Treasurer’s Message

FY 17 Audited Statements & Recent Credit Review

UFS recently coordinated completion of the FY17 financial statements and related external audit performed by BKD, which encompasses a broad scope as follows:

- Audit of Consolidated Financial Statements
- Audit of separate statements for certain units
  - UK Healthcare Hospital System
  - UK Department of Intercollegiate Athletics
  - WUKY-FM Radio
  - Kentucky Tobacco Research Development Center
- Audit of separate statements for affiliated corporations
  - UK Research Foundation
  - UK Gluck Equine Research Foundation
  - UK Humanities Foundation
  - UK Mining Engineering Foundation
  - UK Center on Aging Foundation
  - Central Kentucky Management Services
- Other reports on internal controls and compliance required by the State and federal government, and various agreed-upon procedures reports

I’m pleased to report that UK received unmodified opinions on all financial statement audits—meaning the statements are presented in accordance with generally accepted accounting principles (GAAP), in all material respects.

This year’s audit cycle was challenging due to adoption of Governmental Accounting Standards Board Statement No. 74, which required separate fiduciary fund statements for assets held in trust for OPEB (other post-employment benefits other than pensions) and disclosure of the OPEB liability as of 6/30/17 (actuarially determined using GASB 75 criteria). The University will adopt GASB 75 this fiscal
Treasurer’s Message, continued

year and record the unfunded or net OPEB liability, of $267 million as of July 1, 2017. No doubt, $267 million is a significant liability to book, however UK’s balance sheet can handle the liability given it represents approximately 7% of net position. The University has prudently funded the annual contributions required by GASB 45 since adoption of the standard in 2008 and the OPEB funds are 40% funded in total. This 40% funded OPEB status and lack of a defined benefit pension plan liability (unlike the State and many of our peer institutions) contribute to the University’s sound financial condition. For more information on the June 30, 2017 audited financial statements, please visit the UFS website at the following link: http://www.uky.edu/ufs/fiscal-year-2016-2017.

Why are audited financial statements important? Audited financial statements are required for UK to sell bonds to finance capital projects as financial statements prepared in accordance with GAAP allow credit agencies and investors to assess UK’s financial condition and credit risk relative to other potential investments. At June 30, 2017, UK had approximately $910 million of bonds/notes outstanding backed by the University’s future pledged revenues, as defined by the General Receipts Trust Indenture; and UK plans to issue $231 million of bonds in January 2018 to provide funding for UK Healthcare, College of Law and Campus Modernization projects. The FY17 audited consolidated financial statements will be included in the bond offering document that will be released to the market in January.

On a related note, the UFS team recently coordinated a Moody’s credit review following Moody’s downgrade of the State’s issuer rating to Aa3 from Aa2 in late July. On October 2nd, Moody’s confirmed UK’s Aa2 rating and stable outlook citing, “The Aa2 rating reflects UK’s large scope of operations as the flagship university for the Commonwealth of Kentucky (Aa3 stable) with healthy enrollment and net tuition revenue growth, combined with improved student geographic diversification and rising reserves. Favorably, the rating also incorporates solid operating cash flow, from both the university and its integrated academic medical center.” UK will undergo additional credit analysis by Moody’s and Standard & Poor’s prior to the January 2018 bond sale, however the recent confirmation of our rating and stable outlook by Moody’s is extremely important given the state’s fiscal environment. To review the recent Moody’s credit opinion, please visit the UFS website at the following link: http://www.uky.edu/ufs/financial-statements-and-investor-information.

Thanks to all staff members across the University that partnered with UFS in completion of the audited financial statements and recent Moody’s credit review.

