revenue Code section 501(c)(3). KMSF and the Alumni Association are not-for-profit corporations as described in section 501(c)(3) of the Internal Revenue Code.

Restricted Asset Spending Policy. The University's policy is that restrictions on assets cannot be fulfilled by the expenditure of unrestricted funds for similar purposes. The determination on whether restricted or unrestricted funds are expended for a particular purpose is made on a case-by-case basis. Restricted funds remain restricted until spent for the intended purpose.

Operating Activities. The University defines operating activities, as reported in the Statement of Revenues, Expenses and Changes in Net Position, as those that generally result from exchange transactions, such as payments received for providing goods and services and payments made for goods and services received. Nearly all of the University's expenses are from exchange transactions. Certain significant revenues relied upon for operations, such as state appropriations, gifts and investment income, are recorded as nonoperating revenues in accordance with GASB Statement No. 35.

The University has classified operating expenses based upon their functional classifications. Operating expenses by natural classification are presented in note 23. During fiscal year 2019 and 2018, departmental research in nonsponsored accounts of approximately $89.8 million and $79.2 million, respectively, was recorded as research expense in the Statements of Revenues, Expenses and Changes in Net Position.

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

University of Kentucky Other Postemployment Benefit (OPEB) Plan. The University has a single-employer defined OPEB benefit, Health Insurance Benefits for Retirees Plan and Long Term Liability Plan. For purposes of measuring the net OPEB liability, deferred outflows of resources related to OPEB, deferred inflows of resources related to OPEB, and OPEB expenses, information about the fiduciary net position have been determined on the same basis as they are reported by the OPEB Plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Adoption of GASB Statement No. 88. In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The provisions of the statement are effective for fiscal years beginning after June 15, 2018 (fiscal year 2019). This statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This statement requires additional disclosures, including unused lines of credit; assets pledged as collateral for the debt; terms specified in debt agreements; significant termination events; and significant subjective acceleration clauses. The University adopted GASB Statement No. 88 during fiscal year 2019. See note 8 for information related to long-term debt from direct borrowings.

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

- GASB Statement No. 84, *Fiduciary Activities*, issued January 2017. The provisions of this statement are effective for fiscal years beginning after December 15, 2018 (fiscal year 2020). This statement provides guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and will require the University to include fiduciary fund financial statements for material fiduciary activities before the notes to the financial statements. The University has yet to determine the impact Statement No. 84 will have on its financial statements.
- GASB Statement No. 87, *Leases*, issued June 2017. The provisions of the statement are effective for fiscal years beginning after December 15, 2019 (fiscal year 2021). This statement requires certain lease assets and liabilities for leases that were previously classified as operating leases to be recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The statement establishes a single model for lease accounting based on the foundational principle that leases

are financings of the right to use an underlying asset. The University has yet to determine the impact GASB Statement No. 87 will have on its financial statements.

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

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

## 2. DEPOSITS AND INVESTMENTS

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

- Overnight investments include money market funds and deposits with local banks and the Commonwealth.
- Bond revenue fund and bond project fund investments held by the Treasurer of the Commonwealth as required by the University's bond trust indentures and invested in high quality global fixed income funds managed by the Commonwealth.
- Short-term and intermediate-term investments:
    - managed by the University, including individual securities purchased and held by the University and
    - managed by external managers in low duration strategies.
- Debt service reserve fund investments required by the University's bond trust indentures and held by the bond trustees.
- Endowment investments:
    - administered by the University and managed using external investment managers and
    - held in external trusts administered by external trustees.

Deposit and Investment Policies. The Board is responsible for establishing deposit and investment policies. The policies are developed to ensure compliance with state laws and regulations and to maintain sound financial management practices. The day-to-day management of the deposits and investments has been delegated to the Treasurer of the University.

The Treasurer of the University manages overnight, short-term and intermediate-term investments based on the Operating Fund Investment Policy. The University's policy for the investment of bond revenue and debt service reserve funds is governed by each respective bond's trust indenture. The Investment Committee of the Board establishes and maintains the University's Endowment Investment Policy.

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

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

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

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities.

The University categorizes its fair value measurements within the fair value hierarchy. Certain investments are measured at fair value using net asset value (NAV) per share (or its equivalent) practical expedient, amortized costs, or historical costs and therefore have not been classified in the fair value hierarchy. These investments have been included in the following table to permit reconciliation of the fair value hierarchy to the amounts presented in the Statements of Net Position.

The University has the following valuation measurements, by type, at June 30, 2019 (in thousands):

| | | Fair Value Measurement Using | | | | | |
|---|---|---|---|---|---|---|---|
| | Total value | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total measured at fair value | Net asset value (NAV) | Amortized or historical cost |
| Non-endowed deposits and investments | | | | | | | |
| Cash and cash equivalents | $ 288,422 | $ 209,356 | $ — | $ — | $ 209,356 | $ — | $ 79,066 |
| Cash surrender value of life insurance policies | 6,473 | — | — | — | — | — | 6,473 |
| Certificates of deposit | 22,463 | — | 22,463 | — | 22,463 | — | — |
| Deposits with the Commonwealth of Kentucky[1] | 9,503 | — | — | — | — | — | 9,503 |
| Global equity - international | 8,787 | 8,787 | — | — | 8,787 | — | — |
| Global equity - private | 302 | — | — | — | — | — | 302 |
| Global equity - U.S. | 22,165 | 22,161 | — | — | 22,161 | — | 4 |
| Global fixed income - high quality/rate sensitive[2] | 804,470 | 1,717 | 504,169 | — | 505,886 | — | 298,584 |
| Global fixed income - public credit | 10,017 | 3,286 | 6,731 | — | 10,017 | — | — |
| Guaranteed investment contracts | 8,983 | — | — | — | — | — | 8,983 |
| Other | 3 | — | — | — | — | — | 3 |
| Real assets - public | 2,286 | 2,286 | — | — | 2,286 | — | — |
| Total non-endowed deposits and investments | 1,183,874 | 247,593 | 533,363 | — | 780,956 | — | 402,918 |
| Endowed deposits and investments | | | | | | | |
| Cash and cash equivalents | 2,794 | — | — | — | — | — | 2,794 |
| Diversifying strategies[3] | 203,095 | 10,769 | — | — | 10,769 | 192,326 | — |
| External trusts | 12,473 | — | — | 12,473 | 12,473 | — | — |
| Global equity - hedged | 81,871 | — | — | — | — | 81,871 | — |
| Global equity - international | 243,772 | 98,057 | 687 | 15 | 98,759 | 145,013 | — |
| Global equity - private[4] | 219,120 | — | — | 1 | 1 | 219,119 | — |
| Global equity - U.S. | 172,997 | 8,241 | 964 | — | 9,205 | 163,792 | — |
| Global fixed income - high quality/rate sensitive | 93,718 | 33,830 | 59,888 | — | 93,718 | — | — |
| Global fixed income - private credit[4] | 41,557 | — | — | — | — | 41,557 | — |
| Global fixed income - public credit | 81,613 | 42,921 | 545 | — | 43,466 | 38,147 | — |
| Other | 125 | 124 | 1 | — | 125 | — | — |
| Real assets - private[4] | 136,071 | — | — | — | — | 136,071 | — |
| Real assets - public | 96,301 | 63,329 | 123 | — | 63,452 | 32,849 | — |
| Total endowed deposits and investments | 1,385,507 | 257,271 | 62,208 | 12,489 | 331,968 | 1,050,745 | 2,794 |
| Total deposits and investments | $ 2,569,381 | $ 504,864 | $ 595,571 | $ 12,489 | $ 1,112,924 | $ 1,050,745 | $ 405,712 |

1) Non-endowed deposits with the Commonwealth include deposits held by the state for capital construction, tobacco research and state appropriations. The University does not earn investment income on these funds; all investment income accrues to the Commonwealth.
2) Non-endowed global fixed income - high quality/rate sensitive includes deposits and investments in the Commonwealth's limited pool and intermediate pool funds. As of June 30, 2019, $298.6 million was held in the Commonwealth's limited-term investment pool and $229.1 million was held in the intermediate-term pool. The limited-term pool fund's fair value is measured at amortized

cost and the intermediate-term pool fund's fair value is measured using level 2 observable inputs. Both investment pools provide same day liquidity with no limitations, fees or restrictions on withdrawals.

3) Endowed diversifying strategies include investments in various diversified, unconstrained strategies including hedge funds and global tactical asset allocation strategies.

4) Endowed global equity - private, global fixed income - private credit and real assets - private include alternative investments whose fair market value is measured using its net asset value as of March 31, 2019 of $219.1 million, $10.6 million, and $136.1 million, respectively.

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

| | | Fair Value Measurement Using | | | | | |
|---|---|---|---|---|---|---|---|
| | Total value | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total measured at fair value | Net asset value (NAV) | Amortized or historical cost |
| Non-endowed deposits and investments | | | | | | | |
| Cash and cash equivalents | $ 384,855 | $ 265,079 | $ — | $ — | $ 265,079 | $ — | $ 119,776 |
| Cash surrender value of life insurance policies | 5,921 | — | — | — | — | — | 5,921 |
| Certificates of deposit | 25,311 | — | 25,311 | — | 25,311 | — | — |
| Deposits with the Commonwealth of Kentucky[1] | 14,523 | — | — | — | — | — | 14,523 |
| Global equity - international | 9,200 | 9,200 | — | — | 9,200 | — | — |
| Global equity - private[2] | 343 | — | — | — | — | — | 343 |
| Global equity - U.S. | 20,644 | 20,640 | — | — | 20,640 | — | 4 |
| Global fixed income - high quality/rate sensitive[3] | 755,664 | 22 | 378,547 | — | 378,569 | — | 377,095 |
| Global fixed income - public credit | 11,285 | 4,280 | 7,005 | — | 11,285 | — | — |
| Guaranteed investment contracts | 7,819 | — | — | — | — | — | 7,819 |
| Other | 3 | — | — | — | — | — | 3 |
| Real assets - public | 1,517 | 1,517 | — | — | 1,517 | — | — |
| Total non-endowed deposits and investments | 1,237,085 | 300,738 | 410,863 | — | 711,601 | — | 525,484 |
| Endowed deposits and investments | | | | | | | |
| Cash and cash equivalents | 3,860 | — | — | — | — | — | 3,860 |
| Diversifying strategies[4] | 249,797 | 19,141 | — | — | 19,141 | 230,656 | — |
| External trusts | 12,306 | — | — | 12,306 | 12,306 | — | — |
| Global equity - hedged | 78,692 | — | — | — | — | 78,692 | — |
| Global equity - international | 193,989 | 159,403 | 1,351 | 13 | 160,767 | 33,222 | — |
| Global equity - private[5] | 197,091 | — | — | 1 | 1 | 197,090 | — |
| Global equity - U.S. | 125,729 | 8,575 | 877 | — | 9,452 | 116,277 | — |
| Global fixed income - high quality/rate sensitive | 99,137 | 50,609 | 48,528 | — | 99,137 | — | — |
| Global fixed income - private credit[5] | 38,486 | — | — | — | — | 38,486 | — |
| Global fixed income - public credit | 82,902 | 41,797 | 2,454 | — | 44,251 | 38,651 | — |
| Other | 119 | 118 | 1 | — | 119 | — | — |
| Real assets - private[5] | 108,081 | — | — | — | — | 108,081 | — |
| Real assets - public | 144,341 | 96,745 | 160 | — | 96,905 | 47,436 | — |
| Total endowed deposits and investments | 1,334,530 | 376,388 | 53,371 | 12,320 | 442,079 | 888,591 | 3,860 |
| Total deposits and investments | $ 2,571,615 | $ 677,126 | $ 464,234 | $ 12,320 | $ 1,153,680 | $ 888,591 | $ 529,344 |

1) Non-endowed deposits with the Commonwealth include deposits held by the state for capital construction, tobacco research and state appropriations. The University does not earn investment income on these funds; all investment income accrues to the Commonwealth.

2) Non-endowed global equity - private includes a limited partnership whose fair market value is measured using its cost basis of $160,000 as of December 31, 2017.

3) Non-endowed global fixed income - high quality/rate sensitive includes deposits and investments in the Commonwealth's limited pool and intermediate pool funds. As of June 30, 2018, $377.1 million was held in the Commonwealth's limited-term investment pool and $139.8 million was held in the intermediate-term pool. The limited-term pool fund's fair value is measured at amortized cost and the intermediate-term pool fund's fair value is measured using level 2 observable inputs. Both investment pools provide same day liquidity with no limitations, fees or restrictions on withdrawals.

4) Endowed diversifying strategies include investments in various diversified, unconstrained strategies including hedge funds and global tactical asset allocation strategies.

5) Endowed global equity - private, global fixed income - private credit and real assets - private include alternative investments whose

fair market value is measured using its net asset value as of March 31, 2018 of $197.1 million, $4.3 million, and $108.1 million, respectively.

Where quoted market prices are available in an active market, securities are classified within level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in level 2 of the valuation hierarchy. In certain cases, where level 1 or level 2 inputs are not available, securities are classified within level 3 of the hierarchy.

Level 3 valuation for global equity investments are valued using either discounted cash flow or market comparable companies technique. External trusts are based on level 3 valuations provided by the external trustee.

Investments valued using NAV per share (or its equivalent) as of June 30, 2019 and 2018 are as follows (in thousands):

| | 2019 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Redemption Frequency/Notice Period | | | | | | |
| | Net asset value (NAV) | Daily, weekly/ 1 - 7 days | Semi-monthly, monthly/ 15 - 75 days | Quarterly/ 60 - 90 days | Semi-annually/ 60 - 180 days | Annually/ 90 - 180 days | End of term/ 5 to 10 years | Unfunded commitments |
| Diversifying strategies | $ 192,326 | $ — | $ 27,448 | $ 117,398 | $ 13,427 | $ 34,053 | $ — | $ — |
| Global equity - hedged | 81,871 | — | — | 34,055 | — | 47,816 | — | — |
| Global equity - international | 145,013 | 70,288 | 45,829 | 21,103 | — | 7,793 | — | — |
| Global equity - private | 219,119 | — | — | — | — | — | 219,119 | 238,754 |
| Global equity - U.S. | 163,792 | 141,274 | 22,518 | — | — | — | — | — |
| Global fixed income - private credit | 41,557 | — | — | — | — | — | 41,557 | 17,803 |
| Global fixed income - public credit | 38,147 | — | — | — | 11,598 | 26,549 | — | — |
| Real assets - private | 136,071 | — | — | — | — | — | 136,071 | 71,928 |
| Real assets - public | 32,849 | — | 32,849 | — | — | — | — | — |
| Total measured at net asset value | $ 1,050,745 | $ 211,562 | $ 128,644 | $ 172,556 | $ 25,025 | $ 116,211 | $ 396,747 | $ 328,485 |

| | 2018 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Redemption Frequency/Notice Period | | | | | | |
| | Net asset value (NAV) | Daily, weekly/ 1 - 7 days | Semi-monthly, monthly/ 15 - 75 days | Quarterly/ 60 - 90 days | Semi-annually/ 60 - 180 days | Annually/ 90 - 180 days | End of term/ 5 to 10 years | Unfunded commitments |
| Diversifying strategies | $ 230,656 | $ 8,374 | $ 45,328 | $ 131,544 | $ 12,994 | $ 22,915 | $ 9,501 | $ — |
| Global equity - hedged | 78,692 | — | — | 28,122 | — | 50,570 | — | — |
| Global equity - international | 33,222 | — | 5,834 | 20,201 | — | 7,187 | — | — |
| Global equity - private | 197,090 | — | — | — | — | — | 197,090 | 185,242 |
| Global equity - U.S. | 116,277 | 99,292 | 16,985 | — | — | — | — | — |
| Global fixed income - private credit | 38,486 | — | — | — | — | — | 38,486 | 23,336 |
| Global fixed income - public credit | 38,651 | — | — | — | 24,258 | 14,393 | — | — |
| Real assets - private | 108,081 | — | — | — | — | — | 108,081 | 67,624 |
| Real assets - public | 47,436 | — | 47,436 | — | — | — | — | — |
| Total measured at net asset value | $ 888,591 | $ 107,666 | $ 115,583 | $ 179,867 | $ 37,252 | $ 95,065 | $ 353,158 | $ 276,202 |

Deposit and Investment Risks. The University's deposits and investments are exposed to various risks, including credit, interest rate and foreign currency risk, as discussed in more detail below. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could affect the investment amounts in the Statements of Net Position.

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

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

- Overnight investments (deposits and money market funds) policies minimize credit risk in several ways. The University deposits, in Federal Deposit Insurance Corporation (FDIC) insured financial institutions, are covered up to $250,000 at each FDIC insured institution. State law requires that deposits in excess of this coverage be fully collateralized, therefore depository institutions issue a pledge of specific U.S. Treasury or agency securities, held in the name of the University by the Federal Reserve Bank, to cover all amounts over the $250,000 coverage. The University invests a portion of its operating cash in a diversified pool of money market funds. Fund investments include U.S. Treasury and agency securities, certificates of deposit, commercial paper, repurchase agreements and other short-term fixed income securities. KMSF's financial institution maintains a letter of credit for amounts on deposit over and above FDIC insured balances through the Federal Home Loan Bank of Cincinnati.
- Bond revenue fund and bond project fund investments held in the Commonwealth's investment pools can invest in U.S. Treasury and agency securities; commercial paper, asset-backed securities or qualified mutual funds rated in the highest category by a nationally recognized statistical rating organization; certificates of deposit, bankers acceptances, state or local government securities and corporate, Yankee and Eurodollar securities rated in one of the three highest categories by a nationally recognized statistical rating organization; and state and local property tax certificates of delinquency secured by interests in real property.
- Short-term and intermediate-term investments managed by the University and those held in the Commonwealth's investment pools are subject to the same credit quality restrictions as denoted above for bond revenue fund investments. The low duration strategies managed by external managers must adhere to certain investment guidelines. For one of the portfolios, the investment guidelines require that a minimum of 85% of the portfolio holdings are investment grade and a minimum A- portfolio average quality is maintained, with no single credit industry exceeding 15% of the portfolio. For the other portfolio, the investment guidelines require a minimum issue quality of BBB-/Baa3 and a minimum commercial paper quality of A3/P3. The low duration strategies have been classified as global fixed income - high quality/rate sensitive in the footnote 2 tables.
- Investment securities held in debt service reserve funds may be invested and reinvested solely in bonds or interest-bearing notes of the United States government.
- Endowment managers are permitted to use derivative instruments to limit credit risk.

At June 30, 2019 and 2018 the credit quality of the University's fixed income investments is summarized below (in thousands):

| | 2019 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | S&P/Moody's Credit Ratings | | | | | | | |
| | AAA/Aaa | AA/Aa | A | BBB/Baa | Below BBB/Baa | Not rated | Rating not applicable | Total |
| Non-endowed deposits and investments | | | | | | | | |
| Cash and cash equivalents | $ 281,124 | $ — | $ — | $ — | $ — | $ 7,298 | $ — | $ 288,422 |
| Certificates of deposit | — | — | — | — | — | 22,463 | — | 22,463 |
| Global fixed income - high quality/rate sensitive | 34,305 | 16,089 | 55,676 | 48,563 | 1,574 | 529,352 | 118,911 | 804,470 |
| Global fixed income - public credit | — | 995 | 3,826 | 1,909 | 1 | 3,286 | — | 10,017 |
| Guaranteed investment contracts | — | 741 | — | — | — | 8,242 | — | 8,983 |
| Total non-endowed fixed income investments | 315,429 | 17,825 | 59,502 | 50,472 | 1,575 | 570,641 | 118,911 | 1,134,355 |
| Endowed deposits and investments | | | | | | | | |
| Cash and cash equivalents | — | — | — | — | — | 2,794 | — | 2,794 |
| Global fixed income - high quality/rate sensitive | 1,875 | 893 | 6,821 | 2,335 | — | 3,307 | 78,487 | 93,718 |
| Global fixed income - private credit | — | — | — | — | — | 41,557 | — | 41,557 |
| Global fixed income - public credit | 332 | 60 | 151 | 327 | 1,072 | 78,743 | 928 | 81,613 |
| Total endowed fixed income investments | 2,207 | 953 | 6,972 | 2,662 | 1,072 | 126,401 | 79,415 | 219,682 |
| Total fixed income investments | $ 317,636 | $ 18,778 | $ 66,474 | $ 53,134 | $ 2,647 | $ 697,042 | $ 198,326 | $ 1,354,037 |

| | 2018 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | S&P/Moody's Credit Ratings | | | | | | | |
| | AAA/Aaa | AA/Aa | A | BBB/Baa | Below BBB/Baa | Not rated | Rating not applicable | Total |
| Non-endowed deposits and investments | | | | | | | | |
| Cash and cash equivalents | $ 365,114 | $ — | $ — | $ — | $ — | $ 19,741 | $ — | $ 384,855 |
| Certificates of deposit | — | — | — | — | — | 25,311 | — | 25,311 |
| Global fixed income - high quality/rate sensitive | 25,301 | 10,617 | 41,397 | 22,983 | 2,605 | 516,885 | 135,876 | 755,664 |
| Global fixed income - public credit | 532 | 1,433 | 3,623 | 1,415 | 2 | 4,280 | — | 11,285 |
| Guaranteed investment contracts | — | 804 | — | — | — | 7,015 | — | 7,819 |
| Total non-endowed fixed income investments | 390,947 | 12,854 | 45,020 | 24,398 | 2,607 | 573,232 | 135,876 | 1,184,934 |
| Endowed deposits and investments | | | | | | | | |
| Cash and cash equivalents | — | — | — | — | — | 3,860 | — | 3,860 |
| Global fixed income - high quality/rate sensitive | 1,326 | 1,362 | 5,739 | 1,169 | 67 | 3,416 | 86,058 | 99,137 |
| Global fixed income - private credit | — | — | — | — | — | 38,486 | — | 38,486 |
| Global fixed income - public credit | 1,285 | 52 | 157 | 372 | 590 | 80,426 | 20 | 82,902 |
| Total endowed fixed income investments | 2,611 | 1,414 | 5,896 | 1,541 | 657 | 126,188 | 86,078 | 224,385 |
| Total fixed income investments | $ 393,558 | $ 14,268 | $ 50,916 | $ 25,939 | $ 3,264 | $ 699,420 | $ 221,954 | $ 1,409,319 |

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investment or collateral securities that are in possession of an outside party.

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

- Overnight investments (deposits and money market funds) are not exposed to custodial credit risk. Deposits and money market funds are held in the University's name by various financial institutions.
- Bond revenue fund and bond project fund investments held in the Commonwealth's investment pools are held in the Commonwealth's name by the Commonwealth's custodian.
- Short-term and intermediate-term investments held by the Commonwealth for the benefit of the University are invested in the Commonwealth's investment pools and are held in the name of the Commonwealth by the Commonwealth's custodian. Short-term and intermediate-term investments managed by the University are held in the University's name in a safekeeping account. The low duration strategy investments managed by external managers are held in the University's name by the University's custodian.
- Investment securities held in debt service reserve funds are held by the respective bond trustee in a specific trust account for the benefit of the University and its bondholders.
- Endowment investments in external trusts are held in the name of the trust. Other endowment investments are held in the University's name by the University's custodian.

Non-endowed global fixed income - high quality/rate sensitive investments whose fair market value was $527.6 million and $516.9 million, as of June 30, 2019 and 2018, respectively, were exposed to custodial credit risk. These bond revenue fund investments were held by the Commonwealth, uninsured and not registered in the name of the University.

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

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

- Overnight investments (deposits and money market funds) are not limited to a maximum amount that may be invested in one issuer. However, the University's cash deposits in excess of federal deposit insurance are required to be fully collateralized by U.S. Treasury and/or U.S. agency securities or other similar investments as provided by KRS 41.240.
- Bond revenue fund and bond project fund investments held in the Commonwealth's investment pools are limited as follows: U.S. dollar denominated corporate and Yankee securities issued by foreign and domestic issuers shall not exceed 35% of an individual pool and $25.0 million per issuer, inclusive of commercial paper, bankers acceptances and certificates of deposit per individual pool; and U.S. dollar denominated sovereign debt shall not exceed five percent of any individual portfolio and $25.0 million per issuer.
- Short-term and intermediate-term investments managed by the University and those held in the Commonwealth's investment pools are subject to the same credit concentration restrictions as denoted above for the bond revenue fund investments. Investments in the low duration strategies managed by external managers are also subject to certain credit concentration restrictions. For one portfolio no single credit industry shall exceed 15% of the portfolio at purchase and for the other portfolio concentrations are limited to the following:
    - issue or issuer at five percent excluding sovereign debt of Organization for Economic Co-operation and Development governments and U.S. agencies;
    - emerging markets at 10%;
    - corporate securities at 60% excluding commercial paper and supranationals;
    - asset-backed securities at 20%; and
    - privately issued mortgage-backed securities at 10%.
- There is no specific limit on the maximum amount of investment securities held in debt service reserve funds that may be invested in one issuer. However, such investments are limited to bonds or interest bearing notes of the U.S. government.

- The University's endowment fixed income managers are limited to a maximum investment in any one issuer of no more than five percent of total investments excluding sovereign debt of governments belonging in the Organization for Economic Co-operation and Development and U.S. agencies.

At June 30, 2019 and 2018, the University had no investments in any one issuer that represented five percent or more of total investments, other than U.S. Treasury and/or U.S. agency securities.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

As a means of limiting its exposure to fair value losses arising from increasing interest rates, the University's investment policies limit the maturity of its various investment types as follows:

- Overnight investments (deposits and money market funds) have limited exposure to interest rate risk due to the short-term nature of the investment. The University requires that all deposits and money market funds be available for use on the next business day.
- Bond revenue fund and bond project fund investments held in the Commonwealth's limited-term investment pool are limited to a weighted average maturity that does not exceed 60 days, adjusted for interest rate resets and demand features. Investments in the Commonwealth's intermediate-term investment pool must maintain an effective duration of less than three years.
- Short-term and intermediate-term investments managed by the University are generally limited to a maximum maturity of 36 months and those held in the Commonwealth's investment pools are subject to the same maturity and duration limits as denoted above for bond revenue fund investments. The portfolio duration of one of the low duration strategy investment managed by an external manager must be within a range of +/- 0.5 years of the Barclays Capital U.S. Government/Credit 1-5 Year Bond Index while the other portfolio is limited to a maximum duration of 1.5 years.
- Investment securities held in debt service reserve funds are required to have a maturity no later than two years from the date of the investment.
- Endowment managers are permitted to use derivative instruments to limit interest rate risk. Additionally, endowment investments held by core-plus fixed income managers are limited to a duration that is within two years of the duration of the Barclays Capital U.S. Aggregate Bond Index and unconstrained fixed income strategies have been implemented to further mitigate interest rate risk.

