

FCR 1

Office of the President
September 16, 2003

Members, Board of Trustees:

ACCEPTANCE OF AUDIT REPORT
AND THE REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
FOR THE UNIVERSITY OF KENTUCKY FOR 2002-03

Recommendation: that the Board of Trustees accept (1) the University of Kentucky Consolidated Financial Statements for the year ended June 30, 2003, consisting of the Consolidated Statement of Net Assets, Consolidated Statement of Revenues, Expenses and Changes in Net Assets, Consolidated Statement of Cash Flows, Notes to Consolidated Financial Statements and Management's Discussion and Analysis, and (2) the Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting Based on the Audit Performed in Accordance with Government Auditing Standards.

Background: The Audit Subcommittee of the Finance Committee of the University of Kentucky has reviewed the Consolidated Financial Statements for the year ended June 30, 2003, that have been audited by Deloitte & Touche LLP, Certified Public Accountants. The Consolidated Financial Statements are prepared in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, which focuses on the financial condition, results of operations and cash flows of the University as a whole, with resources classified for accounting and reporting purposes into four net asset categories: invested in capital assets (net of related debt), restricted-nonexpendable, restricted-expendable, and unrestricted.

The Consolidated Financial Statements include the financial operations of the University of Kentucky and its nine affiliated corporations, consisting of the University of Kentucky Research Foundation, The Fund for Advancement of Education and Research in the University of Kentucky Medical Center, University of Kentucky Athletic Association, University of Kentucky Mining Engineering Foundation, Inc., University of Kentucky Business Partnership Foundation, Inc., University of Kentucky Humanities Foundation, Inc., University of Kentucky Gluck Equine Research Foundation, Inc., University of Kentucky Center on Aging Foundation, Inc., and Health Care Collection Service, Inc.

Action taken:



Approved

Disapproved

Other _____

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis, or MD&A, provides an overview of the financial position and activities of the University of Kentucky (the University) and its affiliated corporations for the year ended June 30, 2003. Management has prepared this discussion and we encourage you to read it in conjunction with the consolidated financial statements and the notes appearing in this report.

About the University of Kentucky

The University of Kentucky is a public, research-extensive, land-grant university dedicated to enriching people's lives through excellence in teaching, research, and service. The University, as the flagship institution, plays a critical leadership role for the Commonwealth by promoting human and economic development that improves lives within Kentucky's borders and beyond. The University models a diverse community characterized by fairness and social justice. Founded in 1865 as the Agricultural and Mechanical College, the University has grown over the years into a comprehensive public institution of higher learning, with 98 undergraduate programs, master's degrees in 96 fields, and doctoral degrees in 62 programs.

The University of Kentucky Chandler Medical Center, encompassing five colleges, the University Hospital, the UK Children's Hospital, and several Centers of Excellence, consistently receives national rankings for excellence in teaching, research and patient care. The Medical Center serves primarily patients from central and eastern Kentucky with approximately 19,100 inpatient discharges and 596,000 outpatient visits annually.

The University enrolls over 34,000 students, including over 8,000 at Lexington Community College, and awards approximately 5,400 degrees annually. Additionally, thousands more people are educated through continuing education programs. Two thousand full-time faculty and 9,000 full-time staff are employed by the University.

Research Challenge Trust Fund

The Commonwealth of Kentucky initiated the Research Challenge Trust Fund, an endowment match program, in 1998. Since that time, the Commonwealth has appropriated over \$350 million to the public universities to be matched with private donations primarily to support chairs and professorships, fellowships and scholarships, and the research and graduate missions of the institutions. The University of Kentucky has been allocated \$200.1 million, including \$66.7 million from the sale of bonds in the 2002-04 biennium.

Financial Highlights

The slowing economy has resulted in significant financial challenges to the University in fiscal year 2003. In March 2003, state appropriations to the University were reduced by \$8,675,400, or 2.89 percent. Additionally, low interest rates and recent stock market declines have resulted in significant reductions in investment income and losses on endowment assets.

Despite these factors, the University's overall financial position remains strong with assets of \$2.04 billion and liabilities of \$465.7 million. Net assets, which represent the University's residual interest in assets after liabilities are deducted, were \$1.58 billion or 77 percent of total assets.

- Total assets increased \$59.3 million, or 3 percent, primarily due to an increase in capital assets.
- Total liabilities decreased \$9.3 million, or 2 percent, due to a reduction in long-term liabilities primarily from payments of current year principal maturities on bonds and capital lease obligations.
- Total net assets increased \$68.6 million, or 5 percent, due to an increase in net capital assets of \$59.8 million, an increase in current unrestricted net assets of \$14.7 million, primarily from hospital operations, and a decrease of \$5.9 million in restricted net assets, primarily due to the expenditure of net assets restricted for capital projects.
- Operating revenues were \$912.4 million and operating expenses were \$1.24 billion, resulting in a loss from operations of \$329.6 million. Nonoperating revenues, including \$304.7 million in state appropriations, net of nonoperating expenses, were \$398.2 million, which, when combined with the loss from operations, resulted in an overall increase in net assets of \$68.6 million.

Using the Consolidated Financial Statements

The Consolidated Financial Statements consist of three financial statements: the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities*. GASB requires that statements be presented on a consolidated basis to focus on the University as a whole.

Reporting Entity

The University of Kentucky is a component unit of the Commonwealth of Kentucky. The consolidated 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 Athletic Association
- The Fund for Advancement of Education and Research in the University of Kentucky Medical Center
- University of Kentucky Business Partnership Foundation, Inc.
- University of Kentucky Center on Aging Foundation, Inc.
- University of Kentucky Gluck Equine Research Foundation, Inc.
- University of Kentucky Humanities Foundation, Inc.
- University of Kentucky Mining Engineering Foundation, Inc.
- Health Care Collection Service, Inc.
- Kentucky Healthcare Enterprises, Inc., a for-profit subsidiary.

Consolidated Statement of Net Assets

The Consolidated Statement of Net Assets presents the financial position of the University at the end of the fiscal year and includes all assets and liabilities. Net assets, the difference between total assets and total liabilities, is an important indicator of the current financial condition, while the change in net assets is an indicator of whether the overall financial position has improved or worsened during the year. Generally, assets

and liabilities are reported using current values. A major exception is capital assets, which are stated at historical cost, less accumulated depreciation. A summarized comparison of the University's assets, liabilities and net assets at June 30, 2003 and 2002 is as follows:

Condensed Consolidated Statement of Net Assets (in thousands)

	<u>2003</u>	<u>2002</u>
ASSETS		
Current assets	\$ 439,034	\$ 395,040
Capital assets, net of depreciation	885,615	835,604
Other noncurrent assets	<u>717,051</u>	<u>751,800</u>
Total Assets	<u>2,041,700</u>	<u>1,982,444</u>
LIABILITIES		
Current liabilities	194,495	174,102
Noncurrent liabilities	<u>271,204</u>	<u>300,916</u>
Total Liabilities	<u>465,699</u>	<u>475,018</u>
NET ASSETS		
Invested in capital assets, net of related debt	667,485	607,663
Restricted		
Nonexpendable	337,498	307,732
Expendable	169,472	205,147
Unrestricted	<u>401,546</u>	<u>386,884</u>
Total Net Assets	<u>\$ 1,576,001</u>	<u>\$ 1,507,426</u>

Assets. As of June 30, 2003, total assets amounted to \$2.04 billion. Of this amount, investment in capital assets (net of depreciation) of \$885.6 million, or 43 percent of total assets, represented the largest asset class. Endowment assets amounted to \$432.4 million or 21 percent of total assets and cash and cash equivalents amounted to \$360.7 million or 18 percent of total assets. During the year, total assets increased by \$59.3 million primarily due to increases in capital assets.

Liabilities. As of June 30, 2003, total liabilities amounted to \$465.7 million. Bonds payable and capital leases for educational buildings, the housing and dining system, the University hospital and the W.T. Young library amounted to \$235.1 million, or 50 percent of total liabilities. During the year total liabilities decreased by \$9.3 million primarily due to principal payments on bonds and capital lease obligations.

Net Assets. The equity of the University of \$1.58 billion as of June 30, 2003 is reported on the Statement of Net Assets in four net asset categories: invested in capital assets, net of related debt, \$667.5 million (42 percent), restricted-nonexpendable, \$337.5 million (22 percent), restricted-expendable, \$169.5 million (11 percent), and unrestricted, \$401.5 million (25 percent).

Restricted net assets are subject to externally imposed restrictions governing their use. Although unrestricted net assets are not subject to externally imposed stipulations, substantially all of the unrestricted net assets have been designated for support of

academic and research programs and initiatives, capital projects and working capital requirements.

Total net assets increased by \$68.6 million during the year ended June 30, 2003. Invested in capital, net of related debt, increased by \$59.8 million, primarily due to net additions to capital assets of \$117.7 million offset by current year depreciation expense of \$67.6 million. Restricted net assets decreased by \$5.9 million, due to an increase in permanent endowments of \$29.8 million, and a decrease in expendable restricted net assets of \$35.7 million, primarily due to the expenditure of net assets restricted for capital projects. Unrestricted net assets increased \$14.7 million, primarily due to University Hospital operating revenues in excess of expenses.