Ensuring the accuracy and integrity of the University’s financial statements is critical to assessing UK’s financial condition and outlook. And while the audited financial statements have become increasingly complex, be assured the audited statements are utilized and understood by many internal and external stakeholders.
Focus on Business Procedures

Recently Updated BPM’s

The following policies were issued October 10 – 27, 2017 and had only minor revision to update format, links and department names. No substantive changes were made to the policies:

B-7 Computer and Computer Related Equipment and Software
E-1-0 Relationship with Commonwealth of Kentucky
E-1-3 Fiscal Roles and Responsibilities
E-1-4 Internal Control
E-2-1 Treasury Operations Manual
E-2-10 Collection of Amounts Owed to the University from Overpayment
E-2-11 Cash Payments over $10,000
E-3-1 Unexpended Plan Fund Policy
E-3-2 Minor Renovation Policy
E-5-1 Reimbursement of Travel Expenses
E-5-2 Travel Advances and Repayments
E-6-1 Sales and Use Tax
E-7-3 Worker Classification Employee of Independent Contractor
E-7-9 Recruitment Expenses
E-7-10 Discretionary Expenditures
E-7-11 Establishment of Student Recognition Awards and Prizes
E-7-13 Waiving Payment for Services Rendered
E-7-14 Payments to or on the behalf of Students
E-7-15 Disbursement Request
E-7-16 Procurement Cards
E-7-17 Void/Stop Payment for Vendor Checks
E-10-1 Fiscal Year-End Closing- Accounting Transactions
E-10-2 Fiscal Year-End Closing- Inventories
E-12-1 Capitalization Policy
Focus on Business Procedures

E-12-2  Facilities and Space Inventory System
E-12-3  Equipment Inventory
E-12-4  Property Disposition Policy
E-12-5  Surplus Property Disposition Incentive Plan
E-12-6  Unclaimed Property Disposition
E-12-7  Capitalization of Interest
E-17-1  Chart of Accounts and Cost Object Structure
E-17-5  Cost Object Transactions
E-17-6  Reconciliation and Review of Financial Transactions
E-17-8  General Ledger Accounts
E-17-14 Agency Cost Center Policies and Procedures
E-17-15 Other Attributes
E-17-16 Functional Area
E-19-1  Student Financial Delinquency
E-20  Tuition and Student Fee Policy
E-22-1  Policies and Procedures for Soliciting, Receiving, Recording, and Acknowledging Gifts
E-50-1  Application of On/Off-Campus Facilities & Administrative (F&A) Cost Rates
E-50-2  Cost Sharing
Q-1-1  General Responsibilities
Q-1-2  Policy for Use of Cell Phones Provided to Employees
Q-1-3  How to Obtain Communication Services
Q-1-4  Billing Services
Q-1-5  IT Service Center
Q-1-6  Electronic Signatures
Appendix 3 Costing Guidelines for Sponsored Projects
Appendix 4 Service Center and Recharge Operations
On October 23, 2017, Eric Monday shared with campus a blog on the modernization of our campus – in his blog titled “Modernizing Our Campus” he discussed the legislative authority we received during the last budget cycle to issue agency bonds (University of Kentucky bonds) that will provide $60 million to rehabilitate, renovate, and modernize the Chemistry-Physics and The Enoch Grehan Journalism buildings.

Over the years the University has utilized agency bonds to construct and/or renovate many of our campus facilities. Often these bonds will be issued as “tax-advantaged” or “tax-exempt”, which provides a tax advantage to the buyers of the bonds because the investors do not pay income tax on the interest received from the University. Since the IRS is not receiving income tax they have specific regulations regarding the activities which can take place in the facilities financed with the bond proceeds. University Financial Services (UFS) maintains, with the assistance of Facilities Management, a listing and map of all facilities which received benefit from any of the University’s outstanding tax advantaged bonds. A link to that map and listing can be found on the Debt Management website (http://www.uky.edu/ufs/debt-management).

Under the regulations, the University must track and limit activities which could cause private business use. BPM E-14-2 was issued on August 1, 2017 and provides more information regarding private business use. Should your college/unit be housed in a building which benefited from tax-advantaged bonds, you should take time to familiarize yourself with the types of activities which could cause private business use. Potential private business use arrangements may include:

- Management contracts
- Franchise contracts
- Joint venture corporations and partnership arrangements
- Sponsored research agreements
- Naming rights contracts
- Long-term leases and subleases of facilities
- Short-term leases and subleases of facilities
- Transfer of ownership
- Unrelated business income activities
- Other special legal entitlements and economic benefits

The IRS provides “safe harbor” exceptions for certain types of arrangements and these will not give rise to private business use. The safe harbors are explained in more detail in BPM E-14-2.
Enroll Now for Online W-2

University of Kentucky employees have the option to access their W-2 statements online through Employee Self Service (ESS) of myUK. The benefits of online W-2:

- Earlier access to your W-2 than traditional mail;
- Email notification when online W-2 statement is available;
- Elimination of the possibility of your W-2 statement is lost in the mail or delayed;
- Access to your W-2 statement at any time;
- Ability to print W-2 at your convenience; and
- Once enrolled future W-2s will remain online for multiple years.

