



 University of  
Kentucky®

**2018 Financial Statements**



## 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 aggregate remaining fund information of the University of Kentucky (University), collectively, a component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Kentucky Medical Services Foundation, Inc. (KMSF), a blended component unit of the University, which represent 3.5 percent, 1.0 percent and 11.6 percent, respectively, of the assets, net position and revenues of the University, respectively. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for KMSF, is based solely on the report of the other auditors. We conducted our audit 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 audit and the report 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 aggregate remaining fund information of the University as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Emphasis of Matter*

As discussed in Note 1 of the financial statements, in 2018, the University adopted Governmental Accounting Standards Board No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, and Governmental Accounting Standards Board No. 81, *Irrevocable Split-Interest Agreements*. Our opinions are not modified with respect to these matters.

### *Required Supplementary Information*

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

*Other Information*

Our audit was conducted for the purpose of forming 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 audit 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 have also issued our report dated October 5, 2018, 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 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 5, 2018



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

	2018
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	
<b>Current Assets</b>	
Cash and cash equivalents	\$ 587,492
Notes, loans and accounts receivable, net	438,441
Investments	18,399
Inventories and other assets	56,640
Total current assets	<u>1,100,972</u>
<b>Noncurrent Assets</b>	
Restricted cash and cash equivalents	309,690
Endowment investments	1,334,530
Other long-term investments	299,402
Notes, loans and accounts receivable, net	279,444
Other noncurrent assets	1,110
Capital assets, net	3,382,542
Total noncurrent assets	<u>5,606,718</u>
Total assets	<u><b>6,707,690</b></u>
<b>Deferred Outflows of Resources</b>	<u>42,293</u>
Total assets and deferred outflows of resources	<u><b>6,749,983</b></u>
<b>LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	
<b>Current Liabilities</b>	
Accounts payable and accrued liabilities	347,002
Unearned revenue	121,709
Long-term liabilities - current portion	86,075
Total current liabilities	<u>554,786</u>
<b>Noncurrent Liabilities</b>	
Unearned revenue	152,389
Long-term liabilities	1,299,806
Net other postemployment benefit liability - retiree health	232,577
Net other postemployment benefit liability - long-term disability	3,996
Total noncurrent liabilities	<u>1,688,768</u>
Total liabilities	<u><b>2,243,554</b></u>
<b>Deferred Inflows of Resources</b>	<u>563,137</u>
Total liabilities and deferred inflows of resources	<u><b>2,806,691</b></u>
<b>NET POSITION</b>	
<b>Net investment in capital assets</b>	<u>1,835,152</u>
<b>Restricted</b>	
Nonexpendable	
Scholarships and fellowships	164,048
Research	278,769
Instruction	85,046
Academic support	85,731
Other	13,123
Total restricted nonexpendable	<u>626,717</u>
Expendable	
Scholarships and fellowships	89,330
Research	98,810
Instruction	53,374
Academic support	84,065
Loans	12,484
Capital projects	54,789
Debt service	24
Auxiliary	33,725
Other	38,843
Total restricted expendable	<u>465,444</u>
Total restricted	<u>1,092,161</u>
<b>Unrestricted</b>	<u>1,015,979</u>
Total net position	<u><b>\$ 3,943,292</b></u>

See notes to financial statements

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

	2018
<b>OPERATING REVENUES</b>	
Student tuition and fees	\$ 508,799
Less: Scholarship allowances	(165,818)
Net student tuition and fees	342,981
Federal grants and contracts	187,996
State and local grants and contracts	85,834
Nongovernmental grants and contracts	39,249
Recoveries of facilities and administrative costs	60,062
Sales and services	58,456
Federal appropriations	19,674
County appropriations	25,389
Professional clinical service fees	244,805
Hospital services	1,631,737
Auxiliary enterprises:	
Housing and dining	35,861
Less: Scholarship allowances	(812)
Net housing and dining	35,049
Athletics	108,781
Other auxiliaries	55,091
Other operating revenues	22,831
Total operating revenues	<b>2,917,935</b>
<b>OPERATING EXPENSES</b>	
Educational and general:	
Instruction	313,654
Research	280,230
Public service	199,107
Libraries	23,886
Academic support	84,247
Student services	43,398
Institutional support	61,659
Operations and maintenance of plant	75,208
Student financial aid	40,652
Depreciation	67,506
Total educational and general	1,189,547
Clinical operations (including depreciation of \$4,409 in 2018)	392,284
Hospital and clinics (including depreciation of \$62,117 in 2018)	1,420,688
Auxiliary enterprises:	
Housing and dining (including depreciation of \$13,299 in 2018)	31,232
Athletics (including depreciation of \$15,837 in 2018)	131,615
Other auxiliaries (including depreciation of \$1,193 in 2018)	32,989
Other operating expenses	993
Total operating expenses	<b>3,199,348</b>
Net loss from operations	<b>(281,413)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
State appropriations	264,418
Gifts and non-exchange grants	118,442
Investment income (loss)	89,893
Interest on capital asset-related debt	(34,695)
Other nonoperating revenues and expenses, net	8,836
Net nonoperating revenues (expenses)	<b>446,894</b>
Net income (loss) before other revenues, expenses, gains or losses	<b>165,481</b>
Capital grants and gifts	28,086
Additions to permanent endowments	10,470
Other, net	7,896
Total other revenues (expenses)	<b>46,452</b>
<b>INCREASE IN NET POSITION</b>	<b>211,933</b>
<b>NET POSITION, beginning of year, as previously reported</b>	<b>3,976,695</b>
<b>Cumulative effect of adoption of accounting principle</b>	<b>(245,336)</b>
<b>NET POSITION, beginning of year, as restated</b>	<b>3,731,359</b>
<b>NET POSITION, end of year</b>	<b>\$ 3,943,292</b>

