

ANNUAL UPDATE TO BONDHOLDERS
UNIVERSITY OF KENTUCKY
FOR THE YEAR ENDED JUNE 30, 2017

GENERAL

The University of Kentucky (the University) 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 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.

The members of the University's Board of Trustees as of June 30, 2017 and the year in which their respective terms expire are as follows:

Edward Britt Brockman, *Chair* (2020)
C.B. Akins, Sr., *Vice Chair* (2017)
Kelly Sullivan Holland, *Secretary* (2018)
William E. Thro, *Assistant Secretary* (2017)
Jennifer Yue Barber (2022)
Claude A. "Skip" Berry, III (2021)
Lee X. Blonder (2019)
James H. Booth (2019)
William C. Britton (2017)
Mark P. Bryant (2018)
Michael A. Christian (2022)

Kelly Knight Craft (2017)
Angela L. Edwards (2019)
Cammie DeShields Grant (2020)
Robert Grossman (2020)
David V. Hawpe (2019)
David Melanson (2019)
Rowan Reid (2017)
C. Frank Shoop (2021)
Robert D. Vance (2020)
Barbara Young (2021)
Carol Martin "Bill" Gatton (Honorary)

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OUTSTANDING BONDS

The University has the following obligations outstanding under the General Receipts Trust Agreement as of June 30, 2017 (in thousands):

	Year of Issue	Amount of Issue	Amount Outstanding	Year of Final Maturity
Kentucky Asset/Liability Commission				
2007 Series A Notes	2007	\$ 77,905	\$ 3,885	2017
2007 Series B Notes	2007	80,245	6,255	2018
Total ALCo General Receipts		<u>\$ 158,150</u>	<u>\$ 10,140</u>	
University of Kentucky				
2009 Series A Bonds	2009	\$ 33,350	\$ 19,135	2024
2009 Series B Bonds	2009	100,605	100,605	2039
2010 Series B Bonds ¹	2010	12,955	12,955	2024
2012 Series A Bonds	2012	25,370	15,960	2024
2014 Series A Bonds	2014	190,255	185,810	2044
2014 Series B Bonds	2014	38,665	35,860	2034
2014 Series C Bonds	2014	10,055	5,715	2020
2014 Series D Bonds	2014	88,145	74,660	2025
2015 Series A Bonds	2015	141,905	141,805	2045
2015 Series B Bonds	2015	97,440	97,440	2027
2015 Series C Bonds	2015	19,695	18,680	2026
2016 Series A Bonds	2016	107,470	107,470	2046
2016 Series B Bonds	2016	48,310	47,410	2032
2017 Series A Bonds	2017	29,265	29,100	2022
2017 Series B Bonds	2017	7,540	7,485	2024
Total University General Receipts		<u>\$ 951,025</u>	<u>\$ 900,090</u>	
Kentucky Association of Counties Lease	2009	\$ 35,000	\$ 24,115	2028
Total Under Trust Agreement		<u>\$ 1,144,175</u>	<u>\$ 934,345</u>	

¹ The 2010 Series B Bonds are Taxable Qualified Energy Conservation Bonds that require the University to make annual sinking fund payments to an account held with the Trustee.

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PLEDGED REVENUES

Total operating and nonoperating revenues and pledged revenues as defined by the General Receipts Trust Indenture for the most recent five fiscal years are as follows (in thousands):