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

| | 2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Maturities in Years | | | | | | |
| | Less than 1 | 1-5 | 5-10 | Greater than 10 | Managed based on duration | Alternative strategy[1] | Total |
| Non-endowed deposits and investments | | | | | | | |
| Cash and cash equivalents | $ 288,422 | $ — | $ — | $ — | $ — | $ — | $ 288,422 |
| Certificates of deposit | 22,463 | — | — | — | — | — | 22,463 |
| Global fixed income - high quality/rate sensitive | 13,280 | 110,543 | 1,121 | 678 | 678,848 | — | 804,470 |
| Global fixed income - public credit | 790 | 4,845 | 1,096 | — | 3,286 | — | 10,017 |
| Guaranteed investment contracts | — | 741 | 8,242 | — | — | — | 8,983 |
| Total non-endowed fixed income investments | 324,955 | 116,129 | 10,459 | 678 | 682,134 | — | 1,134,355 |
| Endowed deposits and investments | | | | | | | |
| Cash and cash equivalents | 2,794 | — | — | — | — | — | 2,794 |
| Global fixed income - high quality/rate sensitive | 25 | — | — | — | 93,693 | — | 93,718 |
| Global fixed income - private credit[1] | — | — | — | — | — | 41,557 | 41,557 |
| Global fixed income - public credit[1] | — | — | — | — | 43,465 | 38,148 | 81,613 |
| Total endowed fixed income investments | 2,819 | — | — | — | 137,158 | 79,705 | 219,682 |
| Total fixed income investments | $ 327,774 | $ 116,129 | $ 10,459 | $ 678 | $ 819,292 | $ 79,705 | $ 1,354,037 |

| | 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Maturities in Years | | | | | | |
| | Less than 1 | 1-5 | 5-10 | Greater than 10 | Managed based on duration | Alternative strategy[1] | Total |
| Non-endowed deposits and investments | | | | | | | |
| Cash and cash equivalents | $ 384,855 | $ — | $ — | $ — | $ — | $ — | $ 384,855 |
| Certificates of deposit | 23,109 | 2,202 | — | — | — | — | 25,311 |
| Global fixed income - high quality/rate sensitive | 7,252 | 137,317 | 697 | 464 | 609,934 | — | 755,664 |
| Global fixed income - public credit | 872 | 3,275 | 2,858 | — | 4,280 | — | 11,285 |
| Guaranteed investment contracts | — | 804 | 7,015 | — | — | — | 7,819 |
| Total non-endowed fixed income investments | 416,088 | 143,598 | 10,570 | 464 | 614,214 | — | 1,184,934 |
| Endowed deposits and investments | | | | | | | |
| Cash and cash equivalents | 3,860 | — | — | — | — | — | 3,860 |
| Global fixed income - high quality/rate sensitive | 26 | 24 | — | — | 99,087 | — | 99,137 |
| Global fixed income - private credit[1] | — | — | — | — | — | 38,486 | 38,486 |
| Global fixed income - public credit[1] | — | — | — | — | 44,252 | 38,650 | 82,902 |
| Total endowed fixed income investments | 3,886 | 24 | — | — | 143,339 | 77,136 | 224,385 |
| Total fixed income investments | $ 419,974 | $ 143,622 | $ 10,570 | $ 464 | $ 757,553 | $ 77,136 | $ 1,409,319 |

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

At June 30, 2019 and 2018, the University had the following investments managed based on duration (in thousands):

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

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

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

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

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

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

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

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

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

| | 2018 | | |
|---|---|---|---|
| | Gross Receivable | Allowance | Net Receivable |
| Accrued interest receivable | $ 1,796 | $ — | $ 1,796 |
| Commonwealth funded capital projects | 27,158 | — | 27,158 |
| Dentistry patient accounts | 2,955 | (759) | 2,196 |
| Hospital patient accounts (net of contractual allowances) | 322,124 | (88,696) | 233,428 |
| Hospital third-party payer settlements | 6,100 | — | 6,100 |
| KMSF patient accounts (net of contractual allowances) | 51,534 | (8,594) | 42,940 |
| Multimedia rights receivable | 152,750 | — | 152,750 |
| Pledges receivable (less discounts of $7,614) | 92,412 | (33,952) | 58,460 |
| Reimbursement receivable - federal appropriations | 2,062 | — | 2,062 |
| Reimbursement receivable - grants and contracts | 31,944 | (185) | 31,759 |
| Service concession arrangements | 81,222 | — | 81,222 |
| Student accounts | 29,475 | (14,167) | 15,308 |
| Student loans | 30,198 | (3,311) | 26,887 |
| Other | 28,044 | — | 28,044 |
| Total | $ 859,774 | $ (149,664) | $ 710,110 |
| Current portion | | | $ 403,426 |
| Noncurrent portion | | | 306,684 |
| Total | | | $ 710,110 |

In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions,* the University is required to record operating and capital pledges as revenue when all eligibility requirements have been met. Endowment pledges are not recognized as revenue until the gifts are actually received. For the years ended June 30, 2019 and 2018, the University recorded the discounted value of operating and capital pledges using a rate of two percent.

Deferred gifts through insurance, known bequests and irrevocable trusts in which the University has a remainder interest is estimated to be approximately $259.1 million and $215.6 million at June 30, 2019 and 2018, respectively. The University records these amounts as revenue when the cash is received.

## 4. CAPITAL ASSETS, NET

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

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

Capital assets as of June 30, 2018 and capital asset activity for the year ended June 30, 2018 are summarized below (in thousands):

| | June 30, 2017 | Additions | Deletions | June 30, 2018 |
|---|---|---|---|---|
| Land | $ 83,031 | $ 2,990 | $ — | $ 86,021 |
| Land improvements - nonexhaustible | 66,013 | 10,452 | — | 76,465 |
| Land improvements - exhaustible | 104,060 | 19,111 | — | 123,171 |
| Buildings | 3,148,883 | 448,855 | 2,234 | 3,595,504 |
| Fixed equipment - communications | 128,930 | 15,151 | 126 | 143,955 |
| Infrastructure | 115,246 | 1,584 | — | 116,830 |
| Equipment | 570,508 | 69,058 | 31,729 | 607,837 |
| Vehicles | 22,967 | 1,499 | 1,498 | 22,968 |
| Library materials | 148,121 | 1,230 | 325 | 149,026 |
| Nondepreciable library materials | 6,673 | 43 | — | 6,716 |
| Capitalized software | 185,520 | 9,986 | — | 195,506 |
| Art | 12,977 | 917 | — | 13,894 |
| Certificate of need | 11,609 | — | — | 11,609 |
| Intangible Assets | — | — | — | — |
| Construction in progress | 295,855 | 155,383 | 219,758 | 231,480 |
| | 4,900,393 | 736,259 | 255,670 | 5,380,982 |
| Accumulated Depreciation | | | | |
| Land improvements - exhaustible | 66,348 | 5,584 | — | 71,932 |
| Buildings | 1,003,243 | 87,839 | 1,534 | 1,089,548 |
| Fixed equipment - communications | 80,685 | 8,465 | 28 | 89,122 |
| Infrastructure | 44,718 | 4,369 | — | 49,087 |
| Equipment | 392,460 | 43,755 | 29,882 | 406,333 |
| Vehicles | 19,009 | 1,735 | 1,467 | 19,277 |
| Library materials | 141,457 | 1,706 | — | 143,163 |
| Capitalized software | 119,038 | 10,916 | — | 129,954 |
| Intangible Assets | — | — | — | — |
| | 1,866,958 | 164,369 | 32,911 | 1,998,416 |
| Capital assets, net | $ 3,033,435 | $ 571,890 | $ 222,759 | $ 3,382,566 |

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

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

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

During fiscal year 2019, 19 properties were demolished with an original cost of $6.8 million and accumulated depreciation of $4.9 million, for a total net book value written off of $1.9 million. As of June 30, 2019, two buildings and the Kirwan-Blanding Complex are scheduled for demolition in a subsequent fiscal year and changes were made to estimated useful lives to record depreciation expense. A portion of the net book value of each building was written off with the remainder to be written off in subsequent fiscal years. The total original cost was $29.3 million with accumulated depreciation of $28.1 million, and a total net book value written off in fiscal year 2019 of $802 thousand, with the remaining amount to be written off in subsequent fiscal years.

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

## 5. DEFERRED OUTFLOWS OF RESOURCES

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

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

Deferred outflows of resources from OPEB represents contributions subsequent to the measurement date and the net difference between projected and actual earnings in the plan investments.

Deferred outflows of resources from refunding bonds represents the difference between the reacquisition price and net carrying amount of refunded debt, the reacquisition price being the amount sent to the escrow agent. This consists of refunding bonds issued between 2014 and 2019. Amortization of the deferred outflows of resources from these refunding bonds was $1.6 million for the years ended June 30, 2019 and 2018, respectively.

## 6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

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

## 7. UNEARNED REVENUE

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

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

| | June 30, 2017 | Additions | Reductions | June 30, 2018 | Current Portion | Noncurrent Portion |
|---|---|---|---|---|---|---|
| Unearned summer school revenue | $ 9,325 | $ 8,786 | $ 9,325 | $ 8,786 | $ 8,786 | $ — |
| Unearned hospital revenue | 16,503 | 94,867 | 71,453 | 39,917 | 39,917 | — |
| Unearned grants and contracts revenue | 32,976 | 86,317 | 77,931 | 41,362 | 25,823 | 15,539 |
| Unearned multimedia rights revenue | 179,547 | — | 14,036 | 165,511 | 14,036 | 151,475 |
| Athletic ticket sales and contracts | 12,391 | 13,415 | 13,525 | 12,281 | 11,860 | 421 |
| Other | 7,238 | 9,451 | 10,206 | 6,483 | 5,912 | 571 |
| Total | $ 257,980 | $ 212,836 | $ 196,476 | $ 274,340 | $ 106,334 | $ 168,006 |

A multimedia rights partnership was formed in July 2014 between the University and JMI Sports providing athletics and campus multimedia marketing rights in a 15 year, $210.0 million agreement. Under the contract, the University will receive a guaranteed rights fee in each of the 15 years of the partnership, that started at $9.1 million in fiscal year 2015-16 and increasing to $16.0 million in fiscal year 2029-30. The agreement also included a $29.4 million signing bonus to be paid over the first two years of the contract. This agreement was modified in April 2016 to increase the signing bonus to $29.9 million, which was paid over the first three years of the contract. A three year contract extension of $51.0 million along with a modification to add Rupp Arena media rights of $67.5 million was signed in July 2018, which increased the total amount to be received to $329.0 million.

## 8. LONG-TERM LIABILITIES

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

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

Long-term liabilities as of June 30, 2018 and long-term liability activity for the year ended June 30, 2018 are summarized below (in thousands):

| | June 30, 2017 | Additions | Reductions | June 30, 2018 | Current Portion | Noncurrent Portion |
|---|---|---|---|---|---|---|
| Bonds, notes and capital leases | | | | | | |
| General receipts notes | $ 10,140 | $ — | $ 6,950 | $ 3,190 | $ 3,190 | $ — |
| General receipts bonds | 900,090 | 222,530 | 32,310 | 1,090,310 | 37,440 | 1,052,870 |
| Capital leases and other long-term obligations | 78,367 | 14,525 | 10,250 | 82,642 | 7,748 | 74,894 |
| Notes payable | — | 53 | 18 | 35 | 17 | 18 |
| Total | 988,597 | 237,108 | 49,528 | 1,176,177 | 48,395 | 1,127,782 |
| Notes and leases from direct borrowings and direct placements | | | | | | |
| Capital leases | 4,600 | — | 2,425 | 2,175 | 320 | 1,855 |
| Notes payable | 19,552 | — | 730 | 18,822 | 753 | 18,069 |
| Total | 24,152 | — | 3,155 | 20,997 | 1,073 | 19,924 |
| Total bonds, notes and capital leases | 1,012,749 | 237,108 | 52,683 | 1,197,174 | 49,468 | 1,147,706 |
| Other liabilities | | | | | | |
| Annuities payable | 3,399 | 224 | 655 | 2,968 | 493 | 2,475 |
| Automobile and property self insurance | 481 | 321 | 546 | 256 | 256 | — |
| Compensated absences | 6,900 | — | 300 | 6,600 | 885 | 5,715 |
| Federal loan programs | 20,597 | 426 | 498 | 20,525 | — | 20,525 |
| Health insurance | 11,036 | 55,313 | 55,936 | 10,413 | 10,413 | — |
| Insurance executory costs | 13,114 | 5,084 | 253 | 17,945 | 252 | 17,693 |
| Medical malpractice | 32,686 | 8,870 | 9,457 | 32,099 | 6,407 | 25,692 |
| Unamortized bond premium | 55,237 | 10,160 | 7,193 | 58,204 | 7,177 | 51,027 |
| Unemployment compensation | 446 | 1,014 | 825 | 635 | 635 | — |
| Workers' compensation | 21,107 | 6,812 | 7,104 | 20,815 | 6,482 | 14,333 |
| Other | 23,764 | 4,208 | 9,725 | 18,247 | 3,607 | 14,640 |
| Total other liabilities | 188,767 | 92,432 | 92,492 | 188,707 | 36,607 | 152,100 |
| Total | $ 1,201,516 | $ 329,540 | $ 145,175 | $ 1,385,881 | $ 86,075 | $ 1,299,806 |

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

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

Bonds payable consists of general receipts bonds and general receipts notes in the original amount of $1.27 billion dated November 8, 2007 through February 25, 2019, which bear interest at 1.0% to 4.7%. The bonds are payable in annual installments through October 1, 2047. The University is required to make semi-annual deposits of varying amounts to the debt service funds held by the trustees. The bonds are secured by the net revenues of the University and the assets restricted under the bond indenture agreements. Capital leases are due in periodic installments through November 20, 2028 and bear interest at 1.4% to 4.3%. All bonds, except for the General Receipts 2009 Bonds Series B, General Receipts 2012 Bonds Series A, General Receipts 2014 Bonds Series C, General Receipts 2017 Bonds Series A and B, General Receipts 2018 Bonds Series B and General Receipts 2019 Bonds Series A, totaling $989.5 million, are callable between October 2017 and April 2026. The General Receipts 2009 Bonds Series B and callable on any date at the make-whole redemption price.

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

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

In prior fiscal years, certain general receipts bonds series were issued as Build America Bonds (BAB) as authorized under the American Recovery and Reinvestment Act of 2009 and as Qualified Energy Conservation Bonds (QECB) as authorized under the Recovery Act and the Hiring Incentive to Restore Employment Act of 2010. The University receives an annual cash subsidy from the U.S. Treasury equal to 35% (BAB) and 80% (QECB) of the interest payable on the bonds. The subsidy, which was approximately $2.2 million for both fiscal years 2019 and 2018, was included in gifts and non-exchange grants in the Statements of Revenues, Expenses and Changes in Net Position. The subsidy payment is contingent on federal regulations and may be subject to change. On March 1, 2013, President Barack Obama signed an executive order reducing the budgetary authority in accounts subject to sequestration. As a result, the BAB subsidy was reduced to approximately 33% and 32% in 2019 and 2018, respectively. The QECB subsidy was reduced to approximately 75% in 2019 and 2018.

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

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

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

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

## 9. DEFERRED INFLOWS OF RESOURCES

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

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

The University has entered into a multi-phase housing project with a third party developer, Greystar (formerly Education Realty Trust), to complete a long-term housing plan. Phase I, signed in April 2012, was for two four-story buildings (601 beds), and opened in August 2013. The project, with a cost of $25.2 million, is on land owned by the University and leased to Greystar for a 50-year term with options for additional 10-year and 15-year terms thereafter. At the conclusion of the initial 50-year term or the first renewal option, the University will be required to purchase the buildings from Greystar for an appraised value, unless the ground lease is renewed for the first or second optional extension. At the conclusion of the second optional extension, the University is required to purchase the buildings for the greater of current net book value or $10. Ground lease is a percentage of gross revenues. The University accounts for the ground lease as an operating lease. These facilities are subject to ad valorem tax.

Phase II-A, Phase II-B and Phase II-C, which opened in August 2014, August 2015 and August 2016 respectively, included the development of 10 residence halls at a cost of $321.3 million. The residence halls are reported as a capital asset with a carrying value of $303.3 million and $307.6 million at June 30, 2019 and 2018, respectively, and deferred inflows of resources in the amount of $290.8 million and $295.0 million at June 30, 2019 and 2018, respectively, pursuant to the service concession arrangement.

Phase III-A, which opened in August 2017, included the construction of one residence hall at a cost of $72.5 million. This is a 771 bed facility provides apartment style units for upper class, graduate and professional students. Phase III-B, which also opened in August 2017, cost $36.4 million. This is a 346 bed facility to house undergraduate students and includes space dedicated to the new Lewis Honors College. These residence halls are reported as a capital asset with a carrying value of $105.8 million and $107.3 million at June 30, 2019 and 2018, respectively, and deferred inflows of resources in the amount of $90.7 million and $91.9 million at June 30, 2019 and 2018, respectively, pursuant to the service concession arrangement.

The 75-year term lease with Greystar includes maintenance standards for the facilities and parameters for the room rental rates for the contract duration. The University will receive a percentage of the total revenues and a share of the net income, after Greystar achieves a minimum internal rate of return. Phase II-A through III-B are exempt from ad valorem tax.

In July 2014, the University entered into an approximately $250.0 million contract with Aramark Enterprise Services, LLC (Aramark), forming a 15-year public/private partnership. This partnership is transforming dining services offered to students, faculty, staff, and the community served. Under the partnership, several new food brands are located on campus. Aramark provides meals covered under the University's student boarding plans and declining balance dollars. The contract allows for dining commissions to be paid to the University with guaranteed minimum amounts for each contract year. Aramark provided $70.0 million in facilities investments, including $40.0 million in new facilities. As part of these facilities investments, Aramark constructed a new K Lair Grill at Haggin Hall, made substantial upgrades to the student center food court and constructed "The 90" dining facility for the Fall 2015 semester. The completed projects are reported as a capital asset with a carrying value of $49.7 million and $54.0 million at June 30, 2019 and 2018, respectively, and deferred inflows of resources in the amount of $41.7 million and $45.9 million at June 30, 2019 and 2018, respectively, pursuant to the service concession arrangement. The present value of the guaranteed minimum payments over the remaining 15 years of the contract is reported as a receivable of $77.3 million and deferred inflows of resources in the amount of $69.6 million pursuant to the service concession arrangement. The contract is extended for a five year period ending in 2034.

In June 2015, the University entered into a contract with Barnes and Noble College Booksellers, LLC (Barnes and Noble) to operate and provide services for the bookstore for 10 years with an additional five year renewal option period. Barnes and Noble constructed a temporary bookstore for use until the new student center opened in June 2018. The present value of the guaranteed minimum payments over the remaining 11 years of the contract period is reported as a receivable of $1.5 million and deferred inflows of resources in the amount of $1.6 million pursuant to the service concession arrangement.

The University adopted GASB Statement No. 81, Irrevocable Split-Interest Agreements, in fiscal year 2018. The beneficial interests from trusts and annuities that the University will receive in the future years of $16.2 million is recorded in deferred inflows of resources.

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

## 10. COMPONENTS OF RESTRICTED EXPENDABLE NET POSITION

Restricted expendable net position is subject to externally imposed stipulations or conditions that must be followed and cannot be used for support of general operations of the University. As of June 30, 2019 and 2018, restricted expendable net position is composed of the following (in thousands):

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

## 11. DESIGNATIONS OF UNRESTRICTED NET POSITION

Unrestricted net position is designated for specific purposes by action of the Board or management or may otherwise be limited by contractual agreements with outside parties. Commitments for the use of unrestricted net position as of June 30, 2019 and 2018 are as follows (in thousands):

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

## 12. PLEDGED REVENUES

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

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

The University has substantially pledged all of the unrestricted operating and nonoperating revenues to repay the general receipts bonds, notes and capital leases issued from 2007 to 2019. Proceeds from the bonds, notes and leases provided funding for new construction, major renovations, facility leases, and for the refunding of bonds and notes issued over the years. These debts are payable from unrestricted revenues, operating and nonoperating, and are payable through fiscal year 2048. Annual principal and interest payments on bonds are expected to require approximately three percent of pledged revenue. The total principal and interest remaining to be paid on the bonds is approximately $1.61 billion and $1.70 billion in fiscal years 2019 and 2018, respectively. Principal and interest paid for fiscal years 2019 and 2018 was $87.3 million and $78.0 million, respectively.

**13. INVESTMENT INCOME (LOSS)**

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

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

**14. FUNDS HELD IN TRUST BY OTHERS**

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

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

Effective January 1, 2016, the University became the administrator of five trusts that were previously held and controlled by external trustees. For the years ended June 30, 2019 and 2018, the University received income from these self-administered trusts of approximately $94,000 and $96,000, respectively. The market value of the self-administered trusts was approximately $1.9 million for both June 30, 2019 and 2018, respectively, and is included in endowment investments.

**15. GRANTS AND CONTRACTS AWARDED**

At June 30, 2019 and 2018, grants and contracts of approximately $291.5 million and $234.5 million, respectively, have been awarded to the University of Kentucky Research Foundation, but not expended. These amounts will be recognized in future periods.

**16. RETIREMENT PLANS**

Regular full-time employees, including faculty, are participants in the University of Kentucky Retirement Plan, a defined contribution plan. The University of Kentucky Retirement Plan consists of five groups as follows:

| | |
|---|---|
| Group I | Established July 1, 1964, for faculty and certain administrative officials. |
| Group II | Established July 1, 1971, for staff members in the clerical, technical and service categories. |

| | |
|---|---|
| Group III | Established July 1, 1972, for staff members in the managerial, professional and scientific categories. |
| Group IV | Established January 1, 1973, for staff members having U.S. Civil Service retirement entitlement. |
| Group V | Established July 1, 1987, for staff members covered under the Federal Employees Retirement System that replaced Civil Service (those whose employment began during the period from January 1, 1984 to March 31, 1987). Staff members whose employment began after March 31, 1987 are under one of the above University of Kentucky Retirement Plans. |

Participation in the University of Kentucky Retirement Plan is mandatory for all regular full-time employees in groups I, II and III who are age 30 or older. Participation is voluntary for regular full-time employees under the age of 30 and for those employees in groups IV and V. Participants in groups I, II, III and IV contribute five percent and the University contributes 10% of the participant's eligible compensation to the retirement plan. Participants in group V contribute one percent and the University contributes two percent of the participant's eligible compensation to the retirement plan.

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

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

Under the fully funded University of Kentucky Retirement Plan, the University and plan participants make contributions to provide retirement benefits to employees in individually owned contracts. All payments are vested immediately for employees hired prior to January 1, 2010. For employees hired after January 1, 2010, employer contributions are vested after three years. The University's contributions and costs for fiscal years 2019 and 2018 was approximately $133.5 million and $120.5 million, respectively. Employees contributed approximately $63.1 million in fiscal year 2019 and $60.0 million in fiscal year 2018. The University's total payroll costs were approximately $1.61 billion and $1.54 billion for the years ended June 30, 2019 and 2018, respectively. The payroll for employees covered by the retirement plan was approximately $1.60 billion and $1.53 billion for the years ended June 30, 2019 and 2018, respectively.

Regular full-time KMSF employees become eligible to participate in a defined contribution plan on the employee's regular full-time hire date coinciding with or next following attainment of age 20 1/2. KMSF contributes 10% of the employee's earnings and employees do not contribute to this plan. KMSF contributions for 2019 and 2018 were approximately $1.0 million and $1.1 million, respectively. The total payroll costs for employees covered by the defined contribution plan were approximately $10.5 million and $10.9 million for the years ended June 30, 2019 and 2018, respectively. Participants become vested in the plan according to years of service, with 100% vesting after one year of service.

## 17. UNIVERSITY OF KENTUCKY OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLAN TRUST

The University's OPEB plan is administered through the University's OPEB trust fund as an irrevocable trust. The single-employer defined benefit OPEB plan provides medical and prescription drug benefits. The trust is not a separate legal entity and is governed by the University's Board.

The plan provides lifetime health care insurance benefits for eligible retirees and their surviving spouses. Employees are eligible for the University retiree health benefits upon retirement after (a) completing 15 years of continuous service and (b) age plus years of service equal at least 75 years ("rule of 75"). Employees hired on or after January 1, 2006 are eligible to participate in the retiree health care plan on an "access only" basis upon retirement, but they must pay 100% of the cost of the selected plan. Employees hired prior to January 1, 2006 are eligible for the University subsidy based on their hire date, and surviving spouses receive one-half of the health credit their spouse was entitled to if they were covered by the health plan at the time of the retiree's death. No health credit is provided to a spouse of a living retiree. The University's Human Resources policies and procedures define retiree health benefits and can be amended by the President of the University as delegated by the Board. Employees who were hired before August 1, 1965 are also eligible for $5,000 of life insurance coverage upon retirement.

The OPEB plan's trust activity is reported in the University's Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position, and Required Supplementary Information.

For GASB Statement No. 74 (Plan) reporting purposes, net OPEB liability was measured as of June 30, 2019. For GASB Statement No. 75 (Employer) reporting purposes, net OPEB liability is measured as of July 1, 2018 for fiscal year 2019. GASB Statement No. 74 was implemented in fiscal year 2017, and GASB Statement No. 75 was implemented in fiscal year 2018. The following footnote disclosure is presented in order to comply with GASB Statement No. 75 and GASB Statement No. 74.