Make your election by logging into myUK using your link blue id and password by midnight January 13, 2018.

Instructions may be found on Human Resources web page W-2 Online Delivery.

Whether you receive your W-2 online or by mail, you should be sure your mailing address is up to date and accurate in SAP by viewing Personal Information in ESS. You may update your permanent residence and your work address by following Payroll Services website Employee Self Service address change instruction. Please update by midnight January 13, 2018.
Below are two tables that break down the top BPM exception requests that University Financial Services received in FY 17 along with a comparison to what we received in FY 16. If you would like to see a breakdown or your department’s exception requests for FY 17 you can contact Lexi Bugay at alexis.bugay@uky.edu.

<table>
<thead>
<tr>
<th>Explanation</th>
<th># of Exceptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Travel reimbursement must be submitted within 60 days</td>
<td>90</td>
</tr>
<tr>
<td>Checks must be mailed</td>
<td>70</td>
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<tr>
<td>Other – Non travel</td>
<td>58</td>
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<tr>
<td>Airline ticket combining personal must be purchased with personal funds</td>
<td>54</td>
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<tr>
<td>Travel reimbursement for foreign lodging over federal per diem</td>
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<tr>
<td>Payroll charges transferred after retro date</td>
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<tr>
<td>Procard exception</td>
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<tr>
<td>Alternate vendor airline ticket must be purchased with personal funds</td>
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<tr>
<td>Lodging within 40 miles/meals with no overnight stay</td>
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<tr>
<td>Other – Travel</td>
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<tr>
<td>Year end issues</td>
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<tr>
<td>Total</td>
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<table>
<thead>
<tr>
<th>Explanation</th>
<th># FY 16 Exceptions</th>
<th># FY 17 Exceptions</th>
<th>Change</th>
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<tbody>
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<td>Airline ticket combining personal must be purchased with personal funds</td>
<td>18</td>
<td>54</td>
<td>36</td>
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<tr>
<td>Checks must be mailed</td>
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<td>70</td>
<td>23</td>
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<tr>
<td>Lodging within 40 miles/meals with no overnight stay</td>
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<tr>
<td>Year end issues</td>
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<td>2</td>
</tr>
<tr>
<td>Procard exception</td>
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<td>Other – Non travel</td>
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<tr>
<td>Travel reimbursement must be submitted within 60 days</td>
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<tr>
<td>Other – Travel</td>
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<tr>
<td>Payroll charges transferred after retro date</td>
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<td>23</td>
<td>-54</td>
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<tr>
<td>Total</td>
<td>416</td>
<td>370</td>
<td>-46</td>
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### Upcoming Training Opportunities

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<tr>
<th>Training Class</th>
<th>Date</th>
<th>Time</th>
<th>Location</th>
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<tbody>
<tr>
<td>Cash Handling Operations</td>
<td>12/14/2017</td>
<td>1:00pm-4:30pm</td>
<td>Peterson Service Bldg.- Room 307</td>
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<tr>
<td>Hand in Hand We Learn-Procurement Card</td>
<td>12/13/2017</td>
<td>10:30am-11:30am</td>
<td>Gatton Classroom 291 &amp; Virtual</td>
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<td>Travel Services</td>
<td>11/29/2017</td>
<td>10:00am-12:00pm</td>
<td>Peterson Service Bldg.- Room 307</td>
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For more information or to register for these courses visit your [myUK Employee Self Service Training page](#).

All of the materials presented at the Hand in Hand Sessions can be found on the UFS website under resources and information.

Hand in Hand We Learn sessions for Fall 2017 will be held in Gatton Classroom 291 10:30-11:30 and virtual sessions will also be available. You may now schedule your attendance through myUK ESS. Courses are listed under University Financial Services.

We are seeking your input on future topics for the sessions. Just click on the [feedback link](#) to submit your suggested presentations or questions to be addressed. Or you may email Lexi Bugay your ideas.