	2017	2016 ¹	2015	2014	2013
<u>Actual Revenue Type</u>					
Student tuition and fees	\$ 339,665	\$ 319,627	\$ 302,936	\$ 287,517	\$ 265,293
Federal grants and contracts	181,888	169,291	168,125	160,384	165,214
State and local grants and contracts	97,268	91,216	92,269	67,755	87,143
Nongovernmental grants and contracts	33,295	34,979	29,805	28,040	31,021
Recoveries of facilities and administrative costs	54,507	51,088	48,154	47,159	47,862
Sales and services	50,696	49,399	54,112	54,765	50,473
Federal appropriations	16,332	19,266	17,535	17,921	16,890
County appropriations	24,906	23,717	21,975	20,338	19,312
Professional clinical service fees	235,261	229,075	223,291	203,721	196,974
Hospital services	1,492,388	1,417,243	1,323,652	1,101,662	945,885
Auxiliary enterprises:					
Housing and dining	37,578	39,103	39,265	44,154	50,426
Athletics	102,341	102,995	88,928	73,957	72,033
Other auxiliaries	52,278	49,434	47,039	37,282	30,547
Other operating revenues	10,668	7,931	5,059	4,516	3,772
State appropriations	267,029	279,611	279,611	283,869	283,869
Gifts and non-exchange grants	112,918	127,796	105,506	96,771	98,418
Investment income (loss)	114,018	(3,241)	45,188	155,547	104,748
Other nonoperating revenues and expenses, net	16,650	16,653	8,988	7,449	9,856
Capital grants and gifts	69,398	165,896	45,341	54,068	30,672
Additions to permanent endowments	9,760	13,052	7,758	7,578	10,225
Total operating and nonoperating revenues	<u>\$ 3,318,844</u>	<u>\$ 3,204,131</u>	<u>\$ 2,954,537</u>	<u>\$ 2,754,453</u>	<u>\$ 2,520,633</u>
<u>Pledged Revenue Type</u>					
Student tuition and fees	\$ 339,665	\$ 319,627	\$ 302,936	\$ 287,517	\$ 265,293
Nongovernmental grants and contracts	1,217	1,145	849	716	701
Recoveries of facilities and administrative costs	54,507	51,088	48,154	47,159	47,755
Sales and services	50,696	49,399	40,004	41,637	41,139
Hospital services	1,492,388	1,417,243	1,323,652	1,101,662	945,885
Auxiliary enterprises:					
Housing and dining	37,578	39,103	39,265	44,154	50,426
Athletics	102,341	102,995	88,928	73,957	—
Other auxiliaries	52,278	49,434	47,039	37,282	30,547
Other operating revenues	825	838	852	967	989
State appropriations	267,029	279,611	279,611	283,869	283,869
Gifts and non-exchange grants	4,350	4,583	4,955	4,809	5,015
Investment income	10,969	10,761	21,774	6,208	2,704
Total pledged revenues	<u>\$ 2,413,843</u>	<u>\$ 2,325,827</u>	<u>\$ 2,198,019</u>	<u>\$ 1,929,937</u>	<u>\$ 1,674,323</u>

¹ Fiscal year 2016 has been revised for the adoption of GASB Statement No. 74 and to conform with fiscal year 2017.

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ACADEMIC

ENROLLMENT

The following schedule summarizes the University's headcount the most recent five fall semesters:

	Fall 2017	Fall 2016	Fall 2015	Fall 2014	Fall 2013
Undergraduate resident	15,408	15,656	15,967	16,113	16,315
Undergraduate non-resident	7,162	6,965	6,738	6,110	5,126
Graduate resident	4,105	4,179	4,137	4,143	4,215
Graduate non-resident	2,906	2,981	2,885	2,837	2,779
Total headcount (IPEDS) ¹	<u>29,581</u>	<u>29,781</u>	<u>29,727</u>	<u>29,203</u>	<u>28,435</u>
Non-resident enrollment (IPEDS)	34.0%	33.4%	32.4%	30.6%	27.8%
Undergraduate auditor resident	51	52	56	51	52
Undergraduate auditor non-resident	2	1	0	0	2
Professional resident ²	759	724	727	670	686
Professional non-resident ²	169	203	210	207	210
Total headcount (CPE) ³	<u>30,562</u>	<u>30,761</u>	<u>30,720</u>	<u>30,131</u>	<u>29,385</u>
Non-resident enrollment (CPE)	33.5%	33.0%	32.0%	30.4%	27.6%

¹ The IPEDS headcount is calculated in accordance with the method used by the United States Department of Education. IPEDS headcount includes undergraduate and graduate students. Students who are auditing all of their classes, house staff, and post-doctorals are not included by IPEDS definition.