Consolidated Statement of Revenues, Expenses and Changes in Net Assets

The Consolidated Statement of Revenues, Expenses and Changes in Net Assets 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. All items that increase or decrease net assets must appear on the Consolidated Statement of Revenues, Expenses and Changes in Net Assets 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 and endowment income to be classified as nonoperating revenues. Accordingly, the University reports a net operating loss for the year prior to the addition of nonoperating revenues. 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 gift scholarships and institutional aid, and is reported net of scholarship allowances in the financial statements. A summarized comparison of the University's revenues, expenses and changes in net assets for the years ended June 30, 2003 and 2002 is as follows:

Condensed Consolidated Statement of Revenues, Expenses and Changes in Net Assets (in thousands)

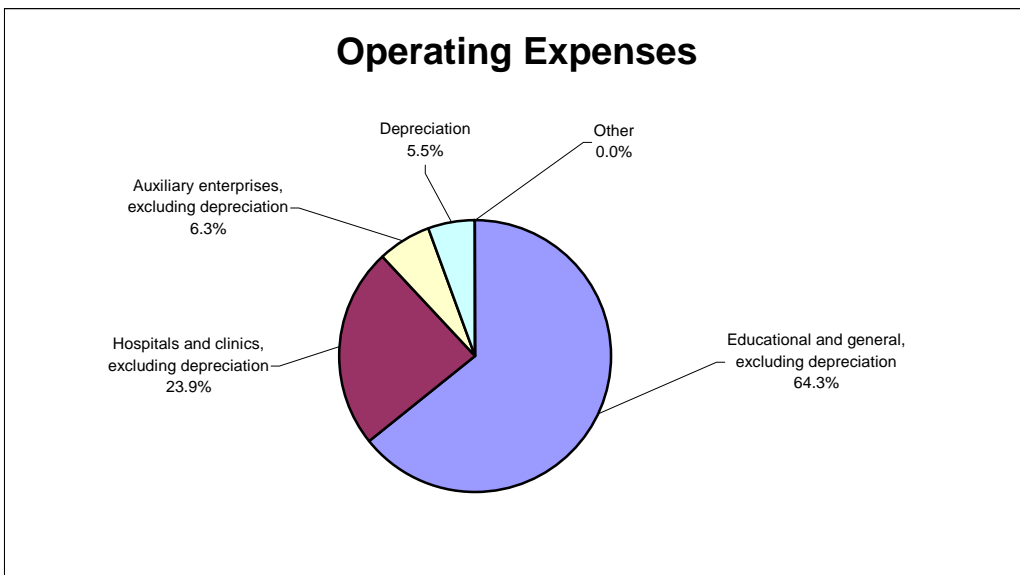
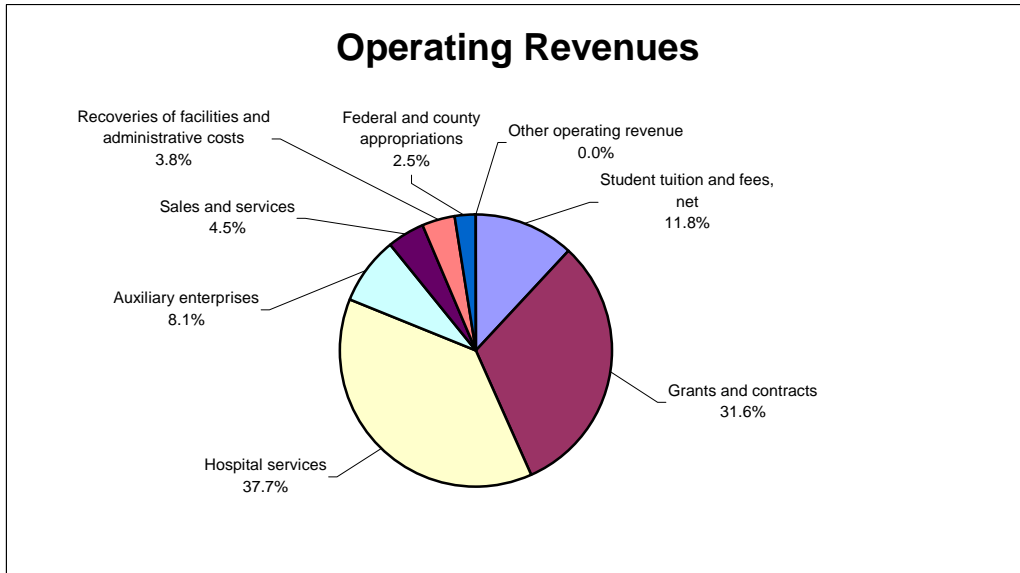
	<u>2003</u>	<u>2002</u>
OPERATING REVENUES		
Student tuition and fees, net of scholarship allowances	\$ 107,485	\$ 103,770
Grants and contracts	287,599	255,969
Hospital services	343,393	316,345
Auxiliary enterprises, net of scholarship allowances	74,495	73,189
Sales and services	40,974	45,140
Recoveries of facilities and administrative costs	34,364	30,406
Federal and county appropriations	23,866	23,051
Other operating revenue	250	510
Total operating revenues	<u>912,426</u>	<u>848,380</u>
OPERATING EXPENSES		
Educational and general, excluding depreciation	799,265	761,564
Hospitals and clinics, excluding depreciation	296,775	283,656
Auxiliary enterprises, excluding depreciation	78,097	71,361
Depreciation	67,648	64,688
Other	223	474
Total operating expenses	<u>1,242,008</u>	<u>1,181,743</u>
OPERATING LOSS	<u>(329,582)</u>	<u>(333,363)</u>
NONOPERATING REVENUES (EXPENSES)		
State appropriations	304,735	303,639
Capital appropriations	1,660	49,002
Capital grants and gifts	20,464	12,626
Gifts and grants	20,832	29,968
Investment income	33,344	2,387
Interest on capital asset - related debt	(11,487)	(12,575)
Additions to permanent endowments	26,417	29,107
Other	2,192	11,253
Total nonoperating revenues (expenses)	<u>398,157</u>	<u>425,407</u>
Total increase in net assets	<u>68,575</u>	<u>92,044</u>
Net assets, beginning of year	<u>1,507,426</u>	<u>1,415,382</u>
Net assets, end of year	<u>\$ 1,576,001</u>	<u>\$ 1,507,426</u>

Total operating revenues were \$912.4 million for the year ended June 30, 2003, including student tuition and fees of \$107.5 million (11.8 percent), grants, contracts and recoveries of facilities and administrative costs of \$322.0 million (35.3 percent) and hospital services of \$343.4 million (37.7 percent).

Operating expenses totaled \$1.24 billion. Of this amount, \$799.3 million, or 64.3 percent was expended for educational and general programs, including the functions of

instruction, research and public service. Hospital and clinics expenses, excluding depreciation, amounted to \$296.8 million, or 23.9 percent of the total expenses.

The net loss from operations for the year amounted to \$329.6 million. Nonoperating revenues, net of expenses, amounted to \$398.2 million, resulting in an increase in net assets of \$68.6 million for the year. Nonoperating revenues include state appropriations of \$304.7 million.



Consolidated Statement of Cash Flows

The Consolidated Statement of Cash Flows presents information related to the University's cash inflows and outflows summarized by operating, capital, financing and investing activities. The primary purpose of the Consolidated 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 institution's:

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

A comparative summary of the University's consolidated statement of cash flows for the years ended June 30, 2003 and 2002 is as follows:

Condensed Consolidated Statement of Cash Flows (in thousands)

	<u>2003</u>	<u>2002</u>
Cash provided (used by):		
Operating activities	\$ (250,625)	\$ (244,339)
Noncapital financing activities	353,673	361,064
Capital and related financing activities	(129,189)	(106,746)
Investing activities	<u>30,536</u>	<u>7,184</u>
Net increase in cash	4,395	17,163
Cash and cash equivalents, beginning of year	<u>356,342</u>	<u>339,179</u>
Cash and cash equivalents, end of year	<u><u>\$ 360,737</u></u>	<u><u>\$ 356,342</u></u>

Major sources of cash received from operating activities are student tuition and fees of \$108.4 million, hospital services of \$358.4 million, and grants, contracts and recoveries of facilities and administrative costs of \$312.2 million. Major uses of cash for operating activities were payments to employees for salaries and benefits of \$738.4 million and to vendors and contractors of \$401.9 million.

Noncapital financing activities includes state appropriations from the Commonwealth of Kentucky of \$304.7 million.

Capital and related financing activities include proceeds of capital debt of \$9.0 million, capital grants and gifts of \$6.6 million and other receipts of \$6.0 million. Cash of \$100.5 million was expended for construction and acquisition of capital assets, \$37.3 million was expended for principal and interest payments on debt and \$13.0 million was paid to refunding bond agents.

Investing activities include proceeds from sales and maturities of investments of \$1.046 billion and interest and dividends on investments of \$31.2 million. Cash of \$1.047 billion was used to purchase investments.

Capital Asset and Debt Administration

Capital Assets

Capital assets, net of accumulated depreciation, totaled \$885.6 million at June 30, 2003, an increase of \$50.0 million. Capital assets as of June 30, 2003 and significant changes in capital assets during the year are as follows (in millions):

	Balance	Net	Balance
	June 30, 2002	Additions	June 30, 2003
	June 30, 2002	FY 02-03	June 30, 2003
Land and land improvements	\$ 76	\$ 8	\$ 84
Buildings, fixed equipment and infrastructure	901	145	1,046
Equipment, vehicles and capitalized software	331	11	342
Library materials and art	108	8	116
Construction in progress	141	(78)	63
Accumulated depreciation	(721)	(44)	(765)
	<u>\$ 836</u>	<u>\$ 50</u>	<u>\$ 886</u>
Total	<u>\$ 836</u>	<u>\$ 50</u>	<u>\$ 886</u>

At June 30, 2003, the University has capital construction projects in progress totaling \$211 million in scope. Major projects include: the Biomedical/Biological Sciences Research Building, Student Housing Facilities, the Primary Care/Outpatient Diagnosis and Treatment Center, the Main Building reconstruction and the Center for Rural Health.