The OPEB liabilities measured as of June 30, 2019 were based upon the plan members as of January 1, 2019:

| | |
|---|---|
| Inactive members receiving benefits | 3,087 |
| Inactive members entitled not yet receiving benefits | 395 |
| Active plan members | 5,325 |
| Total plan members | 8,807 |

The OPEB liabilities measured as of July 1, 2018 were based upon the plan members as of January 1, 2017:

| | |
|---|---|
| Inactive members receiving benefits | 3,119 |
| Inactive members entitled not yet receiving benefits | 351 |
| Active plan members | 5,660 |
| Total plan members | 9,130 |

The contribution requirements of plan members and the University are established and may be amended by the President of the University. For employees hired before January 1, 2006, the University provides a pre-65 credit of up to 90% of the "true retiree" cost of the least expensive pre-65 medical plan. For post-65 benefits, the University provides a credit equal to 90% of the "true retiree" cost of the post-65 medical plan. For fiscal years 2019 and 2018, the University contributed $18.8 million and $20.0 million to the plan, respectively. Plan members receiving benefits contributed for fiscal years 2019 and 2018 were 23.3% and 24.7%, respectively, of the premium costs, an average for combined single and family coverage. In fiscal year 2019 and 2018, total member contributions were approximately $4.4 million and $4.9 million, respectively.

The University's Employer net OPEB liability of $231.5 and $232.6 million was measured as of July 1, 2018 and 2017, respectively. The University's Plan net OPEB liability of $117.9 million and $231.5 million was measured as of June 30, 2019 and 2018, for the fiscal year ended June 30, 2019 and 2018, respectively. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of the measurement date.

The total OPEB liabilities measured as of July 1, 2018 and June 30, 2019 were determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---|---|
| Health care trend rate | For employer reporting: Post-65 Medical rate is 5%; Post-65 RX 10.0% initial rate decreasing 0.5% per year to an ultimate rate of 5% in 2028. Pre-65 7.63% initial rate decreasing 0.32%-0.39% per year to an ultimate rate of 2.20% in 2022.<br><br>For plan reporting: Post-65 Medical rate is 1.1% for 2019 and 2020 followed by 312.2% in 2021 decreasing to an ultimate rate of 4.5% in 2031. Post-65 RX 6.4% initial rate decreasing to an ultimate rate of 4.5% in 2029; Pre-65 6.44% initial rate decreasing to an ultimate rate of 2.20% in 2029. |

| | |
|---|---|
| Salary scale | 3% per year. |
| Retirement rate | Faculty from 0.00 to 1.00 from age 50 to 85; staff from 0.03 to 1.00 from age 50 to 85. |
| Discount rate | 7.5% based on the University's funding policy and the expected long-term return on the separate trust assets that will be used to finance the payment of plan benefits. The University has stated a funding policy to contribute an amount to the segregated and protected trust fund, such that the assets available will always be sufficient to cover the expected benefit payments. |
| Mortality | For July 1, 2019, Aggregate base rates for healthy lives from the Retirement Projection-2014 mortality study with a fully generational projection from 2006 using scale Mortality Projection-2017 for the Employer. For June 30, 2019, PUB-2010 Amounts Weighted Mortality Table, with faculty employees classified as "Teachers" and non-faculty employees classified as "General", with mortality improvement projected generationally using scale Mortality Projection-2018 for the Plan. |
| Disability | Gender and age-related disability incidence rates based on 1987 GLTD (six-month elimination period). |
| Plan participation | 80% elect coverage. |
| Dependent coverage | 80% of active employees are assumed to be married at their retirement. 60% of those married retirees are assumed to have spousal coverage in effect upon death. Female spouses of male retirees are assumed to be three years younger than their husbands. Male spouses of female retirees are assumed to be three years older than their wives. |

The actuarial assumptions used as of July 1, 2018 and June 30, 2019 were based on the results of an actuarial experience study for the period January 1, 2013 to December 31, 2014.

The components of the Employer's net OPEB liability of the University measured at July 1, for fiscal year 2019 and 2018 are as follows (in thousands):

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

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

| | 2019 | 2018 |
|---|---|---|
| Total OPEB liability | $ 293,455 | $ 391,034 |
| Less: plan fiduciary net position | (175,514) | (159,543) |
| University of Kentucky net OPEB liability | $ 117,941 | $ 231,491 |
| Plan fiduciary net position as a percentage of the total OPEB liability | 59.8% | 40.8% |

The OPEB Plan follows the deposit and investment policies established by the University's Board of Trustees. Such policies are developed to establish and maintain sound financial management practices for the investment and management of the OPEB funds. The fair value of deposits and investments, by Statements of Fiduciary Net Position classification, at June 30, 2019 and 2018 are as follows (in thousands):

| | 2019 | 2018 |
|---|---|---|
| Statement of Fiduciary Net Position classification | | |
| Cash and cash equivalents | $ 4,489 | $ 3,148 |
| Investments | 171,025 | 156,395 |
| Total deposits and investments | $ 175,514 | $ 159,543 |

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

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

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

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

| 2019 | Total value | Fair Value Measurement Using: Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total measured at fair value | Net asset value (NAV) | Amortized or historical cost |
|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | $ 4,804 | $ — | $ — | $ — | $ — | $ — | $ 4,804 |
| Diversifying strategies | 25,498 | 1,352 | — | — | 1,352 | 24,146 | — |
| Global equity - hedged | 10,279 | — | — | — | — | 10,279 | — |
| Global equity - international | 30,265 | 12,057 | — | 2 | 12,059 | 18,206 | — |
| Global equity - private | 27,509 | — | — | — | — | 27,509 | — |
| Global equity - U.S. | 21,204 | 641 | — | — | 641 | 20,563 | — |
| Global fixed income - high quality/rate sensitive | 11,763 | 4,247 | 7,516 | — | 11,763 | — | — |
| Global fixed income - private credit | 5,217 | — | — | — | — | 5,217 | — |
| Global fixed income - public credit | 9,885 | 5,096 | — | — | 5,096 | 4,789 | — |
| Real assets - private | 17,083 | — | — | — | — | 17,083 | — |
| Real assets - public | 12,007 | 7,883 | — | — | 7,883 | 4,124 | — |
| Total deposits and investments | $ 175,514 | $ 31,276 | $ 7,516 | $ 2 | $ 38,794 | $ 131,916 | $ 4,804 |

| 2018 | Total value | Fair Value Measurement Using: Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total measured at fair value | Net asset value (NAV) | Amortized or historical cost |
|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | $ 3,569 | $ — | $ — | $ — | $ — | $ — | $ 3,569 |
| Diversifying strategies | 29,790 | 2,283 | — | — | 2,283 | 27,507 | — |
| Global equity - hedged | 9,384 | — | — | — | — | 9,384 | — |
| Global equity - international | 22,787 | 18,823 | — | 2 | 18,825 | 3,962 | — |
| Global equity - private | 23,504 | — | — | — | — | 23,504 | — |
| Global equity - U.S. | 14,467 | 601 | — | — | 601 | 13,866 | — |
| Global fixed income - high quality/rate sensitive | 11,817 | 6,036 | 5,781 | — | 11,817 | — | — |
| Global fixed income - private credit | 4,590 | — | — | — | — | 4,590 | — |
| Global fixed income - public credit | 9,590 | 4,981 | — | — | 4,981 | 4,609 | — |
| Real assets - private | 12,889 | — | — | — | — | 12,889 | — |
| Real assets - public | 17,156 | 11,499 | — | — | 11,499 | 5,657 | — |
| Total deposits and investments | $ 159,543 | $ 44,223 | $ 5,781 | $ 2 | $ 50,006 | $ 105,968 | $ 3,569 |

Cash on deposit with the University, included in cash and cash equivalents above, is managed based on the University's Operating Fund Investment Policy established by the Treasurer of the University. All other OPEB trust investments are managed within guidelines established by the University's Endowment Investment Policy, as approved by the Investment Committee of the University's Board, which governs the University's pooled endowment fund.

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

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

The following reflects the approved asset allocation for both the Employer and Plan, as of June 30, 2019 and 2018.

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

For the years ended June 30, 2019 and 2018, the annual money-weighted rate of return on the OPEB plan investments, net of OPEB plan investment expense was 5.5% and 6.5%, respectively. The money-weighted rate of return expresses investment performance, net of investment expenses, adjusted for the changing amounts actually invested.

The long-term expected rate of return on OPEB plan investments was determined using efficient frontier modeling software for Monte Carlo simulations that analyze risk, return and the probability of meeting return objectives over multi-year periods. The modeling, which incorporates forward-looking return forecasts as well as historical risk and correlation data, identifies portfolios with the highest expected return at each level of risk.

The following reflects the expected rates of return for the Employer, presented as geometric means, by asset allocation as of July 1, 2018 and 2017:

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

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

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

The discount rate used to measure the total OPEB liability for the Employer and Plan was 7.5% for the year ended June 30, 2019, which was the same from the July 1, 2018 measurement date. The projection of cash flows used to determine the discount rate assumed that University contributions will be made at rates equal to actuarially determined contribution. Based on those assumptions, the OPEB Plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB Plan investments of 7.5% was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

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

| | 2018 | | |
|---|---|---|---|
| | Increase (decrease) | | |
| | Total OPEB liability (a) | Plan fiduciary net Position (b) | Net OPEB liability (c) = (a) - (b) |
| Balance recognized at 7/1/2017 (based on 7/1/2016 measurement date) | $ 383,708 | $ 120,012 | $ 263,696 |
| Change recognized for the fiscal year: | | | |
| Service cost | 4,356 | — | 4,356 |
| Interest on the total OPEB liability | 28,667 | — | 28,667 |
| Differences between expected and actual experience | 12,087 | — | 12,087 |
| Changes of assumptions | (40,408) | — | (40,408) |
| Benefit payments | (11,889) | (11,889) | — |
| Contributions from the employer | — | 23,987 | (23,987) |
| Net investment income | — | 12,508 | (12,508) |
| Administrative expense | — | (674) | 674 |
| Net changes | (7,187) | 23,932 | (31,119) |
| Balance recognized at 6/30/2018 (based of 7/1/2017 measurement date) | $ 376,521 | $ 143,944 | $ 232,577 |

The following presents the Employer's 2019 and 2018 net OPEB liability of the University, as well as what the University's net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.5%) or one-percentage-point higher (8.5%) than the current discount rate (in thousands):

| | 2019 | | |
|---|---|---|---|
| | 1% Decrease (6.5%) | Current Rate (7.5%) | 1% Increase (8.5%) |
| Total OPEB liability | $ 448,526 | $ 391,034 | $ 344,172 |
| Plan fiduciary net position | (159,543) | (159,543) | (159,543) |
| Net OPEB liability | $ 288,983 | $ 231,491 | $ 184,629 |

| | 2018 | | |
|---|---|---|---|
| | 1% Decrease (6.5%) | Current Rate (7.5%) | 1% Increase (8.5%) |
| Total OPEB liability | $ 433,788 | $ 376,521 | $ 330,017 |
| Plan fiduciary net position | (143,944) | (143,944) | (143,944) |
| Net OPEB liability | $ 289,844 | $ 232,577 | $ 186,073 |

The following presents what the Employer's 2019 and 2018 net OPEB liability would be if it were calculated using the health care cost trend rate that is one-percentage-point lower or one-percentage-point higher than the current health care cost trend rate (in thousands):

| | 2019 | | |
|---|---|---|---|
| | 1% Decrease | Trend Rate | 1% Increase |
| Total OPEB liability | $ 337,436 | $ 391,034 | $ 457,464 |
| Plan fiduciary net position | (159,543) | (159,543) | (159,543) |
| Net OPEB liability | $ 177,893 | $ 231,491 | $ 297,921 |

| | 2018 | | |
|---|---|---|---|
| | 1% Decrease | Trend Rate | 1% Increase |
| Total OPEB liability | $ 326,436 | $ 376,521 | $ 438,623 |
| Plan fiduciary net position | (143,944) | (143,944) | (143,944) |
| Net OPEB liability | $ 182,492 | $ 232,577 | $ 294,679 |

The following presents the Plan's 2019 and 2018 net OPEB liability of the University, as well as what the University's Plan net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.5%) or one-percentage-point higher (8.5%) than the current discount rate (in thousands):

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

| | 2018 | | |
|---|---|---|---|
| | 1% Decrease (6.5%) | Current Rate (7.5%) | 1% Increase (8.5%) |
| Total OPEB liability | $ 448,526 | $ 391,034 | $ 344,172 |
| Plan fiduciary net position | (159,543) | (159,543) | (159,543) |
| Net OPEB liability | $ 288,983 | $ 231,491 | $ 184,629 |

The following presents what the Plan's 2019 and 2018 net OPEB liability would be if it were calculated using the health care cost trend rate that is one-percentage-point lower or one-percentage-point higher than the current health care cost trend rate (in thousands):

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

| | 2018 | | |
|---|---|---|---|
| | 1% Decrease | Trend Rate | 1% Increase |
| Total OPEB liability | $ 337,436 | $ 391,034 | $ 457,464 |
| Plan fiduciary net position | (159,543) | (159,543) | (159,543) |
| Net OPEB liability | $ 177,893 | $ 231,491 | $ 297,921 |

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

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

For the year ended June 30, 2018, the University recognized OPEB expense of $18.9 million. At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources, in thousands, related to OPEB from the following sources:

| | 2018 | |
|---|---|---|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Difference between actual and expected experience | $ 10,040 | $ — |
| Net difference between expected and actual earnings on OPEB plan investment | — | (2,469) |
| Assumption changes | — | (33,559) |
| Contributions made subsequent to the measurement date of the net OPEB liability | 20,013 | — |
| Total | $ 30,053 | $ (36,028) |

At June 30, 2019, the University reported $18.8 million as deferred outflows of resources related to OPEB resulting from University contributions subsequent to the measurement date and prior to year end that will be recognized as a reduction of the net OPEB liability at June 30, 2020. Other amounts, in thousands, reported as deferred outflows of resources and deferred inflows of resources at June 30, 2019, related to OPEB will be recognized as a reduction to OPEB expense as follows:

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

**18. UNIVERSITY OF KENTUCKY LONG TERM DISABILITY (LTD) PLAN TRUST**

The University of Kentucky LTD plan is administered through the University's LTD trust fund as an irrevocable trust. The trust pays claims and establishes necessary reserves. The trust is not a separate legal entity and is governed by the University's Board. The coverage of the LTD benefits is established and may be amended by the President of the University.

Regular employees with a full-time equivalent of 0.75 or greater who have completed 12 months of service are automatically enrolled in the plan. To be covered, an employee must be actively at work on the first day of the month after the employee completes one full year of service. An employee approved for long-term disability receives benefits based on the employee's basic regular monthly salary at the time of the onset of the disabling condition. Primary income benefits provide payment of 60% of the basic regular monthly salary less any disability received from government programs and/or another employer for the same condition. Basic salary for medical faculty is defined as the tenure base salary. Other sources of income used in the benefit formula include Social Security, worker's compensation or other similar government programs, veterans' or other governmental disability payments, or other employer-sponsored disability benefits.

Employees approved for long-term disability receive 100% of their basic salary for the first six months and 60% thereafter. Benefits end when plan members recover, die, terminate employment or retire. In most cases, claimants retire at age 65. The plan also includes provisions for health insurance that allow participants who were enrolled in a health plan at the time their disability benefit began to continue health coverage (University subsidy limited to 29 months for claimants approved on or after October 1, 2006), life insurance benefit ($10,000 before July 1, 2007 or one times salary on or after July 1, 2007) and retirement contributions equal to 10% of pre-disability salary per year for applications filed on or after October 1, 2006 and 15% of pre-disability salary per year for applications filed before October 1, 2006.

The LTD plan's trust activity is reported in the University's Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position, and Required Supplementary Information.

For GASB Statement No. 74 (Plan) reporting purposes, net LTD liability is measured as of June 30, 2019. For GASB Statement No. 75 (Employer) reporting purposes, net LTD liability is measured as of July 1, 2018 for fiscal year 2019. GASB Statement No. 74 was implemented in fiscal year 2017, and GASB Statement No. 75 was implemented in fiscal year 2018. The following footnote disclosure is presented in order to comply with GASB Statement No. 75 and GASB Statement No.74.

The LTD liabilities measured as of June 30, 2019 were based upon the following plan participants as of January 1, 2019:

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

The LTD liabilities measured as of July 1, 2018 were based upon the plan participants as of January 1, 2017:

| | |
|---|---|
| Disabled members | |
| Count of members | 146 |
| Average age at valuation date | 56.1 |
| Average duration since disability (in years) | 9.2 |
| Average monthly income net benefit | $610.16 |
| | |
| Active (healthy) members | |
| Count of members | 17,919 |
| Average age at valuation date | 43.3 |
| Average years of service | 8.9 |

The contribution requirements of the University are established and may be amended by the President of the University. The University contributes to the LTD trust based on the actuarially determined contribution. For the year ended June 30, 2019 and 2018, the University's contribution was approximately $2.1 million and $2.0 million, respectively.

The University's Employer net LTD liability of $5.4 million and $4.0 million was measured as of July 1, 2018 and 2017, respectively. The University's Plan's net LTD liability of $4.0 million and $5.4 million was measured as of June 30, 2019 and 2018, for the fiscal year ended June 30, 2019 and 2018, respectively. The total LTD liability used to calculate the net LTD liability was determined by an actuarial valuation as of the measurement date.

The total LTD liabilities measured as of July 1, 2018 and June 30, 2019 were determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---|---|
| Discount rate | 6.5% based on the University's funding policy and the expected long-term return on the separate trust assets that will be used to finance the payment of plan benefits. The University has stated that its funding policy is to contribute an amount to a segregated and protected trust. The amount will be such that the assets available will always be sufficient to cover the expected benefit payments. |
| Elimination period | 6 month. |
| Termination (mortality and recovery from disability) | 2012 Society of Actuaries group long-term disability table. |
| Mortality (only for life benefit) | Canadian Institute of Actuaries 1988-94 LTD table. |
| Retirement rates | Faculty from 0.00 to 1.00 from age 50 to 85; staff from 0.03 to 1.00 from age 50 to 85. |
| Mortality rates for actives | For July 1, 2019, Aggregate base rates for healthy lives from the Retirement Projection-2014 mortality study with a fully generational projection from 2006 using scale Mortality Projection-2017 for the Employer. For June 30, 2019 PUB-2010 Amounts Weighted Mortality Table, with faculty employees classified as "Teachers" and non-faculty employees classified as "General", with mortality improvement projected generationally using Mortality Projection-2018 for the Plan. |
| Incidence of disability | Gender and age-related disability incidence rates based on 1987 Commissioner's Group Long-term Disability table. |
| Duration of payment | Payments are assumed to be made until the later of i) age 65 and ii) five years after date of disability. |
| LTD income benefit | |
| Disability benefit | Actual net benefit currently being paid (if currently disabled). |
| Social Security offset | Assume that 90% of the members who have been disabled for less than 24 months and currently not entitled to a Social Security offset will immediately receive an offset. |
| Future salary increase for active members | 3% per year. |

The actuarial assumptions used as of July 1, 2018 and June 30, 2019 were based on an actuarial experience study for the period January 1, 2013 to December 31, 2014.

The components of the Employer's net LTD liability of the University measured at July 1, for fiscal year 2019 and 2018 is as follows (in thousands):

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

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

| | 2019 | 2018 |
|---|---|---|
| Total LTD liability | $ 25,919 | $ 25,517 |
| Less: plan fiduciary net position | (21,944) | (20,081) |
| University of Kentucky net LTD liability | $ 3,975 | $ 5,436 |
| Plan fiduciary net position as a percentage of the total LTD liability | 84.7% | 78.7% |

LTD Trust investment policy guidelines are established by the LTD Employee Benefits Amended and Restated Trust Agreement. Investment objectives and targeted asset allocations are reviewed and approved by the University Treasurer. Investment objectives and asset allocations are developed to establish and maintain sound financial management practices for the investment and management of LTD funds. There were no significant investment policy changes during the fiscal year ended June 30, 2019.

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

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

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

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

The University categorizes its fair value measurements within the fair value hierarchy. Certain investments are measured at amortized costs or historical costs and therefore have not been classified in the fair value hierarchy.

These investments have been included in the table below to permit reconciliation of the fair value hierarchy to the amounts presented in the Statements of Net Position.

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

| | 2019 | | | |
|---|---|---|---|---|
| | | Fair Value Measurement Using | | |
| | Total value | Quoted prices in active markets for identical assets (Level 1) | Total measured at fair value | Amortized or historical cost |
| Cash and cash equivalents | $ 1,125 | $ — | $ — | $ 1,125 |
| Diversifying strategies | 527 | 527 | 527 | — |
| Global equity - hedged | 349 | 349 | 349 | — |
| Global equity - international | 3,702 | 3,702 | 3,702 | — |
| Global equity - U.S. | 9,817 | 9,817 | 9,817 | — |
| Global fixed income - public credit | 6,403 | 6,403 | 6,403 | — |
| Total deposits and investments | $ 21,923 | $ 20,798 | $ 20,798 | $ 1,125 |

| | 2018 | | | |
|---|---|---|---|---|
| | | Fair Value Measurement Using | | |
| | Total value | Quoted prices in active markets for identical assets (Level 1) | Total measured at fair value | Amortized or historical cost |
| Cash and cash equivalents | $ 361 | $ — | $ — | $ 361 |
| Diversifying strategies | 516 | 516 | 516 | — |
| Global equity - hedged | 370 | 370 | 370 | — |
| Global equity - international | 2,538 | 2,538 | 2,538 | — |
| Global equity - U.S. | 8,904 | 8,904 | 8,904 | — |
| Global fixed income - public credit | 7,382 | 7,382 | 7,382 | — |
| Total deposits and investments | $ 20,071 | $ 19,710 | $ 19,710 | $ 361 |

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

The Trustee of the LTD trust diversifies the investments to minimize the risk of losses due to credit risk, interest rate risk, currency and other risks, as appropriate, based on market conditions. At June 30, 2019, the LTD trust had no underlying investments in any one issuer which represented more than five percent of total investments, other than U.S. Treasury and agency obligations, as a way to limit concentration of credit risks. For a description of credit, interest rate, foreign currency and concentration of credit risks see note 2.

The following reflects the approved asset allocation for the Employer and Plan as of June 30, 2019 and 2018:

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

The annual money-weighted rate of return on the LTD plan investments, net of LTD plan investment expense was 7.5% and 7.1% for the years ended June 30, 2019 and 2018, respectively. The money weighted rate of return expresses investment performance, net of investment expenses, adjusted for the changing amounts actually invested.

The long-term expected rate of return on LTD plan investments was determined by combining market-implied equilibrium returns with the Trustee's subjective views using a Black-Litterman technique.

The following reflects the expected rates of return for the Employer, presented as arithmetic means, by asset allocation as of July 1, 2018 and 2017:

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

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

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

The discount rate used to measure the total LTD liability for the Employer and Plan was 6.5% for year ended June 30, 2019, which was the same from the July 1, 2018 measurement date. The projection of cash flows used to determine the discount rate assumed that University contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the LTD Plan's fiduciary net position was projected to be available to make all projected LTD payments for current active and inactive employees. Therefore, the long-term expected rate of return on LTD Plan investments was applied to all periods of projected benefit payments to determine the total LTD liability.

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

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

| | 2018 | | |
|---|---|---|---|
| | Increase (decrease) | | |
| | Total LTD liability (a) | Plan fiduciary net Position (b) | Net LTD liability (c) = (a) - (b) |
| Balance recognized at 7/1/2017 (based on 7/1/2016 measurement date) | $ 20,188 | $ 16,632 | $ 3,556 |
| Change recognized for the fiscal year: | | | |
| Service cost | 1,606 | — | 1,606 |
| Interest on the total LTD liability | 1,569 | — | 1,569 |
| Differences between expected and actual experience | 138 | — | 138 |
| Changes of assumptions | 1,042 | — | 1,042 |
| Benefit payments | (1,763) | (1,763) | — |
| Contributions from the employer | — | 2,020 | (2,020) |
| Net investment income | — | 1,956 | (1,956) |
| Administrative expense | — | (61) | 61 |
| Net changes | 2,592 | 2,152 | 440 |
| Balance recognized at 6/30/2018 (based of 7/1/2017 measurement date) | $ 22,780 | $ 18,784 | $ 3,996 |

The following presents the Employer's 2019 and 2018 net LTD liability of the University, as well as what the University’s net LTD liability would be if it were calculated using a discount rate that is one-percentage-point lower (5.5%) or one-percentage-point higher (7.5%) than the current discount rate (in thousands):

| | 2019 | | |
|---|---|---|---|
| | 1% Decrease (5.5%) | Current Rate (6.5%) | 1% Increase (7.5%) |
| Total LTD liability | $ 26,504 | $ 25,517 | $ 24,577 |
| Plan fiduciary net position | (20,081) | (20,081) | (20,081) |
| Net LTD liability | $ 6,423 | $ 5,436 | $ 4,496 |

| | 2018 | | |
|---|---|---|---|
| | 1% Decrease (5.5%) | Current Rate (6.5%) | 1% Increase (7.5%) |
| Total LTD liability | $ 23,849 | $ 22,780 | $ 21,757 |
| Plan fiduciary net position | (18,784) | (18,784) | (18,784) |
| Net LTD liability | $ 5,065 | $ 3,996 | $ 2,973 |

The following presents the Plan's 2019 and 2018 net LTD liability of the University, as well as what the University’s net LTD liability would be if it were calculated using a discount rate that is one-percentage-point lower (5.5%) or one-percentage-point higher (7.5%) than the current discount rate (in thousands):

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

| | 2018 | | |
|---|---|---|---|
| | 1% Decrease (5.5%) | Current Rate (6.5%) | 1% Increase (7.5%) |
| Total LTD liability | $ 26,504 | $ 25,517 | $ 24,577 |
| Plan fiduciary net position | (20,081) | (20,081) | (20,081) |
| Net LTD liability | $ 6,423 | $ 5,436 | $ 4,496 |

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

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

| | 2018 | |
|---|---|---|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Difference between actual and expected experience | $ 124 | $ — |
| Net difference between expected and actual earnings on LTD plan investment | — | (561) |
| Assumption changes | 937 | — |
| Contributions made subsequent to the measurement date of the net LTD liability | 2,002 | — |
| Total | $ 3,063 | $ (561) |

At June 30, 2019, the University reported $2.1 million as deferred outflows of resources related to LTD resulting from University contributions subsequent to the measurement date and prior to year end that will be recognized as a reduction of the net LTD liability at June 30, 2020. Other amounts, in thousands, reported as deferred outflows of resources and deferred inflows of resources at June 30, 2019, related to OPEB will be recognized in LTD expense as follows:

| | 2019 |
|---|---|
| 2020 | $ 78 |
| 2021 | 78 |
| 2022 | 78 |
| 2023 | 218 |
| 2024 | 226 |
| Total thereafter | 710 |
| | $ 1,388 |

## 19. RISK MANAGEMENT

The University is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by (1) the State Fire and Tornado Insurance Fund (the insurance fund), (2) Sovereign Immunity and the State Board of Claims, or (3) in the case of risks not covered by the insurance fund and Sovereign Immunity, commercial insurance, participation in insurance risk retention groups or self-insurance.