² The professional headcount includes post-doctorals and house staff.

³ The Council on Postsecondary Education (CPE) headcount is calculated in accordance with the methods used by the Council. The headcount includes undergraduate and graduate students, including those students who are auditing all of their classes, house staff, and post-doctorals.

The following is a summary of the University's full-time equivalent enrollment for the most recent five academic years:

	2017-18	2016-17	2015-16	2014-15	2013-14
Full-time equivalent (IPEDS) ¹	N/A	27,079	27,299	27,070	26,236
Full-time equivalent (CPE) ²	29,112	28,768	29,318	28,550	27,634

¹ The IPEDS full-time equivalent enrollment calculation is based on 12-month enrollment figures. The final 2017-18 IPEDS FTE enrollment figure is not available at this time.

² The CPE full-time equivalent enrollment calculation is based on fall enrollment figures.

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ACADEMIC CONTINUED

ADMISSIONS INFORMATION

The following is a summary of first-time freshman admissions information for the most recent five fall semesters:

	Fall 2017	Fall 2016	Fall 2015	Fall 2014	Fall 2013
Number of applications ¹	18,978	20,480	18,725	16,305	14,364
Number admitted (%)	18,156 (95.7%)	18,593 (90.8%)	16,685 (89.1%)	14,930 (91.6%)	13,592 (94.6%)
Number enrolled (%)	4,900 (27.0%)	5,117 (27.5%)	5,211 (31.2%)	5,185 (34.7%)	4,684 (34.5%)
Average ACT score	25.4	25.6	25.5	25.5	25.3

¹The number of applications for Fall 2013-2015 have been updated to more accurately reflect the IPEDS definition of completed applications.

RETENTION AND GRADUATION RATES

The following is a summary of the retention and graduation rates by GRS cohort:

	Fall 2016	Fall 2015	Fall 2014	Fall 2013	Fall 2012
Retention rate (2nd fall)	83.3%	81.7%	82.7%	82.2%	82.5%

	Fall 2011	Fall 2010	Fall 2009	Fall 2008	Fall 2007
Six year graduation rate	65.1%	64.0%	61.7%	60.6%	60.8%

TUITION AND FEES

The University's annual tuition and fees for the most recent five academic years are as follows:

	2017-18	2016-17	2015-16	2014-15	2013-14
Resident tuition and fees					
Undergraduate lower division	\$ 11,772	\$ 11,320	\$ 10,780	\$ 10,464	\$ 9,966
Undergraduate upper division	\$ 12,112	\$ 11,646	\$ 11,092	\$ 10,768	\$ 10,254
Graduate ¹	\$ 12,726	\$ 12,236	\$ 11,652	\$ 11,312	\$ 10,772
Non-resident tuition and fees					
Undergraduate lower division	\$ 27,856	\$ 26,156	\$ 24,104	\$ 22,734	\$ 21,052
Undergraduate upper division	\$ 28,236	\$ 26,512	\$ 24,432	\$ 23,042	\$ 21,354
Graduate ¹	\$ 30,224	\$ 28,380	\$ 26,154	\$ 24,664	\$ 22,838

¹Several graduate programs (e.g., MBA) have differential tuition rates.

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ACADEMIC CONTINUED

FACULTY INFORMATION

The following is a summary of full-time faculty for the most recent five academic years:

	2017-18	2016-17	2015-16	2014-15	2013-14
Instructional faculty	1,436	1,389	1,397	1,351	1,351
Other faculty	1,120	1,035	1,021	953	936
Total	<u>2,556</u>	<u>2,424</u>	<u>2,418</u>	<u>2,304</u>	<u>2,287</u>
Tenured/tenure track	1,635	1,574	1,599	1,571	1,579
Non-tenured track	921	850	819	733	708
Total	<u>2,556</u>	<u>2,424</u>	<u>2,418</u>	<u>2,304</u>	<u>2,287</u>

Note: Instructional faculty in preclinical and clinical medicine are not included.