Debt

At June 30, 2003, capital debt amounted to \$235.1 million, summarized below by trust indenture and type (in millions):

	2003	2002
Consolidated Educational Buildings Revenue Bonds	\$ 114.1	\$ 126.4
Consolidated Housing and Dining System Revenue Bonds	28.6	31.0
Hospital Revenue Bonds	3.8	9.3
Commonwealth Library Project (W.T. Young Library) Bonds	43.6	44.6
Capital Lease Obligations	45.0	48.8
Notes Payable	-	1.4
Total	<u>\$ 235.1</u>	<u>\$ 261.5</u>

Debt decreased approximately \$26.4 million during the year due to payments of current year maturities.

On July 22, 2003, the University sold \$29,755,000 of University of Kentucky Consolidated Educational Buildings Revenue Bonds, Series S, at a net interest cost of 4.34%. The proceeds of this bond issue will be used to complete the construction of the Biomedical Sciences Research Building on the main campus in Lexington, Kentucky.

On August 13, 2003, the University sold \$52,815,000 of University of Kentucky Housing and Dining System Revenue Bonds, Series S, at a net interest cost of 4.58%. The proceeds of this bond issue will be used to construct new dormitories with approximately 700 new beds on the main campus in Lexington, Kentucky.

Economic Factors That Will Affect the Future

Executive management believes that the University is well-positioned to maintain its strong financial condition and to continue providing excellent service to students, patients, the community and the Commonwealth of Kentucky. The University's strong financial condition, as evidenced by the receipt of a credit rating of Aa3 from Moody's Investors Service, will provide a high degree of flexibility in obtaining funds on competitive terms. This flexibility, along with ongoing efforts toward revenue diversification and cost containment, will enable the University to obtain the necessary resources to sustain excellence.

- As a result of a declining economy, budgeted state appropriations for fiscal year 2003-2004 will decline for the third consecutive year. One of the consequences of this decrease is an increase in tuition rates for fiscal year 2004 of 15 percent for resident and 6.5 percent for nonresident undergraduate and graduate students. Professional school tuition will increase 25 percent. The tuition rate increases are expected to generate additional operating revenues of approximately \$17.4 million.
- As state appropriations continue to decrease, the University must rely to a greater extent on the support of donors to maintain and enhance its core academic programs. However, economic pressures may influence the future level of support that the University receives from corporate and individual giving.
- The University began transitioning to the Provost model in July 2003. Significant organizational changes have been implemented, including the transition of the reporting relationship of the five medical center colleges to the Provost and the Executive Vice President for Health Affairs. The consolidation of many support functions performed by the UK Chandler Medical Center and other units across campus are expected to provide cost savings of \$2,000,000 annually.
- As of June 30, 2003, grants and contracts of approximately \$155 million had been awarded to the University, but not expended. These contracts will provide grant revenue to future periods. Research grants and contracts awarded to the University in fiscal year 2003 were a record high of \$222.7 million.
- The University is conducting its Campaign for the University of Kentucky, a capital campaign with a goal of \$600 million. As of June 30, 2003, nearly \$575 million of gifts had been received or pledged toward this goal.
- The University has been allocated \$66.7 million in the 2002-04 biennium for Research Challenge Trust Fund IV which is available to the University on a dollar-for-dollar match basis for endowments.
- 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 insulate programs funded by the endowment from temporary market volatility.
- The University does not record a liability for post-employment retiree health benefits. Future changes in governmental accounting standards will require that this liability be recognized in the financial statements. This liability will have a significant impact on the University's financial statements.

Although many economic challenges have faced the University in the past year and will continue to impact the future, university management believes that the University of Kentucky will be able to sustain its sound financial position and continue its progress to become one of America's 20 best public research institutions.



INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of the
University of Kentucky

and

the Secretary of Finance and
Administration Cabinet of the
Commonwealth of Kentucky

We have audited the accompanying consolidated statements of net assets of the University of Kentucky (the University) (an agency of the Commonwealth of Kentucky) and affiliated corporations as of June 30, 2003 and 2002, and the related consolidated statements of revenues, expenses and changes in net assets and of cash flows for the years then ended. These consolidated financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the University of Kentucky and affiliated corporations as of June 30, 2003 and 2002, and their consolidated revenues, expenses and changes in net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD&A) on pages 1 through 9 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the University's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit such information and we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 29, 2003, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Deloitte & Touche LLP

August 29, 2003
Louisville, Kentucky

UNIVERSITY OF KENTUCKY AND AFFILIATED CORPORATIONS
CONSOLIDATED STATEMENT OF NET ASSETS
JUNE 30, 2003 AND 2002

	<u>2003</u>	<u>2002</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 288,549,024	\$ 245,566,649
Notes, loans and accounts receivable, net	133,845,955	134,784,105
Inventories and other	<u>16,638,913</u>	<u>14,688,788</u>
Total current assets	<u>439,033,892</u>	<u>395,039,542</u>
Noncurrent Assets		
Restricted cash and cash equivalents	72,187,676	110,775,519
Endowment investments	432,405,612	414,784,126
Other long-term investments	187,865,158	201,097,461
Notes, loans and accounts receivable, net	24,592,526	25,143,192
Capital assets, net	<u>885,615,008</u>	<u>835,603,880</u>
Total noncurrent assets	<u>1,602,665,980</u>	<u>1,587,404,178</u>
Total assets	<u>2,041,699,872</u>	<u>1,982,443,720</u>
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	111,430,980	95,896,976
Deferred revenue	43,029,339	41,937,189
Long-term liabilities - current portion	<u>40,035,034</u>	<u>36,267,612</u>
Total current liabilities	<u>194,495,353</u>	<u>174,101,777</u>
Noncurrent Liabilities		
Long-term liabilities	<u>271,203,943</u>	<u>300,916,372</u>
Total liabilities	<u>465,699,296</u>	<u>475,018,149</u>
NET ASSETS		
Invested in capital assets, net of related debt	<u>667,485,054</u>	<u>607,662,960</u>
Restricted		
Nonexpendable		
Scholarships and fellowships	64,044,365	58,886,920
Research	142,000,873	127,519,689
Instruction	54,059,533	49,775,066
Academic support	74,252,561	68,774,532
Other	<u>3,140,103</u>	<u>2,775,398</u>
Total restricted nonexpendable	<u>337,497,435</u>	<u>307,731,605</u>
Expendable (See note 9.)		
Scholarships and fellowships	38,178,527	43,445,440
Research	21,392,421	24,178,301
Instruction	30,818,475	33,705,038
Academic support	6,415,042	9,288,300
Loans	8,026,507	7,750,713
Capital projects	29,759,063	49,986,926
Debt service	10,175,572	14,132,105
Other	<u>24,706,351</u>	<u>22,659,877</u>
Total restricted expendable	<u>169,471,958</u>	<u>205,146,700</u>
Total restricted	<u>506,969,393</u>	<u>512,878,305</u>
Unrestricted (See note 10.)	<u>401,546,129</u>	<u>386,884,306</u>
Total net assets	<u>\$ 1,576,000,576</u>	<u>\$ 1,507,425,571</u>

See notes to consolidated financial statements.