The insurance fund covers losses to property from fire, wind, earthquake, flood and most other causes of loss between $5,000 and $1.0 million per occurrence. Losses in excess of $1.0 million are insured by commercial carriers up to $1.50 billion per occurrence with buildings and contents insured at replacement cost. As a state agency, the University is vested with Sovereign Immunity and is subject to the provisions of the Kentucky Claims Commission, under which the University's liability for certain negligence claims is limited to $250,000 for any one person or $400,000 for all persons damaged by a single act of negligence. Claims against educators' errors and omissions and wrongful acts are insured through a reciprocal risk retention group. There have been no significant reductions in insurance coverage from fiscal years 2018 to 2019. Settlements have not exceeded insurance coverage during the past three years.

The University and its agents are insured against medical malpractice by a combination of Sovereign Immunity, self-insurance, commercial liability insurance and an excess coverage fund established by the Commonwealth. An actuarial valuation is performed to determine the self-insurance funding requirements and the fund liability, which has been discounted using an interest rate of 3.5%. The malpractice liability as of June 30, 2019 is based on the requirements of GASB Statement No. 10, which requires that a liability for claims be recorded if it is probable that a loss has occurred and the amount of loss can be reasonably estimated. The liability includes an estimate for claims that have been incurred but not reported as of June 30, 2019.

The University also self-insures certain employee benefits, including health insurance, workers' compensation and unemployment claims to the extent not covered by insurance. The University has recorded an estimate for asserted claims at June 30, 2019.

## 20. CONTINGENCIES

The University is a defendant in various lawsuits. The nature of the educational and health care industries is such that, from time to time, claims will be presented on account of alleged negligence, acts of discrimination, medical malpractice, breach of contract or disagreements arising from the interpretation of laws or regulations. While some of these claims may be for substantial amounts, they are not unusual in the ordinary course of providing educational and health care services at a large institution. However, University officials are of the opinion, based on advice of in-house legal counsel, that the effect of the ultimate outcome of all litigation will not be material to the future operations or financial position of the University.

## 21. RESEARCH CHALLENGE TRUST FUND

The Research Challenge Trust Fund (RCTF) was created by the Kentucky General Assembly with the passage of the Postsecondary Education Improvement Act of 1997 (House Bill 1). The objectives of the RCTF, as stated in House Bill 1, include support of efforts by the University to attain status as a top-20 public research university. The RCTF Endowment Match Program provides state funds on a dollar-for-dollar match basis. This program, also known as “Bucks for Brains,” supports endowed chairs, professorships and graduate fellowships, and the research and graduate mission of the University.

With the passage of the 2008-10 Budget of the Commonwealth, the 2008 General Assembly authorized $50.0 million in General Fund supported bonds in 2008-09 for the RCTF to support the Endowment Match Program and a newly created Research Capital Match Program. In accordance with KRS 164.7917, these funds were allocated two-thirds to the University of Kentucky ($33.3 million) and one-third to the University of Louisville ($16.7 million). At its June 9, 2009 board meeting, the Board approved the allocation of the University’s RCTF appropriation as follows: $21.9 million to the Research Capital Match Program and $11.4 million to the Endowment Match Program.

The status of the RCTF endowed funds as of June 30, 2019 is summarized below (in thousands):

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

Interest income of approximately $2.2 million was earned on the state matching funds and included in the University's share of the 2000 biennium funding. As of June 30, 2019, all private gifts and pledges matched by the RCTF program have been received.

## 22. CANCER RESEARCH MATCHING FUND

The Kentucky General Assembly created the Cancer Research Institutions Matching Fund, which is funded by a one-cent surtax levied on every 20 cigarettes sold in Kentucky. Tax revenues are made available equally to the University of Kentucky and the University of Louisville when matched dollar-for-dollar by private sources.

A summary of the receipts and expenses related to the fund as of June 30, 2019 and 2018 are as follows (in thousands):

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

## 23. NATURAL CLASSIFICATION

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

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

## 24. SUBSEQUENT EVENTS

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

## 25. COMBINED CONDENSED STATEMENTS

The University of Kentucky and its blended component units' condensed statements for the years ended June 30, 2019 and 2018 are summarized as follows (in thousands):

**UNIVERSITY OF KENTUCKY**
**A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY**
**COMBINED CONDENSED STATEMENT OF NET POSITION AS OF JUNE 30, 2019**
**(in thousands)**

| | UK | Research Foundation | Gluck Equine Research Foundation | Humanities Foundation | Mining Engineering Foundation | Central Kentucky Management Services | Alumni Association | Kentucky Medical Services Foundation | Eliminations | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **ASSETS AND DEFERRED OUTFLOWS OF RESOURCES** | | | | | | | | | | |
| **Current Assets** | | | | | | | | | | |
| Cash and cash equivalents | $ 448,293 | $ 92,573 | $ 7 | $ — | $ 50 | $ 1,174 | $ 677 | $ 12,001 | $ — | $ 554,775 |
| Notes, loans and accounts receivable, net | 400,950 | 37,275 | — | — | — | 527 | 156 | 48,526 | (71,836) | 415,598 |
| Investments | — | — | — | — | — | — | — | 4,107 | — | 4,107 |
| Inventories and other assets | 58,182 | 3,670 | — | — | — | 17 | 35 | 1,538 | (90) | 63,352 |
| Total current assets | 907,425 | 133,518 | 7 | — | 50 | 1,718 | 868 | 66,172 | (71,926) | 1,037,832 |
| **Noncurrent Assets** | | | | | | | | | | |
| Restricted cash and cash equivalents | 259,793 | 6,223 | — | — | — | — | — | — | — | 266,016 |
| Endowment investments | 1,357,684 | 15,069 | 9,254 | 1,495 | 2,005 | — | — | — | — | 1,385,507 |
| Other long-term investments | 292,264 | 2,320 | — | — | — | — | 22,826 | 43,056 | (1,490) | 358,976 |
| Notes, loans and accounts receivable, net | 405,243 | 73 | — | — | — | — | 55 | 595 | — | 405,966 |
| Other noncurrent assets | 5,329 | — | — | — | — | — | — | — | (180) | 5,149 |
| Capital assets, net | 3,331,072 | 7,929 | — | — | — | 42 | 58 | 104,671 | — | 3,443,772 |
| Total noncurrent assets | 5,651,385 | 31,614 | 9,254 | 1,495 | 2,005 | 42 | 22,939 | 148,322 | (1,670) | 5,865,386 |
| Total assets | 6,558,810 | 165,132 | 9,261 | 1,495 | 2,055 | 1,760 | 23,807 | 214,494 | (73,596) | 6,903,218 |
| **Deferred Outflows of Resources** | 38,317 | — | — | — | — | — | — | — | — | 38,317 |
| Total assets and deferred outflows of resources | 6,597,127 | 165,132 | 9,261 | 1,495 | 2,055 | 1,760 | 23,807 | 214,494 | (73,596) | 6,941,535 |
| **LIABILITIES AND DEFERRED INFLOWS OF RESOURCES** | | | | | | | | | | |
| **Current Liabilities** | | | | | | | | | | |
| Accounts payable and accrued liabilities | 252,982 | 9,082 | 1 | — | 1 | 1,718 | 99 | 107,465 | (111,594) | 259,754 |
| Unearned revenue | 110,470 | 33,023 | — | — | — | — | 26 | 2,358 | (270) | 145,607 |
| Long-term liabilities - current portion | 81,040 | 22 | — | — | — | — | — | 4,129 | — | 85,191 |
| Total current liabilities | 444,492 | 42,127 | 1 | — | 1 | 1,718 | 125 | 113,952 | (111,864) | 490,552 |
| **Noncurrent Liabilities** | | | | | | | | | | |
| Unearned revenue | 246,479 | 5,855 | — | — | — | — | 52 | — | — | 252,386 |
| Long-term liabilities | 1,168,502 | 388 | — | — | — | — | — | 72,483 | — | 1,241,373 |
| Net OPEB retiree health liabilities | 231,491 | — | — | — | — | — | — | — | — | 231,491 |
| Net OPEB long-term disability liabilities | 5,436 | — | — | — | — | — | — | — | — | 5,436 |
| Total noncurrent liabilities | 1,651,908 | 6,243 | — | — | — | — | 52 | 72,483 | — | 1,730,686 |
| Total liabilities | 2,096,400 | 48,370 | 1 | — | 1 | 1,718 | 177 | 186,435 | (111,864) | 2,221,238 |
| **Deferred Inflows of Resources** | 541,744 | — | — | — | — | — | — | — | — | 541,744 |
| Total liabilities and deferred inflows of resources | 2,638,144 | 48,370 | 1 | — | 1 | 1,718 | 177 | 186,435 | (111,864) | 2,762,982 |
| **NET POSITION** | | | | | | | | | | |
| **Net investment in capital assets** | 1,873,554 | 7,911 | — | — | — | 42 | 58 | 28,059 | — | 1,909,624 |
| **Restricted** | | | | | | | | | | |
| Nonexpendable | 634,503 | 853 | 4,607 | 618 | 674 | — | — | — | — | 641,255 |
| Expendable | 509,095 | 4,979 | 4,653 | 877 | 1,380 | — | 30 | — | — | 521,014 |
| Total restricted | 1,143,598 | 5,832 | 9,260 | 1,495 | 2,054 | — | 30 | — | — | 1,162,269 |
| **Unrestricted** | 941,831 | 103,019 | — | — | — | — | 23,542 | — | 38,268 | 1,106,660 |
| Total net position | $ 3,958,983 | $ 116,762 | $ 9,260 | $ 1,495 | $ 2,054 | $ 42 | $ 23,630 | $ 28,059 | $ 38,268 | $ 4,178,553 |

**UNIVERSITY OF KENTUCKY**
**A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY**
**COMBINED CONDENSED STATEMENT OF NET POSITION AS OF JUNE 30, 2018**
**(in thousands)**

| | UK | Research Foundation (restated) | Gluck Equine Research Foundation | Humanities Foundation | Mining Engineering Foundation | Central Kentucky Management Services | Alumni Association | Kentucky Medical Services Foundation | Eliminations | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **ASSETS AND DEFERRED OUTFLOWS OF RESOURCES** | | | | | | | | | | |
| **Current Assets** | | | | | | | | | | |
| Cash and cash equivalents | $ 494,307 | $ 70,561 | $ 336 | $ 20 | $ 37 | $ 1,148 | $ 362 | $ 5,544 | $ — | $ 572,315 |
| Notes, loans and accounts receivable, net | 383,596 | 32,091 | — | — | — | 441 | 140 | 54,800 | (67,642) | 403,426 |
| Investments | — | — | — | — | — | — | — | 18,399 | — | 18,399 |
| Inventories and other assets | 52,229 | 3,686 | — | — | — | 18 | 32 | 1,160 | (453) | 56,672 |
| Total current assets | 930,132 | 106,338 | 336 | 20 | 37 | 1,607 | 534 | 79,903 | (68,095) | 1,050,812 |
| **Noncurrent Assets** | | | | | | | | | | |
| Restricted cash and cash equivalents | 309,690 | 15,539 | — | — | — | — | — | — | — | 325,229 |
| Endowment investments | 1,307,728 | 14,478 | 8,904 | 1,445 | 1,975 | — | — | — | — | 1,334,530 |
| Other long-term investments | 254,271 | 502 | — | — | — | — | 21,740 | 44,858 | (229) | 321,142 |
| Notes, loans and accounts receivable, net | 305,691 | 205 | — | — | — | — | 82 | 706 | — | 306,684 |
| Other noncurrent assets | 1,381 | — | — | — | — | — | — | — | (271) | 1,110 |
| Capital assets, net | 3,263,402 | 8,324 | — | — | — | 52 | 24 | 110,764 | — | 3,382,566 |
| Total noncurrent assets | 5,442,163 | 39,048 | 8,904 | 1,445 | 1,975 | 52 | 21,846 | 156,328 | (500) | 5,671,261 |
| Total assets | 6,372,295 | 145,386 | 9,240 | 1,465 | 2,012 | 1,659 | 22,380 | 236,231 | (68,595) | 6,722,073 |
| **Deferred Outflows of Resources** | 42,293 | — | — | — | — | — | — | — | — | 42,293 |
| Total assets and deferred outflows of resources | 6,414,588 | 145,386 | 9,240 | 1,465 | 2,012 | 1,659 | 22,380 | 236,231 | (68,595) | 6,764,366 |
| **LIABILITIES AND DEFERRED INFLOWS OF RESOURCES** | | | | | | | | | | |
| **Current Liabilities** | | | | | | | | | | |
| Accounts payable and accrued liabilities | 332,314 | 8,242 | — | — | 1 | 1,607 | 57 | 122,979 | (126,275) | 338,925 |
| Unearned revenue | 78,712 | 25,831 | — | — | — | — | 26 | 2,489 | (724) | 106,334 |
| Long-term liabilities - current portion | 81,588 | 22 | — | — | — | — | — | 4,465 | — | 86,075 |
| Total current liabilities | 492,614 | 34,095 | — | — | 1 | 1,607 | 83 | 129,933 | (126,999) | 531,334 |
| **Noncurrent Liabilities** | | | | | | | | | | |
| Unearned revenue | 152,388 | 15,539 | — | — | — | — | 79 | — | — | 168,006 |
| Long-term liabilities | 1,229,421 | 478 | — | — | — | — | — | 69,907 | — | 1,299,806 |
| Net OPEB retiree health liabilities | 232,577 | — | — | — | — | — | — | — | — | 232,577 |
| Net OPEB long-term disability liabilities | 3,996 | — | — | — | — | — | — | — | — | 3,996 |
| Total noncurrent liabilities | 1,618,382 | 16,017 | — | — | — | — | 79 | 69,907 | — | 1,704,385 |
| Total liabilities | 2,110,996 | 50,112 | — | — | 1 | 1,607 | 162 | 199,840 | (126,999) | 2,235,719 |
| **Deferred Inflows of Resources** | 563,137 | — | — | — | — | — | — | — | — | 563,137 |
| Total liabilities and deferred inflows of resources | 2,674,133 | 50,112 | — | — | 1 | 1,607 | 162 | 199,840 | (126,999) | 2,798,856 |
| **NET POSITION** | | | | | | | | | | |
| **Net investment in capital assets** | 1,790,428 | 8,281 | — | — | — | 52 | 24 | 36,391 | — | 1,835,176 |
| **Restricted** | | | | | | | | | | |
| Nonexpendable | 619,986 | 839 | 4,607 | 618 | 667 | — | — | — | — | 626,717 |
| Expendable | 454,461 | 4,159 | 4,633 | 847 | 1,344 | — | 30 | — | — | 465,474 |
| Total restricted | 1,074,447 | 4,998 | 9,240 | 1,465 | 2,011 | — | 30 | — | — | 1,092,191 |
| **Unrestricted** | 875,580 | 81,995 | — | — | — | — | 22,164 | — | 58,404 | 1,038,143 |
| Total net position | $ 3,740,455 | $ 95,274 | $ 9,240 | $ 1,465 | $ 2,011 | $ 52 | $ 22,218 | $ 36,391 | $ 58,404 | $ 3,965,510 |

**UNIVERSITY OF KENTUCKY**
**A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY**
**COMBINED CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE YEAR ENDED JUNE 30, 2019**
**(in thousands)**

| | UK | Research Foundation | Gluck Equine Research Foundation | Humanities Foundation | Mining Engineering Foundation | Central Kentucky Management Services | Alumni Association | Kentucky Medical Services Foundation | Eliminations | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **OPERATING REVENUES** | | | | | | | | | | |
| Student tuition and fees, net | $ 343,293 | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ 343,293 |
| Federal grants and contracts | 1,970 | 206,699 | — | — | — | — | — | — | — | 208,669 |
| State and local grants and contracts | 68,730 | 17,813 | — | — | — | — | — | — | — | 86,543 |
| Nongovernmental grants and contracts | 289,518 | 32,047 | — | — | — | — | — | — | (288,503) | 33,062 |
| Recoveries of facilities and administrative costs | 153 | 66,947 | — | — | — | — | — | — | — | 67,100 |
| Sales and services | 57,553 | 1,390 | 6 | — | — | 30,473 | 1,476 | — | (31,515) | 59,383 |
| Federal appropriations | 17,239 | — | — | — | — | — | — | — | — | 17,239 |
| County appropriations | 26,689 | — | — | — | — | — | — | — | — | 26,689 |
| Professional clinical service fees | — | — | — | — | — | — | — | 251,237 | (3,648) | 247,589 |
| Hospital services | 1,756,951 | — | — | — | — | — | — | — | (6,024) | 1,750,927 |
| Auxiliary enterprises: | | | | | | | | | | |
| Housing and dining, net | 34,978 | — | — | — | — | — | — | — | (20) | 34,958 |
| Athletics | 114,456 | — | — | — | — | — | — | — | (387) | 114,069 |
| Other auxiliaries | 54,610 | — | — | — | — | — | — | — | (518) | 54,092 |
| Other operating revenues | 833 | — | — | — | — | — | — | 88,477 | (68,172) | 21,138 |
| Total operating revenues | 2,766,973 | 324,896 | 6 | — | — | 30,473 | 1,476 | 339,714 | (398,787) | 3,064,751 |
| **OPERATING EXPENSES** | | | | | | | | | | |
| Educational and general: | | | | | | | | | | |
| Instruction | 305,187 | 12,014 | — | — | 57 | — | — | — | (22) | 317,236 |
| Research | 110,668 | 191,611 | 105 | — | — | — | — | — | (2,129) | 300,255 |
| Public service | 121,489 | 83,070 | — | — | — | — | — | — | (656) | 203,903 |
| Libraries | 24,384 | — | — | — | — | — | — | — | — | 24,384 |
| Academic support | 87,397 | 2,371 | — | — | — | — | — | — | (173) | 89,595 |
| Student services | 45,299 | 7 | — | — | — | — | — | — | (52) | 45,254 |
| Institutional support | 72,799 | 850 | 12 | — | — | 30,473 | 4,315 | — | (33,690) | 74,759 |
| Operations and maintenance of plant | 75,635 | 391 | — | — | — | — | — | — | 6,806 | 82,832 |
| Student financial aid | 38,950 | 2,002 | — | 38 | — | — | — | — | (4) | 40,986 |
| Depreciation | 72,905 | 451 | — | — | — | 10 | 13 | — | — | 73,379 |
| Total educational and general | 954,713 | 292,767 | 117 | 38 | 57 | 30,483 | 4,328 | — | (29,920) | 1,252,583 |
| Clinical operations (including depreciation of $12,067 in 2019 and $4,409 in | 424,382 | — | — | — | — | — | — | 344,207 | (335,221) | 433,368 |
| Hospital and clinics (including depreciation of $66,959 in 2019 and $62,117 in | 1,528,866 | — | — | — | — | — | — | — | (18,960) | 1,509,906 |
| Auxiliary enterprises: | | | | | | | | | | |
| Housing and dining (including depreciation of $11,639 in 2019 and $13,299 | 28,348 | — | — | — | — | — | — | — | (13) | 28,335 |
| Athletics (including depreciation of $17,156 in 2019 and $15,837 in 2018) | 141,560 | — | — | — | — | — | — | — | 172 | 141,732 |
| Other auxiliaries (including depreciation of $6,945 in 2019 and $1,193 in | 47,358 | — | — | — | — | — | — | — | (566) | 46,792 |
| Other operating expenses | 2,014 | — | — | — | — | — | — | — | — | 2,014 |
| Total operating expenses | 3,127,241 | 292,767 | 117 | 38 | 57 | 30,483 | 4,328 | 344,207 | (384,508) | 3,414,730 |
| Net income (loss) from operations | (360,268) | 32,129 | (111) | (38) | (57) | (10) | (2,852) | (4,493) | (14,279) | (349,979) |
| **NONOPERATING REVENUES (EXPENSES)** | | | | | | | | | | |
| State appropriations | 258,495 | — | — | — | — | — | — | — | — | 258,495 |
| Gifts and non-exchange grants | 121,491 | 209 | 152 | 1 | — | — | 1,951 | — | (2,919) | 120,885 |
| Investment income (loss) | 105,461 | 2,087 | 496 | 78 | 110 | — | 2,027 | 804 | (2,770) | 108,293 |
| Interest on capital asset-related debt | (40,973) | — | — | — | — | — | — | (3,400) | — | (44,373) |
| Grants to (from) the University for noncapital purposes | 13,206 | (12,662) | (517) | (11) | (16) | — | — | — | — | — |
| Other nonoperating revenues and expenses, net | 14,041 | 2,347 | — | — | — | — | 286 | — | — | 16,674 |
| Net nonoperating revenues (expenses) | 471,721 | (8,019) | 131 | 68 | 94 | — | 4,264 | (2,596) | (5,689) | 459,974 |
| Net income (loss) before other revenues, expenses, gains, or losses | 111,453 | 24,110 | 20 | 30 | 37 | (10) | 1,412 | (7,089) | (19,968) | 109,995 |
| Capital grants and gifts | 57,536 | 14,034 | — | — | — | — | — | — | — | 71,570 |
| Additions to permanent endowments | 13,754 | 14 | — | — | 6 | — | — | — | (168) | 13,606 |
| Grants to (from) the University for capital purposes | 16,712 | (16,712) | — | — | — | — | — | — | — | — |
| Other, net | 19,073 | 42 | — | — | — | — | — | (1,243) | — | 17,872 |
| Total other revenues (expenses) | 107,075 | (2,622) | — | — | 6 | — | — | (1,243) | (168) | 103,048 |
| **INCREASE (DECREASE) IN NET POSITION** | 218,528 | 21,488 | 20 | 30 | 43 | (10) | 1,412 | (8,332) | (20,136) | 213,043 |
| **NET POSITION, beginning of year** | 3,740,455 | 95,274 | 9,240 | 1,465 | 2,011 | 52 | 22,218 | 36,391 | 58,404 | 3,965,510 |
| **NET POSITION, end of year** | $ 3,958,983 | $ 116,762 | $ 9,260 | $ 1,495 | $ 2,054 | $ 42 | $ 23,630 | $ 28,059 | $ 38,268 | $ 4,178,553 |

