

FCR 6

Office of the President
December 15, 2020

Members, Board of Trustees:

ACCEPTANCE OF 2019-20 AUDITED FINANCIAL STATEMENTS
AND THE INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND REQUIRED SUPPLEMENTARY INFORMATION

Recommendation: that the Board of Trustees accept (1) the University of Kentucky Audited Financial Statements for the fiscal year ended June 30, 2020, consisting of the Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, Statements of Cash Flows, Statements of Fiduciary Net Position, Statements of Changes in Fiduciary Net Position, Notes to Financial Statements, Required Supplementary Information and Management's Discussion and Analysis; and (2) the Independent Auditor's Report on Financial Statements and Required Supplementary Information.

Background: The Audit and Compliance Committee and the Finance Committee of the University of Kentucky Board of Trustees have reviewed the university's financial statements for the fiscal year ended June 30, 2020, audited by BKD LLP, Certified Public Accountants. These financial statements are prepared in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 35, Basic Financial Statements— and Management's Discussion and Analysis—for Public Colleges and Universities—An Amendment of GASB No. 34, which focuses on the financial condition, results of operations and cash flows of the university as a whole, with resources classified for accounting and reporting purposes into four net asset categories: invested in capital assets (net of related debt), restricted-nonexpendable, restricted-expendable and unrestricted.

The financial statements of the university include its operations and its affiliated non-profit corporations (i.e. entities for which the university is financially accountable as defined by GASB Statement No. 14 and amended by GASB Statement No. 39, No. 61 and No. 80, and which meet the definition of an affiliated corporation under Kentucky Revised Statutes (KRS) section 164A.550):

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

The financial statements also include the operations of Kentucky Medical Services Foundation, Inc. (KMSF) and the University of Kentucky Alumni Association, non-profit entities for which the university is financially accountable as defined by GASB, but which are not affiliated corporations under KRS.

The financial statements and the independent auditor's report have been provided separately. The documents may be viewed after Board of Trustees' approval at:

<http://www.uky.edu/ufs/financial-statements-and-investor-information>

Action taken: Approved Disapproved Other _____



2020 FINANCIAL STATEMENTS

University of Kentucky

University of Kentucky
A Component Unit of the Commonwealth of Kentucky
Financial Statements
Years Ended June 30, 2020 and 2019

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MESSAGE FROM THE PRESIDENT

Students from across the world come to the University of Kentucky to see what's possible.

The COVID-19 pandemic has, in many ways, redefined what that means. And, while we are used to gathering—together—to teach, learn, heal and serve, our community has been forced to separate rather than congregate.

However, despite the uncertainty and anxiety that surrounds us, I am filled with a renewed deepened sense of hope—one that's found in the way people on our campus, across disciplines, degrees and experiences ask, "how can I help?"

It's found in our hospitals and clinics, as our health care workers who, day after day, rejoin the frontlines to care for the most vulnerable among us.

It's bolstered by our researchers who leapt into action to explore new drugs and therapies to defeat COVID-19.

It grows stronger and steadier each time we join our voices to declare in a single chorus that we will get through this together.

And, it's seen in the ways we are taking actionable steps to build and sustain a more diverse, equitable and inclusive future for our Black community and other people of color at the university.

We are, in the truest sense, fueled by asking the question: what is possible?



Throughout the past decade, with this question in mind, we have:

- Experienced record retention and graduation rates, in addition to unprecedented diversity and overall enrollment, surpassing the 30,000 student threshold for the first time in the institution's history;
- Invested \$2.67 billion to rebuild and grow our academic, research, community and health care spaces to improve access and collaborative opportunities across our campus;
- Opened the modern, \$265 million Healthy Kentucky Research Building that is a hub for

- addressing the state's most complex challenges;
- Opened a new "living room" for the campus community in the Gatton Student Center - a place where students, faculty, and staff can learn, convene, and create;
 - Decreased the rate of annual tuition rate increases to the lowest levels in more than three decades;
 - Increased our investment in financial aid and scholarships to help reduce the likelihood that unmet financial need is a barrier to a UK degree;
 - Ranked among the top public universities for National Merit, National Achievement and National Hispanic Scholars;
 - Expanded our research portfolio as reflected in grants and contracts totaling more than \$429.2 million in the last fiscal year;
 - Earned a historic, \$87 million grant to fight opioid use and death;
 - Earned national recognition for efforts to be a diverse and welcoming community;
 - Launched the ambitious \$2.1 billion Kentucky Can comprehensive capital campaign and welcomed new donors and friends of the university who invested more than \$200 million in the last fiscal year;
 - Finished 14th in the Learfield IMG Directors' Cup, indicating success on and off the field for UK Athletics;

- Served as an indispensable economic partner with dozens of collaborators to provide research expertise to private business owners and internship opportunities for UK students;
- Made more than 8 million contacts with Kentuckians through Extension Services; and
- Treated a record number of patients in UK HealthCare and clinics across the Commonwealth.
- Ranked the No. 1 Hospital in Kentucky by the U.S. News and World Report for the fifth consecutive year for Albert B. Chandler Hospital.

While there are still more unknowns than knowns, a college education – in the residential campus environment that we provide – is also one of the best vaccinations to ensure a healthier Kentucky and world, a more engaged, humane and just society and one positioned to successfully solve the challenges of the next crisis and those that follow as they inevitably will.

That is why our efforts, now, are so vital to our future and the future of all those we serve. That is who we are. And that is what we do.

Sincerely,



Eli Capilouto
President

Independent Auditor's Report

Board of Trustees
University of Kentucky
Lexington, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the fiduciary activities of the University of Kentucky (University), collectively, a component unit of the Commonwealth of Kentucky, as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of Kentucky Medical Services Foundation, Inc. (KMSF), a blended component unit of the University, which statements reflect assets constituting 3.3% and 3.1% as of June 30, 2020 and 2019, respectively, of the University's total assets, net position constituting 0.6% and 0.7%, as of June 30, 2020 and 2019, respectively, of the University's total net position and operating revenues constituting 10.7% and 11.1%, respectively, of the University's operating revenues for the years then ended. Those statements were audited by other auditors, whose report thereon has been furnished to us, and our opinion on the business-type activities, insofar as it relates to the amounts included for KMSF, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 are included in the University's reporting entity as a blended component unit, 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the fiduciary activities of the University, as of June 30, 2020 and 2019, and the respective changes in financial position and, where applicable, cash flows thereof, for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and postemployment and long-term disability benefit plan information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context.

We have applied certain limited procedures to the required supplementary information, in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated October 2, 2020, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the University's 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 2, 2020

**UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2020 and 2019**

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, 2020 and 2019. Management has prepared this discussion, and suggests that it be read in conjunction with the financial statements and the notes appearing in this report.

About the University of Kentucky

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

The University of Kentucky:

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

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

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

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

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

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

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

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

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

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

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

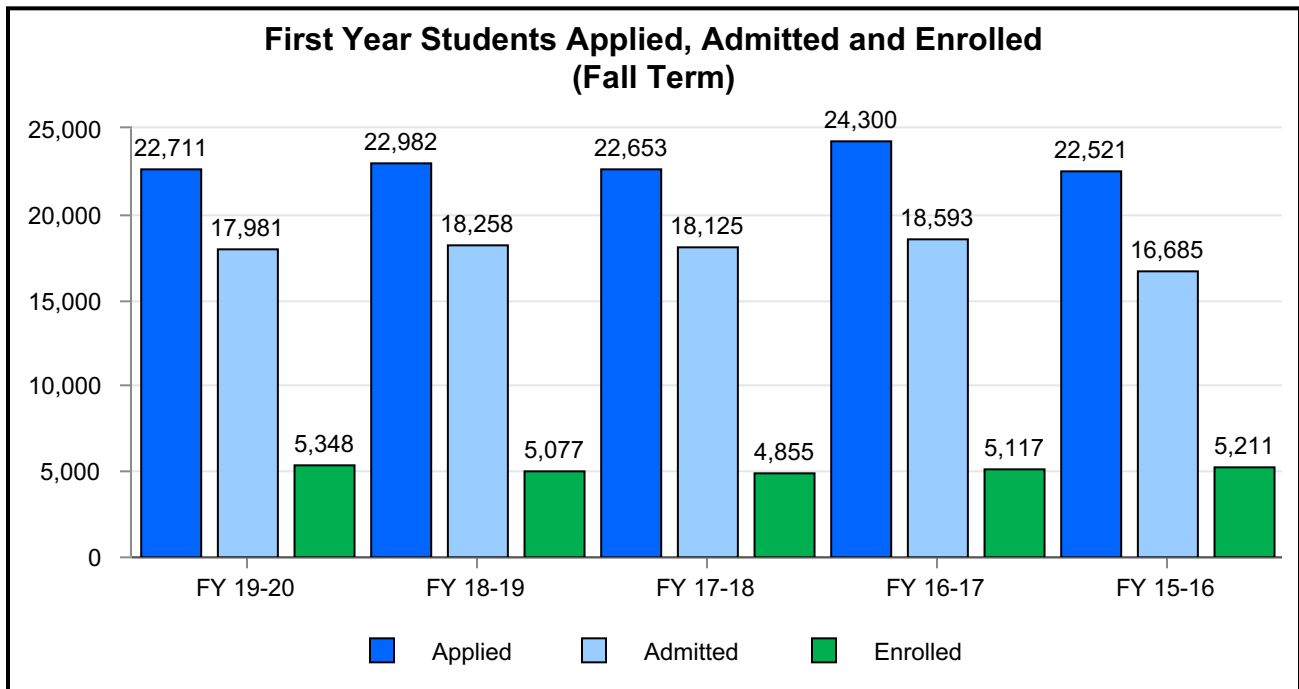
- **Undergraduate Student Success** - Be the university of choice for aspiring undergraduate students within the Commonwealth and beyond, seeking a transformational education that promotes self-discovery, experiential learning, and life-long achievement.
- **Graduate Education** - Strengthen the quality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

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

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

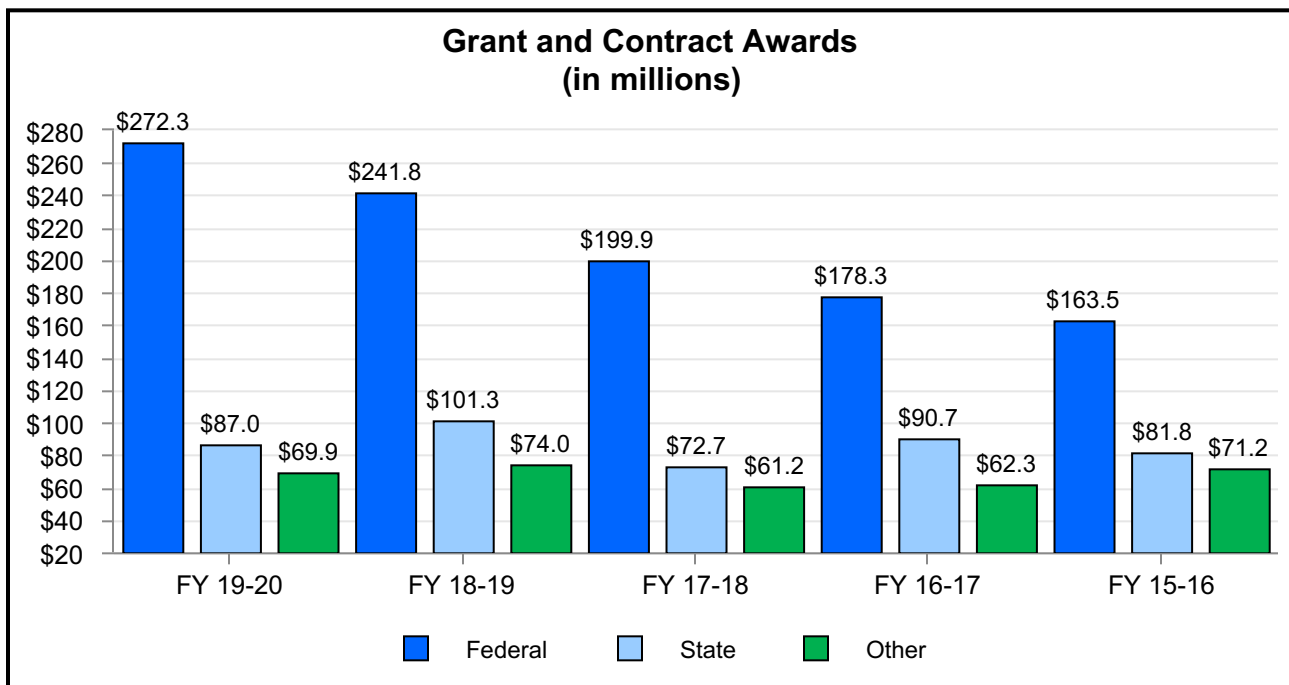
The University is accredited by the Commission on Colleges of the Southern Association of Colleges and Schools. This has been reaffirmed at approximately 10-year intervals since 1915, with the next accreditation review scheduled for 2022. In addition, several degree programs and individual units are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

Students. In Fall 2019, the University had 30,545 undergraduate, graduate and professional students. They represent all 120 Kentucky counties, every state in the U.S. and more than 100 countries. Enrollment has increased by more than 2,500 students (8.9%) since Fall 2010.



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

Research. The total University of Kentucky research expenditures, as reported to the National Science Foundation, totaled \$410.6 million for fiscal year 2018-19, compared to \$393.0 million in fiscal year 2017-18. The research expenditures include both funded and unfunded recoveries of facilities and administrative costs and purchases of capital assets, thus are not correlating to the amounts shown in the Statements of Revenues, Expenses and Changes in Net Position. The total University of Kentucky research expenditures for fiscal year 2019-20 have not been reported as of yet to the National Science Foundation and are not available. University of Kentucky Research Foundation (UKRF) research awards received during fiscal year 2019-20 total \$429.2 million, a 2.9% increase from the prior year amount of \$417.1 million.



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

Medical Centers. UK HealthCare, the University’s advanced academic medical center and clinical care network, is uniquely equipped to provide advanced subspecialty care to the people of Kentucky. The academic medical center and health system provides patient care on par - in terms of both volume and complexity - with the nation’s top 25 percent of academic medical centers. In July 2020, UK HealthCare was listed number one in Kentucky in the latest U.S. News Best Hospitals ranking for the fifth year in a row. To be recognized as a Best Hospital, UK HealthCare had to rank high nationally on a stringent data-driven ratings system that gauges performance. The analysis includes multiple clinical specialties, procedures and conditions. Scores are based on a variety of patient outcome and care-related factors such as mortality and patient safety, as well as reputation.

UK HealthCare Hospital System (the System) operates two hospital units under one Joint Commission Accreditation and two licenses in addition to ambulatory services. The major service units include Albert B. Chandler Hospital, Good Samaritan Hospital and the Kentucky Clinic. The System has a combined total of 1,265 licensed beds with an average daily census of 754 patients. On a monthly basis, the System provides more than 1,355 inpatient surgeries, 1,318 outpatient surgeries, 35,481 radiology procedures, 8,676 emergency department visits and 184,459 hospital based outpatient clinic visits.

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

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

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

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

Financial Highlights

The University's overall financial position remains fiscally sound with assets of \$7.31 billion, deferred outflows of resources of \$33.6 million, liabilities of \$2.23 billion and deferred inflows of resources of \$582.8 million as of June 30, 2020. Net position, which represents the University's residual interest in assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted, was \$4.53 billion (62% of total assets).

- Total assets increased \$405.7 million (six percent), primarily due to increases in cash and cash equivalents and capital assets, net offset by decreases in notes, loans and accounts receivable, net, endowment investments and other long-term investments.
- Deferred outflows of resources decreased \$4.7 million (12%) that is a result of a decrease in contributions subsequent to the measurement date and an increase in the net difference between projected and actual earnings in the OPEB Plan investments. It also represents the amortization of the reacquisition price and the net carrying amount of refunded debt.
- Total liabilities decreased \$6.6 million (one percent) primarily due to decreases in net OPEB retiree health liabilities and unearned revenue offset by increases in accounts payable and accrued liabilities and bonds and capital lease obligations.
- Deferred inflows of resources increased \$41.1 million (eight percent) primarily due to increases in OPEB Plan net difference between expected and actual earnings on OPEB Plan investments and assumption changes for the retiree health plan.
- Total net position increased \$353.3 million (nine percent). Net investment in capital assets increased \$32.9 million. Restricted net position decreased \$25.0 million due to losses on endowment investments due to a negative return on the endowment pool as well as spending on capital projects. Unrestricted net position increased \$345.5 million primarily due to the net increase in operating revenues in excess of operating expenses for the System.
- Operating revenues were \$3.51 billion and operating expenses were \$3.59 billion, resulting in a net loss from operations of \$75.2 million. Nonoperating and other revenues, net of nonoperating expenses, were \$428.5 million, including \$261.1 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 (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities - an amendment of GASB Statement No. 34*. GASB requires that statements be presented on a comprehensive, entity-wide basis. In addition to this MD&A section, the financial report includes:

- Statements of Net Position
- Statements of Revenues, Expenses, and Changes in Net Position
- Statements of Cash Flows
- Statements of Fiduciary Net Position
- Statements of Changes in Fiduciary Net Position

- Notes to the Financial Statements
- Required supplementary information

Reporting Entity

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

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

Statement of Net Position

The Statement of Net Position is the University's balance sheet. It reflects the total assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position (equity) of the University as of June 30, 2020, with comparative information as of June 30, 2019. Liabilities due within one year, and assets available to pay those liabilities, are classified as current. Other assets and liabilities are classified as noncurrent. Net position (the difference between total assets and deferred outflows of resources and total liabilities and deferred inflows of resources) is an important indicator of the University's current financial condition, while the change in net position is an indicator of whether the overall financial position has improved or eroded during the year. Generally, assets and liabilities and deferred inflows and outflows of resources are reported using current values. A major exception is capital assets, net, which are stated at historical cost less accumulated depreciation.

A summarized comparison of the University's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position as of June 30, 2020, 2019 and 2018 are as follows:

Condensed Statements of Net Position (in thousands)

	<u>2020</u>	<u>2019</u>	<u>2018</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
Current assets	\$ 1,539,069	\$ 1,037,832	\$ 1,050,812
Capital assets, net	3,537,647	3,443,772	3,382,566
Other noncurrent assets	2,232,217	2,421,614	2,288,695
Deferred outflows of resources	33,593	38,317	42,293
Total assets and deferred outflows of resources	<u>7,342,526</u>	<u>6,941,535</u>	<u>6,764,366</u>
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES			
Current liabilities	576,625	490,552	531,334
Noncurrent liabilities	1,651,192	1,730,686	1,704,385
Deferred inflows of resources	582,839	541,744	563,137
Total liabilities and deferred inflows of resources	<u>2,810,656</u>	<u>2,762,982</u>	<u>2,798,856</u>
NET POSITION			
Net investment in capital assets	1,942,496	1,909,624	1,835,176
Restricted			
Nonexpendable	657,835	641,255	626,717
Expendable	479,403	521,014	465,474
Unrestricted	<u>1,452,136</u>	<u>1,106,660</u>	<u>1,038,143</u>
Total net position	<u>\$ 4,531,870</u>	<u>\$ 4,178,553</u>	<u>\$ 3,965,510</u>

Assets. As of June 30, 2020, total assets amounted to \$7.31 billion. The largest asset class was capital assets, net, that totaled \$3.54 billion or 48% of total assets. Endowment investments were \$1.37 billion, or 19% of total assets and cash and cash equivalents totaled \$1.23 billion, or 17% of total assets. Notes, loans and accounts receivable, net totaled \$781.5 million or 11% of total assets. During the year, total assets increased by a net \$405.7 million primarily due to increases in cash and cash equivalents of \$410.5 million and capital assets, net of \$93.9 million. Offsetting these increases were decreases in other long-term investments of \$55.1 million, endowment investments of \$20.1 million and notes, loans and accounts receivable, net of \$40.1 million.

Deferred Outflows of Resources. The University's deferred outflows of resources totaled \$33.6 million, a decrease of \$4.7 million, primarily due to the decrease in OPEB contributions subsequent to the measurement date and an increase in the net difference between projected and actual earnings in the plan investments of \$3.2 million. It also includes the unamortized difference between the reacquisition price and the net carrying amount of refunded debt that decreased \$1.5 million.

Liabilities. As of June 30, 2020, total liabilities amounted to \$2.23 billion. Bonds, notes and capital leases issued for educational buildings, housing, the UK HealthCare Hospital System facilities, Athletics' football stadium, student center and equipment totaled \$1.22 billion, or 55% of total liabilities. During the year, total liabilities increased \$6.6 million primarily due to increases in bonds, notes and leases of \$62.1 million, accounts payable and accrued liabilities of \$43.4 million, and unearned revenue of \$21.5 million. Bonds, notes and leases increased primarily due to the issuance of 2020 General Receipts Series A and B bonds for continued campus modernization projects as well as the 2019 General Receipts Series A and B Certificate of Participation bonds for the new Cornerstone facility. The Cornerstone will provide additional parking and mixed-use space on the north side of UK's campus. Offsetting was a decrease in net OPEB retiree health liabilities of \$113.6 million primarily due to the change in assumptions in the OPEB valuation as well as the change from a self-funded carve-out plan to a Medicare Advantage plan.

Deferred Inflows of Resources. The University's deferred inflows of resources totaled \$582.8 million that represents service concession arrangements with Greystar of \$376.0 million, Aramark of \$111.0 million and Barnes and Noble of \$3.2 million. Deferred inflows of resources also includes trusts and annuities of \$16.4 million that represents the beneficial interest that the University will receive in future years and OPEB long-term disability and retiree health of \$76.2 million. During the year, deferred inflows of resources increased \$41.1 million primarily due to an increase in OPEB of \$45.0 million representing the net difference between expected and actual earnings on OPEB Plan investments and the assumption changes for the retiree health plan as well as an increase in the Barnes and Noble service concession arrangement of \$1.7 million. Greystar decreased \$5.4 million due to the amortization of revenue as earned for the service concession arrangement.

Net Position. The University's net position of \$4.53 billion as of June 30, 2020 is reported on the Statement of Net Position in three net position categories: net investment in capital assets, \$1.94 billion (43%); restricted nonexpendable, \$657.8 million (14%) and restricted expendable, \$479.4 million (11%); and unrestricted, \$1.45 billion (32%).

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 \$353.3 million during the year ended June 30, 2020. Net investment in capital assets increased \$32.9 million due to excess of additions of capital assets and principal payments of capital debt offset by depreciation expense. Restricted net position decreased \$25.0 million primarily as a result of losses on endowment investments due to a negative return on the endowment pool and spending on capital projects. Unrestricted net position increased \$345.5 million, primarily due to the net increase in operating revenues in excess of operating expenses for the System as well as the decrease in retiree health plan costs from changing to a Medicare Advantage plan.

2019 Versus 2018. During the year ended June 30, 2019:

- Total assets increased by a net \$181.1 million primarily due to an increase in notes, loans and accounts receivable, net of \$111.5 million, capital assets, net of \$61.2 million, endowment investments of \$51.0 million, and other long-term investments of \$37.8 million offset by a decrease in cash and cash equivalents of \$76.8 million.
- Deferred outflows of resources decreased \$4.0 million due primarily to OPEB contributions subsequent to the measurement date and the net difference between projected and actual earnings in the plan investments and a decrease in the unamortized difference between the reacquisition price and the net carrying amount of refunded debt.
- Total liabilities decreased \$14.5 million primarily attributable to a decrease in accounts payable and accrued liabilities of \$79.2 million primarily due to Disproportionate Share Hospital (DSH) payables due to Medicare settlements for prior years and a decrease in bonds, notes and leases liabilities of \$43.7 million due to principal payments offset by an increase in unearned revenue of \$123.7 million mainly due to multimedia rights contract modifications.
- Deferred inflows of resources decreased \$21.4 million primarily due to the amortization of the service concession arrangements with Greystar and Aramark. Additionally OPEB decreased representing the net difference between expected and actual earnings on OPEB Plan investments and the assumption changes for the retiree health plan.
- Total net position increased \$213.0 million. Net investment in capital assets increased \$74.4 million due to excess of additions of capital assets and principal payments of capital debt offset by depreciation expense. Restricted net position increased \$70.1 million primarily as a result of less spending on capital projects and gains on endowment investments due to a positive return on the endowment pool. Unrestricted net position increased \$68.5 million, primarily due to the net increase in operating revenues in excess of operating expenses for the System.