UNIVERSITY OF KENTUCKY AND AFFILIATED CORPORATIONS
CONSOLIDATED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002

	2003	2002
OPERATING REVENUES		
Student tuition and fees, including pledged revenues	\$ 145,176,234	\$ 133,915,941
Less: Scholarship allowances	<u>(37,691,166)</u>	<u>(30,145,793)</u>
Net tuition and fees	107,485,068	103,770,148
Federal grants and contracts	126,281,668	106,302,165
State and local grants and contracts	58,308,131	49,643,203
Nongovernmental grants and contracts	103,009,285	100,023,819
Recoveries of facilities and administrative costs	34,364,247	30,406,284
Sales and services	40,974,033	45,139,948
Federal appropriations	14,065,904	14,400,994
County appropriations	9,800,456	8,649,815
Hospital services, including pledged revenues	343,393,345	316,344,568
Auxiliary enterprises:		
Housing and dining, including pledged revenues	32,300,052	30,583,632
Less: Scholarship allowances	<u>(5,677,857)</u>	<u>(4,495,648)</u>
Net housing and dining	26,622,195	26,087,984
Athletics	35,236,012	35,635,768
Other auxiliaries	12,636,429	11,465,536
Other operating revenues	<u>249,544</u>	<u>509,829</u>
Total operating revenues	<u>912,426,317</u>	<u>848,380,061</u>
OPERATING EXPENSES		
Educational and general:		
Instruction	244,785,143	236,449,207
Research	187,657,131	170,113,907
Public service	164,249,711	157,736,901
Libraries	12,009,480	12,852,395
Academic support	48,096,181	47,071,284
Student services	19,837,490	18,690,589
Institutional support	47,804,101	47,372,665
Operations and maintenance of plant	46,393,309	46,219,286
Student financial aid	28,432,862	25,057,009
Depreciation	<u>48,992,899</u>	<u>45,426,274</u>
Total educational and general	848,258,307	806,989,517
Hospital and clinics (including depreciation of \$13,996,082 in 2003 and \$15,011,754 in 2002)	310,770,586	298,667,864
Auxiliary enterprises:		
Housing and Dining (including depreciation of \$2,109,639 in 2003 and \$1,799,542 in 2002)	30,925,912	30,034,051
Athletics (including depreciation of \$2,549,659 in 2003 and \$2,450,217 in 2002)	38,482,252	35,912,791
Other auxiliaries	13,347,968	9,664,001
Other operating expenses	<u>223,386</u>	<u>474,990</u>
Total operating expenses	<u>1,242,008,411</u>	<u>1,181,743,214</u>
Net loss from operations	<u>(329,582,094)</u>	<u>(333,363,153)</u>
NONOPERATING REVENUES (EXPENSES)		
State appropriations	304,734,856	303,639,256
Gifts and grants	20,831,731	29,968,963
Investment income	33,343,891	2,387,327
Interest on capital asset-related debt	(11,486,908)	(12,574,751)
Other nonoperating revenues and expenses, net	<u>1,542,248</u>	<u>(111,463)</u>
Net nonoperating revenues (expenses)	<u>348,965,818</u>	<u>323,309,332</u>
Net gain (loss) before other revenues, expenses, gains, or losses	<u>19,383,724</u>	<u>(10,053,821)</u>
Capital appropriations	1,659,523	49,002,114
Capital grants and gifts	20,463,840	12,626,433
Additions to permanent endowments, including Research Challenge		
Trust Funds of \$7,245,700 in 2003 and \$8,588,454 in 2002	26,417,392	29,106,731
Other, net	<u>650,526</u>	<u>11,362,157</u>
Total other revenues (expenses)	<u>49,191,281</u>	<u>102,097,435</u>
INCREASE IN NET ASSETS	68,575,005	92,043,614
NET ASSETS, beginning of year	<u>1,507,425,571</u>	<u>1,415,381,957</u>
NET ASSETS, end of year	<u>\$ 1,576,000,576</u>	<u>\$ 1,507,425,571</u>

See notes to consolidated financial statements.

**UNIVERSITY OF KENTUCKY AND AFFILIATED CORPORATIONS
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002**

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	\$ 108,388,929	\$ 101,001,794
Grants and contracts	279,344,143	258,220,546
Recoveries of facilities and administrative costs	32,824,951	30,860,490
Sales and services	41,639,718	45,216,891
Federal appropriations	13,780,753	14,599,019
County appropriations	9,595,694	8,853,565
Payments to vendors and contractors	(401,888,222)	(384,975,342)
Student financial aid	(28,426,920)	(24,235,625)
Salaries, wages and benefits	(738,438,298)	(702,623,044)
Hospital services	358,378,930	340,066,788
Auxiliary enterprise receipts:		
Housing and Dining	27,176,723	25,396,132
Athletics	36,572,243	35,448,849
Other auxiliaries	12,111,501	11,273,701
Loans issued to students	(8,591,245)	(7,815,846)
Collection of loans to students	7,917,958	8,100,582
Self insurance receipts	28,479,489	31,038,903
Self insurance payments	(30,297,265)	(35,313,518)
Other receipts (payments), net	806,297	546,715
Net cash provided (used) by operating activities	(250,624,621)	(244,339,400)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	304,734,856	303,639,256
Gifts and grants received for other than capital purposes:		
Gifts received for endowment purposes	26,457,392	29,106,731
Gifts received for other purposes	21,415,775	29,485,605
Agency and loan program receipts	88,111,872	75,739,289
Agency and loan program payments	(88,188,032)	(76,027,203)
Other nonoperating receipts (payments), net	1,141,067	(879,560)
Net cash provided (used) by noncapital financing activities	353,672,930	361,064,118
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	537,241	43,969,460
Capital grants and gifts	6,644,447	3,115,937
Purchases of capital assets	(100,480,393)	(134,898,092)
Proceeds from capital debt	8,960,371	6,100,000
Payments to refunding bond agents	(12,992,620)	-
Proceeds from sales of capital assets	3,975,507	-
Principal paid on capital debt and leases	(25,482,155)	(24,763,783)
Interest paid on capital debt and leases	(11,824,703)	(12,727,717)
Other capital and related financing receipts (payments), net	1,472,918	12,457,958
Net cash provided (used) by capital and related financing activities	(129,189,387)	(106,746,237)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	1,046,059,072	612,681,197
Interest and dividends on investments	31,154,578	32,489,062
Purchase of investments	(1,046,678,040)	(637,985,560)
Net cash provided (used) by investing activities	30,535,610	7,184,699
NET INCREASE IN CASH	4,394,532	17,163,180
CASH AND CASH EQUIVALENTS, beginning of year	356,342,168	339,178,988
CASH AND CASH EQUIVALENTS, end of year	\$ 360,736,700	\$ 356,342,168
Reconciliation of net loss from operations to net cash used by operating activities:		
Operating loss	\$ (329,582,094)	\$ (333,363,153)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation expense	67,648,279	64,687,787
Change in assets and liabilities:		
Notes, loans and accounts receivable, net	3,917,697	21,729,254
Inventories and other assets	(1,788,451)	652,074
Accounts payable and accrued liabilities	7,114,057	1,887,746
Deferred revenue	1,527,424	2,735,569
Long term liabilities	538,467	(2,668,677)
Net cash used by operating activities	\$ (250,624,621)	\$ (244,339,400)

See notes to consolidated financial statements.

UNIVERSITY OF KENTUCKY AND AFFILIATED CORPORATIONS

NOTES TO CONSOLIDATED 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 and is included in the general-purpose financial statements of the Commonwealth. The consolidated financial statements of the University include the operations of the University, its for-profit subsidiary (Kentucky Healthcare Enterprise, Inc.) and its affiliated non-profit corporations (entities for which the University is financially accountable as defined by Statement No. 14 of the Governmental Accounting Standards Board) as follows: The University of Kentucky Research Foundation and its for-profit subsidiary (Kentucky Technology, Inc.); The Fund for Advancement of Education and Research in the University of Kentucky Medical Center; University of Kentucky Athletic Association; Health Care Collection Service, Inc.; University of Kentucky Mining Engineering Foundation, Inc.; University of Kentucky Business Partnership Foundation, Inc.; University of Kentucky Gluck Equine Research Foundation, Inc.; University of Kentucky Humanities Foundation, Inc.; and the University of Kentucky Center on Aging Foundation, Inc.

Basis of Presentation

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

- **Invested in capital assets, net of related debt:** 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 assets 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 assets 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 assets whose use by the University is not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Trustees 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, liabilities, net assets, revenues, expenses, changes in net assets and cash flows.

Summary of Significant Accounting Policies

Accrual Basis. The consolidated 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. BTA's are those activities that are financed in whole or part by fees charged to external parties for goods and services.

Cash and Cash Equivalents. Cash and cash equivalents consist of deposits with local banks and with the Commonwealth of Kentucky and investments in repurchase agreements. Deposits with local banks and investments in repurchase agreements are covered by federal depository insurance or collateralized by securities held in the University's name by its agents. Deposits with the Commonwealth of Kentucky are covered by federal depository insurance or collateralized by securities held by the Commonwealth in the Commonwealth's name. The University considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

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

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

Pooled Endowment Funds. The University employs the total return concept of investment management for setting investment objectives and determining investment performance. This concept recognizes dividends and interest, plus or minus realized and unrealized gains or losses, in determining the total return earned during any particular period. The market value method of accounting for pooled endowment funds is employed to ensure proper distribution of market price changes, realized gain (loss) on sales, accrued income earned, and distribution of investment earnings for expenditure by participating funds.

The Uniform Management of Institutional Funds Act (UMIFA), as adopted by the Commonwealth of Kentucky, permits the University to appropriate an amount of the realized and unrealized endowment appreciation to support current programs. Accordingly, spendable return from the endowment is determined using the total return philosophy. This philosophy recognizes a prudent amount of realized and unrealized gains as spendable return in addition to traditional yield. Distribution of investment earnings for expenditure by participating funds is supported first by traditional yield earned and, if necessary, a transfer from the endowment of any prior years' accumulated earnings (unexpended traditional yield) or net realized or unrealized gains. The University's endowment spending rule provides for an annual distribution of 5% of the three-year moving average market value of fund units. For the years ended June 30, 2003 and 2002 approximately \$13,892,000 and \$9,539,000, respectively, was transferred from endowment realized and unrealized gains to support current programs in accordance with the University's endowment spending rule. Appreciation on endowments available to support future spending rule distributions amounted to approximately \$38,505,000 at June 30, 2003.

Investments. Investments in marketable securities are carried at fair value, as determined by the major securities markets. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income (loss) in the statement of revenues, expenses and changes in net assets.

Capital Assets. Capital assets are stated at cost at date of acquisition or, in the case of gifts, at fair market value at date of gift, except for the following: (1) the University has title to certain tracts of land which were either donated or purchased at a nominal price with no book value assigned to these properties; and (2) buildings acquired prior to June 30, 1958, were recorded at appraised value of \$33,000,000 at that date.

Equipment with a unit cost of \$2,000 or more (\$1,000 for computers) and having an estimated useful life of greater than one year, is capitalized. Renovations to buildings, infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred.