**UNIVERSITY OF KENTUCKY**
**A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY**
**COMBINED CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE YEAR ENDED JUNE 30, 2018**
**(in thousands)**

| | UK | Research Foundation | Gluck Equine Research Foundation | Humanities Foundation | Mining Engineering Foundation | Central Kentucky Management Services | Alumni Association | Kentucky Medical Services Foundation | Eliminations | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **OPERATING REVENUES** | | | | | | | | | | |
| Student tuition and fees, net | $ 342,981 | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ 342,981 |
| Federal grants and contracts | 1,611 | 186,385 | — | — | — | — | — | — | — | 187,996 |
| State and local grants and contracts | 66,355 | 17,672 | — | — | — | — | — | — | — | 84,027 |
| Nongovernmental grants and contracts | 258,638 | 37,961 | — | — | — | — | — | — | (257,350) | 39,249 |
| Recoveries of facilities and administrative costs | 282 | 59,780 | — | — | — | — | — | — | — | 60,062 |
| Sales and services | 57,372 | 2,056 | — | — | — | 32,247 | 1,255 | — | (33,239) | 59,691 |
| Federal appropriations | 19,674 | — | — | — | — | — | — | — | — | 19,674 |
| County appropriations | 25,389 | — | — | — | — | — | — | — | — | 25,389 |
| Professional clinical service fees | — | — | — | — | — | — | — | 248,530 | (3,725) | 244,805 |
| Hospital services | 1,638,980 | — | — | — | — | — | — | — | (7,243) | 1,631,737 |
| Auxiliary enterprises: | | | | | | | | | | |
| Housing and dining, net | 35,074 | — | — | — | — | — | — | — | (25) | 35,049 |
| Athletics | 108,780 | — | — | — | — | — | — | — | (353) | 108,427 |
| Other auxiliaries | 55,178 | — | — | — | — | — | — | — | (95) | 55,083 |
| Other operating revenues | 819 | — | — | — | — | — | — | 89,100 | (67,088) | 22,831 |
| Total operating revenues | 2,611,133 | 303,854 | — | — | — | 32,247 | 1,255 | 337,630 | (369,118) | 2,917,001 |
| **OPERATING EXPENSES** | | | | | | | | | | |
| Educational and general: | | | | | | | | | | |
| Instruction | 302,896 | 10,703 | — | 6 | 54 | — | — | — | (6) | 313,653 |
| Research | 105,146 | 178,004 | 58 | — | — | — | — | — | (2,980) | 280,228 |
| Public service | 119,342 | 80,463 | — | — | — | — | — | — | (699) | 199,106 |
| Libraries | 23,886 | — | — | — | — | — | — | — | — | 23,886 |
| Academic support | 82,259 | 2,143 | — | — | — | — | — | — | (157) | 84,245 |
| Student services | 43,428 | 23 | — | 1 | — | — | — | — | (56) | 43,396 |
| Institutional support | 61,034 | 732 | — | — | — | 32,247 | 3,774 | — | (34,410) | 63,377 |
| Operations and maintenance of plant | 42,610 | 373 | — | — | — | — | — | — | 32,225 | 75,208 |
| Student financial aid | 38,427 | 2,181 | — | 48 | — | — | — | — | (4) | 40,652 |
| Depreciation | 67,057 | 439 | — | — | — | 10 | 8 | — | — | 67,514 |
| Total educational and general | 886,085 | 275,061 | 58 | 55 | 54 | 32,257 | 3,782 | — | (6,087) | 1,191,265 |
| Clinical operations (including depreciation of $4,409) | 391,378 | — | — | — | — | — | — | 333,070 | (332,164) | 392,284 |
| Hospital and clinics (including depreciation of $62,117) | 1,464,523 | — | — | — | — | — | — | — | (43,836) | 1,420,687 |
| Auxiliary enterprises: | | | | | | | | | — | |
| Housing and dining (including depreciation of $13,299) | 31,240 | — | — | — | — | — | — | — | (8) | 31,232 |
| Athletics (including depreciation of $15,837) | 131,893 | — | — | — | — | — | — | — | (278) | 131,615 |
| Other auxiliaries (including depreciation of $1,193) | 33,557 | — | — | — | — | — | — | — | (572) | 32,985 |
| Other operating expenses | 993 | — | — | — | — | — | — | — | — | 993 |
| Total operating expenses | 2,939,669 | 275,061 | 58 | 55 | 54 | 32,257 | 3,782 | 333,070 | (382,945) | 3,201,061 |
| Net income (loss) from operations | (328,536) | 28,793 | (58) | (55) | (54) | (10) | (2,527) | 4,560 | 13,827 | (284,060) |
| **NONOPERATING REVENUES (EXPENSES)** | | | | | | | | | | |
| State appropriations | 264,418 | — | — | — | — | — | — | — | — | 264,418 |
| Gifts and non-exchange grants | 119,435 | 174 | 2 | 1 | — | — | 1,673 | — | (2,838) | 118,447 |
| Investment income (loss) | 87,624 | 1,751 | 527 | 82 | 116 | — | 1,256 | 455 | (662) | 91,149 |
| Interest on capital asset-related debt | (31,902) | — | — | — | — | — | — | (2,793) | — | (34,695) |
| Grants to (from) the University for noncapital purposes | 12,954 | (12,692) | (245) | (7) | (10) | — | — | — | — | — |
| Other nonoperating revenues and expenses, net | 6,450 | 2,386 | — | — | — | — | 264 | — | — | 9,100 |
| Net nonoperating revenues (expenses) | 458,979 | (8,381) | 284 | 76 | 106 | — | 3,193 | (2,338) | (3,500) | 448,419 |
| Net income (loss) before other revenues, expenses, gains, or losses | 130,443 | 20,412 | 226 | 21 | 52 | (10) | 666 | 2,222 | 10,327 | 164,359 |
| Capital grants and gifts | 22,054 | 7,852 | — | — | — | — | — | — | (13) | 29,893 |
| Additions to permanent endowments | 10,479 | 7 | — | — | 4 | — | — | — | (39) | 10,451 |
| Grants to (from) the University for capital purposes | 14,664 | (14,662) | (2) | — | — | — | — | — | — | — |
| Other, net | 7,859 | 49 | — | — | — | — | — | (12) | — | 7,896 |
| Total other revenues (expenses) | 55,056 | (6,754) | (2) | — | 4 | — | — | (12) | (52) | 48,240 |
| **INCREASE (DECREASE) IN NET POSITION** | 185,499 | 13,658 | 224 | 21 | 56 | (10) | 666 | 2,210 | 10,275 | 212,599 |
| **NET POSITION, beginning of year** | 3,554,956 | 81,616 | 9,016 | 1,444 | 1,955 | 62 | 21,552 | 34,181 | 48,129 | 3,752,911 |
| **NET POSITION, end of year** | $ 3,740,455 | $ 95,274 | $ 9,240 | $ 1,465 | $ 2,011 | $ 52 | $ 22,218 | $ 36,391 | $ 58,404 | $ 3,965,510 |

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

| | UK | Research Foundation | Gluck Equine Research Foundation | Humanities Foundation | Mining Engineering Foundation | Central Kentucky Management Services | Alumni Association | Kentucky Medical Services Foundation | Eliminations | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | | | | | | | |
| Student tuition and fees | $ 343,194 | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ 343,194 |
| Grants and contracts | 359,084 | 250,432 | — | — | — | — | — | — | (288,503) | 321,013 |
| Recoveries of facilities and administrative costs | 276 | 65,385 | — | — | — | — | — | — | — | 65,661 |
| Sales and services | 59,213 | — | 6 | — | — | 29,821 | 1,463 | (131) | (31,056) | 59,316 |
| Federal appropriations | 17,590 | — | — | — | — | — | — | — | — | 17,590 |
| County appropriations | 27,227 | — | — | — | — | — | — | — | — | 27,227 |
| Payments to vendors and contractors | (1,095,063) | (98,306) | (115) | (38) | (24) | (1,331) | (2,054) | (334,679) | 398,737 | (1,132,873) |
| Student financial aid | (40,987) | — | — | — | — | — | — | — | — | (40,987) |
| Salaries, wages and benefits | (1,817,920) | (193,106) | (1) | — | (33) | (28,464) | (2,222) | (14,255) | — | (2,056,001) |
| Professional clinical service fees | — | — | — | — | — | — | — | 257,621 | 295 | 257,916 |
| Hospital services | 1,719,186 | — | — | — | — | — | — | — | (5,778) | 1,713,408 |
| Auxiliary enterprises receipts | 195,527 | — | — | — | — | — | — | — | (925) | 194,602 |
| Loans issued to students | (11,428) | — | — | — | — | — | — | — | — | (11,428) |
| Collection of loans to students | 15,478 | — | — | — | — | — | — | — | — | 15,478 |
| Self-insurance receipts | 72,408 | — | — | — | — | — | — | 905 | — | 73,313 |
| Self-insurance payments | (73,108) | — | — | — | — | — | — | — | — | (73,108) |
| Other receipts (payments) | (784) | 1,502 | — | — | — | — | — | 88,477 | (68,173) | 21,022 |
| Net cash provided (used) by operating activities | (230,107) | 25,907 | (110) | (38) | (57) | 26 | (2,813) | (2,062) | 4,597 | (204,657) |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | | | | | | | | | |
| State appropriations | 258,495 | — | — | — | — | — | — | — | — | 258,495 |
| Gifts and grants received for other than capital purposes: | | | | | | | | | | |
| Gifts received for endowment purposes | 13,754 | 14 | — | — | 6 | — | — | — | (168) | 13,606 |
| Gifts received for other purposes | 122,230 | 190 | 152 | 1 | — | — | 1,951 | — | (2,919) | 121,605 |
| Agency and loan program receipts | 244,475 | — | — | — | — | — | — | — | — | 244,475 |
| Agency and loan program payments | (245,211) | — | — | — | — | — | — | — | — | (245,211) |
| Grants (to) from the University for noncapital purposes | 13,206 | (12,662) | (517) | (11) | (16) | — | — | — | — | — |
| Other financing receipts (payments) | 13,724 | 2,490 | — | — | — | — | 285 | — | — | 16,499 |
| Net cash provided (used) by noncapital financing activities | 420,673 | (9,968) | (365) | (10) | (10) | — | 2,236 | — | (3,087) | 409,469 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | | | | | | | | | |
| Capital grants and gifts | 38,618 | 14,034 | — | — | — | — | — | — | — | 52,652 |
| Purchases of capital assets | (268,680) | (55) | — | — | — | — | (47) | 392 | — | (268,390) |
| Proceeds from capital debt | 13,397 | — | — | — | — | — | — | — | — | 13,397 |
| Payments to refunding bond agents | (15,165) | — | — | — | — | — | — | — | — | (15,165) |
| Principal paid on capital debt and leases | (45,069) | (18) | — | — | — | — | — | (4,128) | — | (49,215) |
| Interest paid on capital debt and leases | (46,769) | — | — | — | — | — | — | (3,400) | — | (50,169) |
| Grants (to) from the University for capital purposes | 16,947 | (16,947) | — | — | — | — | — | — | — | — |
| Other financing receipts (payments) | 2,632 | 42 | — | — | — | — | — | (1,242) | — | 1,432 |
| Net cash provided (used) by capital and related financing activities | (304,089) | (2,944) | — | — | — | — | (47) | (8,378) | — | (315,458) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | | | | | | | |
| Proceeds from sales and maturities of investments | 571,965 | 5,547 | 3,266 | 532 | 755 | — | 1,169 | 22,499 | — | 605,733 |
| Interest and dividends on investments | 48,421 | 1,615 | 146 | 24 | 33 | — | 374 | 735 | (1,510) | 49,838 |
| Purchases of investments | (602,774) | (7,461) | (3,266) | (528) | (708) | — | (604) | (6,337) | — | (621,678) |
| Net cash provided (used) by investing activities | 17,612 | (299) | 146 | 28 | 80 | — | 939 | 16,897 | (1,510) | 33,893 |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | (95,911) | 12,696 | (329) | (20) | 13 | 26 | 315 | 6,457 | — | (76,753) |
| **CASH AND CASH EQUIVALENTS, beginning of year** | 803,997 | 86,100 | 336 | 20 | 37 | 1,148 | 362 | 5,544 | — | 897,544 |
| **CASH AND CASH EQUIVALENTS, end of year** | $ 708,086 | $ 98,796 | $ 7 | $ — | $ 50 | $ 1,174 | $ 677 | $ 12,001 | $ — | $ 820,791 |

**UNIVERSITY OF KENTUCKY**
**A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY**
**COMBINED CONDENSED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2018**
**(in thousands)**

| | UK | Research Foundation | Gluck Equine Research Foundation | Humanities Foundation | Mining Engineering Foundation | Central Kentucky Management Services | Alumni Association | Kentucky Medical Services Foundation | Eliminations | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | | | | | | | |
| Student tuition and fees | $ 341,672 | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ 341,672 |
| Grants and contracts | 312,917 | 248,398 | — | — | — | — | — | — | (257,350) | 303,965 |
| Recoveries of facilities and administrative costs | 226 | 61,543 | — | — | — | — | — | — | — | 61,769 |
| Sales and services | 58,399 | — | — | — | — | 31,596 | 1,240 | (145) | (33,511) | 57,579 |
| Federal appropriations | 20,158 | — | — | — | — | — | — | — | — | 20,158 |
| County appropriations | 26,149 | — | — | — | — | — | — | — | — | 26,149 |
| Payments to vendors and contractors | (1,016,892) | (96,405) | (56) | (55) | (22) | (1,344) | (1,897) | (289,859) | 356,187 | (1,050,343) |
| Student financial aid | (40,650) | — | — | — | — | — | — | — | — | (40,650) |
| Salaries, wages and benefits | (1,765,130) | (176,588) | (2) | — | (32) | (29,920) | (1,844) | (14,847) | — | (1,988,363) |
| Professional clinical service fees | — | — | — | — | — | — | — | 241,905 | 12,918 | 254,823 |
| Hospital services | 1,610,424 | — | — | — | — | — | — | — | (7,122) | 1,603,302 |
| Auxiliary enterprises receipts | 206,484 | — | — | — | — | — | | — | (469) | 206,015 |
| Loans issued to students | (16,343) | — | — | — | — | — | — | — | — | (16,343) |
| Collection of loans to students | 16,038 | — | — | — | — | — | — | — | — | 16,038 |
| Self-insurance receipts | 68,489 | — | — | — | — | — | — | 1,974 | — | 70,463 |
| Self-insurance payments | (75,073) | — | — | — | — | — | — | — | — | (75,073) |
| Other receipts (payments) | (1,407) | 1,897 | — | — | — | — | — | 89,100 | (67,088) | 22,502 |
| Net cash provided (used) by operating activities | (254,539) | 38,845 | (58) | (55) | (54) | 332 | (2,501) | 28,128 | 3,565 | (186,337) |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | | | | | | | | | |
| State appropriations | 264,418 | — | — | — | — | — | — | — | — | 264,418 |
| Gifts and grants received for other than capital purposes: | | | | | | | | | | |
| Gifts received for endowment purposes | 10,479 | 7 | — | — | 4 | — | | — | (39) | 10,451 |
| Gifts received for other purposes | 128,163 | 174 | 2 | — | — | — | 1,674 | — | (2,839) | 127,174 |
| Agency and loan program receipts | 252,818 | — | — | — | — | — | — | — | — | 252,818 |
| Agency and loan program payments | (252,479) | — | — | — | — | — | — | — | — | (252,479) |
| Grants (to) from the University for noncapital purposes | 12,954 | (12,692) | (245) | (7) | (10) | — | — | — | — | — |
| Other financing receipts (payments) | 6,190 | 2,077 | — | — | — | — | 262 | — | — | 8,529 |
| Net cash provided (used) by noncapital financing activities | 422,543 | (10,434) | (243) | (7) | (6) | — | 1,936 | — | (2,878) | 410,911 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | | | | | | | | | |
| Capital grants and gifts | 15,335 | 7,852 | — | — | — | — | — | — | (13) | 23,174 |
| Purchases of capital assets | (402,657) | (152) | — | — | — | — | (24) | (17,395) | — | (420,228) |
| Proceeds from capital debt | 215,871 | 53 | — | — | — | — | — | 14,525 | — | 230,449 |
| Proceeds from sales of capital assets | 3,950 | — | — | — | — | — | — | — | — | 3,950 |
| Principal paid on capital debt and leases | (48,904) | (18) | — | — | — | — | — | (3,761) | — | (52,683) |
| Interest paid on capital debt and leases | (39,740) | — | — | — | — | — | — | (2,793) | — | (42,533) |
| Grants (to) from the University for capital purposes | 14,478 | (14,476) | (2) | — | — | — | — | — | — | — |
| Other financing receipts (payments) | 1,414 | 50 | — | — | — | — | — | — | — | 1,464 |
| Net cash provided (used) by capital and related financing activities | (240,253) | (6,691) | (2) | — | — | — | (24) | (9,424) | (13) | (256,407) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | | | | | | | |
| Proceeds from sales and maturities of investments | 899,238 | 9,699 | 6,078 | 916 | 1,293 | — | 598 | 53 | — | 917,875 |
| Interest and dividends on investments | 38,240 | 886 | 144 | 23 | 32 | — | 335 | (1,053) | (674) | 37,933 |
| Purchases of investments | (922,939) | (9,182) | (5,643) | (916) | (1,251) | — | (856) | (12,192) | — | (952,979) |
| Net cash provided (used) by investing activities | 14,539 | 1,403 | 579 | 23 | 74 | — | 77 | (13,192) | (674) | 2,829 |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | (57,710) | 23,123 | 276 | (39) | 14 | 332 | (512) | 5,512 | — | (29,004) |
| **CASH AND CASH EQUIVALENTS, beginning of year** | 861,707 | 62,977 | 60 | 59 | 23 | 816 | 874 | 32 | — | 926,548 |
| **CASH AND CASH EQUIVALENTS, end of year** | $ 803,997 | $ 86,100 | $ 336 | $ 20 | $ 37 | $ 1,148 | $ 362 | $ 5,544 | $ — | $ 897,544 |

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

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | OPEB Plan | LTD Plan | Total | OPEB Plan | LTD Plan | Total |
| **ASSETS** | | | | | | |
| Cash and cash equivalents | $ 4,489 | $ 1,125 | $ 5,614 | $ 3,148 | $ 361 | $ 3,509 |
| Accrued interest receivable | — | 21 | 21 | — | 13 | 13 |
| Investments | 171,025 | 20,798 | 191,823 | 156,395 | 19,710 | 176,105 |
| Total assets | 175,514 | 21,944 | 197,458 | 159,543 | 20,084 | 179,627 |
| **LIABILITIES** | | | | | | |
| Accounts payable and accrued liabilities | — | — | — | — | 3 | 3 |
| Total liabilities | — | — | — | — | 3 | 3 |
| **NET POSITION** | | | | | | |
| Net position restricted for postemployment benefits other than pensions | $ 175,514 | $ 21,944 | $ 197,458 | $ 159,543 | $ 20,081 | $ 179,624 |

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

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

## 1. UNIVERSITY OF KENTUCKY OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLAN

### SCHEDULES OF CHANGES IN THE NET OPEB LIABILITY (in thousands) AND RELATED RATIOS

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| Total OPEB liability | | | |
| Service cost | $ 3,953 | $ 3,710 | $ 4,356 |
| Interest cost | 29,225 | 28,053 | 28,667 |
| Change of benefit terms | (58,343) | — | — |
| Difference between expected and actual experience | 1,921 | (1,071) | 12,087 |
| Changes of assumptions | (63,511) | (3,559) | (40,408) |
| Benefit payments | (10,824) | (12,620) | (11,889) |
| Net change in total OPEB liability | (97,579) | 14,513 | (7,187) |
| Total OPEB liability, beginning | 391,034 | 376,521 | 383,708 |
| Total OPEB liability, ending | 293,455 | 391,034 | 376,521 |
| Plan fiduciary net position | | | |
| Contributions - employer | 18,804 | 20,013 | 23,987 |
| Contributions - beneficiaries | 4,379 | 4,945 | 5,500 |
| Net investment income | 9,367 | 8,989 | 12,508 |
| Benefit payments | (15,203) | (17,565) | (17,389) |
| Administrative expense | (1,376) | (783) | (674) |
| Net change in plan fiduciary net position | 15,971 | 15,599 | 23,932 |
| Plan fiduciary net position, beginning | 159,543 | 143,944 | 120,012 |
| Plan fiduciary net position, ending | 175,514 | 159,543 | 143,944 |
| Net OPEB liability, ending | $ 117,941 | $ 231,491 | $ 232,577 |
| Plan fiduciary net position as a percentage of OPEB liability | 59.8% | 40.8% | 38.2% |
| Covered-employee payroll | $ 459,655 | $ 480,320 | $ 494,158 |
| Net OPEB liability as a percentage of covered-employee payroll | 25.7% | 48.2% | 47.1% |

Notes to schedule:

Change of assumptions: The mortality table updated from the aggregate base rate for healthy lives from the Retirement Projection-2014 mortality study with a fully generational projection from 2006 using scale Mortality Projection-2017 to the PUB-2010 Amounts Weighted Mortality Table with a fully generational projection using scale Mortality Projection-2018; the health care trend rates have been updated to better anticipate future experience under the plan.

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

This schedule is presented as of the measurement date for the fiscal year. Ten years of data for the OPEB Plan is required and will be added as information becomes available.

## SCHEDULE OF OPEB INVESTMENT RETURNS

| Year | Annual money-weighted rate of return, net of investment expenses |
|---|---|
| 2017 | 10.3% |
| 2018 | 6.5% |
| 2019 | 5.5% |

## SCHEDULE OF OPEB CONTRIBUTIONS (in thousands)

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| Actuarially determined contribution | $ 20,600 | $ 20,000 | $ 24,454 |
| Contribution in relation to actuarially determined contribution | (18,804) | (20,013) | (23,987) |
| Contribution deficiency (excess) | $ 1,796 | $ (13) | $ 467 |
| Covered employee payroll | $ 459,655 | $ 480,320 | $ 494,158 |
| Contribution as a percentage of covered employee payroll | 4.1% | 4.2% | 4.9% |

Notes to Schedule:

Funding policy contribution rates are calculated as of June 30, one year prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

| | |
|---|---|
| Funding policy | Annual funding contribution to be determined as the minimum of the 15-year amortization and contribution limit not less than $250,000. |
| 15-year amortization | Theoretical annual amount needed to fund the excess of present value of benefits over plan assets. |
| Present value of benefits | Actuarial present value at the beginning of the fiscal year of the net post retirement benefits expected to be paid to all current plan participants calculated using an interest rate equal to the long-term expected return on plan assets (7.5% as of July 1, 2018). |
| Plan assets | Market value of assets as of the beginning of the fiscal year. |
| Contribution limit | $20,600,000 for fiscal 2019; indexed annually at a rate of 3% per annum. |
| Health care trend rate | Post-65 medical 5%, Post-65 RX 10.0% for 2019, decreasing 0.5% per year to an ultimate rate of 5%. Pre-65 7.94% for 2019, decreasing .31% - .39% per year to an ultimate rate of 2.20% in 2022. |
| Discount rate | 7.5% based on the University's funding policy and the expected long-term return on the separate trust assets that will be used to finance the payment of plan benefits. The University has stated that its funding policy is to contribute an amount to a segregated and protected trust fund. The amount will be such that the assets available will always be sufficient to cover the expected benefit payments. |
| Salary scale | 3% per year. |
| Retirement rates | Faculty from 0.00 to 1.00 from age 50 to 85; staff from 0.03 to 1.00 from age 50 to 85. |
| Disability | Gender and age-related disability incidence rates based on 1987 GLTD (six month elimination period). |

| | |
|---|---|
| Mortality | For July 1, 2019, Aggregate base rates for healthy lives from the Retirement Projection-2014 mortality study with a fully generational projection from 2006 using scale Mortality Projection-2017 for the Employer. For June 30, 2019, PUB-2010 Amounts Weighted Mortality Table, with faculty employees classified as "Teachers" and non-faculty employees classified as "General", with mortality improvement projected generationally using scale Mortality Projection-2018 for the plan. |
| Plan participation | 80% elect coverage |
| Dependent coverage | 80% of active employees are assumed to be married at their retirement. 60% of those married retirees are assumed to have spousal coverage in effect upon death. Female spouses of male retirees are assumed to be three years younger than their husbands. Male spouses of female retirees are assumed to be three years older than their wives. |

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

## 2. UNIVERSITY OF KENTUCKY LONG-TERM DISABILITY (LTD) PLAN

### SCHEDULES OF CHANGES IN THE NET LTD LIABILITY (in thousands) AND RELATED RATIOS

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| Total LTD liability | | | |
| Service cost | $ 2,241 | $ 2,104 | $ 1,606 |
| Interest cost | 1,750 | 1,555 | 1,569 |
| Difference between expected and actual experience | (1,782) | 1,017 | 138 |
| Changes of assumptions | (123) | (8) | 1,042 |
| Benefit payments | (1,684) | (1,931) | (1,763) |
| Net change in total LTD liability | 402 | 2,737 | 2,592 |
| Total LTD liability, beginning | 25,517 | 22,780 | 20,188 |
| Total LTD liability, ending | 25,919 | 25,517 | 22,780 |
| Plan fiduciary net position | | | |
| Contributions - employer | 2,063 | 2,002 | 2,020 |
| Net investment income | 1,548 | 1,264 | 1,956 |
| Benefit payments | (1,684) | (1,931) | (1,763) |
| Administrative expense | (64) | (38) | (61) |
| Net change in plan fiduciary net position | 1,863 | 1,297 | 2,152 |
| Plan fiduciary net position, beginning | 20,081 | 18,784 | 16,632 |
| Plan fiduciary net position, ending | 21,944 | 20,081 | 18,784 |
| Net LTD liability, ending | $ 3,975 | $ 5,436 | $ 3,996 |
| Net position as a percentage of LTD liability | 84.7% | 78.7% | 82.5% |
| Covered-employee payroll | $ 1,095,104 | $ 977,928 | $ 940,951 |
| Net LTD liability as a percentage of payroll | 0.4% | 0.6% | 0.4% |

Notes to schedule:

Changes of assumptions: The mortality table was updated from the Aggregate base rates for health lives from the Retirement Projection-2014 mortality study with a fully generational projection from 2006 using scale Mortality Projection-2017 to the PUB-2010 Amounts Weighted Mortality Table with a fully generational projection using scale Mortality Projection-2018.

This schedule is presented as of the measurement date for the fiscal year. Ten years of data for the LTD is required and will be added as information becomes available.

