

**MINUTES OF THE AUDIT AND COMPLIANCE SUBCOMMITTEE
OF THE FINANCE COMMITTEE
University of Kentucky Board of Trustees
December 17, 2013, 8:30 AM
Suite A, 18th Floor Patterson Office Tower**

Subcommittee Members Present

William Britton, Chair, James Booth, Angela Edwards, Keith Gannon, Bill Gatton and James W. Stuckert

Approval of Minutes

The minutes of the September 10, 2013 Audit and Compliance Subcommittee (ACS) meeting were approved as presented.

Reports and Discussion Items

Discussion with BKD, Certified Public Accountants, External Auditors

Mary McKinley, BKD Partner, presented highlights to the ACS of the 2013 audited financial statements and other required communications contained in the BKD Report. Ms. McKinley noted that BKD gave an unmodified (formerly unqualified) or “clean” opinion regarding the 2013 financial statements. She then covered the various report sections as follows:

BKD Management Letter (pages 2-7): In the areas of audit emphasis, there were no matters reportable. Significant estimates include the allowance for doubtful accounts, self-insurance reserves and estimated amounts due to/from third-party payers. An unmodified opinion was issued on the financial statements. The BKD audit included reporting on major federal award programs as required by the U.S. Office of Management and Budget Circular A-133; the associated Data Collection Form will be filed by the end of January. Ms McKinley noted that there were no recorded audit adjustments and stated that this was excellent for an organization of this size.

Audited Financial Statements: Ms. McKinley called attention to one new footnote on page 50 of Tab 1. It presents the various entities that are included in the overall University financial statements. She emphasized that the Hospital and Athletics Departments are included in the “UK” column. The other entities include Research Foundation, The Fund, Gluck Equine Research Foundation, Humanities Foundation, Mining Engineering Foundation, Center on Aging, Central Kentucky Management Services and Kentucky Medical Services Foundation (KMSF). She reported that there were a couple of new accounting pronouncements that were effective this year. One of those pronouncements changed the name from “The Statement of Net Assets” to “The Statement of Net Position” as shown on page 16 of Tab 1. She noted that overall the financial statements demonstrate a very solid position. The “Management’s Discussion and Analysis” beginning on page 4 of Tab 1 provides explanation for significant fluctuations in the numbers from the previous year.

Chair Britton asked why KMSF is included in the University’s financial statements. Ms. McKinley reported that KMSF is considered a blended component unit and technically qualifies for inclusion in the financial statements. Ronda Beck, Controller, further explained that KMSF is not a UK affiliate under the Kentucky Revised Statutes (KRS); however, due to its governing board membership, the nature and significance of the relationship and how KMSF exists exclusively for the benefit of UK’s faculty, KMSF warrants inclusion in the University’s financial statements.

Single Audit Reports and Schedule of Expenditures of Federal Awards (A133 Report): Page 32 of Tab 3 summarizes the results of BKD's testing of Federal Awards. An unmodified opinion was given for this report and also the related report on internal control. There were no significant deficiencies or material weaknesses to report.

Discussion ensued. Chair Britton asked about gifts to the University. He requested an explanation regarding how gifts and pledges are recorded in the University's financial statements. Ms. Beck explained that the first distinction is whether it is a capital or an operating gift determined by donor restriction. Pledges are recorded and adjusted annually at the University level. General Accounting receives a listing of pledges to discount them and adjust the pledge receivables at year-end. A small allowance for doubtful accounts is adjusted based on historical data. There was also discussion regarding how gifts/pledges are recorded for the various University departments/divisions such as Athletics, Gatton School of Business and UK Healthcare. Mr. Eric Monday, Executive Vice-President for Finance and Administration agreed to provide a breakdown of UK gifts received (e.g. endowment, capital, etc) as reported by Mr. Mike Richey, Vice-President for Development.

Action Item

ACSR 1 Retain BKD, LLP for audit of the financial statements for fiscal year 2013-14 (Attachment)

Ms. Susan Krauss, Interim Treasurer, recommended that the ACS approve retaining BKD for the audit for fiscal year 2014 and authorize Ms. Krauss to execute the engagement letter. It is expected that the BKD audit fees will be similar to fiscal year 2013 (roughly \$347K); the fee terms will be negotiated and Ms. Krauss will bring the engagement letter before the ACS at the next meeting (January 31, 2014).

Mr. Stuckert moved to approve ACSR1. Seconded by Mr. Booth. Approved.

There being no further business, the meeting was adjourned.

Next Meeting

Friday, January 31, 2014

- BKD FY 2014 Engagement Letter
- UKIA Introductory Presentation
- Internal Audit Charter Revision Discussion Draft
- Internal Audit FY 2014 Mid-year Activity Update

Respectfully submitted,

Catherine Miller

University of Kentucky

Report to the Board of Trustees

October 1, 2013

Results of the 2013 Financial Statement Audit, Internal Control
Matters and Other Required Communications

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October 1, 2013

Board of Trustees, Audit SubCommittee and Management
University of Kentucky
Lexington, Kentucky

Dear Board of Trustees, Audit SubCommittee and Management:

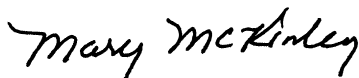
We have completed our audit of the financial statements of the University of Kentucky (University), a component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2013. This report includes communication required under auditing standards generally accepted in the United States of America as well as other matters.

Our audit plan represented an approach responsive to the assessment of risk of material misstatement in financial reporting for the University. Specifically, auditing standards require us to:

- Express an opinion on the June 30, 2013, financial statements and supplementary information of the University.
- Report on internal control over financial reporting and on compliance and other matters based on an audit of the financial statements performed in accordance with *Government Auditing Standards*.
- Report on compliance with requirements that could have a direct and material effect on each major program and on internal control over compliance in accordance with U.S. Office of Management and Budget (OMB) Circular A-133.
- Issue communications required under auditing standards generally accepted in the United States of America to assist the board in overseeing management's financial reporting and disclosure process.

This communication is intended solely for the information and use of management, the board of trustees and others within the University and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "Mary McKinley". The signature is written in a cursive, flowing style.

Mary McKinley, CPA
Partner

Summary of Our Audit Approach & Results

Our Approach

BKD’s audit approach focuses on areas of higher risk—the unique characteristics of the University of Kentucky’s (University) operating environment, the design effectiveness of your internal controls and your financial statement amounts and disclosures. The objective is to express an opinion on the conformity of your financial statements, in all material respects, with accounting principles generally accepted in the United States of America.

Areas of Audit Emphasis

The principal areas of audit emphasis and results were as follows:

Risk Area	Results
<ul style="list-style-type: none"> • <i>Management override of controls</i> – The risk that management may override existing and functioning accounting controls is an inherent risk to the University. 	➞ No matters are reportable.
<ul style="list-style-type: none"> • <i>Revenue recognition</i> – The risk that revenue is improperly categorized or recorded in an improper period. 	➞ No matters are reportable.
<ul style="list-style-type: none"> • <i>Existence and valuation of investments</i> – The assumptions and methods used by management to value difficult-to-value investments, such as alternative investments. 	➞ No matters are reportable.
<ul style="list-style-type: none"> • <i>Existence and valuation of patient accounts and pledges receivable</i> – The assumptions used by management to estimate the allowances for bad debts and contractual allowances for patient accounts and pledges receivable. 	➞ No matters are reportable.
<ul style="list-style-type: none"> • <i>Valuation of amounts due to third-party payers</i> – The assumptions used by management to estimate the amounts due to/from Medicare, Medicaid and other third-party payers. 	➞ No matters are reportable.
<ul style="list-style-type: none"> • <i>Estimated self-insurance for medical malpractice, long term disability, workers’ compensation, health insurance and litigation reserves</i> 	➞ No matters are reportable.

Risk Area	Results
<ul style="list-style-type: none"> • <i>Compliance with major federal award program regulations</i> 	<ul style="list-style-type: none"> ➔ Performed testing of major federal award programs as required by OMB A-133. See report in <i>Tab 3</i>.

Significant Estimates

The preparation of the financial statements requires considerable judgment because some assets, liabilities, revenues and expenses are “estimated” based on management’s assumptions about future outcomes. Estimates may be dependent on assumptions related to economic or environmental conditions, regulatory reform or changes in industry trends.

Some estimates are inherently more difficult to evaluate and highly susceptible to variation because the assumptions relating to future outcomes have a higher degree of uncertainty. To the extent future outcomes are different than expected, management’s estimates are adjusted in future periods, sometimes having a significant effect on subsequent period financial statements. The following are considered to be significant estimates for the University:

- **Allowance for doubtful accounts** – Primary collection risks related to patient accounts receivable include uninsured patients and patient balances where the patient’s insurance did not pay the entire balance. Management’s estimate for allowance for doubtful accounts is based on historical collection, payer mix and anticipated trends. Similar to third-party reimbursements, management assumptions about the economy and types of payers affect the estimation of allowance for doubtful accounts.
- **Self-insurance for medical malpractice, long-term disability, workers’ compensation and health insurance** – Management values self-insurance reserves based on actuarially determined values which are based on estimates of known claims and estimates for incurred but not reported claims. Management estimates the liabilities based on specific claim facts, historical claim reporting and actuarial assumptions.
- **Estimated amounts due to/from third-party payers** – Operating revenues include management’s estimates of amounts to be reimbursed by third parties. Amounts received for patient billings are generally less than amounts billed. The difference between what is billed and expected to be received is recorded through contractual adjustments. Management’s process of projecting amounts to be received from third parties requires estimation based on payer classification, historical data and payer contract provisions. Estimates of third-party reimbursements also include management assumptions about uncertainties in health care reform, payer mix and state of the economy.

Opinion

Unmodified, or “Clean,” Opinion Issued on Financial Statements

We have issued an unmodified opinion as to whether the financial statements of the University, as of and for the year ended June 30, 2013, are fairly presented, in all material respects (See *Tab 1*).

Requirements Under U.S. Office of Management and Budget Circular A-133

Our audit included reporting on major federal award programs and includes:

- Schedule of expenditures of federal awards
- Report on internal control over financial reporting and on compliance and other matters based on an audit of the financial statements performed in accordance with *Government Auditing Standards*
- Report on compliance with requirements that could have a direct and material effect on each major program and on internal control over compliance in accordance with OMB Circular A-133
- Schedule of findings and questioned costs
- Data Collection Form

Analysis of Unrecorded Audit Adjustments

We proposed the following adjustments that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements as a whole. A schedule of these uncorrected misstatements is located at *Tab 2*.

QUANTITATIVE ANALYSIS

	Before		Subsequent to	
	Misstatements	Misstatements	Misstatements	% Change
Total Assets	3,951,273	2,428	3,953,701	0.06%
Total Liabilities	1,085,305	59	1,085,364	0.01%
Net Position	2,865,968	(782)	2,865,186	-0.03%
Total Revenues	2,521,549	1,836	2,523,385	0.07%
Total Expenses	2,331,968	(1,715)	2,330,253	-0.07%
Change in Net Position	189,581	3,551	193,132	1.87%

Required Communications

Generally accepted auditing standards require the auditor to provide to those charged with governance additional information regarding the scope and results of the audit that may assist you in overseeing management’s financial reporting and disclosure process. Below, we summarize these required communications.

Auditor’s Responsibility Under 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 and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*

An audit performed 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 and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* is designed to obtain reasonable, rather than absolute, assurance about the financial statements and about whether noncompliance with the types of compliance requirements described in OMB Circular A-133 that could have a direct and material effect on a major federal program occurred. In performing auditing procedures, we establish scopes of audit tests in relation to the financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction. Our engagement letter more specifically describes our responsibilities.

These standards require communication of significant matters related to the financial statement audit that are relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. Such matters are communicated in the remainder of this communication or have previously been communicated during other phases of the audit. The standards do not require the auditor to design procedures for the purpose of identifying other matters to be communicated with those charged with governance.

An audit of the financial statements does not relieve management or those charged with governance of their responsibilities. Our engagement letter more specifically describes your responsibilities.

Area	Comments
<p>Significant Accounting Policies</p> <p>Significant accounting policies are described in <i>Note 1</i> of the financial statements.</p>	<p>With respect to unusual accounting policies or accounting methods used by the University for unusual transactions, we call to your attention the following:</p> <ul style="list-style-type: none"> No matters are reportable.

Area	Comments
<p>Alternative Accounting Treatments</p> <p>We had discussions with management regarding alternative accounting treatments within accounting principles generally accepted in the United States of America for policies and practices for material items, including recognition, measurement and disclosure considerations related to the accounting for specific transactions as well as general accounting policies listed in the adjacent comments section.</p>	<ul style="list-style-type: none"> • No matters are reportable.
<p>Management Judgments & Accounting Estimates</p> <p>Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. Areas involving significant areas of such estimates for which we are prepared to discuss management’s estimation process and our procedures for testing the reasonableness of those estimates are listed in the adjacent comments section.</p>	<ul style="list-style-type: none"> • Allowance for doubtful accounts and pledges receivable. • Valuation of investments. • Contractual allowances and amounts due to/from third-party payers. • Self-insurance for medical malpractice, long-term disability, workers’ compensation and health insurance.
<p>Financial Statement Disclosures</p> <p>The areas listed in the adjacent comments section involve particularly sensitive financial statement disclosures for which we are prepared to discuss the issues involved and related judgments made in formulating those disclosures.</p>	<ul style="list-style-type: none"> • University – self-insurance for medical malpractice, long-term disability, workers’ compensation and health insurance. • UK HealthCare Hospital System (System) – revenue recognition. • Combined condensed financial statements.

Area	Comments
<p>Audit Adjustments</p> <p>During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments that, in its judgment, are required to prevent the financial statements from being materially misstated. Some adjustments proposed were not recorded because their aggregate effect is not currently material; however, they involve areas in which adjustments in the future could be material, individually or in the aggregate.</p>	<p>Areas in which adjustments were proposed include:</p> <p><u>Proposed Audit Adjustments Recorded</u></p> <ul style="list-style-type: none"> No matters are reportable. <p><u>Proposed Audit Adjustments Not Recorded</u></p> <p><i>Tab 2</i> contains a summary of uncorrected misstatements we aggregated during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements as a whole.</p>
<p>Auditor’s Judgments About the Quality of University’s Accounting Policies</p> <p>During the course of the audit, we made observations regarding the University’s application of accounting principles listed in the adjacent comments section.</p>	<ul style="list-style-type: none"> No matters are reportable.

Other Material Written Communication

Other material written communication between management and BKD related to the audit include:

- Management representation letter for the University (*Tab 2*)

This communication is intended solely for the information and use of management, the audit subcommittee and the board of trustees and others within the University and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

Louisville, Kentucky
October 1, 2013

Audited Financial Statements

University of Kentucky
A Component Unit of the Commonwealth of Kentucky
Financial Statements
Years Ended June 30, 2013 and 2012

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MESSAGE FROM THE PRESIDENT



The University of Kentucky's commitment, created and nurtured in our land-grant heritage, is to be an unwavering guidepost for the state through our multi-faceted mission of teaching, research, service, and health care. Two years ago, we set forth, together, as a campus and a Board of Trustees on an ambitious path to renew our covenant with the people we serve.

We have responded with sharp and unrelenting focus on the priorities developed by the University Review Committee and the Board of Trustees. The overwhelming sentiment was to improve undergraduate education and the campus infrastructure while maintaining our progress in graduate education and research.

Our success over the last year has been the result of mutual interest in our future, an honest and open dialogue that included the voices of all university and community constituents, and the persistence of a deeply devoted Wildcat family.

Reaffirming our course, the University executed a successful reaffirmation visit from representatives of the Southern Association of Colleges and Schools Commission on Colleges (SACSCOC) in April 2013. Supported by literally hundreds of University faculty, staff and students, this process reaffirms the University's accreditation for the next 10 years.

The praise we received in our reaffirmation – made possible through the work of the Wildcat family – is evident elsewhere across campus:

- At 28,928 students, UK broke its enrollment record for the third year in a row; and research and professional practice doctoral enrollment reached a new high of 4,319.
- The mean ACT Composite for the Fall 2012 first-year class was 25.5 and included 427 students from the Governor's School for the Arts/Governor's Scholars Program.
- The first-year class included 71 National Merit and National Achievement Scholars, placing UK 11th among public universities in the number of scholars.
- In Fall 2012, minority and international student enrollment accounted for 18 percent of the total headcount with a record 1,561 African American and 526 international undergraduate students.
- In 2012-2013, UK awarded 6,185 degrees including 864 research and professional doctorates.
- In 2012-13, the University received \$265.9 million in external research grants and contracts -- signifying that we are a major player among research institutions in the country.
- UK completed a strong year in philanthropy, securing \$128.4 million in gifts and pledges from nearly 58,000 donors—a 21.8 percent increase in total gifts and pledges and a 4.0 percent increase in our donor base.

To build on our progress as one university, we opened and extended our budget process. The end result was a budget that invests in our priorities by:

- Holding the institution's annual tuition and fee increase to three percent – the lowest increase in 15 years.
- Supporting our students with more than \$7 million in additional financial aid and scholarships.
- Investing and rewarding our faculty and staff with a five percent merit salary pool.
- And, self-financing approved capital projects essential to the University.

We are in the second year of a multi-year process to create, refine and implement a financial model of accountability that will empower colleges with the necessary information to implement long-term plans and move their units forward. Over the last year, we collected important feedback from campus stakeholders that improved the effectiveness of the model. In

the year ahead, we will simulate the model's implementation, measure its impact and continue to amend the model based on our findings.

The University's public/private partnership with EdR continues to make progress. In August, we opened the doors to Central Halls I & II, adding 601 modern resident beds, new academic learning space and administrative offices for the Honors Program.

Currently, Phases II-A and II-B are underway. Eight additional facilities across campus will add nearly 4,000 beds and 156 active learning spaces by 2015. The investment thus far – nearly \$265 million – will transform the way we house, educate and mentor our students.

Thanks to the support of the Governor, scores of legislators, students, faculty, staff, alumni and friends, House Bill 7 – legislation authorizing UK to self-finance three building projects – was overwhelmingly approved. The capital priorities include:

- A dramatic renovation and expansion of the Gatton College of Business and Economics, which is made possible through the generosity of our donors.
- A new Academic Science Building that will accommodate the next century of scientific learning, research and discovery. UK Athletics is funding nearly two-thirds of this project – illustrating their unwavering support for our academic mission.
- And a renovation of Commonwealth Stadium and the Nutter Training and Recruiting Center; financed completely by Athletics. The investments we make today ensure our place as a premier, self-supporting program in the future -- one that provides nearly 500 scholarships to students from all walks of life and throughout the country.

Our investment in a modern campus environment - one that stimulates collaboration and creativity – will complement the benefits of direct student support, growth of quality academic programs, and efforts to expand access and ensure affordability.

These capital projects will be integrated into our updated campus master plan. The Plan recognizes that the campus is more than the functional arrangement of buildings, roads, walkways, parking lots and landscapes. It is a community, defined by the collective experiences of our students, faculty, staff, visitors, surrounding neighborhoods and businesses.

Our momentum is evident across the entire campus. The Markey Cancer Center recently announced its designation as a National Cancer Center by the National Cancer Institute. This designation places UK among an elite group of 22 research universities with the triple crown of federal research awards: NCI-designation, the Clinical Translational Sciences Award and a federally supported Alzheimer's Disease Center.

The company we keep signals that UK is, without question, among the top research universities in the nation. More importantly, it means we are among the leaders in confronting the great medical challenges of our time, and – increasingly – finding treatments for those in our care.

We are in a time of opportunity and challenge for higher education. Colleges and universities are the economic engines of our country, the foundation of prosperity in our community and the greatest asset for long-term global competitiveness. At the same time, more is being asked of us -- and more is expected from us -- in terms of ensuring affordable access to the education we provide -- an education that produces a differentiated graduate who is ready to compete and thrive in a complex world.

Because of the lives we touch, the improved general welfare of our society and the betterment of our way of life, we will never step back from our obligation as the Commonwealth's flagship and land-grant research university.

We can, we must and we will honor and extend the legacy of the last 150 years for another generation.



Eli Capilouto
President

Independent Auditor's Report on Financial Statements and Supplementary Information

Board of Trustees
University of Kentucky
Lexington, Kentucky

Report on the Financial Statements

We have audited the accompanying basic financial statements of the University of Kentucky (University), a component unit of the Commonwealth of Kentucky, which are comprised of statements of net position as of June 30, 2013 and 2012, and statements of revenues, expenses and changes in net position and of cash flows for the years then ended and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Kentucky Medical Services Foundation, Inc. (KMSF), a blended component unit of the University, which statements reflect total assets of \$113,367,630 and \$118,480,156 as of June 30, 2013 and 2012, respectively, and total revenues of \$207,099,264 and \$203,140,877, respectively, for the years then ended. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, 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 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 from material misstatement. The financial statements of KMSF, which is included in the University's reporting entity, were not audited in accordance with *Government Auditing Standards*.

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 University'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 University'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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The governing board listing and the message from the president as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2013, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

BKD, LLP

Louisville, Kentucky
October 1, 2013

Management's Discussion and Analysis

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, 2013 and 2012. 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.

Vision. The University of Kentucky will be one of the nation's 20 best public research universities.

Values. The University of Kentucky is guided by its core values:

- Integrity
- Excellence
- Mutual respect and human dignity
- Diversity and inclusion
- Academic freedom
- Personal and institutional responsibility and accountability
- Shared governance
- A sense of community
- Work-life sensitivity
- Civic engagement
- Social responsibility

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.

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** is designed to measure the University's progress by establishing specific goals for teaching, research and service at the department, college and university level. The Strategic Plan established five goals:

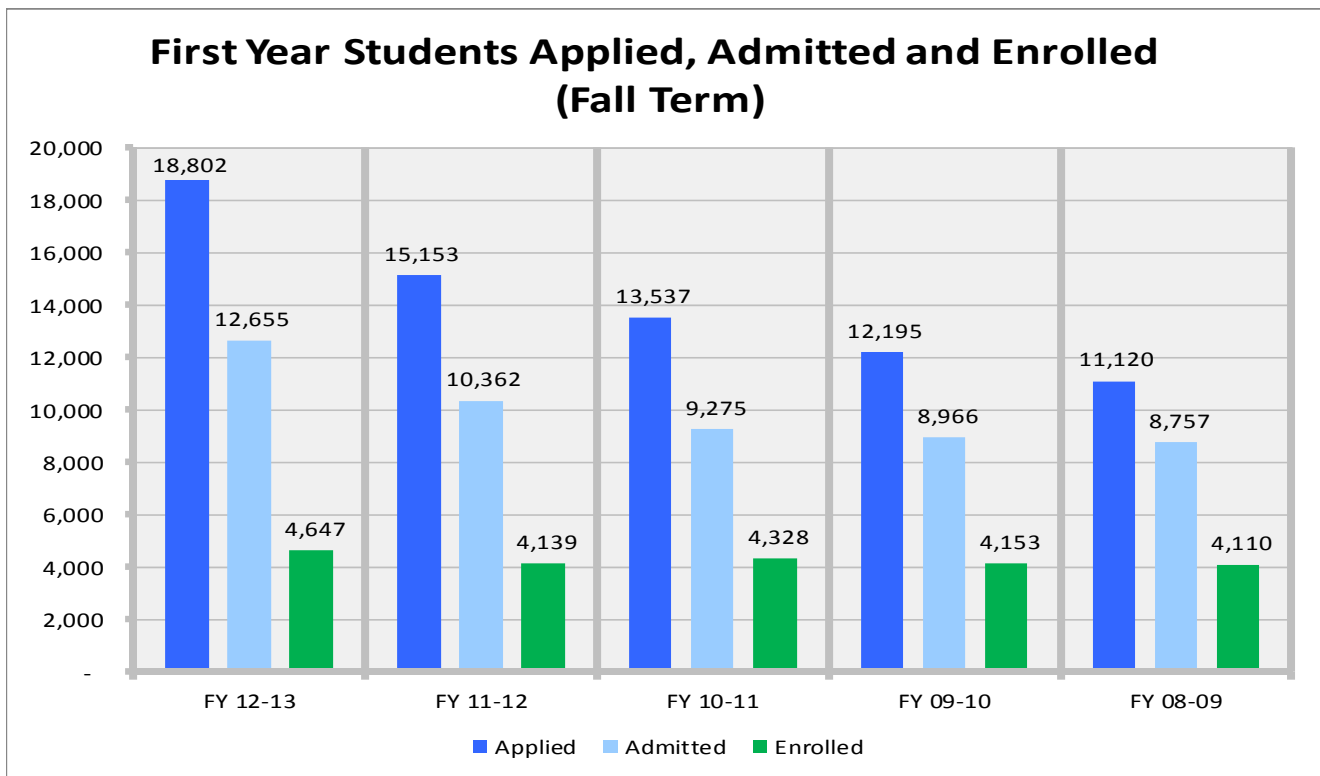
- Prepare Students for Leading Roles in an Innovation-driven Economy and Global Society
- Promote Research and Creative Work to Increase the Intellectual, Social, and Economic Capital of Kentucky and the World Beyond Its Borders
- Develop the Human and Physical Resources of the University to Achieve the Institution's Top 20 Goals
- Promote Diversity and Inclusion
- Improve the Quality of Life of Kentuckians through Engagement, Outreach and Service

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). For nearly 150 years, we have been a beacon for Kentucky, shining bright a path to prosperity and economic competitiveness. We remain steadfast in our covenant with the Commonwealth – to produce graduates prepared for a 21st century economy; to conduct research that extends the boundaries of scientific discovery; and to render service and patient care that uplifts our community and region.

The University is identified as a “Research University (very high research activity)” by the Carnegie Commission on Higher Education. There are 108 such institutions in the United States (out of approximately 3,600 colleges and universities).

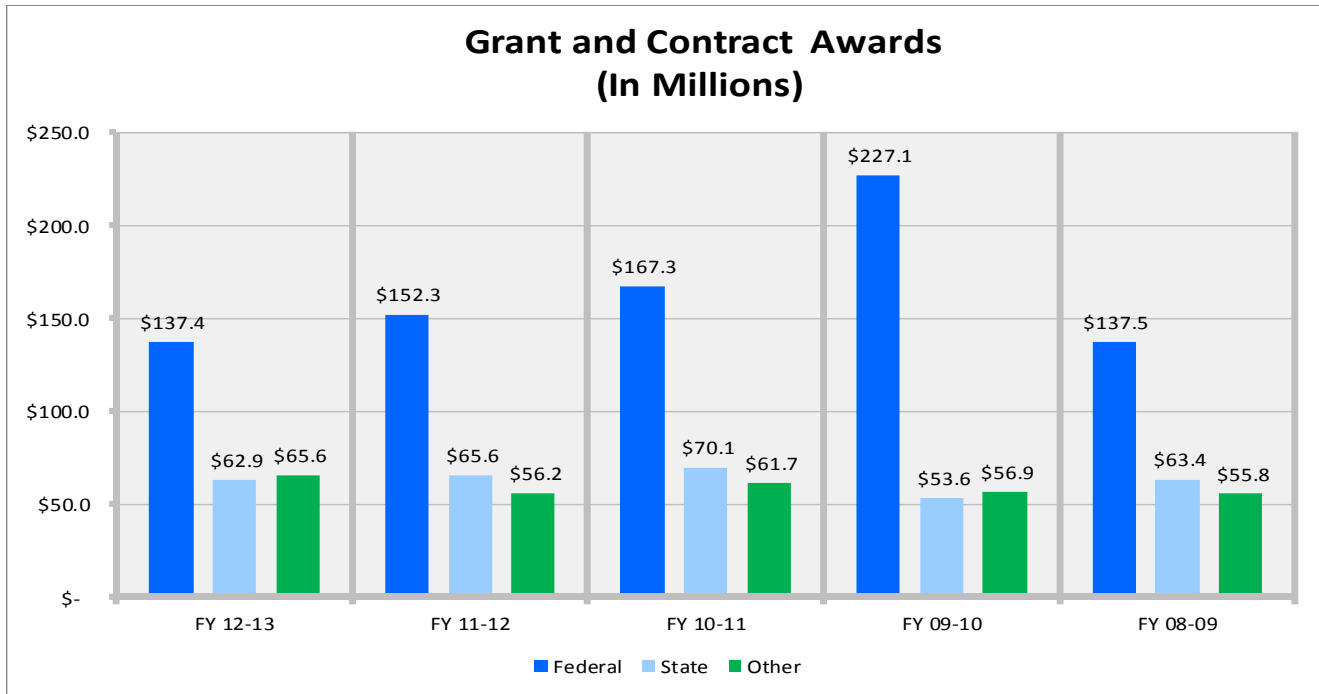
The University is accredited by the Commission on Colleges (CoC) of the Southern Association of Colleges and Schools (SACS). This has been re-affirmed at approximately 10-year intervals since 1915, with the next accreditation review scheduled to begin in 2022. In addition, several degree programs and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

Students. In Fall 2012, the University had 28,928 undergraduate, graduate, and professional students. They represent all 120 Kentucky counties, every state in the U.S. and over 100 countries. Enrollment has increased over 3,500 students (14%) since Fall 2003.



Programs. The University offers over 200 majors and degree programs in 17 academic and professional colleges. UK is one of only a small number of public universities nationally to house colleges of Agriculture, Engineering, Medicine and Pharmacy on a single campus.

Research. Total research expenditures, as reported to the National Science Foundation (NSF), totaled \$360.8 million for fiscal year 2011-12, compared to \$373.0 million in 2010-11. Research awards received during fiscal year 2012-13 total \$265.9 million, a three percent decrease from the prior year amount of \$274.1. The University's annual research awards peaked in fiscal year 2009-10 as result of the temporary stimulus funding available as part of the American Recovery and Reinvestment Act.



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 Hospital System (the System) operates three hospital units under one Joint Commission Accreditation and two licenses in addition to multiple ambulatory services. The major service units include Albert B. Chandler Hospital, Kentucky Children's Hospital, Good Samaritan Hospital, Markey Cancer Center, Gill Heart Institute and the Kentucky Clinic. The System has a combined total of 825 licensed beds. The System leases 44 beds to Select Specialty Hospitals for use as a long-term acute care hospital, and operates 718 beds at an average daily census of 577 patients. On a monthly basis, the System provides over: 1,147 inpatient surgeries, 1,240 outpatient surgeries, 27,915 radiology procedures, 7,396 emergency department visits and 30,685 hospital based outpatient clinic visits.

In July 2013, UK HealthCare was designated as a National Cancer Institute (NCI) Cancer Center, a significant achievement for both the medical center and the state of Kentucky, strengthening its reputation as a frontrunner in cancer treatment and research. As the only designated program in the state and one of only 68 programs nationwide, NCI designated centers offer advanced treatment options, broader access to groundbreaking clinical trials and realize significantly improved survival rates over non-designated peers. With the NCI designation, UK HealthCare also joined an elite group of only 22 medical centers in the United States with a federally funded Alzheimer's disease center, Clinical and Translational Science Awards grant and NCI programs.

UK HealthCare and the Kentucky Cabinet for Health and Family Services recently entered into a contract under which UK HealthCare will operate and manage Eastern State Hospital when it opens to patients in September 2013. The new \$129 million, 300,000 square-foot facility will be located on the University's Coldstream Research Campus, providing a modern setting for both acute and long-term inpatient psychiatric treatment for adults living within Fayette County and the 50 surrounding counties.

Libraries. UK operates a nationally recognized research library system, with the capstone being the world-class William T. Young Library. UK's book endowment is the largest among public universities. Its library network and technology provide extraordinary service to students in the colleges of Medicine, Law, Engineering, Fine Arts and 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 \$3.95 billion and liabilities of \$1.08 billion as of June 30, 2013. Net position, which represents the University's residual interest in assets after liabilities and deferred inflows of resources are deducted, was \$2.87 billion (73% of total assets.)

- Total assets increased \$179.5 million (five percent), primarily due to increases in endowment investments and cash and cash equivalents, offset by decreases in net capital assets and accounts receivable.
- Total liabilities decreased \$10.6 million (one percent), primarily due to increases in accounts payable and accrued liabilities and unearned revenue and decreases in bonds and capital lease obligations.
- Total net position increased \$189.5 million (seven percent). Unrestricted net position increased \$110.0 million and restricted net position increased \$82.8 million largely due to investment gains on endowments. There was a decrease in net investment in capital assets of \$3.3 million.
- Operating revenues were \$2.01 billion and operating expenses were \$2.33 billion, resulting in a loss from operations of \$317.1 million. Nonoperating and other revenues, net of nonoperating expenses, were \$506.7 million, including \$283.9 million in state appropriations.