STUDENT FINANCIAL AID

The following summarizes the University's student financial aid for the most recent five fiscal years (in thousands):

	2017	2016	2015	2014	2013
Scholarships and grants	\$ 164,366	\$ 148,055	\$ 128,449	\$ 115,426	\$ 107,815
Federal grants:					
Pell	22,705	23,274	23,500	22,424	21,331
Supplemental Educational Opportunity Grant (SEOG)	565	513	487	438	793
Other federal grants	16	4	50	62	24
Federal Work Study	909	965	1,015	1,030	610
Financial aid from outside agencies:					
State grants	28,436	27,926	26,775	26,739	24,464
Loans:					
National direct student loans (Perkins)	5,021	1,404	3,057	4,680	3,022
Federal direct loans	195,637	187,669	183,022	191,362	170,100
Health professions loans	483	393	440	418	667
Loans from outside agencies	28,969	27,687	22,336	19,004	16,764
Other loans (institutional)	1,007	887	958	1,203	1,086
Total	<u>\$ 448,114</u>	<u>\$ 418,777</u>	<u>\$ 390,089</u>	<u>\$ 382,786</u>	<u>\$ 346,676</u>

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FINANCIAL

BUDGET

The following is a summary of the University's budget for the most recent five fiscal years (in thousands):

	2018	2017	2016	2015	2014
University budget ¹	\$ 3,660,727	\$ 3,573,483	\$ 3,380,187	\$ 3,016,665	\$ 2,728,069
Change from prior year	\$ 87,244	\$ 193,296	\$ 363,522	\$ 288,596	\$ 89,837

¹The fiscal year 2017 budget has been revised to reflect the finalized University budget.

STATE APPROPRIATIONS

The University's General Fund state appropriations for the five most recent fiscal years are as follows (in thousands):

Fiscal Year	Appropriation
2018	\$ 267,089
2017	\$ 267,029
2016	\$ 279,611
2015	\$ 279,611
2014	\$ 283,869

The Board of Trustees presently intends, but is not obligated, to continue to seek to have funds appropriated by the General Assembly to partially support the operations of the University. The General Assembly is not now obligated, nor will there be an obligation in the future, to make appropriations to the University. In addition, there can be no assurance that in the performance of his or her obligation to balance the state budget annually, the governor will not reduce or eliminate any appropriations which are made.

SUMMARY OF NET POSITION

The following is a summary of the University's net position for the most recent five fiscal years (in thousands):

	2017	2016	2015	2014	2013
Net investment in capital assets	\$ 1,663,197	\$ 1,527,034	\$ 1,422,560	\$ 1,347,778	\$ 1,304,887
Restricted					
Nonexpendable	613,522	601,703	585,074	576,265	569,589
Expendable	547,497	494,154	451,990	425,775	312,324
Unrestricted	1,152,479	1,103,636	997,634	794,034	675,706
Total net position	<u>\$ 3,976,695</u>	<u>\$ 3,726,527</u>	<u>\$ 3,457,258</u>	<u>\$ 3,143,852</u>	<u>\$ 2,862,506</u>

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FINANCIAL CONTINUED

SUMMARY OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The following is a summary of the University's revenues, expenses and changes in net position for the most recent five fiscal years (in thousands):

	2017	2016 ¹	2015 ¹	2014	2013
Operating revenues	\$ 2,729,071	\$ 2,604,364	\$ 2,462,408	\$ 2,149,171	\$ 1,982,845
Operating expenses	3,037,896	2,888,039	2,609,253	2,441,583	2,299,918
Net loss from operations	(308,825)	(283,675)	(146,845)	(292,412)	(317,073)
Nonoperating revenues (expenses), including state appropriations	558,993	552,944	460,251	573,758	506,867
Increase in net position	<u>\$ 250,168</u>	<u>\$ 269,269</u>	<u>\$ 313,406</u>	<u>\$ 281,346</u>	<u>\$ 189,794</u>