## SCHEDULE OF OPEB INVESTMENT RETURNS

| Year | Annual money-weighted rate of return, net of investment expenses |
|---|---|
| 2017 | 12.0% |
| 2018 | 7.1% |
| 2019 | 7.5% |

## SCHEDULE OF LTD CONTRIBUTIONS (in thousands)

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| Actuarially determined contribution | $ 2,060 | $ 2,000 | $ 1,984 |
| Contribution in relation to actuarially determined contribution | (2,063) | (2,002) | (2,020) |
| Contribution excess | $ (3) | $ (2) | $ (36) |
| Covered employee payroll | $ 1,095,104 | $ 977,928 | $ 940,951 |
| Contribution as a percentage of covered employee payroll | 0.2% | 0.2% | 0.2% |

Notes to schedule:

Funding policy contribution rates are calculated as of June 30, one year prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

| | |
|---|---|
| Funding policy | Annual funding contribution to be determined as the minimum of the ten year amortization and contribution limit not less than $250,000. |
| 10-year amortization | Theoretical annual amount needed to fund the excess of present value of benefits over plan assets. |
| Present value of benefits | Actuarial present value at the beginning of the fiscal year of the net post retirement benefits expected to be paid to all current plan participants calculated using an interest rate equal to the long-term expected return on plan assets (6.5% as of July 1, 2018). |
| Plan assets | Market value of assets as of the beginning of the fiscal year. |
| Contribution limit | $2,060,000 for fiscal 2019; indexed annually at a rate of 3% per annum. |
| Discount rate | 6.5% based on the University's funding policy and the expected long-term return on the separate trust assets that will be used to finance the payment of plan benefits. The University has stated that its funding policy is to contribute an amount to a segregated and protected trust. The amount will be such that the assets available will always be sufficient to cover the expected benefit payments. |
| Elimination period | 6 months. |
| Termination (mortality and recovery from disability) | 2012 Society of Actuaries group LTD table. |
| Mortality (only for life insurance) | Canadian Institute of Actuaries 1988-94 LTD Table. |
| Retirement rates | Faculty from 0.00 to 1.00 from age 50 to 85; staff from 0.03 to 1.00 from age 50 to 85. |

| | |
|---|---|
| Mortality rates for actives | For July 1, 2019, Aggregate base rates for healthy lives from the Retirement Projection-2014 mortality study with a fully generational projection from 2006 using scale Mortality Projection-2017 for the Employer. For June 30, 2019 PUB-2010 Amounts Weighted Mortality Table, with faculty employees classified as "Teachers" and non-faculty employees classified as "General", with mortality improvement projected generationally using Mortality Projection-2018 for the Plan. |
| Incidence of disability | Gender and age related disability incidence rates based on 1987 Commissioner's group LTD table. |
| Duration of payment | Payments are assumed to be made until the later of: i) age 65 and ii) five years after date of disability. |
| LTD income benefit | |
| Disability benefit | Actual net benefit currently being paid (if currently disabled). |
| Social Security offset | Assume 90% of the members who have been disabled for less than 24 months and currently not entitled to a Social Security offset will immediately receive an offset. |
| Future salary increase for active members | 3% per year. |

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

## UNIVERSITY OF KENTUCKY
## GOVERNING BOARD, ADMINISTRATION, AND DEANS AND DIRECTORS



### Executive Officers

Eli Capilouto, President
David W. Blackwell, Provost
Eric N. Monday, Executive Vice President for Finance and Administration
Mark F. Newman, Executive Vice President for Health Affairs

### Administrative Officers

Mitchell S. Barnhart, Director of Athletics
Lisa Cassis, Vice President for Research
Thomas W. Harris, Vice President for University Relations
Sonja Feist-Price, Vice President for Institutional Diversity
Victor Hazard, Vice President for Student Affairs
D. Michael Richey, Vice President for Philanthropy
Bill Swinford, Chief of Staff
William E. Thro, General Counsel

### Academic Officers

Nancy M. Cox, Dean
College of Agriculture
Mark Kornbluh, Dean
College of Arts and Sciences
Simon Sheather, Dean
Gatton College of Business and Economics
Derek Lane, Interim Dean
College of Communication and Information
Larry Holloway, Interim Dean
College of Dentistry
Mitzi R. Vernon, Dean
College of Design
Rosetta Sandidge, Interim Dean
College of Education
Rudy Buchheit, Dean
College of Engineering
Mark Shanda, Dean
College of Fine Arts
Brian Jackson, Interim Dean
Graduate School
Scott Lephart, Dean
College of Health Sciences
David A. Brennen, Dean
College of Law
Christian Brady, Dean
Lewis Honors College
Deirdre Scaggs, Interim Dean
Libraries
Robert DiPaola, Dean
College of Medicine
Janie Heath, Dean
College of Nursing
Kip Guy, Dean
College of Pharmacy
Donna Arnett, Dean
College of Public Health
Ann Vail, Interim Dean
College of Social Work

University Financial Services
301 Peterson Service Building
Lexington, KY 40506-0005

www.uky.edu/ufs/financial-statements-and-investor-information

University of Kentucky

An Equal Opportunity University

**APPENDIX C**

**SUMMARY OF THE TRUST AGREEMENT**

The following is a summary of certain provisions of the Trust Agreement dated as of November 1, 2005, between the University and U.S. Bank National Association, as Trustee, as supplemented and amended. This summary is not to be regarded as a complete statement of the Trust Agreement to which reference is made for a complete statement of the actual terms thereof. Copies of the Trust Agreement are on file with the Trustee.

**Defined Terms**

The terms defined below are among those used in the Official Statement and in this summary of the Trust Agreement. Except where otherwise indicated or provided, words in the singular number include the plural as well as the singular number and vice versa.

"Act" means Sections 162.340 to 162.380 of the Kentucky Revised Statutes, Chapter 56 of the Kentucky Revised Statutes and Sections 58.010 to 58.140 of the Kentucky Revised Statutes as the same may be amended, modified, revised, supplemented, or superseded from time to time.

"Additional Obligation Instruments" means agreements providing for the repayment of money that the University may, from time to time, be authorized to enter into under the laws of the Commonwealth. The definition of Additional Obligation Instruments does not include "Bond" or "Bonds," "Note" or "Notes," Financing Agreements or SPBC Leases.

"ALCo" means the Kentucky Asset/Liability Commission and any successor thereto.

"Authenticating Agent" means the Trustee and the Registrar for the series of Obligations and any bank, trust company or other Person designated as an Authenticating Agent for such series of Obligations by or in accordance with the Trust Agreement.

"Beneficial Owner" means, with respect to the Obligations, a Person owning a Beneficial Ownership Interest therein, as evidenced to the satisfaction of the Trustee.

"Beneficial Ownership Interest" means the beneficial right to receive payments and notices with respect to a series of Obligations which are held by a Depository under a Book Entry System.

"Board" means the Board of Trustees of the University, or if there shall be no such Board of Trustees, such Person or body which, pursuant to law or the organizational documents of the University, is vested with the power to direct the management and policies of the University, and shall include any committee empowered to act on behalf of such board or body.

"Bond" or "Bonds" means any bond, or all of the bonds, or an issue or series of bonds, as the case may be, as so identified in the certificate of the Fiscal Officer, of the University issued pursuant to the 2005 General Bond Resolution, a Series Resolution and the Trust Agreement. The definition of Bond and Bonds does not include "Note" or "Notes," Financing Agreements, SPBC Leases or Additional Obligation Instruments.

"Bond Counsel" means an attorney or firm of attorneys of nationally recognized standing on the subject of municipal bonds selected by the University or its counsel and acceptable to the Trustee.

"Book Entry Form" or "Book Entry System" means, with respect to the Obligations, a form or system, as applicable, under which (a) the Beneficial Ownership Interests may be transferred only through a book entry and (b) physical Obligation certificates in fully registered form are registered only in the name of a Depository or its nominee as Holder, with the physical Obligation certificates "immobilized" in the custody of the Depository. The Book Entry System maintained by and the responsibility of the Depository and not maintained by or the responsibility of the University or the Trustee is the record that identifies, and records the transfer of the interests of, the owners of book entry interests in the Obligations.

"Business Day" means a day of the year, other than a Saturday or Sunday, on which banks located in the city in which the principal corporate trust office of the Trustee is located are not required or authorized to remain closed or a day on which The New York Stock Exchange is not closed.

"Certificate of Award" means, with respect to any series of Obligations, the Certificate of Award for such series, if any, authorized in the applicable Series Resolution or the contract of purchase for such series of Obligations.

"Commonwealth" means the Commonwealth of Kentucky.

"Costs of University Facilities" means the costs of or related to University Facilities, and the financing thereof, for the payment of which Obligations may be issued under the Act.

"Credit Support Instrument" means an irrevocable letter of credit, line of credit, standby bond purchase agreement, insurance policy, guaranty or surety bond or similar instrument providing for the payment of or guaranteeing the payment of principal or purchase price of and interest on Obligations when due, either to which the University is a party or which is provided at the request of the University.

"Credit Support Provider" means the provider of a Credit Support Instrument.

"Debt Service Charges" means, generally, for any applicable time period, (i) the principal (including any Mandatory Sinking Fund Requirements), interest and redemption premium, if any, required to be paid by the University on Obligations pursuant to any Series Resolution, less any capitalized interest for such time period and accrued interest on deposit in the Debt Service Payment Account; (ii) any amounts due to a Credit Support Provider to the extent as set forth in a Credit Support Instrument; and (iii) any amounts due to a Hedge Provider to the extent as set forth in an Interest Rate Hedge Agreement.

"Debt Service Fund" means the Debt Service Fund authorized and created pursuant to the Trust Agreement.

"Debt Service Payment Account" means the Debt Service Payment Account within the Debt Service Fund authorized and created pursuant to the Trust Agreement.

"Debt Service Reserve Account" means the Debt Service Reserve Account authorized and created pursuant to the Trust Agreement.

"Depository" means any securities depository that is a clearing agency under federal law operating and maintaining, together with its participants a Book Entry System to record beneficial ownership of a series of Obligations, and to effect transfers of such Obligations, in Book Entry Form, and includes the Depository Trust Company (a limited purpose trust company), New York, New York.

"Direct Participant" means a Participant as defined in the Letter of Representations.

"Eligible Investments" means any investment authorized by Section 42.500 and 56.520(5) of the Kentucky Revised Statutes, as the same may be amended, modified, revised, supplemented, or superseded from time to time.

"Extraordinary Services" and "Extraordinary Expenses" means all services rendered and all reasonable expenses (including counsel fees) properly incurred by the Trustee under the Trust Agreement, other than Ordinary Services and Ordinary Expenses. Extraordinary Services and Extraordinary Expenses shall specifically include services rendered or expenses incurred by the Trustee in connection with, or in contemplation of, an Event of Default.

"Event of Default" means an Event of Default as defined in the Trust Agreement.

"Financial Statements" means the University's Annual Financial Statements.

"Financing Agreement" means a "Financing Agreement" as defined in Chapter 56 of the Kentucky Revised Statutes between the University and ALCo or the applicable state agency as then provided by law. The definition of Financing Agreement does not include "Bond" or "Bonds," "Note" or "Notes" or Additional Obligation Instruments, but may also mean an SPBC Lease.

"Fiscal Officer" means either the Treasurer of the University or such other person designated by the Chairman of the Board to act as Fiscal Officer for purposes of the Trust Agreement.

"Fiscal Year" means a period of twelve consecutive months constituting the fiscal year of University commencing on the first day of July of any year and ending on the last day of June of the next succeeding calendar year, both inclusive, or such other consecutive twelve month period as hereafter may be established from time to time for budgeting and accounting purposes of the University by the Board to be evidenced, for purposes of the Financing Agreement, by a certificate of a Fiscal Officer filed with the Trustee.

"Fitch" means Fitch Ratings.

"General Receipts" means, as reported in the Financial Statements (having the designations, to the extent not otherwise defined in the Financing Agreement, set forth in the Financial Statements or such successor designations that may hereafter be used in Financial Statements):

(a) certain operating and non-operating revenues of the University, being (i) Student Registration Fees, (ii) nongovernmental grants and contracts, (iii) recoveries of facilities and administrative costs, (iv) sales and services, (v) Hospital Revenues, (vi) Housing and Dining Revenues, (vii) auxiliary enterprises – other auxiliaries, (viii) auxiliary enterprises – athletics, (ix) other operating revenues, (x) state appropriations (for general operations), (xi) gifts and grants, (xii) investment income, (xiii) other nonoperating revenues, and (xiv) other;

(b) but excluding (i) any receipts described in clause (a) which are contracts, grants, gifts, donations or pledges and receipts therefrom which, under restrictions imposed in such contracts, grants, gifts, donations or pledges, or, which as a condition of the receipt thereof or of amounts payable thereunder are not available for payment of Debt Service Charges, (ii) federal grants and contracts, (iii) state and local grants and contracts, (iv) federal appropriations, (v) county appropriations, (vi) professional clinical service fees, (vii) capital appropriations, (viii) capital grants and gifts, and (ix) additions to permanent endowments, including research challenge trust funds;

provided, however, that General Receipts may

(c) include any other receipts that may be designated as General Receipts from time to time by a resolution of the Board delivered to the Trustee; and

(d) exclude any receipts not pledged under the Trust Agreement, which may be designated from time to time by a resolution of the Board delivered to the Trustee;

(e) exclude any receipts pledged under the Trust Agreement, which may be designated from time to time by a resolution of the Board delivered to the Trustee and each Rating Service then rating any Obligations, but only if each such Rating Service confirms in writing to the University that the exclusion of any such receipt would not cause a reduction or withdrawal of the then current rating on any Outstanding Obligations.

"Government Bonds" means (a) direct obligations of the United States of America for the payment of which the full faith and credit of the United States of America is pledged, (b) obligations issued by a Person controlled or supervised by and acting as an instrumentality of the United States of America, the payment of the principal of, premium, if any, and interest on which is fully guaranteed as a full faith and credit obligation of the United States of America (including any securities described in (a) or (b) issued or held in book-entry form on the books of the Department of Treasury of the United States of America or Federal Reserve Bank), and (c) securities which represent an interest in the obligations described in (a) and (b) above.

"Hedge Provider" means the provider of an Interest Rate Hedge Agreement.

"Holder" means any Person in whose name a registered Obligation is registered; provided that ALCo, or its assignee, shall be the Holder of any Financing Agreement and SPBC, or its assignee, shall be the Holder of any SPBC Lease.

"Hospital Revenues" means operating revenues having the designation "hospital services" in the Financial Statements or any successor designation or designations for such receipts that may hereafter be used in Financial Statements.

"Housing and Dining Bonds" means Obligations, the proceeds of which will be used to pay Costs of University Facilities which constitute Housing and Dining Facilities.

"Housing and Dining Facilities" means Housing and Dining Facilities, as defined in the Prior Housing Indenture.

"Housing and Dining Revenues" means operating revenues (auxiliary enterprises) having the designation "housing and dining" in the Financial Statements or any successor designation or designations for such receipts that may hereafter be used in Financial Statements.

"Indirect Participant" means a Person utilizing the Book Entry System of the Depository by, directly or indirectly, clearing through or maintaining a custodial relationship with a Direct Participant.

"Interest Payment Dates" means the dates specified in the applicable Series Resolution or Certificate of Award on which interest on the Obligations or any series of Obligations is to be paid.

"Interest Rate Hedge Agreement" means an interest rate swap, an interest rate cap or other such arrangement obtained, either directly by the University (or the Trustee on behalf of the University) or through ALCo, with the goal of lowering the effective interest rate to the University on Obligations or hedging the exposure of the University with respect to its obligations on the Obligations against fluctuations in prevailing interest rates.

"Letter of Representations" means the Blanket Letter of Representations from the University to the Depository.

"Mandatory Sinking Fund Requirements" means amounts required by any Series Resolution or the Certificate of Award to be deposited to the Debt Service Payment Account in any fiscal year for the purpose of retiring principal maturities of Obligations which by the terms of such Obligations are due and payable, if not called for prior redemption, in any subsequent fiscal year.

"Maximum Annual Debt Service" means the highest amount of (i) Debt Service Charges plus (ii) the principal of and interest on all Prior Obligations that are outstanding under the terms of the Prior Basic Resolution or the Prior Housing Indenture, for the current or any future Fiscal Year.

"Moody's" means Moody's Investors Service, Inc., a Delaware corporation, and its successors and assigns.

"Notes" or "Note" means any note or all of the notes, or an issue of notes, as the case may be, as so identified in the certificate of the Fiscal Officer issued by the University in anticipation of the issuance of Obligations or receipt of grants or appropriations to pay Costs of University Facilities, or to pay costs of refunding or retirement of Notes previously issued pursuant to the Act, the 2005 General Bond Resolution, a Series Resolution and the Trust Agreement. The definition of Note and Notes does not include "Bond" or "Bonds," Financing Agreements, SPBC Leases or Additional Obligation Instruments.

"Obligations" means Bonds, Notes, Financing Agreements, SPBC Leases and Additional Obligation Instruments.

"Ordinary Services" and "Ordinary Expenses" means those services normally rendered and those expenses (including counsel fees) normally incurred by a trustee under instruments similar to the Trust Agreement.

"Original Purchaser" means, as to any Obligations, the Person or Persons expressly named in the applicable Series Resolution or the Certificate of Award as the original purchaser of those Obligations from the University.

"Outstanding" means, as of any date, Notes and Bonds which have been authenticated, and with respect to all Obligations, have been delivered, or are then being delivered, by the Trustee or the University under the Trust Agreement except:

(a) Obligations surrendered for exchange or transfer or canceled because of payment or redemption at or prior to such date;

(b) Obligations for the payment, redemption or purchase for cancellation of which sufficient moneys have been deposited prior to such date with the Trustee or Paying Agents (whether upon or prior to the maturity or redemption date of any such Obligations), or which are deemed to have been paid and discharged pursuant to the provisions of the Trust Agreement; provided that if such Obligations are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given or arrangements satisfactory to the Trustee shall have been made there for, or waiver of such notice satisfactory in form to the Trustee shall have been filed with the Trustee, and provided, further, that if such Obligations are to be purchased for cancellation, a firm offer for sale stating the price has been received and accepted; and

(c) Lost, stolen, mutilated or destroyed Obligations in lieu of which others have been authenticated, if applicable, (or payment, when due, of which is made without replacement) under the Trust Agreement.

"Paying Agents" means any banks or trust companies designated as the paying agencies or places of payment for Obligations by or pursuant to the applicable Series Resolution, and their successors designated pursuant to the Trust Agreement, and shall also mean the Trustee when so designated for such purpose.

"Person" means an individual, a corporation, a partnership, an association, a joint stock company, a joint venture, a trust, an unincorporated organization, or a government or any agency or political subdivision thereof.

"Predecessor Obligation" of any particular Obligation means every previous Obligation evidencing all or a portion of the same debt as that evidenced by the particular Obligation. For the purposes of this definition, any Bond or Note authenticated and delivered under the Trust Agreement in lieu of a lost, stolen or destroyed Bond or Note shall, except as otherwise provided in the Trust Agreement, be deemed to evidence the same debt as the lost, stolen or destroyed Bond or Note.

"Prior Basic Resolution" means the resolution adopted by the Board on September 20, 1960, that has provided for the issuance of Consolidated Educational Buildings Revenue Bonds of the University.

"Prior Financing Documents" means, collectively, the Prior Basic Resolution and the Prior Housing Indenture.

"Prior Funds" means all funds and accounts created by the Prior Financing Documents that are pledged as security and a source of payment of bonds and notes issued thereunder.

"Prior Housing Indenture" the Trust Indenture and Supplemental Trust Indenture dated as of June 1, 1965 (and all supplemental indentures related thereto) between the University and Farmers' Bank & Capital Trust Company that, has provided for the issuance of Housing and Dining Bonds.

"Prior Obligations" means any notes or bonds that are outstanding under the Prior Financing Documents.

"Prior Pledged Funds" means, collectively, all funds and accounts created under the Prior Financing Documents.

"Prior Pledged Revenues" means amounts required to be deposited in the "Revenue Fund" created by the Prior Basic Resolution and in the "System Revenue Fund" created by the Prior Housing Indenture.

"Project Fund" means the Project Fund created pursuant to the Trust Agreement.

"Purchase Price" means, as to any series of Obligations, the amount provided for in the Series Resolution and the Certificate of Award authorized thereby, plus accrued interest, if any, on the aggregate principal amount of those Obligations from their date to the date of their delivery to the Original Purchaser and payment therefor.

"Rating Service" means Fitch, Moody's, S&P or any other nationally recognized rating service.

"Redemption and Purchase Account" means the Redemption and Purchase Account authorized and created pursuant to the Trust Agreement.

"Register" means the books kept and maintained by the Registrar for the registration and transfer of Obligations pursuant to the Trust Agreement.

"Registrar" means, with respect to a series of Obligations, the keeper of the Register for those Obligations, which shall be the Trustee except as may be otherwise provided by or pursuant to the Series Resolution for those Obligations, each of which shall be a transfer agent registered in accordance with Section 17(A)(c) of the Securities Exchange Act of 1934.

"Regular Record Date" means, with respect to any Obligation and unless otherwise provided in the Series Resolution authorizing the particular series of Obligations, the fifteenth day of the calendar month next preceding an Interest Payment Date applicable to that Obligation.

"Reimbursement Agreement" means, with respect to a series of Obligations, any agreement or agreements between one or more Credit Support Providers and the University under or pursuant to which a Credit Support Instrument for such series of Obligations is issued or provided and which sets forth the respective obligations of the University and of the Credit Support Provider.

"Remarketing Agent" means any entity which acts as the remarketing agent with respect to a series of Obligations.

"Revenue Fund" means the Revenue Fund authorized and created pursuant to the Trust Agreement.

"S&P" means Standard & Poor's Rating Services, a Division of The McGraw Hill Companies, and its successors and assigns.

"Series Resolution" means a Resolution of the Board authorizing one or more series of Obligations and the execution and delivery of a Supplemental Trust Agreement, all in accordance with the 2005 General Bond Resolution and the Trust Agreement.

"SPBC" means the State Property and Buildings Commission of the Commonwealth and any successor thereto.

"SPBC Lease" means a lease between the University and SPBC or the applicable state agency as then provided by law. The definition of SPBC Lease does not include "Bond" or "Bonds," "Note" or "Notes" or Additional Obligation Instruments, but may also mean a Financing Agreement.

"Special Funds" means the Debt Service Fund and accounts therein and any other funds or accounts permitted by, established under, or identified in the Trust Agreement or a Series Resolution and designated as Special Funds. The Revenue Fund shall not be a Special Fund.

"Student Registration Fees" means operating revenues having the designation "student tuition and fees" in the Financial Statements or any successor designation or designations for such receipts that may hereafter be used in Financial Statements.

"Subordinated Indebtedness" means obligations which, with respect to any issue thereof, are secured by a pledge of the General Receipts which is subordinate to that of the holders of Obligations and which are evidenced by instruments, or issued under an indenture or other document, containing provisions for the subordination of such obligations.

"Supplemental Trust Agreement" means any one or more of Supplemental Trust Agreements entered into by the parties pursuant to the Trust Agreement and a Series Resolution.

"Tender Agent" means any entity which acts as a tender agent for a series of Obligations.

"Trust Agreement" means the Trust Agreement, dated as of November 1, 2005, between the University and the Trustee, as the same may be duly amended, modified or supplemented in accordance with its terms.

"Trustee" means the Trustee at the time serving under the Trust Agreement, originally U.S. Bank National Association and any successor Trustee as determined or designated under or pursuant to the Trust Agreement.

"2005 General Bond Resolution" means the resolution of the Board adopted on September 20, 2005, authorizing the execution and delivery of the Trust Agreement.

“University” means the University of Kentucky, a public body corporate, and an educational institution and agency of the Commonwealth of Kentucky, and every part and component thereof as from time to time existing, and when the context requires, includes the Board.

“University Facilities” means buildings and appurtenances to be used in connection with the University for educational purposes, including, but not limited to any Authorized Project, any Building, any Building project and any Public project, as those terms are defined in the Act, and further includes any one, part of, or any combination of such facilities, and further includes site improvements, utilities, machinery, furnishings and any separate or connected buildings, structures, improvements, sites, open space and green space areas, utilities or equipment to be used in, or in connection with the operation or maintenance of, or supplementing or otherwise related to the services or facilities to be provided by such facilities.

Any reference in the Financing Agreement to the University, the Board, or to any officers or to other public boards, commissions, departments, institutions, agencies, bodies, entities or officers, shall include those which succeed to their functions, duties or responsibilities pursuant to or by operation of law or who are lawfully performing their functions. Any reference to a section or provision of the Kentucky Revised Statutes or to the laws of Kentucky shall include such section or provision and such laws as from time to time amended, modified, revised, supplemented, or superseded, provided that no such amendment, modification, revision, supplementation, or super session shall alter the obligation to pay the Debt Service Charges in the amount and manner, at the times, and from the sources provided in this Resolution, the applicable Series Resolution, and the Trust Agreement, except as otherwise permitted in the Trust Agreement.

**Debt Service Fund and Other Special Funds**

The Trustee will hold and administer the Debt Service Fund and any other Special Fund created under the Trust Agreement, together with the accounts contained therein, upon the terms and conditions, including, without limitation, the terms and conditions set forth in the Trust Agreement and the applicable Series Resolution and/or Supplemental Trust Agreement for the investment of moneys deposited in such Funds, set forth in the applicable Series Resolution and the Trust Agreement.

There will be maintained in the Debt Service Fund the following Accounts: the Debt Service Payment Account, the Debt Service Reserve Account and the Redemption and Purchase Account. The Trustee will maintain a separate subaccount within the Debt Service Payment Account for each series of Obligations and each separate subaccount will secure only the particular series of Obligations to which it is related. (Section 4.01)

**Use of Debt Service Payment Account; Intercept**

The Debt Service Account is pledged to and will be used solely for the payment of Debt Service Charges as they fall due. Payments sufficient in an amount to pay the Debt Service Charges as they become due will be paid by the University directly to the Trustee, and deposited in the Debt Service Payment Account to the extent moneys in the Debt Service Payment Account are not otherwise available therefore. Upon the occurrence and during the continuation of an Event of Default described in the Trust Agreement with respect to a specific series of Obligations, if a subaccount in the Debt Service Reserve Account has been created to secure such series of Obligations, moneys in the applicable subaccount of the Debt Service Reserve Account may be transferred by the Trustee to the Debt Service Payment Account to be used to pay Debt Service Charges with respect to such series of Obligations pursuant to the Trust Agreement. Except as provided in the Trust Agreement, moneys in the Debt Service Payment Account shall be used solely for the payment of Debt Service Charges on the Obligations, for the redemption of Obligations prior to maturity, for the payment of any amounts due to a Credit Support Provider to the extent as set forth in a Credit Support Instrument, for the payment of any amounts due to a Hedge

Provider to the extent as set forth in an Interest Rate Hedge Agreement and as otherwise provided in the Trust Agreement and the 2005 General Bond Resolution.

If, ten days prior to any date that the payment of Debt Service Charges are due, sufficient funds are not on deposit in the Debt Service Payment Account to enable the Trustee to pay such Debt Service Charges, or if the Trustee shall have transferred funds from a Debt Service Reserve Account to the Debt Service Payment Account to forestall a default in the payment of Debt Service Charges, then in each such instance the Trustee shall immediately notify the Treasurer of the University and the Secretary of the Finance and Administration Cabinet of the Commonwealth in writing of such event and request that amounts be remitted to the Trustee pursuant to the then applicable provisions of Section 164A.608 of the Kentucky Revised Statutes to cure such deficiency or to restore the amount transferred from the Debt Service Reserve Account. (Section 4.02)

**Debt Service Reserve Account**

The Trustee will hold and administer a Debt Service Reserve Account to be used, solely for the payment of Debt Service Charges with respect to any series of Obligations for which a reserve fund has been mandated pursuant to the Series Resolution which authorized the issuance of such series of Obligations. A separate subaccount shall be created in the Supplemental Debt Service Reserve Account for each series of Obligations for which a reserve fund has been mandated by the Series Resolution which authorized such series of Obligations and each separate subaccount shall secure only the particular series of Obligations to which it is related.