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

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

Deferred Revenue. Deferred revenue consists primarily of amounts received from grant and contract sponsors that have not yet been earned under the terms of the agreement. Deferred revenue also includes amounts received in advance of an event, such as advance athletic ticket sales relating to future fiscal years.

Student Tuition and Fees. 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.

Hospital Services Revenue. Hospital services revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including contractual allowances and estimated retroactive adjustments under reimbursement programs with third-party payors. 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.

Income Taxes. The University is an agency and instrumentality of the Commonwealth of Kentucky, 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 170 (b)(1)(A)(ii) of the Internal Revenue Code of 1986. The majority of the University's affiliated non-profit organizations have been granted exemption from federal income taxation pursuant to the provisions of Internal Revenue Code section 501(c)(3).

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 on the Statement of Revenues, Expenses and Changes in Net Assets, 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 non-operating revenues, in accordance with GASB Statement No. 35.

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

Recent Accounting Pronouncements. In May 2002, the GASB issued Statement No. 39, ‘Determining Whether Certain Organizations Are Component Units.’ This statement provides additional guidance to determine whether certain organizations for which the University is not financially accountable should be reported as component units based on the nature and significance of their relationship with the University. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2003. As a result of the provisions of GASB No. 39, Kentucky Medical Services Foundation will be considered a component unit of the University beginning with the fiscal year ending June 30, 2004.

In March 2003, the GASB issued Statement No. 40, “Deposit and Investment Risk Disclosures.” This statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rate risk. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2004. The University does not expect the adoption of this statement to have a material effect on its financial statements.

2. 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 Trust Fund, as stated in the Bill, include support of efforts by the University of Kentucky 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.

The status of the RCTF endowed funds as of June 30, 2003 is summarized as follows (in thousands):

	<u>Kentucky General Assembly Funding</u>	<u>University of Kentucky Share of Funding</u>	<u>State Funds Received to Date</u>	<u>Matching Pledges Receivable</u>
1998 Biennium	\$100,000	\$ 66,700	\$ 66,700	\$ 8,953
2000 Biennium	<u>100,000</u>	<u>68,900</u>	<u>68,800</u>	<u>22,738</u>
Total	<u>\$200,000</u>	<u>\$135,600</u>	<u>\$135,500</u>	<u>\$ 31,691</u>

Interest income of approximately \$2.2 million earned on the state matching funds is included in the University’s share of the 2000 Biennium funding.

The University expects to fully realize all outstanding matching pledges, however, it may be obligated to return any state funds and accrued interest income related to pledges not received within five years of the initial pledge dates if unable to replace the unpaid pledges with other eligible gifts. A payment schedule of the outstanding pledges is shown below (in thousands):

	1998 <u>Biennium</u>	2000 <u>Biennium</u>
Pledges due in fiscal years 2003 or prior	\$ 981	\$ 1,937
Pledges due in fiscal year 2004	7,972	2,359
Pledges due in fiscal year 2005		8,988
Pledges due in fiscal year 2006		7,872
Pledges due in fiscal year 2007		1,421
Pledges due in fiscal year 2008	<u> </u>	<u>161</u>
Total	<u>\$ 8,953</u>	<u>\$22,738</u>

3. Notes, Loans and Accounts Receivable

Notes, loans and accounts receivable as of June 30, 2003 and 2002, respectively, are as follows (in thousands):

	<u>2003</u>		
	<u>Gross Receivable</u>	<u>Allowance</u>	<u>Net Receivable</u>
Hospital patient accounts	\$113,565	(\$53,418)	\$ 60,147
Student loans	25,903	(3,185)	22,718
Reimbursement receivable – grants and contracts	28,990		28,990
Pledges receivable	6,885	(2,927)	3,958
Accrued interest receivable	8,737		8,737
Receivable for malpractice insurance	11,066		11,066
Other	<u>26,442</u>	<u>(3,619)</u>	<u>22,823</u>
	<u>\$221,588</u>	<u>(\$63,149)</u>	<u>\$158,439</u>
Current portion			<u>133,846</u>
Noncurrent portion			<u>\$ 24,593</u>
	<u>2002</u>		
	<u>Gross Receivable</u>	<u>Allowance</u>	<u>Net Receivable</u>
Hospital patient accounts	\$106,252	(\$35,726)	\$ 70,526
Student loans	25,400	(3,327)	22,073
Reimbursement receivable – grants and contracts	20,805		20,805
Pledges receivable	8,949	(3,446)	5,503
Accrued interest receivable	10,299		10,299
Receivable for malpractice insurance	10,925		10,925
Other	<u>23,177</u>	<u>(3,381)</u>	<u>19,796</u>
	<u>\$205,807</u>	<u>(\$45,880)</u>	<u>\$159,927</u>
Current portion			<u>134,784</u>
Noncurrent portion			<u>\$ 25,143</u>

4. Investments

The fair value and cost of the University's investments as of June 30, 2003 and 2002, respectively, are as follows (in thousands):

	<u>2003</u>	
	<u>Fair Value</u>	<u>Cost</u>
Type of investment		
United States government securities	\$157,571	\$156,911
Common and preferred stocks	188,807	180,492
Pooled equity funds	114,867	97,796
Pooled fixed income funds	63,056	61,919
Corporate bonds	19,678	19,361
Repurchase agreements	26,500	26,500
Equity in health care corporations	36,686	36,686
Cash and cash equivalents	12,344	12,353
Other	<u>762</u>	<u>762</u>
Total	<u>\$620,271</u>	<u>\$592,780</u>
	<u>Fair Value</u>	<u>Cost</u>
Statement of Net Assets classification		
Endowment investments	\$432,406	\$405,252
Other long-term investments	<u>187,865</u>	<u>187,528</u>
Total	<u>\$620,271</u>	<u>\$592,780</u>
	<u>2002</u>	
	<u>Fair Value</u>	<u>Cost</u>
Type of investment		
United States government securities	\$202,081	\$199,511
Common and preferred stocks	165,161	181,043
Pooled equity funds	110,129	96,891
Corporate bonds	69,706	67,943
Repurchase agreements	30,560	30,560
Equity in health care corporations	31,082	31,082
Cash and cash equivalents	6,813	6,804
Other	<u>350</u>	<u>350</u>
Total	<u>\$615,882</u>	<u>\$614,184</u>
	<u>Fair Value</u>	<u>Cost</u>
Statement of Net Assets classification		
Endowment investments	\$414,784	\$414,373
Other long-term investments	<u>201,098</u>	<u>199,811</u>
Total	<u>\$615,882</u>	<u>\$614,184</u>

All investments of the University are registered in the name of the University of Kentucky or held in the University's name by its agents and trustees.

The University owns approximately 84% of CHA Service Company (CHA), a Kentucky for-profit corporation, established to provide an integrated health care delivery system throughout the Commonwealth of Kentucky. The University accounts for its investment in CHA by the equity method since, under the provisions of CHA's by-laws, the University cannot exercise control over the day-to-day operations of CHA. A summary of the University's investment in CHA is as follows (in thousands):

	<u>June 30, 2001</u>	<u>FY2001-02</u>	<u>June 30, 2002</u>	<u>FY2002-03</u>	<u>June 30, 2003</u>
Investment	\$ 38,180		\$ 38,180		\$ 38,180
Equity in income (losses) through December 31, 2001 and 2002 (CHA fiscal year end)	<u>(18,330)</u>	<u>\$ 9,555</u>	<u>(8,775)</u>	<u>\$ 5,841</u>	<u>(2,934)</u>
Carrying value	<u>\$ 19,850</u>	<u>\$ 9,555</u>	<u>\$ 29,405</u>	<u>\$ 5,841</u>	<u>\$ 35,246</u>

The University's equity in the net income of CHA for the six months ended June 30, 2003 was approximately \$3,421,000 (unaudited). This income is not reflected in the University's consolidated financial statements as of June 30, 2003.

5. Capital Assets, net

Capital assets as of June 30, 2003 and capital asset activity for the year ended June 30, 2003 are summarized as follows (in thousands):

	<u>June 30, 2002</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2003</u>
Land	\$ 30,936	\$ 3,151	\$ 239	\$ 33,848
Land improvements - nonexhaustible	2,426	4,746	-	7,172
Land improvements - exhaustible	43,126	470	-	43,596
Buildings	856,501	127,361	1,281	982,581
Fixed equipment - communications	25,359	4,707	-	30,066
Infrastructure	19,225	14,246	-	33,471
Equipment	309,730	31,157	23,373	317,514
Vehicles	15,819	2,191	1,829	16,181
Library materials	101,172	9,069	956	109,285
Capitalized software	5,681	2,891	-	8,572
Art	6,500	293	-	6,793
Construction in progress	140,751	40,337	118,679	62,409
	<u>1,557,226</u>	<u>240,619</u>	<u>146,357</u>	<u>1,651,488</u>
<u>Accumulated Depreciation</u>				
Land improvements - exhaustible	35,020	1,641	-	36,661
Buildings	384,296	24,661	318	408,639
Fixed equipment - communications	14,094	1,999	-	16,093
Infrastructure	4,324	1,054	-	5,378
Equipment	197,933	31,573	21,645	207,861
Vehicles	11,438	1,349	1,434	11,353
Library materials	74,517	5,371	-	79,888
	<u>721,622</u>	<u>67,648</u>	<u>23,397</u>	<u>765,873</u>
Capital assets, net	<u>\$ 835,604</u>	<u>\$ 172,971</u>	<u>\$ 122,960</u>	<u>\$ 885,615</u>