Using the Financial Statements

The University presents its financial reports in a "business type activity" format, in accordance with Governmental Accounting Standards Board Statement (GASB) 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:

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

Reporting Entity

The University is a component unit of the Commonwealth of Kentucky (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 subsidiaries, Kentucky Technology, Inc. and Coldstream Laboratories, Inc.
- The Fund for Advancement of Education and Research in the University of Kentucky Medical Center
- 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.
- Central Kentucky Management Services, Inc.

- Kentucky Medical Services Foundation, Inc.
- Kentucky Healthcare Enterprises, Inc., a for-profit subsidiary.

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, 2013, with comparative information as of June 30, 2012. 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 (i.e. the difference between total assets and total liabilities and deferred inflows of resources) are 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 worsened during the year. Generally, assets and liabilities and deferred inflows of resources 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, deferred inflows of resources, and net position as of June 30, 2013, 2012 and 2011 follows:

Condensed Statements of Net Position (in thousands)

	<u>2013</u>	<u>2012</u>	<u>2011</u>
ASSETS			
Current assets	\$ 664,460	\$ 591,917	\$ 560,062
Capital assets, net of depreciation	1,944,122	1,974,953	1,909,171
Other noncurrent assets	1,342,691	1,204,885	1,305,623
Total assets	<u>3,951,273</u>	<u>3,771,755</u>	<u>3,774,856</u>
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES			
Current liabilities	327,521	329,897	337,123
Noncurrent liabilities	757,223	765,471	805,572
Deferred inflows of resources	561	-	-
Total liabilities and deferred inflows of resources	<u>1,085,305</u>	<u>1,095,368</u>	<u>1,142,695</u>
NET POSITION			
Net investment in capital assets	1,295,952	1,299,249	1,218,504
Restricted			
Nonexpendable	567,676	557,712	543,487
Expendable	315,025	242,157	263,424
Unrestricted	687,315	577,269	606,746
Total net position	<u>\$ 2,865,968</u>	<u>\$ 2,676,387</u>	<u>\$ 2,632,161</u>

Assets. As of June 30, 2013, total assets amounted to \$3.95 billion. The largest asset class was capital assets, net of depreciation that totaled \$1.94 billion or 49% of total assets. Endowment investments were \$1.05 billion, or 27% of total assets and cash and cash equivalents totaled \$451.9 million, or 11% of total assets. During the year, total assets increased by a net \$179.5 million primarily because of an increase in cash and cash equivalents of \$103.7 million, endowment investments of \$107.1 million, and other long-term investments of \$17.6 million offset by a decrease in capital assets of \$30.8 million and notes, loans and accounts receivable, net of \$15.3 million.

Liabilities. As of June 30, 2013, total liabilities amounted to \$1.08 billion. Bonds and notes payable and capital leases and other long-term obligations issued for educational buildings, housing, the UK HealthCare Hospital System, equipment and computer software totaled \$647.8 million, or 60% of total liabilities. During the year, total liabilities decreased by \$10.6 million as a result of principal payments on bonds and capital leases and refunding of bonds net of the addition of new capital lease obligations, primarily for the patient care facility offset by an increase in accounts payable and accrued liabilities and unearned revenue.

Net Position. The University's equity of \$2.87 billion as of June 30, 2013 is reported on the Statement of Net Position in three net position categories: net investment in capital assets, \$1.30 billion (45%); restricted-nonexpendable, \$567.7 million (20%) and restricted-expendable, \$315.0 million (11%); and unrestricted, \$687.3 million (24%).

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 \$189.5 million during the year ended June 30, 2013. Net investment in capital assets decreased \$3.3 million due to depreciation expense and demolition of residential halls for the Education Realty Trust (EdR) housing project in excess of additions of capital assets and principal payments of capital debt. Restricted net position increased \$82.8 million principally as a result of gain on endowment investments due to a positive return on the endowment pool. Unrestricted net position increased \$110.0 million, primarily due to an increase in operating revenues of \$32.9 million along with a decrease in operating expenses of \$13.1 million. Additionally, the positive return on the endowment pool caused an increase in quasi endowment net position of \$24.3 million.

Deferred Inflows of Resources. The University's deferred inflows of resources totaled \$561 thousand. This represents the fair value of a derivative instrument that provides a specified rate of return on debt service investments.

2012 Versus 2011. During the year ended June 30, 2012:

- Total assets decreased by a net \$3.1 million primarily due to a decrease in other long-term investments of \$68.6 million offset by capital additions of buildings and equipment of \$65.8 million.
- Liabilities decreased \$47.3 million primarily due to principal payments on bonds and capital leases and refunding of bonds offset by the addition of new capital lease obligations primarily for the patient care facility and increases in other post employment benefit liabilities.
- Total net position increased \$44.2 million during the year ended June 30, 2012. Net investment in capital assets increased \$80.7 million due to the additions of capital assets and principal payments of capital debt. Restricted net position decreased \$7.0 million principally as a result of loss on endowment investments due to a negative return on the endowment pool. Unrestricted net position decreased \$29.5 million primarily due to an increase in operating revenues of \$130.3 million offset by an increase in operating expenses of \$148.4 million. Additionally, the negative return on the endowment pool caused a decrease in quasi endowment net position of \$6.6 million.

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, 2013, with comparative information for the year ended June 30, 2012. 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.

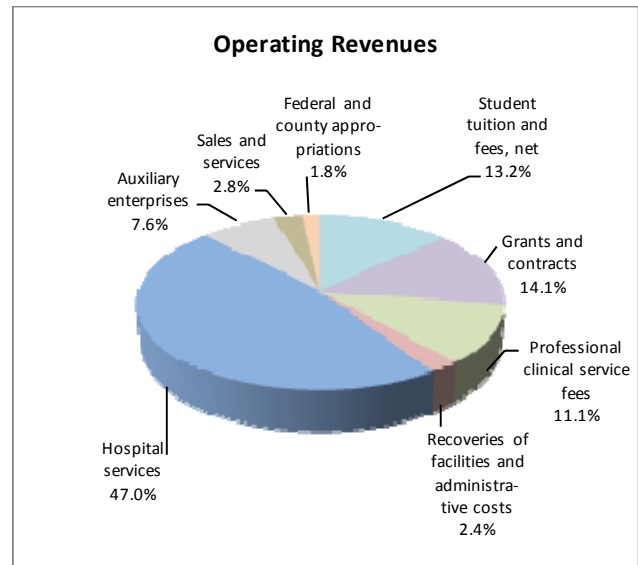
Financial activities are reported as either operating or nonoperating. GASB Statement No. 35 requires state appropriations, gifts, and investment income to be classified as nonoperating revenues. Accordingly, the University reports a net operating loss prior to the addition of nonoperating revenues. 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 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 years ended June 30, 2013, 2012 and 2011 follows.

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

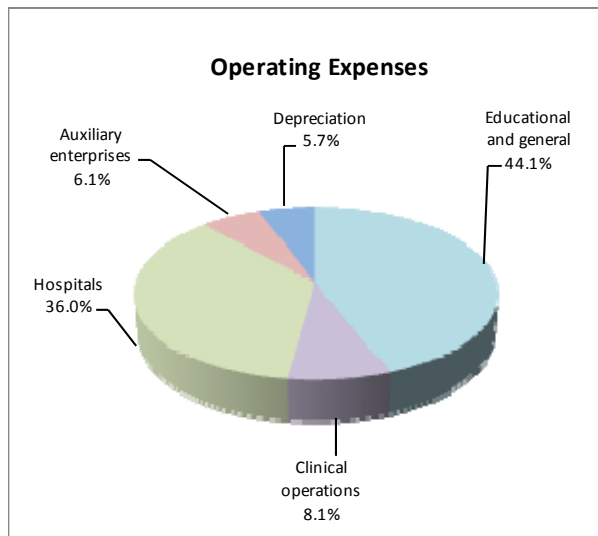
	<u>2013</u>	<u>2012</u>	<u>2011</u>
OPERATING REVENUES			
Student tuition and fees, net of scholarship allowances	\$ 265,293	\$ 243,364	\$ 222,904
Grants and contracts	283,378	317,722	352,450
Hospital services	945,885	906,607	794,085
Professional clinical service fees	222,475	220,633	202,767
Auxiliary enterprises, net of scholarship allowances	153,006	149,216	137,966
Recoveries of facilities and administrative costs	47,862	51,818	53,086
Sales and services	57,022	56,064	51,720
Federal and county appropriations	36,202	33,986	34,823
Other operating revenues	3,772	2,631	1,927
Total operating revenues	<u>2,014,895</u>	<u>1,982,041</u>	<u>1,851,728</u>
OPERATING EXPENSES			
Educational and general, excluding depreciation	1,026,076	1,096,030	1,079,265
Clinical operations, excluding depreciation	189,664	168,910	143,668
Hospital, excluding depreciation	840,064	823,421	730,987
Auxiliary enterprises, excluding depreciation	142,416	133,344	130,208
Depreciation	133,066	122,219	111,859
Other operating expenses	682	1,102	667
Total operating expenses	<u>2,331,968</u>	<u>2,345,026</u>	<u>2,196,654</u>
NET LOSS FROM OPERATIONS	<u>(317,073)</u>	<u>(362,985)</u>	<u>(344,926)</u>
NONOPERATING REVENUES (EXPENSES)			
State appropriations	283,869	297,580	296,472
State fiscal stabilization fund	-	-	17,224
Capital appropriations	-	-	12,477
Capital grants and gifts	30,672	40,022	29,337
Gifts and non-exchange grants	98,418	86,735	88,396
Investment income (loss)	104,748	(232)	147,940
Interest on capital asset-related debt	(29,244)	(32,151)	(22,550)
Additions to permanent endowments	10,225	11,581	16,338
Other, net	7,966	3,676	1,476
Total nonoperating revenues (expenses)	<u>506,654</u>	<u>407,211</u>	<u>587,110</u>
Total increase in net position	189,581	44,226	242,184
Net position, beginning of year	<u>2,676,387</u>	<u>2,632,161</u>	<u>2,389,977</u>
Net position, end of year	<u><u>\$2,865,968</u></u>	<u><u>\$2,676,387</u></u>	<u><u>\$2,632,161</u></u>

Total operating revenues were \$2.01 billion for the year ended June 30, 2013, an increase of \$32.9 million (two percent). The primary components of operating revenues were student tuition and fees of \$265.3 million; grants, contracts and recoveries of facilities and administrative costs of \$331.2 million; hospital services of \$945.9 million; and professional clinical fee income of \$222.5 million.

The major increase was in hospital service revenue of \$39.3 million primarily caused by an increase in rates, the overall case mix and patient discharges. Other significant increases in operating revenues related to net student tuition and fees of \$21.9 million due to tuition and fee rate increases as well as increased enrollment; professional clinical service fees of \$1.8 million due to increased patient activity offset by declining reimbursements; auxiliary enterprises net of scholarship allowances of \$3.8 million and sales and services of \$1.0 million. Grants and contracts decreased \$34.3 million primarily resulting from decreases of state and local grants and contracts of \$21.4 million resulting from a decrease in Department of Corrections Health Care Network grant and federal grants and contracts of \$15.0 million due to the reduction in funding from the American Recovery and Reinvestment Act of 2009.



Operating expenses totaled \$2.33 billion, a decrease of \$13.1 million (less than one percent). Of this amount, \$1.03 billion (excluding depreciation) was expended for educational and general programs, including instruction, research and public service. Hospital System expenses, excluding depreciation, amounted to \$840.1 million and clinical operations expenses, excluding depreciation, were \$189.7 million. Depreciation expense for the year amounted to \$133.1 million.



Education and general programs expenses, excluding depreciation, decreased \$70.0 million due primarily to decreases in grants and contracts funding as stated above. Instruction expenses decreased \$11.3 million; research expenses decreased \$15.2 million and public service expenses decreased \$36.6 million. Offsetting these decreases was an increase in clinical operations expenses, excluding depreciation, of \$20.8 million primarily due to increased patient activities. Hospital System expenses, excluding depreciation, increased \$16.6 million due to additional staffing and supplies required for increased patient activities. Auxiliary enterprise expenses, excluding depreciation, increased \$9.1 million primarily in the athletics department for coaches' salaries and benefits. Depreciation expense increased \$10.8 million due to the addition of capital assets, primarily the patient care facility.

The net loss from operations for the year was \$317.1 million. Nonoperating and other revenues, net of expenses, totaled \$506.7 million and included: state appropriations of \$283.9 million – a decrease of \$13.7 million. Capital grants and gifts totaled \$30.7 million – a decrease of \$9.4 million; gifts and non-exchange grants of \$98.4 million – an increase of \$11.7 million; and an investment gain of \$104.7 million – an increase of \$105.0 million.

2012 Versus 2011. Total operating revenues were \$1.98 billion for the year ended June 30, 2012, including: student tuition and fees of \$243.4 million (12%); grants, contracts, and recoveries of facilities and administrative costs of \$369.5 million (19%); professional clinical service fees of \$220.6 million (11%); and hospital services of \$906.6 million (46%). Operating revenues for fiscal year 2012 increased \$130.3 million or seven percent over

fiscal year 2011, primarily due to increases in hospital services revenue of \$112.5 million resulting from an increase in rates, the overall case mix and patient discharges; student tuition and fees of \$20.5 million due to tuition and fees rate increases as well as increased enrollment; and professional clinical service fees of \$17.9 million due to increased patient activity offset by declining reimbursements; and auxiliary enterprises net of scholarship allowances of \$11.3 million while grants and contracts decreased \$34.7 million due to decreases in professional supplemental payments from the state and a reduction in funding from the American Recovery and Reinvestment Act of 2009.

Operating expenses totaled \$2.35 billion in fiscal year 2012. Of this amount, \$1.10 billion, excluding depreciation, or 47% was expended for educational and general programs, including instruction, research and public service. Hospital expenses, excluding depreciation, totaled \$823.4 million, (35%) of the total expenses, and clinical operations expenses, excluding depreciation, were \$168.9 million (seven percent). Depreciation amounted to \$122.2 million (five percent). Operating expenses for fiscal year 2012 increased \$148.4 million (seven percent) over fiscal year 2011 primarily due to increases in hospital expenses, excluding depreciation of \$92.4 million (13%), clinical operations expenses, excluding depreciation, of \$25.2 million (18%); education and general programs expenses, excluding depreciation, of \$16.8 million (two percent); and depreciation expense of \$10.4 million (nine percent).

The net loss from operations for the 2012 fiscal year totaled \$363.0 million. Nonoperating and other revenues, net of expenses, totaled \$407.2 million, resulting in an increase in net position of \$44.2 million for the year. Nonoperating revenue included state appropriations of \$297.6 million, which increased \$1.1 million from June 30, 2011 to June 30, 2012.

Statement of Cash Flows

The Statement of Cash Flows details how cash has increased or decreased during the fiscal year ended June 30, 2013, with comparative financial information for the fiscal year ended June 30, 2012. The sources and uses of cash are arranged in the following categories:

- Operating activities
- Noncapital financing activities
- Capital 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 long-term debt, and debt repayments. Purchases and sales 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 years ended June 30, 2013, 2012 and 2011 follows:

Condensed Statement of Cash Flows (in thousands)

	2013	2012	2011
CASH PROVIDED (USED) BY:			
Operating activities	\$ (152,097)	\$ (271,163)	\$ (228,807)
Noncapital financing activities	402,433	416,254	449,513
Capital and related financing activities	(127,067)	(253,701)	(255,258)
Investing activities	(19,582)	77,004	(78,944)
Net increase (decrease) in cash and cash equivalents	103,687	(31,606)	(113,496)
 Cash and cash equivalents, beginning of year	 348,180	 379,786	 493,282
Cash and cash equivalents, end of year	\$ 451,867	\$ 348,180	\$ 379,786

The University's cash and cash equivalents increased \$103.7 million in fiscal year 2013. Total cash provided by operating and noncapital financing activities was \$250.3 million, an increase of \$105.2 million compared to fiscal year 2012. Total cash used by capital financing activities was \$127.1 million, reflecting both capital funding sources (debt proceeds) and uses (purchases of capital assets and debt service). Total cash used by investing activities was \$19.6 million.

Major sources of cash received from operating activities were student tuition and fees of \$265.1 million; hospital services of \$973.8 million; grants, contracts, and recoveries of facilities and administrative costs of \$330.6 million; and professional clinical service fees of \$224.8 million. Major uses of cash for operating activities were payments to employees for salaries and benefits of \$1.46 billion and to vendors and contractors of \$699.6 million.

Noncapital financing activities include state appropriations from the Commonwealth of \$283.9 million; gifts of \$90.7 million and other noncapital financing receipts of \$27.5 million.

Capital and related financing activities include proceeds of capital debt of \$30.8 million and capital grants and gifts of \$36.2 million. Cash of \$102.5 million was expended for construction and acquisition of capital assets and \$86.0 million was expended for principal and interest payments on debt.

Investing activities include proceeds from sales and maturities of investments of \$741.2 million and interest and dividends on investments of \$15.5 million. Cash of \$776.2 million was used to purchase investments.

2012 Versus 2011. Cash balances are lower when comparing fiscal year 2012 to fiscal year 2011. The \$31.6 million net decrease in cash was created from more cash provided by investing activities, offset by less cash provided by noncapital activities and more cash used for operating activities.

Capital Asset and Debt Administration

Capital Assets

Capital assets, net of accumulated depreciation, totaled \$1.94 billion at June 30, 2013, a decrease of \$30.8 million. Capital assets as of June 30, 2013, 2012 and 2011, and significant changes in capital assets during the years ended June 30, 2012 and 2013 follow (in millions):

	Balance June 30, 2011	Net Additions (Deletions) FY 11-12	Balance June 30, 2012	Net Additions (Deletions) FY 12-13	Balance June 30, 2013
Land and land improvements	\$ 160	\$ 3	\$ 163	\$ 17	\$ 180
Buildings, fixed equipment and infrastructure	2,158	153	2,311	58	2,369
Equipment, vehicles and capitalized software	625	63	688	22	710
Library materials and art	155	3	158	2	160
Construction in progress	120	(62)	58	(23)	35
Accumulated depreciation	(1,309)	(94)	(1,403)	(107)	(1,510)
Total	\$ 1,909	\$ 66	\$ 1,975	\$ (31)	\$ 1,944

At June 30, 2013, the University had capital construction projects in progress totaling approximately \$292.2 million in scope. Major projects include continuing work on the Softball Complex renovation and Nicholasville Road Flood Mitigation projects, and new projects such as the renovations to Commonwealth Stadium/Nutter Training Facility and the construction of the Academic Science Building. The estimated cost to complete the projects in progress is approximately \$256.5 million.

Debt

At June 30, 2013, capital debt amounted to \$647.8 million, summarized by trust indenture and type as follows (in millions):

	2013	2012	2011
General Receipts bonds and notes	\$ 479	\$ 500	\$ 491
Consolidated Educational Buildings Revenue Bonds	38	42	83
Capital lease obligations	109	115	134
Notes payable	22	22	24
Total	\$ 648	\$ 679	\$ 732

Debt decreased \$31.6 million during the year primarily due to the principal payments of \$57.1 million for the University's debt obligations and capital lease refunding net decrease of \$445 thousand offset by capital lease additions of \$25.9 million.

Economic Factors That Will Affect the Future

Executive management believes the University is well-positioned to maintain its strong financial condition and to continue providing excellent service to students, patients, the community and the citizens of the Commonwealth. The University's strong financial condition, as evidenced by the receipt of credit ratings of Aa2 and AA- from Moody's Investors Service and Standard & Poor's Ratings Services, respectively, will provide a high degree of flexibility in obtaining funds for future capital projects 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. The following are known facts and circumstances that will affect future financial results:

- The Commonwealth continues to suffer from fiscal stress related to the economic downturn, a growing pension liability and retirement health benefits, and continued reliance on one-time budget balancing measures. According to the Governor's Blue Ribbon Commission on Tax Reform, Kentucky faces a structural deficit that could reach \$1 billion by 2020. With regard to the short-term, the Commonwealth's fiscal year 2014 structural deficit exceeds \$150 million. The University's state support for fiscal year 2014 is expected to remain at \$284 million. The Kentucky General Assembly will convene in January 2014 to consider and enact the 2014-2016 biennial budget.
- Student demand is expected to remain high in the coming years. Even though tuition rates for fiscal year 2013-14 reflect a three percent increase, the University is expected to enroll the largest, most diverse and one of the best prepared incoming freshmen class in the institution's history. Applications for the Fall 2013 incoming class increased over five percent to 19,800 as compared to the prior fall of 18,800. Preliminary numbers indicate that the fall 2013 entering freshmen class will total 4,702 students – an increase of 55 students, or 1.2%, compared to last fall. The tuition rate increases, the higher percentage of non-resident undergraduate students, and projected enrollment are expected to generate additional operating revenues of \$32.0 million compared to the fiscal year 2012-13 original budget.
- To meet the needs of the University's growing student body; improve the quality of academic programs, scientific research, and creative scholarship; and expand access and ensure affordability, the University sought and received authorization from the Kentucky General Assembly to self-finance three building projects:
 - A \$65 million renovation and expansion of the Gatton College of Business and Economics, which is made possible through the generosity of the University's donors.
 - A new \$100 million Academic Science Building that will accommodate the next generation of scientific learning, research and discovery. The University Department of Intercollegiate Athletics (Athletics) will fund nearly two thirds or \$65 million, of the project cost.
 - A \$110 million renovation of Commonwealth Stadium and Nutter Training and Recruiting Center; financed completely by Athletics.
- As of June 30, 2013, grants and contracts of approximately \$189.0 million, a decrease of approximately \$2.5 million from the previous year, have been awarded to the University but not expended. The decline in available governmental awards will result in reduced grant revenue in future periods.
- In April 2012, the University entered into a contract with EdR for the first phase of a plan to improve, expand and manage all campus student housing. Construction of two four-story buildings, which will comprise a 601-bed living-learning community with classrooms and meeting space on the former site of Haggin Field began in Spring 2012. The facilities opened in August 2013. Phase II-A of the housing plan is currently under way and includes five facilities with 2,305 beds which are expected to open in Fall 2014. The total plan includes increasing the current on-campus housing stock to 9,000 beds by 2017. This comprehensive public/private partnership with EdR, the first of its kind in the nation, will provide a substantial increase in the quantity and quality of student housing while allowing the University to reserve its debt capacity to rebuild learning and research spaces.
- In June 2013, UK HealthCare received board approval to begin the 8th floor fit-up of Pavilion A of the Patient Care Facility. At an estimated cost of \$30 million dollars, the floor will be programmed for cardiovascular patients and will provide state of the art, incremental bed capacity for continued future growth.
- Healthcare reform has initiated significant changes to the United States healthcare system, including potential material changes to the delivery of healthcare services and the reimbursement paid for such services by governments or other third-party payers. The long-term impact is unknown, as the long period between passage and its implementation lends to some level of uncertainty. UK HealthCare will develop and execute strategies in an effort to mitigate the negative impacts and leverage opportunities.
- 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.

Economic challenges will continue to have an impact on the future. However, management believes the University will be able to sustain its sound financial position and continue its progress toward becoming one of America's Top 20 public research institutions.

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
STATEMENTS OF NET POSITION (in thousands)
JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 391,975	\$ 294,063
Notes, loans and accounts receivable, net	229,352	254,101
Investments	6,944	8,408
Inventories and other assets	36,189	35,345
Total current assets	<u>664,460</u>	<u>591,917</u>
Noncurrent Assets		
Restricted cash and cash equivalents	59,892	54,117
Endowment investments	1,054,448	947,383
Other long-term investments	161,574	144,019
Notes, loans and accounts receivable, net	50,478	41,048
Other noncurrent assets	16,299	18,318
Capital assets, net	1,944,122	1,974,953
Total noncurrent assets	<u>3,286,813</u>	<u>3,179,838</u>
Total assets	<u>3,951,273</u>	<u>3,771,755</u>
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
Current Liabilities		
Accounts payable and accrued liabilities	192,661	191,102
Unearned revenue	64,552	62,852
Long-term liabilities - current portion	70,308	75,943
Total current liabilities	<u>327,521</u>	<u>329,897</u>
Noncurrent Liabilities		
Long-term liabilities	<u>757,223</u>	<u>765,471</u>
Total noncurrent liabilities	<u>757,223</u>	<u>765,471</u>
Total liabilities	1,084,744	1,095,368
Deferred Inflows of Resources		
	561	-
Total liabilities and deferred inflows of resources	<u>1,085,305</u>	<u>1,095,368</u>
NET POSITION		
Net investment in capital assets	<u>1,295,952</u>	<u>1,299,249</u>
Restricted		
Nonexpendable		
Scholarships and fellowships	131,743	127,819
Research	267,594	261,843
Instruction	76,649	76,517
Academic support	83,741	83,549
Other	7,949	7,984
Total restricted nonexpendable	<u>567,676</u>	<u>557,712</u>
Expendable		
Scholarships and fellowships	57,802	46,172
Research	57,605	36,902
Instruction	44,562	36,138
Academic support	38,889	27,713
Loans	10,531	9,978
Capital projects	77,165	60,032
Debt service	1,830	4,120
Auxiliary	11,763	10,696
Other	14,878	10,406
Total restricted expendable	<u>315,025</u>	<u>242,157</u>
Total restricted	<u>882,701</u>	<u>799,869</u>
Unrestricted		
	<u>687,315</u>	<u>577,269</u>
Total net position	<u>\$ 2,865,968</u>	<u>\$ 2,676,387</u>

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, 2013 AND 2012

	2013	2012
OPERATING REVENUES		
Student tuition and fees	\$ 364,547	\$ 330,886
Less: Scholarship allowances	(99,254)	(87,522)
Net tuition and fees	265,293	243,364
Federal grants and contracts	165,214	180,198
State and local grants and contracts	87,143	108,494
Nongovernmental grants and contracts	31,021	29,030
Recoveries of facilities and administrative costs	47,862	51,818
Sales and services	57,022	56,064
Federal appropriations	16,890	16,529
County appropriations	19,312	17,457
Professional clinical service fees	222,475	220,633
Hospital services	945,885	906,607
Auxiliary enterprises:		
Housing and dining	57,793	54,386
Less: Scholarship allowances	(7,367)	(6,656)
Net housing and dining	50,426	47,730
Athletics	72,033	69,307
Other auxiliaries	30,547	32,179
Other operating revenues	3,772	2,631
Total operating revenues	2,014,895	1,982,041
OPERATING EXPENSES		
Educational and general:		
Instruction	257,723	269,037
Research	247,691	262,858
Public service	229,946	266,558
Libraries	19,496	20,047
Academic support	85,538	85,827
Student services	34,125	33,100
Institutional support	58,104	61,784
Operations and maintenance of plant	63,202	67,368
Student financial aid	30,251	29,451
Depreciation	69,508	67,402
Total educational and general	1,095,584	1,163,432
Clinical operations (including depreciation of \$1,995 in 2013 and \$1,817 in 2012)	191,659	170,727
Hospital and clinics (including depreciation of \$51,261 in 2013 and \$45,643 in 2012)	891,325	869,064
Auxiliary enterprises:		
Housing and dining (including depreciation of \$5,020 in 2013 and \$3,162 in 2012)	47,543	46,497
Athletics (including depreciation of \$5,282 in 2013 and \$4,195 in 2012)	84,072	75,271
Other auxiliaries	21,103	18,933
Other operating expenses	682	1,102
Total operating expenses	2,331,968	2,345,026
Net loss from operations	(317,073)	(362,985)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	283,869	297,580
Gifts and non-exchange grants	98,418	86,735
Investment income (loss)	104,748	(232)
Interest on capital asset-related debt	(29,244)	(32,151)
Other nonoperating revenues and expenses, net	9,856	7,654
Net nonoperating revenues (expenses)	467,647	359,586
Net income (loss) before other revenues, expenses, gains or losses	150,574	(3,399)
Capital grants and gifts	30,672	40,022
Additions to permanent endowments	10,225	11,581
Other, net	(1,890)	(3,978)
Total other revenues (expenses)	39,007	47,625
INCREASE IN NET POSITION	189,581	44,226
NET POSITION, beginning of year	2,676,387	2,632,161
NET POSITION, end of year	\$ 2,865,968	\$ 2,676,387

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, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	\$ 265,136	\$ 243,406
Grants and contracts	281,214	311,444
Recoveries of facilities and administrative costs	49,348	51,104
Sales and services	57,584	54,950
Federal appropriations	14,858	18,164
County appropriations	18,935	18,622
Payments to vendors and contractors	(699,620)	(719,376)
Student financial aid	(30,169)	(29,534)
Salaries, wages and benefits	(1,462,989)	(1,448,810)
Professional clinic service fees	224,818	222,721
Hospital services	973,830	865,793
Auxiliary enterprise receipts	153,741	146,504
Loans issued to students	(17,137)	(18,914)
Collection of loans to students	16,422	17,397
Self insurance receipts	45,035	41,852
Self insurance payments	(43,921)	(45,597)
Other operating receipts (payments), net	818	(889)
Net cash provided (used) by operating activities	<u>(152,097)</u>	<u>(271,163)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	283,869	297,580
Gifts and grants received for other than capital purposes:		
Gifts received for endowment purposes	10,225	11,581
Gifts received for other purposes	80,516	90,473
Agency and loan program receipts	210,958	198,305
Agency and loan program payments	(210,594)	(197,994)
Other noncapital financing receipts (payments), net	27,459	16,309
Net cash provided (used) by noncapital financing activities	<u>402,433</u>	<u>416,254</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital grants and gifts	36,249	35,051
Purchases of capital assets	(102,520)	(201,205)
Proceeds from capital debt	30,832	38,611
Payments to refunding bond agents	(5,633)	(33,115)
Principal paid on capital debt and leases	(56,419)	(57,476)
Interest paid on capital debt and leases	(29,535)	(33,270)
Other capital and related financing receipts (payments), net	(41)	(2,297)
Net cash provided (used) by capital and related financing activities	<u>(127,067)</u>	<u>(253,701)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	741,159	571,005
Interest and dividends on investments	15,476	22,696
Purchase of investments	(776,217)	(516,697)
Net cash provided (used) by investing activities	<u>(19,582)</u>	<u>77,004</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>103,687</u>	<u>(31,606)</u>
CASH AND CASH EQUIVALENTS, beginning of year	<u>348,180</u>	<u>379,786</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 451,867</u>	<u>\$ 348,180</u>
Reconciliation of net loss from operations		
to net cash used by operating activities:		
Net loss from operations	\$ (317,073)	\$ (362,985)
Adjustments to reconcile net loss from operations		
to net cash used by operating activities:		
Depreciation expense	133,066	122,219
Change in assets and liabilities:		
Notes, loans and accounts receivable, net	26,580	(42,651)
Inventories and other assets	1,442	372
Accounts payable and accrued liabilities	1,967	19,937
Unearned revenue	1,676	(5,773)
Long-term liabilities	245	(2,282)
Net cash provided (used) by operating activities	<u>\$ (152,097)</u>	<u>\$ (271,163)</u>

See notes to financial statements.

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
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, its for-profit subsidiary (Kentucky Healthcare Enterprises, Inc.) and its affiliated non-profit corporations (entities for which the University is financially accountable as defined by Statement No. 14 and amended by Statement 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 and its for-profit subsidiaries (Kentucky Technology, Inc. and Coldstream Laboratories, Inc.); The Fund for Advancement of Education and Research in the University of Kentucky Medical Center; Central Kentucky Management Services, Inc.; University of Kentucky Mining Engineering Foundation, Inc.; University of Kentucky Gluck Equine Research Foundation, Inc.; University of Kentucky Humanities Foundation, Inc.; and University of Kentucky Center on Aging Foundation, 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) a non-profit entity for which the University is financially accountable as defined by GASB, but which is not an affiliated corporation under KRS. KMSF is included within the University reporting entity as blended component unit as KMSF provides its services entirely to the University. The financial statements also include the operations of the UK HealthCare Hospital System (the System) and the Department of Intercollegiate Athletics (Athletics), organizational units of the University. The separate financial statements for the above entities can be found at: www.uky.edu/evpfa/controller/finst.

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. 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 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.