If, on the date upon which Debt Service Charges on any Obligations which are secured by a Debt Service Reserve Account or subaccount held by the Trustee fall due, the subaccount within the Debt Service Payment Account related to such Obligations is insufficient to meet such Debt Service Charges to be paid therefrom on such date, the Trustee will immediately transfer from the appropriate subaccount of the Debt Service Reserve Account an amount sufficient to make up such deficiency in the subaccount of the Debt Service Payment Account. Except as may be provided in the applicable Series Resolution or Supplemental Trust Agreement, if on the day upon which amounts are due to a Hedge Provider under an Interest Rate Hedge Agreement or are due to a Credit Support Provider in reimbursement for amounts provided under a Credit Support Instrument, the amount in the subaccount within the Debt Service Payment Account related to such Debt Service Charges (other than from any amounts provided under an Interest Rate Hedge Agreement or Credit Support Instrument) is insufficient to pay such amounts to such Hedge Provider or Credit Support Provider on that date, the Trustee, without necessity for any further order of the University or officer thereof, will make available for such reimbursement any amounts in the related subaccount of the Debt Service Reserve Account for the series of Obligations to which the Interest Rate Hedge Agreement or Credit Support Instrument applies that are necessary to make up that insufficiency. The amount so transferred will be applied only to the payment of Debt Service Charges on the Obligations to which that Debt Service Reserve Account pertains or for the payment of any amounts due to a Hedge Provider under an Interest Rate Hedge Agreement or to a Credit Support Provider as reimbursement of draws under a Credit Support Instrument in connection with the Obligations to which that Debt Service Reserve Account pertains.

Subject to the foregoing, any amount in a subaccount of the Debt Service Reserve Account in excess of the amount required to be maintained therein pursuant to the Series Resolution which created such subaccount or the Certificate of Award (the "Required Amount") will be transferred to the Debt Service Payment Account or to the Redemption and Purchase Account for the purposes thereof, if and to the extent ordered by the Fiscal Officer. Such excess will be determined by calculating the Required Amount with reference to Outstanding Obligations of the particular series only, excluding any Obligations for the redemption or purchase of which such excess is being transferred to the Redemption and Purchase Account.

Within one hundred eighty (180) days after the end of each Fiscal Year, the University shall, from General Receipts, restore to the various subaccounts within the Debt Service Reserve Account any amounts transferred therefrom or any decrease in value determined pursuant to Section 4.14 of the Trust Agreement in such Fiscal Year so that the amounts in such subaccounts are at least equal to the various Required Amounts. (Section 4.03)

**Redemption and Purchase Account**

There will be deposited in the Redemption and Purchase Account that portion (if any) of the proceeds of refunding Obligations, as provided in the Series Resolution authorizing their issuance, allocated to the payment of the principal, interest and redemption premium, if any, or purchase price of the Obligations to be refunded, funded or retired through the issuance of such refunding Obligations; amounts to be transferred thereto from the Debt Service Reserve Account by order of the Fiscal Officer pursuant to Section 4.03 of the Trust Agreement; and any other amounts made available by the University for the purposes of the Redemption and Purchase Account. Amounts for the redemption of Obligations to be provided pursuant to the mandatory sinking fund requirements of the Series Resolution authorizing such Obligations will not be deposited to the credit of the Redemption and Purchase Account, but shall be deposited to the credit of the Debt Service Payment Account.

Any amounts in the Redemption and Purchase Account may be committed, by Series Resolution or other action by the Board, for the retirement of and for Debt Service Charges on specified Obligations and, so long as so committed, will be used solely for such purposes whether directly or through transfer to the Debt Service Fund. Subject to the foregoing provisions of the Trust Agreement, the Fiscal Officer may cause moneys in the Redemption and Purchase Account to be used to purchase any Obligations for cancellation and to redeem any Obligations in accordance with the redemption provisions of the applicable Series Resolution. From moneys in the Redemption and Purchase Account, the Trustee will transmit or otherwise disburse such amounts at such times as required for the redemption or purchase for cancellation of Obligations, and Debt Service Charges, in accordance with the applicable Series Resolution, or other action by the Board or order of the Fiscal Officer not inconsistent therewith. Any amounts in the Redemption and Purchase Account not required for the purposes thereof pursuant to a commitment theretofore made, may be transferred to the Debt Service Payment Account or the Debt Service Reserve Account upon order of the Fiscal Officer. (Section 4.04)

**Project Fund**

Upon the issuance and delivery of Obligations, the proceeds of which will be used to pay Costs of University Facilities, the Treasury of the Commonwealth, will hold and administer a fund designated the "University of Kentucky Project Fund" with an additional series identification for each series of Obligations.

Amounts in a Project Fund will be disbursed therefrom by the Treasurer of the Commonwealth according to such inspection, audit, and disbursement procedures as may from time to time be provided by law, for the purpose of paying Costs of University Facilities as identified in the related Series Resolution or Supplemental Trust Agreement and to reimburse the University for any payments which may have been made from other available resources in anticipation of the issuance of such Obligations.

Any balance remaining in a Project Fund after the final payment of all Costs of University Facilities for which such Project Fund was created, will be deposited in the Debt Service Fund and (i) credited to the related subaccount, if any, within the Debt Service Reserve Account if and to the extent that such subaccount of the Debt Service Reserve Account contains less than the Required Amount, and/or (ii) either applied as a credit against the next deposit required to be made into the Debt Service Payment Fund, or used to purchase Obligations in the open market at a purchase price not exceeding par plus accrued interest, as may be directed by the Fiscal Officer; provided that, if proceedings are then pending or imminently contemplated for incurring additional Costs of University Facilities which are or will be paid from the proceeds of Obligations, any such unexpended balance may be taken into account in determining the amount of Obligations to be authorized for such purpose, or may otherwise be applied to such Costs of University Facilities, in which event such unexpended balance may be transferred to a Project Fund created for such purpose.

If so provided in any Series Resolution or a Supplemental Trust Agreement, to the extent permitted by law, a Project Fund may be held and disbursed by the Trustee. Furthermore, if the Obligations with respect to which a Project Fund is created are Financing Agreements, SPBC Leases or Additional Obligation Instruments, a Project Fund may be created in accordance with the requirements of such Financing Agreements, SPBC Leases or Additional Obligation Instruments. (Section 4.05)

**General Covenant**

So long as any Obligations are Outstanding pursuant to the Trust Agreement, the University covenants and agrees: (i) to fix, make, adjust and collect such fees, rates, rentals, charges and other items of General Receipts so that there shall inure to the University General Receipts, in view of other revenues and resources available to the University, sufficient: to pay Debt Service Charges then due or to become due in the current Fiscal Year; to pay any other costs and expenses payable under the Trust Agreement; and to pay all other costs and expenses necessary for the proper maintenance and successful and continuous operation of the University; and (ii) that it will include in its budget for each Fiscal Year the amount required to be paid to the Debt Service Fund established under Section 4.02 of the Trust Agreement, during such Fiscal Year. (Section 4.12)

**Investment of Debt Service Fund and Project Fund**

Except as provided in the Trust Agreement, moneys in the Debt Service Fund and the Project Fund shall be invested and reinvested by the Trustee (or the Fiscal Officer, as applicable) in Eligible Investments at the oral or written direction of the University, but if oral, confirmed promptly in writing. Investment of moneys in the Debt Service Fund shall mature or be redeemable at the times and in the amounts necessary to provide moneys to pay Debt Service Charges as they become due at stated maturity, by redemption or pursuant to any mandatory sinking fund requirements. Each investment of moneys in the Debt Service Fund and the Project Fund will mature or be redeemable without penalty at such time as may be necessary to make payments when necessary from such fund. In the absence of any written direction from the Fiscal Officer, the Trustee will invest all funds in sweep accounts, money-market funds and similar short-term investments, provided that all such investments shall constitute Eligible Investments. The Trustee may trade with itself or its affiliates in the purchase and sale of securities for such investments.

Subject to any directions from the University with respect thereto, the Trustee may sell at the best price reasonably obtainable Project Fund investments and reinvest the proceeds therefrom in Eligible Investments maturing or redeemable as aforesaid. Any of those investments may be purchased from or sold to the Trustee, the Registrar, an Authenticating Agent, a Paying Agent, or any bank, trust company or savings and loan association affiliated with any of the foregoing. The Trustee will sell or redeem investments credited to the Debt Service Fund to produce sufficient moneys applicable under the Trust Agreement to and at the times required for the purposes of paying Debt Service Charges when due as aforesaid, and shall do so without necessity for any order on behalf of the University and without restriction by reason of any order. An investment made from moneys credited to the Debt Service Fund and the Project Fund will constitute part of that respective fund, and each respective fund will be credited with all proceeds of sale and income from investment of moneys credited thereto.

For purposes of qualifying any investment as an Eligible Investment, where such qualification is dependent upon the rating assigned to such investment by a Rating Service, such qualification will be determined as of the date of purchase of such investment or deposit thereof with the Trustee, whichever is later. (Section 4.15)

**Revenue Fund**

So long as any Obligations remain Outstanding, there will be maintained a Revenue Fund, which, to the extent required by law, may be a fund (and accounts) in the Commonwealth's management administrative and reporting system. There will be maintained in the Revenue Fund the following Accounts: a "Student Registration Fees Account," a "Hospital Revenues Account" and a "Housing and Dining Revenues Account." The "Revenue Fund" created pursuant to the Prior Bond Resolution will continue to be maintained so long as any bonds remain outstanding under the Prior Bond Resolution, such Revenue Fund will constitute the Student Registration Fees Account of the Revenue Fund until there are no bonds outstanding under the Prior Bond Resolution and all Student Registration Fees will be deposited therein. The "Revenue Fund" created pursuant to a Master Resolution adopted by the Board on June 25, 1986 will continue to be maintained as the Hospital Revenues Account of the Revenue Fund and all Hospital Revenues shall be deposited therein. The "System Revenue Fund" created pursuant to the Prior Housing Indenture will continue to be maintained so long as any bonds remain outstanding under the Prior Housing Indenture, such System Revenue Fund will constitute the Housing and Dining Revenues Account of the Revenue Fund until there are no bonds outstanding under the Prior Housing Indenture and all Housing and Dining Revenues will be deposited therein. (Section 4.16)

**Maintenance of Pledge**

The University will not make any pledge or assignment of or create or suffer any lien or encumbrance upon the Debt Service Fund and, except for the existing pledges under the Prior Basic Resolution and Prior Housing Indenture, the University will not make any pledge or assignment of or create or suffer any lien or encumbrance upon the General Receipts prior to or on a parity with the pledge thereof under the Trust Agreement, except as authorized or permitted under the Trust Agreement. The University will issue no additional bonds or notes under the Prior Basic Resolution. The University will issue no additional bonds or notes under the Prior Housing Indenture unless, with respect to a series of Housing and Dining Bonds, (i) such bonds or notes could be issued as Obligations under the Trust Agreement within the limitations set forth in Section 2.01 of the Trust Agreement and (ii) it is provided in the supplemental indenture authorizing such notes or bonds that on the date no Housing and Dining Bonds are outstanding under the Prior Housing Indenture, other than notes or bonds issued in accordance with Section 4.18 of the Trust Agreement, the lien securing such Housing and Dining Bonds created by the Prior Housing Indenture will terminate and such Housing and Dining Bonds will continue as Obligations under the Trust Agreement on a parity with all other Obligations. (Section 4.18)

**Events of Default**

Events of Default under the Trust Agreement include:

(a) Failure to pay any Debt Service Charges when and as the same becomes due and payable;

(b) Failure to pay the principal of or any premium on any Prior Obligations when and as the same becomes due and payable, whether at the stated maturity thereof or by redemption or acceleration or pursuant to any mandatory sinking fund requirements;

(c) Failure by the University to perform or observe any other covenant, agreement or condition on the part of the University contained in the Trust Agreement or in the Obligations, which failure or Event of Default shall have continued for a period of 30 days after written notice, by registered or certified mail, given to the University by the Trustee, specifying the failure or

Event of Default and requiring the same to be remedied, which notice shall be given by the Trustee upon the written request of the Holders of not less than twenty-five percent in aggregate principal amount of the Obligations then Outstanding; provided that the Person or Persons requesting such notice may agree in writing to a 90-day extension of such period prior to the expiration of the initial 30-day period; provided further, however, that if the University will proceed to take curative action which, if begun and prosecuted with due diligence, cannot be completed within a period of 90 days, then such period shall be increased without such written extension up to 180 days as will be necessary to enable the University to diligently complete such curative action;

(d) The University will (i) admit in writing its inability to pay its debts generally as they become due, (ii) have an order for relief entered in any case commenced by or against it under federal bankruptcy laws, as now or hereafter in effect, (iii) commence a proceeding under any federal or state bankruptcy, insolvency, reorganization or similar laws, or have such a proceeding commenced against it and have either an order of insolvency or reorganization entered against it or have the proceeding remain undismissed and unstayed for 90 days, (iv) make an assignment for the benefit of creditors, or, (v) have a receiver or trustee appointed for it or for the whole or substantial part of its property. (Section 6.01)

**Supplemental Trust Agreements Not Requiring Consent of Holders**

The University and the Trustee without the consent of, or notice to, any of the Holders, may enter into indentures supplemental to the Trust Agreement and other instruments evidencing the existence of a lien as shall not, in the opinion of the Trustee, be inconsistent with the terms and provisions of the Trust Agreement for any one or more of the following purposes:

(a) To cure any ambiguity, inconsistency or formal defect or omission in the Trust Agreement or in any Supplemental Trust Agreement;

(b) To grant to or confer upon the Trustee for the benefit of the Holders any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Holders or the Trustee;

(c) To subject additional revenues or property to the lien and pledge of the Trust Agreement;

(d) To add to the covenants and agreements of the University contained in the Trust Agreement other covenants and agreements thereafter to be observed for the protection of the Holders, or, if in the judgment of the Trustee such is not to the prejudice of the Trustee or the Holders, to surrender or limit any right, power or authority reserved to or conferred upon the University in the Trust Agreement, including the limitation of rights of redemption so that in certain instances Obligations of different series will be redeemed in some prescribed relationship to one another;

(e) To evidence any succession to the University and the assumption by such successor of the covenants and agreements of the University contained in the Trust Agreement or other instrument providing for the operation of the University or University Facilities, and the Obligations;

(f) In connection with the issuance of Obligations in accordance with Sections 2.01 and 2.02 of the Trust Agreement;

(g) To permit the Trustee to comply with any obligations imposed upon it by law;

(h) To permit the exchange of Obligations, at the option of the Holder or Holders thereof, for coupon Obligations of the same series payable to bearer, in an aggregate principal amount not exceeding the unmatured and unredeemed principal amount of the Predecessor Obligations, bearing interest at the same rate or rates and maturing on the same date or dates, with coupons attached representing all unpaid interest due or to become due thereon if, in the opinion of nationally recognized Bond Counsel selected by the University and acceptable to the Trustee, that exchange would not result in the interest on any of the Obligations Outstanding becoming subject to federal income taxation;

(i) To specify further the duties and responsibilities of, and to define further the relationship among, the Trustee, the Registrar and any Authenticating Agents or Paying Agents;

(j) To achieve compliance of the Trust Agreement with any applicable federal or Kentucky laws, including tax laws;

(k) To modify any provisions of the Trust Agreement in order to obtain a Credit Support Instrument or Interest Rate Hedge Agreement, so long as such modifications affect only the Obligations to which such Credit Support Instrument or Interest Rate Hedge Agreement relate; and

(l) In connection with any other change to the Trust Agreement which, in the judgment of the Trustee, is not to the material prejudice of the Trustee or the Holders of the Obligations.

The provisions of (g) and (j) above will not be deemed to constitute a waiver by the Trustee, the Registrar, the University or any Holder of any right which it may have in the absence of those provisions to consent to the application of any change in law to the Trust Agreement or the Obligations. (Section 7.01)

**Supplemental Trust Agreements Requiring Consent of Holders**

Exclusive of supplemental indentures referred to in Section 7.01 of the Trust Agreement and subject to the terms and provisions and limitations contained in this paragraph, and not otherwise, the Holders of a majority in aggregate principal amount of the Obligations then Outstanding shall have the right, from time to time, anything contained in the Trust Agreement to the contrary notwithstanding, to consent to and approve the execution by the University and the Trustee of such other indenture or indentures supplemental to the Trust Agreement as shall be deemed necessary and desirable by the University for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Trust Agreement; provided that nothing in this paragraph or in the Trust Agreement will permit, or be construed as permitting, a Supplemental Trust Agreement providing for (a)(i) a reduction in the percentage of Obligations the consent of the Holders of which are required to consent to such Supplemental Trust Agreement or (ii) a preference or priority of any Obligation or Obligations over any other Obligation or Obligations, without the consent of the Holders of all Obligations then Outstanding, (b) effect a change in the times, amount or currency of payment of the principal of, premium, if any, on or interest on any Obligation or a reduction in the principal amount or redemption price of any Obligation or the rate of interest thereon, without the consent of the Holder of each such Obligation so affected or (c) modify the right of the Holders of not less than twenty-five percent in aggregate principal amount of the Obligations then Outstanding and in default as to payment of principal, premium or interest to compel the Trustee to declare the principal of all Obligations to be due and payable, without the consent of the Holders of a majority in aggregate principal amount of the Obligations then Outstanding.

If at any time the University request the Trustee to enter into any such Supplemental Trust Agreement for any of the purposes of Section 7.02 of the Trust Agreement, the Trustee, upon being satisfactorily indemnified with respect to expenses, shall cause notice of the proposed execution of such Supplemental Trust Agreement to be mailed by first class mail, postage prepaid, to all Holders of Obligations then Outstanding at their addresses as they appear on the Registrar at the close of business on the Business Day immediately preceding that mailing. The Trustee will not, however, be subject to any liability to any Holder by reason of its failure to mail, or the failure of such Holder to receive, the notice required by the Trust Agreement, and any such failure shall not affect the validity of such Supplemental Trust Agreement when consented to and approved as provided in Section 7.02 of Trust Agreement. Such notice will briefly set forth the nature of the proposed Supplemental Trust Agreement and will state that copies thereof are on file at the principal corporate trust office of the Trustee for inspection by all Holders.

If within such period, not exceeding one year, as prescribed by the University, following the mailing of such notice, the Trustee receives an instrument or instruments purporting to be executed by the Holders of a majority in aggregate principal amount of the Obligations then Outstanding, which instrument or instruments shall refer to the proposed Supplemental Trust Agreement described in such notice and will specifically consent to and approve the execution thereof in substantially the form of the copy thereof referred to in such notice as on file with the Trustee, thereupon, but not otherwise, the Trustee will execute such Supplemental Trust Agreement in substantially such form; without liability or responsibility to any Holder of any Obligation, whether or not such Holder will have consented thereto.

Any such consent is binding upon the Holder of the Obligation giving such consent, upon any subsequent Holder of such Obligation and upon the Holder of any Obligation issued in exchange therefor (whether or not such subsequent Holder thereof has notice thereof), unless such consent is revoked in writing by the Holder of such Obligation giving such consent or by a subsequent Holder thereof by filing with the Trustee, prior to the execution by the Trustee of such Supplemental Trust Agreement, such revocation and, if such Obligation or Obligations are transferable by delivery, proof that such Obligations are held by the signer of such revocation in the manner permitted by Section 9.01 of the Trust Agreement. At any time after the Holders of the required percentage of the Obligations shall have filed their consents to the Supplemental Trust Agreement, the Trustee shall make and file with the University a written statement that the, Holders of such required percentage of the Obligations have filed such consents. Such written statement shall be conclusive evidence that such consents have been so filed.

If the Holders of the required percentage in aggregate principal amount of the Obligations shall have consented to and approved the execution thereof as provided in the Trust Agreement, no Holder of any Obligation has any right to object to the execution of such Supplemental Trust Agreement, to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question the propriety of the execution thereof or to enjoin or restrain the Trustee or the University from executing the same or from taking any action pursuant to the provisions thereof.

**Authorization to the Trustee; Effect of Supplemental Trust Agreements**

The Trustee is authorized to join with the University in the execution of any such Supplemental Trust Agreement provided for in the Trust Agreement and to make the further agreements and stipulations which may be contained therein. Any Supplemental Trust Agreement executed in accordance with the provisions of the Trust Agreement will thereafter form a part of the Trust Agreement, all the terms and conditions contained in any such Supplemental Trust Agreement as to any provision authorized to be contained therein will be deemed to be part of the terms and conditions of the Trust Agreement for any and all purposes, the Trust Agreement will be and be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Trust Agreement of the University, the Trustee, the Registrar, the Authenticating Agents, the Paying Agents and all Holders of Obligations then Outstanding will thereafter be determined, exercised and enforced thereunder, subject in all respects to such modifications and amendments. Express reference to such executed Supplemental Trust Agreement may be made in the text of any Obligations issued thereafter, if deemed necessary or desirable by the Trustee or the University. There will be no modification, change or amendment to the Trust Agreement or any other document related to the Obligations which affect the rights, duties or obligations of the Trustee thereunder, without the Trustee's prior written consent.

**Opinion of Counsel**

The Trustee is entitled to receive, and shall be fully protected in relying upon, the opinion of any counsel approved by it, who may be counsel for the University, as conclusive evidence that any such proposed Supplemental Trust Agreement complies with the provisions of the Trust Agreement and that it is proper for the Trustee, under the provisions of the Trust Agreement, to join in the execution of such Supplemental Trust Agreement. (Section 7.04)

**Modification by Unanimous Consent**

Notwithstanding anything contained elsewhere in the Trust Agreement, the rights and obligations of the University and of the Holders of the Obligations, and the terms and provisions of the Obligations and the Trust Agreement or any Supplemental Trust Agreement, may be modified or altered in any respect with the consent of the University and the consent of the Holders of all of the Obligations then Outstanding and the Trustee. (Section 7.05)

**Release of Trust Agreement**

If the University pays or cause to be paid and discharged, or there shall otherwise by paid to the Holders of the Outstanding Obligations all Debt Service Charges due or to become due thereon and provision shall also be made for paying all other sums payable under the Trust Agreement, then and in that event the Trust Agreement (except for Sections 4.02, 4.04, 4.05, 8.02 and 8.03 thereof) will cease, determine and become null and void, and the covenants, agreements, and other obligations of the University under the Trust Agreement are discharged and satisfied, and thereupon the Trustee will release the Trust Agreement, including the cancellation and discharge of the lien thereof, and execute and deliver to the University such instruments in writing as required to satisfy and terminate the lien thereof and to enter on the records such satisfaction and discharge and to re-convey to the University the estate created by the Trust Agreement and such other instruments to evidence such release and discharge as may be reasonably required by the University, and the Trustee and Paying Agents will assign and deliver to the University any property at the time subject to the lien of the Trust Agreement which may then be in their possession, except amounts in the Debt Service Fund required to be held by the Trustee and Paying Agents under Section 4.07 of the Trust Agreement or otherwise for the payment of Debt Service Charges. (Section 8.01)

**Payment and Discharge of Obligations**

All the Outstanding Obligations of one or more series will be deemed to have been paid and discharged within the meaning of the Trust Agreement, including without limitation, Section 8.01 of the Trust Agreement if either (i) the Trustee as paying agent and any Paying Agents are required to hold, in the Debt Service Payment Account in trust for and irrevocably committed thereto, sufficient moneys or (ii) the Trustee is required to hold, in the Debt Service Fund in trust for and irrevocably committed thereto, investments qualifying as Government Bonds as of the date of the determination required in Section 8.02 of the Trust Agreement which are, in either case, certified by an independent public accounting firm of national reputation to be of such maturities and interest payment dates and to bear such interest as will, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom (likewise to be held in trust and committed, except as provided in the Trust Agreement), be sufficient together with moneys referred to in clause (i) above, for the payment, at their maturity, redemption or due date, as the case may be, of all Debt Service Charges on those Obligations to their maturity, redemption or due date, as the case may be, or if Event of Default in such payment will have occurred on such date then to the date of the tender of such payment; provided that if any of such Obligations are to be redeemed prior to the maturity thereof, notice of such redemption will have been duly given or irrevocable provisions satisfactory to the Trustee have been duly made for the giving of such notice; provided that if the Obligations are to be redeemed prior to the maturity thereof, notice of such redemption shall have been duly given or irrevocable provision satisfactory to the Trustee shall have been duly made for the giving of such notice. (Section 8.02)

**Survival of Certain Provisions**

Notwithstanding the foregoing, those provisions of a Series Resolution and the Trust Agreement relating to the maturity of Obligations, interest payments and dates thereof, optional and mandatory redemption provisions, credit against Mandatory Sinking Fund Requirements, exchange, transfer and registration of Obligations, replacement of mutilated, destroyed, lost or stolen Obligations, the safekeeping and cancellation of Obligations, non-presentment of Obligations, the holding of moneys in trust, repayments to the University from the Special Funds and the rights, remedies and duties of the Trustee and the Registrar in connection with all of the foregoing, shall remain in effect and shall be binding upon the Trustee, the Registrar, the Authenticating Agent, Paying Agents and the Holders notwithstanding the release and discharge of the lien of the Trust Agreement. The provisions of the Article XIII of the Trust Agreement shall survive the release and discharge of the Trust Agreement. (Section 8.03)

**Limitation of Rights**

With the exception of rights expressly conferred in the Trust Agreement, nothing expressed or mentioned in or to be implied from the Trust Agreement or the Obligations is intended or shall be construed to give to any Person other than the parties to the Trust Agreement, the University, any Credit Support Provider and the Holders of the Obligations any legal or equitable right, remedy or claim under or in respect to the Trust Agreement or any covenants, conditions and provisions in contained in the Trust Agreement; the Trust Agreement and all of the covenants, conditions and provisions of the Trust Agreement being intended to be and being for the sole and exclusive benefit of the parties hereto, the University, any Credit Support Provider and the Holders of the Obligations as provided in the Trust Agreement. (Section 9.02)

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**APPENDIX D**

**FORM OF BOND COUNSEL OPINION**

[Date of Delivery]

University of Kentucky
Lexington, Kentucky

Re: $46,120,000 University of Kentucky General Receipts Bonds, 2020 Series A and $12,405,000 University of Kentucky General Receipts Bonds, 2020 Taxable Series B

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the University of Kentucky, a public body corporate and educational institution and agency of the Commonwealth of Kentucky (the "University"), of $46,120,000 of University of Kentucky General Receipts Bonds, 2020 Series A (the "2020 Series A Bonds") and $12,405,000 General Receipts Bonds, 2020 Taxable Series B (the "2020 Series B Bonds," and, together with the 2020 Series A Bonds, the "Series 2020 Bonds") pursuant to Sections 162.340 to 162.380 of the Kentucky Revised Statutes and Sections 58.010 to 58.140 of the Kentucky Revised Statutes, as amended (the "Act"); the 2005 General Bond Resolution of the Board of Trustees of the University (the "Board") adopted on September 20, 2005 (the "2005 General Bond Resolution") authorizing the execution and delivery of a Trust Agreement dated as of November 1, 2005 (the "Trust Agreement") between the University and U.S. Bank National Association, as trustee (the "Trustee"); and a Series Resolution adopted by the University on December 10, 2019 (the "Series Resolution") authorizing the execution and delivery of a Fourteenth Supplemental Trust Agreement, dated as of February 1, 2020 (the "Fourteenth Supplement") between the University and the Trustee, for the purpose of financing the cost, not otherwise provided, of the Project, as described in the Series Resolution. We have examined the law and the transcript of proceedings pursuant to which the Series 2020 Bonds have been authorized and issued, and such other matters as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon the opinion of General Counsel to the University, representations of the University contained in the 2005 General Bond Resolution, the Trust Agreement, the Series Resolution, the Fourteenth Supplement and in the transcript of proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

Based on our examination, we are of the opinion, as of the date hereof and under existing law, as follows:

1. The University is a duly created and validly existing public body corporate and educational institution and agency of the Commonwealth of Kentucky, with full power to adopt the 2005 General Bond Resolution and the Series Resolution, to perform the agreements on its part contained therein and in the Trust Agreement and the Fourteenth Supplement and to issue the Series 2020 Bonds.