SUMMARY OF CASH FLOWS

The following summarizes the University's statement of cash flows for the most recent five fiscal years (in thousands):

	2017	2016 ¹	2015 ¹	2014	2013
CASH PROVIDED (USED) BY:					
Operating activities	\$ (159,465)	\$ (89,874)	\$ 12,002	\$ (150,202)	\$ (152,097)
Noncapital financing activities	395,283	422,807	405,234	409,650	402,433
Capital and related financing activities	(381,081)	(176,131)	(178,778)	81,163	(127,067)
Investing activities	(21,170)	(1,202)	17,315	(111,587)	(19,582)
Net increase (decrease) in cash and cash equivalents	(166,433)	155,600	255,773	229,024	103,687
Cash and cash equivalents, beginning of year	1,092,107	936,507	680,734	451,867	348,180
Cash and cash equivalents, end of year	<u>\$ 925,674</u>	<u>\$ 1,092,107</u>	<u>\$ 936,507</u>	<u>\$ 680,891</u>	<u>\$ 451,867</u>

¹Fiscal year 2016 and 2015 have been revised for the adoption of GASB Statement No. 74 and to conform with fiscal year 2017. The fiscal year 2015 beginning cash balance does not match the fiscal year 2014 ending cash balance as a result of this adoption.

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FINANCIAL CONTINUED

ENDOWMENTS

Endowment investments, classified as noncurrent assets, for the most recent five fiscal years are summarized as follows (in thousands):

Fiscal Year	Market Value
2017	\$ 1,268,396
2016 ¹	\$ 1,101,772
2015 ¹	\$ 1,123,718
2014	\$ 1,215,226
2013	\$ 1,054,448

¹Fiscal year 2016 and 2015 have been revised for the adoption of GASB Statement No. 74 and to conform with fiscal year 2017.

The long-term returns for the period ending June 30, 2017 are summarized below:

Period	Return Value
1 year	10.3%
3 year	3.5%
5 year	7.6%
10 year	3.4%

GIFTS AND NON-EXCHANGE GRANTS

The following schedule summarizes the University's gifts and non-exchange grants, classified as nonoperating revenues, for the most recent five fiscal years (in thousands):

	2017	2016	2015	2014	2013
Gifts and non-exchange grants	\$ 112,918	\$ 127,796	\$ 105,506	\$ 96,771	\$ 98,418
Additions to permanent endowments	9,760	13,052	7,758	7,578	10,225
Capital grants and gifts	69,398	165,896	45,341	54,068	30,672
Total	<u>\$ 192,076</u>	<u>\$ 306,744</u>	<u>\$ 158,605</u>	<u>\$ 158,417</u>	<u>\$ 139,315</u>

GRANTS AND CONTRACTS

The following is a summary of grant and contract awards for the five most recent fiscal years (in thousands):

	2017	2016	2015	2014	2013
Federal awards	\$ 178,341	\$ 163,477	\$ 153,071	\$ 152,492	\$ 137,442
State awards	90,700	81,824	73,672	53,260	62,829
Other awards	62,286	71,223	58,350	53,517	65,662
Total	<u>\$ 331,327</u>	<u>\$ 316,524</u>	<u>\$ 285,093</u>	<u>\$ 259,269</u>	<u>\$ 265,933</u>

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UK HEALTHCARE HOSPITAL SYSTEM

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. UK HealthCare Hospital 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.