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

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

In addition to assets, GASB No. 63 requires the presentation of a separate financial statement element, deferred outflows of resources, which represents a consumption of net position that applies to a future period. The University has no deferred outflows of resources for fiscal 2013.

In addition to liabilities, GASB No. 63 requires the presentation of a separate financial statement element, deferred inflows of resources, which represents an acquisition of net position that applies to a future period. The University has deferred inflows of resources of \$561,000 for fiscal 2013.

The deferred inflows of resources represent the fair value of a derivative, which is defined as a hedging instrument, that provides a specified rate of return on certain debt service instruments.

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 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. 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 include plant funds allocated for capital projects, debt service reserves 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.

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 sponsors for reimbursement of expenses made pursuant to contracts and grants, 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 principally at the lower of average cost or market.

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

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

spending policy whose long-term objective is to maintain the purchasing power of each endowment and provide a predictable and sustainable level of income to support current operations.

For the years ended June 30, 2013 and 2012, the University's endowment standard spending rule provided for annual distributions of 4.25% of the 60 month moving average market value of fund units. In recognition of recent adverse market performance, reduced spending rules were established for certain endowments whose market value was less than the contributed value as of December 31st, which is the measurement date for calculating spending distributions for the following fiscal year. Additionally, for the years ended June 30, 2013 and 2012, the University's annual endowment management fee was 0.25%, however endowments whose market value was less than the contributed value as of December 31st were exempt from the management fee in the subsequent fiscal year.

The components of the University's spending policy distribution and management fee for the years ended June 30, 2013 and 2012 are as follows (in thousands):

	2013	2012
Gross spending policy distribution	\$ 36,289	\$ 35,118
Reinvested spending policy distribution	(16,216)	(15,643)
Net spending policy distribution	<u>\$ 20,073</u>	<u>\$ 19,475</u>
Management fee	<u>\$ 1,949</u>	<u>\$ 976</u>

For future years the University has established a "hybrid" spending policy, which includes both the market value of the endowment and the current level of inflation in determining spending each year. Annual spending will be calculated by taking a weighted average comprising 60% of the prior year's spending, adjusted for inflation, and 40% of the amount that results when the target annual spending rate of four percent is applied to the average market value of the endowment over the preceding 36 months. The spending amount determined by the formula will be constrained so that the calculated rate is at least three percent, and not more than six percent, of the current endowment market value. The hybrid spending policy will be phased in over two years. The year ending June 30, 2014 will serve as a transition year to the new policy and spending will be based on four percent of the average market value for the preceding 60 months. The hybrid policy will be fully implemented in the year ending June 30, 2015.

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

Investments. Investments in marketable debt and equity securities are carried at fair value, as determined by the major securities markets. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the Statement of Revenues, Expenses and Changes in Net Position. Other investments, including guaranteed investment contracts, repurchase agreements and certificates of deposit are valued at face value and are fully collateralized.

The University's financial statements include alternative investments, such as limited partnerships, that are not publicly traded. Certain of these alternative investments are carried at their estimated fair values as of March 31, 2013 and 2012, as adjusted by cash receipts, cash disbursements, and securities distributions through June 30, 2013 and 2012, at a total estimated fair value of \$114,298,000 and \$90,486,000, respectively. Other alternative investments are carried at estimated fair values as of December 31, 2012 and 2011, at a total estimated value of \$1,350,000 and \$1,330,000, respectively. In addition, the University also has alternative investments in investment funds that are not themselves publicly traded and thus do not have publicly reported market values, but whose underlying assets consist of publicly traded investments for which fair values are established by the major securities markets. Such alternative investments are carried at fair value of \$298,736,000 and \$274,618,000 at June 30, 2013 and 2012. The University believes that the total carrying amount of its alternative investments valued at \$458,682,000 and \$408,415,000 at June 30, 2013 and 2012 is

a reasonable estimate of fair value. The University's outstanding commitment to alternative investments is \$116,906,000 and \$141,265,000 as of June 30, 2013 and 2012, respectively.

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.

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

Equipment with a unit cost of \$2,000 or more (\$1,000 for computers) and having an estimated useful life of greater than one year is capitalized. 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 40 years for buildings, 10 – 25 years for land improvements, building improvements and infrastructure, 10 years for library books and capitalized software, and 5 – 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.

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 in advance of an event, such as advance 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, 2013 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.

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 and/or third parties making payments on the students' behalf. 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 an allowance 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

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 23%, respectively, of the System's net patient services revenues before the provision for doubtful accounts for the year ended June 30, 2013 and approximately 25% and 23%, respectively for the year ended June 30, 2012. 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.

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.

Electronic Health Records Incentive Program. The Electronic Health Records Incentive Program, enacted as part of the American Recovery and Reinvestment Act of 2009, provides for incentive payments under both the Medicare and Medicaid programs to eligible physicians and hospitals that demonstrate meaningful use of certified electronic health records technology. Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. Payment under both programs is contingent on the System and KMSF continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The System recognizes revenue when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

In fiscal year 2013, the System was in the second year under the Medicare programs but did not attest to completion of the second phase and recorded no revenue. In fiscal year 2012, the System recorded \$2.0 million which was included in hospital services within operating revenues in the Statement of Revenues, Expenses, and Changes in Net Position. KMSF recorded \$124,000 revenue under the Medicare program. The revenue was included in other operating revenues in the Statement of Revenues, Expenses and Changes in Net Position.

In fiscal year 2013, the System completed the second-year requirements under the Medicaid program and recorded revenue of approximately \$2.2 million, which is included in hospital services within operating revenues in the Statement of Revenues, Expenses, and Changes in Net Position. KMSF applied for and received approximately \$1.9 million and \$700,000 under the Medicaid program in fiscal year 2013 and 2012. The revenue was included in other operating revenues. In fiscal year 2011, the System recorded \$2.9 million in revenue after completing first year requirements.

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 is a not-for-profit corporation 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 on the Statement of Revenues, Expenses and Changes in Net Position, as those that generally result from exchange transactions, such as payments received for providing goods and services and payments made for goods and services received. Nearly all of 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 No. 35.

The University has classified operating expenses based upon their functional classifications. Operating expenses by natural classification are presented in Note 24. During fiscal years 2013 and 2012, departmental research in nonsponsored accounts of \$63,400,000 and \$67,382,000, respectively, was recorded as research expense in the Statement 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 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, estimated third-party payer settlements, self-insurance reserves, accrued expenses and other liability accounts.

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

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

Reclassifications. Certain reclassifications have been made to the fiscal year 2012 financial statements to conform to the fiscal year 2013 financial statement presentation. Such reclassifications had no effect on the change in net position.

2. DEPOSITS AND INVESTMENTS

The fair value of deposits and investments, by type, at June 30, 2013 and 2012 is as follows (in thousands):

	2013	2012
Deposits with banks and the Commonwealth of Kentucky	\$ 81,513	\$ 50,506
U.S. Treasury fixed income securities	11,165	12,171
Government agency fixed income securities	52,035	29,527
State and municipal fixed income securities	7,418	7,391
Common and preferred stocks	51,862	42,382
Pooled equity funds	407,828	361,994
Pooled private equity funds	88,064	71,791
Pooled absolute return funds	211,085	185,231
Pooled real return funds	88,572	89,387
Pooled real estate funds	70,961	62,006
Pooled fixed income funds	365,042	308,258
Corporate fixed income securities	25,157	28,913
Guaranteed investment contracts	1,645	762
Repurchase agreements	84,141	151,159
Certificates of deposit	26,703	27,450
Cash and cash equivalents	101,490	18,450
Other	152	612
Total	\$ 1,674,833	\$ 1,447,990

	2013	2012
Statement of Net Position classification		
Cash and cash equivalents	\$ 391,975	\$ 294,063
Current investments	6,944	8,408
Restricted cash and cash equivalents	59,892	54,117
Endowment investments	1,054,448	947,383
Other long-term investments	161,574	144,019
Total	\$ 1,674,833	\$ 1,447,990

Alternative investments totaling \$458,682,000 and \$408,415,000 as of June 30, 2013 and 2012, respectively, are included within pooled private equity funds, pooled absolute return funds, pooled real return funds and pooled real estate funds in the summary schedule of investments above (please refer to Note 1, Summary of Significant Accounting Policies, regarding valuation of alternative investments).

Deposit and investment policies. The University's Board of Trustees is responsible for establishing deposit and investment policies. Once established, the Board has delegated day-to-day management to the Treasurer of the University. Deposit and investment policies are developed to insure compliance with state laws and regulations as well as to establish and maintain sound financial management practices.

The University follows Kentucky Revised Statutes (KRS 42.500) for the investment of public funds, which list allowable investment instruments including: obligations of the United States or a United States government agency; obligations of any corporation of the United States government; collateralized certificates of deposit; highly rated uncollateralized certificates of deposit, bankers acceptances and commercial paper; highly rated securities issued by a state or local government; and mutual funds comprised of any of the above allowable investments.

For purposes of investment management, the majority of the University's deposits and investments can be grouped into five significant categories, as follows:

- Overnight investments include deposits, money markets and repurchase agreements with local banks, the Commonwealth and other financial institutions.
- Bond revenue fund investments held by the Treasurer of the Commonwealth as required by the University's bond trust indentures and invested in pooled fixed income funds managed by the Commonwealth.
- Short-term investments managed by the University, including individual securities purchased and held by the University and short-term investments in pooled fixed income funds managed by the Commonwealth.
- 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.

The Treasurer manages a short-term investment program of the University 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 University's Board of Trustees establishes and maintains the University's Endowment Investment Policy.

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

Credit Risk. Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligation, causing 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 investment (deposits and repurchase agreements) policies minimize credit risk in several ways. Deposits are governed by state law which requires full collateralization for balances exceeding amounts covered by the Federal Deposit Insurance Corporation (FDIC). The University's deposits are insured up to \$250,000 at each FDIC insured institution. Credit risk on deposits in excess of FDIC coverage and on repurchase agreements with local banks is mitigated by the issuing financial institution's pledge of specific U.S. Treasury or agency securities, held in the name of the University by the Federal Reserve Bank. Credit risk on repurchase agreements with the Commonwealth is mitigated by the Commonwealth's requirement that providers of overnight repurchase agreements collateralize these investments at 102% of face value with U.S. Treasury or agency securities, pledged in the name of the Commonwealth. Money market fund portfolios consist of securities eligible for short-term investments.
- Bond revenue fund investments held in the Commonwealth's investment pools can invest in U.S. Treasury and agency securities; commercial paper or asset-backed securities rated in the highest category by a nationally recognized rating agency; 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 rating agency; shares of mutual funds (up to 10%); and state and local property tax certificates of delinquency secured by interests in real estate.
- Short-term investments managed by the University are limited to U.S. Treasury securities; securities issued by U.S. government agencies or government sponsored entities; money market securities, including: commercial paper rated the highest by a nationally recognized rating agency, collateralized certificates of deposit, and bankers' acceptances for banks rated A or higher; repurchase and reverse repurchase agreements collateralized at 102%; municipal obligations rated A1 or higher; and money market mutual funds invested in any of the above noted security types. Short-term investments held in the Commonwealth's investment pools are subject to the same credit quality requirements as denoted above for bond revenue fund investments.

- Investment securities held in bond 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. Additionally, endowment investments held by fixed income managers are generally limited to holdings of high quality fixed income securities. These managers may invest a portion of the portfolio in other below-investment grade bonds, non-U.S. dollar denominated bonds, and emerging market bonds, provided the overall credit quality of the fixed income portfolios is not lower than A-.

At June 30, 2013, and 2012, respectively, the credit quality of the University's fixed income investments is as follows (in thousands):

	2013							Total
	S&P/Moody's Credit Ratings						Rating Not Applicable	
	AAA/Aaa	AA/Aa	A	BBB/Baa	B	Not rated		
U.S. Treasury fixed income	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,165	\$ 11,165
Government agency fixed income	-	52,035	-	-	-	-	-	52,035
State and municipal fixed income	-	277	7,141	-	-	-	-	7,418
Pooled fixed income	-	-	-	-	-	365,042	-	365,042
Corporate fixed income	-	832	16,253	2,681	5,391	-	-	25,157
Guaranteed investment contracts	-	40	-	-	-	1,605	-	1,645
Repurchase agreements	-	-	-	-	-	84,141	-	84,141
Certificates of deposit	-	-	-	-	-	26,703	-	26,703
Cash and cash equivalents	82,826	-	-	-	-	18,664	-	101,490
Total fixed income investments	\$ 82,826	\$ 53,184	\$ 23,394	\$ 2,681	\$ 5,391	\$ 496,155	\$ 11,165	\$ 674,796

	2012							Total
	S&P/Moody's Credit Ratings						Rating Not Applicable	
	AAA/Aaa	AA/Aa	A	BBB/Baa	B	Not rated		
U.S. Treasury fixed income	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12,171	\$ 12,171
Government agency fixed income	29,527	-	-	-	-	-	-	29,527
State and municipal fixed income	-	7,391	-	-	-	-	-	7,391
Pooled fixed income	-	-	-	-	-	308,258	-	308,258
Corporate fixed income	-	107	1,497	27,309	-	-	-	28,913
Guaranteed investment contracts	19	-	-	-	-	743	-	762
Repurchase agreements	-	-	-	-	-	151,159	-	151,159
Certificates of deposit	-	-	-	-	-	27,450	-	27,450
Cash and cash equivalents	672	-	-	-	-	17,778	-	18,450
Total fixed income investments	\$ 30,218	\$ 7,498	\$ 1,497	\$ 27,309	\$ -	\$ 505,388	\$ 12,171	\$ 584,081

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 deposits and repurchase agreements are not exposed to custodial credit risk other than repurchase agreements with the Commonwealth, which are held in the Commonwealth's name. Money market investments are held in the University's name by the University's custodian.
- Bond revenue fund investments held in the Commonwealth's investment pools are held in the Commonwealth's name by the Commonwealth's custodian.
- Short-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 investments managed by the University are held in the University's name by the University's custodian.

- Investment securities held in bond debt service reserve funds are held by the respective bond trustee in a specific trust account for the benefit of the University and bondholders.
- Endowment investments are held in the University's name by the University's custodian.

At June 30, 2013 and 2012, respectively, the following University deposit and investment balances held in the name of the Commonwealth included in the above significant investment types, were exposed to custodial credit risk as follows (in thousands):

	2013				Total
	Overnight Investments	Bond Revenue Investments	Short-term Investments	Other State Investments	
Uninsured and collateralized with securities held by the pledging financial institution's trust department or agent but not in the University's name	\$ 91,000	\$ -	\$ -	\$ -	\$ 91,000
Uninsured, not registered in the name of the University and held by the counterparty but not in the University's name	-	179,904	60,000	25,823	265,727
Total	\$ 91,000	\$ 179,904	\$ 60,000	\$ 25,823	\$ 356,727

	2012				Total
	Overnight Investments	Bond Revenue Investments	Short-term Investments	Other State Investments	
Uninsured and collateralized with securities held by the pledging financial institution's trust department or agent but not in the University's name	\$ 168,000	\$ -	\$ -	\$ -	\$ 168,000
Uninsured, not registered in the name of the University and held by the counterparty but not in the University's name	-	91,747	60,303	55,859	207,909
Total	\$ 168,000	\$ 91,747	\$ 60,303	\$ 55,859	\$ 375,909

Concentrations of Credit Risk. 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 deposits and repurchase agreements are not limited as to the maximum amount that may be invested in one issuer. However, all such deposits in excess of Federal Depository Insurance are required to be fully collateralized by U.S. Treasury and/or U.S. agency securities or other similar investments as provided by KRS 41.240.
- Bond revenue fund investments and short-term 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 25% of an individual pool and \$25,000,000 per issuer, inclusive of commercial paper, bankers' acceptances and certificates of deposit; and U.S. dollar denominated sovereign debt shall not exceed five percent of any individual portfolio and \$25,000,000 per issuer.
- There is no specific limit on the maximum amount of short-term investments managed by the University that may be invested in one issuer, other than the requirement that the amount of money invested at any one time in commercial paper, bankers' acceptances and municipal obligations shall not exceed 20%.

- There is no specific limit on the maximum amount of investment securities held in bond 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.
- Endowment fixed income managers are limited to a maximum investment in any one issuer of no more than five percent of total investments.

At June 30, 2013 and 2012, the University has no investments in any one issuer, other than U.S. Treasury and/or agency securities, that represent five percent or more of total investments.

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, money markets and repurchase agreements have limited exposure to interest rate risk due to the short-term nature of the investment. The University requires that all deposits and repurchase agreements be available for use on the next business day.
- Bond revenue fund investments and short-term investments held in the Commonwealth's short-term investment pool are limited to a duration that does not exceed 90 days. Such investments in the Commonwealth's intermediate-term investment pool must maintain a modified duration of less than three years.
- Short-term investments managed by the University are generally limited to a maximum maturity of 24 months.
- Investment securities held in bond 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 fixed income managers are limited to a duration that is within two years of the duration of the Barclays Aggregate Bond Index.

For June 30, 2013, below is the maturity distribution of the University's fixed income investments (in thousands):

Investment Type	2013						Total
	Maturities in Years					Managed based on duration	
	Less than 1	1-3	3-5	5-10	Greater than 10		
U.S. Treasury fixed income	\$ 2,223	\$ 10	\$ 52	\$ 45	\$ -	\$ 8,835	\$ 11,165
Government agency fixed income	-	-	24,660	17,786	-	9,589	52,035
State and municipal fixed income	-	4,691	2,449	278	-	-	7,418
Pooled fixed income	-	-	-	-	-	365,042	365,042
Corporate fixed income	-	547	200	261	-	24,149	25,157
Guaranteed investment contracts	-	-	145	39	1,461	-	1,645
Repurchase agreements	79,171	1,013	-	3,957	-	-	84,141
Certificates of deposit	26,703	-	-	-	-	-	26,703
Cash and cash equivalents	101,490	-	-	-	-	-	101,490
Total fixed income investments	\$ 209,587	\$ 6,261	\$ 27,506	\$ 22,366	\$ 1,461	\$ 407,615	\$ 674,796

For June 30, 2012, below is the maturity distribution of the University's fixed income investments (in thousands):

Investment Type	2012						Total
	Maturities in Years					Managed based on duration	
	Less than 1	1-3	3-5	5-10	Greater than 10		
U.S. Treasury fixed income	\$ 2,370	\$ 10	\$ 29	\$ 70	\$ -	\$ 9,692	\$ 12,171
Government agency fixed income	5,319	-	15,032	211	-	8,965	29,527
State and municipal fixed income	-	-	7,232	159	-	-	7,391
Pooled fixed income	-	-	-	-	-	308,258	308,258
Corporate fixed income	154	555	895	-	-	27,309	28,913
Guaranteed investment contracts	100	-	185	458	19	-	762
Repurchase agreements	146,189	1,013	3,957	-	-	-	151,159
Certificates of deposit	27,450	-	-	-	-	-	27,450
Cash and cash equivalents	18,450	-	-	-	-	-	18,450
Total fixed income investments	\$ 200,032	\$ 1,578	\$ 27,330	\$ 898	\$ 19	\$ 354,224	\$ 584,081

At June 30, 2013 and 2012, the University had the following investments managed based on duration (in thousands):

Investment Type	2013		2012	
	Fair Value	Modified Duration	Fair Value	Modified Duration
		(Years)		(Years)
U.S. Treasury fixed income securities				
Pooled endowment fund	\$ 8,835	7.8	\$ 9,692	7.4
Government agency fixed income securities				
Pooled endowment fund	9,589	4.3	8,965	4.2
Pooled fixed income funds				
Pooled endowment fund	97,061	3.5	98,191	2.4
Other endowment investments	2,139	5.5	2,091	5.3
Commonwealth of Kentucky short-term pool	196,044	0.1	144,579	0.2
Commonwealth of Kentucky intermediate pool	69,683	2.0	63,330	1.2
457 Deferred Compensation Plan	63	5.6	32	5.1
Kentucky Technology, Inc.	52	2.1	35	4.5
Corporate fixed income securities				
Pooled endowment fund	24,149	3.8	27,309	3.7
Total	\$ 407,615		\$ 354,224	

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, 2013 and 2012, the following investments were subject to foreign currency risk (in thousands):

<u>Endowment Investment</u>	<u>Fair Value</u>	
	<u>2013</u>	<u>2012</u>
Common stock	\$ 43,060	\$ 33,155
Pooled private equity funds	<u>8,034</u>	<u>7,262</u>
Total	<u>\$ 51,094</u>	<u>\$ 40,417</u>

Derivative Financial Instruments. The University has entered into a forward delivery purchase agreement (the Forward Delivery Agreement). The Forward Delivery Agreement requires the counterparty to deposit U.S. Treasury securities into the University's debt service reserve trust account and provides the University with a guaranteed rate of return. The securities that are deposited into the Consolidated Educational Building Revenue Bonds (CEBRB) debt service reserve trust accounts are required to mature prior to the scheduled debt service payment dates.

The Forward Delivery Agreement allows the University to earn a guaranteed fixed rate of return over the life of the investment. This agreement was utilized by the University to earn a rate of return in excess of a rate that would otherwise be feasible by investing in securities with a shorter term.

The date of the Forward Delivery Agreement is June 16, 2004, with a termination date of May 1, 2024. The scheduled reserve amount varies throughout the term and was \$2.2 million as of June 30, 2013. The guaranteed rate is 4.73% and the fair market value of the Forward Delivery Agreement is \$561,000 as of June 30, 2013.

The fair value of the Forward Delivery Agreement is based on the value of the future discounted cash flow expected to be received over the life of the agreement. The fair value of the Forward Delivery Agreement is classified as a noncurrent asset in the Statement of Net Position. As the Forward Delivery Agreement is an effective hedging instrument, the offsetting balance is reflected as deferred inflows of resources in the Statement of Net Position.

3. NOTES, LOANS AND ACCOUNTS RECEIVABLE, NET

Notes, loans and accounts receivable as of June 30, 2013 and 2012 follows (in thousands):

	2013		
	<u>Gross Receivable</u>	<u>Allowance</u>	<u>Net Receivable</u>
Hospital patient accounts	\$153,344	\$(34,750)	\$118,594
KMSF patient accounts	28,107	(5,676)	22,431
Dentistry patient accounts	2,773	(797)	1,976
Student loans	27,924	(2,467)	25,457
Reimbursement receivable - grants and contracts	30,268	(575)	29,693
Reimbursement receivable - federal appropriations	2,159	-	2,159
Pledges receivable	55,484	(18,582)	36,902
Accrued interest receivable	2,495	-	2,495
Student receivables	20,167	(11,215)	8,952
Other	31,171	-	31,171
Total	<u>\$353,892</u>	<u>\$(74,062)</u>	<u>\$279,830</u>
Current portion			\$229,352
Noncurrent portion			<u>50,478</u>
Total			<u>\$279,830</u>
	2012		
	<u>Gross Receivable</u>	<u>Allowance</u>	<u>Net Receivable</u>
Hospital patient accounts	\$150,051	\$(34,786)	\$115,265
Hospital third-party payer settlements	30,136	-	30,136
KMSF patient accounts	28,632	(5,131)	23,501
Dentistry patient accounts	2,476	(621)	1,855
Student loans	27,076	(2,333)	24,743
Reimbursement receivable - grants and contracts	40,689	(403)	40,286
Reimbursement receivable - federal appropriations	1,607	-	1,607
Pledges receivable	46,289	(17,930)	28,359
Accrued interest receivable	1,326	-	1,326
Student receivables	17,635	(8,993)	8,642
Other	19,429	-	19,429
Total	<u>\$365,346</u>	<u>\$(70,197)</u>	<u>\$295,149</u>
Current portion			\$254,101
Noncurrent portion			<u>41,048</u>
Total			<u>\$295,149</u>

4. CAPITAL ASSETS, NET

Capital assets as of June 30, 2013 and capital asset activity for the year ended June 30, 2013 are summarized below (in thousands):

	<u>June 30, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2013</u>
Land	\$ 63,666	\$ 7,814	\$ -	\$ 71,480
Land improvements - nonexhaustible	37,447	3,045	-	40,492
Land improvements - exhaustible	61,842	7,338	708	68,472
Buildings	2,135,650	58,106	9,460	2,184,296
Fixed equipment - communications	83,939	6,902	66	90,775
Infrastructure	91,507	2,090	36	93,561
Equipment	541,492	32,022	20,349	553,165
Vehicles	20,631	1,398	1,345	20,684
Library materials	140,377	2,339	140	142,576
Nondepreciable library materials	6,601	17	-	6,618
Capitalized software	126,366	9,516	58	135,824
Art	10,991	215	58	11,148
Construction in progress	57,420	28,069	50,727	34,762
	<u>3,377,929</u>	<u>158,871</u>	<u>82,947</u>	<u>3,453,853</u>
<u>Accumulated Depreciation</u>				
Land improvements - exhaustible	50,992	2,425	708	52,709
Buildings	722,365	57,646	7,460	772,551
Fixed equipment - communications	47,536	5,912	66	53,382
Infrastructure	25,858	3,719	16	29,561
Equipment	357,167	47,114	16,894	387,387
Vehicles	16,926	1,546	1,089	17,383
Library materials	128,167	3,329	-	131,496
Capitalized software	53,965	11,375	78	65,262
	<u>1,402,976</u>	<u>133,066</u>	<u>26,311</u>	<u>1,509,731</u>
Capital assets, net	<u>\$ 1,974,953</u>	<u>\$ 25,805</u>	<u>\$ 56,636</u>	<u>\$ 1,944,122</u>

Capital assets as of June 30, 2012 and capital asset activity for the year ended June 30, 2012 are summarized below (in thousands):

	June 30, 2011	Additions	Deletions	June 30, 2012
Land	\$ 64,676	\$ 80	\$ 1,090	\$ 63,666
Land improvements - nonexhaustible	36,216	1,231	-	37,447
Land improvements - exhaustible	59,270	2,572	-	61,842
Buildings	1,995,748	142,080	2,178	2,135,650
Fixed equipment - communications	74,957	8,982	-	83,939
Infrastructure	87,377	4,130	-	91,507
Equipment	500,450	73,671	32,629	541,492
Vehicles	20,838	2,011	2,218	20,631
Library materials	138,336	3,042	1,001	140,377
Nondepreciable library materials	6,578	23	-	6,601
Capitalized software	103,982	22,384	-	126,366
Art	10,501	490	-	10,991
Construction in progress	119,672	28,872	91,124	57,420
	<u>3,218,601</u>	<u>289,568</u>	<u>130,240</u>	<u>3,377,929</u>
<u>Accumulated Depreciation</u>				
Land improvements - exhaustible	49,141	1,851	-	50,992
Buildings	670,808	52,257	700	722,365
Fixed equipment - communications	42,956	4,580	-	47,536
Infrastructure	22,269	3,589	-	25,858
Equipment	336,959	45,977	25,769	357,167
Vehicles	17,603	1,527	2,204	16,926
Library materials	124,247	3,920	-	128,167
Capitalized software	45,447	8,518	-	53,965
	<u>1,309,430</u>	<u>122,219</u>	<u>28,673</u>	<u>1,402,976</u>
Capital assets, net	<u>\$ 1,909,171</u>	<u>\$ 167,349</u>	<u>\$ 101,567</u>	<u>\$ 1,974,953</u>

At June 30, 2013, the University had construction projects in progress totaling approximately \$292.2 million in scope. The estimated cost to complete these projects was approximately \$256.5 million. Such construction was principally financed by cash reserves, proceeds from the University's general receipts bonds, and capital appropriations and grants from the Commonwealth.

Interest costs incurred during construction, net of related investment income, are capitalized. Total interest capitalized was \$17,000 for 2013 and \$562,000 for 2012.

During fiscal year 2013 and 2012, the University utilized capital leases to acquire various items of equipment. As of June 30, 2013 and 2012, the net book value of land, buildings, equipment and software acquired through capital lease included in the above schedules totaled \$147.8 million and \$160.1 million, respectively.

During fiscal year 2013, five student housing buildings were demolished with an original cost of \$8.3 million and accumulated depreciation of \$7.2 million, for a total net book value written off of \$1.1 million. In addition, 14 student housing buildings were scheduled for demolition in subsequent fiscal years and have been recorded as impaired assets. Accordingly, a portion of the net book value of each building was written off in this fiscal year with the remainder to be written off in subsequent years. The total original cost of impaired assets is \$28.7 million with accumulated depreciation of \$21.1 million, for a total net book value written off in fiscal year 2013 of \$3.1 million.

Non-cash capital asset and related financing activities are summarized below (in thousands):

	<u>2013</u>	<u>2012</u>
Capital lease additions	\$ 766	\$ 2,113
Gifts of capital assets	3,012	3,817
Capital asset additions in accounts payable	8,942	9,944
Capitalized interest, net of investment income	17	562
Amortized bond discount, premium and cost of issuance	759	713
Capital asset disposal, net	3,148	4,917
Capital asset trade in	<u>426</u>	<u>4,337</u>
Total	<u>\$ 17,070</u>	<u>\$ 26,403</u>

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2013 and 2012 follow (in thousands):

	<u>2013</u>	<u>2012</u>
Payable to vendors and contractors	\$ 90,040	\$ 87,174
Accrued expenses, including vacation and sick leave	62,804	58,517
Employee withholdings and deposits payable to third parties	<u>39,817</u>	<u>45,411</u>
Total	<u>\$ 192,661</u>	<u>\$ 191,102</u>

6. UNEARNED REVENUE

Unearned revenue as of June 30, 2013 and 2012 follows (in thousands):

	<u>2013</u>	<u>2012</u>
Unearned summer school revenue	\$ 7,330	\$ 7,249
Unearned hospital revenue	6,928	6,583
Unearned grants and contracts revenue	29,509	30,837
Prepaid athletic ticket sales	13,581	11,644
Other	<u>7,204</u>	<u>6,539</u>
Total	<u>\$ 64,552</u>	<u>\$ 62,852</u>

7. LONG-TERM LIABILITIES

Long-term liabilities as of June 30, 2013 and long-term liability activity for the year ended June 30, 2013 are summarized below (in thousands):

	June 30, 2012	Additions	Reductions	June 30, 2013	Current Portion	Non-Current Portion
<u>Bonds, notes and capital leases</u>						
General Receipts notes	\$ 294,530	\$ -	\$ 14,355	\$ 280,175	\$ 14,995	\$ 265,180
General Receipts bonds	205,090	-	5,795	199,295	5,770	193,525
Educational buildings bonds	42,400	-	4,440	37,960	4,610	33,350
Capital leases and other long-term obligations	114,824	30,836	37,019	108,641	24,262	84,379
Notes payable	22,578	104	963	21,719	1,055	20,664
Total bonds, notes and capital leases	<u>679,422</u>	<u>30,940</u>	<u>62,572</u>	<u>647,790</u>	<u>50,692</u>	<u>597,098</u>
<u>Other liabilities</u>						
Medical malpractice	25,774	3,352	2,780	26,346	4,114	22,232
Long-term disability	2	4	-	6	6	-
Annuities payable	4,800	459	471	4,788	516	4,272
Health insurance	5,900	35,222	35,084	6,038	6,038	-
Automobile and property self insurance	316	1,018	920	414	414	-
Retiree health benefits trust	57,722	17,640	-	75,362	-	75,362
Federal loan programs	21,122	387	517	20,992	-	20,992
Workers compensation	21,045	3,171	4,451	19,765	4,928	14,837
Compensated absences	7,655	69	90	7,634	585	7,049
Arbitrage rebate	375	-	370	5	-	5
Unamortized bond premium	12,536	620	1,038	12,118	1,038	11,080
Unemployment compensation	670	732	773	629	629	-
Other	4,075	4,537	2,968	5,644	1,348	4,296
Total other liabilities	<u>161,992</u>	<u>67,211</u>	<u>49,462</u>	<u>179,741</u>	<u>19,616</u>	<u>160,125</u>
Total	<u>\$ 841,414</u>	<u>\$ 98,151</u>	<u>\$ 112,034</u>	<u>\$ 827,531</u>	<u>\$ 70,308</u>	<u>\$ 757,223</u>

Long-term liabilities as of June 30, 2012 and long-term liability activity for the year ended June 30, 2012 are summarized as follows (in thousands):

	June 30, 2011	Additions	Reductions	June 30, 2012	Current Portion	Non-Current Portion
<u>Bonds, notes and capital leases</u>						
General Receipts notes	\$ 308,305	\$ -	\$ 13,775	\$ 294,530	\$ 14,355	\$ 280,175
General Receipts bonds	183,010	25,370	3,290	205,090	5,795	199,295
CEBRB	82,760	-	40,360	42,400	4,440	37,960
Capital leases and other long-term obligations	133,892	11,863	30,931	114,824	31,161	83,663
Notes payable	23,983	-	1,405	22,578	1,921	20,657
Total bonds, notes and capital leases	<u>731,950</u>	<u>37,233</u>	<u>89,761</u>	<u>679,422</u>	<u>57,672</u>	<u>621,750</u>
<u>Other liabilities</u>						
Medical malpractice	28,855	2,081	5,162	25,774	2,734	23,040
Long-term disability	410	-	408	2	2	-
Annuities payable	5,212	103	515	4,800	439	4,361
Health insurance	6,451	34,795	35,346	5,900	5,900	-
Automobile and property self insurance	116	316	116	316	316	-
Retiree health benefits trust	48,597	9,276	151	57,722	-	57,722
Federal loan programs	21,425	465	768	21,122	-	21,122
Workers compensation	21,000	4,601	4,556	21,045	5,332	15,713
Compensated absences	6,500	1,155	-	7,655	517	7,138
Arbitrage rebate	2	375	2	375	375	-
Unamortized bond premium	9,269	4,253	986	12,536	986	11,550
Unemployment compensation	639	804	773	670	670	-
Other	2,950	4,053	2,928	4,075	1,000	3,075
Total other liabilities	<u>151,426</u>	<u>62,277</u>	<u>51,711</u>	<u>161,992</u>	<u>18,271</u>	<u>143,721</u>
Total	<u>\$ 883,376</u>	<u>\$ 99,510</u>	<u>\$ 141,472</u>	<u>\$ 841,414</u>	<u>\$ 75,943</u>	<u>\$ 765,471</u>

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 five percent to 10.8%.