Capital assets as of June 30, 2002 and capital asset activity for the year ended June 30, 2002 are summarized as follows (in thousands):

	<u>June 30, 2001</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2002</u>
Land	\$ 28,771	\$ 2,165		\$ 30,936
Land improvements - nonexhaustible	1,553	965	\$ 92	2,426
Land improvements - exhaustible	40,880	2,251	5	43,126
Buildings	833,167	33,566	10,232	856,501
Fixed equipment - communications	23,405	1,966	12	25,359
Infrastructure	9,470	9,755	-	19,225
Equipment	296,188	29,116	15,574	309,730
Vehicles	15,067	1,120	368	15,819
Library materials	93,235	8,322	385	101,172
Capitalized software	1,848	3,833	-	5,681
Art	6,440	60	-	6,500
Construction in progress	82,184	76,774	18,207	140,751
	<u>1,432,208</u>	<u>169,893</u>	<u>44,875</u>	<u>1,557,226</u>
<u>Accumulated Depreciation</u>				
Land improvements - exhaustible	33,458	1,567	5	35,020
Buildings	366,493	22,154	4,351	384,296
Fixed equipment - communications	12,293	1,806	5	14,094
Infrastructure	3,751	573	-	4,324
Equipment	180,222	32,518	14,807	197,933
Vehicles	10,490	1,342	394	11,438
Library materials	69,789	4,728	-	74,517
	<u>676,496</u>	<u>64,688</u>	<u>19,562</u>	<u>721,622</u>
Capital assets, net	<u>\$ 755,712</u>	<u>\$ 105,205</u>	<u>\$ 25,313</u>	<u>\$ 835,604</u>

At June 30, 2003, the University has construction projects in process totaling approximately \$211 million in scope. The estimated cost to complete these projects is approximately \$149 million. Such construction is principally financed by appropriations from the Commonwealth of Kentucky and proceeds from bonds.

The University has utilized capital leases to acquire various items of equipment costing approximately \$17.9 million and financing/lease agreements with the Kentucky Asset/Liability Commission to (a) finance renovations to Commonwealth Stadium and (b) to provide financing for various construction projects.

6. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities as of June 30, 2003 and 2002, respectively, are as follows (in thousands):

	<u>2003</u>	<u>2002</u>
Payable to vendors and contractors	\$ 52,837	\$39,607
Accrued expenses, primarily vacation and sick leave	32,600	31,199
Employee withholdings and deposits payable to third parties	<u>25,994</u>	<u>25,091</u>
Total	<u>\$111,431</u>	<u>\$95,897</u>

7. Deferred Revenue

Deferred revenue as of June 30, 2003 and 2002, respectively, is as follows (in thousands):

	<u>2003</u>	<u>2002</u>
Unearned summer school revenue	\$ 3,646	\$ 3,644
Unearned hospital revenue –		
Kentucky Healthcare Provider Income	3,895	4,178
Unearned grants and contracts revenue	20,241	20,752
Prepaid athletic revenues, primarily ticket sales	10,000	7,731
Unearned state deferred maintenance pool funds	2,731	3,853
Other	<u>2,516</u>	<u>1,779</u>
Total	<u>\$ 43,029</u>	<u>\$ 41,937</u>

8. Long-term Liabilities

Long-term liabilities as of June 30, 2003 and long-term liability activity for the year ended June 30, 2003, are summarized as follows (in thousands):

	<u>June 30, 2002</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2003</u>	<u>Current Portion</u>	<u>Noncurrent Portion</u>
<u>Bonds, notes and capital leases</u>						
Educational buildings bonds	\$ 126,380	\$ 5,115	\$ 17,395	\$ 114,100	\$ 10,235	\$ 103,865
Housing and dining bonds	31,021	-	2,400	28,621	2,490	26,131
Hospital bonds	9,320	3,850	9,320	3,850	-	3,850
Library bonds	44,545	-	980	43,565	1,045	42,520
Capital leases	48,806	3,178	6,971	45,013	11,441	33,572
Notes payable	1,425	-	1,425	-	-	-
Total bonds, notes and capital leases	<u>261,497</u>	<u>12,143</u>	<u>38,491</u>	<u>235,149</u>	<u>25,211</u>	<u>209,938</u>
<u>Other liabilities</u>						
Medical malpractice	27,149	346	2,712	24,783	3,512	21,271
Long term disability	10,672	2,760	2,658	10,774	1,916	8,858
Annuities payable	5,658	342	702	5,298	392	4,906
Health insurance	2,855	22,160	21,194	3,821	3,821	-
Federal loan programs	20,215	607	55	20,767	-	20,767
Workers compensation	3,316	4,477	2,966	4,827	3,284	1,543
Mining and Minerals Trust	1,126	-	522	604	-	604
Compensated absences	2,250	250	-	2,500	366	2,134
Supplemental disability	657	90	380	367	205	162
Arbitrage rebate	1,117	968	223	1,862	841	1,021
Outstanding check liability	472	374	472	374	374	-
Unemployment compensation	200	-	87	113	113	-
Total other liabilities	<u>75,687</u>	<u>32,374</u>	<u>31,971</u>	<u>76,090</u>	<u>14,824</u>	<u>61,266</u>
Total	<u>\$ 337,184</u>	<u>\$ 44,517</u>	<u>\$ 70,462</u>	<u>\$ 311,239</u>	<u>\$ 40,035</u>	<u>\$ 271,204</u>

Long-term liabilities as of June 30, 2002 and long-term liability activity for the year ended June 30, 2002, are summarized as follows (in thousands):

	June 30, 2001	Additions	Reductions	June 30, 2002	Current Portion	Noncurrent Portion
<u>Bonds, notes and capital leases</u>						
Educational buildings bonds	\$ 140,100		\$ 13,720	\$ 126,380	\$ 12,455	\$ 113,925
Housing and dining bonds	33,336		2,315	31,021	2,400	28,621
Hospital bonds	10,920		1,600	9,320	1,680	7,640
Library bonds	45,470		925	44,545	980	43,565
Capital leases	45,773	\$ 9,153	6,120	48,806	5,940	42,866
Notes payable	1,500	8	83	1,425	-	1,425
Total bonds, notes and capital leases	<u>277,099</u>	<u>9,161</u>	<u>24,763</u>	<u>261,497</u>	<u>23,455</u>	<u>238,042</u>
<u>Other liabilities</u>						
Medical malpractice	30,425	1,000	4,276	27,149	4,003	23,146
Long term disability	10,798	1,989	2,115	10,672	1,925	8,747
Annuities payable	6,206	-	548	5,658	417	5,241
Health insurance	3,236	17,730	18,111	2,855	2,855	-
Federal loan programs	19,552	967	304	20,215	-	20,215
Workers compensation	3,330	4,395	4,409	3,316	1,792	1,524
Mining and Minerals Trust	2,642	-	1,516	1,126	-	1,126
Compensated absences	2,000	250	-	2,250	380	1,870
Supplemental disability	648	369	360	657	380	277
Arbitrage rebate	755	489	127	1,117	389	728
Outstanding check liability	379	472	379	472	472	-
Unemployment compensation	87	113	-	200	200	-
Total other liabilities	<u>80,058</u>	<u>27,774</u>	<u>32,145</u>	<u>75,687</u>	<u>12,813</u>	<u>62,874</u>
Total	<u>\$ 357,157</u>	<u>\$ 36,935</u>	<u>\$ 56,908</u>	<u>\$ 337,184</u>	<u>\$ 36,268</u>	<u>\$ 300,916</u>

Principal maturities and interest on bonds, notes and capital leases for the next five years and in subsequent five-year periods as of June 30, 2003 are as follows (in thousands):

	Principal	Interest	Total
2004	\$ 25,211	\$ 10,948	\$ 36,159
2005	17,911	9,867	27,778
2006	17,711	9,124	26,835
2007	15,840	8,399	24,239
2008	11,920	7,748	19,668
2009 - 2013	58,215	30,151	88,366
2014 - 2018	49,225	17,205	66,430
2019 - 2023	29,865	5,559	35,424
2024 - 2025	9,251	551	9,802
Total	<u>\$ 235,149</u>	<u>\$ 99,552</u>	<u>\$ 334,701</u>

At June 30, 2003, assets with a fair market value of approximately \$44,131,000 have been placed on deposit with trustees to totally defease bonds with a par amount of \$42,490,000. The liability for these fully defeased bonds is not included in the financial statements.

On March 26, 2003, \$5,115,000 of Consolidated Educational Building Refunding Revenue Bonds (CEBRB) Series K (Third Series) were issued at a net interest cost of 2.78%, representing a full refunding of the original \$7,575,000 CEHRB Series K (Second Series), dated June 1, 1993. The refunding defeased \$5,515,000 Series K (Second Series) bonds outstanding as of May 1, 2003. The refunding will decrease the University's total debt service payments over the next ten years by \$358,345, presenting an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$326,743.

On June 4, 2003, \$3,850,000 of University of Kentucky Hospital Revenue Bonds Series A (Third Series) were issued at a net interest cost of 1.27%, representing a full refunding of the original \$21,280,000 Hospital Revenue Bonds Series A (Second Series), dated January 1, 1993. The refunding defeased \$5,875,000 Series A (Second Series) bonds outstanding as of August 1, 2003. The refunding will decrease the University's total debt service payments over the next three years by \$431,256, presenting an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$417,617.