Statement of Revenues, Expenses and Changes in Net Position

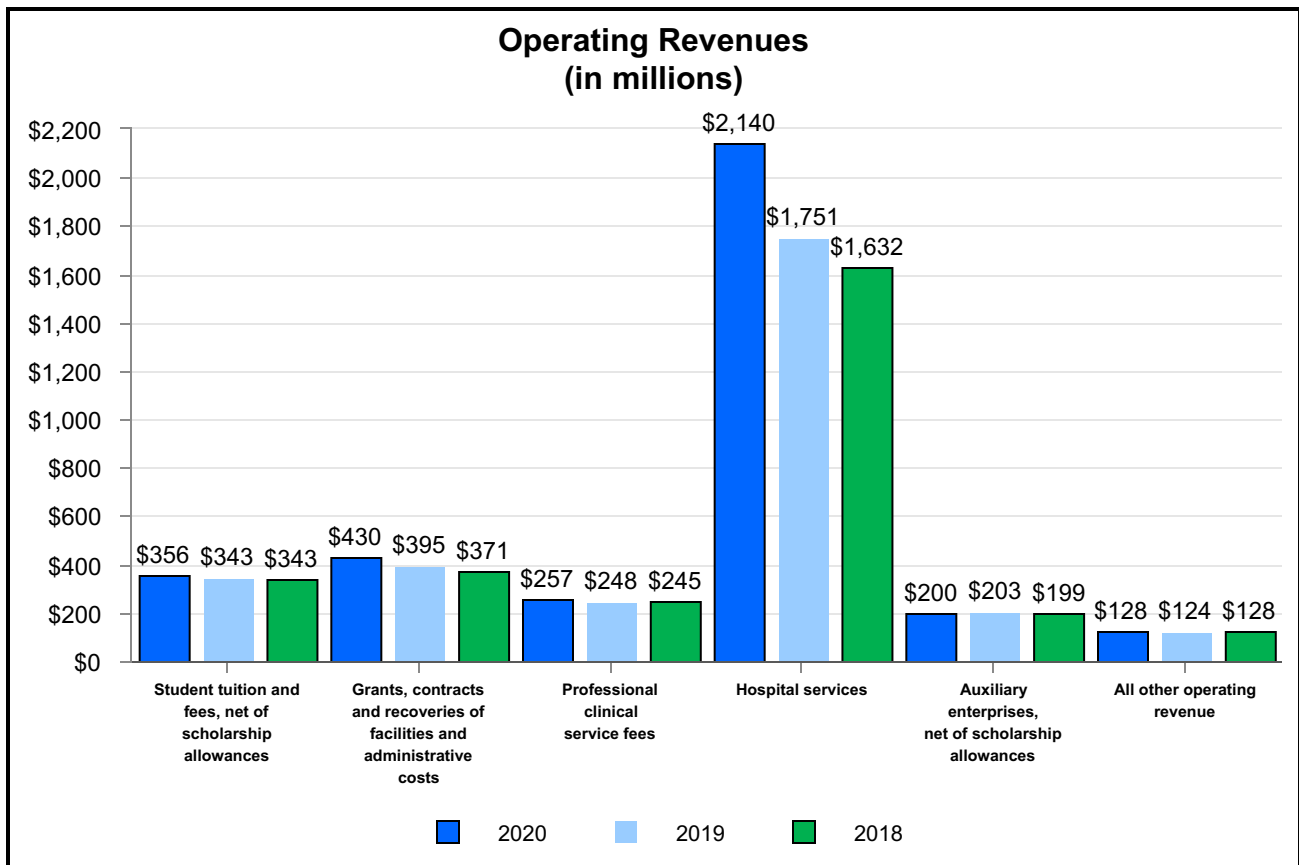
The Statement of Revenues, Expenses and Changes in Net Position is the University's income statement. It details how net position has changed during the year ended June 30, 2020, with comparative information for the year ended June 30, 2019. This statement is prepared on the accrual basis of accounting whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged. Items that increase or decrease net position appear on the Statement of Revenues, Expenses and Changes in Net Position as revenues, expenses, gains or losses.

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

A summarized comparison of the University's revenues, expenses and changes in net position for the years ended June 30, 2020, 2019 and 2018 are as follows:

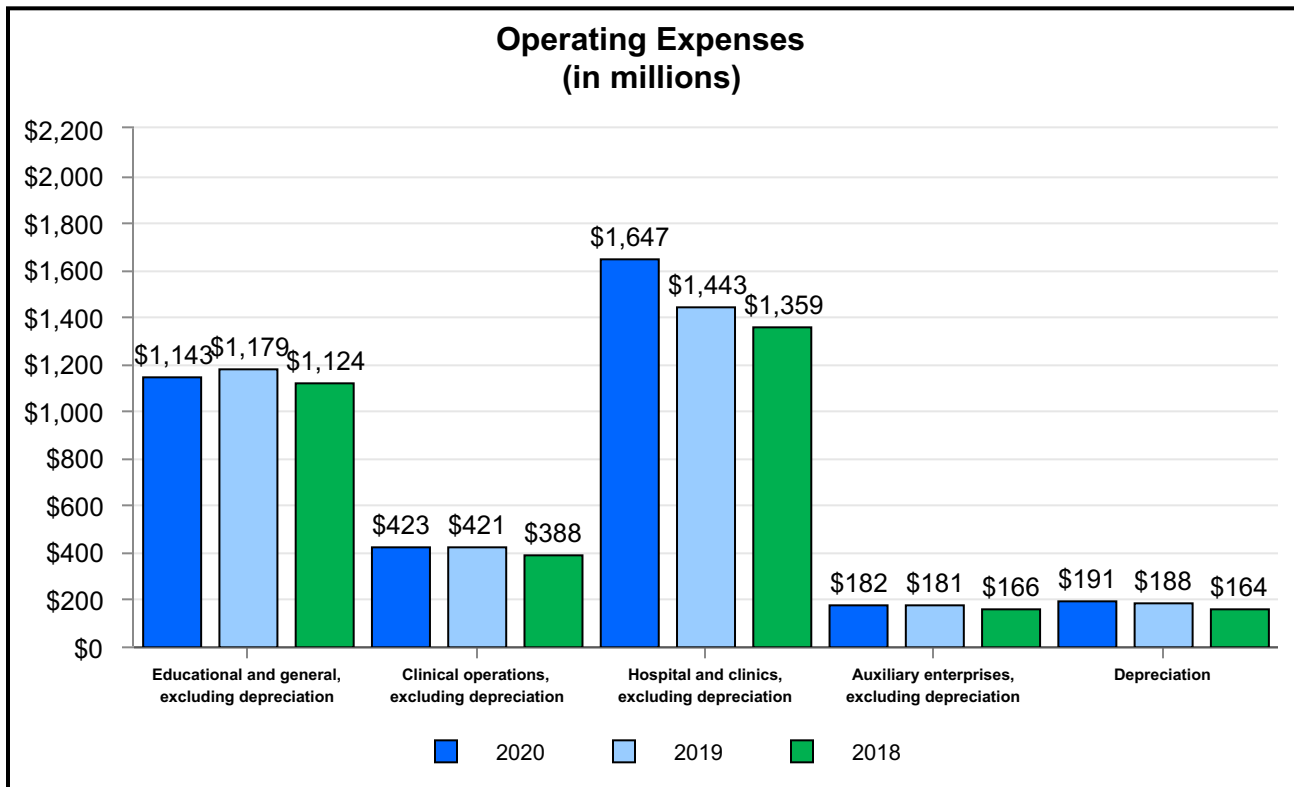
Condensed Statements of Revenues, Expenses and Changes in Net Position (in thousands)

	<u>2020</u>	<u>2019</u>	<u>2018</u>
OPERATING REVENUES			
Student tuition and fees, net of scholarship allowances	\$ 356,197	\$ 343,293	\$ 342,981
Grants and contracts	362,039	328,274	311,272
Recoveries of facilities and administrative costs	68,393	67,100	60,062
Sales and services	57,695	59,383	59,691
Federal and county appropriations	45,556	43,928	45,063
Professional clinical service fees	256,803	247,589	244,805
Hospital services	2,140,270	1,750,927	1,631,737
Auxiliary enterprises, net of scholarship allowances	199,782	203,119	198,559
Other operating revenues	24,608	21,138	22,831
Total operating revenues	<u>3,511,343</u>	<u>3,064,751</u>	<u>2,917,001</u>
OPERATING EXPENSES			
Educational and general, excluding depreciation	1,142,960	1,179,204	1,123,751
Clinical operations, excluding depreciation	423,099	421,301	387,875
Hospital and clinics, excluding depreciation	1,647,033	1,442,947	1,358,570
Auxiliary enterprises, excluding depreciation	181,663	181,119	165,503
Depreciation	191,223	188,145	164,369
Other operating expenses	576	2,014	993
Total operating expenses	<u>3,586,554</u>	<u>3,414,730</u>	<u>3,201,061</u>
NET LOSS FROM OPERATIONS	<u>(75,211)</u>	<u>(349,979)</u>	<u>(284,060)</u>
NONOPERATING REVENUES (EXPENSES)			
State appropriations	261,056	258,495	264,418
CARES Act	20,248	—	—
Gift and non-exchange grants	115,636	120,885	118,447
Investment income	28,453	108,293	91,149
Interest on capital asset-related debt	(38,660)	(44,373)	(34,695)
Capital grants and gifts	35,584	71,570	29,893
Additions to permanent endowments	15,407	13,606	10,451
Other, net	(9,196)	34,546	16,996
Total nonoperating revenues	<u>428,528</u>	<u>563,022</u>	<u>496,659</u>
INCREASE IN NET POSITION	353,317	213,043	212,599
NET POSITION, beginning of year	<u>4,178,553</u>	<u>3,965,510</u>	<u>3,752,911</u>
NET POSITION, end of year	<u>\$ 4,531,870</u>	<u>\$ 4,178,553</u>	<u>\$ 3,965,510</u>



Total operating revenues were \$3.51 billion for the year ended June 30, 2020, an increase of \$446.6 million (15%). The primary components of operating revenues were student tuition and fees, net of scholarship allowances, of \$356.2 million; grants and contracts and recoveries of facilities and administrative costs of \$430.4 million; professional clinical service fees of \$256.8 million; and hospital services of \$2.14 billion.

The major increase was in hospital services revenue of \$389.3 million attributable to Directed Payments of \$391.6 million, offset by unfavorable volume and payer mix changes in inpatient net revenue and decreased outpatient activities. The calculated methodology for Medicaid supplemental payments was adjusted during fiscal year 2020 and is now referred to as Directed Payments. These new payments replace the Medicaid Managed Care Organization's portion of Intensity Operating Allowance and Physician Supplemental Payments. The Directed Payments are the difference between the System's commercial rate and the rates the Medicaid Managed Care Organization pays for patient services. The payments are applicable for both inpatient and outpatient hospital services. A per day and per visit gap has been calculated and is applied to Medicaid Managed Care volume. Other significant increases in operating revenues are related to grants and contracts and recoveries of facilities and administrative costs of \$35.1 million due to increases in federal and state grants and contracts; and professional clinical service fees of \$9.2 million.



Operating expenses totaled \$3.59 billion, an increase of \$171.8 million (five percent). Of this amount, \$1.14 billion, excluding depreciation, was expended for educational and general programs, including instruction, research and public service. Clinical operations expenses, excluding depreciation, were \$423.1 million; hospital and clinics expenses, excluding depreciation, amounted to \$1.65 billion; and auxiliary enterprises expenses, excluding depreciation, were \$181.7 million. Depreciation expense for the year amounted to \$191.2 million.

Educational and general expenses, excluding depreciation, decreased \$36.2 million due primarily to a decrease in institutional support of \$74.7 million as a result of OPEB retiree health changing from a self-funded carve-out plan to a Medicare Advantage plan offset by increases in instruction of \$8.6 million, research of \$4.6 million, public service of \$6.6 million, operations and maintenance of plant of \$9.0 million and student financial aid of \$8.6 million. Clinical operations expenses, excluding depreciation, increased \$1.8 million primarily due to physician service agreements associated with the expansion of the Markey Cancer Center in partnership with the Lexington Clinic. Hospital and clinics expenses, excluding depreciation, increased \$204.1 million primarily due to additional staffing and supplies required for increased patient volume before the COVID-19 pandemic and increased cost of drugs needed for retail pharmacy sales. Auxiliary enterprises expenses, excluding depreciation, increased \$544 thousand primarily attributable to increases in athletics expenses of \$1.8 million primarily for payments to Rupp Arena for multimedia rights based on contract modifications. Housing and dining increased \$3.3 million due to the costs associated with the closure of dormitories in March 2020 as a result of the COVID-19 pandemic offset by decreases in other auxiliary expenses of \$4.6 million due to campus closure, cancellation of summer camps, and limiting services and activities caused by the pandemic. Depreciation expense increased \$3.1 million primarily due to new buildings and renovations.

The net loss from operations for the year was \$75.2 million. Nonoperating and other revenues, net of expenses, totaled \$428.5 million and included state appropriations of \$261.1 million, an increase of \$2.6 million. Coronavirus Aid, Relief, and Economic Security (CARES) Act funding from the federal government in response to the COVID-19 pandemic totaled \$20.2 million. Gifts and non-exchange grants totaled \$115.6 million, a decrease of \$5.2 million. Investment gain totaled \$28.5 million, a decrease of \$79.8 million; capital

grants and gifts totaled \$35.6 million, a decrease of \$36.0 million; and additions to permanent endowments totaled \$15.4 million, an increase of \$1.8 million.

2019 Versus 2018. Total operating revenues were \$3.06 billion for the year ended June 30, 2019, including: student tuition and fees, net of scholarship allowances, of \$343.3 million (11%); grants and contracts and recoveries of facilities and administrative costs of \$395.4 million (13%); professional clinical service fees of \$247.6 million (eight percent); and hospital services of \$1.75 billion (57%). Operating revenues for fiscal year 2019 increased \$147.8 million (five percent) over fiscal year 2018, primarily due to increases in hospital services revenue of \$119.2 million attributable to an increase in outpatient volume and an increase in DSH revenue; grants and contracts and recoveries of facilities and administrative costs of \$24.0 million due to increases in federal and state grants and contracts; and professional clinical service fees of \$2.8 million.

Operating expenses totaled \$3.41 billion in fiscal year 2019. Of this amount, \$1.18 billion (35%), excluding depreciation, was expended for educational and general programs, including instruction, research and public service. Clinical operations expenses, excluding depreciation, totaled \$421.3 million (12%) of the total operating expenses; hospital and clinics expenses, excluding depreciation, were \$1.44 billion (43%); and auxiliary enterprises expenses, excluding depreciation, were \$181.1 million (five percent). Depreciation expense amounted to \$188.1 million (five percent). Operating expenses for fiscal year 2019 increased \$213.7 million (seven percent) compared to fiscal year 2018 primarily due to an increase in hospital and clinics expenses, excluding depreciation, of \$84.4 million (six percent); clinical operations expenses, excluding depreciation, of \$33.4 million (nine percent); educational and general expenses, excluding depreciation, of \$55.5 million (five percent); and depreciation expense of \$23.8 million (14%). Auxiliary enterprises expenses, excluding depreciation, increased \$15.6 million (nine percent).

The net loss from operations for the 2019 fiscal year totaled \$350.0 million. Nonoperating and other revenues, net of expenses, totaled \$563.0 million, resulting in an increase in net position of \$213.0 million for the year. Nonoperating revenues (expenses) included state appropriations of \$258.5 million and \$264.4 million for the years ended June 30, 2019 and 2018, respectively.

Statement of Cash Flows

The Statement of Cash Flows details how cash has increased or decreased during the fiscal year ended June 30, 2020, with comparative financial information for the fiscal year ended June 30, 2019. The sources and uses of cash are arranged in the following categories:

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

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

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

A comparative summary of the University's statement of cash flows for the years ended June 30, 2020, 2019 and 2018 are as follows:

Condensed Statements of Cash Flows (in thousands)

	2020	2019	2018
CASH PROVIDED (USED) BY:			
Operating activities	\$ 81,474	\$ (204,657)	\$ (186,337)
Noncapital financing activities	447,988	409,469	410,911
Capital and related financing activities	(211,669)	(315,458)	(256,407)
Investing activities	92,701	33,893	2,829
Net increase (decrease) in cash and cash equivalents	410,494	(76,753)	(29,004)
CASH AND CASH EQUIVALENTS, beginning of year	820,791	897,544	926,548
CASH AND CASH EQUIVALENTS, end of year	\$ 1,231,285	\$ 820,791	\$ 897,544

The University's cash and cash equivalents increased \$410.5 million in fiscal year 2020. Total cash provided by operating activities was \$81.5 million, an increase of \$286.1 million. Total cash provided by noncapital financing activities was \$448.0 million, an increase of \$38.5 million. Total cash provided by investing activities was \$92.7 million, an increase of \$58.8 million. Total cash used by capital and related financing activities was \$211.7 million, a decrease of \$103.8 million reflecting both capital funding sources (debt proceeds) and uses (purchases of capital assets and debt service).

Major sources of cash provided by operating activities were hospital services of \$2.17 billion; grants and contracts and recoveries of facilities and administrative costs of \$413.7 million; student tuition and fees of \$358.1 million; and professional clinical service fees of \$258.2 million. Major uses of cash for operating activities were payments to employees for salaries, wages and benefits of \$2.14 billion and to vendors and contractors of \$1.24 billion.

Noncapital financing activities include state appropriations from the Commonwealth of \$261.1 million, CARES Act funding of \$51.1 million, gifts and grants for other than capital purposes of \$134.8 million and other receipts of \$0.6 million.

Capital and related financing activities include proceeds from capital debt of \$71.5 million and capital grants and gifts of \$55.2 million. Cash of \$239.3 million was expended for construction and purchases of capital assets and \$93.0 million was expended for principal and interest payments on capital debt and leases.

Investing activities include proceeds from sales and maturities of investments of \$720.7 million and interest and dividends on investments of \$44.4 million. Cash of \$672.4 million was used for purchases of investments.

2019 Versus 2018. Cash balances were lower when comparing fiscal year 2019 to fiscal year 2018. The \$76.8 million decrease in cash and cash equivalents was created from more cash used by operating activities and capital and related financing activities and less cash provided by noncapital financing activities offset by more cash provided by investing activities.

Capital Assets and Debt Administration

Capital Assets.

Capital assets, net of accumulated depreciation, totaled \$3.54 billion at June 30, 2020, an increase of \$93.9 million. Capital assets as of June 30, 2020, 2019 and 2018, and significant changes in capital assets during the years ended June 30, 2019 and 2020 are as follows (in millions):

	Balance June, 30 2018	Net Additions (Deletions) FY 2018-19	Balance June 30, 2019	Net Additions (Deletions) FY 2019-20	Balance June 30, 2020
Land and land improvements	\$ 286	\$ 36	\$ 322	\$ 10	\$ 332
Buildings, fixed equipment and infrastructure	3,856	245	4,101	158	4,259
Equipment, vehicles and capitalized software	825	37	862	55	917
Library materials and art	170	(1)	169	2	171
Certificate of need	12	—	12	—	12
Construction in progress	232	(104)	128	39	167
Accumulated depreciation	(1,998)	(152)	(2,150)	(170)	(2,320)
Total	<u>\$ 3,383</u>	<u>\$ 61</u>	<u>\$ 3,444</u>	<u>\$ 94</u>	<u>\$ 3,538</u>

At June 30, 2020, the University had commitments in construction in progress for capital projects totaling approximately \$420.3 million in scope. Major projects include the construction of the new Healthy Kentucky Research Building and health care facilities, and campus modernization efforts. The estimated cost to complete the projects in progress was approximately \$285.6 million.

Debt.

At June 30, 2020, capital debt amounting to \$1.22 billion, summarized by trust indenture and type, is as follows (in millions):

	2020	2019	2018
General Receipts bonds and notes	\$ 1,069	\$ 1,052	\$ 1,093
Capital lease obligations	121	83	85
Notes payable	26	18	19
Total	<u>\$ 1,216</u>	<u>\$ 1,153</u>	<u>\$ 1,197</u>

Debt increased \$62.1 million during the year primarily due to the new General Receipts 2019 Series A and B Certificates of Participation of \$32.5 million and the issuance of General Receipts 2020 Series A and B Bonds of \$58.5 million, as well as net additions to capital leases and other long-term obligations of \$12.9 million. Partially offsetting these increases are the annual principal payments on the University's debt obligations of \$41.8 million.

Economic and Other Factors That Will Affect the Future

At the beginning of the 2019–20 academic year, very few likely anticipated that the world as we know it would be upended; that a global health pandemic would threaten to significantly alter nearly every aspect of the economy and higher education. In preparing for a post-pandemic world, public institutions are bracing for state budget cuts, unstable enrollments, lower investment income, and significant increases in unexpected costs while trying to safeguard traditional high-quality and inclusive learning environments.

Amid this unprecedented public health crisis, UK swiftly responded to honor its most important principles: protecting the health, safety, and well-being of everyone in our community and enabling our students, faculty, and staff to succeed. The University's Health Workgroup formed to respond to issues with respect to the virus. In early March, Kentucky Governor Andy Beshear declared a state of emergency while reporting the state's first case, a patient who was treated at UK HealthCare. In mid-March, less than two weeks after the first confirmed COVID-19 case in Kentucky, UK announced the transition to fully remote instruction.

The University's specific planning efforts, as described in [UK's Playbook for Reinvented Operations Fall 2020](#), are underway across the enterprise. Our common goal is a return to a safe and healthy campus as quickly as possible that sets the institution on a transition course to thrive. The fall 2020 courses began on August 17, 2020. Even though economic challenges will continue to have an impact on the future, senior leadership's viewpoint is that the University is well-positioned to maintain its fiscally sound condition and will continue to provide excellent services to students, patients, the community, and the citizens of the Commonwealth. This outlook, along with ongoing efforts toward revenue diversification, cost containment, efficiency and effectiveness initiatives, and COVID-19 funding opportunities, will enable the University to obtain the necessary resources to meet its strategic objectives.