See notes to financial statements

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

	<u>2018</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Student tuition and fees	\$ 341,672
Grants and contracts	305,661
Recoveries of facilities and administrative costs	61,743
Sales and services	56,359
Federal appropriations	20,158
County appropriations	26,149
Payments to vendors and contractors	(1,050,373)
Student financial aid	(40,651)
Salaries, wages and benefits	(1,986,520)
Professional clinical service fees	254,823
Hospital services	1,603,302
Auxiliary enterprises receipts	206,373
Loans issued to students	(16,343)
Collection of loans to students	16,038
Self insurance receipts	70,463
Self insurance payments	(75,073)
Other receipts (payments)	22,502
Net cash provided (used) by operating activities	<u>(183,717)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
State appropriations	264,418
Gifts and grants received for other than capital purposes:	
Gifts received for endowment purposes	10,470
Gifts received for other purposes	127,169
Agency and loan program receipts	252,818
Agency and loan program payments	(252,479)
Other financing receipts (payments)	8,267
Net cash provided (used) by noncapital financing activities	<u>410,663</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Capital grants and gifts	21,367
Purchases of capital assets	(420,204)
Proceeds from capital debt	230,449
Proceeds from sales of capital assets	3,950
Principal paid on capital debt and leases	(52,683)
Interest paid on capital debt and leases	(42,533)
Other financing receipts (payments)	1,464
Net cash provided (used) by capital and related financing activities	<u>(258,190)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Proceeds from sales and maturities of investments	917,277
Interest and dividends on investments	37,598
Purchases of investments	(952,123)
Net cash provided (used) by investing activities	<u>2,752</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>(28,492)</u>
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>925,674</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u><u>\$ 897,182</u></u>

See notes to financial statements



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

	<u>2018</u>
<b>Reconciliation of net loss from operations</b>	
<b>to net cash provided (used) by operating activities:</b>	
Net loss from operations	\$ (281,413)
Adjustments to reconcile net loss from operations	
to net cash provided (used) by operating activities:	
Depreciation expense	164,361
Change in assets and liabilities:	
Notes, loans and accounts receivable, net	(44,913)
Inventories and other assets	(3,813)
Deferred outflows of resources	(7,660)
Accounts payable and accrued liabilities	(26,251)
Unearned revenue	16,138
Long-term liabilities	966
OPEB liabilities	(30,678)
Deferred inflows of resources	29,546
<b>Net cash provided (used) by operating activities</b>	<b>\$ (183,717)</b>
<b>NONCASH TRANSACTIONS</b>	
Capital lease additions	\$ 14,715
Gifts of capital assets	\$ 5,472
Capital asset change in accounts payable	\$ 11,207
Capital asset additions by service concession arrangements	\$ 98,638
Capitalized interest, net of investment income	\$ 10,400
Amortized bond discount and premium	\$ 7,185
Amortized difference between reacquisition price and net carrying	
amount of refunded debt	\$ 1,629
Capital asset trade in	\$ 683

See notes to financial statements

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

	2018
<b>ASSETS</b>	
Cash and cash equivalents	\$ 3,509
Accrued interest receivable	13
Investments	176,105
Total assets	<u>179,627</u>
<b>LIABILITIES</b>	
Accounts payable and accrued liabilities	3
Total liabilities	<u>3</u>
<b>NET POSITION</b>	
Net position restricted for postemployment benefits other than pensions	<u>\$ 179,624</u>

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

	2018
<b>Additions</b>	
Investment income:	
Interest and dividend income	\$ 3,147
Net appreciation (depreciation) in fair value of investments	7,106
Net investment income (loss)	<u>10,253</u>
Contributions:	
University of Kentucky	22,015
Beneficiaries	4,945
Total contributions	<u>26,960</u>
Total additions	<u>37,213</u>
<b>Deductions</b>	
Administrative expenses	821
Payments to retirees and beneficiaries	19,496
Total deductions	<u>20,317</u>
<b>INCREASE (DECREASE) IN NET POSITION</b>	<u>16,896</u>
<b>NET POSITION restricted for postemployment benefits other than pensions, beginning of year</b>	<u>162,728</u>
<b>NET POSITION restricted for postemployment benefits other than pensions, end of year</b>	<u>\$ 179,624</u>

See notes to financial statements