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

Bonds payable consist of General Receipts bonds, General Receipts notes and CEFRB in the original amount of \$621,070,000 dated Oct 1, 2003 through June 26, 2012, which bear interest at 1.50% to 4.66%. The bonds are payable in annual installments through November 1, 2039. 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 1.39% to 4.45%.

The indenture agreements require that certain funds be established with the trustee and with the Commonwealth. In addition, CEFRB bonds require a debt service reserve equal to the highest annual aggregate debt service payment due during the remaining lives of the bonds. Currently this amount is \$7,168,000.

On December 4, 2012, the University entered into two lease agreements. State Property and Building Commission (SPBC) 102A – Rural Health has an original amount of \$3,630,000 with a net interest cost of 2.13% and fully refunded SPBC 80A – Rural Health. SPBC 102B – Stadium Expansion has an original amount of \$1,440,000 with a net interest cost of 2.13% and partially refunded SPBC 80A – Stadium Expansion. These new lease agreements will reduce the University’s total debt service payments by \$748,000 over the next 12 years, representing an economic gain (difference between the present value of the debt service payments on the old and the new leases) of approximately \$679,000.

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 will receive 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 \$2.4 million during fiscal year 2013, is 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, the President signed an executive order reducing the budgetary authority in accounts subject to sequestration. As a result, the BAB and QECB subsidy is expected to be reduced to approximately 32% and 73%, 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, 2013, are as follows (in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 50,692	\$ 28,149	\$ 78,841
2015	46,717	26,368	73,085
2016	41,451	24,713	66,164
2017	59,068	22,904	81,972
2018	41,562	20,661	62,223
2019-2023	185,396	78,156	263,552
2024-2028	159,179	36,351	195,530
2029-2033	24,010	14,623	38,633
2034-2038	27,295	7,545	34,840
2039-2040	12,420	714	13,134
	<u>\$ 647,790</u>	<u>\$ 260,184</u>	<u>\$ 907,974</u>
Total	<u>\$ 647,790</u>	<u>\$ 260,184</u>	<u>\$ 907,974</u>

At June 30, 2013, assets with a fair market value of approximately \$4,323,000 have been placed on deposit with trustees to totally defease bonds with a par amount of \$4,065,000. The liability for these fully defeased bonds is not included in the financial statements.

8. COMPONENTS OF RESTRICTED EXPENDABLE NET POSITION

Restricted expendable net position are 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, 2013 and 2012 restricted expendable net position is composed of the following (in thousands):

	<u>2013</u>	<u>2012</u>
Appreciation (depreciation) on permanent endowments	\$ 87,372	\$ 38,637
Term endowments	7,417	6,209
Quasi-endowments initially funded with restricted assets	45,591	40,560
Funds restricted for capital projects and debt service	78,995	64,152
Funds restricted for noncapital purposes	85,119	82,621
Loan funds (primarily University funds required for federal match)	10,531	9,978
Total	<u>\$ 315,025</u>	<u>\$ 242,157</u>

9. DESIGNATIONS OF UNRESTRICTED NET POSITION

Unrestricted net position is 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 position as of June 30, 2013 and 2012 are as follows (in thousands):

	<u>2013</u>	<u>2012</u>
Working capital requirements	\$ 30,570	\$ 35,130
Budget appropriations for future year fiscal operations	156,034	125,007
Designated for capital projects	46,725	43,696
Designated for renewal and replacement of capital assets	24,395	19,380
Hospital System	338,349	260,108
Affiliated corporations and component units	91,242	93,948
Total	<u>\$ 687,315</u>	<u>\$ 577,269</u>

10. PLEDGED REVENUES

Pledged revenue for 2013 and 2012 as defined by General Receipts Trust Indenture, is as follows (in thousands):

	<u>2013</u>	<u>2012</u>
Student tuition and fees	\$ 265,293	\$ 243,364
Nongovernmental grants and contracts	701	985
Recoveries of facilities and administrative costs	47,755	51,818
Sales and services	41,139	40,741
Hospital services	945,885	906,607
Auxiliary enterprises - housing and dining	50,426	47,730
Auxiliary enterprises - athletics	72,033	-
Auxiliary enterprises - other	30,547	32,179
Other operating revenue	989	976
State appropriations	283,869	297,580
Gifts and grants	5,015	5,012
Investment income	2,704	2,441
Total	<u>\$ 1,746,356</u>	<u>\$ 1,629,433</u>

The University has substantially pledged all of the unrestricted operating and nonoperating revenues to repay the General Receipts bonds and notes issued during 2005 to 2012. Proceeds from the bonds and notes provided funding for new construction and energy conservation projects. In addition, it provided funding for refunding of all Consolidated Housing and Dining System Revenue Bonds, refunding of Lexington-Fayette Urban County Government bond, and partial refunding of CEBRB and partial refunding of the SPBC project notes. The bonds are payable from unrestricted operating and nonoperating revenues and are payable through 2039. Annual principal and interest payments on bonds are expected to require less than three percent of pledged revenue. The total principal and interest remaining to be paid on the bonds is \$711,626,000 and \$754,778,000 in 2013 and 2012, respectively. Principal and interest paid for 2013 and 2012 were \$43,152,000 and \$39,778,000, respectively.

11. INVESTMENT INCOME

Components of investment income (loss) for the years ended June 30, 2013 and 2012 are as follows (in thousands):

	<u>2013</u>	<u>2012</u>
Interest and dividends earned on endowment investments	\$ 16,463	\$ 16,923
Realized and unrealized gains and losses on endowment investments	85,352	(22,897)
Interest and dividends on cash and non-endowment investments	2,315	2,688
Realized and unrealized gains and losses on non-endowment investments	(1,024)	1,498
Investment income from external trusts	<u>1,642</u>	<u>1,556</u>
Total	<u>\$ 104,748</u>	<u>\$ (232)</u>

12. FUNDS HELD IN TRUST BY OTHERS

The University is the income beneficiary of various trusts that are held and controlled by external trustees. For the years ended June 30, 2013 and 2012, the University received income from these trusts of approximately \$1,642,000 and \$1,556,000, respectively. The market value of the external trust assets as of June 30, 2013 and 2012 was approximately \$53,637,000 and \$49,652,000, 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.

13. PLEDGES AND DEFERRED GIFTS

At June 30, 2013 and 2012, respectively, pledges are expected to be collected primarily over the next ten years, as follows (in thousands):

	<u>2013</u>	<u>2012</u>
Operating purposes	\$ 15,508	\$ 10,950
Capital projects	<u>44,208</u>	<u>50,947</u>
Total	59,716	61,897
Less discounts and allowances	<u>(22,814)</u>	<u>(33,538)</u>
Total	<u>\$ 36,902</u>	<u>\$ 28,359</u>

In accordance with GASB 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 years ended June 30, 2013 and 2012, the University recorded the discounted value of operating and capital pledges using a rate of two percent and three percent, respectively.

Deferred gifts through insurance, known bequests and irrevocable trusts in which the University has a remainder interest are estimated to be approximately \$115,626,000 and \$106,247,000 at June 30, 2013 and 2012, respectively. The University records these amounts as revenue when the cash is received.

14. GRANTS AND CONTRACTS AWARDED

At June 30, 2013 and 2012, grants and contracts of approximately \$189,043,000 and \$191,499,000, respectively, have been awarded to the University and the University of Kentucky Research Foundation, but not expended. These amounts will be recognized in future periods.

15. 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 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/College Retirement Equities Fund (TIAA/CREF)
- 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 five years. The University's contributions and costs for 2013 and 2012 were approximately \$86,016,000 and \$86,586,000, respectively. Employees contributed approximately \$42,628,000 in 2013 and \$42,853,000 in 2012. The University's total payroll costs were approximately \$1,113,818,000 and \$1,107,769,000, respectively, for the years ended June 30, 2013 and 2012. The payroll for employees covered by the retirement plan was approximately \$857,682,000 and \$866,163,000 for the years ended 2013 and 2012, respectively.

Regular full-time KMSF employees become eligible to participate in a defined contribution plan upon completion of 90 days of service and attainment of age 21. KMSF contributes 10% of the employee's earnings and employees are non-contributing. KMSF contributions for 2013 and 2012 were approximately \$800,000 and \$757,000, respectively. The total payroll costs for employees covered by the defined contribution plan were approximately \$8,000,000 and \$7,570,000 for the years ended June 30, 2013 and 2012, respectively. Participants become vested in the plan according to years of service, with 100% vesting at three years or more.

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 16).

16. MINIMUM ANNUAL RETIREMENT BENEFITS AND SUPPLEMENTAL RETIREMENT INCOME

Employees in retirement groups I, II and III, referred to in Note 15 above, 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. No active employees were eligible for this benefit for the years ended June 30, 2013 and 2012.

The Legislature of the Commonwealth appropriates funds to the University which the University has used for 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 prohibits the commitment of future revenues beyond the end of the current biennium. 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. Supplemental retirement benefit payments were approximately \$1,741,000 and \$1,943,000 for the years ended June 30, 2013 and 2012, respectively.

The latest actuarial valuation was prepared as of July 1, 2012 by TIAA CREF. The actuarial present value of accumulated supplemental retirement income benefits as determined by this valuation, utilizing an assumed rate of return of seven percent, was approximately \$8,188,000.

17. HEALTH INSURANCE BENEFITS FOR RETIREES

The University administers a single-employer defined benefit healthcare plan including medical and prescription drug benefits. The plan provides lifetime healthcare insurance benefits for eligible retirees and their surviving spouses. 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 healthcare plan on an "access only" basis upon retirement, but 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. Human Resources policies and procedures define retiree health benefits and can be amended by the President of the University as delegated by the University's Board of Trustees. Employees who were hired before August 1, 1965 are also eligible for \$5,000 of life insurance coverage upon retirement.

The retiree health plan does not issue a publicly available financial report, but is included in this report of the University using the economic resources measurement focus and the accrual basis of accounting under which expenses, including benefits and refunds, are recorded when the liability is incurred. Employer contributions are recorded in the accounting period in which they are earned and become measureable. Investments are reported at fair market value and based on published prices and quotations from major investment brokers at current exchange rates, as available.

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 year 2013, the University contributed \$20.5 million to the plan. Plan members receiving benefits contributed 30.7% of the premium costs, an average for combined single and family coverage. In fiscal year 2013, total member contributions were approximately \$4.6 million.

The University has established a trust fund to segregate plan assets, and currently plans to contribute amounts to the trust fund sufficient to fully fund the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB No. 45. The University plans to continue to finance retiree benefits by pre-funding benefits and contributing the ARC into a segregated, protected trust fund and will amortize the initial unfunded accrued liability (UAL) over a 30 year closed period. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The current ARC of \$20.4 million is 3.9% of annual covered payroll. There are no long-term contracts for contributions to the plan.

The following table presents the other postemployment benefits (OPEB) cost for the year, the amount contributed and changes in the OPEB Plan for fiscal year 2013 (in thousands):

Annual required contribution	\$ 20,392
Contributions made	<u>(20,475)</u>
Increase in net OPEB obligation/(asset)	(83)
Net OPEB obligation/(asset) - Beginning of year	<u>(157)</u>
Net OPEB obligation/(asset) - End of year	<u><u>\$ (240)</u></u>

The University’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for fiscal year 2013, 2012 and 2011, were as follows (in thousands):

Fiscal Year Ended	Annual OPEB cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation/(Asset)
6/30/2011	\$ 23,999	103.6%	\$ (508)
6/30/2012	\$ 19,798	98.2%	\$ (157)
6/30/2013	\$ 20,392	100.4%	\$ (240)

As of July 1, 2013, the actuarial accrued liability (AAL) for benefits was \$252.9 million, with an actuarial value of assets of \$75.4 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$177.5 million. The covered payroll (annual payroll of active employees covered by the plan) was \$526.1 million and the ratio of the UAAL to the covered payroll was 33.7% at June 30, 2013. The University implemented the University of Kentucky Other Postemployment Benefits (OPEB) Trust in July 2007, after the July 1, 2007 actuarial valuation date. As of June 30, 2013, net trust fund assets totaled \$75.4 million.

Actuarial valuation of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Actuarially determined amounts are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, is designed to present multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The projection of benefits for financial reporting purposes is based on the substantive plan (the plan as understood by the employer and the plan members) and includes the type of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members

to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects for legal or contractual funding limitations on the pattern of cost sharing between the employer and plan member in the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2011 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included an eight percent discount rate based on the University's funding policy (ARC funding) based on the expected long-term return on the separate trust assets that will be used to finance the payment of plan benefits. The projected annual healthcare trend rate is nine percent for the pre-65 members and eight percent for the post-65 members initially, reduced in decrements to an ultimate rate of three percent for pre-65 members and five percent for post 65 members after nine years. The expected long-term payroll growth rate was assumed to be three percent per year. The initial UAAL is being amortized as a level percent of pay amount on a closed basis. The remaining amortization period at July 2012 was 25 years.

18. LONG-TERM DISABILITY BENEFIT PLAN

The University is self insured for a long-term disability income program and has established a trust for the purpose of paying claims and establishing necessary reserves. Regular employees with a full-time equivalent of .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 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 long-term disability plan does not issue a publicly available financial report, but is included in this report of the University using the economic resources measurement focus and the accrual basis of accounting under which expenses, including benefits and refunds, are recorded when the liability is incurred. Employer contributions are recorded in the accounting period in which they are earned and become measurable. Investments are reported at fair market value and based on published prices and quotations from major investment brokers at current exchange rates, as available. The coverage of the long-term disability benefits is established and may be amended by the President of the University.

The University currently plans to contribute amounts to the trust fund sufficient to fully fund the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB No. 45. The University plans to continue to finance long-term disabilities by pre-funding benefits and contributing to the ARC into a segregated, protected trust fund and will amortize the initial unfunded accrued liability (UAL) over a 30 year closed period. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The current ARC of \$2.0 million is 0.3% of annual covered payroll. There are no long-term contracts for contributions to the plan. The following table presents the OPEB cost for the year, the amount contributed and changes in the OPEB plan for fiscal year 2013 (in thousands):

Annual required contribution	\$ 2,012
Contributions made	<u>(2,008)</u>
Increase in net OPEB obligation/(asset)	4
Net OPEB obligation/(asset) - Beginning of year	<u>2</u>
Net OPEB obligation/(asset) - End of year	<u><u>\$ 6</u></u>

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for fiscal year 2013, 2012 and 2011 were as follows (in thousands):

Fiscal Year Ended	Annual OPEB cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation/(Asset)
6/30/2011	\$ 2,842	99.7%	\$ 410
6/30/2012	\$ 1,953	120.9%	\$ 2
6/30/2013	\$ 2,012	99.8%	\$ 6

As of July 1, 2013, the actuarial accrued liability (AAL) for benefits was \$22.7 million and the actuarial value of assets was \$13.4 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$9.3 million. The covered payroll (annual payroll of active employees covered by the plan) was \$725.2 million and the ratio of the UAAL to the covered payroll was 1.3% at June 30, 2013.

Actuarial valuation of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of events far into the future. Major factors affecting all long-term disability benefits are the rate at which people become disabled and how quickly they are expected to recover from disability. These rates will improve or deteriorate over time, for example with the state of the economy, with technological development and health related events. Other factors that could also impact the liability include salary inflation, changes in utilization patterns, changes to government programs and technological advances, such as new drugs or equipment. Actuarially determined amounts are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, is designed to present multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The projection of benefits for financial reporting purposes is based on the substantive plan (the plan as understood by the employer and the plan members) and includes the type of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2011 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included an eight percent discount rate based on the University's funding policy (ARC funding) based on the expected long-term return on the separate trust assets that will be used to finance the payment of plan benefits. The projected elimination period is six months; termination (mortality and recovery from disability) and gender and age-related disability incidence rates are based on the 1987 Commissioner's Group Long-Term Disability Table. Benefits end when members recover, die, terminate employment or retire. For long-term disabilities arising at age 64 or later, the duration of LTD payments is limited to 12 months. Payments are assumed to be made until the later of (a) age 65 or (b) five years after date of disability. An employee approved for LTD benefits receives primary and supplemental payment benefits based on the employee's basic regular monthly salary at the time of 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 other employers 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, workers' compensation or other similar government programs, veterans' or other governmental disability payments, or other employer-sponsored disability benefits.

The University provides supplemental payment benefits for 42 months following the date of disability onset based on the following schedule (for current LTD participants or employees approved for LTD benefits prior to October 1, 2006):

Months	Percentage of Salary
1-6	100%
7-18	90%
19-30	80%
31-42	70%
43-End of Benefit	60%

Claimants that file applications and who are approved for benefits on October 1, 2006 or after will have benefits based on the following schedule:

Months	Percentage of Salary
1-6	100%
7-End of Benefit	60%

The projected long-term income benefit is based on actual net benefit currently being paid with social security offset. For people who have been disabled for less than 24 months and are currently not entitled to a social security offset, it was assumed that the offset will eventually be approved according to the following table:

Months Since Disability	Proportion
<12	5%
12-17	40%
18-23	40%
24+	80%

The future salary increase for active members was assumed to be three percent per year. The UAAL is being amortized as a level percent of pay amount on a closed basis. The remaining amortization period at July 1, 2012 was 25 years.

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 \$250,000 and \$500,000 per occurrence. Losses in excess of \$500,000 are insured by commercial carriers up to \$1.00 billion per occurrence with buildings insured at replacement cost and contents 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 2012 to 2013. 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, 2013 is based on the requirements of GASB 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, 2013.

The University also self-insures certain employee benefits, including health insurance, worker's compensation and unemployment claims to the extent not covered by insurance. The University has recorded an estimate for asserted claims at June 30, 2013.

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 the Bill, 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 2008-2010 budget of the Commonwealth, the 2008 General Assembly authorized \$50 million in General Fund supported bonds in 2008-2009 for the Research Challenge Trust Fund (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 University's Board of Trustees approved the allocation of UK's Research Challenge Trust Fund appropriation as follows: \$21,927,000 to the Research Capital Match Program and \$11,406,000 to the Endowment Match Program.

The status of the RCTF endowed funds as of June 30, 2013, is summarized as follows (in thousands):

	Kentucky General Assembly Funding	University of Kentucky Share of Funding	State Funds Received to Date	Matching Pledges Receivable
1998 Biennium	\$ 100,000	\$ 66,667	\$ 66,667	\$ -
2000 Biennium	100,000	68,857	68,857	-
2002 Biennium	100,000	66,667	66,667	16
2008 Biennium: Capital Projects	21,927	21,927	21,927	1,715
2008 Biennium: RCTF	<u>28,073</u>	<u>11,406</u>	<u>11,406</u>	<u>644</u>
Total	<u>\$ 350,000</u>	<u>\$ 235,524</u>	<u>\$ 235,524</u>	<u>\$ 2,375</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):

	2002 Biennium	2008 Biennium: Capital Projects	2008 Biennium: RCTF
Pledges due in fiscal year 2013 or prior	\$ 16	\$ 8	\$ 112
Pledges due in fiscal year 2014	-	1,707	383
Pledges due in fiscal year 2015	-	-	149
Total	<u>\$ 16</u>	<u>\$ 1,715</u>	<u>\$ 644</u>

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 each 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, 2013 and 2012 follows (in thousands):

	2013	2012
Funds from private sources approved for match	\$ 6,999	\$ 3,789
Cigarette excise tax funds distributed	<u>2,007</u>	<u>2,275</u>
Total cancer research matching fund revenues	<u>\$ 9,006</u>	<u>\$ 6,064</u>
Cancer research matching fund expenses	<u>\$ 6,987</u>	<u>\$ 7,111</u>

23. STUDENT HOUSING PARTNERSHIP

The University entered an agreement in April 2012 with a third party developer, Education Realty Trust (EdR), to construct two four-story buildings, which comprise 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. The project, with an estimated cost of \$25.2 million, is on land owned by the University and leased to EdR 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 EdR 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 will be a percentage of gross revenues. The University will account for the ground lease as an operating lease. These facilities are subject to ad valorem tax. These two residence halls opened on August 16, 2013 for the Fall 2013 semester.

Phases II-A and II-B of the long-term housing plan agreements have also been signed with EdR. These phases include eight residence halls to be constructed between October 2012 and August 2015. The University has received authorization from the Kentucky legislature for the new projects, which the Commonwealth must approve statutorily even though EdR, not the University, is financing the projects.

Phase II-A, expected on line in August 2014, includes the development of five residence halls at an approximate cost of \$138.0 million and Phase II-B, expected on line in August 2015, includes the construction of three residence halls at an approximate cost of \$101.2 million. The 75-year term lease with EdR 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 EdR achieves a minimum internal rate of return. These eight facilities are exempt from ad valorem tax. The University will

account for the lease as a service concession arrangement in accordance with GASB No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*.

24. NATURAL CLASSIFICATION

The University's operating expenses by natural classification were as follows for the years ended June 30, 2013 and 2012 (in thousands):

	<u>2013</u>	<u>2012</u>
Salaries and wages	\$ 1,114,676	\$ 1,115,457
Employee benefits	345,945	352,820
Supplies and services	539,323	583,982
Depreciation	133,066	122,219
Student scholarships and financial aid	48,361	46,985
Purchased utilities	46,760	47,290
Other, various	<u>103,837</u>	<u>76,273</u>
Total	<u>\$ 2,331,968</u>	<u>\$ 2,345,026</u>

25. COMBINED CONDENSED STATEMENTS

The University of Kentucky and its blended component units condensed statements were summarized as follows for the years ended June 30, 2013 and 2012 (in thousands):

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
COMBINED CONDENSED STATEMENT OF NET POSITION AS OF JUNE 30, 2013
(in thousands)

	UK	Research Foundation	The Fund	Gluck Equine Research Foundation	Humanities Foundation	Mining Engineering Foundation	Center on Aging	Central Kentucky Management Services	Kentucky Medical Services Foundation	Total
ASSETS										
Current Assets										
Cash and cash equivalents	\$ 336,010	\$ 46,673	\$ 6,992	\$ 128	\$ 98	\$ 6	\$ 82	\$ 498	\$ 1,488	\$ 391,975
Notes, loans and accounts receivable, net	164,710	36,042	2,397	15	-	-	-	-	26,188	229,352
Investments	-	-	-	-	-	-	-	-	6,944	6,944
Inventories and other assets	33,773	2,338	-	-	-	-	-	13	65	36,189
Total current assets	534,493	85,053	9,389	143	98	6	82	511	34,685	664,460
Noncurrent Assets										
Restricted cash and cash equivalents	59,892	-	-	-	-	-	-	-	-	59,892
Endowment investments	1,039,494	3,809	242	7,934	1,226	1,743	-	-	-	1,054,448
Other long-term investments	118,890	1,486	-	-	-	-	-	-	41,198	161,574
Notes, loans and accounts receivable, net	49,639	-	-	-	-	-	-	-	839	50,478
Other noncurrent assets	16,137	162	-	-	-	-	-	-	-	16,299
Capital assets, net	1,892,781	14,704	-	-	-	-	-	161	36,476	1,944,122
Total noncurrent assets	3,176,833	20,161	242	7,934	1,226	1,743	-	161	78,513	3,286,813
Total assets	3,711,326	105,214	9,631	8,077	1,324	1,749	82	672	113,198	3,951,273
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES										
Current Liabilities										
Accounts payable and accrued liabilities	168,636	17,231	419	-	-	7	-	511	5,857	192,661
Unearned revenue	29,861	34,558	133	-	-	-	-	-	-	64,552
Long-term liabilities - current portion	68,731	312	-	-	-	-	-	-	1,265	70,308
Total current liabilities	267,228	52,101	562	-	-	7	-	511	7,122	327,521
Noncurrent Liabilities										
Long-term liabilities	734,848	1,411	-	-	-	-	-	-	20,964	757,223
Total noncurrent liabilities	734,848	1,411	-	-	-	-	-	-	20,964	757,223
Total liabilities	1,002,076	53,512	562	-	-	7	-	511	28,086	1,084,744
Deferred inflows of Resources	561	-	-	-	-	-	-	-	-	561
Total liabilities and deferred inflows of resources	1,002,637	53,512	562	-	-	7	-	511	28,086	1,085,305
INTERFUND BALANCES										
	(29,698)	2,131	779	-	-	-	-	-	26,788	-
NET POSITION										
Net investment in capital assets	1,265,958	14,467	-	-	-	-	-	161	15,366	1,295,952
Restricted										
Nonexpendable	560,949	822	31	4,607	617	650	-	-	-	567,676
Expendable	305,459	3,660	555	3,470	707	1,092	82	-	-	315,025
Total restricted	866,408	4,482	586	8,077	1,324	1,742	82	-	-	882,701
Unrestricted										
	606,021	30,622	7,714	-	-	-	-	-	42,958	687,315
Total net position	\$ 2,738,387	\$ 49,571	\$ 8,300	\$ 8,077	\$ 1,324	\$ 1,742	\$ 82	\$ 161	\$ 58,324	\$ 2,865,968

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
COMBINED CONDENSED STATEMENT OF NET POSITION AS OF JUNE 30, 2012
(in thousands)

	UK	Research Foundation	The Fund	Gluck Equine Research Foundation	Humanities Foundation	Mining Engineering Foundation	Center on Aging	Central Kentucky Management Services	Kentucky Medical Services Foundation	Total
ASSETS										
Current Assets										
Cash and cash equivalents	\$ 244,718	\$ 39,008	\$ 8,201	\$ 8	\$ 63	\$ 16	\$ 11	\$ 555	\$ 1,483	\$ 294,063
Notes, loans and accounts receivable, net	181,800	43,344	2,158	14	-	-	-	-	26,785	254,101
Investments	-	351	-	-	-	-	-	-	8,057	8,408
Inventories and other assets	32,815	2,462	-	-	-	-	-	12	56	35,345
Total current assets	459,333	85,165	10,359	22	63	16	11	567	36,381	591,917
Noncurrent Assets										
Restricted cash and cash equivalents	54,067	-	-	-	-	50	-	-	-	54,117
Endowment investments	933,356	3,598	190	7,505	1,160	1,574	-	-	-	947,383
Other long-term investments	99,184	1,472	-	-	-	-	-	-	43,363	144,019
Notes, loans and accounts receivable, net	-	-	-	14	-	-	-	-	892	41,048
Other noncurrent assets	15,898	2,250	-	-	-	-	-	-	170	18,318
Capital assets, net	1,922,290	15,092	-	-	-	-	-	224	37,347	1,974,953
Total noncurrent assets	3,064,937	22,412	190	7,519	1,160	1,624	-	224	81,772	3,179,838
Total assets	3,524,270	107,577	10,549	7,541	1,223	1,640	11	791	118,153	3,771,755
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES										
Current Liabilities										
Accounts payable and accrued liabilities	163,105	20,110	438	-	-	1	-	567	6,881	191,102
Unearned revenue	28,986	33,799	67	-	-	-	-	-	-	62,852
Long-term liabilities - current portion	72,742	1,096	-	-	-	-	-	-	2,105	75,943
Total current liabilities	264,833	55,005	505	-	-	1	-	567	8,986	329,897
Noncurrent Liabilities										
Long-term liabilities	742,608	1,778	-	-	-	-	-	-	21,085	765,471
Total noncurrent liabilities	742,608	1,778	-	-	-	-	-	-	21,085	765,471
Total liabilities	1,007,441	56,783	505	-	-	1	-	567	30,071	1,095,368
Deferred Inflows of Resources										
Total liabilities and deferred inflows of resources	1,007,441	56,783	505	-	-	1	-	567	30,071	1,095,368
INTERFUND BALANCES										
	(29,454)	3,520	839	-	-	-	-	-	25,095	-
NET POSITION										
Invested in capital assets, net of related debt	1,269,384	13,907	-	-	-	-	-	224	15,734	1,299,249
Restricted										
Nonexpendable	551,053	755	31	4,607	616	650	-	-	-	557,712
Expendable	233,214	3,510	892	2,934	607	989	11	-	-	242,157
Total restricted	784,267	4,265	923	7,541	1,223	1,639	11	-	-	799,869
Unrestricted										
	492,632	29,102	8,282	-	-	-	-	-	47,253	577,269
Total net position	\$ 2,546,283	\$ 47,274	\$ 9,205	\$ 7,541	\$ 1,223	\$ 1,639	\$ 11	\$ 224	\$ 62,987	\$ 2,676,387