9. Components of Restricted Expendable Net Assets

Restricted expendable net assets are subject to externally imposed stipulations or conditions that must be followed and cannot be used for support of general operations of the University. At June 30, 2003 and 2002, respectively, restricted expendable net assets were composed of the following (in thousands):

	<u>2003</u>	<u>2002</u>
Appreciation on permanent endowments	\$ 12,756	\$ 27,999
Term endowments	5,001	4,593
Quasi-endowments initially funded with restricted assets	40,741	40,485
Funds restricted for capital projects	39,935	64,781
Funds restricted for non-capital purposes	63,013	59,539
Loan funds (primarily University funds required for Federal match)	<u>8,026</u>	<u>7,750</u>
Total	<u>\$169,472</u>	<u>\$205,147</u>

10. Designations of Unrestricted Net Assets

Unrestricted net assets are designated for specific purposes by action of the Board of Trustees or management or may otherwise be limited by contractual agreements. Commitments for the use of unrestricted net assets at June 30, 2003 and 2002, respectively, are as follows (in thousands):

	<u>2003</u>	<u>2002</u>
Working capital requirements	\$144,733	\$149,993
Budget appropriations for future year fiscal operations	20,768	21,837
Designated for capital projects	64,671	77,792
Designated for renewal and replacement of capital assets	153,042	119,040
Quasi-endowments initially funded with unrestricted assets	<u>18,332</u>	<u>18,222</u>
Total	<u>\$401,546</u>	<u>\$386,884</u>

11. Pledged Revenues

Certain revenues reflected in the Statement of Revenues, Expenses and Changes in Net Assets as of June 30, 2003 and 2002, respectively, are pledged as security for the University's outstanding bonds, as follows (in thousands):

	<u>2003</u>	<u>2002</u>
Student tuition and fees, pledged as collateral for the University's Consolidated Educational Buildings Revenue Bonds	\$145,176	\$133,916
Housing and Dining system revenues, pledged as collateral for the University's Consolidated Housing and Dining System Revenue Bonds	\$ 22,194	\$ 22,559
Hospital patient services revenue, pledged as collateral for the University's Hospital Revenue Bonds	\$345,143	\$318,949

12. Investment Income

Components of investment income for the years ended June 30, 2003 and 2002 are as follows (in thousands):

	<u>2003</u>	<u>2002</u>
Interest and dividends earned on endowment investments	\$ 9,253	\$11,661
Realized and unrealized gains and losses on endowment investments	(1,439)	(38,145)
Interest on cash and non-endowment investments	19,218	22,741
Realized and unrealized gains and losses on non-endowment investments	5,333	5,167
Investment income from external trusts	<u>979</u>	<u>963</u>
Total	<u>\$ 33,344</u>	<u>\$ 2,387</u>

13. Funds Held in Trust by Others

The University is the income beneficiary of various trusts that are held and controlled by independent trustees. For the years ended June 30, 2003 and 2002, respectively, the University received income from these trusts of approximately \$979,000 and \$963,000. The University has no equity interest in the principal of the trusts that, accordingly, are recorded at a nominal value of \$1 each.

14. Pledges and Deferred Gifts

At June 30, 2003, pledges totaling approximately \$42,035,000 are expected to be collected primarily over the next five years, as follows (in thousands):

Operating purposes	\$ 3,501
Capital projects	4,405
Endowment principal	<u>34,129</u>
Total	<u>\$42,035</u>

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. Accordingly, for the years ended June 30, 2003 and 2002, the University recorded the discounted value of operating and capital pledges, net of the allowance for uncollectible pledges, of approximately \$3,958,000 and \$5,503,000, respectively.

Deferred gifts through insurance, known bequests and irrevocable trusts in which the University has a remainder interest are estimated to be approximately \$46,500,000 at June 30, 2003. The University records these amounts as revenue when the cash is received.

15. Grants and Contracts Awarded

At June 30, 2003, grants and contracts of approximately \$155 million had been awarded to the University and the University of Kentucky Research Foundation but not expended. These amounts will be recognized in future periods.

16. Pension 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 5% and the University contributes 10% of the participant's eligible compensation to the retirement plan. Participants in group V contribute 1% and the University contributes 2% of the participant's eligible compensation to the retirement plan.

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

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

Under the fully funded University of Kentucky Retirement Plan, the University and plan participants make contributions to provide fully vested retirement benefits to employees in individually owned contracts. The University's contributions and costs for 2003 and 2002 were approximately \$46,691,000 and \$43,334,000, respectively. Employees contributed approximately \$23,170,000 in 2003 and \$21,538,000 in 2002. The University's total payroll costs were approximately \$677,945,000 and \$647,455,000, respectively, for the years ended June 30, 2003 and 2002. The payroll for employees covered by the retirement plan was approximately \$466,914,000 and \$433,338,000 for 2003 and 2002, respectively.

In addition to retirement benefits provided from the group retirement plan, the University provides supplemental retirement income benefits to certain eligible employees in each of the retirement groups (see Note 17).

17. Minimum Annual Retirement Benefits and Supplemental Retirement Income

Employees in retirement groups I, II and III, referred to in Note 16, who were age 40 or older prior to the date of establishment of each group plan, and who were employed by the University prior to that date, qualify for the minimum annual retirement benefit provisions of the retirement plan. Benefits for these eligible employees are based upon a percentage, determined through years of service, of the participant's annual salary in the last year of employment prior to retirement. Retirement benefits as determined are funded by each individual retiree's accumulation in the group retirement plan, with the balance, if necessary, provided by the University as supplemental retirement income.

The Legislature of the Commonwealth of Kentucky has appropriated funds to the University for the payment of supplemental retirement income benefits since adoption of the group retirement plans, and is expected to continue this practice. However the Constitution of the Commonwealth of Kentucky prohibits the commitment of future revenues beyond the end of the current biennium. Accordingly, the University does not recognize the liability for supplemental retirement income benefits during the service life of covered employees, but recognizes its costs when funds are appropriated by the Legislature and payments are made. The University intends to continue paying supplemental retirement income benefits contingent upon the Legislature continuing to appropriate funds required to make these payments. Supplemental retirement benefit payments were approximately \$3,767,000 and \$3,962,000 for the years ended June 30, 2003 and 2002, respectively.

The latest actuarial valuation was prepared as of June 30, 2002 by TIAA. The actuarial present value of accumulated supplemental retirement income benefits as determined by this valuation, utilizing an assumed rate of return of 7%, was \$25,672,000.

18. Health Insurance Benefits for Retirees

The University provides a health care credit towards health insurance coverage to retirees who have a minimum of fifteen years service. The University recognizes the cost of providing this credit by expensing the credit in the year provided. These health care credits totaled approximately \$6,041,000 and \$5,068,000 for the years ended June 30, 2003 and 2002, respectively. At June 30, 2003, 2,074 retirees met the service requirement and were receiving the health care credit.

19. Risk Management

The University is exposed to various risks of loss related to torts; theft of, damage to, and 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 Fund), (2) Sovereign Immunity and the State Board of Claims or, (3) in the case of risks not covered by the Fund and Sovereign Immunity, commercial insurance, participation in insurance risk retention groups or self-insurance.

The Fund covers losses to property from fire, wind, earthquake, flood and most other causes of loss between \$250 and \$500,000 per occurrence. Losses in excess of \$500,000 are insured by commercial carriers up to \$500 million per occurrence principally on an actual cash value basis. As a state agency, the University is vested with Sovereign Immunity and is subject to the provisions of the Board of Claims Act, under which the University's liability for certain negligence claims is limited to \$200,000 for any one person or \$350,000 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 2002 to 2003. 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 self-insurance, commercial liability insurance, and an excess coverage fund established by the Commonwealth of Kentucky. The malpractice liability at June 30, 2003 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 liability 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 at June 30, 2003.

The University is self-insured for the long-term disability income program and has established a 501(c)(9) trust for purposes of paying claims and establishing necessary reserves. The estimated long-term disability payments for known claims at June 30, 2003 are reported at their present value assuming an investment yield of 6.0%.

The University also self-insures certain employee benefits, including health insurance, worker's compensation, unemployment claims, and a long-term disability supplemental reserve, to the extent not covered by insurance. The University has recorded an estimate for asserted claims at June 30, 2003.

Long-term liabilities related to self-insurance are detailed in Note 8, above.

20. Contingencies

The University is defendant in various lawsuits. 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. Natural Classification

The University's operating expenses by natural classification were as follows for the years ended June 30, 2003 and 2002, respectively (in thousands):

	<u>2003</u>	<u>2002</u>
Salaries and wages	\$ 599,813	\$ 578,889
Employee benefits	142,479	127,198
Repairs and maintenance	64,100	60,040
Supplies	140,488	137,768
Depreciation	67,648	64,688
Student scholarships and financial aid	34,084	29,736
Utilities	46,514	43,454
Communications	17,449	17,144
Professional services	60,983	57,864
Travel	12,815	12,405
Resale	8,962	9,419
Other, various	<u>46,673</u>	<u>43,138</u>
Total	<u>\$1,242,008</u>	<u>\$1,181,743</u>

22. Subsequent Events

On July 22, 2003, the University sold \$29,755,000 of University of Kentucky Consolidated Educational Buildings Revenue Bonds, Series S, at a net interest cost of 4.34%. The proceeds of this bond issue will be used to complete the construction of the Biomedical Sciences Research Building on the main campus in Lexington, Kentucky.