The following are known facts and circumstances that will influence future financial results:

- According to data from the National Student Clearinghouse Research Center, college enrollment is in its eighth consecutive year of decline, crossing every sector. Lower birth rates over the past twenty years have resulted in fewer high school graduates. While economic conditions have abruptly changed, college affordability has become a more heightened concern for many as the coronavirus pandemic disrupts personal finances. Additionally, Kentucky's in-state college-going rate continues to decline. According to the most recent data from the Kentucky Council on Postsecondary Education, the rate has fallen from 54.0% in 2015 to 51.7% in 2018. These trends will impact future enrollment efforts for both resident and non-resident undergraduate students. Further, as a result of the pandemic, the American Council on Education forecasts that enrollments for the next academic year (2020-21) will drop by 15%, including a 25% decline in the number of international students.
- Prior to the start of the coronavirus pandemic, the 2020 Session of the Kentucky General Assembly was poised to pass a biennial budget. As the economic realities of the health pandemic took hold, the Kentucky General Assembly ended its session with the passage of a one-year state budget that primarily held state appropriations for postsecondary education institutions flat and retained the state's performance-based funding model. Governor Beshear announced in late July the state's General Fund revenues for fiscal year 2019-20 will show a surplus - a marked improvement from May 22, 2020 when the revenue estimate expected a shortfall of \$457.0 million. Governor Beshear emphasized that despite these encouraging signs, the economic outlook in Kentucky remains extremely difficult and successfully fighting to stop the spread of COVID-19 remains the most important component to safeguarding Kentucky's economy.
- Higher Education was navigating a multitude of disruptions even before the COVID-19 pandemic. According to a study published in the Chronicle of Higher Education, the surge in knowledge needed in the workplace is outpacing the speed of learning in college. Additional tuition revenue is projected to come from new and expanded programs launched in fiscal year 2019-20 and a significant amount of UK's future enrollment growth is expected through online program offerings. More than 40 fully online certificate and degree programs are available at UK. Certificate offerings such as the one in Distillation, Wine and Brewing Studies are designed to respond to employer expectations.
- Fiscal year 2020-21 is the fourth year for the Kentucky General Assembly to use the performance funding model to allocate a portion of state appropriations to the public universities and the Kentucky Community and Technical College System. The model is based on 11 metrics primarily focused on student success, including bachelor's degrees produced, earned student credit hours, and undergraduate student retention and progression. Based on performance, UK is to receive \$6.6

million in fiscal year 2020-21 from the \$14.9 million fund, a net gain of \$3 million. Per KRS 164.092, a Performance Funding Work Group must convene every three years to determine if the comprehensive funding model is functioning as expected, identify any unintended consequences of the model and recommend any adjustments to the model. That report is due to the General Assembly in December 2020.

- For the fifth year in a row, UK HealthCare was named the #1 hospital in Kentucky by U.S. News & World Report, with the Markey Cancer Center ranked among the best cancer centers in the nation. Annual inpatient discharges from UK's hospitals are expected to exceed 41,700 by fiscal year 2020-21, an increase of 28.2% over ten years. The number of outpatient visits to UK's clinics are expected to exceed 2.3 million in fiscal year 2020-21, an increase of 155.0% over ten years.
- COVID-19 funding opportunities like CARES Act, Provider Relief Fund, FEMA, and others grant sources have been allocated, requested, awarded, or received for eligible expenses related to the disruption of campus operations due to the COVID-19 crisis. For example, under the CARES Act, UK was eligible for \$17.8 million in Higher Education Emergency Relief Funds. Half of that amount – more than \$8.9 million – has been directed toward student aid, whose educations have been disrupted by COVID-19. Additional federal legislation for funding related to COVID-19 is expected in fiscal year 2020-21.
- Another expected fallout from the COVID-19 pandemic is anticipated changes in operating investment income. The target for the federal funds rate has varied widely over the years in response to prevailing economic conditions. It was set as high as 20.0% in the early 1980s in response to inflation. With the Great Recession of 2007–2009, the rate was slashed to a record low target of zero to .25% to encourage growth. The federal funds rate influences short-term interest rates thereby affecting the amount of investment income the University earns on its daily operating cash balances. From fiscal year 2016-17 to fiscal year 2019-20, the University's budget for investment income earned on its daily operating cash increased from \$4.0 million to \$24.2 million. In response to the pandemic, the federal funds rate has fallen from 2.39% as of July 1, 2019, to 1.59% as of March 3, 2020, to .05% as of June 1, 2020. This change has dramatically reduced the University's fiscal year 2020-21 projected investment income to \$6.7 million, a decrease of \$17.5 million, or 72.3% from fiscal year 2019-20. The University's long-term endowment investment strategy is to maximize total returns, at an appropriate level of risk, while utilizing a spending rate policy to maintain the purchasing power of endowment assets and insulate programs funded by the endowment from temporary market volatility.
- For the first time in UK history, faculty received \$429.2 million in competitive research awards in fiscal year 2019-20. This is a 2.9% increase from fiscal year 2018-19, which itself was a record-breaking 25.0% increase from the previous year. As awards transition into income, revenues from grants and contracts are projected to increase by \$43.3 million to \$381.2 million for fiscal year 2020-21.
- Regarding capital projects, in July 2011, the University, in partnership with the Commonwealth, initiated the modernization and renewal of the state's flagship institution's facilities. Over \$2.67 billion has been invested to protect historically significant buildings; increase building accessibility; and provide the infrastructure necessary to ensure student success and healthcare advancements that benefit all Kentuckians. The 2020 Session of the Kentucky General Assembly authorized the 241 capital projects requested by the University in its 2020-22 capital budget request. The UK Board of Trustees must approve any project with an estimated scope of \$1.0 million or more prior to initiation. The legislative authorizations include:
 - \$14.0 million in state funded bonds for the University's Improve Sanders-Brown Center on Aging/Neurosciences Facilities capital project;
 - Up to \$188.0 million in agency bonds for the next phase of the University's modernization and renewal initiative;
 - Up to \$100.0 million in agency bonds for UK HealthCare projects; and
 - Various other capital projects funded with agency bonds and agency funds.

The University of Kentucky, like many colleges and universities, continues to search, implement, assess and revise efficient and effective modes of operation. While the COVID-19 pandemic continues to evolve, the University community has chosen to face the crisis as an opportunity to emerge stronger. With compassion and grit, it has adopted new technology, business models and revamped campus operations. Now, more than ever, the future of higher education and the Commonwealth depend on the University of Kentucky to uplift the individuals and communities it so proudly serves.

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
STATEMENTS OF NET POSITION (in thousands)
JUNE 30, 2020 AND 2019

	2020	2019
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current Assets		
Cash and cash equivalents	\$ 1,024,241	\$ 554,775
Notes, loans and accounts receivable, net	430,761	415,598
Investments	16,119	4,107
Inventories and other assets	67,948	63,352
Total current assets	<u>1,539,069</u>	<u>1,037,832</u>
Noncurrent Assets		
Restricted cash and cash equivalents	207,044	266,016
Endowment investments	1,365,422	1,385,507
Other long-term investments	303,912	358,976
Notes, loans and accounts receivable, net	350,727	405,966
Other noncurrent assets	5,112	5,149
Capital assets, net	3,537,647	3,443,772
Total noncurrent assets	<u>5,769,864</u>	<u>5,865,386</u>
Total assets	7,308,933	6,903,218
Deferred Outflows of Resources		
Total assets and deferred outflows of resources	<u>33,593</u>	<u>38,317</u>
	7,342,526	6,941,535
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
Current Liabilities		
Accounts payable and accrued liabilities	303,115	259,754
Unearned revenue	189,741	145,607
Long-term liabilities - current portion	83,769	85,191
Total current liabilities	<u>576,625</u>	<u>490,552</u>
Noncurrent Liabilities		
Unearned revenue	229,799	252,386
Long-term liabilities	1,299,477	1,241,373
Net other postemployment benefit liability - retiree health	117,941	231,491
Net other postemployment benefit liability - long-term disability	3,975	5,436
Total noncurrent liabilities	<u>1,651,192</u>	<u>1,730,686</u>
Total liabilities	2,227,817	2,221,238
Deferred Inflows of Resources		
Total liabilities and deferred inflows of resources	<u>582,839</u>	<u>541,744</u>
	2,810,656	2,762,982
NET POSITION		
Net investment in capital assets	<u>1,942,496</u>	<u>1,909,624</u>
Restricted		
Nonexpendable		
Scholarships and fellowships	184,990	174,077
Research	289,902	286,191
Instruction	82,789	81,306
Academic support	86,082	85,896
Other	14,072	13,785
Total restricted nonexpendable	<u>657,835</u>	<u>641,255</u>
Expendable		
Scholarships and fellowships	88,440	96,982
Research	69,185	96,915
Instruction	48,228	54,438
Academic support	111,928	100,832
Loans	11,454	12,380
Capital projects	61,276	74,027
Debt service	2,117	1,069
Auxiliary	38,673	37,280
Other	48,102	47,091
Total restricted expendable	<u>479,403</u>	<u>521,014</u>
Total restricted	<u>1,137,238</u>	<u>1,162,269</u>
Unrestricted	<u>1,452,136</u>	<u>1,106,660</u>
Total net position	\$ 4,531,870	\$ 4,178,553

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, 2020 AND 2019

	2020	2019
OPERATING REVENUES		
Student tuition and fees	\$ 546,066	\$ 519,817
Less: Scholarship allowances	(189,869)	(176,524)
Net student tuition and fees	356,197	343,293
Federal grants and contracts	220,070	208,669
State and local grants and contracts	110,153	86,543
Nongovernmental grants and contracts	31,816	33,062
Recoveries of facilities and administrative costs	68,393	67,100
Sales and services	57,695	59,383
Federal appropriations	17,641	17,239
County appropriations	27,915	26,689
Professional clinical service fees	256,803	247,589
Hospital services	2,140,270	1,750,927
Auxiliary enterprises:		
Housing and dining	33,091	36,023
Less: Scholarship allowances	(1,025)	(1,065)
Net housing and dining	32,066	34,958
Athletics	115,784	114,069
Other auxiliaries	51,932	54,092
Other operating revenues	24,608	21,138
Total operating revenues	3,511,343	3,064,751
OPERATING EXPENSES		
Educational and general:		
Instruction	325,829	317,236
Research	304,848	300,255
Public service	210,496	203,903
Libraries	25,181	24,384
Academic support	89,322	89,595
Student services	45,885	45,254
Institutional support	10	74,759
Operations and maintenance of plant	91,831	82,832
Student financial aid	49,558	40,986
Depreciation	77,193	73,379
Total educational and general	1,220,153	1,252,583
Clinical operations (including depreciation of \$9,134 in 2020 and \$12,067 in 2019)	432,233	433,368
Hospital and clinics (including depreciation of \$69,025 in 2020 and \$66,959 in 2019)	1,716,058	1,509,906
Auxiliary enterprises:		
Housing and dining (including depreciation of \$11,191 in 2020 and \$11,639 in 2019)	31,167	28,335
Athletics (including depreciation of \$17,397 in 2020 and \$17,156 in 2019)	143,790	141,732
Other auxiliaries (including depreciation of \$7,283 in 2020 and \$6,945 in 2019)	42,577	46,792
Other operating expenses	576	2,014
Total operating expenses	3,586,554	3,414,730
Net loss from operations	(75,211)	(349,979)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	261,056	258,495
CARES Act	20,248	—
Gifts and non-exchange grants	115,636	120,885
Investment income	28,453	108,293
Interest on capital asset-related debt	(38,660)	(44,373)
Other nonoperating revenues and expenses, net	1,550	16,674
Net nonoperating revenues	388,283	459,974
Net income before other revenues, expenses, gains or losses	313,072	109,995
Capital grants and gifts	35,584	71,570
Additions to permanent endowments	15,407	13,606
Other, net	(10,746)	17,872
Total other revenues	40,245	103,048
INCREASE IN NET POSITION	353,317	213,043
NET POSITION, beginning of year	4,178,553	3,965,510
NET POSITION, end of year	\$ 4,531,870	\$ 4,178,553

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
STATEMENTS OF CASH FLOWS (in thousands)
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	\$ 358,119	\$ 343,194
Grants and contracts	346,287	321,013
Recoveries of facilities and administrative costs	67,449	65,661
Sales and services	56,656	59,316
Federal appropriations	17,955	17,590
County appropriations	28,389	27,227
Payments to vendors and contractors	(1,239,091)	(1,132,873)
Student financial aid	(49,574)	(40,987)
Salaries, wages and benefits	(2,138,393)	(2,056,001)
Professional clinical service fees	258,164	257,916
Hospital services	2,173,166	1,713,408
Auxiliary enterprises receipts	183,764	194,602
Loans issued to students	(20,899)	(11,428)
Collection of loans to students	23,299	15,478
Self insurance receipts	69,649	73,313
Self insurance payments	(74,560)	(73,108)
Other receipts	21,094	21,022
Net cash provided (used) by operating activities	81,474	(204,657)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	261,056	258,495
CARES Act	51,128	—
Gifts and grants received for other than capital purposes:		
Gifts received for endowment purposes	15,407	13,606
Gifts received for other purposes	119,408	121,605
Agency and loan program receipts	256,328	244,475
Agency and loan program payments	(255,923)	(245,211)
Other financing receipts (payments)	584	16,499
Net cash provided by noncapital financing activities	447,988	409,469
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital grants and gifts	55,191	52,652
Purchases of capital assets	(239,272)	(268,390)
Proceeds from capital debt	71,471	13,397
Payments to refunding bond agents	—	(15,165)
Proceeds from sales of capital assets	335	—
Principal paid on capital debt and leases	(50,568)	(49,215)
Interest paid on capital debt and leases	(42,429)	(50,169)
Other financing receipts	(6,397)	1,432
Net cash used by capital and related financing activities	(211,669)	(315,458)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	720,721	605,733
Interest and dividends on investments	44,400	49,838
Purchases of investments	(672,420)	(621,678)
Net cash provided by investing activities	92,701	33,893
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	410,494	(76,753)
CASH AND CASH EQUIVALENTS, beginning of year	820,791	897,544
CASH AND CASH EQUIVALENTS, end of year	\$ 1,231,285	\$ 820,791

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
STATEMENTS OF CASH FLOWS (in thousands)
FOR THE YEARS ENDED JUNE 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Reconciliation of net loss from operations		
to net cash provided (used) by operating activities:		
Net loss from operations	\$ (75,211)	\$ (349,979)
Adjustments to reconcile net loss from operations		
to net cash used by operating activities:		
Depreciation expense	191,223	188,145
Change in assets and liabilities:		
Notes, loans and accounts receivable, net	8,957	(95,481)
Inventories and other assets	(3,945)	(8,939)
Deferred outflows of resources	3,246	2,407
Accounts payable and accrued liabilities	39,099	(44,550)
Unearned revenue	(9,168)	123,487
Long-term liabilities	(5,439)	(8,001)
OPEB liabilities	(115,011)	354
Deferred inflows of resources	47,723	(12,100)
Net cash provided (used) by operating activities	<u>\$ 81,474</u>	<u>\$ (204,657)</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Capital lease additions	\$ 45,741	\$ 6,517
Gifts of capital assets	\$ 5,114	\$ 2,856
Capital asset change in accounts payable	\$ 4,337	\$ 32,910
Capital asset additions by service concession arrangements	\$ 3,268	\$ 39
Capital asset additions by Surgery Blue, LLC	\$ 1,812	\$ —
Capitalized interest, net of investment income	\$ 4,026	\$ 4,470
Amortized bond discount and premium	\$ 7,137	\$ 7,473
Amortized difference between reacquisition price and net carrying		
amount of refunded debt	\$ 1,478	\$ 1,572
Capital asset trade in	\$ 624	\$ 9,764
Investment unrealized gains (losses)	\$ (29,479)	\$ 54,848

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
STATEMENTS OF FIDUCIARY NET POSITION (in thousands)
JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash and cash equivalents	\$ 6,289	\$ 5,614
Accrued interest receivable	11	21
Investments	<u>194,387</u>	<u>191,823</u>
Total assets	<u>200,687</u>	<u>197,458</u>
LIABILITIES		
Accounts payable and accrued liabilities	<u>—</u>	<u>—</u>
Total liabilities	<u>—</u>	<u>—</u>
NET POSITION		
Net position restricted for postemployment benefits other than pensions	<u>\$ 200,687</u>	<u>\$ 197,458</u>

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION (in thousands)
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Additions		
Investment income (loss):		
Interest and dividend income	\$ 2,728	\$ 3,662
Net appreciation (depreciation) in fair value of investments	<u>(3,422)</u>	<u>7,253</u>
Net investment income (loss)	<u>(694)</u>	<u>10,915</u>
Contributions:		
University of Kentucky	16,081	20,867
Beneficiaries	<u>3,719</u>	<u>4,379</u>
Total contributions	<u>19,800</u>	<u>25,246</u>
Total additions	<u>19,106</u>	<u>36,161</u>
Deductions		
Administrative expenses	1,675	1,440
Payments to retirees and beneficiaries	<u>14,202</u>	<u>16,887</u>
Total deductions	<u>15,877</u>	<u>18,327</u>
INCREASE IN NET POSITION	3,229	17,834
NET POSITION restricted for postemployment benefits other than pensions, beginning of year	<u>197,458</u>	<u>179,624</u>
NET POSITION restricted for postemployment benefits other than pensions, end of year	<u>\$ 200,687</u>	<u>\$ 197,458</u>

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The University of Kentucky (the University) is a component unit of the Commonwealth of Kentucky (the Commonwealth) and is included in the basic financial statements of the Commonwealth. The financial statements of the University include the operations of the University and its affiliated non-profit corporations (entities for which the University is financially accountable as defined by Statement No. 14 and amended by Statements No. 39, No. 61 and No. 80 of the Governmental Accounting Standards Board (GASB), and which meet the definition of an affiliated corporation under Kentucky Revised Statutes (KRS) section 164A.550) as follows: the University of Kentucky Research Foundation (UKRF) and its for-profit subsidiary, Kentucky Technology, Inc. (KTI); University of Kentucky Gluck Equine Research Foundation, Inc.; University of Kentucky Humanities Foundation, Inc.; University of Kentucky Mining Engineering Foundation, Inc.; and Central Kentucky Management Services, Inc. The affiliates are presented as blended component units since University management has operational responsibility for each affiliated corporation. The financial statements also include the operations of Kentucky Medical Services Foundation, Inc. (KMSF) and University of Kentucky Alumni Association (Alumni), non-profit entities for which the University is financially accountable as defined by GASB, but which are not affiliated corporations under KRS. KMSF is included within the University reporting entity as a blended component unit as KMSF provides its services entirely to the University. Alumni is included within the University reporting entity as a blended component unit as Alumni has a dual reporting/funding model which integrates Alumni with the University. The financial statements also include the operations of the following organizational units of the University: the Kentucky Tobacco Research and Development Center (KTRDC), WUKY Radio and the UK HealthCare Hospital System (the System) which includes Kentucky Healthcare Enterprise, Inc., a wholly owned for-profit subsidiary and Surgery Blue, LLC, a wholly owned for-profit subsidiary and its for-profit subsidiary, Surgery Center of Lexington, LLC (SCL) (51% ownership). The separate financial statements for the above entities can be found at: www.uky.edu/ufs/financial-statements-and-investor-information.

The other post-employment benefit plans (OPEB Plans or Plans) are single-employer defined OPEB benefit plans included in the financial statements as OPEB trust fiduciary funds. The board of the University performs the governing duties of the Plans, as the Plans do not have a separate board. The fiduciary fund statements are presented as of June 30, 2020 and 2019, the Plans fiscal year-end.

The Plans are presented as fiduciary component units in the University's financial statements. The Plans are legal separate entities, and the University appoints a voting majority of the Plans' governing body, provides specific financial benefits to the Plans and the Plans impose financial burden on the University.

Basis of Presentation

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

- Net investment in capital assets: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- Restricted:
Nonexpendable - Net position subject to externally imposed stipulations that they be maintained permanently by the University. Such assets include the principal of the University's permanent endowment funds.

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

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

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

Summary of Significant Accounting Policies

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

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

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

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

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

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

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

(losses) on sales, accrued income earned, and distribution of investment earnings for expenditure by participating funds.

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

The adopted spending policy is a “hybrid” policy, which includes both the market value of the endowment and the current level of inflation in determining spending each year. Annual spending is calculated by taking a weighted average comprising 60% of the prior year’s spending, adjusted for inflation, and 40% of the amount that results when the target annual spending rate of four percent is applied to the average market value of the endowment over the preceding 36 months. The spending amount determined by the formula is constrained so that the calculated rate is at least 3.5 percent, and not more than five percent, of the current endowment market value.

The University also utilizes an endowment management fee to support internal management and fundraising costs related to the endowment. Effective July 1, 2018, the management fee can be temporarily increased by up to 0.50 percent, for a maximum annual assessment of one percent, to support additional expenses related to the capital campaign. For the years ended June 30, 2020 and 2019, the University’s annual endowment management fee was 0.90 percent and 0.82 percent, respectively.

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

The components of the University’s spending policy distribution and management fee for the years ended June 30, 2020 and 2019 are as follows (in thousands):

	2020	2019
Gross spending policy distribution	\$ 47,901	\$ 46,124
Reinvested spending policy distribution	(23,745)	(26,708)
Net spending policy distribution	<u>\$ 24,156</u>	<u>\$ 19,416</u>
Management fee	<u>\$ 10,918</u>	<u>\$ 9,745</u>

Capital Assets. Capital assets are stated at cost at the date of acquisition or, in the case of gifts, at acquisition value in accordance with GASB statement No. 72.

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

Equipment with a unit cost of \$5 thousand or more (\$2 thousand or more for KMSF, \$2,500 or more for KTI and \$1 thousand or more for Alumni) and having an estimated useful life of greater than one year is capitalized. Institutional software costing more than \$400 thousand is capitalized. Renovations to buildings, infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred.

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

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

The University evaluates capital assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital asset has occurred. If a capital asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, the accumulated depreciation will be accelerated. The amount of the impairment loss will be recorded as the net book value divided proportionately over its remaining years of useful life. Asset impairments of \$309 thousand and \$802 thousand were recognized during the years ended June 30, 2020 and 2019, respectively.

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

Unearned Revenue. Unearned revenue consists primarily of amounts received from grant and contract sponsors that have not yet been earned under the terms of the agreement. Unearned revenue also includes amounts received from multimedia rights pursuant to contract agreement and amounts received in advance of an event, such as athletic ticket sales relating to future fiscal years, unearned hospital reimbursement revenue 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, 2020 and 2019 is recorded as a liability by the University. Temporary disability leave payable upon termination under the University's payout policy is also recorded as a liability. Compensated absence liabilities are computed using the pay rates in effect at the Statement of Net Position date plus an additional amount for compensation-related payments, such as Social Security and Medicare taxes computed using rates in effect at that date.

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

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

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

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

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

Revenue from the Medicare and Medicaid programs accounted for approximately 39% and 20%, respectively, of the System's net patient services revenues before the provision for doubtful accounts for the year ended June 30, 2020 and approximately 24% and 26%, respectively, for the year ended June 30, 2019. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. With the impact of the COVID-19 pandemic and unemployment, more Kentuckians applied and received presumptive Medicaid. These changes have an impact on both Medicaid and Medicaid Disproportionate Share Hospital (DSH) payments. Fiscal year 2019 Medicaid DSH payments were recognized during that fiscal year as the amount was adjusted for dual eligible patient payments that were ruled to be applicable to the Medicaid DSH survey. The Medicaid calculation methodology for supplemental payments was adjusted during fiscal year 2020 and is now referred to as Directed Payments. These new payments replace the Medicaid Managed Care Organization's portion of Intensity Operating Allowance and Physician Supplemental Payment. With Directed Payments, there is no longer an uncompensated gap that is typically filled with Medicaid DSH payments. Therefore, the System does not qualify for Medicaid DSH payments for fiscal year 2020. The Directed Payments are the difference between the System's average commercial rate and the rates Medicaid Managed Care Organizations pay for healthcare services. These payments are applicable to both inpatient and outpatient hospital services. A per day and per visit gap has been calculated and is applied to Medicaid Managed Care volume. The program is based upon data two years in arrears. The payments are based upon two components: access and quality. For fiscal year 2020, access is 95% of the program and quality is 5%. The Commonwealth withholds the quality component as well as an additional 5% for reconciliation, which occurs 14 months following the end of the first quarter, i.e., November 2020 for July through September 2019. A receivable for these dollars has been applied to the third party liability account for fiscal year 2020.