**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, 2013
(in thousands)**

	UK	Research Foundation	The Fund	Gluck Equine Research Foundation	Humanities Foundation	Mining Engineering Foundation	Center on Aging	Central Kentucky Management Services	Kentucky Medical Services Foundation	Total
OPERATING REVENUES										
Student tuition and fees	\$ 265,293	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 265,293
Federal grants and contracts	1,426	163,788	-	-	-	-	-	-	-	165,214
State and local grants and contracts	39,633	46,528	982	-	-	-	-	-	-	87,143
Nongovernmental grants and contracts	(6,048)	30,321	6,748	-	-	-	-	-	-	31,021
Recoveries of facilities and administrative costs	263	47,599	-	-	-	-	-	-	-	47,862
Sales and services	25,718	10,881	13,833	1	-	31	6,558	-	-	57,022
Federal appropriations	16,890	-	-	-	-	-	-	-	-	16,890
County appropriations	19,312	-	-	-	-	-	-	-	-	19,312
Professional clinical service fees	1	-	-	-	-	-	-	222,474	-	222,475
Hospital services	945,885	-	-	-	-	-	-	-	-	945,885
Auxiliary enterprises:										
Housing and dining	50,426	-	-	-	-	-	-	-	-	50,426
Athletics	72,033	-	-	-	-	-	-	-	-	72,033
Other auxiliaries	30,547	-	-	-	-	-	-	-	-	30,547
Other operating revenues	989	-	-	-	-	-	-	2,783	-	3,772
Total operating revenues	1,462,368	299,117	21,563	1	-	31	6,558	225,257	-	2,014,895
OPERATING EXPENSES										
Educational and general:										
Instruction	244,330	12,998	315	-	-	80	-	-	-	257,723
Research	81,784	165,670	228	9	-	-	-	-	-	247,691
Public service	130,622	98,175	1,149	-	-	-	-	-	-	229,946
Libraries	19,493	-	3	-	-	-	-	-	-	19,496
Academic support	78,498	2,879	4,161	-	-	-	-	-	-	85,538
Student services	32,965	39	1,120	-	1	-	-	-	-	34,125
Institutional support	50,394	818	224	10	-	109	6,549	-	-	58,104
Operations and maintenance of plant	63,202	-	-	-	-	-	-	-	-	63,202
Student financial aid	25,936	1,756	2,529	-	30	-	-	-	-	30,251
Depreciation	67,882	1,553	-	-	-	-	73	-	-	69,508
Total educational and general	795,106	283,888	9,729	19	31	80	6,622	191,659	-	1,095,594
Clinical operations (including depreciation of \$1,995)	-	-	-	-	-	-	-	-	-	-
Hospital (including depreciation of \$51,261)	891,270	-	55	-	-	-	-	-	-	891,325
Auxiliary enterprises:										
Housing and dining (including depreciation of \$5,020)	47,543	-	-	-	-	-	-	-	-	47,543
Athletics (including depreciation of \$5,282)	84,072	-	-	-	-	-	-	-	-	84,072
Other auxiliaries	21,103	-	-	-	-	-	-	-	-	21,103
Other operating expenses	682	-	-	-	-	-	-	-	-	682
Total operating expenses	1,839,776	283,888	9,784	19	31	80	109	191,659	-	2,331,968
Net income (loss) from operations	(377,408)	15,229	11,779	(18)	(31)	(80)	(78)	(64)	33,598	(317,073)
NONOPERATING REVENUES (EXPENSES)										
State appropriations	283,869	-	-	-	-	-	-	-	-	283,869
Gifts and non-exchange grants	97,947	116	107	96	3	-	149	-	-	98,418
Investment income (loss)	103,025	395	37	852	132	187	-	1	119	104,748
Interest on capital asset-related debt	(28,415)	91	-	-	-	-	-	-	(920)	(29,244)
Grant to/(from) the University for non-capital purposes	59,977	(11,186)	(11,233)	(380)	(3)	(4)	-	-	(37,171)	-
Other nonoperating revenues and expenses, net	7,440	2,416	-	2,416	-	-	-	-	-	9,856
Net nonoperating revenues (expenses)	523,843	(8,168)	(11,089)	568	132	183	149	1	(37,972)	467,647
Net income (loss) before other revenues, expenses, gains, or losses	146,435	7,061	690	550	101	103	71	(63)	(4,374)	150,574
Capital grants and gifts	25,414	5,369	-	-	-	-	-	-	(111)	30,672
Additions to permanent endowments	10,223	2	-	-	-	-	-	-	-	10,225
Grant to/(from) the University for capital purposes	11,487	(9,878)	(1,595)	(14)	-	-	-	-	-	-
Other, net	(1,455)	(257)	-	-	-	-	-	-	(178)	(1,890)
Total other revenues (expenses)	45,669	(4,764)	(1,595)	(14)	-	-	-	-	(289)	39,007
INCREASE (DECREASE) IN NET POSITION	192,104	2,297	(905)	536	101	103	71	(63)	(4,663)	189,581
NET POSITION, beginning of year	2,546,283	47,274	9,205	7,541	1,223	1,639	11	224	62,987	2,676,387
NET POSITION, end of year	\$ 2,738,387	\$ 49,571	\$ 8,300	\$ 8,077	\$ 1,324	\$ 1,742	\$ 82	\$ 161	\$ 58,324	\$ 2,865,968

**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, 2012
(in thousands)**

	UK	Research Foundation	The Fund	Gluck Equine Research Foundation	Humanities Foundation	Mining Engineering Foundation	Center on Aging	Central Kentucky Management Services	Kentucky Medical Services Foundation	Total
OPERATING REVENUES										
Student tuition and fees, net	\$ 243,364	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 243,364
Federal grants and contracts	1,585	178,613	-	-	-	-	-	-	-	180,198
State and local grants and contracts	33,960	73,843	691	-	-	-	-	-	-	108,494
Nongovernmental grants and contracts	(4,271)	28,045	5,256	-	-	-	-	-	-	29,030
Recoveries of facilities and administrative costs	275	51,543	-	-	-	-	-	-	-	51,818
Sales and services	25,534	10,230	13,313	-	-	20	6,967	-	-	56,064
Federal appropriations	16,529	-	-	-	-	-	-	-	-	16,529
County appropriations	17,457	-	-	-	-	-	-	-	-	17,457
Professional clinical service fees	-	-	-	-	-	-	-	220,633	-	220,633
Hospital services	906,607	-	-	-	-	-	-	-	-	906,607
Auxiliary enterprises:										
Housing and dining, net	47,730	-	-	-	-	-	-	-	-	47,730
Athletics	69,307	-	-	-	-	-	-	-	-	69,307
Other auxiliaries	32,179	-	-	-	-	-	-	-	-	32,179
Other operating revenues	976	-	-	-	-	-	-	1,655	-	2,631
Total operating revenues	1,391,232	342,274	19,260	-	-	20	6,967	222,288	-	1,982,041
OPERATING EXPENSES										
Educational and general:										
Instruction	255,402	12,729	825	-	6	75	-	-	-	269,037
Research	85,462	177,164	227	5	-	-	-	-	-	262,858
Public service	136,471	129,005	1,082	-	-	-	-	-	-	266,558
Libraries	20,043	-	4	-	-	-	-	-	-	20,047
Academic support	78,826	2,678	4,323	-	-	-	-	-	-	85,827
Student services	32,781	31	287	-	1	-	-	-	-	33,100
Institutional support	53,346	996	360	-	-	149	6,933	-	-	61,784
Operations and maintenance of plant	66,915	453	-	-	-	-	-	-	-	67,368
Student financial aid	25,811	1,719	1,880	-	41	-	-	-	-	29,451
Depreciation	65,889	1,427	-	-	-	-	86	-	-	67,402
Total educational and general	820,946	326,202	8,988	5	48	75	149	7,019	-	1,163,432
Clinical operations (including depreciation of \$1,817)	-	-	-	-	-	-	-	170,727	-	170,727
Hospital (including depreciation of \$45,643)	869,016	-	48	-	-	-	-	-	-	869,064
Auxiliary enterprises:										
Housing and dining (including depreciation of \$3,162)	46,497	-	-	-	-	-	-	-	-	46,497
Athletics (including depreciation of \$4,195)	75,271	-	-	-	-	-	-	-	-	75,271
Other auxiliaries	18,933	-	-	-	-	-	-	-	-	18,933
Other expenses	1,102	-	-	-	-	-	-	-	-	1,102
Total operating expenses	1,831,765	326,202	9,036	5	48	75	149	7,019	170,727	2,345,026
Net income (loss) from operations	(440,533)	16,072	10,224	(5)	(48)	(75)	(129)	(52)	51,561	(362,985)
NONOPERATING REVENUES (EXPENSES)										
State appropriations	297,580	-	-	-	-	-	-	-	-	297,580
Gifts and non-exchange grants	86,265	131	151	95	1	6	86	-	-	86,735
Investment income (loss)	(465)	203	8	(58)	(9)	(12)	-	1	100	(232)
Interest on capital asset-related debt	(30,910)	(77)	-	-	-	-	-	-	(1,164)	(32,151)
Grant to/(from) the University for non-capital purposes	72,436	(8,570)	(11,699)	(364)	(4)	(4)	-	-	(51,795)	-
Other nonoperating revenues and expenses, net	6,369	1,285	-	-	-	-	-	-	-	7,654
Net nonoperating revenues (expenses)	431,275	(7,028)	(11,540)	(327)	(12)	(10)	86	1	(52,859)	359,586
Net income (loss) before other revenues, expenses, gains, or losses	(9,258)	9,044	(1,316)	(332)	(60)	(85)	(43)	(51)	(1,298)	(3,399)
Capital grants and gifts	16,639	23,471	-	-	-	-	-	-	(88)	40,022
Additions to permanent endowments	11,579	2	-	-	-	-	-	-	-	11,581
Grant to/(from) the University for capital purposes	29,876	(28,367)	(1,357)	(152)	-	-	-	-	-	-
Other, net	(3,440)	(482)	-	-	-	-	-	-	-	(3,978)
Total other revenues (expenses)	54,654	(5,376)	(1,357)	(152)	-	-	-	-	(56)	47,625
INCREASE (DECREASE) IN NET POSITION	45,396	3,668	(2,673)	(484)	(60)	(85)	(43)	(51)	(1,442)	44,226
NET POSITION, beginning of year	2,500,887	43,606	11,878	8,025	1,283	1,724	54	275	64,429	2,632,161
NET POSITION, end of year	\$ 2,546,283	\$ 47,274	\$ 9,205	\$ 7,541	\$ 1,223	\$ 1,639	\$ 11	\$ 224	\$ 62,987	\$ 2,676,387

**UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
COMBINED CONDENSED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2013
(in thousands)**

	UK	Research Foundation	The Fund	Gluck Equine Research Foundation	Humanities Foundation	Mining Engineering Foundation	Center on Aging	Central Kentucky Management Services	Kentucky Medical Services Foundation	Total
CASH FLOWS FROM OPERATING ACTIVITIES										
Student tuition and fees	\$ 265,136	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 265,136
Grants and contracts	171,488	248,583	7,571	-	-	-	-	-	(146,428)	281,214
Recoveries of facilities and administrative costs	167	49,181	-	-	-	-	-	-	-	49,348
Sales and services	37,648	-	13,732	1	-	-	31	6,172	-	57,584
Federal appropriations	14,858	-	-	-	-	-	-	-	-	14,858
County appropriations	18,935	-	-	-	-	-	-	-	-	18,935
Payments to vendors and contractors	(500,033)	(124,557)	(4,710)	(11)	(31)	(33)	(108)	(1,005)	(69,132)	(699,620)
Student financial aid	(27,641)	-	(2,528)	-	-	-	-	-	-	(30,169)
Salaries, wages and benefits	(1,282,891)	(161,214)	(2,575)	(8)	-	(41)	(1)	(5,215)	(11,044)	(1,462,989)
Professional clinic service fees	-	-	-	-	-	-	-	-	224,818	224,818
Hospital services	973,830	-	-	-	-	-	-	-	-	973,830
Auxiliary enterprise receipts	153,741	-	-	-	-	-	-	-	-	153,741
Loans issued to students	(17,137)	-	-	-	-	-	-	-	-	(17,137)
Collection of loans to students	16,422	-	-	-	-	-	-	-	-	16,422
Self insurance receipts	45,035	-	-	-	-	-	-	-	-	45,035
Self insurance payments	(43,921)	-	-	-	-	-	-	-	-	(43,921)
Other operating receipts (payments), net	(11,857)	10,267	84	-	-	-	-	-	2,324	818
Net cash provided (used) by operating activities	(186,220)	22,260	11,574	(18)	(31)	(74)	(76)	(48)	538	(152,097)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES										
State appropriations	283,869	-	-	-	-	-	-	-	-	283,869
Gifts and grants received for other than capital purposes:										
Gifts received for endowment purposes	10,303	2	-	-	-	-	-	-	(80)	10,225
Gifts received for other purposes	81,048	116	107	109	3	-	149	-	(1,016)	80,516
Agency and loan program receipts	210,958	-	-	-	-	-	-	-	-	210,958
Agency and loan program payments	(210,594)	-	-	-	-	-	-	-	-	(210,594)
Grants (to) from the University for non-capital purposes	24,255	(12,575)	(11,293)	(380)	(3)	(4)	-	-	-	-
Other noncapital financing receipts (payments), net	22,762	4,697	-	-	-	-	-	-	-	27,459
Net cash provided (used) by noncapital financing activities	422,601	(7,760)	(11,186)	(271)	-	(4)	149	-	(1,096)	402,433
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES										
Capital grants and gifts	30,991	5,369	-	-	-	-	-	-	(111)	36,249
Purchases of capital assets	(99,361)	(2,112)	-	-	-	-	-	(10)	(1,037)	(102,520)
Proceeds from capital debt	30,609	119	-	-	-	-	-	104	-	30,832
Payments to refunding bond agents	(5,633)	-	-	-	-	-	-	-	-	(5,633)
Principal paid on capital debt and leases	(54,472)	(1,246)	-	-	-	-	-	-	(701)	(56,419)
Interest paid on capital debt and leases	(28,706)	91	-	-	-	-	-	-	(920)	(29,535)
Grants (to) from the University for capital purposes	11,560	(9,964)	(1,582)	(14)	-	-	-	-	-	-
Other capital and related financing receipts (payments), net	(258)	387	-	-	-	-	-	-	(170)	(41)
Net cash provided (used) by capital and related financing activities	(115,270)	(7,356)	(1,582)	(14)	-	-	-	(10)	(2,835)	(127,067)
CASH FLOWS FROM INVESTING ACTIVITIES										
Proceeds from sales and maturities of investments	725,914	3,145	120	5,209	805	1,070	-	-	4,896	741,159
Interest and dividends on investments	16,407	64	15	133	21	29	1	1	(1,194)	15,476
Purchase of investments	(766,315)	(2,688)	(150)	(4,919)	(760)	(1,081)	-	-	(304)	(776,217)
Net cash provided (used) by investing activities	(23,994)	521	(15)	423	66	18	-	1	3,398	(19,582)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	97,117	7,665	(1,209)	120	35	(60)	71	(57)	5	103,687
CASH AND CASH EQUIVALENTS, beginning of year	298,785	39,008	8,201	8	63	66	11	555	1,483	348,180
CASH AND CASH EQUIVALENTS, end of year	\$ 395,902	\$ 46,673	\$ 6,992	\$ 128	\$ 98	\$ 6	\$ 82	\$ 498	\$ 1,488	\$ 451,867

CASH AND CASH EQUIVALENTS

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**UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
COMBINED CONDENSED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2012
(in thousands)**

	UK	Research Foundation	The Fund	Gluck Equine Research Foundation	Humanities Foundation	Mining Engineering Foundation	Center on Aging	Central Kentucky Management Services	Kentucky Medical Services Foundation	Total
CASH FLOWS FROM OPERATING ACTIVITIES										
Student tuition and fees	\$ 243,406	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 243,406
Grants and contracts	169,681	277,044	6,142	-	-	-	-	-	(141,423)	311,444
Recoveries of facilities and administrative costs	324	50,780	-	-	-	-	-	-	-	51,104
Sales and services	26,289	8,706	13,269	-	-	20	6,666	-	-	54,950
Federal appropriations	18,164	-	-	-	-	-	-	-	-	18,164
County appropriations	18,622	-	-	-	-	-	-	-	-	18,622
Payments to vendors and contractors	(494,029)	(153,048)	(6,632)	(3)	(44)	(29)	(149)	(1,137)	(64,305)	(719,376)
Student financial aid	(27,654)	-	(1,880)	-	-	-	-	-	-	(29,534)
Salaries, wages and benefits	(1,264,835)	(167,823)	(628)	(2)	(4)	(46)	-	(5,448)	(10,024)	(1,448,810)
Professional clinic service fees	-	-	-	-	-	-	-	-	222,721	222,721
Hospital services	865,793	-	-	-	-	-	-	-	-	865,793
Auxiliary enterprise receipts	146,504	-	-	-	-	-	-	-	-	146,504
Loans issued to students	(18,914)	-	-	-	-	-	-	-	-	(18,914)
Collection of loans to students	17,397	-	-	-	-	-	-	-	-	17,397
Self insurance receipts	41,852	-	-	-	-	-	-	-	-	41,852
Self insurance payments	(45,597)	-	-	-	-	-	-	-	-	(45,597)
Other operating receipts (payments), net	(2,106)	-	-	-	-	-	-	-	1,217	(889)
Net cash provided (used) by operating activities	(305,103)	15,659	10,271	(5)	(48)	(75)	(129)	81	8,186	(271,163)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES										
State appropriations	297,580	-	-	-	-	-	-	-	-	297,580
Gifts and grants received for other than capital purposes:										
Gifts received for endowment purposes	11,679	2	-	-	-	-	-	-	(100)	11,581
Gifts received for other purposes	91,406	131	152	109	1	6	86	-	(1,418)	90,473
Agency and loan program receipts	198,305	-	-	-	-	-	-	-	-	198,305
Agency and loan program payments	(197,994)	-	-	-	-	-	-	-	-	(197,994)
Grants (to) from the University for non-capital purposes	20,842	(8,838)	(11,632)	(364)	(4)	(4)	-	-	-	-
Other noncapital financing receipts (payments), net	14,452	1,857	-	-	(4)	-	-	-	-	16,309
Net cash provided (used) by noncapital financing activities	436,270	(6,848)	(11,480)	(255)	(3)	2	86	-	(1,518)	416,254
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES										
Capital grants and gifts	11,668	23,471	-	-	-	-	-	-	(88)	35,051
Purchases of capital assets	(196,217)	(3,227)	-	-	-	-	-	(34)	(1,727)	(201,205)
Proceeds from capital debt	38,020	591	-	-	-	-	-	-	-	38,611
Payments to refunding bond agents	(33,115)	-	-	-	-	-	-	-	-	(33,115)
Principal paid on capital debt and leases	(65,433)	(1,308)	-	-	-	-	-	-	(735)	(67,476)
Interest paid on capital debt and leases	(32,029)	(77)	-	-	-	-	-	-	(1,164)	(33,270)
Grants (to) from the University for capital purposes	29,180	(27,671)	(1,357)	(152)	-	-	-	-	-	-
Other capital and related financing receipts (payments), net	(2,951)	242	-	-	-	-	-	-	412	(2,297)
Net cash provided (used) by capital and related financing activities	(240,877)	(7,979)	(1,357)	(152)	-	-	-	(34)	(3,302)	(253,701)
CASH FLOWS FROM INVESTING ACTIVITIES										
Proceeds from sales and maturities of investments	562,600	2,096	94	3,479	570	721	-	-	1,445	571,005
Interest and dividends on investments	21,474	577	13	124	19	27	1	1	461	22,696
Purchase of investments	(503,233)	(2,161)	(81)	(3,183)	(492)	(667)	-	-	(6,880)	(516,697)
Net cash provided (used) by investing activities	80,841	512	26	420	97	81	-	1	(4,974)	77,004
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(28,869)	1,344	(2,540)	8	46	8	(43)	48	(1,608)	(31,606)
CASH AND CASH EQUIVALENTS, beginning of year	327,654	37,664	10,741	-	17	58	54	507	3,091	379,786
CASH AND CASH EQUIVALENTS, end of year	\$ 298,785	\$ 39,008	\$ 8,201	\$ 8	\$ 63	\$ 66	\$ 11	\$ 555	\$ 1,483	\$ 348,180

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION

1. HEALTH INSURANCE BENEFITS FOR RETIREES

The University of Kentucky's (the University) Other Postemployment Benefit Plan (OPEB Plan) is administered through the University's OPEB Trust Fund as an irrevocable trust. Assets of the trust fund are dedicated to providing post-retirement health insurance coverage to current and eligible future university retirees. Only employees hired prior to January 1, 2006 are eligible to receive post-retirement health insurance benefits.

The following schedules present the University's actuarially determined funding progress and required contributions for the University's Other Postemployment Benefits Trust using the projected unit credit actuarial cost method:

Schedule of Funding Progress by Valuation Date
(In thousands)

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2011	\$ 48,597	\$ 223,971	\$ 175,374	21.7%	\$ 573,894	30.6%
July 1, 2012	\$ 57,722	\$ 239,068	\$ 181,346	24.1%	\$ 560,092	32.4%
July 1, 2013	\$ 75,362	\$ 252,938	\$ 177,576	29.8%	\$ 526,073	33.7%

Schedule of Employer Contributions
(In thousands)

Year Ended	Annual Required Contributions	Percentage Contributed
June 30, 2011	\$ 24,004	103.6%
June 30, 2012	\$ 19,798	98.2%
June 30, 2013	\$ 20,392	100.4%

2. LONG-TERM DISABILITY BENEFIT PLAN

The University is self insured for a long-term disability income program and has established a trust for the purpose of paying claims and establishing necessary reserves. Regular employees with a full-time equivalent of .75 or greater who have completed 12 months of service are automatically enrolled in the plan.

The following schedules present the University's actuarially determined funding progress and required contributions for the University's long-term disability benefit trust fund using the projected unit credit actuarial cost method:

Schedule of Funding Progress by Valuation Date
(In thousands)

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2011	\$ 11,112	\$ 19,909	\$ 8,797	55.8%	\$ 451,970	2.0%
July 1, 2012	\$ 11,883	\$ 20,898	\$ 9,015	56.9%	\$ 532,303	1.7%
July 1, 2013	\$ 13,362	\$ 22,667	\$ 9,305	58.9%	\$ 725,189	1.3%

Schedule of Employer Contributions
(In thousands)

Year Ended	Annual Required Contributions	Percentage Contributed
June 30, 2011	\$ 2,844	99.7%
June 30, 2012	\$ 1,953	120.9%
June 30, 2013	\$ 2,012	99.8%

University of Kentucky
Governing Board as of June 30, 2013

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Management Representation Letter &
Schedule of Uncorrected Misstatements



Office of the Treasurer
301 Peterson Service Building
Lexington, KY 40506-0005
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October 1, 2013

BKD, LLP
Certified Public Accountants
P.O. Box 22127
Louisville, KY 40252-0127

We are providing this letter in connection with your audits of our financial statements as of and for the years ended June 30, 2013 and 2012, and your audit of our compliance with requirements applicable to each of our major federal awards programs as of and for the year ended June 30, 2013. We confirm we are responsible for the fair presentation of the financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control over financial reporting, operations and compliance and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

The representations in this letter are limited to the following entities' financial statements, collectively Entities, as of and for the years ended June 30, 2013 and 2012:

- University of Kentucky and Affiliates (University)
- University of Kentucky Research Foundation
- University of Kentucky Department of Intercollegiate Athletics
- Kentucky Tobacco Research and Development Center
- The Fund for Advancement of Education and Research in the University of Kentucky Medical Center
- Central Kentucky Management Services, Inc.
- University of Kentucky Mining Engineering Foundation, Inc.
- University of Kentucky Gluck Equine Research Foundation, Inc.
- University of Kentucky Humanities Foundation, Inc.
- University of Kentucky Center on Aging Foundation, Inc.
- WUKY – Radio

We confirm, to the best of our knowledge and belief, the following:

1. We have fulfilled our responsibilities, as set out in the terms of our engagement letter dated January 15, 2013, for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.
2. We acknowledge our responsibility for 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.
3. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
4. We have provided you with:
 - (a) Access to all information of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters.
 - (b) Additional information you have requested from us for the purpose of the audit.
 - (c) Unrestricted access to persons within the Entities from whom you determined it necessary to obtain audit evidence.
 - (d) All minutes of meetings of the governing bodies held through the date of this letter.
 - (e) All significant contracts and grants.
5. All transactions have been recorded in the accounting records and are reflected in the financial statements.
6. We have informed you of all current risks of a material amount that are not adequately prevented or detected by entity procedures with respect to:
 - (a) Misappropriation of assets.
 - (b) Misrepresented or misstated assets, liabilities or net position.

7. We believe the effects of the uncorrected financial statement misstatements summarized in the attached schedule are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. The following entities' schedules relating to this matter are attached.
 - University of Kentucky
 - UK HealthCare Hospital System
 - University of Kentucky Research Foundation
 - University of Kentucky Mining Engineering Foundation, Inc.
 - University of Kentucky Gluck Equine Research Foundation, Inc.
 - University of Kentucky Humanities Foundation, Inc.
8. We have no knowledge of any known or suspected:
 - (a) Fraudulent financial reporting or misappropriation of assets involving management or employees who have significant roles in internal control.
 - (b) Fraudulent financial reporting or misappropriation of assets involving others that could have a material effect on the financial statements.
9. We have no knowledge of any allegations of fraud or suspected fraud affecting the Entities received in communications from employees, customers, regulators, suppliers or others.
10. We have disclosed to you the identity of the Entities' related parties and all the related-party relationships and transactions of which we are aware. Related-party relationships and transactions have been appropriately accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America. We understand the term related party refers to an affiliate, management, and members of their immediate families, component units and any other party with which the entity may deal if it can significantly influence, or be influenced by, the management or operating policies of the other. The term affiliate refers to a party that directly or indirectly controls, or is controlled by, or is under common control with us.
11. Except as reflected in the financial statements, there are no:
 - (a) Plans or intentions that may materially affect carrying values or classifications of assets and liabilities.
 - (b) Material transactions omitted or improperly recorded in the financial statements.
 - (c) Material gain/loss contingencies requiring accrual or disclosure, including those arising from environmental remediation obligations.

- (d) Events occurring subsequent to each of the Entities' statement of net position date through the date of this letter requiring adjustment or disclosure in the financial statements.
 - (e) Agreements to purchase assets previously sold.
 - (f) Restrictions on cash balances or compensating balance agreements.
 - (g) Guarantees, whether written or oral, under which the Entities are contingently liable.
12. We have disclosed to you all known instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.
13. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America.
14. Adequate provisions and allowances have been accrued for any material losses from:
- (a) Uncollectible receivables and pledges.
 - (b) Reducing obsolete or excess inventories to estimated net realizable value.
 - (c) Sales commitments, including those unable to be fulfilled.
 - (d) Purchase commitments in excess of normal requirements or above prevailing market prices.
15. Except as disclosed in the financial statements, we have:
- (a) Satisfactory title to all recorded assets, and they are not subject to any liens, pledges or other encumbrances.
 - (b) Complied with all aspects of contractual and grant agreements, for which noncompliance would materially affect the financial statements.
17. With respect to the University's possible exposure to past or future medical malpractice assertions:
- (a) We have disclosed to you all incidents known to us that could possibly give rise to an assertion of malpractice.

- (b) All known incidents have been reported to the appropriate excess medical malpractice insurer and are appropriately considered in our malpractice liability accrual.
 - (c) There is no known lapse in coverage, including any lapse subsequent to the fiscal year-end, that would result in any known incidents being uninsured.
 - (d) Management does not expect any claims to exceed malpractice insurance limits.
 - (e) We believe our accruals for malpractice claims are sufficient for all known and probable potential claims.
18. With respect to the University's possible exposure to past or future workers' compensation assertions:
- (a) We have disclosed to you all incidents known to us that could possibly give rise to workers' compensation assertion.
 - (b) All known incidents have been reported to the appropriate workers' compensation insurer.
 - (c) There is no known lapse in coverage, including any lapse subsequent to the fiscal year-end, that would result in any known incidents being uninsured.
 - (d) Management does not expect any claims to exceed workers' compensation insurance limits.
19. We have not been designated as a potentially responsible party (PRP or equivalent status) by the Environmental Protection Agency (EPA) or other cognizant regulatory agency with authority to enforce environmental laws and regulations.
20. With regard to deposit and investment activities:
- (a) All deposit, repurchase and reverse repurchase agreements and investment transactions have been made in accordance with legal and contractual requirements.
 - (b) Disclosures of deposit and investment balances and risks in the financial statements are consistent with our understanding of the applicable laws regarding enforceability of any pledges of collateral.
 - (c) We understand your audit does not represent an opinion regarding the enforceability of any collateral pledges.

21. With respect to any nonattest services you have provided us during the year, including the arbitrage calculation preparation:
 - (a) We have designated a qualified management-level individual to be responsible and accountable for overseeing the nonattest services.
 - (b) We have established and monitored the performance of the nonattest services to ensure they meet our objectives.
 - (c) We have made any and all decisions involving management functions with respect to the nonattest services and accept full responsibility for such decisions.
 - (d) We have evaluated the adequacy of the services performed and any findings that resulted.
22. We are an organization exempt from income tax under Section 115 of the Internal Revenue Code and a similar provision of state law and, except as disclosed in the financial statements, there are no activities that would jeopardize our tax-exempt status or subject us to income tax on unrelated business income or excise tax on prohibited transactions and awards.
23. We acknowledge we are responsible for compliance with applicable laws, regulations and provisions of contracts and grant agreements.
24. We have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that have a direct and material effect on the determination of amounts in our financial statements or other financial data significant to the audit objectives.
25. We have identified and disclosed to you any violations or possible violations of laws, regulations and provisions of contracts and grant agreements whose effects should be considered for recognition and/or disclosure in the financial statements or for your reporting on noncompliance.
26. We have taken or will take timely and appropriate steps to remedy any fraud, abuse, illegal acts or violations of provisions of contracts or grant agreements that you or other auditors report.
27. We have a process to track the status of audit findings and recommendations.
28. We have identified to you any previous financial audits, attestation engagements, performance audits or other studies related to the objectives of your audit and the corrective actions taken to address any significant findings and recommendations made in such audits, attestation engagements or other studies.

29. We have provided our views on any findings, conclusions and recommendations, as well as our planned corrective actions with respect thereto, to you for inclusion in the findings and recommendations referred to in your report on internal control over financial reporting and on compliance and other matters based on your audit of the financial statements performed in accordance with *Government Auditing Standards*.
30. With regard to federal awards programs:
- (a) We have identified in the schedule of expenditures of federal awards all assistance provided (either directly or passed through other entities) by federal agencies in the form of grants, contracts, loans, loan guarantees, property, cooperative agreements, interest subsidies, commodities, insurance, direct appropriations or in any other form.
 - (b) We have identified the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* regarding activities allowed or unallowed, allowable costs/cost principles, cash management, *Davis-Bacon Act*, eligibility, equipment and real property management, matching, level of effort, earmarking, period of availability of federal funds, procurement and suspension and debarment, program income, real property acquisition and relocation assistance, reporting, subrecipient monitoring and special tests and provisions that are applicable to each of our federal awards programs. We have identified to you our interpretation of any applicable compliance requirements subject to varying interpretations.
 - (c) We are responsible to understand and comply with the requirements of laws, regulations, contracts and grants applicable to each of our federal awards programs and have disclosed to you any and all instances of noncompliance with those requirements occurring during the period of your audit or subsequent thereto to the date of this letter of which we are aware. Except for any instances of noncompliance we have disclosed to you, we believe the University has complied with all applicable compliance requirements.
 - (d) We are responsible for establishing and maintaining effective internal control over compliance to provide reasonable assurance we have administered each of our federal awards programs in compliance with requirements of laws, regulations, contracts and grants applicable to those programs.
 - (e) We have made available to you all contracts and grant agreements, including any amendments, and any other correspondence or documentation relevant to each of our federal awards programs and to our compliance with applicable requirements of those programs.

- (f) The information presented in federal awards program financial reports and claims for advances and reimbursements is supported by the books and records from which our financial statements have been prepared.
- (g) Amounts claimed or used for matching were determined in accordance with the applicable OMB Circular regarding cost principles.
- (h) We have monitored any subrecipients to determine that they have expended federal awards in accordance with applicable laws and regulations and have met the audit and other requirements of OMB Circular A-133.
- (i) We have taken appropriate corrective action on a timely basis after receipt of any subrecipient's auditor's report that identified findings and questioned costs pertaining to federal awards programs passed through to the subrecipient by us.
- (j) We have considered the results of any subrecipient's audits received and made any necessary adjustments to our books and records.
- (k) We have disclosed to you any communications from grantors and pass-through entities concerning possible noncompliance with the applicable compliance requirements for each of our federal awards programs, including any communications received from the end of the period of your audit through the date of this letter.
- (l) We have identified to you any previous compliance audits, attestation engagements and internal or external monitoring related to the objectives of your compliance audit, including findings received and corrective actions taken to address any significant findings and recommendations made in such audits, attestation engagements or other monitoring.
- (m) Except as described in the schedule of findings and questioned costs, we are in agreement with the findings contained therein and our views regarding any disagreements with such findings are consistent, as of the date of this letter, with the description thereof in that schedule.
- (n) We are responsible for taking corrective action on any audit findings.
- (o) The summary schedule of prior audit findings correctly states the status of all audit findings included in the OMB Circular A-133 section of the prior audit's schedule of findings and questioned costs and any uncorrected open findings included in the prior audit's summary schedule of prior audit findings as of the date of this letter.