2. The 2005 General Bond Resolution and the Series Resolution have been duly adopted by the University and constitute valid and binding obligations of the University enforceable upon the University.

3. The Trust Agreement and the Fourteenth Supplement have been duly authorized, executed and delivered by the University and are each valid and binding obligations of the University, enforceable in accordance with their respective terms.

4. The Series 2020 Bonds have been duly authorized, executed and delivered by the University and constitute valid and binding obligations of the University payable solely from the sources provided therefore in the 2005 General Bond Resolution, the Series Resolution, the Trust Agreement and the Fourteenth Supplement.

5. The Bonds and any additional Obligations, as defined in the Trust Agreement, heretofore and hereafter issued and outstanding under the terms of the Trust Agreement are and will be payable from the General Receipts, as defined in the Trust Agreement, which have been pledged thereunder as provided in the Trust Agreement and the Fourteenth Supplement.

6. Under the laws, regulations, rulings and judicial decisions in effect as of the date hereof, interest, including original issue discount, on the 2020 Series A Bonds is excludible from gross income for Federal income tax purposes, pursuant to the Internal Revenue Code of 1986, as amended (the "Code"). Furthermore, interest on the 2020 Series A Bonds will not be treated as a specific item of tax preference, under Section 57(a)(5) of the Code, in computing the alternative minimum tax. In rendering the opinions in this paragraph, we have assumed continuing compliance with certain covenants designed to meet the requirements of Section 103 of the Code. We express no other opinion as to the federal tax consequences of purchasing, holding or disposing of the 2020 Series A Bonds.

7. The University has not designated the 2020 Series A Bonds as "qualified tax-exempt obligations" pursuant to Section 265 of the Code.

8. Interest on the 2020 Series B Bonds is not excludable from gross income for Federal income tax purposes.

9. Interest on the Series 2020 Bonds is exempt from income taxation and the Series 2020 Bonds are exempt from ad valorem taxation by the Commonwealth and any of its political subdivisions

It is to be understood that the rights of the owners of the Series 2020 Bonds and the enforceability of the Series 2020 Bonds, the 2005 General Bond Resolution, the Series Resolution, the Trust Agreement and the Fourteenth Supplement may be subject to bankruptcy, insolvency, reorganization, moratorium and other laws in effect from time to time affecting creditors' rights, and to the exercise of judicial discretion in accordance with general equitable principles.

Very truly yours,
DINSMORE & SHOHL LLP

## APPENDIX E

## BOOK-ENTRY-ONLY SYSTEM

The Series 2020 Bonds initially will be issued solely in book-entry form to be held in the book-entry-only system maintained by The Depository Trust Company ("DTC"), New York, New York. So long as such book-entry system is used, only DTC will receive or have the right to receive physical delivery of Series 2020 Bonds and, except as otherwise provided herein with respect to tenders by Beneficial Owners of beneficial ownership interests, each actual purchaser of each Series 2020 Bond (a "Beneficial Owner") will not be or be considered to be, and will not have any rights as, owner or holder of the Series 2020 Bonds under the Trust Agreement.

The following information about the book-entry-only system applicable to the Series 2020 Bonds has been supplied by DTC. Neither the University nor the Trustee makes any representations, warranties or guarantees with respect to its accuracy or completeness.

DTC will act as securities depository for the Series 2020 Bonds. The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2020 Bond certificate will be issued for in the aggregate principal amount of each series and maturity of the Series 2020 Bonds and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Series 2020 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2020 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2020 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2020 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2020 Bonds, except in the event that use of the book-entry system for the Series 2020 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2020 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2020 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2020 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2020 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2020 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2020 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Series 2020 Bond documents. For example, Beneficial Owners of Series 2020 Bonds may wish to ascertain that the nominee holding the Series 2020 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Trustee and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2020 Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2020 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the University as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Series 2020 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and interest payments on the Series 2020 Bonds will be made to Cede &. Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the University or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Series 2020 Bonds held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the University, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the University or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2020 Bonds at any time by giving reasonable notice to the University or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, bond certificates are required to be printed and delivered.

The University may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered.

NEITHER THE UNIVERSITY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DIRECT PARTICIPANT, INDIRECT PARTICIPANT OR ANY BENEFICIAL OWNER OR ANY OTHER PERSON NOT SHOWN ON THE REGISTRATION BOOKS OF THE TRUSTEE AS BEING A HOLDER WITH RESPECT TO: (1) THE SERIES 2020 BONDS; (2) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (3) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PURCHASE PRICE OF TENDERED SERIES 2020 BONDS OR THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE SERIES 2020 BONDS; (4) THE DELIVERY BY ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE INDENTURE TO BE GIVEN TO HOLDERS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE SERIES 2020 BONDS; OR (6) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS HOLDER.

Each Beneficial Owner for whom a Direct Participant or Indirect Participant acquires an interest in the Series 2020 Bonds, as nominee, may desire to make arrangements with such Direct Participant or Indirect Participant to receive a credit balance in the records of such Direct Participant or Indirect Participant, to have all notices of redemption, elections to tender Series 2020 Bonds or other communications to or by DTC which may affect such Beneficial Owner forwarded in writing by such Direct Participant or Indirect Participant, and to have notification made of all debt service payments.

Beneficial Owners may be charged a sum sufficient to cover any tax, fee, or other governmental charge that may be imposed in relation to any transfer or exchange of their interests in the Series 2020 Bonds.

The University cannot and does not give any assurances that DTC, Direct Participants, Indirect Participants or others will distribute payments of debt service on the Series 2020 Bonds made to DTC or its nominee as the registered owner, or any redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or that DTC, Direct Participants or Indirect Participants will serve and act in the manner described in this Official Statement.

Certain duties of DTC and procedures to be followed by DTC and the Trustee are set forth in DTC's operational arrangements (the "Operational Arrangements"). In the event of any conflict between the provisions of the Indenture and the provisions of the Operational Arrangements relating to the payment of the principal of, premium, if any, and interest on the Series 2020 Bonds and all notices with respect to the Series 2020 Bonds, the provisions of the Operational Arrangements shall control. The University has executed a blanket letter of representations enabling the Series 2020 Bonds to be eligible for DTC's book-entry only system.

The information in this APPENDIX E concerning DTC and DTC's book-entry system has been obtained from sources that the University believes to be reliable, but the University takes no responsibility for the accuracy thereof.

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**APPENDIX F**

**FORM OF CONTINUING DISCLOSURE AGREEMENT**

**CONTINUING DISCLOSURE AGREEMENT**

Relating to:

$46,120,000
UNIVERSITY OF KENTUCKY
GENERAL RECEIPTS BONDS,
2020 SERIES A

AND

$12,405,000
UNIVERSITY OF KENTUCKY
GENERAL RECEIPTS BONDS,
2020 TAXABLE SERIES B

Dated as of: February 1, 2020

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THIS CONTINUING DISCLOSURE AGREEMENT (the "Agreement") is made and entered into as of February 1, 2020, between U.S. Bank National Association, as disclosure agent (the "Disclosure Agent") and the University of Kentucky (the "Issuer").

## RECITALS

WHEREAS, the Issuer has issued or will issue its General Receipts Bonds, 2020 Series A in the original aggregate principal amount of $46,120,000 and General Receipts Bonds, 2020 Taxable Series B in the original aggregate principal amount of $12,405,000 (collectively, the "Bonds") pursuant to a Trust Agreement dated as of November 1, 2005 between the Issuer and the Disclosure Agent, as supplemented (the "Trust Agreement"), to finance projects identified in H.B. 200 of the General Assembly of the Commonwealth of Kentucky, 2018 Regular Session, as enacted, as "Renew/Modernize Facilities" and pay costs of issuing the Bonds; and

WHEREAS, the Bonds have been offered and sold pursuant to a Preliminary Official Statement, dated January 15, 2020, and a final Official Statement, dated January 22, 2020 (the "Offering Document"), and UBS Financial Services, Inc. and Janney Montgomery Scott LLC have agreed to purchase the Bonds based on their competitive bids pursuant to the Issuer's Notice of Bond Sale as to the Bonds (collectively, the "Original Purchaser"); and

WHEREAS, the Disclosure Agent and the Issuer, wish to provide for the disclosure of certain information concerning the Bonds, the Project and other matters on an ongoing basis as set forth herein for the benefit of Bondholders (as hereinafter defined) in accordance with the provisions of Securities and Exchange Commission Rule 15c2-12, as amended from time to time (the "Rule");

NOW, THEREFORE, in consideration of the mutual promises and agreements made herein and in the Trust Agreement, the receipt and sufficiency of which consideration is hereby mutually acknowledged, the parties hereto agree as follows:

Section 1. Definitions; Scope of this Agreement

(A) All terms capitalized but not otherwise defined herein shall have the meanings assigned to those terms in the Trust Agreement. Notwithstanding the foregoing, the term "Disclosure Agent" shall originally mean U.S. Bank National Association, having offices in Louisville, Kentucky; any successor disclosure agent shall automatically succeed to the rights and duties of the Disclosure Agent hereunder, without any amendment hereto. The following capitalized terms shall have the following meanings:

*"Annual Financial Information"* shall mean a copy of the annual audited financial information prepared for the Issuer which shall include, if prepared, a statement of net assets, and the related statements of revenues, expenses and changes in net assets and of cash flows. All such financial information shall be prepared using generally accepted accounting principles, provided, however, that the Issuer may change the accounting principles used for preparation of such financial information so long as the Issuer includes as information provided to the public, a statement to the effect that different accounting principles are being used, stating the reason for such change and how to compare the financial information provided by the differing financial accounting principles. Any or all of the items listed above may be set forth in other documents, including Offering Documents of debt issues of the Issuer, the Board or related public entities, which have been transmitted to the MSRB, or may be included by specific reference to documents available to the public on the MSRB's Internet Website or filed with the SEC.

"*Beneficial Owner*" shall mean any person which has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

“*Bondholders*” shall mean any holder of the Bonds and any Beneficial Owner thereof.

*“Event”* shall mean any of the following events with respect to the Bonds:

(i) Principal and interest payment delinquencies;

(ii) Non-payment related defaults, if material;

(iii) In the case of credit enhancement that is provided in connection with the issuance of the Bonds, unscheduled draws on such credit enhancement reflecting financial difficulties and substitution of credit providers, or their failure to perform;

(iv) Unscheduled draws on debt service reserves reflecting financial difficulties;

(v) Substitution of credit or liquidity providers, or their failure to perform;

(vi) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax-exempt status of the security, or other material events affecting the tax-exempt status of the security;

(vii) Modifications to rights of security holders, if material;

(viii) Bond calls, if material, and tender offers (except for mandatory scheduled redemptions not otherwise contingent upon the occurrence of the event);

(ix) Defeasances;

(x) Release, substitution or sale of property securing repayment of the securities, if material;

(xi) Rating changes;

(xii) Bankruptcy, insolvency, receivership or similar event of the Obligated Person.

(xiii) The consummation of a merger, consolidation or acquisition involving an Obligated Person, or the sale of all or substantially all of the assets of the Obligated Person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(xiv) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(xv) Incurrence of a financial obligation of the Obligated Person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of an Obligated Person, any of which affect security holders, if material; and

(xvi) Default and event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the Obligated Person, any of which reflect financial difficulties.

*“MSRB”* shall mean the Municipal Securities Rulemaking Board.

*"Operating Data"* shall mean an update of the Operating Data generally consistent with what is contained in Appendix A of the Offering Document.

*"Participating Underwriter"* shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

*"SEC"* shall mean the Securities and Exchange Commission.

*"State"* shall mean the Commonwealth of Kentucky.

*"Turn Around Period"* shall mean (i) five (5) business days, with respect to Annual Financial Information and Operating Data delivered by the Issuer to the Disclosure Agent; (ii) in a timely manner, but within ten (10) business days, with respect to Event occurrences disclosed by the Issuer to the Disclosure Agent; or (iii) two (2) business days with respect to the failure, on the part of the Issuer, to deliver Annual Financial Information and Operating Data to the Disclosure Agent which period commences upon notification by the Issuer of such failure, or upon the Disclosure Agent's actual knowledge of such failure.

(A) This Agreement applies to the Bonds and any Additional Bonds issued under the Trust Agreement.

(B) The Disclosure Agent shall have no obligation to make disclosure about the Bonds or the Project except as expressly provided herein ; provided that nothing herein shall limit the duties or obligations of the Disclosure Agent, as Paying Agent, under the Trust Agreement. The fact that the Disclosure Agent or any affiliate thereof may have any fiduciary or banking relationship with the Issuer, apart from the relationship created by the Trust Agreement, shall not be construed to mean that the Disclosure Agent has actual knowledge of any event or condition except in its capacity as Paying Agent under the Trust Agreement or except as may be provided by written notice from the Issuer.

Section 2. Disclosure of Information.

(A) General Provisions. This Agreement governs the Issuer's direction to the Disclosure Agent, with respect to information to be made public. In its actions under this Agreement, the Disclosure Agent is acting not as Paying Agent but as the Issuer's agent.

(B) Information Provided to the Public. Except to the extent this Agreement is modified or otherwise altered in accordance with Section 3 hereof, the Issuer shall make or cause to be made public the information set forth in subsections (1), (2) and (3) below:

(1) Annual Financial Information and Operating Data. Annual Financial Information and Operating Data at least annually not later than 180 days following the end of each fiscal year, beginning with the fiscal year ending June 30, 2020 and continuing with each fiscal year thereafter, for which the information is provided, taking into account the Turn Around Period, and, in addition, all information with respect to the Bonds required to be disseminated by the Trustee pursuant to the Trust Agreement.

(2) Events Notices Notice of the occurrence of an Event, in a timely manner, within ten (10) business days of the occurrence of the Event.

(3) Failure to Provide Annual Financial Information. Notice of the failure of Issuer to provide the Annual Financial Information and Operating Data by the date required herein.

(C) Information Provided by Disclosure Agent to Public.

(1) The Issuer directs the Disclosure Agent on its behalf to make public in accordance with subsection (D) of this Section 2 and within the time frame set forth in clause (3) below, and the Disclosure Agent agrees to act as the Issuer's agent in so making public, the following:

(a) the Annual Financial Information and Operating Data;

(b) Material Event occurrences;

(c) the notices of failure to provide information which the Issuer has agreed to make public pursuant to subsection (B)(3) of this Section 2;

(d) such other information as the Issuer shall determine to make public through the Disclosure Agent and shall provide to the Disclosure Agent in the form required by subsection (C)(2) of this Section 2. If the Issuer chooses to include any information in any Annual Financial Information report or in any notice of occurrence of an Event, in addition to that which is specifically required by this Agreement, the Issuer shall have no obligation under this Agreement to update such information or include it in any future Annual Financial Information report or notice of occurrence of an Event; and

(2) The information which the Issuer has agreed to make public shall be in the following form:

(a) as to all notices, reports and financial statements to be provided to the Disclosure Agent by the Issuer, in the form required by the Trust Agreement or other applicable document or agreement; and

(b) as to all other notices or reports, in such form as the Disclosure Agent shall deem suitable for the purpose of which such notice or report is given.

(3) The Disclosure Agent shall make public the Annual Financial Information, the Operating Data, the Event occurrences and the failure to provide the Annual Financial Information and Operating Data within the applicable Turn Around Period. Notwithstanding the foregoing, Annual Financial Information, Operating Data, and Events shall be made public on the same day as notice thereof is given to the Bondholders of outstanding Bonds, if required in the Trust Agreement, and shall not be made public before the date of such notice. If on any such date, information required to be provided by the Issuer to the Disclosure Agent has not been provided on a timely basis, the Disclosure Agent shall make such information public as soon thereafter as it is provided to the Disclosure Agent.

(D) Means of Making Information Public.

(1) Information shall be deemed to be made public by the Issuer or the Disclosure Agent under this Section if it is transmitted to one or more of the following as provided in subsection (D)(2) of this Section 2:

(a) to the Bondholders of outstanding Bonds, by the method prescribed by the Trust Agreement;

(b) to the MSRB, in an electronic format as prescribed by the MSRB, accompanied by identifying information as prescribed by the MSRB; and/or

(c) to the SEC, by (i) electronic facsimile transmissions confirmed by first class mail, postage prepaid, or (ii) first class mail, postage prepaid; provided that the Issuer or the Disclosure Agent is authorized to transmit information to a SEC by whatever means are mutually acceptable to the Disclosure Agent or the Issuer, as applicable, and the SEC.

(2) Information shall be transmitted to the following:

(a) all Annual Financial Information and Operating Data shall be transmitted to the MSRB;

(b) notice of all Events, and notice of a failure by the Issuer to provide Annual Financial Information on or before the date specified in Section 2(B)(1) hereof, shall be transmitted to the MSRB;

(c) all information described in clause (a) shall be made available to any Bondholder upon request, but need not be transmitted to the Bondholders who do not so request; and

(d) to the extent the Issuer is obligated to file any Annual Financial Information or Operating Data with the MSRB pursuant to this Agreement, such Annual Financial Information or Operating Data may be set forth in the document or set of documents transmitted to the MSRB, or may be included by specific reference to documents available to the public on the MSRB's Internet Website or filed with the SEC.

Nothing in this subsection shall be construed to relieve the Disclosure Agent, as Trustee, of its obligation to provide notices to the holders of all Bonds if such notice is required by the Trust Agreement.

With respect to requests for periodic or occurrence information from Bondholders, the Disclosure Agent may require payment by requesting of holders a reasonable charge for duplication and transmission of the information and for the Disclosure Agent's administrative expenses incurred in providing the information.

Nothing in this Agreement shall be construed to require the Disclosure Agent to interpret or provide an opinion concerning the information made public. If the Disclosure Agent receives a request for an interpretation or opinion, the Disclosure Agent may refer such request to the Issuer for response.

(E) Disclosure Agent Compensation. The Issuer shall pay or reimburse the Disclosure Agent for its fees and expenses for the Disclosure Agent's services rendered in accordance with this Agreement.

(F) Indemnification of Disclosure Agent. In addition to any and all rights of the Disclosure Agent to reimbursement, indemnification and other rights pursuant to the Trust Agreement or under law or equity, the Issuer shall, to the extent permitted by law, indemnify and hold harmless the Disclosure Agent and its respective officers, directors, employees and agents from and against any and all claims, damages, losses, liabilities, reasonable costs and expenses whatsoever (including attorney fees) which such indemnified party may incur by reason of or in connection with the Disclosure Agent's performance under this Agreement; provided that the Issuer shall not be required to indemnify the Disclosure Agent for any claims, damages, losses, liabilities, costs or expenses to the extent, but only to the extent, caused by the willful misconduct or gross negligence of the Disclosure Agent in such disclosure of information hereunder. The obligations of the Issuer under this Section shall survive resignation or removal of the Disclosure Agent and payment of the Bonds.

Section 3. Amendment or Waiver.

Notwithstanding any other provision of this Agreement, the Issuer and the Disclosure Agent may amend this Agreement (and the Disclosure Agent shall agree to any reasonable amendment requested by the Issuer) and any provision of this Agreement may be waived, if such amendment or waiver is supported by an opinion of nationally recognized bond counsel or counsel expert in federal securities laws acceptable to both the Issuer and the Disclosure Agent to the effect that such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule as well as any change in circumstance.

Section 4. Miscellaneous.

(A) Representations. Each of the parties hereto represents and warrants to each other party that it has (i) duly authorized the execution and delivery of this Agreement by the officer of such party whose signature appears on the execution pages hereto, (ii) that it has all requisite power and authority to execute, deliver and perform this Agreement under its organizational documents and any corporate resolutions now in effect, (iii) that the execution and delivery of this Agreement, and performance of the terms hereof, does not and will not violate any law, regulation, ruling, decision, order, indenture, decree, agreement or instrument by which such party is bound, and (iv) such party is not aware of any litigation or proceeding pending, or, to the best of such party's knowledge, threatened, contesting or questioning its existence, or its power and authority to enter into this Agreement, or its due authorization, execution and delivery of this Agreement, or otherwise contesting or questioning the issuance of the Bonds.

(B) Governing Law. This Agreement shall be governed by and interpreted in accordance with the laws of the State; provided that, to the extent that the SEC, the MSRB or any other federal or state agency or regulatory body with jurisdiction over the Bonds shall have promulgated any rule or regulation governing the subject matter hereof, this Agreement shall be interpreted and construed in a manner consistent therewith.

(C) Severability. If any provision hereof shall be held invalid or unenforceable by a court of competent jurisdiction, the remaining provisions hereof shall survive and continue in full force and effect.

(D) Counterparts. This Agreement may be executed in one or more counterparts, each and all of which shall constitute one and the same instrument.

(E) Termination. This Agreement may be terminated by any party to this Agreement upon thirty days' written notice of termination delivered to the other party or parties to this Agreement; provided the termination of this Agreement is not effective until (i) the Issuer, or its successor, enters into a new continuing disclosure agreement with a disclosure agent who agrees to continue to provide, to the MSRB and the Bondholders of the Bonds, all information required to be communicated pursuant to the rules promulgated by the SEC or the MSRB, (ii) nationally recognized bond counsel or counsel expert in federal securities laws provides an opinion that the new continuing disclosure agreement is in compliance with all State and Federal Securities laws and (iii) notice of the termination of this Agreement is provided to the MSRB.

This Agreement shall terminate when all of the Bonds are or are deemed to be no longer outstanding by reason of redemption or legal defeasance or at maturity.

(F) Defaults: Remedies. A party shall be in default of its obligations hereunder if it fails to carry out or perform its obligations hereunder.

If an event of default occurs and continues beyond a period of thirty (30) days following notice of default given in writing to such defaulting party by any other party hereto or by a beneficiary hereof as identified in Section 4(G), the non-defaulting party or any such beneficiary may (and, at the request of the Participating Underwriter or the holders of at least 25% aggregate principal amount of Outstanding Bonds, the non-defaulting party shall), enforce the obligations of the defaulting party under this Agreement; provided, however, the sole remedy available in any proceeding to enforce this Agreement shall be an action in mandamus, for specific performance or similar remedy to compel performance.

(G) Beneficiaries. This Agreement is entered into by the parties hereof and shall inure solely to the benefit of the Issuer, the Disclosure Agent, the Participating Underwriter and Bondholders, and shall create no rights in any other person or entity.

Section 5. Additional Disclosure Obligations.

The Issuer acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933, the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder, may apply to the Issuer, and that under some circumstances compliance with this Agreement, without additional disclosures or other action, may not fully discharge all duties and obligations of the Issuer under such laws.

Section 6. Notices.

Any notices or communications to or among any of the parties to this Disclosure Agreement may be given as follows:

| | |
|---|---|
| To the Issuer: | University of Kentucky<br>University Financial Services<br>301 Peterson Service Building<br>Lexington, Kentucky 40506-0005<br>Attention: Treasurer<br>Telephone/Fax: (859) 257-4758/(859) 257-4805 |
| To the Disclosure Agent: | U.S. Bank National Association<br>Locator CN-KY-0850<br>One Financial Square<br>Louisville, Kentucky 40202<br>Attention: Corporate Trust Department<br>Telephone/Fax: (502) 562-6436/(502) 562-6371 |

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

IN WITNESS WHEREOF, the Disclosure Agent and the Issuer have each caused their duly authorized officers to execute this Agreement, as of the day and year first above written.

**UNIVERSITY OF KENTUCKY**, Issuer

By: ______________________________
Treasurer

By: ______________________________

Title: ______________________________

**U.S. BANK NATIONAL ASSOCIATION**,
Disclosure Agent

By: ______________________________

Title: ______________________________

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