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.

Charity Care. The System provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Since the System does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of charges forgone for the services and supplies furnished under the System's charity care policy aggregated to approximately \$65.1 million and \$73.7 million for the years ended June 30, 2020 and 2019, respectively. The

costs of charity care provided under the System's charity care policy were \$17.2 million and \$19.5 million for the years ended June 30, 2020 and 2019. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.

Management Contract Revenue. The System entered into a contract with the Kentucky Cabinet for Health and Family Services to manage Eastern State Hospital (ESH) and Central Kentucky Recovery Center (CKRC). Under the contract the System is reimbursed 100% of the related operating expenses up to a limit of \$35.9 million and \$37.3M for ESH, for the years ended June 30, 2020 and 2019, respectively; and \$2.1 million for CKRC, for June 30, both 2020 and 2019. The System also receives an eight percent management fee. The initial contract term was August 13, 2013 to June 30, 2014 with the option to renew the contract for additional one-year terms. The contract was renewed for the period of July 1, 2020 to June 30, 2021 with substantially the same terms.

CARES Act. The Coronavirus Aid, Relief, and Economic Security (CARES) Act was passed by Congress and signed into law by President Donald Trump on March 27th, 2020. This over \$2 trillion economic relief package delivers on the federal government's commitment to protecting the American people from the public health and economic impacts of COVID-19. Based on the CARES Act, the federal government distributed direct payments through the Higher Education Emergency Relief Fund (HEERF) and the Provider Relief Fund (PRF). The University received \$17.8 million of HEERF in fiscal year 2020. The University is required to distribute half of the HEERF, \$8.9 million directly towards student financial aid, whose education has been disrupted by COVID-19, which is recorded as nonoperating expense in the Statements of Revenues, Expenses and Changes in Net Position. The institutional portion of the HEERF, \$8.9 million, has been used for eligible expenses such as study abroad students' emergency evacuation and student housing refunds due to campus shutdowns. During the year ended June 30, 2020, the University recognized \$17.8M in HEERF funding as nonoperating revenues. The University also received \$33.2 million of PRF, which included \$30.3 million in the System, \$2.3 million in KMSF and \$620 thousand in UKRF. To receive the PRF, a provider must have billed Medicare fee-for-services and provide diagnoses, testing, or care for individuals with possible or actual cases of COVID-19. If used within the terms and conditions of the program, the PRF does not need to be repaid to the federal government. The Provider is required to use the payments for health care related expenses or lost revenues that are attributable to coronavirus. If the University has unused funds at the earlier of either the end of the pandemic or June 30, 2021, those funds will need to be returned. Appropriate expenses include healthcare related expenses or lost revenue due to the coronavirus, including prevention, preparation, training, reporting, and treatment. Following the preliminary guidance from the US Department of Health Human Services regarding these funds, KMSF prescribed to the lost revenue method to account for these funds. The budgeted net revenue was compared to actual net revenue for the periods of March through April 2020 for KMSF physician clinical activity. As a result, PRF revenue of \$2.3 million was recognized in fiscal year 2020, in nonoperating revenues in the Statements of Revenues, Expenses and Changes in Net Position, and \$30.9 million was reported as unearned revenue in the Statements of Net Position. The PRF are subject to government oversight, including potential audits. On September 19, 2020 additional guidance was released by the U.S. Department of Health and Human Services related to the CARES Act which could impact the amount recognized by the University in the near term.

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

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

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

The University has classified operating expenses based upon their functional classifications. Operating expenses by natural classification are presented in note 23. During fiscal years 2020 and 2019, departmental research in non-sponsored accounts of approximately \$91.4 million and \$89.8 million, respectively, was recorded as research expense in the Statements of Revenues, Expenses and Changes in Net Position.

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

The University has elected to self-insure certain costs related to medical malpractice, health insurance, workers' compensation and unemployment claims. See note 19.

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

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

- GASB Statement No. 84, *Fiduciary Activities*, issued January 2017. The provisions of this statement were effective for fiscal years beginning after December 15, 2018 (fiscal year 2020). Due to the COVID-19 pandemic, GASB issued statement No. 95 thus extending the provisions of this statement by one year to fiscal year 2021. This statement provides guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and will require the University to include fiduciary fund financial statements for material fiduciary activities before the notes to the financial statements. The University has yet to determine the impact Statement No. 84 will have on its financial statements.
- GASB Statement No. 87, *Leases*, issued June 2017. The provisions of the statement were effective for fiscal years beginning after December 15, 2019 (fiscal year 2021). Due to the COVID-19 pandemic, GASB issued statement No. 95 thus extending the provisions of this statement by 18 months to fiscal year 2022. This statement requires certain lease assets and liabilities for leases that were previously classified as operating leases to be recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The University has yet to determine the impact GASB Statement No. 87 will have on its financial statements.
- GASB Statement No. 89, *Accounting for Interest Cost Incurred before the end of a Construction Period*, issued June 2018. The provisions of the statement were effective for fiscal years beginning after December 15, 2019 (fiscal year 2021). Due to the COVID-19 pandemic, GASB issued statement No. 95 thus extending the provisions of this statement by one year to fiscal year 2022. This statement requires that interest cost incurred before the end of a construction period be

recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The University has yet to determine the impact Statement No. 89 will have on its financial statements.

Revisions and reclassifications. Certain revisions and reclassifications to fiscal year 2019 comparative amounts have been made to conform with the fiscal year 2020 financial statement classifications. Such revisions and reclassifications had no effect on the change in net position.

2. DEPOSITS AND INVESTMENTS

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

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

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

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

The fair value of deposits and investments by Statement of Net Position classification at June 30, 2020 and 2019 are as follows (in thousands):

	2020	2019
<u>Statement of Net Position classification</u>		
Deposits		
Current cash and cash equivalents	\$ 1,024,241	\$ 554,775
Restricted cash and cash equivalents	207,044	266,016
Total deposits	1,231,285	820,791
Investments		
Current investments	16,119	4,107
Endowment investments	1,365,422	1,385,507
Other long-term investments	303,912	358,976
Total investments	1,685,453	1,748,590
Total deposits and investments	\$ 2,916,738	\$ 2,569,381

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

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

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

The University has the following valuation measurements, by type, at June 30, 2020 (in thousands):

	Total value	Fair Value Measurement Using					Amortized or historical cost
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total measured at fair value	Net asset value (NAV)	
<u>Non-endowed deposits and investments</u>							
Cash and cash equivalents	\$ 321,511	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 321,511
Cash surrender value of life insurance policies	7,576	—	—	—	—	—	7,576
Certificates of deposit	28,467	—	28,467	—	28,467	—	—
Diversifying strategies ¹	4	—	—	—	—	4	—
Deposits with the Commonwealth of Kentucky ²	16,252	—	—	—	—	—	16,252
Global equity - hedged	2	—	—	—	—	2	—
Global equity - international	8,382	8,379	—	—	8,379	3	—
Global equity - private ³	285	—	—	—	—	6	279
Global equity - U.S.	23,151	23,143	—	—	23,143	4	4
Global fixed income - high quality/rate sensitive ⁴	1,122,771	2,613	420,673	—	423,286	22,154	677,331
Global fixed income - private credit ²	1	—	—	—	—	1	—
Global fixed income - public credit	10,125	1,989	8,135	—	10,124	1	—
Guaranteed investment contracts	10,455	—	—	—	—	—	10,455
Other	3	—	—	—	—	—	3
Real assets - private ³	4	—	—	1	1	3	—
Real assets - public	2,327	2,327	—	—	2,327	—	—
Total non-endowed deposits and investments	1,551,316	38,451	457,275	1	495,727	22,178	1,033,411
<u>Endowed deposits and investments</u>							
Cash and cash equivalents	4,020	—	—	—	—	—	4,020
Diversifying strategies ¹	188,279	—	—	—	—	188,279	—
External trusts	13,282	—	—	13,282	13,282	—	—
Global equity - hedged	79,840	—	—	—	—	79,840	—
Global equity - international	199,831	76,232	268	13	76,513	123,318	—
Global equity - private ³	265,249	—	—	—	—	265,249	—
Global equity - U.S.	208,594	9,537	1,146	—	10,683	197,911	—
Global fixed income - high quality/rate sensitive	80,959	22,138	58,821	—	80,959	—	—
Global fixed income - private credit ³	38,073	—	—	—	—	38,073	—
Global fixed income - public credit	70,490	37,925	559	—	38,484	32,006	—
Other	1	—	1	—	1	—	—
Real assets - private ³	140,690	—	—	24,448	24,448	116,242	—
Real assets - public	76,114	56,897	116	—	57,013	19,101	—
Total endowed deposits and investments	1,365,422	202,729	60,911	37,743	301,383	1,060,019	4,020
Total deposits and investments	\$ 2,916,738	\$ 241,180	\$ 518,186	\$ 37,744	\$ 797,110	\$ 1,082,197	\$ 1,037,431

- 1) Diversifying strategies include investments in various diversified, unconstrained strategies including hedge funds and global tactical asset allocation strategies.
- 2) Non-endowed deposits with the Commonwealth include deposits held by the state for capital construction, tobacco research and state appropriations. The University does not earn investment income on these funds; all investment income accrues to the Commonwealth.
- 3) Global equity - private and global fixed income - private credit include alternative investments whose fair market value is measured using its net asset value as of March 31, 2020 of \$13.3 million and \$0.5 million, respectively.
- 4) Non-endowed global fixed income - high quality/rate sensitive includes deposits and investments in the Commonwealth's limited pool and intermediate pool funds. As of June 30, 2020, \$677.3 million was held in the Commonwealth's limited-term investment pool and \$226.8 million was held in the intermediate-term pool. The limited-term pool fund's fair value is measured at amortized cost and the intermediate-term pool fund's fair value is measured using level 2 observable inputs. Both investment pools provide same day liquidity with no limitations, fees or restrictions on withdrawals.

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

	Total value	Fair Value Measurement Using					Net asset value (NAV)	Amortized or historical cost
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total measured at fair value			
Non-ended deposits and investments								
Cash and cash equivalents	\$ 288,422	\$ 209,356	\$ —	\$ —	\$ —	\$ 209,356	\$ —	\$ 79,066
Cash surrender value of life insurance policies	6,473	—	—	—	—	—	—	6,473
Certificates of deposit	22,463	—	22,463	—	—	22,463	—	—
Deposits with the Commonwealth of Kentucky ¹	9,503	—	—	—	—	—	—	9,503
Global equity - international	8,787	8,787	—	—	—	8,787	—	—
Global equity - private	302	—	—	—	—	—	—	302
Global equity - U.S.	22,165	22,161	—	—	—	22,161	—	4
Global fixed income - high quality/rate sensitive ²	804,470	1,717	504,169	—	—	505,886	—	298,584
Global fixed income - public credit	10,017	3,286	6,731	—	—	10,017	—	—
Guaranteed investment contracts	8,983	—	—	—	—	—	—	8,983
Other	3	—	—	—	—	—	—	3
Real assets - public	2,286	2,286	—	—	—	2,286	—	—
Total non-ended deposits and investments	1,183,874	247,593	533,363	—	—	780,956	—	402,918
Ended deposits and investments								
Cash and cash equivalents	2,794	—	—	—	—	—	—	2,794
Diversifying strategies ³	203,095	10,769	—	—	—	10,769	192,326	—
External trusts	12,473	—	—	12,473	—	12,473	—	—
Global equity - hedged	81,871	—	—	—	—	—	81,871	—
Global equity - international	243,772	98,057	687	15	—	98,759	145,013	—
Global equity - private ⁴	219,120	—	—	1	—	1	219,119	—
Global equity - U.S.	172,997	8,241	964	—	—	9,205	163,792	—
Global fixed income - high quality/rate sensitive	93,718	33,830	59,888	—	—	93,718	—	—
Global fixed income - private credit ⁴	41,557	—	—	—	—	—	41,557	—
Global fixed income - public credit	81,613	42,921	545	—	—	43,466	38,147	—
Other	125	124	1	—	—	125	—	—
Real assets - private ⁴	136,071	—	—	19,955	—	19,955	116,116	—
Real assets - public	96,301	63,329	123	—	—	63,452	32,849	—
Total ended deposits and investments	1,385,507	257,271	62,208	32,444	—	351,923	1,030,790	2,794
Total deposits and investments	\$ 2,569,381	\$ 504,864	\$ 595,571	\$ 32,444	\$ —	\$ 1,132,879	\$ 1,030,790	\$ 405,712

- 1) Non-ended deposits with the Commonwealth include deposits held by the state for capital construction, tobacco research and state appropriations. The University does not earn investment income on these funds; all investment income accrues to the Commonwealth.
- 2) Non-ended global fixed income - high quality/rate sensitive includes deposits and investments in the Commonwealth's limited pool and intermediate pool funds. As of June 30, 2019, \$298.6 million was held in the Commonwealth's limited-term investment pool and \$229.1 million was held in the intermediate-term pool. The limited-term pool fund's fair value is measured at amortized cost and the intermediate-term pool fund's fair value is measured using level 2 observable inputs. Both investment pools provide same day liquidity with no limitations, fees or restrictions on withdrawals.
- 3) Endowed diversifying strategies include investments in various diversified, unconstrained strategies including hedge funds and global tactical asset allocation strategies.
- 4) Endowed global equity - private, global fixed income - private credit and real assets - private include alternative investments whose fair market value is measured using its net asset value as of March 31, 2019 of \$219.1 million, \$10.6 million, and \$136.1 million, respectively.

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

Such securities are classified in level 2 of the valuation hierarchy. In certain cases, where level 1 or level 2 inputs are not available, securities are classified within level 3 of the hierarchy.

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

Investments valued using NAV per share (or its equivalent) as of June 30, 2020 and 2019 are as follows (in thousands):

	2020							
	Net asset value (NAV)	Redemption Frequency/Notice Period						Unfunded commitments
		Daily, weekly/ 1 - 7 days	Semi-monthly, monthly/ 15 - 75 days	Quarterly/ 60 - 90 days	Semi-annually/ 60 - 180 days	Annually/ 90 - 180 days	End of term/ 5 to 10 years	
Diversifying strategies	\$ 188,283	\$ —	\$ 32,672	\$ 81,403	\$ 21,687	\$ 28,409	\$ 24,112	\$ 19,351
Global equity - hedged	79,842	—	—	34,653	17,167	28,022	—	—
Global equity - international	123,321	73,421	24,586	19,944	—	5,370	—	—
Global equity - private	265,255	—	—	—	—	—	265,255	106,532
Global equity - U.S.	197,915	166,959	30,956	—	—	—	—	—
Global fixed income - high quality/rate sensitive	22,154	22,154	—	—	—	—	—	—
Global fixed income - private credit	38,074	—	—	—	—	—	38,074	36,626
Global fixed income - public credit	32,007	—	—	—	—	32,007	—	—
Real assets - private	116,245	—	—	—	—	—	116,245	57,406
Real assets - public	19,101	—	19,101	—	—	—	—	—
Total measured at net asset value	<u>\$ 1,082,197</u>	<u>\$ 262,534</u>	<u>\$ 107,315</u>	<u>\$ 136,000</u>	<u>\$ 38,854</u>	<u>\$ 93,808</u>	<u>\$ 443,686</u>	<u>\$ 219,915</u>

	2019							
	Net asset value (NAV)	Redemption Frequency/Notice Period						Unfunded commitments
		Daily, weekly/ 1 - 7 days	Semi-monthly, monthly/ 15 - 75 days	Quarterly/ 60 - 90 days	Semi-annually/ 60 - 180 days	Annually/ 90 - 180 days	End of term/ 5 to 10 years	
Diversifying strategies	\$ 192,326	\$ —	\$ 27,448	\$ 117,398	\$ 13,427	\$ 34,053	\$ —	\$ —
Global equity - hedged	81,871	—	—	34,055	—	47,816	—	—
Global equity - international	145,013	70,288	45,829	21,103	—	7,793	—	—
Global equity - private	219,119	—	—	—	—	—	219,119	238,754
Global equity - U.S.	163,792	141,274	22,518	—	—	—	—	—
Global fixed income - private credit	41,557	—	—	—	—	—	41,557	17,803
Global fixed income - public credit	38,147	—	—	—	11,598	26,549	—	—
Real assets - private	116,116	—	—	—	—	—	116,116	71,928
Real assets - public	32,849	—	32,849	—	—	—	—	—
Total measured at net asset value	<u>\$ 1,030,790</u>	<u>\$ 211,562</u>	<u>\$ 128,644</u>	<u>\$ 172,556</u>	<u>\$ 25,025</u>	<u>\$ 116,211</u>	<u>\$ 376,792</u>	<u>\$ 328,485</u>

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

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

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

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

At June 30, 2020 and 2019 the credit quality of the University's fixed income investments is summarized below (in thousands):

	2020							Total
	S&P/Moody's Credit Ratings							
	AAA/Aaa	AA/Aa	A	BBB/Baa	Below BBB/Baa	Not rated	Rating not applicable	
<u>Non-endowed deposits and investments</u>								
Cash and cash equivalents	\$ 187,177	\$ —	\$ —	\$ —	\$ —	\$ 134,334	\$ —	\$ 321,511
Certificates of deposit	—	—	—	—	—	28,467	—	28,467
Global fixed income - high quality/rate sensitive	45,732	41,214	72,145	53,700	1,590	906,709	1,681	1,122,771
Global fixed income - private credit	—	—	—	—	—	1	—	1
Global fixed income - public credit	—	1,076	5,046	2,012	1	1,990	—	10,125
Guaranteed investment contracts	—	943	—	—	—	9,512	—	10,455
Total non-endowed fixed income investments	<u>232,909</u>	<u>43,233</u>	<u>77,191</u>	<u>55,712</u>	<u>1,591</u>	<u>1,081,013</u>	<u>1,681</u>	<u>1,493,330</u>
<u>Endowed deposits and investments</u>								
Cash and cash equivalents	—	—	—	—	—	4,020	—	4,020
Global fixed income - high quality/rate sensitive	3,047	2,098	9,184	18,344	2,967	3,599	41,720	80,959
Global fixed income - private credit	—	—	—	—	—	38,073	—	38,073
Global fixed income - public credit	283	92	380	510	895	67,574	756	70,490
Total endowed fixed income investments	<u>3,330</u>	<u>2,190</u>	<u>9,564</u>	<u>18,854</u>	<u>3,862</u>	<u>113,266</u>	<u>42,476</u>	<u>193,542</u>
Total fixed income investments	<u>\$ 236,239</u>	<u>\$ 45,423</u>	<u>\$ 86,755</u>	<u>\$ 74,566</u>	<u>\$ 5,453</u>	<u>\$ 1,194,279</u>	<u>\$ 44,157</u>	<u>\$ 1,686,872</u>

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

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investment or collateral securities that are in possession of an outside party. As a means of limiting its exposure to losses arising from custodial credit risk, the University's investment policies limit the exposure of its various investment types as follows:

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

Non-endowed global fixed income - high quality/rate sensitive investments whose fair market value was \$904.1 million and \$527.6 million, as of June 30, 2020 and 2019, respectively, were exposed to custodial credit risk. These bond revenue fund investments were held by the Commonwealth, uninsured and not registered in the name of the University.

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

- There is no specific limit on the maximum amount of investment securities held in debt service reserve funds that may be invested in one issuer. However, such investments are limited to bonds or interest bearing notes of the U.S. government.
- The University's endowment fixed income managers are limited to a maximum investment in any one issuer of no more than five percent of total investments excluding sovereign debt of governments belonging in the Organization for Economic Co-operation and Development governments and U.S. agencies.

At June 30, 2020 and 2019, the University had no investments in any one issuer that represented five percent or more of total investments, other than U.S. Treasury and/or U.S. agency securities.

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

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

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

For June 30, 2020 and 2019, the maturity distribution of the University's fixed income investments are summarized below (in thousands):

		2020					
		Maturities in Years					
	Less than 1	1-5	5-10	Greater than 10	Managed based on duration	Alternative strategy ¹	Total
<u>Non-endowed deposits and investments</u>							
Cash and cash equivalents	\$ 321,511	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 321,511
Certificates of deposit	26,202	2,265	—	—	—	—	28,467
Global fixed income - high quality/rate sensitive	2,401	3,478	1,441	491	1,114,960	—	1,122,771
Global fixed income - private credit ¹	—	—	—	—	—	1	1
Global fixed income - public credit ¹	1,229	4,525	2,381	—	1,989	1	10,125
Guaranteed investment contracts	—	10,455	—	—	—	—	10,455
Total non-endowed fixed income investments	<u>351,343</u>	<u>20,723</u>	<u>3,822</u>	<u>491</u>	<u>1,116,949</u>	<u>2</u>	<u>1,493,330</u>
<u>Endowed deposits and investments</u>							
Cash and cash equivalents	4,020	—	—	—	—	—	4,020
Global fixed income - high quality/rate sensitive	—	—	—	—	80,959	—	80,959
Global fixed income - private credit ¹	—	—	—	—	—	38,073	38,073
Global fixed income - public credit ¹	—	—	—	—	38,484	32,006	70,490
Total endowed fixed income investments	<u>4,020</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>119,443</u>	<u>70,079</u>	<u>193,542</u>
Total fixed income investments	<u>\$ 355,363</u>	<u>\$ 20,723</u>	<u>\$ 3,822</u>	<u>\$ 491</u>	<u>\$ 1,236,392</u>	<u>\$ 70,081</u>	<u>\$ 1,686,872</u>
		2019					
		Maturities in Years					
	Less than 1	1-5	5-10	Greater than 10	Managed based on duration	Alternative strategy ¹	Total
<u>Non-endowed deposits and investments</u>							
Cash and cash equivalents	\$ 288,422	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 288,422
Certificates of deposit	22,463	—	—	—	—	—	22,463
Global fixed income - high quality/rate sensitive	13,280	110,543	1,121	678	678,848	—	804,470
Global fixed income - public credit	790	4,845	1,096	—	3,286	—	10,017
Guaranteed investment contracts	—	741	8,242	—	—	—	8,983
Total non-endowed fixed income investments	<u>324,955</u>	<u>116,129</u>	<u>10,459</u>	<u>678</u>	<u>682,134</u>	<u>—</u>	<u>1,134,355</u>
<u>Endowed deposits and investments</u>							
Cash and cash equivalents	2,794	—	—	—	—	—	2,794
Global fixed income - high quality/rate sensitive	25	—	—	—	93,693	—	93,718
Global fixed income - private credit ¹	—	—	—	—	—	41,557	41,557
Global fixed income - public credit ¹	—	—	—	—	43,465	38,148	81,613
Total endowed fixed income investments	<u>2,819</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>137,158</u>	<u>79,705</u>	<u>219,682</u>
Total fixed income investments	<u>\$ 327,774</u>	<u>\$ 116,129</u>	<u>\$ 10,459</u>	<u>\$ 678</u>	<u>\$ 819,292</u>	<u>\$ 79,705</u>	<u>\$ 1,354,037</u>

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

At June 30, 2020 and 2019, the University had the following investments managed based on duration (in thousands):

	2020		2019	
	Fair Value	Modified Duration (Years)	Fair Value	Modified Duration (Years)
<u>Non-endowed deposits and investments</u>				
Global fixed income - high quality/rate sensitive				
Alumni Association	\$ 3	4.4	\$ 1	3.9
Commonwealth of Kentucky intermediate pool	226,766	0.7	229,052	1.0
Commonwealth of Kentucky limited pool	677,331	0.1	298,584	—
Externally managed low duration strategy funds	208,731	1.4	149,495	1.6
Kentucky Medical Services Foundation	1,907	5.4	1,674	2.6
Kentucky Technology, Inc.	222	4.0	41	5.1
Global fixed income - public credit				
Alumni Association	1	2.3	—	—
Kentucky Medical Services Foundation	1,815	5.6	2,943	3.5
Kentucky Technology, Inc.	173	6.0	344	2.8
Total non-endowment investment	<u>1,116,949</u>		<u>682,134</u>	
<u>Endowed deposits and investments</u>				
Global fixed income - high quality/rate sensitive	80,959	4.4	93,693	4.7
Global fixed income - public credit	38,484	2.6	43,465	0.8
Total endowment investment	<u>119,443</u>		<u>137,158</u>	
Total managed based on duration	<u>\$ 1,236,392</u>		<u>\$ 819,292</u>	

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 operating and 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, 2020 and 2019, the following endowment investments were subject to foreign currency risk (in thousands):

	Fair Value	
	2020	2019
Global equity - international	\$ 13	\$ 13
Global equity - private	2,089	2,812
Global fixed income - high quality/rate sensitive	36	—
Real assets - private	3,934	5,443
Total	<u>\$ 6,072</u>	<u>\$ 8,268</u>

3. NOTES, LOANS AND ACCOUNTS RECEIVABLE, NET

Notes, loans and accounts receivable as of June 30, 2020 is as follows (in thousands):

	Gross Receivable	Allowance	Net Receivable
Accrued interest receivable	\$ 1,069	\$ —	\$ 1,069
Commonwealth funded capital projects	12,304	—	12,304
Dentistry patient accounts	3,969	(534)	3,435
Hospital patient accounts (net of contractual allowances)	266,346	(66,068)	200,278
Hospital third-party payer settlements	15,896	—	15,896
KMSF patient accounts (net of contractual allowances)	46,088	(9,901)	36,187
Multimedia rights receivable	254,750	—	254,750
Pledges receivable (less discounts of \$7,836)	89,951	(31,107)	58,844
Reimbursement receivable - federal appropriations	1,376	—	1,376
Reimbursement receivable - grants and contracts	34,326	(175)	34,151
Service concession arrangements	74,904	—	74,904
Student accounts	31,452	(14,743)	16,709
Student loans	23,178	(2,719)	20,459
Other	51,139	(13)	51,126
Total	<u>\$ 906,748</u>	<u>\$ (125,260)</u>	<u>\$ 781,488</u>
Current portion			\$ 430,761
Noncurrent portion			<u>\$ 350,727</u>
Total			<u>\$ 781,488</u>

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

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

In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the University is required to record operating and capital pledges as revenue when all eligibility requirements have been met. Endowment pledges are not recognized as revenue until the gifts are actually received. For the years ended June 30, 2020 and 2019, the University recorded the discounted value of operating and capital pledges using a rate of two percent.