OPERATIONS

UK HealthCare Hospital System's operating information for the five most recent fiscal years is summarized as follows:

Certain Operating Information

	2017	2016	2015	2014	2013
Average licensed beds	945	825	826	825	825
Available beds	883	816	816	757	718
Patient days	263,538	259,662	251,334	228,783	210,576
Patient days equivalents ¹	448,468	443,630	407,767	347,113	334,456
Admissions	38,739	37,792	37,073	35,303	35,565
Discharges	38,706	37,789	37,043	35,180	35,511
Average length of stay (days)	6.81	6.87	6.78	6.50	5.93
Occupancy	81.77%	82.5%	84.39%	82.8%	80.35%
Emergency visits	111,920	108,417	101,395	91,146	88,752
Outpatient visits with hospital charge	538,256	501,943	479,782	428,582	368,223

¹Total patient activity computed by converting outpatient activity to an inpatient equivalent.

Payer Mix

	2017	2016	2015	2014	2013
Medicaid	38.21%	39.05%	38.57%	31.37%	27.91%
Medicare	34.78%	33.61%	33.98%	33.79%	31.89%
Commercial/other	25.30%	25.55%	25.70%	27.17%	28.94%
Patient/charity	1.71%	1.79%	1.75%	7.67%	11.26%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

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UK HEALTHCARE HOSPITAL SYSTEM CONTINUED

FINANCIAL

Summary of Net Position

The following is a summary of UK HealthCare Hospital System's net position for the most recent five fiscal years (in thousands):

	2017	2016	2015	2014	2013
Net investment in capital assets	\$ 521,040	\$ 455,374	\$ 437,489	\$ 410,348	\$ 373,346
Restricted					
Nonexpendable	751	195	119	118	117
Expendable	11,662	11,902	10,538	10,331	14,965
Unrestricted	678,364	630,294	565,604	400,920	311,568
Total net position	<u>\$ 1,211,817</u>	<u>\$ 1,097,765</u>	<u>\$ 1,013,750</u>	<u>\$ 821,717</u>	<u>\$ 699,996</u>

Summary of Revenues, Expenses and Changes in Net Position

The following summarizes UK HealthCare Hospital System's revenues, expenses and changes in net position for the most recent five fiscal years (in thousands):

	2017	2016 ¹	2015 ¹	2014	2013
Operating revenues	\$ 1,500,781	\$ 1,423,695	\$ 1,329,133	\$ 1,115,007	\$ 951,450
Operating expenses	1,311,342	1,237,129	1,072,918	1,013,572	886,208
Net income from operations	189,439	186,566	256,215	101,435	65,242
Net nonoperating revenues (expenses)	16,573	(24,209)	(5,863)	29,524	14,350
Transfers to the University	(91,960)	(78,342)	(58,319)	(9,238)	(15,698)
Increase in net position	<u>\$ 114,052</u>	<u>\$ 84,015</u>	<u>\$ 192,033</u>	<u>\$ 121,721</u>	<u>\$ 63,894</u>

¹Fiscal year 2016 and 2015 have been revised to reflect the reclassification of certain transactions between UK HealthCare Hospital System and the University.

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UK HEALTHCARE HOSPITAL SYSTEM CONTINUED

Summary of Cash Flows

The following is a summary of UK HealthCare Hospital System's cash flows for the most recent five fiscal years (in thousands):

	2017	2016 ¹	2015 ¹	2014	2013
CASH PROVIDED (USED) BY:					
Operating activities	\$ 231,048	\$ 246,288	\$ 320,721	\$ 161,210	\$ 144,657
Noncapital financing activities	(90,616)	(67,937)	(42,011)	(2,264)	(55,791)
Capital and related financing activities	(198,145)	(165,993)	38,487	(102,791)	(54,696)
Investing activities	5,826	876	2,774	367	3,666
Net increase (decrease) in cash and cash equivalents	(51,887)	13,234	319,971	56,522	37,836
Cash and cash equivalents, beginning of year	444,873	431,639	111,668	55,146	17,310
Cash and cash equivalents, end of year	<u>\$ 392,986</u>	<u>\$ 444,873</u>	<u>\$ 431,639</u>	<u>\$ 111,668</u>	<u>\$ 55,146</u>

¹Fiscal year 2016 and 2015 have been revised to reflect the reclassification of certain transactions between UK HealthCare Hospital System and the University.