









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



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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 or provide any assurance.

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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.

Louisville, Kentucky October 5, 2018

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

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Total restricted 1,092,161 Unrestricted 1,015,979		
Unrestricted 1,015,979	·	
Total net position \$ 3,943,292	Unrestrictea	1,015,979
	Total net position	\$ 3,943,292

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
OPERATING REVENUES Student trition and fee	¢	E00 700
Student tuition and fees Less: Scholarship allowances	\$	508,799 (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:		25 064
Housing and dining Less: Scholarship allowances		35,861 (812)
Net housing and dining	-	35,049
Athletics		108,781
Other auxiliaries		55,091
Other operating revenues		22,831
Total operating revenues		2,917,935
OPERATING EXPENSES	-	
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 Depreciation		40,652 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:		.,0,000
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		3,199,348
Net loss from operations		(281,413)
NONOPERATING REVENUES (EXPENSES)		004.440
State appropriations		264,418
Gifts and non-exchange grants		118,442
Investment income (loss) Interest on capital asset-related debt		89,893 (34,695)
Other nonoperating revenues and expenses, net		8,836
Net nonoperating revenues (expenses)	-	446,894
Net income (loss) before other revenues, expenses, gains or losses		165,481
Capital grants and gifts		28,086
Additions to permanent endowments		10,470
Other, net	_	7,896
Total other revenues (expenses)		46,452
INCREASE IN NET POSITION		211,933
NET POSITION, beginning of year, as previously reported		3,976,695
Cumulative effect of adoption of accounting principle		(245,336)
NET POSITION, beginning of year, as restated	-	3,731,359
	_	
NET POSITION, end of year	\$	3,943,292

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

	2018
CASH FLOWS FROM OPERATING ACTIVITIES	0.44.0=0
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 Collection of loans to students	(16,343)
	16,038
Self insurance receipts	70,463
Self insurance payments Other receipts (neumants)	(75,073)
Other receipts (payments)	 22,502
Net cash provided (used) by operating activities CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	 (183,717)
State appropriations	264,418
Gifts and grants received for other than capital purposes:	204,410
Gifts received for endowment purposes	10,470
Gifts received for other purposes	127,169
Agency and loan program receipts	252,818
	(252,479)
Agency and loan program payments Other financing receipts (payments)	(232,479) 8,267
Net cash provided (used) by noncapital financing activities	 410,663
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	 410,003
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	 (258,190)
CASH FLOWS FROM INVESTING ACTIVITIES	 (200,:00)
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	 2,752
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(28,492)
CASH AND CASH EQUIVALENTS, beginning of year	 925,674
CASH AND CASH EQUIVALENTS, end of year	\$ 897,182

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

		2018
Reconciliation of net loss from operations		
to net cash provided (used) by operating activities:		
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
Net cash provided (used) by operating activities	\$	(183,717)
NONCASH TRANSACTIONS		
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

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

		2018
ASSETS	•	
Cash and cash equivalents	\$	3,509
Accrued interest receivable		13
Investments		176,105
Total assets		179,627
LIABILITIES		
Accounts payable and accrued liabilities		3
Total liabilities		3
NET POSITION		
Net position restricted for postemployment benefits other than pensions	\$	179,624
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
Additions		
Investment income:		
Interest and dividend income	\$	3,147
Net appreciation (depreciation) in fair value of investments		7,106
Net investment income (loss)		10,253
Contributions:		
University of Kentucky		22,015
Beneficiaries		4,945
Total contributions		26,960
Total additions		37,213
Deductions		
Administrative expenses		821
Payments to retirees and beneficiaries		19,496
Total deductions		20,317
INCREASE (DECREASE) IN NET POSITION		16,896
NET POSITION restricted for postemployment benefits other than pensions, beginning of year		162,728
NET POSITION restricted for postemployment benefits other than pensions, end of year	\$	179,624