Deferred gifts through insurance, known bequests and irrevocable trusts in which the University has a remainder interest is estimated to be approximately \$317.6 million and \$259.1 million at June 30, 2020 and 2019, respectively. The University records these amounts as revenue when the cash is received.

4. CAPITAL ASSETS, NET

Capital assets as of June 30, 2020 and capital asset activity for the year ended June 30, 2020 are summarized below (in thousands):

	June 30, 2019	Additions	Deletions	June 30, 2020
Land	\$ 91,328	\$ —	\$ —	\$ 91,328
Land improvements - nonexhaustible	83,927	4,644	—	88,571
Land improvements - exhaustible	146,202	5,683	—	151,885
Buildings	3,813,780	148,104	948	3,960,936
Fixed equipment - communications	155,325	10,590	—	165,915
Infrastructure	131,761	250	—	132,011
Equipment	643,546	55,731	31,474	667,803
Vehicles	23,500	2,415	917	24,998
Library materials	147,734	1,071	315	148,490
Nondepreciable library materials	6,753	1,110	—	7,863
Capitalized software	196,436	28,713	—	225,149
Art	14,361	260	—	14,621
Certificate of need	11,609	—	—	11,609
Intangible assets	100	—	—	100
Construction in progress	127,632	144,722	106,214	166,140
Total	<u>5,593,994</u>	<u>403,293</u>	<u>139,868</u>	<u>5,857,419</u>
<u>Accumulated Depreciation</u>				
Land improvements - exhaustible	80,070	9,603	—	89,673
Buildings	1,185,325	101,199	734	1,285,790
Fixed equipment - communications	98,512	10,083	—	108,595
Infrastructure	53,937	5,004	—	58,941
Equipment	428,439	52,347	21,888	458,898
Vehicles	18,958	1,895	864	19,989
Library materials	144,323	920	—	145,243
Capitalized software	140,638	11,965	—	152,603
Intangible assets	20	20	—	40
Total	<u>2,150,222</u>	<u>193,036</u>	<u>23,486</u>	<u>2,319,772</u>
Capital assets, net	<u>\$ 3,443,772</u>	<u>\$ 210,257</u>	<u>\$ 116,382</u>	<u>\$ 3,537,647</u>

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

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

At June 30, 2020, the University had commitments for capital projects currently underway in which the total budgeted costs were \$420.3 million. Of this amount, \$285.6 million remain to be incurred. Such construction was principally financed by cash reserves, gifts and grants, and proceeds from the University's general receipts bonds.

Interest costs incurred during construction, net of related investment income, are capitalized. Total interest capitalized was \$4.0 million for fiscal year 2020 and \$4.5 million for fiscal year 2019.

During fiscal years 2020 and 2019, the University utilized capital leases to acquire various items of equipment. As of June 30, 2020 and 2019, the net book value of land, buildings, equipment and software acquired through capital leases included in the above schedules totaled \$102.1 million and \$74.2 million, respectively.

On January 3, 2019, the University finalized Phase I of the land swap transaction with the Lexington Fayette Urban County Government. In this phase, the University took ownership of certain campus streets at a value

of \$9.2 million in exchange for 50 acres of the Coldstream Research Campus property, which had a historical booked value of \$58 thousand, for a gain of approximately \$9.1 million. Phase II is expected to be finalized in fiscal year 2022. In Phase II, the University will take ownership of additional campus streets at a value of \$12.0 million in exchange for 199 acres of the Coldstream property, which has a historical booked value of \$232 thousand, for a future gain of approximately \$11.8 million.

Additions to equipment and equipment depreciation included equipment purchased by SCL of \$1,811 thousand for both cost and depreciation in fiscal year 2020.

5. DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources as of June 30, 2020 and 2019 are as follows (in thousands):

	<u>2020</u>	<u>2019</u>
OPEB long-term disability	\$ 3,412	\$ 3,914
OPEB retiree health	24,050	26,794
Refunding bonds	<u>6,131</u>	<u>7,609</u>
Total	<u>\$ 33,593</u>	<u>\$ 38,317</u>

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

Deferred outflows of resources from refunding bonds represents the difference between the reacquisition price and net carrying amount of refunded debt, the reacquisition price being the amount sent to the escrow agent. This consists of refunding bonds issued between 2014 and 2019. Amortization of the deferred outflows of resources from these refunding bonds was \$1.5 million for fiscal year 2020 and \$1.6 million for fiscal year 2019.

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2020 and 2019 are as follows (in thousands):

	<u>2020</u>	<u>2019</u>
Payable to vendors and contractors	\$ 164,976	\$ 143,252
Accrued expenses, including vacation and sick leave	103,054	90,577
Accrued interest payable	10,618	10,361
Employee withholdings and deposits payable to third parties	<u>24,467</u>	<u>15,564</u>
Total	<u>\$ 303,115</u>	<u>\$ 259,754</u>

7. UNEARNED REVENUE

Unearned revenues as of June 30, 2020 and 2019 are as follows (in thousands):

	June 30, 2019	Additions	Reductions	June 30, 2020	Current Portion	Noncurrent Portion
Unearned summer school revenue	\$ 8,750	\$ 12,204	\$ 8,750	\$ 12,204	\$ 12,204	\$ —
Unearned hospital revenue	63,966	65,994	57,882	72,078	72,078	—
Unearned grants and contracts revenue	38,903	91,588	61,381	69,110	66,578	2,532
Unearned multimedia rights revenue	264,874	—	19,137	245,737	19,138	226,599
Athletic ticket sales and contracts	13,815	30,763	33,350	11,228	10,912	316
Other	7,685	35,135	33,637	9,183	8,831	352
Total	<u>\$ 397,993</u>	<u>\$ 235,684</u>	<u>\$ 214,137</u>	<u>\$ 419,540</u>	<u>\$ 189,741</u>	<u>\$ 229,799</u>

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

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

8. LONG-TERM LIABILITIES

Long-term liabilities as of June 30, 2020 and long-term liability activity for the year ended June 30, 2020 are summarized below (in thousands):

	June 30, 2019	Additions	Reductions	June 30, 2020	Current Portion	Noncurrent Portion
<u>Bonds, notes and capital leases</u>						
General receipts notes	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
General receipts bonds	1,051,785	58,525	41,765	1,068,545	45,960	1,022,585
Capital leases and other long-term obligations	81,748	13,256	7,689	87,315	5,438	81,877
Notes payable	18	8,415	6	8,427	751	7,676
Total	<u>1,133,551</u>	<u>80,196</u>	<u>49,460</u>	<u>1,164,287</u>	<u>52,149</u>	<u>1,112,138</u>
<u>Notes and leases from direct borrowings and direct placements</u>						
Capital leases	1,855	32,485	335	34,005	1,015	32,990
Notes payable	18,069	—	775	17,294	799	16,495
Total	<u>19,924</u>	<u>32,485</u>	<u>1,110</u>	<u>51,299</u>	<u>1,814</u>	<u>49,485</u>
Total bonds, notes and capital leases	<u>1,153,475</u>	<u>112,681</u>	<u>50,570</u>	<u>1,215,586</u>	<u>53,963</u>	<u>1,161,623</u>
<u>Other liabilities</u>						
Annuities payable	2,985	545	599	2,931	438	2,493
Automobile and property self insurance	329	—	196	133	133	—
Compensated absences	6,220	—	196	6,024	863	5,161
Federal loan programs	20,690	800	4,307	17,183	—	17,183
Health insurance	11,160	60,711	60,344	11,527	11,527	—
Insurance executory costs	17,692	—	253	17,439	253	17,186
Medical malpractice	31,271	4,930	5,461	30,740	8,097	22,643
Unamortized bond premium	52,103	5,551	7,145	50,509	—	50,509
Unemployment compensation	395	910	717	588	588	—
Workers' compensation	22,615	3,781	5,763	20,633	7,053	13,580
Other	7,629	4,437	2,113	9,953	854	9,099
Total other liabilities	<u>173,089</u>	<u>81,665</u>	<u>87,094</u>	<u>167,660</u>	<u>29,806</u>	<u>137,854</u>
Total	<u>\$ 1,326,564</u>	<u>\$ 194,346</u>	<u>\$ 137,664</u>	<u>\$ 1,383,246</u>	<u>\$ 83,769</u>	<u>\$ 1,299,477</u>

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

	June 30, 2018	Additions	Reductions	June 30, 2019	Current Portion	Noncurrent Portion
<u>Bonds, notes and capital leases</u>						
General receipts notes	\$ 3,190	\$ —	\$ 3,190	\$ —	\$ —	\$ —
General receipts bonds	1,090,310	13,900	52,425	1,051,785	41,765	1,010,020
Capital leases and other long-term obligations	82,642	6,561	7,455	81,748	7,446	74,302
Notes payable	35	—	17	18	18	—
Total	<u>1,176,177</u>	<u>20,461</u>	<u>63,087</u>	<u>1,133,551</u>	<u>49,229</u>	<u>1,084,322</u>
<u>Notes and leases from direct borrowings and direct placements</u>						
Capital leases	2,175	—	320	1,855	335	1,520
Notes payable	18,822	—	753	18,069	774	17,295
Total	<u>20,997</u>	<u>—</u>	<u>1,073</u>	<u>19,924</u>	<u>1,109</u>	<u>18,815</u>
Total bonds, notes and capital leases	<u>1,197,174</u>	<u>20,461</u>	<u>64,160</u>	<u>1,153,475</u>	<u>50,338</u>	<u>1,103,137</u>
<u>Other liabilities</u>						
Annuities payable	2,968	582	565	2,985	482	2,503
Automobile and property self insurance	256	435	362	329	329	—
Compensated absences	6,600	20	400	6,220	905	5,315
Federal loan programs	20,525	565	400	20,690	—	20,690
Health insurance	10,413	58,264	57,517	11,160	11,160	—
Insurance executory costs	17,945	—	253	17,692	253	17,439
Medical malpractice	32,099	6,784	7,612	31,271	5,925	25,346
Unamortized bond premium	58,204	1,380	7,481	52,103	6,954	45,149
Unemployment compensation	635	478	718	395	395	—
Workers' compensation	20,815	8,734	6,934	22,615	7,338	15,277
Other	18,247	1,309	11,927	7,629	1,112	6,517
Total other liabilities	<u>188,707</u>	<u>78,551</u>	<u>94,169</u>	<u>173,089</u>	<u>34,853</u>	<u>138,236</u>
Total	<u>\$ 1,385,881</u>	<u>\$ 99,012</u>	<u>\$ 158,329</u>	<u>\$ 1,326,564</u>	<u>\$ 85,191</u>	<u>\$ 1,241,373</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 3.6% to 8.2%.

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

Bonds payable consists of general receipts bonds in the original amount of \$1.21 billion dated November 24, 2009 through February 19, 2020, which bear interest at 1.0% to 3.9%. The bonds are payable in annual installments through October 1, 2047. The University is required to make semi-annual deposits of varying amounts to the debt service funds held by the trustees. The bonds are secured by the net revenues of the University and the assets restricted under the bond indenture agreements. Capital leases are due in periodic installments through May 1, 2049 and bear interest at 1.4% to 4.3%. All bonds, except for the General Receipts 2009 Bonds Series B, General Receipts 2012 Bonds Series A, General Receipts 2014 Bonds Series C, General Receipts 2017 Bonds Series A and B, General Receipts 2018 Bonds Series B, General Receipts 2019 Bonds Series A and General Receipts 2020 Bonds Series B, totaling \$1.01 billion, are callable between October 2020 and April 2028. The General Receipts 2009 Bonds Series B are callable on any date at the make-whole redemption price.

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

On July 10, 2019, approximately \$32.5 million of University of Kentucky General Receipts Bonds 2019 Series A and B, Certificates of Participation, were issued at a net interest cost of 3.4% and 3.0%, respectively. These bonds were issued for the purpose of funding the expansion of parking structure five and construction of the Cornerstone.

On February 19, 2020, approximately \$58.5 million of University of Kentucky General Receipts 2020 Bonds Series A and B were issued at a net interest cost of 2.4% and 1.9%, respectively. These bonds were issued for the purpose of funding campus modernization projects.

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 (QECCB) as authorized under the Recovery Act and the Hiring Incentive to Restore Employment Act of 2010. The University receives an annual cash subsidy from the U.S. Treasury equal to 35% (BAB) and 80% (QECCB) of the interest payable on the bonds. The subsidy, which was approximately \$2.1 million and \$2.2 million for fiscal years 2020 and 2019, respectively, was included in gifts and non-exchange grants in the Statements of Revenues, Expenses and Changes in Net Position. The subsidy payment is contingent on federal regulations and may be subject to change. On March 1, 2013, President Barack Obama signed an executive order reducing the budgetary authority in accounts subject to sequestration. As a result, the BAB subsidy was reduced to approximately 33% in 2020 and 2019. The QECCB subsidy was reduced to approximately 75% in 2020 and 2019.

The University's outstanding lease from direct placement contains a provision that in an event of default, outstanding amounts on State Property and Buildings Commission 102A become immediately due if the University is unable to make payment. This debt was approximately \$1.5 million and \$1.8 million as of June 30, 2020 and 2019, respectively.

The University has another outstanding lease from direct placement, University of Kentucky General Receipts 2019 Bonds Series A and B, Certificates of Participation, which contain a provision that in an event of default, the trustee shall seek to enforce the pledge of General Receipts to satisfy the payment of base rent then due and payable under the facilities lease. Additionally, the facilities lessor may terminate the lease, and the University's right to occupy the project on the 30th day following such event of default. This debt was approximately \$32.5 million as of June 30, 2020.

KMSF's outstanding notes from direct placements are secured with all assets, tangible and intangible. These outstanding notes contain a provision that in the event of default, the secured party takes possession of these assets up to the amount in default. This debt was approximately \$17.3 million and \$18.1 million as of June 30, 2020 and 2019, respectively.

The University's outstanding leases from direct placements are secured with all assets related to the leases.

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, 2020, are as follows (in thousands):

			Notes and leases from direct borrowings and direct placements		Total
	Principal	Interest	Principal	Interest	
2021	\$ 52,149	\$ 47,763	\$ 1,814	\$ 1,730	\$ 103,456
2022	54,572	45,230	1,879	1,670	103,351
2023	57,030	42,777	1,939	1,608	103,354
2024	53,424	40,352	1,999	1,548	97,323
2025	67,107	37,694	1,642	1,481	107,924
2026-2030	279,224	155,813	8,961	6,647	450,645
2031-2035	225,425	98,634	10,673	5,071	339,803
2036-2040	228,191	54,506	8,297	3,261	294,255
2041-2045	134,280	17,642	7,290	1,892	161,104
2046-2049	12,885	574	6,805	540	20,804
Total	<u>\$ 1,164,287</u>	<u>\$ 540,985</u>	<u>\$ 51,299</u>	<u>\$ 25,448</u>	<u>\$ 1,782,019</u>

9. DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources as of June 30, 2020 and 2019 are as follows (in thousands):

	2020	2019
Aramark service concession arrangement	\$ 111,005	\$ 111,296
Barnes and Noble service concession arrangement	3,239	1,565
Greystar service concession arrangement	376,031	381,481
Trusts and annuities	16,358	16,222
OPEB long-term disability	2,208	463
OPEB retiree health	73,998	30,717
Total	<u>\$ 582,839</u>	<u>\$ 541,744</u>

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

Phase II-A, Phase II-B and Phase II-C, which opened in August 2014, August 2015 and August 2016 respectively, included the development of 10 residence halls at a cost of \$321.3 million. The residence halls are reported as a capital asset with a carrying value of \$299.0 million and \$303.3 million at June 30, 2020 and 2019, respectively, and deferred inflows of resources in the amount of \$286.7 million and \$290.8 million at June 30, 2020 and 2019, respectively, pursuant to the service concession arrangement.

Phase III-A, which opened in August 2017, included the construction of one residence hall at a cost of \$72.5 million. This 771 bed facility provides apartment style units for upper class, graduate and professional students. Phase III-B, which also opened in August 2017, cost \$36.4 million. This is a 346 bed facility to house undergraduate students and includes space dedicated to the new Lewis Honors College. These residence halls are reported as a capital asset with a carrying value of \$104.3 million and \$105.8 million at June 30, 2020 and 2019, respectively, and deferred inflows of resources in the amount of \$89.4 million and \$90.7 million at June 30, 2020 and 2019, respectively, pursuant to the service concession arrangement.

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

In July 2014, the University entered into an approximately \$250.0 million contract with Aramark Enterprise Services, LLC (Aramark), forming a 15-year public/private partnership. In September 2018, this contract was extended 5 years and \$1.3 million was added with price contract modification number 20 and in December 2019 an additional 5 years and \$2.6 million was added with price contract modification number 23. This partnership is transforming dining services offered to students, faculty, staff, and the community served. Under the partnership, several new food brands are located on campus. Aramark provides meals covered under the University's student boarding plans and declining balance dollars. The contract allows for dining commissions to be paid to the University with guaranteed minimum amounts for each contract year. Aramark provided \$92.0 million in facilities investments, including \$59.0 million in new facilities. As part of these facilities investments, Aramark constructed a new K Lair Grill at Haggin Hall, made substantial upgrades to the student center food court and constructed "The 90" dining facility for the Fall 2015 semester. The completed projects are reported as a capital asset with a carrying value of \$47.4 million and \$49.7 million at June 30, 2020 and 2019, respectively, and deferred inflows of resources in the amount of \$40.4 million and \$41.7 million at June 30, 2020 and 2019, respectively, pursuant to the service concession arrangement. The present value of the guaranteed minimum payments over the remaining 19 years and 15 years of the contract is reported as a receivable of \$74.5 million and \$77.3 million and deferred inflows of resources in the amount of \$70.6 million and \$69.6 million pursuant to the service concession arrangement at June 30, 2020 and 2019, respectively.

In June 2015, the University entered into a contract with Barnes and Noble College Booksellers, LLC (Barnes and Noble) to operate and provide services for the bookstore for 10 years with an additional five year renewal option period. The completed bookstore is reported as a capital asset with a carrying value of \$3.3 million at June 30, 2020 and deferred inflows of resources in the amount of \$2.5 million at June 30, 2020 pursuant to the service concession arrangement. The present value of the guaranteed minimum payments over the remaining 10 years and 11 years is reported after contract period as a receivable of \$404 thousand and \$1.5 million and deferred inflows of resources in the amount of \$725 thousand and \$1.6 million pursuant to the service concession arrangement at June 30, 2020 and 2019, respectively.

At June 30, 2020 and 2019, the beneficial interests from trusts and annuities that the University will receive in the future years of \$16.4 million and \$16.2 million were recorded in deferred inflows of resources, respectively.

As of June 30, 2020 and 2019, the deferred inflows for the net difference between expected and actual earnings on OPEB Plan investments and the assumption changes for the retiree health plan were \$74.0 million and \$30.7 million, respectively; and the corresponding amounts for the LTD Plan were \$2.2 million and \$463 thousand, respectively.

10. COMPONENTS OF RESTRICTED EXPENDABLE NET POSITION

Restricted expendable net position is subject to externally imposed stipulations or conditions that must be followed and cannot be used for support of general operations of the University. As of June 30, 2020 and 2019, restricted expendable net position is composed of the following (in thousands):

	<u>2020</u>	<u>2019</u>
Appreciation on permanent endowments	\$ 171,843	\$ 201,784
Term endowments	6,138	4,769
Quasi-endowments initially funded with restricted assets	124,400	133,044
Funds restricted for capital projects and debt service	63,393	75,096
Funds restricted for noncapital purposes	102,175	93,941
Loan funds (primarily University funds required for federal match)	11,454	12,380
Total	<u>\$ 479,403</u>	<u>\$ 521,014</u>

11. DESIGNATIONS OF UNRESTRICTED NET POSITION

Unrestricted net position is designated for specific purposes by action of the Board or management or may otherwise be limited by contractual agreements with outside parties. Commitments for the use of unrestricted net position as of June 30, 2020 and 2019 are as follows (in thousands):

	<u>2020</u>	<u>2019</u>
Working capital requirements	\$ 78,587	\$ 69,305
Designated for future year fiscal operations	150,855	149,396
Designated for OPEB liability (see footnotes 17 and 18)	(170,660)	(237,987)
Designated for capital projects	44,642	39,576
Designated for renewal and replacement of capital assets	42,137	45,021
UK HealthCare Hospital System	1,165,444	914,796
Affiliated corporations and component units	141,131	126,553
Total	<u>\$ 1,452,136</u>	<u>\$ 1,106,660</u>

12. PLEDGED REVENUES

Pledged revenues for the years ended June 30, 2020 and 2019 as defined by the General Receipts Trust Indenture, are as follows (in thousands):

	2020	2019
Student tuition and fees	\$ 356,197	\$ 343,293
Nongovernmental grants and contracts	1,174	1,015
Recoveries of facilities and administrative costs	68,393	67,100
Sales and services	56,865	58,356
Hospital services	2,127,926	1,748,146
Auxiliary enterprises - housing and dining	32,066	34,958
Auxiliary enterprises - athletics	115,784	114,456
Auxiliary enterprises - other	51,932	54,609
Other operating revenue	1,029	833
State appropriations	261,056	258,495
Gifts and grants	3,249	3,796
Investment income	32,849	36,520
Total	<u>\$ 3,108,520</u>	<u>\$ 2,721,577</u>

The University has substantially pledged all of the unrestricted operating and nonoperating revenues to repay the general receipts bonds, and capital leases issued from 2009 to 2020. Proceeds from the bonds, and leases provided funding for new construction, major renovations, facility leases, and for the refunding of bonds and notes issued over the years. These debts are payable from unrestricted revenues, operating and nonoperating, and are payable through fiscal year 2049. Annual principal and interest payments on bonds are expected to require approximately three percent of pledged revenue. The total principal and interest remaining to be paid on the bonds is approximately \$1.60 billion and \$1.61 billion in fiscal years 2020 and 2019, respectively. Principal and interest paid for fiscal years 2020 and 2019 was \$85.5 million and \$87.3 million, respectively.