- (p) We review on an annual basis the nature of the grants and contracts that comprise our Schedule of Expenditures of Federal Awards. During that review, we determine which grants and contracts should be classified in the research and development cluster and those to be classified in other clusters. Certain grants and contracts would typically be included in clusters other than research and development (including TANF, Cooperative Extension, etc.). However, due to the research nature of the activities under certain of these agreements, they are included in the research and development cluster. We believe the classification of these federal expenditures is appropriate.
31. With regard to compliance with the Commonwealth of Kentucky's House Bill 622 (Kentucky Revised Statutes "KRS" 164A.555, through 164A.630):
- (a) We confirm the state has transferred funds to the University, which were approved through state appropriations, in accordance with KRS 164A.555.
 - (b) We have elected to perform in accordance with KRS 164A.555 through 164A.560.
 - (c) We have accounted for funds received and disbursed in accordance with KRS 164A.560, while making deposits on a timely basis and developing processes and policies to support, approve and record disbursements for authorized purposes.
 - (d) We use an accrual basis for accounting that conforms with accounting principles generally accepted in the United States of America.
 - 1) The accounting system of the University includes an operating fund group, restricted fund group, loan fund group, endowment fund group, agency fund group and plant fund group, as applicable.
 - 2) We have used all state appropriations for intended purposes and within the period awarded.
 - 3) For each capital construction project, we have submitted at the end of each fiscal year a report showing all funding sources and expenditures and current status to the capital projects and bond oversight committee.
 - 4) We did not have state general funds for capital construction projects which were unexpended at project completion. All such unexpended funds were returned to a surplus account in accordance with KRS 164A.565.
 - 5) The land, buildings and capital equipment have been accounted for in the plant fund group, in accordance with KRS 164A.565.

- 6) We have submitted an annual report, and the annual report does meet the requirements for the council on post-secondary education system of uniform financial reporting for institutions of higher education.
 - 7) We have made available on our website the board approved operating and capital budgets for the current and prior two fiscal years, our audited financial statements for the previous three fiscal years and agendas and actions of all meetings of the governing board for the previous three years.
- (e) We have engaged a qualified, experienced CPA firm to conduct an annual audit.
 - (f) Our procurement policy's purchasing procedures are consistent with KRS 164A.575.
 - (g) We do take and maintain inventories of plant and equipment.
 - (h) Our policies for disposals of real property are in accordance with KRS 164A.575.
 - (i) The governing board of the University has managed and administered capital construction projects.
 - (j) We are following procedures, outlined in the KRS's, to contract for capital construction projects.
 - (k) We are following procedures, outlined in the KRS's, to contract for architectural and engineering services.
 - (l) We are carrying out capital construction projects in accordance with KRS 164A.595.
 - (m) We have remained within the scope authorized by the general assembly for all capital construction and equipment purchase projects.
 - (n) We did not have any emergency projects in the current year for which the board authorized funds to be transferred to other capital construction and equipment purchase projects.
 - (o) We have established a contingency fund and emergency repair, maintenance and replacement fund within our plant fund records in accordance with KRS 45.770.
 - (p) We have followed procedures, outlined in the KRS's, regarding issuance of consolidated educational building revenue bonds, housing bonds and bonds anticipation notes.


- (q) In the current fiscal year, there have been no circumstances in which we were unable to make required principal and interest payments due on agency bonds. All principal and interest payments on bonds have been made in accordance with guidelines.
 - (r) We have affiliated corporations for which:
 - 1) We obtain financial information on a quarterly basis.
 - 2) We are receiving external reimbursement for indirect expenses incurred throughout the year.
 - (s) The provisions of KRS 164A.555 through 164A.630 have not prevented the University from accepting gifts, awarding scholarships or any other functions assigned by the governing board.
 - (t) We have established a "fund for excellence" trust fund into which gifts, grants, etc. are deposited.
 - (u) We have followed the KRS's for:
 - 1) Relocation assistance and lease of property for state use.
 - 2) The Kentucky Model Procurement Code.
 - 3) The issuance and approval of revenue bonds and bond anticipation notes.
 - 4) Equal employment opportunity.
32. The financial statements disclose all significant estimates and material concentrations known to us. Significant estimates are estimates at the statement of net position date which could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply or markets for which events could occur which would significantly disrupt normal finances within the next year. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
33. The fair values of financial and nonfinancial assets and liabilities, if any, recognized in the financial statements or disclosed in the notes thereto are reasonable estimates based on the methods and assumptions used. The methods and significant assumptions used result in measurements of fair value appropriate for financial statement recognition and disclosure purposes and have been applied consistently from period to period, taking into account any changes in circumstances. The significant assumptions appropriately reflect our present intent and ability to carry out specific courses of action relevant to and inherent in those assumptions.

34. The supplementary information required by the Governmental Accounting Standards Board (GASB), consisting of management's discussion and analysis, post-employment benefit and long-term disability information, has been prepared and is measured and presented in conformity with the applicable GASB pronouncements, and we acknowledge our responsibility for the information. The information contained therein is based on all facts, decisions and conditions currently known to us and is measured using the same methods and assumptions as were used in the preparation of the financial statements. We believe the significant assumptions underlying the measurement and/or presentation of the information are reasonable and appropriate. There has been no change from the preceding period in the methods of measurement and presentation.
35. Based on the State Auditor letter, dated February 26, 2013, the University was given the option/suggestion, at their discretion, to engage the CPA firm to issue a separate report on the University's closing package submitted to the Kentucky Finance and Administration Cabinet. We have not requested BKD to perform procedures on an audit on the closing package.
36. With regard to supplementary information:
 - (a) We acknowledge our responsibility for the presentation of the supplementary information in accordance with the applicable criteria.
 - (b) We believe the supplementary information is fairly presented, both in form and content, in accordance with the applicable criteria.
 - (c) The methods of measurement and presentation of the supplementary information are unchanged from those used in the prior period.
 - (d) We believe the significant assumptions or interpretations underlying the measurement and/or presentation of the supplementary information are reasonable and appropriate.
 - (e) If the supplementary information is not presented with the audited financial statements, we acknowledge we will make the audited financial statements readily available to intended users of the supplementary information no later than the date such information and the related auditor's report are issued.

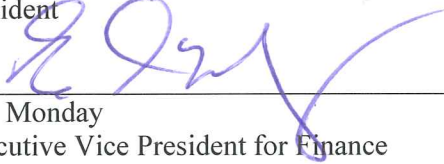
BKD, LLP

October 1, 2013

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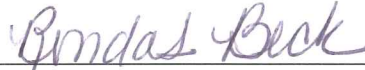
Dr. Eli Capilouto
President



Eric Monday
Executive Vice President for Finance
and Administration



Susan Krauss
Interim Treasurer



Ronda Beck
Controller

University of Kentucky & Affiliates
ATTACHMENT

This analysis and the attached "Schedule of Uncorrected Misstatements (Adjustments Passed)" reflects the effects on the financial statements if the uncorrected misstatements identified were corrected.

QUANTITATIVE ANALYSIS

	Before Misstatements	Misstatements	Subsequent to Misstatements	% Change
Current Assets	664,460,000	601,599	665,061,599	0.09%
Non-Current Assets	3,286,813,000	1,826,109	3,288,639,109	0.06%
Current Liabilities	(327,521,000)	(1,383,602)	(328,904,602)	0.42%
Non-Current Liabilities	(757,784,000)	1,324,769	(756,459,231)	-0.17%
Current Ratio	2.029		2.022	-0.34%
Total Assets	3,951,273,000	2,427,708	3,953,700,708	0.06%
Net Investment in CA	(1,295,952,000)		(1,295,952,000)	
Restricted Net Postition	(882,701,000)		(882,701,000)	
Unrestricted Net Position	(687,315,000)	782,003	(686,532,997)	-0.11%
Total Net Position	(2,865,968,000)	782,003	(2,865,185,997)	-0.03%
Operating Revenues	(2,014,895,000)	(9,539)	(2,014,904,539)	
Operating Expenses	2,331,968,000	(1,714,722)	2,330,253,278	-0.07%
Nonoperating Revenues (Exp)	(506,654,000)	(1,826,109)	(508,480,109)	0.36%
Change in Net Position	(189,581,000)	(3,550,370)	(193,131,370)	1.87%

Client: University of Kentucky & Affiliates
 Period Ending: June 30, 2013

Major Enterprise Fund

SCHEDULE OF UNCORRECTED MISSTATEMENTS (ADJUSTMENTS PASSED)

	Factual (F), Judgmental (J)	Assets		Liabilities		Operating Revenues	Operating Expenses	Nonoperating Revenues (Exp)	Net Position (Beg. of year)	Net Investment in CA	Restricted Net Position	Unrestricted Net Position	Net Effect on Following Year Change in Net Position	
		Current	Non-Current	Current	Non-Current								Position	Net Position
To adjust bond premium amortization expense for the difference in recording between the straight line and effective interest method.	F	0	0	0	1,324,769	0	(1,324,769)	0	0	0	0	0	1,324,769	(1,324,769)
To accrue disbursements paid in fiscal year 2014, but related to 2013 activities.	F	601,599	0	(1,383,602)	0	(532,083)	1,314,086	0	0	0	0	782,003	(782,003)	782,003
Turn around effect of prior year passed adjustments: To accrued expenses paid in fiscal year 2013 but related to activities in 2012.	F	0	0	0	0	522,544	(1,704,039)	0	1,181,495	0	0	0	0	0
To record estimated impact of alternative investments valued at 3/31/13 in the June 30 financial statements	F	0	1,826,109	0	0	0	0	(1,826,109)	0	0	0	0	1,826,109	(1,826,109)
		0	0	0	0	0	0	0	0	0	0	0	0	0
Total passed adjustments		601,599	1,826,109	(1,383,602)	1,324,769	(9,539)	(1,714,722)	(1,826,109)	1,181,495	0	0	782,003	2,368,875	(2,368,875)
						Impact on Change in Net Position		(3,550,370)						
						Impact on Net Assets		782,003						

Single Audit Reports and
Schedule of Expenditures of Federal Awards

University of Kentucky
A Component Unit of the Commonwealth of Kentucky
Single Audit Reports and
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2013



University of Kentucky
A Component Unit of the Commonwealth of Kentucky
Single Audit Reports and Schedule of Expenditures of Federal Awards
Year Ended June 30, 2013

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UNIVERSITY OF KENTUCKY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2013

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM OR CLUSTER TITLE</u>	<u>PASS-THROUGH ENTITY IDENTIFYING NUMBER</u>	<u>FEDERAL CFDA NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
RESEARCH AND DEVELOPMENT CLUSTER			
DEPARTMENT OF AGRICULTURE			
Agricultural Research Basic and Applied Research		10.001	1,550,784
Through Mississippi State University	012000-322348-01	10.001	1,024
US Department of Agriculture Contract	09-CS-11132422-229	10.09-CS-11132422-229	4,875
US Department of Agriculture Contract	09-JV-11242307-111	10.09-JV-11242307-111	1,090
US Department of Agriculture Contract	10-JV-11330152-119	10.10-JV-11330152-119	25,404
US Department of Agriculture Contract	10-PA-11080222-029	10.10-PA-11080222-029	6,428
US Department of Agriculture Contract	12-CS-11221637-133	10.12-CS-11221637-133	24,899
Federal-State Marketing Improvement Program		10.156	49,099
Through Brigham Young University	12-0352	10.170	119,719
Through Iowa State University	416-30-18A	10.170	26,808
Through Kentucky Department of Agriculture	PO2 035 1000005643	10.170	126
Through Kentucky Department of Agriculture	PON2 035 1100001315	10.170	1,859
Through Kentucky Department of Agriculture	PON2 035 1100001316	10.170	30,717
Through Kentucky Department of Agriculture	PON2 035 1100001317	10.170	165
Through Kentucky Department of Agriculture	PON2 035 1100001390	10.170	7,321
Through Kentucky Department of Agriculture	PON2 035 1200000903	10.170	9,459
Through Kentucky Department of Agriculture	PON2 035 1200000905	10.170	3,119
Through Kentucky Department of Agriculture	PON2 035 1200000906	10.170	3,127
Through Kentucky Department of Agriculture	PON2 035 1200000907	10.170	5,800
Through Kentucky Department of Agriculture	PON2 035 1300001314	10.170	3,492
Grants for Agricultural Research, Special Research Grants		10.200	752,785
Through Iowa State University	416-30-05A	10.200	34,833
Through Cornell University	62094-9562	10.200	620
Cooperative Forestry Research		10.202	514,894
Through Kentucky Energy and Environment Cabinet	PO2 128 0900023358	10.202	(111)
Payments to Agricultural Experiment Stations Under the Hatch Act		10.203	5,337,438
Grants for Agricultural Research Competitive Research Grants		10.206	163,613
Through West Virginia University	PO 50012039	10.206	2
Animal Health and Disease Research		10.207	27,178
Through American Livestock Breeds Conservancy	RD309-117/4893656	10.215	14,772
Through University of Georgia	RD309-122/4940686	10.215	1,747
Through University of Georgia	RD309-122/4941256	10.215	72,283
Through Kentucky State University	2010-38821-21522	10.216	18,910
Biotechnology Risk Assessment Research		10.219	198,801
Through Mississippi State University	018000 320935-13	10.250	(2,725)
Through Washington State University	112890_G002645	10.303	77,922
Through University of Florida	UF12235	10.304	21,677
International Science and Education Grants		10.305	57,270
Through Iowa State University	416-30-06B	10.307	99,377
Through Rutgers University	4826 S1758552 4351510414	10.307	6,497
Agriculture and Food Research Initiative (AFR)		10.310	2,200,975
Through West Virginia University	11-708-UKRF	10.310	80,824
Through University of California, Davis	201015718-14	10.310	47,722
Through Pennsylvania State University	4382-UK-USDA-0017	10.310	31,154
Through University of Connecticut	FRS #561425	10.310	1,302
Through University of Minnesota	H001340202	10.310	472
Through Regents of the University of California	S-000480	10.310	4,966
Through Kansas State University	S13166	10.310	2,633
Through University of Florida	UF10040; 00086631	10.310	28,882

UNIVERSITY OF KENTUCKY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2013

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM OR CLUSTER TITLE	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL CFDA NUMBER	FEDERAL EXPENDITURES
Biomass Research and Development Initiative Competitive Grants Program (BRDI)		10.312	577,080
Value-Added Producer Grants		10.352	1,472
Cooperative Extension Service		10.500	246,455
Through University of Massachusetts	12-006968	10.500	975
Through University of Arkansas	21660-21	10.500	5,091
Through West Virginia University	98-228A-UKRF	10.500	1,106
Through National Four H Council	N4HC-13006	10.500	3
Through University of Florida	UF11274	10.500	(15)
Through Binational Agricultural Research and Development Fund	US-4318-10 R	10.600	34,590
Forestry Research		10.652	64,539
Through University of Montana	PG12-64736-01	10.652	19,819
Through Slow the Spread Foundation	11-01-02	10.664	1,030
Through Slow the Spread Foundation	12-01-02	10.664	40,052
Rural Development, Forestry, and Communities		10.672	(18,003)
Forest Health Protection		10.680	59,872
Norman E Borlaug International Agricultural Science and Technology Fellowship		10.777	21,774
Soil and Water Conservation		10.902	97,564
Soil Survey		10.903	34,665
Environmental Quality Incentives Program		10.912	103,666
Through University of Tennessee	8500025673	10.912	24,686
SUBTOTAL DEPARTMENT OF AGRICULTURE			12,988,449
DEPARTMENT OF COMMERCE			
Through Kentucky Highlands Investment Corp	EDA 04-79-06480	11.307	16,623
Cooperative Fishery Statistics		11.434	14,072
Measurement and Engineering Research and Standards		11.609	199,137
Through AMT Nano LLC Coldstream Center	SB134111SE0864	11.SB134111SE0864	6,639
SUBTOTAL DEPARTMENT OF COMMERCE			236,471
DEPARTMENT OF DEFENSE			
Through Aerospace Corp	4600002986	12.114	(405)
Basic and Applied Scientific Research		12.300	663,775
Through Oak Ridge National Laboratory	4000100727	12.4000100727	(2,341)
Through Lockheed Martin	4100316121	12.4100316121	511,728
Military Medical Research and Development		12.420	1,167,420
Through Denver Research Institute	005-02	12.420	365,134
Basic Scientific Research		12.431	367,286
Through University of California, Berkeley	SA3628	12.431	(1,606)
Through Tulane University	TUL-590-09/10	12.431	516,256
Through Materials Sciences Corp	4478-AB51-105-04	12.4478-AB51-105-04	7,452
Through Materials Sciences Corp	497-SD21-121-02	12.497-SD21-121-02	71,484
Through Materials Sciences Corp	5036-SD20-001-24	12.5036-SD20-001-24	39,880
Through Materials Sciences Corp	5129-SD21-111-01	12.5129-SD21-111-01	6,900
Through Materials Sciences Corp	5652-SD21-122	12.5652-SD21-122	33,493
Mathematical Sciences Grants Program		12.901	45,626
Research and Technology Development		12.910	212,887
Through VSee Lab	DOD092009	12.910	14,889
Through ObjectVideo Incorporated	FA8650-12-C-7212	12.FA8650-12-C-7212	99,838
Through Innovative Productivity Inc	IPI-02-5200-C03	12.IPI-02-5200-C03	(8,464)
Through Alliant Techsystems Incorporated	MP00044249	12.MP00044249	56,088

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2013

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM OR CLUSTER TITLE	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL CFDA NUMBER	FEDERAL EXPENDITURES
Through Spectrum Magnetics LLC	N0001413P1009	12.N0001413P1009	28,871
Through Wake Forest University	N66001-02-C-8058	12.N66001-02-C-8058	422
Through University of Maryland	PO S02050	12.PO S02050	(31)
Through Covalent Group One Glenhardie Corporate Center	RF1V-01	12.RF1V-01	29,295
Through ERC Incorporated	RS111042	12.RS111042	8,836
Through Charles River Analytics Inc	SC1007201 / PO1100255	12.SC1007201 / PO1100255	12,606
Through Charles River Analytics Inc	SC1208901	12.SC1208901	75,244
Department of Defense Contract	W56HZV-07-C-0721	12.W56HZV-07-C-0721	21,047
Department of Defense Contract	W9113M-11-C-0044	12.W9113M-11-C-0044	675,680
Through Wake Forest University	WFUHS 10183	12.WFUHS 10183	360,767
SUBTOTAL DEPARTMENT OF DEFENSE			5,380,057
CENTRAL INTELLIGENCE AGENCY			
Central Intelligence Agency	2011-11070800001	13.2011-11070800001	85,869
SUBTOTAL CENTRAL INTELLIGENCE AGENCY			85,869
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Through Lexington Fayette Urban County Government	R-248-2006	14.875	29
SUBTOTAL DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			29
DEPARTMENT OF THE INTERIOR			
Through University of Southern Mississippi	USM-GR03958-001	15.021	8,203
Wildland Fire Research and Studies Program		15.232	68,320
Through University of Wyoming	1001541-DAVIS	15.252	298,770
Science and Technology Projects Related to Coal Mining and Reclamation		15.255	19,320
Through Kentucky Tourism, Arts and Heritage Cabinet	M-05238453	15.611	272
Through Kentucky Tourism, Arts and Heritage Cabinet	PON2 660 1200003129	15.611	60,638
Through Kentucky Tourism, Arts and Heritage Cabinet	PON2 660 1200003568	15.611	90,000
Through Kentucky Tourism, Arts and Heritage Cabinet	PON2 660 1300001004	15.615	10,998
Assistance to State Water Resources Research Institutes		15.805	97,649
Earthquake Hazards Reduction Program		15.807	1,042
U.S. Geological Survey Research and Data Collection		15.808	11,266
Through University of Southern California	Y82308	15.808	26,981
National Cooperative Geologic Mapping Program		15.810	226,351
Through Kentucky Heritage Council	FY11-10-PA-101	15.904	4,217
American Battlefield Protection		15.926	20,415
Cooperative Research and Training Programs - Resources of the National Park System		15.945	49,500
Department of the Interior Contract	H5000095041/P09AC00341	15.H5000095041/P09AC00341	12,090
SUBTOTAL DEPARTMENT OF THE INTERIOR			1,006,032
DEPARTMENT OF JUSTICE			
National Institute of Justice Research, Evaluation, and Development		16.560	57,372
Through Kentucky Administrative Office of the Courts	PON2 025 1300000137	16.588	49,084
Department of Justice Contract	A1N103291	16.A1N103291	25,119
Department of Justice Contract	A2OTD3041	16.A2OTD3041	24,689
SUBTOTAL DEPARTMENT OF JUSTICE			156,264
DEPARTMENT OF LABOR			

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2013

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM OR CLUSTER TITLE	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL CFDA NUMBER	FEDERAL EXPENDITURES
Through University of Baltimore	KENTUCKY-ADARE 2	17.248	(61)
SUBTOTAL DEPARTMENT OF LABOR			(61)
DEPARTMENT OF STATE			
Through Partnership for Energy and Environment Research	STATE 120903	19.STATE 120903	(9,966)
SUBTOTAL DEPARTMENT OF STATE			(6,966)
DEPARTMENT OF TRANSPORTATION			
Through Louisiana Department of Transportation and Development	12-4PF / 30000542	20.200	16,111
Through State of Alaska Department of Transportation and Public Facilities	025-3-1-020	20.205	18,565
Through Kentucky Transportation Cabinet	FRT 126	20.205	4,102
Through Kentucky Transportation Cabinet	FRT 137	20.205	23,739
Through Kentucky Transportation Cabinet	FRT 143	20.205	1,413
Through Kentucky Transportation Cabinet	FRT 157	20.205	16,825
Through Kentucky Transportation Cabinet	FRT 158	20.205	12,363
Through Kentucky Transportation Cabinet	FRT 159	20.205	47,349
Through Kentucky Transportation Cabinet	FRT 160	20.205	31,406
Through Kentucky Transportation Cabinet	FRT 161	20.205	22,615
Through Kentucky Transportation Cabinet	FRT 179	20.205	12,151
Through Kentucky Transportation Cabinet	FRT 184	20.205	11,027
Through Kentucky Transportation Cabinet	FRT 186	20.205	39,292
Through Kentucky Transportation Cabinet	FRT 190	20.205	89,861
Through Kentucky Transportation Cabinet	FRT 191	20.205	127,605
Through Kentucky Transportation Cabinet	FRT 193	20.205	5,709
Through Kentucky Transportation Cabinet	FRT 194	20.205	20,981
Through Kentucky Transportation Cabinet	FRT 196	20.205	20,533
Through Kentucky Transportation Cabinet	FRT 197	20.205	64,975
Through Kentucky Transportation Cabinet	FRT 2013	20.205	19,477
Through Kentucky Transportation Cabinet	KHIT 51	20.205	10,575
Through Kentucky Transportation Cabinet	KHIT 58	20.205	19,673
Through Kentucky Transportation Cabinet	LA 11-JLH	20.205	2,957
Through Kentucky Transportation Cabinet	LA 15-DBD	20.205	20,605
Through Kentucky Transportation Cabinet	LA 16-DBD	20.205	42,324
Through Kentucky Transportation Cabinet	LA 19A-JLH	20.205	6,696
Through Kentucky Transportation Cabinet	LA 25-JLH	20.205	3,179
Through Kentucky Transportation Cabinet	LA 26-JLH	20.205	2,430
Through Kentucky Transportation Cabinet	LA 2-CRS	20.205	4,853
Through Kentucky Transportation Cabinet	LA 3-CRS	20.205	35,344
Through Kentucky Transportation Cabinet	LA 4A-CRS	20.205	4,598
Through Kentucky Transportation Cabinet	LA 5-ABA	20.205	6,627
Through Kentucky Transportation Cabinet	RS NO. 18	20.205	(876)
Through Kentucky Transportation Cabinet	RS NO. 18 - PHASE I	20.205	(767)
Through Kentucky Transportation Cabinet	TASK 42	20.205	16,034
Through Kentucky Transportation Cabinet	M-04527002	20.215	2,851
Through Kentucky Transportation Cabinet	Planning Study 2	20.215	63,015
Through Kentucky Transportation Cabinet	RSF 20	20.217	124,794
Through Kentucky Transportation Cabinet	RSF 27	20.217	100,558
Through Kentucky Transportation Cabinet	RSF 30	20.217	246,840
Through Kentucky Transportation Cabinet	RSF 33	20.217	153,040
Through Kentucky Transportation Cabinet	RSF 36	20.217	3,084
Through Kentucky Transportation Cabinet	RSF 35	20.231	61,434

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2013

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM OR CLUSTER TITLE	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL CFDA NUMBER	FEDERAL EXPENDITURES
Through Battelle Memorial Institute Columbus Operations	276477	20.276477	2,205
Through Kentucky Transportation Cabinet	C-02327148	20.515	5,250
Through National Waterways Foundation	DOT0313	20.515	19,037
Through Kentucky Transportation Cabinet	KCTRP 04-24	20.515	96,578
Through Kentucky Transportation Cabinet	KCTRP 2012-2013	20.515	366
Through Kentucky Transportation Cabinet	KYSPR 06-322	20.515	28,332
Through Kentucky Transportation Cabinet	KYSPR 09-372	20.515	39,818
Through Kentucky Transportation Cabinet	KYSPR 09-379	20.515	35,333
Through Kentucky Transportation Cabinet	KYSPR 09-381	20.515	16,646
Through Kentucky Transportation Cabinet	KYSPR 10-393	20.515	50,458
Through Kentucky Transportation Cabinet	KYSPR 10-395	20.515	30,340
Through Kentucky Transportation Cabinet	KYSPR 10-408	20.515	35,694
Through Kentucky Transportation Cabinet	KYSPR 11-416	20.515	27,957
Through Kentucky Transportation Cabinet	KYSPR 11-417	20.515	17,697
Through Kentucky Transportation Cabinet	KYSPR 11-418	20.515	6,800
Through Kentucky Transportation Cabinet	KYSPR 11-419	20.515	75,023
Through Kentucky Transportation Cabinet	KYSPR 11-420	20.515	44,508
Through Kentucky Transportation Cabinet	KYSPR 11-422	20.515	27,973
Through Kentucky Transportation Cabinet	KYSPR 11-423	20.515	20,547
Through Kentucky Transportation Cabinet	KYSPR 11-424	20.515	59,995
Through Kentucky Transportation Cabinet	KYSPR 11-426	20.515	19,155
Through Kentucky Transportation Cabinet	KYSPR 11-427	20.515	35,188
Through Kentucky Transportation Cabinet	KYSPR 11-428	20.515	37,454
Through Kentucky Transportation Cabinet	KYSPR 12-429	20.515	50,900
Through Kentucky Transportation Cabinet	KYSPR 12-430	20.515	64,992
Through Kentucky Transportation Cabinet	KYSPR 12-431	20.515	72,974
Through Kentucky Transportation Cabinet	KYSPR 12-433	20.515	77,986
Through Kentucky Transportation Cabinet	KYSPR 12-434	20.515	12,975
Through Kentucky Transportation Cabinet	KYSPR 12-435	20.515	116,907
Through Kentucky Transportation Cabinet	KYSPR 12-436	20.515	9,525
Through Kentucky Transportation Cabinet	KYSPR 12-437	20.515	73,777
Through Kentucky Transportation Cabinet	KYSPR 12-438	20.515	62,704
Through Kentucky Transportation Cabinet	KYSPR 12-439	20.515	39,305
Through Kentucky Transportation Cabinet	KYSPR 12-440	20.515	59,952
Through Kentucky Transportation Cabinet	KYSPR 12-441	20.515	69,512
Through Kentucky Transportation Cabinet	KYSPR 12-442	20.515	54,525
Through Kentucky Transportation Cabinet	KYSPR 12-443	20.515	75,160
Through Kentucky Transportation Cabinet	KYSPR 12-444	20.515	53,019
Through Kentucky Transportation Cabinet	KYSPR 12-445	20.515	7,102
Through Kentucky Transportation Cabinet	KYSPR 12-446	20.515	27,983
Through Kentucky Transportation Cabinet	KYSPR 12-447	20.515	45,870
Through Kentucky Transportation Cabinet	KYSPR 12-449	20.515	62,424
Through Kentucky Transportation Cabinet	KYSPR 13-452	20.515	56,750
Through Kentucky Transportation Cabinet	KYSPR 13-453	20.515	25,984
Through Kentucky Transportation Cabinet	KYSPR 13-454	20.515	75,050
Through Kentucky Transportation Cabinet	KYSPR 13-455	20.515	46,608
Through Kentucky Transportation Cabinet	KYSPR 13-456	20.515	48,398
Through Kentucky Transportation Cabinet	KYSPR 13-457	20.515	39,421
Through Kentucky Transportation Cabinet	KYSPR 13-458	20.515	63,709
Through Kentucky Transportation Cabinet	KYSPR 13-459	20.515	39,020
Through Kentucky Transportation Cabinet	KYSPR 13-460	20.515	57,495
Through Kentucky Transportation Cabinet	KYSPR 13-461	20.515	97,511
Through Kentucky Transportation Cabinet	KYSPR 13-462	20.515	39,203

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2013

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM OR CLUSTER TITLE	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL CFDA NUMBER	FEDERAL EXPENDITURES
Through Kentucky Transportation Cabinet	KYSPR 13-463	20.515	77,974
Through Kentucky Transportation Cabinet	KYSPR 13-464	20.515	74,135
Through Kentucky Transportation Cabinet	KYSPR 13-465	20.515	40,564
Through Kentucky Transportation Cabinet	KYSPR 13-466	20.515	29,977
Through Kentucky Transportation Cabinet	KYSPR 13-467	20.515	73,202
Through Kentucky Transportation Cabinet	KYSPR 13-51	20.515	92,061
Through Kentucky Transportation Cabinet	KYSPR 13-56	20.515	196,823
Through Kentucky Transportation Cabinet	KYSPR 13-57	20.515	59,569
Through Kentucky Transportation Cabinet	KYSPR 13-58	20.515	39,926
Through Kentucky Transportation Cabinet	KYSPR 85-107	20.515	101,342
Through Kentucky Transportation Cabinet	PLANNING STUDY 16	20.515	65,834
Through Kentucky Transportation Cabinet	PLANNING STUDY 20	20.515	52,025
Through Kentucky Transportation Cabinet	PLANNING STUDY 21	20.515	27,788
Through Kentucky Transportation Cabinet	PLANNING STUDY 23	20.515	943
Through Kentucky Transportation Cabinet	K9-12-02	20.600	35,708
Through Kentucky Transportation Cabinet	K9-13-04	20.600	14,748
Through Kentucky Transportation Cabinet	K9-13-05	20.600	10,742
Through Kentucky Transportation Cabinet	OP-11-05	20.600	(31)
Through Kentucky Transportation Cabinet	OP-12-05	20.600	28,757
Through Kentucky Transportation Cabinet	PO2 625 1300001491	20.600	18,405
Through Kentucky Transportation Cabinet	PO2 625 1300001594	20.600	50,843
Through Kentucky Transportation Cabinet	PO2 625 1300001598	20.600	35,712
Through Kentucky Transportation Cabinet	PON2 605 1200003570	20.600	24,933
Through Kentucky Transportation Cabinet	PT-11-53	20.600	(1,092)
Through Kentucky Transportation Cabinet	PT-12-58	20.600	19,754
Through Kentucky Transportation Cabinet	RS-12-01	20.600	14,095
Through Kentucky Transportation Cabinet	RSF 14	20.600	88,722
Through Kentucky Transportation Cabinet	RSF 31	20.600	(225)
Through Kentucky Transportation Cabinet	RSF 32	20.600	52,606
Through University of Illinois	2012-02061-01	20.701	130,378
Through Marshall University Research Corporation	2012-087 / 212134	20.701	1,060,537
Through Marshall University Research Corporation	2013-134/212134	20.701	72,484
Through Southeastern Transportation Center	92545	20.701	(393)
Through Texas A&M University	99-S120211	20.99-S120211	18,713
Department of Transportation Contract	DTMC75-09-H-00016	20.DTMC75-09-H-00016	(9,482)
Through Marshall University Research Corporation	FMCSA122012	20.FMCSA122012	85,687
Through Kentucky Transportation Cabinet	LA 22-CRS	20.LA 22-CRS	2,094
Through Kentucky Transportation Cabinet	LA 24-MSN	20.LA 24-MSN	1,834
SUBTOTAL DEPARTMENT OF TRANSPORTATION			6,582,754
APPALACHIAN REGIONAL COMMISSION			
Through Morehead State University	2011-12-007-001	23.001	173,169
Through Kentucky Tourism, Arts and Heritage Cabinet	PO2 850 1300003496	23.002	42,934
Appalachian Research, Technical Assistance and Demonstration		23.011	282,484
SUBTOTAL APPALACHIAN REGIONAL COMMISSION			498,587
OFFICE OF PERSONNEL MANAGEMENT			
Intergovernmental Personnel Act (IPA) Mobility Program		27.011	95,438
SUBTOTAL OFFICE OF PERSONNEL MANAGEMENT			95,438
NATIONAL AERONAUTICS & SPACE ADMINISTRATION			