On August 13, 2003, the University sold \$52,815,000 of University of Kentucky Housing and Dining System Revenue Bonds, Series S, at a net interest cost of 4.58%. The proceeds of this bond issue will be used to construct new dormitories with approximately 700 new beds on the main campus in Lexington, Kentucky.

23. Reclassifications

Certain reclassifications to fiscal 2002 comparative amounts have been made to conform with the 2003 classifications.

INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

To the Board of Trustees of the
University of Kentucky

and

the Secretary of Finance and
Administration Cabinet of the
Commonwealth of Kentucky

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The additional consolidating information contained on pages 31 and 32, is presented for the purpose of additional analysis of the basic consolidated financial statements rather than to present the financial position, results of operations and cash flows of the individual entities, and is not a required part of the basic consolidated financial statements. This additional information is the responsibility of the University's management. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic consolidated financial statements taken as a whole.

Deloitte & Touche LLP

August 29, 2003
Louisville, Kentucky

UNIVERSITY OF KENTUCKY AND AFFILIATED CORPORATIONS
CONSOLIDATING SCHEDULE
STATEMENT OF NET ASSETS
JUNE 30, 2003
(in thousands)

	UK	UK Research Foundation	The Fund	Equine Research Foundation	UK Athletic Association	Humanities Foundation	Mining Engineering Foundation	Business Partnership Foundation	Center on Aging	Health Care Collection Service	Total
ASSETS											
Current Assets											
Cash and cash equivalents	\$ 268,214	\$ 319	\$ 6,845	\$ 1,327	\$ 10,967	\$ 46		\$ 234	\$ 328	\$ 269	\$ 288,549
Notes, loans and accounts receivable, net	102,212	29,085	2,007	3	519	20					133,846
Inventories and other	12,849	1,505			2,274					11	16,639
Total current assets	<u>383,275</u>	<u>30,909</u>	<u>8,852</u>	<u>1,330</u>	<u>13,760</u>	<u>66</u>	<u>-</u>	<u>234</u>	<u>328</u>	<u>280</u>	<u>439,034</u>
Noncurrent Assets											
Restricted cash and cash equivalents	72,188										72,188
Endowment investments	406,485	3,583	191	7,551	266	1,080	\$ 1,860	11,390			432,406
Other long-term investments	183,922	613		154	3,176						187,865
Notes, loans and accounts receivable, net	24,526					66					24,592
Capital assets, net	825,229	4,690			55,351					345	885,615
Total noncurrent assets	<u>1,512,350</u>	<u>8,886</u>	<u>191</u>	<u>7,705</u>	<u>58,793</u>	<u>1,146</u>	<u>1,860</u>	<u>11,390</u>	<u>-</u>	<u>345</u>	<u>1,602,666</u>
Total assets	<u>1,895,625</u>	<u>39,795</u>	<u>9,043</u>	<u>9,035</u>	<u>72,553</u>	<u>1,212</u>	<u>1,860</u>	<u>11,624</u>	<u>328</u>	<u>625</u>	<u>2,041,700</u>
LIABILITIES											
Current Liabilities											
Accounts payable and accrued liabilities	101,886	6,540	235		2,467	1	3	19		280	111,431
Deferred revenue	12,477	20,552			10,000						43,029
Long-term liabilities - current portion	38,990				1,045						40,035
Total current liabilities	<u>153,353</u>	<u>27,092</u>	<u>235</u>	<u>-</u>	<u>13,512</u>	<u>1</u>	<u>3</u>	<u>19</u>	<u>-</u>	<u>280</u>	<u>194,495</u>
Noncurrent Liabilities											
Long-term liabilities	228,684				42,520						271,204
Total liabilities	<u>382,037</u>	<u>27,092</u>	<u>235</u>	<u>-</u>	<u>56,032</u>	<u>1</u>	<u>3</u>	<u>19</u>	<u>-</u>	<u>280</u>	<u>465,699</u>
INTERFUND BALANCES											
	1,143		(574)	(569)							-
NET ASSETS											
Invested in capital assets, net of related debt	647,489	4,690			14,961					345	667,485
Restricted											
Nonexpendable	322,885	1,117	37	4,676		605	872	7,306			337,498
Expendable	155,850	2,771	500	3,790	343	606	985	4,299	328		169,472
Total restricted	<u>478,735</u>	<u>3,888</u>	<u>537</u>	<u>8,466</u>	<u>343</u>	<u>1,211</u>	<u>1,857</u>	<u>11,605</u>	<u>328</u>	<u>-</u>	<u>506,970</u>
Unrestricted											
	388,507	4,125	7,697		1,217						401,546
Total net assets	<u>\$ 1,514,731</u>	<u>\$ 12,703</u>	<u>\$ 8,234</u>	<u>\$ 8,466</u>	<u>\$ 16,521</u>	<u>\$ 1,211</u>	<u>\$ 1,857</u>	<u>\$ 11,605</u>	<u>\$ 328</u>	<u>\$ 345</u>	<u>\$ 1,576,001</u>

UNIVERSITY OF KENTUCKY AND AFFILIATED CORPORATIONS
CONSOLIDATING SCHEDULE FOR THE YEAR ENDED JUNE 30, 2003
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
(in thousands)

	UK	UK Research Foundation	The Fund	Equine Research Foundation	UK Athletic Association	Humanities Foundation	Mining Engineering Foundation	Business Partnership Foundation	Center on Aging	Health Care Collection Service	Total
OPERATING REVENUES											
Student tuition and fees, net	\$ 107,485										\$ 107,485
Federal grants and contracts	18,388	\$ 107,894									126,282
State and local grants and contracts	23,636	34,474	\$ 198								58,308
Nongovernmental grants and contracts	79,674	21,723	1,612								103,009
Recoveries of facilities and administrative costs	317	34,047									34,364
Sales and services	28,030	669	8,867						\$ 2	\$ 3,406	40,974
Federal appropriations	14,066										14,066
County appropriations	9,801										9,801
Hospital patient services	343,393										343,393
Auxiliary enterprises:											
Housing and Dining, net	26,622										26,622
Athletics					\$ 35,236						35,236
Other auxiliaries	12,636										12,636
Other operating revenues	250										250
Total operating revenues	664,298	198,807	10,677	-	35,236	-	-	-	2	3,406	912,426
OPERATING EXPENSES											
Educational and general:											
Instruction	229,996	14,568	117			\$ 1	\$ 43	\$ 55	5		244,785
Research	64,454	122,939	13	\$ 4			43	55	149		187,657
Public service	130,475	33,346	420				9				164,250
Libraries	12,006		3								12,009
Academic support	43,810	1,880	2,138					268			48,096
Student services	19,747	2	83			6					19,838
Institutional support	43,511	389	498	10						3,396	47,804
Operations and maintenance of plant	46,390		3								46,393
Student financial aid	26,685	1,474	67			42		165			28,433
Depreciation	48,660	258								75	48,993
Total educational and general	665,734	174,856	3,342	14	-	49	95	543	154	3,471	848,258
Hospital and clinics (including depreciation of \$13,996)	310,771										310,771
Auxiliary enterprises:											
Housing and Dining (including depreciation of \$2,110)	30,926										30,926
Athletics (including depreciation of \$2,550)	4,569				33,913						38,482
Other auxiliaries	13,348										13,348
Other expenses	223										223
Total operating expenses	1,025,571	174,856	3,342	14	33,913	49	95	543	154	3,471	1,242,008
Net income (loss) from operations	(361,273)	23,951	7,335	(14)	1,323	(49)	(95)	(543)	(152)	(65)	(329,582)
NONOPERATING REVENUES (EXPENSES)											
State appropriations	304,735										304,735
Gifts and grants	20,242		86	179	52	92	1	56	124		20,832
Investment income	32,407	205	181	166	183	14	23	150	10	5	33,344
Interest on capital asset-related debt	(9,307)				(2,180)						(11,487)
Grant to/(from) the University for non-capital purposes	24,084	(15,913)	(7,234)	(629)	(173)	(10)	(17)	(108)			-
Other nonoperating revenues and expenses	(700)	798			1,444						1,542
Net nonoperating revenues	371,461	(14,910)	(6,967)	(284)	(674)	96	7	98	134	5	348,966
Net income (loss) before other revenues, expenses, gains, or losses	10,188	9,041	368	(298)	649	47	(88)	(445)	(18)	(60)	19,384
Capital appropriations	1,660										1,660
Capital grants and gifts	17,061	3,403									20,464
Additions to permanent endowments	26,290						7	120			26,417
Grant to/(from) the University for capital purposes	18,804	(15,195)	(308)		(3,282)			(7)	(12)		-
Other	616				34						650
Total other revenues	64,431	(11,792)	(308)	-	(3,248)	-	7	113	(12)	-	49,191
INCREASE (DECREASE) IN NET ASSETS	74,619	(2,751)	60	(298)	(2,599)	47	(81)	(332)	(30)	(60)	68,575
NET ASSETS, beginning of year	1,440,112	15,454	8,174	8,764	19,120	1,164	1,938	11,937	358	405	1,507,426
NET ASSETS, end of year	\$ 1,514,731	\$ 12,703	\$ 8,234	\$ 8,466	\$ 16,521	\$ 1,211	\$ 1,857	\$ 11,605	\$ 328	\$ 345	\$ 1,576,001