13. INVESTMENT INCOME (LOSS)

Components of investment income (loss) for the years ended June 30, 2020 and 2019 are as follows (in thousands):

	2020	2019
Interest and dividends earned on investments	\$ 15,215	\$ 20,660
Realized and unrealized gains (losses) on endowment investments	(18,498)	51,605
Interest and dividends on cash and non-endowment investments	24,435	29,011
Realized and unrealized gains on non-endowment investments	4,774	4,526
Investment income from external trusts	2,527	2,491
Total	<u>\$ 28,453</u>	<u>\$ 108,293</u>

14. FUNDS HELD IN TRUST BY OTHERS

The University is the income beneficiary of various perpetual trusts that are held and controlled by external trustees. For the years ended June 30, 2020 and 2019, the University received income from these trusts of approximately \$2.0 million and \$2.1 million, respectively. The market value of the perpetual external trust assets as of June 30, 2020 and 2019 was approximately \$44.4 million and \$44.7 million, respectively. As the University does not have ownership of the trust assets held by external trustees, the trusts are recorded at a nominal value of \$1 each.

The University is the residual principal and income beneficiary of various irrevocable trusts that are held and controlled by external trustees. For the years ended June 30, 2020 and 2019, the University received income from these trusts of approximately \$447 thousand and \$391 thousand, respectively. The market value of the irrevocable external trust assets as of June 30, 2020 and 2019 was approximately \$13.3 million and \$12.5 million, respectively, and is included in endowment investments.

Effective January 1, 2016, the University became the administrator of five trusts that were previously held and controlled by external trustees. For the years ended June 30, 2020 and 2019, the University received income from these self-administered trusts of approximately \$93 thousand and \$94 thousand, respectively. The market value of the self-administered trusts as of June 30, 2020 and 2019 was approximately \$1.6 million and \$1.9 million, respectively, and is included in endowment investments.

15. GRANTS AND CONTRACTS AWARDED

At June 30, 2020 and 2019, grants and contracts of approximately \$363.0 million and \$291.5 million, respectively, have been awarded to the University, but not expended. These amounts will be recognized in future periods.

16. RETIREMENT PLANS

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

Group I	Established July 1, 1964, for faculty and certain administrative officials.
Group II	Established July 1, 1971, for staff members in the clerical, technical and service categories.
Group III	Established July 1, 1972, for staff members in the managerial, professional and scientific categories.
Group IV	Established January 1, 1973, for staff members having U.S. Civil Service retirement entitlement.
Group V	Established July 1, 1987, for staff members covered under the Federal Employees Retirement System that replaced Civil Service (those whose employment began during the period from January 1, 1984 to March 31, 1987). Staff members whose employment began after March 31, 1987 are under one of the above University of Kentucky Retirement Plans.

Participation in the University of Kentucky Retirement Plan is mandatory for all regular full-time employees in groups I, II and III who are age 30 or older. Participation is voluntary for regular full-time employees under the age of 30 and for those employees in groups IV and V. Participants in groups I, II, III and IV contribute five percent and the University contributes 10% of the participant's eligible compensation to the retirement plan. Participants in group V contribute one percent and the University contributes two percent of the participant's eligible compensation to the retirement plan. Due to the COVID-19 pandemic and fiscal responsibility, the University has decided to lower retirement plan contributions to five percent for fiscal year 2021.

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

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

Under the fully funded University of Kentucky Retirement Plan, the University and plan participants make contributions to provide retirement benefits to employees in individually owned contracts. All payments are vested immediately for employees hired prior to January 1, 2010. For employees hired after January 1, 2010, employer contributions are vested after three years. The University's contributions and costs for fiscal years 2020 and 2019 was approximately \$134.1 million and \$133.5 million, respectively. Employees contributed approximately \$68.4 million in fiscal year 2020 and \$63.1 million in fiscal year 2019. The University's total payroll costs were approximately \$1.70 billion and \$1.61 billion for the years ended June 30, 2020 and 2019, respectively. The payroll for employees covered by the retirement plan was approximately \$1.70 billion and \$1.60 billion for the years ended June 30, 2020 and 2019, respectively.

Regular full-time KMSF employees become eligible to participate in a defined contribution plan on the employee's regular full-time hire date coinciding with or following attainment of age 20 1/2. KMSF contributes 10% of the employee's earnings and employees do not contribute to this plan. KMSF contributions for 2020 and 2019 were approximately \$1.1 million and \$1.0 million, respectively. The total payroll costs for employees covered by the defined contribution plan were approximately \$11.3 million and \$10.5 million for the years ended June 30, 2020 and 2019, respectively. Participants become vested in the plan according to years of service, with 100% vesting after one year of service.

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

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

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

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

For Plan reporting purposes, GASB Statement No. 74 was implemented in fiscal year 2017 and measures net OPEB liability as of June 30, 2020. For employer reporting purposes, GASB Statement No. 75 was implemented in fiscal year 2018 and measures net OPEB liability as of July 1, 2019 for fiscal year 2020. The following footnote disclosure is presented in order to comply with GASB Statement No. 75 and GASB Statement No. 74.

The OPEB liabilities measured as of June 30, 2020 were based upon the plan members as of January 1, 2019 after reflecting census data revisions made following the determination of OPEB liabilities measured as of July 1, 2019:

Inactive members receiving benefits	3,244
Inactive members entitled not yet receiving benefits	396
Active plan members	<u>5,075</u>
Total plan members	<u><u>8,715</u></u>

The OPEB liabilities measured as of July 1, 2019 were based upon the plan members as of January 1, 2019 before reflecting census data revisions made following the determination of OPEB liabilities measured as of July 1, 2019:

Inactive members receiving benefits	3,087
Inactive members entitled not yet receiving benefits	395
Active plan members	<u>5,325</u>
Total plan members	<u><u>8,807</u></u>

The contribution requirements of plan members and the University are established and may be amended by the President of the University. For employees hired before January 1, 2006, the University provides a pre-65 credit of up to 90% of the “true retiree” cost of the least expensive pre-65 medical plan. For post-65 benefits, the University provides a credit equal to 90% of the “true retiree” cost of the post-65 medical plan. For fiscal years 2020 and 2019, the University contributed \$14.3 million and \$18.8 million to the plan, respectively. Plan members receiving benefits contributed for fiscal years 2020 and 2019 were 26.0% and 23.3%, respectively, of the premium costs, an average for combined single and family coverage. In fiscal year 2020 and 2019, total member contributions were approximately \$3.7 million and \$4.4 million, respectively.

The University’s employer net OPEB liability of \$117.9 million and \$231.5 million was measured as of July 1, 2019 and 2018, respectively. The University’s Plan net OPEB liability of \$132.3 million and \$117.9 million was measured as of June 30, 2020 and 2019, for the fiscal year ended June 30, 2020 and 2019, respectively. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of the measurement date.

The total OPEB liabilities measured as of July 1, 2019 and June 30, 2020 were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Health care trend rate	<p>For employer reporting: Post-65 Medical rate is 1.1% for 2019 and 2020 followed by 312.2% in 2021 decreasing to an ultimate rate of 4.5% in 2031. Post-65 RX 6.4% initial rate decreasing to an ultimate rate of 4.5% in 2029. Pre-65 6.44% initial rate decreasing to an ultimate rate of 2.20% in 2029.</p> <p>For Plan reporting: Post-65 Medical rate is 1.1% for 2020 and 312.2% for 2021 followed by 75.7% in 2022 decreasing to an ultimate rate of 4.5% in 2031. Post-65 RX 6.2% initial rate for 2020 decreasing to an ultimate rate of 4.5% in 2031; Pre-65 6.26% initial rate for 2020 decreasing to an ultimate rate of 4.5% in 2031.</p>
Salary scale	Three percent per year.
Retirement rates	Faculty from 0.00 to 1.00 from age 50 to 85; staff from 0.03 to 1.00 from age 50 to 85.

Discount rate and investment rate of return	7.5% based on the University's funding policy and the expected long-term return on the separate trust assets that will be used to finance the payment of plan benefits. The University has stated a funding policy to contribute an amount to the segregated and protected trust fund, such that the assets available will always be sufficient to cover the expected benefit payments.
Mortality	For July 1, 2019, PUB-2010 Amounts Weighted Mortality Table, with mortality improvement projected generationally using scale Mortality Projection-2018 for the employer. For June 30, 2020, PUB-2010 Amounts Weighted Mortality Table, with mortality improvement projected generationally using scale Mortality Projection-2019 for the Plan.
Disability	Gender and age-related disability incidence rates based on 1987 GLTD (six-month elimination period).
Plan participation	80% elect coverage.
Dependent coverage	80% of active employees are assumed to be married at their retirement. 60% of those married retirees are assumed to have spousal coverage in effect upon death. Female spouses of male retirees are assumed to be three years younger than their husbands. Male spouses of female retirees are assumed to be three years older than their wives.
Change in benefit terms	Postretirement medical benefits for Medicare eligible retirees was updated from a self-insured retiree Medical Careveout program with a deductible that is tied to the Medicare Part B deductible to a fully-insured Medicare Advantage plan.

The actuarial assumptions used as of July 1, 2019 and June 30, 2020 were based on the results of an actuarial experience study for the period January 1, 2013 to December 31, 2014.

The components of the employer's net OPEB liability of the University measured at July 1, for fiscal year 2020 and 2019 are as follows (in thousands):

	<u>2020</u>	<u>2019</u>
Total OPEB liability	\$ 293,455	\$ 391,034
Less: Plan fiduciary net position	<u>(175,514)</u>	<u>(159,543)</u>
University of Kentucky net OPEB liability	<u>\$ 117,941</u>	<u>\$ 231,491</u>
Plan fiduciary net position as a percentage of the total OPEB liability	59.8 %	40.8%

The components of the Plan's net OPEB liability of the University measured at June 30, for fiscal year 2020 and 2019 are as follows (in thousands):

	<u>2020</u>	<u>2019</u>
Total OPEB liability	\$ 310,902	\$ 293,455
Less: Plan fiduciary net position	<u>(178,621)</u>	<u>(175,514)</u>
University of Kentucky net OPEB liability	<u>\$ 132,281</u>	<u>\$ 117,941</u>
Plan fiduciary net position as a percentage of the total OPEB liability	57.5 %	59.8%

The OPEB Plan follows the deposit and investment policies established by the University's Board of Trustees. Such policies are developed to establish and maintain sound financial management practices for the investment and management of the OPEB funds. The fair value of deposits and investments, by Statements of Fiduciary Net Position classification, at June 30, 2020 and 2019 are as follows (in thousands):

	2020	2019
<u>Statement of Fiduciary Net Position classification</u>		
Cash and cash equivalents	\$ 4,838	\$ 4,489
Investments	173,783	171,025
Total deposits and investments	<u>\$ 178,621</u>	<u>\$ 175,514</u>

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

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

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

The OPEB Plan has the following valuation measurements, by type, at June 30, 2020 (in thousands):

	2020						
	Total value	Fair Value Measurement Using			Total measured at fair value	Net asset value (NAV)	Amortized or historical cost
Quoted prices in active markets for identical assets (Level 1)		Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)				
Cash and cash equivalents	\$ 5,336	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 5,336
Diversifying strategies	24,373	—	—	—	—	24,373	—
Global equity - hedged	10,335	—	—	—	—	10,335	—
Global equity - international	25,760	9,795	—	2	9,797	15,963	—
Global equity - private	34,336	—	—	—	—	34,336	—
Global equity - U.S.	26,307	687	—	—	687	25,620	—
Global fixed income - high quality/rate sensitive	10,480	2,866	7,614	—	10,480	—	—
Global fixed income - private credit	4,929	—	—	—	—	4,929	—
Global fixed income - public credit	8,747	4,604	—	—	4,604	4,143	—
Real assets - private	18,212	—	—	3,165	3,165	15,047	—
Real assets - public	9,806	7,333	—	—	7,333	2,473	—
Total deposits and investments	<u>\$ 178,621</u>	<u>\$ 25,285</u>	<u>\$ 7,614</u>	<u>\$ 3,167</u>	<u>\$ 36,066</u>	<u>\$ 137,219</u>	<u>\$ 5,336</u>

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

	2019						
	Total value	Fair Value Measurement Using				Net asset value (NAV)	Amortized or historical cost
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total measured at fair value		
Cash and cash equivalents	\$ 4,804	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 4,804
Diversifying strategies	25,498	1,352	—	—	1,352	24,146	—
Global equity - hedged	10,279	—	—	—	—	10,279	—
Global equity - international	30,265	12,057	—	2	12,059	18,206	—
Global equity - private	27,509	—	—	—	—	27,509	—
Global equity - U.S.	21,204	641	—	—	641	20,563	—
Global fixed income - high quality/rate sensitive	11,763	4,247	7,516	—	11,763	—	—
Global fixed income - private credit	5,217	—	—	—	—	5,217	—
Global fixed income - public credit	9,885	5,096	—	—	5,096	4,789	—
Real assets - private	17,083	—	—	2,505	2,505	14,578	—
Real assets - public	12,007	7,883	—	—	7,883	4,124	—
Total deposits and investments	<u>\$ 175,514</u>	<u>\$ 31,276</u>	<u>\$ 7,516</u>	<u>\$ 2,507</u>	<u>\$ 41,299</u>	<u>\$ 129,411</u>	<u>\$ 4,804</u>

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

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

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

The following reflects the approved asset allocation for both the employer and Plan, as of June 30, 2020 and 2019.

Asset Category	Target Allocation	
	2020	2019
Diversifying strategies	15%	15%
Global equity	52%	52%
Global fixed income	16%	16%
Real assets	17%	17%

For the years ended June 30, 2020 and 2019, the annual money-weighted rate of return on the OPEB Plan investments, net of OPEB Plan investment expense was (3.1)% and 5.5%, respectively. The money-weighted rate of return expresses investment performance, net of investment expenses, adjusted for the changing amounts actually invested.

The long-term expected rate of return on OPEB Plan investments was determined using efficient frontier modeling software for Monte Carlo simulations that analyze risk, return and the probability of meeting return

objectives over multi-year periods. The modeling, which incorporates forward-looking return forecasts as well as historical risk and correlation data, identifies portfolios with the highest expected return at each level of risk.

The following reflects the expected rates of return for the employer, presented as geometric means, by asset allocation as of July 1, 2019 and 2018:

Asset Category	Long-term Expected Real Rate of Return	
	2020	2019
Diversifying strategies	3.4%	2.9%
Global equity	5.9%	5.8%
Global fixed income	3.5%	2.9%
Real assets	6.8%	7.4%

The following reflects the expected rates of return for the Plan, presented as geometric means, by asset allocation as of June 30, 2020 and 2019:

Asset Category	Long-term Expected Real Rate of Return	
	2020	2019
Diversifying strategies	3.7%	3.4%
Global equity	6.7%	5.9%
Global fixed income	2.8%	3.5%
Real assets	7.3%	6.8%

The discount rate used to measure the total OPEB liability for the employer and Plan was 7.5% for the year ended June 30, 2020, which was the same from the July 1, 2019 measurement date. The projection of cash flows used to determine the discount rate assumed that University contributions will be made at rates equal to actuarially determined contribution. Based on those assumptions, the OPEB Plan fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB Plan investments of 7.5% was applied to all periods of projected benefit payments to determine the total OPEB liability.

The components of the employer net OPEB liability of the University at June 30, 2020 and 2019 are as follows (in thousands):

	2020		
	Increase (decrease)		
	Total OPEB liability	Plan fiduciary net position	Net OPEB liability
Balance recognized at 7/1/2019 (based on 7/1/2018 measurement date)	\$ 391,034	\$ 159,543	\$ 231,491
Change recognized for the fiscal year:			
Service cost	3,953	—	3,953
Interest on the total OPEB liability	29,225	—	29,225
Changes of benefit terms	(58,343)	—	(58,343)
Differences between expected and actual experience	1,921	—	1,921
Changes of assumptions	(63,511)	—	(63,511)
Benefit payments	(10,824)	(10,824)	—
Contributions from the employer	—	18,804	(18,804)
Net investment income	—	9,367	(9,367)
Administrative expense	—	(1,376)	1,376
Net changes	<u>(97,579)</u>	<u>15,971</u>	<u>(113,550)</u>
Balance recognized at 6/30/2020 (based on 7/1/2019 measurement date)	<u>\$ 293,455</u>	<u>\$ 175,514</u>	<u>\$ 117,941</u>
	2019		
	Increase (decrease)		
	Total OPEB liability	Plan fiduciary net position	Net OPEB liability
Balance recognized at 7/1/2018 (based on 7/1/2017 measurement date)	\$ 376,521	\$ 143,944	\$ 232,577
Change recognized for the fiscal year:			
Service cost	3,710	—	3,710
Interest on the total OPEB liability	28,053	—	28,053
Changes of benefit terms	—	—	—
Differences between expected and actual experience	(1,071)	—	(1,071)
Changes of assumptions	(3,559)	—	(3,559)
Benefit payments	(12,620)	(12,620)	—
Contributions from the employer	—	20,013	(20,013)
Net investment income	—	8,989	(8,989)
Administrative expense	—	(783)	783
Net changes	<u>14,513</u>	<u>15,599</u>	<u>(1,086)</u>
Balance recognized at 6/30/2019 (based on 7/1/2018 measurement date)	<u>\$ 391,034</u>	<u>\$ 159,543</u>	<u>\$ 231,491</u>

The following presents the employer's 2020 and 2019 net OPEB liability of the University, as well as what the University's net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.5%) or one-percentage-point higher (8.5%) than the current discount rate (in thousands):

	2020		
	1% Decrease (6.5%)	Current Rate (7.5%)	1% Increase (8.5%)
Total OPEB liability	\$ 338,357	\$ 293,455	\$ 256,851
Plan fiduciary net position	(175,514)	(175,514)	(175,514)
Net OPEB liability	<u>\$ 162,843</u>	<u>\$ 117,941</u>	<u>\$ 81,337</u>

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

The following presents what the employer's 2020 and 2019 net OPEB liability would be if it were calculated using the health care cost trend rate that is one-percentage-point lower or one-percentage-point higher than the current health care cost trend rate (in thousands):

	2020		
	1% Decrease	Trend Rate	1% Increase
Total OPEB liability	\$ 254,821	\$ 293,455	\$ 340,953
Plan fiduciary net position	(175,514)	(175,514)	(175,514)
Net OPEB liability	<u>\$ 79,307</u>	<u>\$ 117,941</u>	<u>\$ 165,439</u>

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

The following presents the Plan's 2020 and 2019 net OPEB liability of the University, as well as what the University's Plan net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.5%) or one-percentage-point higher (8.5%) than the current discount rate (in thousands):

	2020		
	1% Decrease (6.5%)	Current Rate (7.5%)	1% Increase (8.5%)
Total OPEB liability	\$ 356,492	\$ 310,902	\$ 274,009
Plan fiduciary net position	(178,621)	(178,621)	(178,621)
Net OPEB liability	<u>\$ 177,871</u>	<u>\$ 132,281</u>	<u>\$ 95,388</u>

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

The following presents what the Plan's 2020 and 2019 net OPEB liability would be if it were calculated using the health care cost trend rate that is one-percentage-point lower or one-percentage-point higher than the current health care cost trend rate (in thousands):

	2020		
	1% Decrease	Trend Rate	1% Increase
Total OPEB liability	\$ 269,655	\$ 310,902	\$ 362,066
Plan fiduciary net position	(178,621)	(178,621)	(178,621)
Net OPEB liability	<u>\$ 91,034</u>	<u>\$ 132,281</u>	<u>\$ 183,445</u>

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

For the year ended June 30, 2020, the University recorded OPEB expense reduction of \$53.2 million and reported deferred outflows of resources and deferred inflows of resources (in thousands) from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between actual and expected experience	\$ 7,489	\$ (684)
Net difference between expected and actual earnings on OPEB Plan investment	2,269	—
Assumption changes	—	(73,314)
Contributions made subsequent to the measurement date of the net OPEB liability	14,292	—
Total	<u>\$ 24,050</u>	<u>\$ (73,998)</u>

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

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

At June 30, 2020, the University reported \$14.3 million as deferred outflows of resources related to OPEB resulting from University contributions subsequent to the measurement date and prior to year end that will be recognized as a reduction of the net OPEB liability during the year ending June 30, 2021. Other amounts (in thousands) reported as deferred outflows of resources and deferred inflows of resources at June 30, 2020, related to OPEB will be recognized as a reduction to OPEB expense as follows:

2021	\$ (17,234)
2022	(17,234)
2023	(16,137)
2024	(11,842)
2025	(1,793)
Total thereafter	—
	<u>\$ (64,240)</u>

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

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

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

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

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

For GASB Statement No. 74 (Plan) reporting purposes, implemented in fiscal year 2017, net LTD liability is measured as of June 30, 2020. For GASB Statement No. 75 (employer) reporting purposes, implemented in fiscal year 2018, net LTD liability is measured as of July 1, 2019 for fiscal year 2020. The following footnote disclosure is presented in order to comply with GASB Statement No. 75 and GASB Statement No.74.

The LTD liabilities measured as of July 1, 2019 and June 30, 2020 were based upon the following plan participants as of January 1, 2019:

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

The contribution requirements of the University are established and may be amended by the President of the University. The University contributes to the LTD trust based on the actuarially determined contribution. For the year ended June 30, 2020 and 2019, the University's contribution was approximately \$1.8 million and \$2.1 million, respectively.

The University's employer net LTD liability of \$4.0 million and \$5.4 million was measured as of July 1, 2019 and 2018, respectively. The University's Plan net LTD liability of \$4.0 million was measured as of June 30, 2020 and 2019, for the fiscal year ended June 30, 2020 and 2019, respectively. The total LTD liability used to calculate the net LTD liability was determined by an actuarial valuation as of the measurement date.