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2013

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM OR CLUSTER TITLE	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL CFDA NUMBER	FEDERAL EXPENDITURES
Science		43.001	351,594
Through Space Telescope Science Institute	HST-AR-12125.01-A	43.001	38,936
Through Western Kentucky University	WKURF 516204-08-01	43.001	97,802
Aeronautics		43.002	547,571
Education		43.008	244,309
National Aeronautics Space Commission Contract	1401954	43.1401954	50,481
Through University of Wisconsin	180K924	43.180K924	53,689
Through Western Kentucky University	596304-10-001	43.596304-10-001	37,579
Through Space Telescope Science Institute	HST-AR-12639.01-A	43.HST-AR-12639.01-A	42,918
Through Space Telescope Science Institute	HST-GO-12060.80-A	43.HST-GO-12060.80-A	22,500
Through Space Telescope Science Institute	HST-GO-12309.02-A	43.HST-GO-12309.02-A	16,028
Through Space Telescope Science Institute	HST-GO-12560.01-A	43.HST-GO-12560.01-A	7,465
Through National Space Biomedical Research Institute	NCC9-58-183	43.NCC9-58-183	526
National Aeronautics Space Commission Contract	NNJ08HB93P	43.NNJ08HB93P	3,530
National Aeronautics Space Commission Contract	NNX10AD39G	43.NNX10AD39G	18,927
National Aeronautics Space Commission Contract	NNX10AL96H	43.NNX10AL96H	668,248
National Aeronautics Space Commission Contract	NNX10AN01A	43.NNX10AN01A	200,861
National Aeronautics Space Commission Contract	NNX10AV39A	43.NNX10AV39A	84,006
National Aeronautics Space Commission Contract	RFP-12-001-012	43.RFP-12-001-012	33,585
National Aeronautics Space Commission Contract	RSA NO: 1430426	43.RSA NO: 1430426	4,171
Through CFD Research Corporation	SUBCONTRACT # 1485	43.SUBCONTRACT # 1485	87,478
Through Western Kentucky University	WKURF 516212-09-01	43.WKURF 516212-09-01	11,123
Through Western Kentucky University	WKURF 596285-10-001	43.WKURF 596285-10-001	17,186
Through Western Kentucky University	WKURF 596868-08-01	43.WKURF 596868-08-01	40
SUBTOTAL NATIONAL AERONAUTICS & SPACE ADMINISTRATION			2,640,553
NATIONAL ENDOWMENT FOR THE HUMANITIES			
Promotion of the Humanities Fellowships and Stipends		45.160	50,397
Laura Bush Librarians for the 21st Century		45.313	(376)
SUBTOTAL NATIONAL ENDOWMENT FOR THE HUMANITIES			50,021
NATIONAL SCIENCE FOUNDATION			
Engineering Grants		47.041	1,599,663
Through Direct i2i Technologies Inc	NSF082008	47.041	4,023
Mathematical and Physical Sciences		47.049	3,494,138
Through University of Louisville	ULRF 11-0817-02	47.049	63,401
Geosciences		47.050	11,724
Computer and Information Science and Engineering		47.070	1,078,202
Through BBN Technologies	9500009448	47.070	48,154
Through Indiana University	BL-4529718-UK	47.070	38,806
Through Computing Research Association	CIF-C-28	47.070	17,660
Biological Sciences		47.074	2,160,693
Through University of Delaware	27181	47.074	7,493
Through Duke University	EF-0830093	47.074	82,630
Through Council on Undergraduate Research	Q01	47.074	6,551
Through Kansas State University	S12051	47.074	43,720
Social, Behavioral, and Economic Sciences		47.075	397,257
Through Duke University	12-NSF-1085	47.075	44,040
Through Ohio State University	60027792-01	47.075	27,941
Education and Human Resources		47.076	1,453,909
Through Tennessee Technological University	1022934	47.076	59,731

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2013

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM OR CLUSTER TITLE	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL CFDA NUMBER	FEDERAL EXPENDITURES
Through Eastern Kentucky University	452302-13-259	47.076	6,691
Through Puget Sound Center for Teaching	PSCTLT-SCHEFF-08	47.076	3,588
Through University of Louisville	ULRF08-0891-04	47.076	51,787
Office of International and Integrative Activities		47.079	53,987
Office of Cyberinfrastructure		47.080	349,398
Office of Experimental Program to Stimulate Competitive Research		47.081	3,446,650
Through Clemson University	1573-206-2008707	47.081	26,207
ARRA-Trans-NSF Recovery Act Research Support		47.082	2,225,623
Through ARRA-Columbia University	1(ACCT #5-24688)	47.082	11,473
Through ARRA-DePaul University	500733SG067	47.082	29,524
Through ARRA-BBN Technologies	PO # 9500010143	47.082	163,303
Through ARRA-University of Southern Mississippi	USM-GR03690-001	47.082	43,625
SUBTOTAL NATIONAL SCIENCE FOUNDATION			17,051,592
ENVIRONMENTAL PROTECTION AGENCY			
Through American Rivers	EPA022013	66.050	2,065
Targeted Watershed Grants		66.439	10,300
Through Kentucky Energy and Environment Cabinet	PON2 129 1200002602	66.454	21,536
Through Kentucky Energy and Environment Cabinet	M-05172090	66.460	(826)
Through Kentucky Energy and Environment Cabinet	PO2 590 0700010583	66.460	1,766
Through Kentucky Energy and Environment Cabinet	PON2 129 1100001694	66.460	(157)
Through Kentucky Energy and Environment Cabinet	PON2 129 1200002602	66.460	20,768
Science To Achieve Results (STAR) Research Program		66.509	97,484
Office of Research and Development Consolidated Research/Training/Fellowships		66.511	244,140
P3 Award: National Student Design Competition for Sustainability		66.516	10,578
Environmental Protection Agency Contract	EP-12-D-000386	66.EP-12-D-000386	11,170
SUBTOTAL ENVIRONMENTAL PROTECTION AGENCY			418,824
DEPARTMENT OF ENERGY			
Through Battelle Energy Alliance LLC	0129388	81.0129388	142,340
Office of Science Financial Assistance Program		81.049	1,971,412
Through Duke University	08-SC-NICCR-1073	81.049	13,907
Through Green Technology Limited Company	DE-SC0006378	81.049	143,309
Through University of Chicago	FP048826	81.049	84,454
Through Cornell University	SUBAWARD #: 63079-9708	81.049	128,933
Through University of Louisville	ULRF 05-1231C	81.079	(290)
Renewable Energy Research and Development		81.087	212,739
Through West Virginia University	10-733-UKRF	81.087	513,616
Through Morehead State University	2010-11-072-001	81.087	6,495
Through South Dakota State University	3TE153	81.087	16,653
Through Consortium for Plant Biotechnology Research Inc	GO12026-325	81.087	55,987
Fossil Energy Research and Development		81.089	2,265,171
Through Battelle Memorial Institute Columbus Operations	202290	81.089	364
Through Pennsylvania State University	2983-UK-DOE-1874--PSU LO	81.089	302
Through Virginia Polytechnic Institute and State University	429307-19660	81.089	172,056
Through Virginia Polytechnic Institute and State University	CR-19108-429182	81.089	726
Through Center for Advanced Separation	DE-FE0000699	81.089	4,225
Through CoalTek Incorporated	DE-FE0005293	81.089	112,803
Through Novozymes North America Inc	DE-FE0007741	81.089	226,948
Environmental Restoration		81.092	537,360
Through Idaho State University	09-265E TASK ORDER 00079	81.09-265E TASK ORDER 00079	37,433

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FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM OR CLUSTER TITLE	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL CFDA NUMBER	FEDERAL EXPENDITURES
Through Kentucky Energy and Environment Cabinet	PON2 129 1000003622	81.104	(3,428)
Stewardship Science Grant Program		81.112	137,980
Through University of Houston	R-10-0030	81.117	237,703
Through ARRA-Kentucky Public Service Commission	PON2 123 1000002983	81.122	(5,665)
Through ARRA-University of Illinois	2010-00636-01 A2349	81.132	87,586
ARRA-Advanced Research Projects Agency - Energy		81.135	431,980
Through University of California, Berkeley	00007863	81.135	157,831
Through ARRA-Pennsylvania State University	4199-UK-DOE-0092	81.135	148,440
Through Texas AgriLife Research	570792	81.135	188,710
Through ITN Energy Systems Incorporated	DE-AR0000260	81.135	69,949
Through Battelle Memorial Institute Columbus Operations	228857	81.228857	15,338
Through University of Michigan	3001318173	81.3001318173	1,185
Through Oak Ridge National Laboratory	4000100512	81.4000100512	13,097
Through Oak Ridge National Laboratory	4000103052	81.4000103052	9,658
Through Oak Ridge National Laboratory	4000103637	81.4000103637	79,754
Through Oak Ridge National Laboratory	4000120600	81.4000120600	9,613
Department of Energy Contract	DE-NT0005988	81.DE-NT0005988	1,065,798
Through Kentucky Energy and Environment Cabinet	M-04575924	81.M-04575924	6,627
Through Argonne National Laboratory	OF33642	81.OF33642	8,686
Through TDA Research Incorporated	UKRF 11.01	81.UKRF 11.01	117,715
Through Battelle Memorial Institute	US001-0000378113	81.US001-0000378113	412
SUBTOTAL DEPARTMENT OF ENERGY			9,425,912
DEPARTMENT OF EDUCATION			
National Institute on Disability and Rehabilitation Research		84.133	43,390
Through Gallaudet University	0000021918	84.133	7,176
Education Research, Development and Dissemination		84.305	318,210
Through Duke University	10-ED-1097	84.305	108,230
Research in Special Education		84.324	330,992
Through University of South Carolina	12-2108 PO#42179	84.324	58,949
Special Education Personnel Development to Improve Services and Results for Children with Disabilities		84.325	9,102
Special Education Technology and Media Services for Individuals with Disabilities		84.327	(3,141)
Through University of Oregon	223811A	84.327	42,997
Through Georgetown College	DOE062013	84.365	3,555
Through Georgetown College	DOE072012	84.365	30,638
Through Kentucky Education and Workforce Development Cabinet	M-04155120	84.367	8,198
Through Kentucky Council on Postsecondary Education	PO2 415 1100002582	84.367	11,880
Through Kentucky Education and Workforce Development Cabinet	PO254008000215161	84.369	66
Through Kentucky Education and Workforce Development Cabinet	PON2 540 1100001001	84.371	67,452
Through Kentucky Education Professional Standards Board	PO2 183 1000004913	84.372	(822)
SUBTOTAL DEPARTMENT OF EDUCATION			1,036,872
DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Through Kentucky Cabinet for Health and Family Services	M-06169162	93.048	(1,382)
Through Kentucky River Community Care Inc	ACF022013	93.087	60,410
Through National Institute for Pharmaceutical Technology	NIPTE-U01-KY-001-2012	93.103	58,803
Through National Institute for Pharmaceutical Technology	NIPTE-U01-KY-002-2012	93.103	3,049
Environmental Health		93.113	1,644,994
Through Columbia University	4(GG005166)	93.113	6,367
Through Scout Diagnostics, LLC	NIEHS112012	93.113	16,385

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FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM OR CLUSTER TITLE	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL CFDA NUMBER	FEDERAL EXPENDITURES
Through Wayne State University	WSU12085	93.113	70,951
Applied Toxicological Research and Testing		93.114	(14,806)
Through University of Cincinnati	19625	93.114	(3,258)
Oral Diseases and Disorders Research		93.121	130,865
Through Four Tigers LLC	NIDCR022013	93.121	4,837
Through Oraceuticals Inc	NIHR412011	93.121	1,849
Injury Prevention and Control Research and State and Community Based Programs		93.136	480,022
Through Kentucky Cabinet for Health and Family Services	M-05316398	93.136	209
NIEHS Superfund Hazardous Substances Basic Research and Education		93.143	1,752,677
Through University of North Carolina	5-32779	93.172	84,734
Research Related to Deafness and Communication Disorders		93.173	938,504
Through University of Michigan	3001396589	93.173	57,830
Through Indiana University	BL-4633516-UK PO#1232663	93.173	40,343
Through Children's Hospital Medical Center	PO#3100287147 130990	93.173	35,360
Department of Health and Human Services Contract	200-2009-30678	93.200-2009-30678	265,968
Department of Health and Human Services Contract	200-2011-40628	93.200-2011-40628	226,004
Through University of Virginia	GC12121-140350	93.211	3,132
Through University of Virginia	GC12121-141667	93.211	11,879
Research and Training in Complementary and Alternative Medicine		93.213	95,860
Through Ohio State University	60035714 / R01 AT004922	93.213	93,730
Through Naprogenix AgTeCC	NAPROGENIX-UKRF 10-01-10	93.213	157,127
Through American College of Surgeons	1 R01 HS12029-01	93.226	(70)
National Center on Sleep Disorders Research		93.233	474,978
Policy Research and Evaluation Grants		93.239	11
Mental Health Research Grants		93.242	707,264
Through University of Notre Dame	201705	93.242	33,328
Through Medical University of South Carolina	MUSC11-026	93.242	70,203
Through Catholic Social Services of the Diocese	5H79SM059210-03	93.243	26,176
Through HOPE Center of Lexington	CSAT-MEN	93.243	51,800
Through Kentucky Cabinet for Health and Family Services	PO2 729 1200003482	93.243	16,641
Through Kentucky Cabinet for Health and Family Services	PON2 729 1200002821	93.243	96,954
Department of Health and Human Services Contract	254-2012-M-53283	93.254-2012-M-53283	78,258
Occupational Safety and Health Program		93.262	1,488,906
Alcohol Research Programs		93.273	2,261,142
Through University of Pittsburgh	109620-2	93.273	36
Through University of Mississippi	66100080712-UKY01	93.273	9,208
Through University of Tennessee	9000010391/9000008357	93.273	18,587
Through Naprogenix AgTeCC	NAPROGENIX-UKRF 10-1-08	93.273	24,105
Through Naprogenix AgTeCC	NAPROGENIX-UKRF 8-01-07	93.273	4
Through Naprogenix AgTeCC	NIAAA082010	93.273	63,030
Through Northern Kentucky University	NKU-UKRF-4000644-01	93.273	4,719
Through University of Georgia	RR274-346/3503288	93.273	24,686
Through Kentucky Justice and Public Safety Cabinet	PON2 527 1300001431	93.275	38,559
Drug Abuse and Addiction Research Programs		93.279	8,673,898
Through New York University School of Medicine	11-00991; #265504	93.279	13,848
Through New York University School of Medicine	11-00991;PROJECT #265504	93.279	30,952
Through University of Arkansas	39672	93.279	113,242
Through Boston University	4500000109	93.279	151,613
Through Health Decision Technologies LLC	8533-1, 112390-00001-03	93.279	63,175
Through University of Cincinnati	COEUS # 7073 5U10DA01373	93.279	152,930
Through University of Cincinnati	COEUS# 7073, 3U10DA01373	93.279	75,310
Through University of Arkansas	G250108202	93.279	50

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FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM OR CLUSTER TITLE	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL CFDA NUMBER	FEDERAL EXPENDITURES
Through Alcomed Incorporated	NIH052011	93.279	54,643
Through Alcomed Incorporated	NIH052012	93.279	99,574
Through AntiOp Incorporated	NIH052013	93.279	25,678
Through AllTranz	NIH102012	93.279	38,217
Through University of Tennessee	R073223387	93.279	(142)
Through University of Georgia	RR274-332/3506508	93.279	22,931
Through University of Georgia	RR274-381/4785666	93.279	16,689
Through University of Georgia	RR274-403/4895506	93.279	9,810
Through University of Louisville	ULRF 10-0085	93.279	22,901
Through Kentucky Cabinet for Health and Family Services	PON2 728 1200002278	93.283	115,741
Discovery and Applied Research for Technological Innovations to Improve Human Health		93.286	555,028
Minority Health and Health Disparities Research		93.307	618,554
Trans-NIH Research Support		93.310	482,270
Through University of Michigan	3000691501-RPT	93.310	222,702
National Center for Advancing Translational Sciences		93.350	908,714
Through ParaTechs Corp	8R44OD010958-03	93.351	14,815
Nursing Research		93.361	633,854
Through NACC/University of Washington	737298	93.361	18,970
Through University of Missouri	C00036084-2	93.361	224
Through University of Missouri	C00039341-1	93.361	31,492
National Center for Research Resources		93.389	6,343,864
Through Miami University	HERSHBERGER-NIH-UKRF	93.389	24,261
Through University of Louisville	OGMB090109B1-UKY	93.389	(1,183)
Cancer Cause and Prevention Research		93.393	1,651,619
Through University of Massachusetts	6114214/RFS900200	93.393	62,921
Through University of Miami	M162542	93.393	1,278
Through Pennsylvania State University	UKY-CA140335	93.393	26,116
Cancer Detection and Diagnosis Research		93.394	789,584
Cancer Treatment Research		93.395	1,979,138
Through National Childhood Cancer Foundation	020742	93.395	29,785
Through American College of Radiology	0526	93.395	29,459
Through St Jude Children's Research Hospital	111495030-7481426	93.395	24,213
Through The Gynecologic Oncology Group	27469-060	93.395	85,815
Through University of South Florida	6145-1028-00-C	93.395	43,666
Through Southwest Oncology Group	CA32102	93.395	8,516
Through Children's Hospital of Philadelphia	FP00013013_SUB101_01	93.395	76,344
Through Children's Hospital of Philadelphia	FP00013013_SUB477_01	93.395	6,049
Through Children's Hospital of Philadelphia	FP00013013_SUB508_01	93.395	12,308
Through Children's Hospital of Philadelphia	FP00013087_SUB100_01	93.395	22,137
Through Children's Hospital of Philadelphia	FP00013744_SUB171_01	93.395	10,525
Through Exatherm LLC	NIH072011	93.395	75,460
Through NSABP Foundation	TIND 182	93.395	24,513
Cancer Biology Research		93.396	1,778,818
Through University of Connecticut Health Center	UCH6-26256088	93.396	44,192
Cancer Centers Support Grants		93.397	15,644
Cancer Research Manpower		93.398	285,599
Through Southwest Oncology Group	CA37429	93.399	329
Through Southwest Oncology Group	PCPT 9322	93.399	(888)
Through NSABP Foundation	PFED26-KEN-01	93.399	17,344
Through Washington University	WU-13-126 PO2917010W	93.399	6,284
Through Washington University	WU-HT-12-20 PO2917246T	93.399	12,180
Through KentuckyCAN Inc	200-2012-52497	93.521	55,391

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FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM OR CLUSTER TITLE	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL CFDA NUMBER	FEDERAL EXPENDITURES
Through Kentucky Cabinet for Health and Family Services	PON2 736 1000003631	93.558	(1,402)
Through Kentucky Cabinet for Health and Family Services	PON2 736 1200002220	93.558	5,176,406
Department of Health and Human Services Contract	5R01AI078756-05	93.5R01AI078756-05	291,050
Department of Health and Human Services Contract	5R01GM102129-02	93.5R01GM102129-02	186,294
Strong Start for Mothers and Newborns		93.611	112,331
Through Kentucky Cabinet for Health and Family Services	PO2 729 1000004763	93.630	(397)
Through Kentucky Cabinet for Health and Family Services	PON2 729 1200001693	93.630	117,720
Through Eastern Kentucky University	452514-13-135	93.658	20,593
ARRA-Non-Construction Grants		93.701	4,965,970
Through ARRA-University of Florida	00081712 UF09174	93.701	39,455
Through ARRA-University of Pittsburgh	0015124 PROJECT # 116763	93.701	1,839
Through ARRA-West Virginia University	09-726ARRA-UKRF	93.701	431
Through ARRA-Duke Clinical Research Institute	173530	93.701	4,907
Through ARRA-University of California, San Diego	23-UKL ADNI-GO	93.701	25,979
Through ARRA-University of Michigan	3001413335-PNT	93.701	(5,323)
Through ARRA-National Development and Research	NDRI PROJ 612B PO 47820	93.701	18,086
Through ARRA-University of Texas Health Science Center at San Antonio	00075121	93.728	105,443
Cardiovascular Diseases Research		93.837	4,425,129
Through New York University School of Medicine	10-01073	93.837	5,874
Through Biomedical Development Corporation	12-0972-F2L	93.837	53,245
Through University of Virginia	GC11696-130247	93.837	(633)
Through W-Z Biotech LLC	NIH032013	93.837	9,815
Through Duke Clinical Research Institute	NIH082012	93.837	11,560
Through W-Z Biotech LLC	NIH122011	93.837	29,598
Through Carl T. Hayden Medical Research Foundation	R01HL094775	93.837	2,704
Through Duke University	SPS 101834	93.837	(303)
Lung Diseases Research		93.838	1,033,140
Through University of Michigan	3002442423	93.838	35,830
Through Lovelace Biomedical and Environmental Research Institute	JK121185	93.838	14,167
Blood Diseases and Resources Research		93.839	399,304
Through National Marrow Donor Program	0901	93.839	27,372
Arthritis, Musculoskeletal and Skin Diseases Research		93.846	2,315,489
Through Johns Hopkins University	2001073065	93.846	45,145
Through Ohio State University	60032679/R01AR055563	93.846	1,168
Through Ohio State University	60032699/R01AR055563	93.846	23,342
Through University of Iowa	PO# 1000885508	93.846	936
Diabetes, Digestive and Kidney Diseases Extramural Research		93.847	4,301,750
Through University of North Carolina	5-31706	93.847	1,419
Through University of South Florida	HHSN267200800019C	93.847	(361)
Through Lexington Biomedical Research Institute	NIH062012	93.847	85,831
Through Lexington Biomedical Research Institute	NIH072012	93.847	6,268
Through University of North Texas Health Science Center	RN0065-2012-001	93.847	75,820
Through Washington University in St. Louis	WU-13-238	93.847	37,197
Extramural Research Programs in the Neurosciences and Neurological Disorders		93.853	7,086,414
Through University of Texas Health Science	116444/115709	93.853	(111)
Through Signal Solutions LLC	1R43NS083218-01	93.853	15,539
Through Massachusetts General Hospital	2003A009773/214300	93.853	18,257
Through University of Michigan	3000691501-RPT	93.853	(559)
Through University of Michigan	3000770498-ALIAS	93.853	47,936
Through University of Michigan	3001300372-PIII	93.853	63,930
Through University of Michigan	3001413335-PNT	93.853	30,839
Through University of Michigan	3001922357-BPT	93.853	5,507

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FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM OR CLUSTER TITLE	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL CFDA NUMBER	FEDERAL EXPENDITURES
Through University of Michigan	3002112003-SHN	93.853	70,482
Through University of Pennsylvania	543952	93.853	(52)
Through University of California, San Francisco	558055-24034	93.853	(22,847)
Through Yale University	A07868 (M07A00656)	93.853	6,197
Through Yale University	A08082 (M10A10562)	93.853	2,187
Through University of British Columbia	F09-04888	93.853	10,987
Through Yale University	M07A00656 (A08383)	93.853	4,435
Through Yale University	M10A10562 (A08580)	93.853	6,088
Through Yale University	M10A10562 (A09014)	93.853	23,591
Through Columbia University	U01 NS043975	93.853	1,711
Through Washington University	WU-04-147	93.853	(845)
Allergy, Immunology and Transplantation Research		93.855	3,568,100
Through University of Pittsburgh	0011210, 115316-1	93.855	316,190
Through Cornell University	13070868	93.855	2,687
Through University of Chicago	37045	93.855	90,241
Through University of North Carolina	5-32387	93.855	96,964
Through University of North Carolina	5-33339	93.855	55,942
Through MosquitoMate Incorporated	NIH102012	93.855	4,047
Through Washington University	WU-09-57 PO2904914N	93.855	227,590
Microbiology and Infectious Diseases Research		93.856	104,158
Through Washington University	29634S/WU-002-109	93.856	(2,615)
Through Duke University	303-0107	93.856	(147)
Through Planet Biotechnology Incorporated	NIH082011	93.856	(574)
Biomedical Research and Research Training		93.859	5,329,113
Through Benaroya Research Institute	FY12197602	93.859	22,610
Through University of Louisville	OGMB090109C1-UKY-A	93.859	318,553
Through University of Minnesota	P657611701	93.859	67,854
Through Rice University	R22303	93.859	5,817
Through University of Louisville	UL050113	93.859	59,704
Child Health and Human Development Extramural Research		93.865	1,809,083
Through Children's Hospital Medical Center	109868	93.865	16,459
Through University of Illinois	2010-06423-01-00	93.865	28,909
Through NACC/University of Washington	736904	93.865	6,713
Through Palo Alto University	BALSAM-R01HD069370-SCUK	93.865	8,583
Through Medical University of South Carolina	MUSC11-011	93.865	9
Through Alkymos Inc	NIH082011	93.865	32,569
Aging Research		93.866	8,352,716
Through University of Pittsburgh	0010382 (407708-1)	93.866	75,440
Through Arizona State University	08-913	93.866	18,383
Through University of Illinois	2008-03931-06-03	93.866	268,012
Through East Carolina University	212561-WRIGHT	93.866	27,024
Through University of California, San Diego	23LL 23-00	93.866	(2)
Through Scout Diagnostics, LLC	5R24AG030239-03	93.866	162,635
Through NACC/University of Washington	741817 PROJECT 2012-13	93.866	15,618
Through NACC/University of Washington	741817 UDS PROJECT	93.866	26,048
Through University of California, San Diego	ADC-030	93.866	26,263
Through University of California, San Diego	ADC-031	93.866	934
Through University of California, San Diego	ADC-037	93.866	1,697
Through University of California, San Diego	ADC-039	93.866	114,852
Through Seattle Institute for Biomedical and Clinical Research	BW22-KENTUCKY 3	93.866	166,486
Through University of California, San Diego	CSSA 23-UKL-IGIV M-00-AD	93.866	29,832
Through CoPlex Therapeutics LLC	NIA112012	93.866	34,211
Through University of California, San Diego	S9000021	93.866	25,344

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FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM OR CLUSTER TITLE	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL CFDA NUMBER	FEDERAL EXPENDITURES
Vision Research		93.867	2,693,065
Through University of Connecticut Health Center	110204	93.867	952
Through Brockman Hastings LLC	1R43EY021940-01-A	93.867	22,675
Through St Luke's Roosevelt Institute for Health Sciences	NIH032012	93.867	5,092
Through University of Dayton Research Institute	RSC12039	93.867	48,163
Grants for Training in Primary Care Medicine and Dentistry		93.884	14,499
Through Trover Clinic Foundation	HRSA082011	93.912	689
Through Kentucky Cabinet for Health and Family Services	M-50117244	93.959	100
Through Kentucky Cabinet for Health and Family Services	PO2 729 1200003482	93.959	709,076
PPHF-2012 Geriatric Education Centers		93.969	(12)
Through Kentucky Cabinet for Health and Family Services	PO2 728 1100004842	93.994	(905)
Through Kentucky Cabinet for Health and Family Services	PO2 728 1200004963	93.994	4,865
Department of Health and Human Services Contract	HHSN261200700019C	93.HHSN261200700019C	8,426
Department of Health and Human Services Contract	HHSN271201100710P	93.HHSN271201100710P	103,450
Through Duke University	HHSN272201100025C	93.HHSN272201100025C	155
Department of Health and Human Services Contract	HHSN276201000725P	93.HHSN276201000725P	18,944
Through Naprogenix AgTeCC	NAPROGRENIX 2012	93.NAPROGRENIX 2012	33,806
Through National Childhood Cancer Foundation	NCI071508	93.NCI071508	(34,333)
Through Bavarian Nordic	POX-MVA-010	93.POX-MVA-010	(12,195)
Through Bavarian Nordic	POX-MVA-024	93.POX-MVA-024	21,300
Through Duke University	SPS 102970	93.SPS 102970	4,647
SUBTOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES			94,946,317
DEPARTMENT OF HOMELAND SECURITY			
Through Kentucky Cabinet for Health and Family Services	PO2 728 1200004525	97.002	131,908
Through National Institute for Hometown Security	01-10-UK	97.01-10-UK	32,090
Through National Institute for Hometown Security	02-09-UK	97.02-09-UK	714,668
Through National Institute for Hometown Security	02-10-UK	97.02-10-UK	694,547
Through National Institute for Hometown Security	03-09-UK	97.03-09-UK	516,495
Through University of Louisville	ULRF 13-1097-01	97.039	2,829
Through Kentucky Cabinet for Health and Family Services	M-05151245	97.040	(515)
Through National Institute for Hometown Security	04-09-UK	97.04-09-UK	883,843
Through University of Southern California	160002	97.061	2,133
Through University of Southern California	33775811 PO 10010594	97.061	22,441
Through University of Minnesota	P001955409	97.061	121,118
Through Kansas State University	S11199	97.061	45,783
Through University of Louisville	090446Z01	97.090446Z01	75,024
Through National Institute for Hometown Security	09-07-UK	97.09-07-UK	(21,063)
Through National Institute for Hometown Security	10-07-UK	97.10-07-UK	6,040
Through National Institute for Hometown Security	12-07-UK	97.12-07-UK	1,540,000
Through National Institute for Hometown Security	16-07-UK	97.16-07-UK	138,280
Through Flashscan 3D	HSHQDC-11-C-00115	97.HSHQDC-11-C-00115	74,479
Through University of Louisville	ULRF 08-0292-01	97.ULRF 08-0292-01	72,253
Through Western Kentucky University	WKURF 547103-10-001	97.WKURF 547103-10-001	33,830
SUBTOTAL DEPARTMENT OF HOMELAND SECURITY			5,086,183
US AGENCY FOR INTERNATIONAL DEVELOPMENT			
Through Vanderbilt University	18815-S2	98.18815-S2	(2,427)
SUBTOTAL US AGENCY FOR INTERNATIONAL DEVELOPMENT			(2,427)
TOTAL RESEARCH AND DEVELOPMENT CLUSTER			157,676,770

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<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM OR CLUSTER TITLE</u>	<u>PASS-THROUGH ENTITY IDENTIFYING NUMBER</u>	<u>FEDERAL CFDA NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
STUDENT FINANCIAL AID CLUSTER			
DEPARTMENT OF EDUCATION			
Nurse Faculty Loan Program		93.264	119,955
SUBTOTAL DEPARTMENT OF EDUCATION			119,955
DEPARTMENT OF EDUCATION			
Federal Supplemental Educational Opportunity Grants		84.007	463,450
Federal Work-Study Program		84.033	1,149,930
Federal Perkins Loan Cancellations		84.038	21,836,129
Federal Pell Grant Program		84.063	21,355,389
Federal Direct Student Loans		84.268	166,713,037
SUBTOTAL DEPARTMENT OF EDUCATION			211,517,935
DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Health Careers Opportunity Program		93.342	5,630,647
SUBTOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES			5,630,647
TOTAL STUDENT FINANCIAL AID CLUSTER			217,268,537

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FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM OR CLUSTER TITLE	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL CFDA NUMBER	FEDERAL EXPENDITURES
OTHER FEDERAL ASSISTANCE			
SNAP CLUSTER			
Through Kentucky Cabinet for Health and Family Services	PO2 736 1300002697	10.561	2,261,465
SUBTOTAL SNAP CLUSTER			2,261,465
HIGHWAY PLANNING AND CONSTRUCTION CLUSTER			
Through Kentucky Transportation Cabinet	FRT NO 171	20.205	64,005
Through Northwestern University	PROJ0000173	20.205	38,173
SUBTOTAL HIGHWAY PLANNING AND CONSTRUCTION CLUSTER			102,178
HIGHWAY SAFETY CLUSTER			
Through Kentucky Transportation Cabinet	PO2 625 1300001620	20.601	34,695
SUBTOTAL HIGHWAY SAFETY CLUSTER			34,695
SPECIAL EDUCATION CLUSTER (IDEA)			
Through Georgetown College	PON2 540 1200002841	84.027	10,433
Through Kentucky Education and Workforce Development Cabinet	PON2 540 1200002871	84.027	1,231,349
Through Kentucky Education and Workforce Development Cabinet	PON2 540 1100002017	84.173	163,195
SUBTOTAL SPECIAL EDUCATION CLUSTER (IDEA)			1,404,977
TRIO CLUSTER			
TRIO Student Support Services		84.042	276,558
SUBTOTAL TRIO CLUSTER			276,558
SCHOOL IMPROVEMENT GRANTS CLUSTER			
Through Kentucky Education and Workforce Development Cabinet	PON2 540 1100001057	84.377	75,587
SUBTOTAL SCHOOL IMPROVEMENT GRANTS CLUSTER			75,587
HEALTH CENTERS CLUSTER			
Consolidated Health Centers		93.224	1,411,393
SUBTOTAL HEALTH CENTERS CLUSTER			1,411,393
TANF CLUSTER			
Through Kentucky Cabinet for Health and Family Services	PO2 736 1200004856	93.558	2,281,322
SUBTOTAL TANF CLUSTER			2,281,322
CCDF CLUSTER			
Through Kentucky Cabinet for Health and Family Services	PO2 736 1200004855	93.575	15,854
Through Kentucky Cabinet for Health and Family Services	PO2 736 1200004968	93.596	2,593,169
SUBTOTAL CCDF CLUSTER			2,609,023
MEDICAID CLUSTER			
Through Kentucky Cabinet for Health and Family Services	M-04119869	93.778	2,819,595
SUBTOTAL MEDICAID CLUSTER			2,819,595
OTHER GRANTS			
Agricultural Research Basic and Applied Research		10.001	85,212
Through Kentucky Department of Agriculture	PON2 035 1200003674	10.025	11,772
Plant and Animal Disease, Pest Control and Animal Care		10.025	575,881
Federal-State Marketing Improvement Program		10.156	1,178
Through Kentucky Department of Agriculture	PON2 035 1300001315	10.170	50,223
Through University of Florida	1200141260	10.200	151
Grants for Agricultural Research, Special Research Grants		10.200	113,465