The total LTD liabilities measured as of July 1, 2019 and June 30, 2020 were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Discount rate and investment rate of return	6.5% based on the University's funding policy and the expected long-term return on the separate trust assets that will be used to finance the payment of Plan benefits. The University has stated that its funding policy is to contribute an amount to a segregated and protected trust. The amount will be such that the assets available will always be sufficient to cover the expected benefit payments.
Elimination period	Six months.
Termination (mortality and recovery from disability)	2012 Society of Actuaries group LTD table.
Mortality (only for life insurance)	Canadian Institute of Actuaries 1988-94 LTD Table.
Retirement rates	Faculty from 0.00 to 1.00 from age 50 to 85; staff from 0.03 to 1.00 from age 50 to 85.
Mortality rates for actives	For July 1, 2019, PUB-2010 Amounts Weighted Mortality Table, with mortality improvement projected generationally using Mortality Projection-2018 for the employer. For June 30, 2020 PUB-2010 Public Plans, with mortality improvement projected generationally using Mortality Projection-2019 for the Plan.
Incidence of disability	Gender and age related disability incidence rates based on 1987 Commissioner's group LTD table.
Duration of payment	Payments are assumed to be made until the later of: i) age 65 and ii) five years after date of disability.
LTD income benefit	
Disability benefit	Actual net benefit currently being paid (if currently disabled).
Social Security offset	Assume 90% of the members who have been disabled for less than 24 months and currently not entitled to a Social Security offset will immediately receive an offset.
Future salary increase for active members	Three percent per year.
Change in assumptions and benefit terms	For July 1, 2019, the mortality table was updated from the Aggregate base rates for healthy lives from the Retirement Plans-2014 mortality study with a fully generational projection from 2006 using scale MP-2017 to the PUB-2010 Amounts Weighted Mortality Table, with mortality improvement projected generationally using scale Mortality Projection-2018; For June 30, 2020, the mortality table was updated from the PUB-2010 Amounts Weighted Mortality Table, with mortality improvement projected generationally using scale Mortality Projection-2018 to PUB-2010 Amounts Weighted Mortality Table, with mortality improvement projected generationally using scale Mortality Projection-2019.

The actuarial assumptions used as of July 1, 2019 and June 30, 2020 were based on an actuarial experience study for the period January 1, 2013 to December 31, 2014.

The components of the employer's net LTD liability of the University measured at July 1, for fiscal year 2020 and 2019 is as follows (in thousands):

	<u>2020</u>	<u>2019</u>
Total LTD liability	\$ 25,919	\$ 25,517
Less: Plan fiduciary net position	<u>(21,944)</u>	<u>(20,081)</u>
University of Kentucky net LTD liability	<u>\$ 3,975</u>	<u>\$ 5,436</u>
Plan fiduciary net position as a percentage of the total LTD liability	84.7 %	78.7 %

The components of the Plan's net LTD liability of the University measured at June 30, for fiscal year 2020 and 2019 were as follows (in thousands):

	<u>2020</u>	<u>2019</u>
Total LTD liability	\$ 26,045	\$ 25,919
Less: Plan fiduciary net position	<u>(22,066)</u>	<u>(21,944)</u>
University of Kentucky net LTD liability	<u>\$ 3,979</u>	<u>\$ 3,975</u>
Plan fiduciary net position as a percentage of the total LTD liability	84.7%	84.7%

LTD trust investment policy guidelines are established by the LTD Employee Benefits Amended and Restated Trust Agreement. Investment objectives and targeted asset allocations are reviewed and approved by the University Treasurer. Investment objectives and asset allocations are developed to establish and maintain sound financial management practices for the investment and management of LTD funds. There were no significant investment policy changes during the fiscal year ended June 30, 2020.

The fair value of deposits and investments, by Statements of Fiduciary Net Position classification, at June 30, 2020 and 2019 is as follows (in thousands):

	<u>2020</u>	<u>2019</u>
<u>Statement of Fiduciary Net Position classification</u>		
Cash and cash equivalents	\$ 1,451	\$ 1,125
Investments	<u>20,604</u>	<u>20,798</u>
Total deposits and investments	<u>\$ 22,055</u>	<u>\$ 21,923</u>

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

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

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

The LTD Plan has the following valuation measurements, by type, at June 30, 2020 and 2019 (in thousands):

	2020			
	Total value	Fair Value Measurement Using		Amortized or historical cost
		Quoted prices in active markets for identical assets (Level 1)	Total measured at fair value	
Cash and cash equivalents	\$ 1,451	\$ —	\$ —	\$ 1,451
Diversifying strategies	982	982	982	—
Global equity - hedged	176	176	176	—
Global equity - international	4,037	4,037	4,037	—
Global equity - U.S.	8,477	8,477	8,477	—
Global fixed income - high quality/rate sensitive	2,841	2,841	2,841	—
Global fixed income - public credit	3,180	3,180	3,180	—
Real assets - public	911	911	911	—
Total deposits and investments	\$ 22,055	\$ 20,604	\$ 20,604	\$ 1,451

	2019			
	Total value	Fair Value Measurement Using		Amortized or historical cost
		Quoted prices in active markets for identical assets (Level 1)	Total measured at fair value	
Cash and cash equivalents	\$ 1,125	\$ —	\$ —	\$ 1,125
Diversifying strategies	527	527	527	—
Global equity - hedged	349	349	349	—
Global equity - international	3,702	3,702	3,702	—
Global equity - U.S.	9,817	9,817	9,817	—
Global fixed income - high quality/rate sensitive	2,818	2,818	2,818	—
Global fixed income - public credit	3,585	3,585	3,585	—
Total deposits and investments	\$ 21,923	\$ 20,798	\$ 20,798	\$ 1,125

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

The Trustee of the LTD trust diversifies the investments to minimize the risk of losses due to credit risk, interest rate risk, currency and other risks, as appropriate, based on market conditions. At June 30, 2020, the LTD trust had no underlying investments in any one issuer which represented more than five percent of total investments, other than U.S. Treasury and agency obligations, as a way to limit concentration of credit risks. For a description of credit, interest rate, foreign currency and concentration of credit risks see note 2.

The following reflects the approved asset allocation for the employer and Plan as of June 30, 2020 and 2019:

Asset Category	Target Allocation	
	2020	2019
Global equity	70%	70%
Global fixed income	30%	30%

The annual money-weighted rate of return on the LTD Plan investments, net of LTD Plan investment expense was 0.5% and 7.5% for the years ended June 30, 2020 and 2019, respectively. The money weighted rate of return expresses investment performance, net of investment expenses, adjusted for the changing amounts actually invested.

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

The following reflects the expected rates of return for the employer, presented as arithmetic means, by asset allocation as of July 1, 2019 and 2018:

Asset Category	Long-term Expected Real Rate of Return	
	2020	2019
Diversifying strategies	5.0%	5.0%
Global equity	5.9%	5.4%
Global fixed income	0.8%	1.0%

The following reflects the expected rates of return for the Plan, presented as arithmetic means, by asset allocation as of June 30, 2020 and 2019:

Asset Category	Long-term Expected Real Rate of Return	
	2020	2019
Diversifying strategies	5.0%	5.0%
Global equity	7.0%	5.9%
Global fixed income	2.5%	0.8%

The discount rate used to measure the total LTD liability for the employer and Plan was 6.5% for year ended June 30, 2020, which was the same from the July 1, 2019 measurement date. The projection of cash flows used to determine the discount rate assumed that University contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, LTD Plan fiduciary net position was projected to be available to make all projected LTD payments for current active and inactive employees. Therefore, the long-term expected rate of return on LTD Plan investments was applied to all periods of projected benefit payments to determine the total LTD liability.

The components of the employer net LTD liability of the University at June 30, 2020, and 2019 are as follows (in thousands):

	2020		
	Increase (decrease)		
	Total LTD liability	Plan fiduciary net position	Net LTD liability
Balance recognized at 7/1/2019 (based on 7/1/2018 measurement date)	\$ 25,517	\$ 20,081	\$ 5,436
Change recognized for the fiscal year:			
Service cost	2,241	—	2,241
Interest on the total LTD liability	1,750	—	1,750
Differences between expected and actual experience	(1,782)	—	(1,782)
Changes of assumptions	(123)	—	(123)
Benefit payments	(1,684)	(1,684)	—
Contributions from the employer	—	2,063	(2,063)
Net investment income	—	1,548	(1,548)
Administrative expense	—	(64)	64
Net changes	<u>402</u>	<u>1,863</u>	<u>(1,461)</u>
Balance recognized at 6/30/2020 (based on 7/1/2019 measurement date)	<u>\$ 25,919</u>	<u>\$ 21,944</u>	<u>\$ 3,975</u>
	2019		
	Increase (decrease)		
	Total LTD liability	Plan fiduciary net position	Net LTD liability
Balance recognized at 7/1/2018 (based on 7/1/2017 measurement date)	\$ 22,780	\$ 18,784	\$ 3,996
Change recognized for the fiscal year:			
Service cost	2,104	—	2,104
Interest on the total LTD liability	1,555	—	1,555
Differences between expected and actual experience	1,017	—	1,017
Changes of assumptions	(8)	—	(8)
Benefit payments	(1,931)	(1,931)	—
Contributions from the employer	—	2,002	(2,002)
Net investment income	—	1,264	(1,264)
Administrative expense	—	(38)	38
Net changes	<u>2,737</u>	<u>1,297</u>	<u>1,440</u>
Balance recognized at 6/30/2019 (based on 7/1/2018 measurement date)	<u>\$ 25,517</u>	<u>\$ 20,081</u>	<u>\$ 5,436</u>

The following presents the employer's 2020 and 2019 net LTD liability of the University, as well as what the University's net LTD liability would be if it were calculated using a discount rate that is one-percentage-point lower (5.5%) or one-percentage-point higher (7.5%) than the current discount rate (in thousands):

	2020		
	1% Decrease (5.5%)	Current Rate (6.5%)	1% Increase (7.5%)
Total LTD liability	\$ 27,079	\$ 25,919	\$ 24,813
Plan fiduciary net position	(21,944)	(21,944)	(21,944)
Net LTD liability	<u>\$ 5,135</u>	<u>\$ 3,975</u>	<u>\$ 2,869</u>

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

The following presents the Plan's 2020 and 2019 net LTD liability of the University, as well as what the University's net LTD liability would be if it were calculated using a discount rate that is one-percentage-point lower (5.5%) or one-percentage-point higher (7.5%) than the current discount rate (in thousands):

	2020		
	1% Decrease (5.5%)	Current Rate (6.5%)	1% Increase (7.5%)
Total LTD liability	\$ 27,109	\$ 26,045	\$ 25,030
Plan fiduciary net position	(22,066)	(22,066)	(22,066)
Net LTD liability	<u>\$ 5,043</u>	<u>\$ 3,979</u>	<u>\$ 2,964</u>

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

For the year ended June 30, 2020, the University recorded LTD expense of \$2.6 million and reported deferred outflows of resources and deferred inflows of resources, in thousands, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between actual and expected experience	\$ 896	\$ (1,599)
Net difference between expected and actual earnings on LTD Plan investment	—	(492)
Assumption changes	727	(117)
Contributions made subsequent to the measurement date of the net LTD liability	1,789	—
Total	<u>\$ 3,412</u>	<u>\$ (2,208)</u>

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

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

At June 30, 2020, the University reported \$1.8 million as deferred outflows of resources related to LTD resulting from University contributions subsequent to the measurement date and prior to year end that will be recognized as a reduction of the net LTD liability during the year ending June 30, 2021. Other amounts, in thousands, reported as deferred outflows of resources and deferred inflows of resources at June 30, 2020, related to OPEB will be recognized in LTD expense as follows:

2021	\$ (165)
2022	(166)
2023	(25)
2024	(17)
2025	30
Total thereafter	(242)
	<u>\$ (585)</u>

19. RISK MANAGEMENT

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

The insurance fund covers losses to property from fire, wind, earthquake, flood and most other causes of loss between \$5 thousand and \$1.0 million per occurrence. Losses in excess of \$1.0 million are insured by commercial carriers up to \$1.50 billion per occurrence with buildings and contents insured at replacement cost. As a state agency, the University is vested with Sovereign Immunity and is subject to the provisions of the Kentucky Claims Commission, under which the University's liability for certain negligence claims is limited to \$250 thousand for any one person or \$400 thousand for all persons damaged by a single act of negligence. Claims against educators' errors and omissions and wrongful acts are insured through a reciprocal risk retention group. There have been no significant reductions in insurance coverage from fiscal years 2019 to 2020. 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, 2020 is based on the requirements of GASB Statement No. 10, which requires that a liability for claims be recorded if it is probable that a loss has occurred and the amount of loss can be reasonably estimated. The liability includes an estimate for claims that have been incurred but not reported as of June 30, 2020.

The University also self-insures certain employee benefits, including health insurance, workers' compensation and unemployment claims to the extent not covered by insurance. The University has recorded an estimate for asserted claims at June 30, 2020.

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.

The University invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying statements of net position.

The University is currently participating in numerous grants from various departments and agencies of the federal and state governments. The expenditures of grant proceeds must be allowable for eligible purposes. Single audits and audits by the granting department or agency may result in request for reimbursement of unused grant proceeds or disallowed expenditures. Upon notification of final approval by the granting department or agency, the grants are considered closed.

The University has a defined benefit postretirement health care plan whereby it agrees to provide certain postretirement benefits to eligible employees. The benefit obligation is the actuarial present value of all

benefits attributed to service rendered prior to the valuation date. It is reasonably possible that events could occur that would change the estimated amount of this liability materially in the near term.

21. CANCER RESEARCH MATCHING FUND

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

A summary of the receipts and expenses related to the fund as of June 30, 2020 and 2019 are as follows (in thousands):

	2020	2019
Funds from private sources approved for match	\$ 6,857	\$ 5,080
Cigarette excise tax funds distributed	1,835	1,852
Total cancer research matching fund revenues	<u>\$ 8,692</u>	<u>\$ 6,932</u>
Cancer research matching fund expenses	<u>\$ 6,670</u>	<u>\$ 7,334</u>

22. NATURAL CLASSIFICATION

The University's operating expenses by natural classification for the years ended June 30, 2020 and 2019 are as follows (in thousands):

	2020	2019
Salaries and wages	\$ 1,710,305	\$ 1,621,742
Employee benefits	378,653	434,434
Supplies and services	1,043,184	902,613
Depreciation	191,223	188,145
Student scholarships and financial aid	71,261	71,002
Purchased utilities	43,264	43,628
Other, various	148,664	153,166
Total	<u>\$ 3,586,554</u>	<u>\$ 3,414,730</u>

23. CURRENT ECONOMIC UNCERTAINTIES

As a result of the spread of the SARS-CoV-2 virus and the incidence of the COVID-19, economic uncertainties have arisen which may negatively affect the financial position, results of operations and cash flows of the University. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

24. COMBINED CONDENSED STATEMENTS

The University of Kentucky and its blended component units' condensed statements for the years ended June 30, 2020 and 2019 are summarized as follows (in thousands):

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
COMBINED CONDENSED STATEMENT OF NET POSITION AS OF JUNE 30, 2020
(in thousands)

	UK	Research Foundation	Gluck Equine Research Foundation	Humanities Foundation	Mining Engineering Foundation	Central Kentucky Management Services	Alumni Association	Kentucky Medical Services Foundation	Eliminations	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES										
Current Assets										
Cash and cash equivalents	\$ 894,730	\$ 117,965	\$ —	\$ —	\$ 76	\$ 1,140	\$ 629	\$ 9,701	\$ —	\$ 1,024,241
Notes, loans and accounts receivable, net	420,214	34,597	—	—	—	737	245	60,994	(86,026)	430,761
Investments	—	—	—	—	—	—	—	16,119	—	16,119
Inventories and other assets	63,719	2,866	—	—	—	17	42	1,394	(90)	67,948
Total current assets	1,378,663	155,428	—	—	76	1,894	916	88,208	(86,116)	1,539,069
Noncurrent Assets										
Restricted cash and cash equivalents	206,924	120	—	—	—	—	—	—	—	207,044
Endowment investments	1,338,416	14,860	8,819	1,444	1,913	—	—	—	(30)	1,365,422
Other long-term investments	236,242	2,646	—	—	—	—	22,810	43,891	(1,677)	303,912
Notes, loans and accounts receivable, net	349,934	74	—	—	—	—	111	608	—	350,727
Other noncurrent assets	5,202	—	—	—	—	—	—	—	(90)	5,112
Capital assets, net	3,424,239	7,768	—	—	—	33	43	105,564	—	3,537,647
Total noncurrent assets	5,560,957	25,468	8,819	1,444	1,913	33	22,964	150,063	(1,797)	5,769,864
Total assets	6,939,620	180,896	8,819	1,444	1,989	1,927	23,880	238,271	(87,913)	7,308,933
Deferred Outflows of Resources	33,593	—	—	—	—	—	—	—	—	33,593
Total assets and deferred outflows of resources	6,973,213	180,896	8,819	1,444	1,989	1,927	23,880	238,271	(87,913)	7,342,526
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES										
Current Liabilities										
Accounts payable and accrued liabilities	309,358	8,377	—	—	1	1,894	18	130,494	(147,027)	303,115
Unearned revenue	148,909	38,772	—	—	—	—	26	2,214	(180)	189,741
Long-term liabilities - current portion	79,660	22	—	—	—	—	—	4,087	—	83,769
Total current liabilities	537,927	47,171	—	—	1	1,894	44	136,795	(147,207)	576,625
Noncurrent Liabilities										
Unearned revenue	227,239	2,533	—	—	—	—	27	—	—	229,799
Long-term liabilities	1,223,698	471	—	—	—	—	—	75,308	—	1,299,477
Net OPEB retiree health liabilities	117,941	—	—	—	—	—	—	—	—	117,941
Net OPEB long-term disability liabilities	3,975	—	—	—	—	—	—	—	—	3,975
Total noncurrent liabilities	1,572,853	3,004	—	—	—	—	27	75,308	—	1,651,192
Total liabilities	2,110,780	50,175	—	—	1	1,894	71	212,103	(147,207)	2,227,817
Deferred Inflows of Resources	582,839	—	—	—	—	—	—	—	—	582,839
Total liabilities and deferred inflows of resources	2,693,619	50,175	—	—	1	1,894	71	212,103	(147,207)	2,810,656
NET POSITION										
Net investment in capital assets	1,908,484	7,768	—	—	—	33	43	26,168	—	1,942,496
Restricted										
Nonexpendable	651,080	856	4,607	618	674	—	30	—	(30)	657,835
Expendable	468,357	4,694	4,212	826	1,314	—	—	—	—	479,403
Total restricted	1,119,437	5,550	8,819	1,444	1,988	—	30	—	(30)	1,137,238
Unrestricted	1,251,673	117,403	—	—	—	—	23,736	—	59,324	1,452,136
Total net position	\$ 4,279,594	\$ 130,721	\$ 8,819	\$ 1,444	\$ 1,988	\$ 33	\$ 23,809	\$ 26,168	\$ 59,294	\$ 4,531,870

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

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

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
COMBINED CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE YEAR ENDED JUNE 30, 2021
(in thousands)

	UK	Research Foundation	Gluck Equine Research Foundation	Humanities Foundation	Mining Engineering Foundation	Central Kentucky Management Services	Alumni Association	Kentucky Medical Services Foundation	Eliminations	Total
OPERATING REVENUES										
Student tuition and fees, net	\$ 356,197	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 356,197
Federal grants and contracts	700	219,370	—	—	—	—	—	—	—	220,070
State and local grants and contracts	90,468	19,685	—	—	—	—	—	—	—	110,153
Nongovernmental grants and contracts	302,217	30,643	—	—	—	—	—	—	(301,044)	31,816
Recoveries of facilities and administrative costs	174	68,219	—	—	—	—	—	—	—	68,393
Sales and services	56,348	1,150	—	—	—	31,820	1,097	—	(32,720)	57,695
Federal appropriations	17,641	—	—	—	—	—	—	—	—	17,641
County appropriations	27,915	—	—	—	—	—	—	—	—	27,915
Professional clinical service fees	—	—	—	—	—	—	—	259,522	(2,719)	256,803
Hospital services	2,147,434	—	—	—	—	—	—	—	(7,164)	2,140,270
Auxiliary enterprises:										
Housing and dining, net	32,103	—	—	—	—	—	—	—	(37)	32,066
Athletics	116,149	—	—	—	—	—	—	—	(365)	115,784
Other auxiliaries	51,956	—	—	—	—	—	—	—	(24)	51,932
Other operating revenues	1,029	—	—	—	—	—	—	115,721	(92,142)	24,608
Total operating revenues	<u>3,200,331</u>	<u>339,067</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>31,820</u>	<u>1,097</u>	<u>375,243</u>	<u>(436,215)</u>	<u>3,511,343</u>
OPERATING EXPENSES										
Educational and general:										
Instruction	313,855	12,017	—	—	45	—	—	—	(88)	325,829
Research	109,712	197,468	18	—	—	—	—	—	(2,350)	304,848
Public service	120,295	91,143	—	—	—	—	—	—	(942)	210,496
Libraries	25,182	—	—	—	—	—	—	—	(1)	25,181
Academic support	87,495	1,982	—	—	—	—	—	—	(155)	89,322
Student services	45,915	30	—	—	—	—	—	—	(60)	45,885
Institutional support	(671)	902	—	—	—	31,820	3,644	—	(35,685)	10
Operations and maintenance of plant	82,562	172	—	—	—	—	—	—	9,097	91,831
Student financial aid	47,571	1,951	—	37	—	—	—	—	(1)	49,558
Depreciation	76,708	459	—	—	—	9	17	—	—	77,193
Total educational and general	<u>908,624</u>	<u>306,124</u>	<u>18</u>	<u>37</u>	<u>45</u>	<u>31,829</u>	<u>3,661</u>	<u>—</u>	<u>(30,185)</u>	<u>1,220,153</u>
Clinical operations (including depreciation of \$9,134)	468,761	—	—	—	—	—	—	374,988	(411,516)	432,233
Hospital and clinics (including depreciation of \$69,025)	1,736,142	—	—	—	—	—	—	—	(20,084)	1,716,058
Auxiliary enterprises:										
Housing and dining (including depreciation of \$11,191)	31,335	—	—	—	—	—	—	—	(168)	31,167
Athletics (including depreciation of \$17,397)	144,427	—	—	—	—	—	—	—	(637)	143,790
Other auxiliaries (including depreciation of \$7,283)	43,081	—	—	—	—	—	—	—	(504)	42,577
Other operating expenses	576	—	—	—	—	—	—	—	—	576
Total operating expenses	<u>3,332,946</u>	<u>306,124</u>	<u>18</u>	<u>37</u>	<u>45</u>	<u>31,829</u>	<u>3,661</u>	<u>374,988</u>	<u>(463,094)</u>	<u>3,586,554</u>
Net income (loss) from operations	<u>(132,615)</u>	<u>32,943</u>	<u>(18)</u>	<u>(37)</u>	<u>(45)</u>	<u>(9)</u>	<u>(2,564)</u>	<u>255</u>	<u>26,879</u>	<u>(75,211)</u>
NONOPERATING REVENUES (EXPENSES)										
State appropriations	261,056	—	—	—	—	—	—	—	—	261,056
CARES Act	17,884	—	—	—	—	—	—	2,364	—	20,248
Gifts and non-exchange grants	116,147	304	1	1	—	—	2,104	—	(2,921)	115,636
Investment income (loss)	29,803	733	(24)	(3)	(4)	—	388	449	(2,889)	28,453
Interest on capital asset-related debt	(33,698)	—	—	—	—	—	—	(4,962)	—	(38,660)
Grants to (from) the University for noncapital purposes	14,315	(13,886)	(400)	(12)	(17)	—	—	—	—	—
Other nonoperating revenues and expenses, net	(1,643)	2,942	—	—	—	—	251	—	—	1,550
Net nonoperating revenues (expenses)	<u>403,864</u>	<u>(9,907)</u>	<u>(423)</u>	<u>(14)</u>	<u>(21)</u>	<u>—</u>	<u>2,743</u>	<u>(2,149)</u>	<u>(5,810)</u>	<u>388,283</u>
Net income (loss) before other revenues, expenses, gains, or losses	<u>271,249</u>	<u>23,036</u>	<u>(441)</u>	<u>(51)</u>	<u>(66)</u>	<u>(9)</u>	<u>179</u>	<u>(1,894)</u>	<u>21,069</u>	<u>313,072</u>
Capital grants and gifts	31,370	4,214	—	—	—	—	—	—	—	35,584
Additions to permanent endowments	15,448	2	—	—	—	—	—	—	(43)	15,407
Grants to (from) the University for capital purposes	13,293	(13,293)	—	—	—	—	—	—	—	—
Other, net	(10,749)	—	—	—	—	—	—	3	—	(10,746)
Total other revenues (expenses)	<u>49,362</u>	<u>(9,077)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>3</u>	<u>(43)</u>	<u>40,245</u>
INCREASE (DECREASE) IN NET POSITION	<u>320,611</u>	<u>13,959</u>	<u>(441)</u>	<u>(51)</u>	<u>(66)</u>	<u>(9)</u>	<u>179</u>	<u>(1,891)</u>	<u>21,026</u>	<u>353,317</u>
NET POSITION, beginning of year	<u>3,958,983</u>	<u>116,762</u>	<u>9,260</u>	<u>1,495</u>	<u>2,054</u>	<u>42</u>	<u>23,630</u>	<u>28,059</u>	<u>38,268</u>	<u>4,178,553</u>
NET POSITION, end of year	<u>\$ 4,279,594</u>	<u>\$ 130,721</u>	<u>\$ 8,819</u>	<u>\$ 1,444</u>	<u>\$ 1,988</u>	<u>\$ 33</u>	<u>\$ 23,809</u>	<u>\$ 26,168</u>	<u>\$ 59,294</u>	<u>\$ 4,531,870</u>

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

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

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
COMBINED CONDENSED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2020
(in thousands)

	UK	Research Foundation	Gluck Equine Research Foundation	Humanities Foundation	Mining Engineering Foundation	Central Kentucky Management Services	Alumni Association	Kentucky Medical Services Foundation	Eliminations	Total
CASH FLOWS FROM OPERATING ACTIVITIES										
Student tuition and fees	\$ 358,119	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 358,119
Grants and contracts	372,179	275,152	—	—	—	—	—	—	(301,044)	346,287
Recoveries of facilities and administrative costs	(1,752)	69,201	—	—	—	—	—	—	—	67,449
Sales and services	57,333	—	—	—	—	31,090	1,008	(144)	(32,631)	56,656
Federal appropriations	17,955	—	—	—	—	—	—	—	—	17,955
County appropriations	28,389	—	—	—	—	—	—	—	—	28,389
Payments to vendors and contractors	(1,225,034)	(98,269)	(18)	(37)	(12)	(1,506)	(1,510)	(340,275)	427,570	(1,239,091)
Student financial aid	(49,574)	—	—	—	—	—	—	—	—	(49,574)
Salaries, wages and benefits	(1,895,176)	(208,102)	—	—	(33)	(29,618)	(2,221)	(3,243)	—	(2,138,393)
Professional clinical service fees	—	—	—	—	—	—	—	247,041	11,123	258,164
Hospital services	2,179,979	—	—	—	—	—	—	—	(6,813)	2,173,166
Auxiliary enterprises receipts	184,190	—	—	—	—	—	—	—	(426)	183,764
Loans issued to students	(20,899)	—	—	—	—	—	—	—	—	(20,899)
Collection of loans to students	23,299	—	—	—	—	—	—	—	—	23,299
Self-insurance receipts	68,813	—	—	—	—	—	—	836	—	69,649
Self-insurance payments	(74,560)	—	—	—	—	—	—	—	—	(74,560)
Other receipts (payments)	(3,518)	1,033	—	—	—	—	—	115,721	(92,142)	21,094
Net cash provided (used) by operating activities	19,743	39,015	(18)	(37)	(45)	(34)	(2,723)	19,936	5,637	81,474
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES										
State appropriations	261,056	—	—	—	—	—	—	—	—	261,056
CARES Act	48,764	—	—	—	—	—	—	2,364	—	51,128
Gifts and grants received for other than capital purposes:										
Gifts received for endowment purposes	15,448	2	—	—	—	—	—	—	(43)	15,407
Gifts received for other purposes	119,918	306	1	1	—	—	2,104	—	(2,922)	119,408
Agency and loan program receipts	256,328	—	—	—	—	—	—	—	—	256,328
Agency and loan program payments	(255,923)	—	—	—	—	—	—	—	—	(255,923)
Grants (to) from the University for noncapital purposes	14,315	(13,886)	(400)	(12)	(17)	—	—	—	—	—
Other financing receipts (payments)	(2,414)	2,829	—	—	—	—	169	—	—	584
Net cash provided (used) by noncapital financing activities	457,492	(10,749)	(399)	(11)	(17)	—	2,273	2,364	(2,965)	447,988
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES										
Capital grants and gifts	50,977	4,214	—	—	—	—	—	—	—	55,191
Purchases of capital assets	(235,832)	(299)	—	—	—	—	(2)	(3,139)	—	(239,272)
Proceeds from capital debt	71,471	—	—	—	—	—	—	—	—	71,471
Payments to refunding bond agents	—	—	—	—	—	—	—	—	—	—
Proceeds from sales of capital assets	335	—	—	—	—	—	—	—	—	335
Principal paid on capital debt and leases	(46,463)	—	—	—	—	—	—	(4,105)	—	(50,568)
Interest paid on capital debt and leases	(37,467)	—	—	—	—	—	—	(4,962)	—	(42,429)
Grants (to) from the University for capital purposes	13,134	(13,134)	—	—	—	—	—	—	—	—
Other financing receipts (payments)	(6,401)	—	—	—	—	—	—	4	—	(6,397)
Net cash provided (used) by capital and related financing activities	(190,246)	(9,219)	—	—	—	—	(2)	(12,202)	—	(211,669)
CASH FLOWS FROM INVESTING ACTIVITIES										
Proceeds from sales and maturities of investments	706,789	7,635	3,974	632	860	—	755	46	30	720,721
Interest and dividends on investments	46,440	280	97	16	22	—	382	(135)	(2,702)	44,400
Purchases of investments	(646,650)	(7,673)	(3,661)	(600)	(794)	—	(733)	(12,309)	—	(672,420)
Net cash provided (used) by investing activities	106,579	242	410	48	88	—	404	(12,398)	(2,672)	92,701
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	393,568	19,289	(7)	—	26	(34)	(48)	(2,300)	—	410,494
CASH AND CASH EQUIVALENTS, beginning of year	708,086	98,796	7	—	50	1,174	677	12,001	—	820,791
CASH AND CASH EQUIVALENTS, end of year	\$ 1,101,654	\$ 118,085	\$ —	\$ —	\$ 76	\$ 1,140	\$ 629	\$ 9,701	\$ —	\$ 1,231,285

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

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

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
COMBINED STATEMENTS OF FIDUCIARY NET POSITION (in thousands)
JUNE 30, 2020 and 2019

	2020			2019		
	OPEB Plan	LTD Plan	Total	OPEB Plan	LTD Plan	Total
ASSETS						
Cash and cash equivalents	\$ 4,838	\$ 1,451	\$ 6,289	\$ 4,489	\$ 1,125	\$ 5,614
Accrued interest receivable	—	11	11	—	21	21
Investments	173,783	20,604	194,387	171,025	20,798	191,823
Total assets	<u>178,621</u>	<u>22,066</u>	<u>200,687</u>	<u>175,514</u>	<u>21,944</u>	<u>197,458</u>
LIABILITIES						
Accounts payable and accrued liabilities	—	—	—	—	—	—
Total liabilities	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
NET POSITION						
Net position restricted for postemployment benefits other than pensions	<u>\$ 178,621</u>	<u>\$ 22,066</u>	<u>\$ 200,687</u>	<u>\$ 175,514</u>	<u>\$ 21,944</u>	<u>\$ 197,458</u>

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
COMBINED STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION (in thousands)
FOR THE YEARS ENDED JUNE 30, 2020 and 2019

	2020			2019		
	OPEB Plan	LTD Plan	Total	OPEB Plan	LTD Plan	Total
Additions						
Investment income (loss):						
Interest and dividend income	\$ 1,953	\$ 775	\$ 2,728	\$ 2,709	\$ 953	\$ 3,662
Net appreciation (depreciation) in fair value of investments	(2,792)	(630)	(3,422)	6,658	595	7,253
Net investment income (loss)	(839)	145	(694)	9,367	1,548	10,915
Contributions:						
University	14,292	1,789	16,081	18,804	2,063	20,867
Beneficiaries	3,719	—	3,719	4,379	—	4,379
Total contributions	18,011	1,789	19,800	23,183	2,063	25,246
Total additions	17,172	1,934	19,106	32,550	3,611	36,161
Deductions						
Administrative expenses	1,611	64	1,675	1,376	64	1,440
Payments to retirees and beneficiaries	12,454	1,748	14,202	15,203	1,684	16,887
Total deductions	14,065	1,812	15,877	16,579	1,748	18,327
INCREASE IN NET POSITION	3,107	122	3,229	15,971	1,863	17,834
NET POSITION restricted for the postemployment benefits other than pensions, beginning of year	175,514	21,944	197,458	159,543	20,081	179,624
NET POSITION restricted for the postemployment benefits other than pensions, end of year	\$ 178,621	\$ 22,066	\$ 200,687	\$ 175,514	\$ 21,944	\$ 197,458

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

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

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

	2020	2019	2018	2017
Total OPEB liability				
Service cost	\$ 2,668	\$ 3,953	\$ 3,710	\$ 4,356
Interest cost	21,888	29,225	28,053	28,667
Change of benefit terms	—	(58,343)	—	—
Differences between expected and actual experience	757	1,921	(1,071)	12,087
Changes of assumptions	870	(63,511)	(3,559)	(40,408)
Benefit payments	(8,736)	(10,824)	(12,620)	(11,889)
Net change in total OPEB liability	17,447	(97,579)	14,513	(7,187)
Total OPEB liability, beginning	293,455	391,034	376,521	383,708
Total OPEB liability, ending	310,902	293,455	391,034	376,521
Plan fiduciary net position				
Contributions - employer	14,292	18,804	20,013	23,987
Contributions - beneficiaries	3,719	4,379	4,945	5,500
Net investment income (loss)	(839)	9,367	8,989	12,508
Benefit payments	(12,454)	(15,203)	(17,565)	(17,389)
Administrative expense	(1,611)	(1,376)	(783)	(674)
Net change in Plan fiduciary net position	3,107	15,971	15,599	23,932
Plan fiduciary net position, beginning	175,514	159,543	143,944	120,012
Plan fiduciary net position, ending	178,621	175,514	159,543	143,944
Net OPEB liability, ending	<u>\$ 132,281</u>	<u>\$ 117,941</u>	<u>\$ 231,491</u>	<u>\$ 232,577</u>
Plan fiduciary net position as a percentage of OPEB liability	57.5%	59.8%	40.8%	38.2%
Covered-employee payroll	\$ 563,859	\$ 459,655	\$ 480,320	\$ 494,158
Net OPEB liability as a percentage of covered-employee payroll	23.5%	25.7%	48.2%	47.1%

Notes to schedule:

Change of assumptions and benefits terms:

2020: The mortality table was updated to the PUB-2010 Amounts Weighted Mortality Table, with mortality improvement projected generationally using scale Mortality Projection-2019; the health care trend rates have been updated to better anticipate future experience under the Plan.

2019: The mortality table was updated to the PUB-2010 Amounts Weighted Mortality Table, with mortality improvement projected generationally using scale Mortality Projection-2018; the health care trend rates have

been updated to better anticipate future experience under the plan. Effective January 1, 2019, post retirement medical benefits for Medicare eligible retirees was updated from a self-insured retiree Medicare Carveout program with a deductible that is tied to the Medicare Part B deductible to a fully-insured Medicare Advantage Plan.

2018: The mortality table was updated to the aggregate base rates for healthy lives from the Retirement Plans-2014 mortality study with a fully generational projection from 2006 using scale Mortality Projection-2017.

2017: The mortality table was updated to the aggregate base rates for healthy lives from the Retirement Plans-2014 mortality study with a fully generational projection from 2006 using scale MP-2016; the health care trend rates have been updated to better anticipate future experience under the plan.

The Schedules of Changes in Net OPEB Liability and Related Ratios is presented as of the measurement date for the fiscal year. Ten years of data for the OPEB Plan is required and will be added as information becomes available.

SCHEDULE OF OPEB INVESTMENT RETURNS

Year	Annual money-weighted rate of return, net of investment expenses
2020	(3.1)%
2019	5.5%
2018	6.5%
2017	10.3%

SCHEDULE OF OPEB CONTRIBUTIONS (in thousands)

	2020	2019	2018	2017
Actuarially determined contribution	\$ 11,917	\$ 20,600	\$ 20,000	\$ 24,454
Contribution in relation to actuarially determined contribution	(14,292)	(18,804)	(20,013)	(23,987)
Contribution deficiency (excess)	<u>\$ (2,375)</u>	<u>\$ 1,796</u>	<u>\$ (13)</u>	<u>\$ 467</u>
Covered employee payroll	\$ 563,859	\$ 459,655	\$ 480,320	\$ 494,158
Contribution as a percentage of covered employee payroll	2.5%	4.1%	4.2%	4.9%

Notes to Schedule:

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

Methods and assumptions used to determine contribution rates:

Funding policy	<p>For 2020, funding contribution determined as the sum of estimated administrative expenses plus 30-year amortization of the initial unfunded present value of projected benefits and subsequent asset gains/losses and liability gains/losses.</p> <p>For 2019 and 2018, funding contribution was determined as the minimum of the 15-year amortization of unfunded present value of benefits and contribution limit of \$20,600,000 and \$20,000,000, respectively, not less than \$250,000.</p> <p>For 2017, funding contribution was determined as the GASB 45 Annual Required Contribution, which equals the sum of projected unit credit normal cost plus 30-year amortization of initial unfunded accrued liability and subsequent asset gains/losses and liability gains/losses.</p>
Amortization	<p>For 2020, the University of Kentucky elected to amortize the unamortized portion of the initial unfunded present value of benefits as of July 1, 2019 over a closed period of 30 years on a level dollar basis. Theoretical annual amount needed to fund the excess of present value of benefits over plan assets.</p> <p>For 2019 and 2018, amortization was a 15 year open period.</p> <p>For 2017, the amortization period was 30 year closed period.</p>
Present value of benefits	<p>Actuarial present value at the beginning of the fiscal year of the net post retirement benefits expected to be paid to all current plan participants calculated using a 7.5% interest rate.</p>
Health care trend rates	<p>For 2020, post-65 medical 1.1% increasing to 312.2% in 2021 and decreasing to an ultimate rate of 4.5% in 2031. Post-65 RX trend rate is 6.4% decreasing to an ultimate rate of 4.5% in 2029. Pre-65 rate is 6.4% decreasing to an ultimate rate of 2.20% in 2029.</p> <p>For 2019, post-65 medical 5%, Post-65 RX 10.0%, decreasing 0.5% per year to an ultimate rate of 5%. Pre-65 7.94%, decreasing .31% - .39% per year to an ultimate rate of 2.20% in 2022.</p> <p>For 2018, post-65 medical 5%, Post-65 RX 10.5%, decreasing 0.5% per year to an ultimate rate of 5%. Pre-65 8.25%, decreasing .31% - .39 per year to an ultimate rate of 2.20% in 2022.</p> <p>For 2017, post-65 medical 5% and post-65 prescription 10%, decreasing .5% per year to an ultimate rate of 5%. Pre-65 6.75%, decreasing .12% - 3.49% per year to an ultimate rate of 2.20% in 2024.</p>
Salary scale	<p>Three percent per year.</p>
Retirement rates	<p>Faculty from 0.00 to 1.00 from age 50 to 85; staff from 0.03 to 1.00 from age 50 to 85.</p>
Discount rate and investment rate of return	<p>7.5% based on the University's funding policy and the expected long-term return on the separate trust assets that will be used to finance the payment of plan benefits. The University has stated that its funding policy is to contribute an amount to a segregated and protected trust fund. The amount will be such that the assets available will always be sufficient to cover the expected benefit payments.</p>

Mortality	<p>For 2020, PUB-2010 Amounts Weighted Mortality Table, with mortality improvement projected generationally using scale Mortality Projection-2018.</p> <p>For 2019, aggregate base rates for healthy lives from the Retirement Plans-2014 mortality study with a fully generational projection from 2006 using scale Mortality Projection-2017.</p> <p>For 2018, aggregate base rates for healthy lives from the Retirement Plans-2014 mortality study with a fully generational projection from 2006 using scale Mortality Projection-2016.</p> <p>For 2017, aggregate base rates for healthy lives from the Retirement Plans-2014 mortality study with fully generational projection from 2006 using scale Mortality Projection-2015.</p>
Disability	Gender and age-related disability incidence rates based on 1987 GLTD (six month elimination period).
Plan participation	80% elect coverage.
Dependent coverage	80% of active employees are assumed to be married at their retirement. 60% of those married retirees are assumed to have spousal coverage in effect upon death. Female spouses of male retirees are assumed to be three years younger than their husbands. Male spouses of female retirees are assumed to be three years older than their wives.

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

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

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

	2020	2019	2018	2017
Total LTD liability				
Service cost	\$ 2,242	\$ 2,241	\$ 2,104	\$ 1,606
Interest cost	1,775	1,750	1,555	1,569
Differences between expected and actual experience	(2,140)	(1,782)	1,017	138
Changes of assumptions	(3)	(123)	(8)	1,042
Benefit payments	(1,748)	(1,684)	(1,931)	(1,763)
Net change in total LTD liability	126	402	2,737	2,592
Total LTD liability, beginning	25,919	25,517	22,780	20,188
Total LTD liability, ending	26,045	25,919	25,517	22,780
Plan fiduciary net position				
Contributions - employer	1,789	2,063	2,002	2,020
Net investment income	145	1,548	1,264	1,956
Benefit payments	(1,748)	(1,684)	(1,931)	(1,763)
Administrative expense	(64)	(64)	(38)	(61)
Net change in plan fiduciary net position	122	1,863	1,297	2,152
Plan fiduciary net position, beginning	21,944	20,081	18,784	16,632
Plan fiduciary net position, ending	22,066	21,944	20,081	18,784
Net LTD liability, ending	<u>\$ 3,979</u>	<u>\$ 3,975</u>	<u>\$ 5,436</u>	<u>\$ 3,996</u>
Net position as a percentage of LTD liability	84.7%	84.7%	78.7%	82.5%
Covered-employee payroll	\$ 1,097,046	\$ 1,095,104	\$ 977,928	\$ 940,951
Net LTD liability as a percentage of payroll	0.4%	0.4%	0.6%	0.4%

Notes to schedule:

Changes of assumption and benefit terms:

2020: The mortality table was updated to PUB-2010 Amounts Weighted Mortality Table, with mortality improvement projected generationally using scale Mortality Projection-2019.

2019: The mortality table was updated to the PUB-2010 Amounts Weighted Mortality Table, with mortality improvement projected generationally using scale Mortality Projection-2018.

2018: The mortality table was updated to the Aggregate base rates for healthy lives from a Retirement Plans-2014 mortality study with a fully generational projection from 2006 using scale Mortality Projection-2017;

2017: The mortality table was updated to the aggregate base rates for healthy lives from the Retirement Plans-2014 mortality study with a fully generational projection from 2006 using scale Mortality Projection-2016; the discount rate was updated from 7.5% to 6.5%.

The Schedules of Changes in the Net LTD Liability and Related Ratios is presented as of the measurement date for the fiscal year. Ten years of data for the LTD is required and will be added as information becomes available.

SCHEDULE OF OPEB INVESTMENT RETURNS

Year	Annual money-weighted rate of return, net of investment expenses
2020	0.5%
2019	7.5%
2018	7.1%
2017	12.0%

SCHEDULE OF LTD CONTRIBUTIONS (in thousands)

	2020	2019	2018	2017
Actuarially determined contribution	\$ 1,786	\$ 2,060	\$ 2,000	\$ 1,984
Contribution in relation to actuarially determined contribution	<u>(1,789)</u>	<u>(2,063)</u>	<u>(2,002)</u>	<u>(2,020)</u>
Contribution excess	<u>\$ (3)</u>	<u>\$ (3)</u>	<u>\$ (2)</u>	<u>\$ (36)</u>
Covered employee payroll	\$ 1,097,046	\$ 1,095,104	\$ 977,928	\$ 940,951
Contribution as a percentage of covered employee payroll	0.2%	0.2%	0.2%	0.2%

Notes to schedule:

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

Methods and assumptions used to determine contribution rates:

Funding policy	<p>For 2020, funding contribution is determined as the sum of estimated administrative expenses plus 15-year amortization of the initial unfunded present value of projected benefits and subsequent asset gain/losses and liability gains/losses.</p> <p>For 2019 and 2018, funding contribution was determined as the minimum of the ten year amortization of unfunded present value of benefits and contribution limit of \$2,060,000 and \$2,000,000, respectively, not less than \$250,000.</p> <p>For 2017, funding contribution was determined as the GASB 45 Annual Required Contribution, which equals the sum of projected unit credit normal cost plus 30-year amortization of initial unfunded accrued liability and subsequent asset gains/losses and liability gains/losses.</p>
Amortization	<p>For 2020, the University of Kentucky elected to amortize the unamortized portion of the initial unfunded present value of benefits as of July 1, 2019 over a closed period of 15 years on a level dollar basis. Theoretical annual amount needed to fund the excess of present value of benefits over plan assets.</p> <p>For 2019 and 2018, amortization was a 10 year open period.</p> <p>For 2017, amortization was a 30 year closed period.</p>

Present value of benefits	Actuarial present value at the beginning of the fiscal year of the net post retirement benefits expected to be paid to all current plan participants calculated using an interest rate equal to the long-term expected return on plan assets (6.5% as of July 1, 2019).
Plan assets	Market value of assets as of the beginning of the fiscal year.
Discount rate and investment rate of return	<p>For 2020, 2019, and 2018, 6.5% based on the University's funding policy and the expected long-term return on the separate trust assets that will be used to finance the payment of plan benefits. The University has stated that its funding policy is to contribute an amount to a segregated and protected trust. The amount will be such that the assets available will always be sufficient to cover the expected benefit payments.</p> <p>For 2017, 7.5% based on the University's annual required contribution funding policy and the expected long-term return on the separate trust assets that were used to finance the payment of plan benefits.</p>
Elimination period	Six months.
Termination (mortality and recovery from disability)	2012 Society of Actuaries group LTD table.
Mortality (only for life insurance)	Canadian Institute of Actuaries 1988-94 LTD Table.
Retirement rates	Faculty from 0.00 to 1.00 from age 50 to 85; staff from 0.03 to 1.00 from age 50 to 85.
Mortality rates for actives	<p>For 2020, PUB-2010 Amounts Weighted Mortality Table, with mortality improvement projected generationally using Mortality Projection-2018.</p> <p>For 2019, aggregate base rates for healthy lives from the Retirement Plans-2014 mortality study with a fully generational projection from 2006 using scale Mortality Projection-2017.</p> <p>For 2018, aggregate base rates for healthy lives from the Retirement Plans-2014 mortality study with a fully generational projection from 2006 using scale Mortality Projection-2016.</p> <p>For 2017, aggregate base rates for healthy lives from the Retirement Plans-2014 mortality study with fully generational projection from 2006 using scale Mortality Projection-2015.</p>
Incidence of disability	Gender and age related disability incidence rates based on 1987 Commissioner's group LTD table.
Duration of payment	Payments are assumed to be made until the later of: i) age 65 and ii) five years after date of disability.
LTD income benefit	
Disability benefit	Actual net benefit currently being paid (if currently disabled).
Social Security offset	Assume 90% of the members who have been disabled for less than 24 months and currently not entitled to a Social Security offset will immediately receive an
Future salary increase for active members	Three percent per year.
Ten years of data for the LTD Plan is required and will be added as information becomes available.	

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