UNIVERSITY OF KENTUCKY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2013

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM OR CLUSTER TITLE	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL CFDA NUMBER	FEDERAL EXPENDITURES
Through University of Georgia	RD309-101/4894876	10.215	88,487
Through Texas A&M University	451010	10.303	91,372
Through Purdue University	8000035690-AG	10.304	67,172
International Science and Education Grants		10.305	60,618
Through Purdue University	8000041337-AG 2010-38411	10.310	25,282
Through University of Florida	UF10071	10.310	29,594
Through University of Tennessee	8500031743	10.310	9,671
Through University of Wisconsin	210K840; 129200	10.310	7,215
Beginning Farmer and Rancher Development Program		10.311	290,562
Through Meat Hook LLC	USDA072012	10.352	27,227
Through Kansas State University	S13140	10.500	106,615
Through Michigan State University	61-4001A	10.500	1,860
Through National Four H Council	2008-45201-04715	10.500	24,582
Through Purdue University	8000053242	10.500	130,948
Through University of Arkansas	21662-16	10.500	27,979
Through University of Georgia	RE675-110/7877607	10.500	1,298
Through University of Nebraska	25-6365-0040-131	10.500	404,434
Through University of Wyoming	UTSTUNV46448	10.500	5,271
Cooperative Extension Service		10.500	11,649,147
Through Kentucky Energy and Environment Cabinet	PON2 128 1200003815	10.664	118,882
Through Kentucky Energy and Environment Cabinet	PON2 128 1200002731	10.678	5,055
Forest Health Protection		10.680	1,832
Rural Business Enterprise Grants		10.769	164
Rural Energy for America Program		10.868	24,306
Soil and Water Conservation		10.902	153
Soil Survey		10.903	883
Technical Agricultural Assistance		10.960	20,798
Cochran Fellowship Program-International Training-Foreign Participant		10.962	53,281
Through Altarum Institute	SC-10-013	10.SC-10-013	50,754
US Department of Agriculture Contract	FSIS-C-32-2004	10.FSIS-C-32-2004	1,906,727
Economic Development Technical Assistance		11.303	128,575
Public Telecommunications Facilities Planning and Construction		11.550	(1,702)
Measurement and Engineering Research and Standards		11.609	5,886
ARRA-National Institute of Standards and Technology Construction Grant Program		11.618	142,733
Through Kentucky Department of Military Affairs	PON2 095 1000004089	12.401	(1,125)
Military Medical Research and Development		12.420	35,893
Language Grant Program		12.900	85,376
Through National Association of Child Care Resource and Referral Agencies	N-PA-HDQMWR-10-C-0040-12	12.N-PA-HDQMWR-10-C-0040-12	17,676
Sustainable Communities Regional Planning Grant Program		14.703	244,418
National Geological and Geophysical Data Preservation Program		15.814	39,277
Through City of Frankfort	FRANK103112	15.904	14,668

UNIVERSITY OF KENTUCKY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2013

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM OR CLUSTER TITLE	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL CFDA NUMBER	FEDERAL EXPENDITURES
Through Kentucky Association of Sexual Assault Programs	KASAP 072012	16.529	6,043
Through National Four H Council	2010-OJJDP-MNTR-22	16.726	7,012
Through Chrysalis Inc	BJA102012	16.812	3,764
Through Kentucky Justice and Public Safety Cabinet	PON2 527 1300000957	16.812	14,828
Through Mountain Comprehensive Care Center	2010-RN-BX-0004	16.812	44,210
Department of Justice Contract	DJBP0109MF510001	16.DJBP0109MF510001	23,025
Environmental and Scientific Partnerships and Programs		19.017	183,463
Professional and Cultural Exchange Programs - Citizen Exchange		19.415	146,758
Public Diplomacy Programs for Afghanistan and Pakistan		19.501	389,263
General Department of State Assistance		19.700	27,142
Through Kentucky Transportation Cabinet	8780701N	20.215	183,963
Through National Academy of Sciences	HR 15-32A	20.215	39,180
Highway Training and Education		20.215	37,395
Through University of Tennessee	OR10728-001.05	20.OR10728-001.05	37,618
Through Greenup County Health Department	KY-17095-11	23.002	18,072
Through Kentucky Cabinet for Health and Family Services	PO27281000049381 HSSJB8	23.002	330
Appalachian Research, Technical Assistance and Demonstration		23.011	152,462
Intergovernmental Personnel Act (IPA) Mobility Program		27.011	40,379
Through Illinois State University	11510-04890009477, RSP 0	42.11510-04890009477, RSP 0	12,816
Science		43.001	24,974
Education		43.008	52,524
National Aeronautics Space Commission Contract	NNX10AV39A	43.NNX10AV39A	8,412
Through American Architectural Foundation	NEA082012	45.024	37,714
Through Kentucky Humanities Council	2012-020	45.129	757
Through Kentucky Department for Libraries and Archives	PO2 555 0800019959	45.130	(42)
Promotion of the Humanities Division of Preservation and Access		45.149	110,377
Through Massachusetts Historical Society	NEH022011	45.161	(16,615)
Promotion of the Humanities Research		45.161	41,243
Through Open Knowledge Commons	HUBS_KEN-NEH_001_2012	45.169	5,915
Conservation Project Support		45.303	33,166
Through Saint Johns University	VHMML-002	45.312	3,376
National Leadership Grants		45.312	81,150
Through Drexel University	219067-3629	45.313	43,015
Small Business Development Centers		59.037	1,727,303
Through Kentucky Cabinet for Health and Family Services	PON2 728 1100002175	66.032	(1,802)
Urban Waters Small Grants		66.440	16,554
Through Kentucky Energy and Environment Cabinet	PON2 128 1300000613	66.460	264,483
Through Kentucky Department of Agriculture	M-05090904	66.605	25,162
Through University of Georgia	RE353-144/5055667	66.801	(76)
Through Kentucky Energy and Environment Cabinet	PON2 127 1200001650	81.041	113,015
Office of Science Financial Assistance Program		81.049	20,000
Through ARRA-Arizona Geological Survey	KY-EE0002850	81.086	129,040

UNIVERSITY OF KENTUCKY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2013

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM OR CLUSTER TITLE	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL CFDA NUMBER	FEDERAL EXPENDITURES
Fossil Energy Research and Development		81.089	3,566
Through Kentucky Energy and Environment Cabinet	PON2 129 1200001690	81.104	5
Energy Efficiency and Renewable Energy Information Dissemination		81.117	205,380
ARRA-Electricity Delivery and Energy Reliability, Research, Development and Analysis		81.122	838,579
Advanced Research Projects Agency - Energy		81.135	1,400
Through Kentucky Council on Postsecondary Education	PO2 415 1200006998	84.002	208,857
Through Kentucky Education and Workforce Development Cabinet	PON2 540 1300001933	84.048	9,873
Through Kentucky Education and Workforce Development Cabinet	PON2 531 1200003944	84.051	1,380
Fund for the Improvement of Postsecondary Education		84.116	25,087
Through Kentucky Education and Workforce Development Cabinet	PON2 531 1000003599	84.126	797,440
Through Kentucky Office for the Blind	PON2 531 1200002643	84.126	16,444
Through Kentucky Education and Workforce Development Cabinet	PON2 531 1200002815	84.128	19,282
Rehabilitation Long-Term Training		84.129	364,176
Through Kentucky Education and Workforce Development Cabinet	PON2 540 1200000270	84.323	261,574
Through University of Louisville	ULRF 12-0222-01	84.323	4,141
Through University of Tennessee	14492-001-02	84.323	58,705
Research in Special Education		84.324	399,035
Through University of North Carolina	5-54471 H325J070007	84.325	21,554
Special Education Personnel Development to Improve Services and Results for Children with Disabilities		84.325	573,001
Through Kentucky Education and Workforce Development Cabinet	PON2 540 1200000393	84.326	140,544
Special Education Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities		84.326	1,023,666
Through Kentucky Education and Workforce Development Cabinet	PON2 540 1200000348	84.366	516,650
Through Kentucky Council on Postsecondary Education	PO2 415 1300003317	84.367	419,737
Through University of Guam	53K610472N53233	84.373	84,556
Through University of Minnesota	A001945803	84.373	1,494,427
National Science and Mathematics Access to Retain Talent Grant		84.376	(1,500)
Through ARRA-Ohio State University	60029197 / PO RF01229388	84.396	293,168
Transition Programs for Students with Intellectual Disabilities into Higher Education		84.407	348,445
Training in General, Pediatric and Public Health Dentistry		93.059	463,002
Through Kentucky Energy and Environment Cabinet	PON2 129 1300000791	93.070	47,566
Food and Drug Administration Research		93.103	13,161
Through University of Louisville	AHEC 2012-2013	93.107	307,362
Through Hemophilia of Georgia Incorporated	HRSA112012	93.110	16,977
Through Kentucky Cabinet for Health and Family Services	PON2 728 1200002206	93.110	2,111
Through University of Arizona	Y553522	93.110	18,234
Through University of North Carolina	5-52965	93.110	(119)
Maternal and Child Health Federal Consolidated Programs		93.110	33,557
Environmental Health		93.113	244,317
Through University of South Florida	6416-1013-11-A	93.135	67,759
Centers for Research and Demonstration for Health Promotion		93.135	1,103,421

UNIVERSITY OF KENTUCKY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2013

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM OR CLUSTER TITLE	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL CFDA NUMBER	FEDERAL EXPENDITURES
Through Kentucky Association of Sexual Assault Programs	KASAP 072012	93.136	965
Injury Prevention and Control Research and State and Community Based Programs		93.136	479,140
Through University of Cincinnati	PO21-040-N376-0904	93.142	(51)
Through American International Health	H-F4-ZAM-08-P-PTR-ZAMI	93.145	18,589
Through Emory University	S876412	93.145	18,494
Coordinated Services and Access to Research for Women, Infants Children and Youth		93.153	469,307
Grants To States for Loan Repayment Program		93.165	136,500
Research Related to Deafness and Communication Disorders		93.173	57,419
Through University of North Carolina	5-44792	93.184	20,993
Through Kentucky Cabinet for Health and Family Services	PON2 728 1200001981	93.217	104,280
Through Kentucky Cabinet for Health and Family Services	PON2 728 1300001294	93.230	4,756
Through Kentucky Cabinet for Health and Family Services	PO272811000049381	93.236	7,514
State Rural Hospital Flexibility Program		93.241	542,174
Through Kentucky Administrative Office of the Courts	PON2 025 1200002134	93.243	52,895
Through Kentucky River Community Care Inc	SAMHSA032011	93.243	27,624
Through Mountain Comprehensive Care Center	5H79TI023188-03	93.243	49,089
Through Pennyroyal Regional Mental Health Mental Retardation Board	999	93.243	110,209
Substance Abuse and Mental Health Services Projects of Regional and National Significance		93.243	397,015
Public Health Training Centers Program		93.249	511,509
Occupational Safety and Health Program		93.262	660,955
Alcohol National Research Service Awards for Research Training		93.272	8,612
Alcohol Research Programs		93.273	55,674
Drug Abuse National Research Service Awards for Research Training		93.278	111
Through American Academy of Child and Adolescent Psychiatry	AACAP020210	93.279	11,034
Drug Abuse and Addiction Research Programs		93.279	621,243
Through Association of State & Territorial Health Officials	CONTRACT # 130	93.283	540
Through Jessamine County Health Department	CH-53M	93.283	17,555
Through Kentucky Cabinet for Health and Family Services	PON2 728 1300000784	93.283	137,775
Through Public Health Foundation	CDC042012	93.283	53,214
Centers for Disease Control and Prevention Investigations and Technical Assistance		93.283	1,770,806
Through Kentucky Cabinet for Health and Family Services	PON2 728 1200002194	93.296	12,932
Small Rural Hospital Improvement Grant Program		93.301	363,846
Through Vanderbilt University	VUMC35255-R	93.359	130,522
Through University of Louisville	OMGB090109C1-UKY (B)	93.389	93,486
National Center for Research Resources		93.389	(675,046)
Through Klein Buendel Inc	238-U OF K	93.393	28
Cancer Cause and Prevention Research		93.393	68,851
Through The Gynecologic Oncology Group	U10CA27469	93.395	17,149
Cancer Treatment Research		93.395	1,828

UNIVERSITY OF KENTUCKY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2013

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM OR CLUSTER TITLE	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL CFDA NUMBER	FEDERAL EXPENDITURES
Through Meharry Medical College	091214MKH358 04 01	93.397	23,059
Cancer Centers Support Grants		93.397	1,252,459
Cancer Research Manpower		93.398	415,734
Ruminant Feed Ban Support Project		93.449	62,953
Through Kentucky Cabinet for Health and Family Services	PON2 728 1300001748	93.505	81,091
Affordable Care Act (ACA) Public Health Training Centers Program		93.516	114,805
Through Kentucky Cabinet for Health and Family Services	PO2 728 1200005194	93.521	185,240
Through Kentucky Cabinet for Health and Family Services	PO2 724 1200003049	93.525	190,875
Through Eastern Kentucky University	452332-12-148	93.556	370,280
Through Kentucky Cabinet for Health and Family Services	PON2 736 1200003048	93.556	195,975
Through Eastern Kentucky University	452499-13-244	93.563	4,494
Through Kentucky Cabinet for Health and Family Services	PO2 727 0800018354	93.563	91
Through Kentucky Developmental Disabilities Planning Council	M-06068863	93.630	(375)
University Centers for Excellence in Developmental Disabilities Education, Research and Service		93.632	571,209
Through Kentucky Cabinet for Health and Family Services	PO2 736 1200004473	93.643	13,515
Through Eastern Kentucky University	452500-13-137	93.658	1,270,618
Through Eastern Kentucky University	452500-13-137	93.669	58,983
Through Kentucky Cabinet for Health and Family Services	PO2 736 1200004473	93.669	68,706
Child Abuse and Neglect Discretionary Activities		93.670	9,159
Through Kentucky Education and Workforce Development Cabinet	PON2 070 1200000600	93.708	1,929
Through ARRA-HealthBridge	90RC0025/01-UK	93.718	392,679
Through ARRA-Kentucky Cabinet for Health and Family Services	PO2 746 1200003495	93.718	259,138
ARRA-Health Information Technology Regional Extension Centers Program		93.718	2,412,552
Through ARRA-Kentucky Cabinet for Health and Family Services	PON2 728 1100002149	93.723	(46)
Through Kentucky Cabinet for Health and Family Services	PO2 746 1200002881	93.767	70,387
Through Kentucky Cabinet for Health and Family Services	PON2 746 1200001392	93.791	1,614,227
Cardiovascular Diseases Research		93.837	403,553
Lung Diseases Research		93.838	120,958
Diabetes, Digestive and Kidney Diseases Extramural Research		93.847	169,131
Extramural Research Programs in the Neurosciences and Neurological Disorders		93.853	188,166
Allergy, Immunology and Transplantation Research		93.855	(1,149)
Biomedical Research and Research Training		93.859	561,654
Aging Research		93.866	304,217
Through University of Illinois	2010-06621-12-00	93.879	733
Grants for Training in Primary Care Medicine and Dentistry		93.884	304,764
Health Care and Other Facilities		93.887	201,232
Specially Selected Health Projects		93.888	214,018
Through Kentucky Cabinet for Health and Family Services	PON2 728 1200002645	93.889	177,126
Resource and Manpower Development in the Environmental Health		93.894	(1,319)
Through Cumberland Family Medical Center Inc	HRSA012013	93.912	5,000
Through Kentucky Education and Workforce Development Cabinet	PON2 531 1200002711	93.912	12,608

UNIVERSITY OF KENTUCKY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2013

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM OR CLUSTER TITLE	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL CFDA NUMBER	FEDERAL EXPENDITURES
Through Lotts Creek Community School Inc	1 D04RH23591-01-00	93.912	25,601
Through Morehead State University	2007-08-044-003	93.912	(4,147)
Through Trover Clinic Foundation	HRSA082012	93.912	88,572
Grants to States for Operation of Offices of Rural Health		93.913	184,066
Through Emory University	S847054	93.917	177,124
Through Kentucky Cabinet for Health and Family Services	PON2 728 1300000422	93.917	1,010,970
Grants to Provide Outpatient Early Intervention Services wit		93.918	647,224
Ryan White HIV/AIDS Dental Reimbursements and Community Based Dental Partnership Grants		93.924	77,027
Through Kentucky Cabinet for Health and Family Services	PON2 728 1200001987	93.944	135,599
Through Eastern Kentucky University	452486-13-199 / P0022782	93.958	4,852
Through Kentucky Cabinet for Health and Family Services	PO2 729 1100005272	93.958	(1,843)
Prevention and Public Health Fund (PPHF) Public Health Train		93.964	6,333
PPHF-2012 Geriatric Education Centers		93.969	403,678
Through Kentucky Cabinet for Health and Family Services	PON2 728 1100002230	93.994	483,748
Through University of Louisville	051304	93.996	(133)
Through George Washington University	12-M101	93.999	4,801
Through Alaska Native Tribal Health Consortium	ANTHC-02-U-1071	93.ANTHC-02-U-1071	(498)
Through ARRA-Macro International Co	635243-10S-1572	93.635243-10S-1572	549,795
Through National Opinion Research Center	6928-01-UK	93.6928-01-UK	2,570
Through University of Illinois	2010-06621-21-02	93.2010-06621-21-02	5,203
Department of Health and Human Services Contract	2801808	93.2801808	1,492,638
Through North Carolina Campus Compact	12MKNWI001	94.007	1,500
Through Kentucky Cabinet for Health and Family Services	PO2 728 1100004992	97.002	990
Through Kentucky Department of Military Affairs	M-04546983	97.039	488,903
Assistance to Firefighters Grant		97.044	203,133
Through Kentucky Department of Military Affairs	PO2 095 1200006117	97.047	65,112
Through Kentucky Office of Homeland Security	P02 094 1300003030 1	97.067	9,120
Through National Institute for Hometown Security	01-09-UK	97.01-09-UK	433,405
Through Academy for Educational Development	4273-UKY-01	98.4273-UKY-01	1,444
Through Chemonics International Inc	AID-497-C-12-00001-UKY-0	98.AID-497-C-12-00001-UKY-0	154,677
Through FHI Development 360 LLC	4273-UKY-01	98.4273-UKY-01	295,806
SUBTOTAL OTHER GRANTS			56,922,849
TOTAL OTHER FEDERAL ASSISTANCE			70,199,642
GRAND TOTAL			\$445,144,949

University of Kentucky
A Component Unit of the Commonwealth of Kentucky
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2013

Note 1: Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (Schedule) of the University of Kentucky (University) has been prepared in the format as set forth in the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. The purpose of the Schedule is to present a consolidated summary of those expenditures of the University for the year ended June 30, 2013, which has been financed by the U.S. Government (Federal awards). For purposes of the Schedule, Federal awards include all Federal assistance and procurement relationships entered into directly and indirectly between the University and the Federal government and sub-awards from nonfederal organizations made under federally sponsored agreements.

The accounting principles followed by the University and used in preparing the Schedule are as follows:

- The Schedule includes amounts expended by the University and its affiliated corporation, the University of Kentucky Research Foundation, Inc.
- Deductions (expenditures) for direct costs are recognized as incurred using the accrual method of accounting and the cost accounting principles contained in OMB Circular A-21, *Cost Principles for Educational Institutions*. Under those cost principles, certain types of expenditures are not allowable or are limited as to reimbursement. Moreover, expenditures include a portion of costs associated with general University activities (facilities and administrative costs) which are allocated to awards under negotiated formulas commonly referred to as indirect cost rates.

University of Kentucky
A Component Unit of the Commonwealth of Kentucky
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2013

Note 2: Subrecipients

Of the federal expenditures presented in the Schedule, the University provided federal awards to subrecipients as follows:

CFDA Description	CFDA Number	Fiscal 2013 Expenditures
Grants for Agricultural Research, Special Research Grants	10.200	\$ 7,500
Grants for Agricultural Research Competitive Research Grants	10.206	34,610
Sustainable Agriculture Research and Education	10.215	41,158
Biotechnology Risk Assessment Research	10.219	65,787
Agriculture and Food Research Initiative (AFR)	10.310	230,927
Beginning Farmer and Rancher Development Program	10.311	146,798
Biomass Research and Development Initiative Competitive Grants Program (BRDI)	10.312	19,239
Cooperative Extension Service	10.500	285,898
U.S. Department of Agriculture Contract	10.XXX	1,707,419
Measurement and Engineering Research and Standards	11.609	114,524
Basic Scientific Research	12.431	11,403
Language Grant Program	12.900	25,222
Research and Technology Development	12.910	34,759
Department of Defense Contract	12.XXX	362,548
Sustainable Communities Regional Planning Grant Program	14.703	126,252
Assistance to State Water Resources Research Institutes	15.805	37,229
Environmental and Scientific Partnerships and Programs	19.017	89,646
State Planning and Research	20.515	12,164
State and Community Highway Safety	20.600	47,699
Department of Transportation Contract	20.XXX	(9,482)
Science	43.001	58,311
Aeronautics	43.002	238,559
National Aeronautics Space Commission Contract	43.XXX	305,033
Mathematical and Physical Sciences	47.049	208,188
Education and Human Resources	47.076	81,840
Office of Experimental Program to Stimulate Competitive Research	47.081	1,228,005
Trans-NSF Recovery Act Research Support	47.082	253,207
Small Business Development Centers	59.037	572,961
Nonpoint Source Implementation Grants	66.460	129,150
Science To Achieve Results (STAR) Research Program	66.509	13,076
Office of Science Financial Assistance Program	81.049	558,318
Fossil Energy Research and Development	81.089	1,167,374
Environmental Restoration	81.092	24,904
Department of Energy Contract	81.XXX	74,551
Adult Education - Basic Grants to States	84.002	1,389
Special Education Grants to States	84.027	20,000
Fund for the Improvement of Postsecondary Education	84.116	5,588
Special Education - State Personnel Development	84.323	5,166
Research in Special Education	84.324	200,117
Special Education Personnel Development to Improve Services and Results for Children with Disabilities	84.325	57,056
Special Education Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326	312,488

University of Kentucky
A Component Unit of the Commonwealth of Kentucky
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2013

CFDA Description	CFDA Number	Fiscal 2013 Expenditures
Special Education Technology and Media Services for Individuals with Disabilities	84.327	29,037
Improving Teacher Quality State Grants	84.367	22,200
Special Education Technical Assistance on State Data Collection	84.373	\$ 81,378
Transition Programs for Students with Intellectual Disabilities into Higher Education	84.407	34,849
Training in General, Pediatric and Public Health Dentistry	93.059	47,711
Area Health Education Centers Point of Service Maintenance and Enhancements Awards	93.107	239,279
Applied Toxicological Research and Testing	93.114	(14,350)
Centers for Research and Demonstration for Health Promotion	93.135	280,282
Injury Prevention and Control Research and State and Community Based Programs	93.136	161,666
NIEHS Superfund Hazardous Substances Basic Research and Education	93.143	519,457
Grants To States for Loan Repayment Program	93.165	136,500
State Rural Hospital Flexibility Program	93.241	225,999
Mental Health Research Grants	93.242	133,163
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	5,000
Occupational Safety and Health Program	93.262	202,389
Drug Abuse and Addiction Research Programs	93.279	537,618
Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283	162,997
Small Rural Hospital Improvement Grant Program	93.301	318,063
Trans-NIH Research Support	93.310	17,950
Nursing Research	93.361	3,189
National Center for Research Resources	93.389	234,316
Cancer Cause and Prevention Research	93.393	66,518
Cancer Detection and Diagnosis Research	93.394	118,045
Cancer Treatment Research	93.395	97,136
Cancer Biology Research	93.396	17,651
Cancer Centers Support Grants	93.397	867,005
Affordable Care Act (ACA) Public Health Training Centers Program	93.516	5,219
State Planning and Establishment Grants for the Affordable Care Act Exchanges	93.525	5,171
Temporary Assistance for Needy Families	93.558	2,493,662
Child Abuse and Neglect Discretionary Activities	93.670	7,472
Non-Construction Grants	93.701	140,909
Medical Assistance Program	93.778	(38,517)
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	28,025
Diabetes, Digestive and Kidney Diseases Extramural Research	93.847	87,438
Extramural Research Programs in the Neurosciences and Neurology	93.853	67,468
Allergy, Immunology and Transplantation Research	93.855	38,311
Biomedical Research and Research Training	93.859	168,031
Child Health and Human Development Extramural Research	93.865	154,482
Aging Research	93.866	878,875
Grants for Training in Primary Care Medicine and Dentistry	93.884	4,685
Specially Selected Health Projects	93.888	51,254
National Bioterrorism Hospital Preparedness Program	93.889	79,731
Grants to States for Operation of Offices of Rural Health	93.913	6,028
PPHF-2012 Geriatric Education Centers	93.969	295,514
Department of Health and Human Services Contract	93.XXX	4,500
Department of Homeland Security Contract	97.XXX	2,556,767
TOTAL FEDERAL FUNDS PROVIDED TO SUBRECIPIENTS		<u>\$ 20,486,654</u>

University of Kentucky
A Component Unit of the Commonwealth of Kentucky
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2013

Note 3: Noncash Financial Assistance

The following loans received by students and outstanding loan balances are included in the Schedule in accordance with OMB Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*.

Loans received by students for the year ended June 30, 2013, were as follows:

	<u>CFDA #</u>	<u>Total</u>
Federal Perkins Loan Program	84.038	\$ 3,020,833
Nurse Faculty Loan Program	93.264	7,498
Health Professions Primary Care	93.342	<u>667,000</u>
Total noncash financial assistance		<u>\$ 3,695,331</u>

Outstanding loan balances at June 30, 2013, were as follows:

	<u>CFDA #</u>	<u>Total</u>
Federal Perkins Loan Program	84.038	\$ 18,815,296
Nurse Faculty Loan Program	93.264	112,457
Health Professions Primary Care	93.342	<u>4,963,647</u>
Total student loans outstanding		<u>\$ 23,891,400</u>

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With *Government Auditing Standards*

Board of Trustees
University of Kentucky
Lexington, Kentucky

We have audited, 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, the financial statements of the University of Kentucky (University), a component unit of the Commonwealth of Kentucky, which comprise the statement of net position as of June 30, 2013, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated October 1, 2013 which contained a reference to the report of other auditors. Other auditors audited the financial statements of Kentucky Medical Services Foundation, Inc. (KMSF), as described in our report on the University's financial statements. The financial statements of KMSF, a component unit included in the financial statements of the University, were not audited in accordance with *Governmental Auditing Standards*.

Internal Control Over Financial Reporting

Management of the University is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered the University's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the University's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified.

Compliance

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Other Matter

The purpose of this communication is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control or compliance. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Louisville, Kentucky
October 1, 2013

Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133 and Schedule of Expenditures of Federal Awards

Board of Trustees
University of Kentucky
Lexington, Kentucky

Report on Compliance for Each Major Federal Program

We have audited the compliance of the University of Kentucky (University) with the types of compliance requirements described in the OMB Circular A-133, *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the University's management.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the University's compliance with those requirements.

Opinion on Each Major Federal Program

In our opinion, the University complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

The management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the University as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements. We issued our report thereon dated October 1, 2013, which contained an unmodified opinion on those financial statements and a reference to the report of other auditors. Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

BKD, LLP

Louisville, Kentucky
October 1, 2013

University of Kentucky
A Component Unit of the Commonwealth of Kentucky
Schedule of Findings and Questioned Costs
Year Ended June 30, 2013

Summary of Auditor's Results

1. The opinion(s) expressed in the independent accountants' report was (were):
 Unmodified Qualified Adverse Disclaimer

2. The independent auditor's report on internal control over financial reporting disclosed:

Significant deficiency(ies)?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None reported
Material weakness(es)?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

3. Noncompliance considered material to the financial statements was disclosed by the audit?

	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
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4. The independent auditor's report on internal control over compliance with requirements that could have a direct and material effect on major federal awards programs disclosed:

Significant deficiency(ies)?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None reported
Material weakness(es)?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

5. The opinion(s) expressed in the independent auditor's report on compliance with requirements that could have a direct and material effect on major federal awards was (were):
 Unmodified Qualified Adverse Disclaimer

6. The audit disclosed findings required to be reported by OMB Circular A-133?

	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
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University of Kentucky
A Component Unit of the Commonwealth of Kentucky
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2013

7. The University's major programs were:

Cluster/Program	CFDA Number
Federal Student Aid Cluster	Various
ARRA – Health Information Technology Regional	93.718
Research and Development Cluster	Various

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133 was \$3,000,000.

9. The University qualified as a low-risk auditee as that term is defined in OMB Circular A-133? Yes No

University of Kentucky
A Component Unit of the Commonwealth of Kentucky
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2013

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding	Questioned Costs
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No matters are reportable.

University of Kentucky
A Component Unit of the Commonwealth of Kentucky
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2013

Findings Required to be Reported by OMB Circular A-133

Reference Number	Finding	Questioned Costs
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No matters are reportable.

University of Kentucky
A Component Unit of the Commonwealth of Kentucky
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2013

Reference Number	Summary of Finding	Status
2012-001	The University did not update certain students' award information for exceptions noted during the verification program.	Corrected.
2012-002	Regarding Title IV Returns, the dates used to calculate the number of days students attended class during the semester were not accurate for the 2011-2012 academic year.	Corrected.

ACSR 1

Office of the President
December 17, 2013

Members, Audit and Compliance Subcommittee:

RETAIN BKD, LLP FOR AUDIT OF FINANCIAL STATEMENTS FOR
FISCAL YEAR 2013-14

Recommendation: that the Audit and Compliance Subcommittee retain BKD, LLP for the audit of the University of Kentucky's financial statements for the year ending June 30, 2014 and authorize the Interim Treasurer to execute the Engagement Letter.

Background: BKD, LLP was selected as the University's independent auditor as part of a competitive bid proposal in fall 2007. The initial contract period was a term of four years with up to four additional one- year extensions through Fiscal Year 2014-15.

The Interim Treasurer recommends extending the contract for Fiscal Year 2013-14. The Interim Treasurer would be authorized to negotiate the Engagement Letter based upon satisfactory service to date and an appropriate negotiated price for Fiscal Year 2013-14.

The Fiscal Year 2012-13 engagement fees totaled \$346,700. The engagement of BKD, LLP for Fiscal Year 2013-14 will be similar to Fiscal Year 2012-13 and include the following services:

- audit of the basic financial statements of the University and its affiliates for the Fiscal Year ending June 30, 2014;
- audit of the basic financial statements of the University's organizational units: UK HealthCare Hospital System; UK Department of Intercollegiate Athletics; the Kentucky Tobacco Research and Development Center; and WUKY-FM Radio; and
- financial reporting as required by the NCAA.

The Engagement Letter will be provided to the Audit and Compliance Subcommittee at its January 31, 2014 meeting, prior to the start of the Fiscal Year 2013-14 audit.

Action taken: Approved Disapproved Other _____