FCR 7

Office of the President
December 5, 2023

Members, Board of Trustees:

ACCEPTANCE OF FY 2022-23 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, 2023, consisting of the Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, Statement of Cash Flows, Statements of Fiduciary Net Position, Statement 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 has reviewed the university's financial statements for the fiscal year ended June 30, 2023, audited by FORVIS 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.

- Beyond Blue Corporation and its non-profit subsidiaries Royal Blue Health, LLC and Insure Blue

The financial statements also include the operations of Kentucky Medical Services Foundation, Inc. (KMSF), the University of Kentucky Alumni Association and the University of Kentucky Real Estate Foundation, 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:

https://www.uky.edu/ufs/financial-statements

Action taken: ☑ Approved ☐ Disapproved ☐ Other ______________________

University of Kentucky

2023 FINANCIAL STATEMENTS

University of Kentucky
A Component Unit of the Commonwealth of Kentucky
Financial Statements
Year Ended June 30, 2023

TABLE OF CONTENTS

MESSAGE FROM THE EXECUTIVE VICE PRESIDENT FOR FINANCE AND ADMINISTRATION

How do we advance Kentucky in everything that we do?

It's the central question posed in our institution's strategic plan. It's the mission that has guided the University of Kentucky for nearly 160 years. And it's the aspiration that fuels the passions of our people to make a difference every day for the state we were created to serve.

The 2023-24 budget for the University of Kentucky is, against that backdrop, a blueprint.

It is a blueprint of the progress we have made in meeting that goal to advance our state.

It is a blueprint of the promises still to be kept, if our dreams for Kentucky are to be realized.

We have grown at a remarkable rate over the last decade, not for the sake of numbers, but in the scope and scale of our mission to advance this state – educating more students and graduating them in record numbers; expanding the capacity of our research enterprise to focus more deeply and intently on the challenges that most impact Kentucky and growing a health care system to meet the advanced care needs of our state and our people.

But we also realize there is more to do – more students who can succeed at UK, graduate and join a workforce in need of their skills and talent; more patients – throughout Kentucky, close to home and those who are underserved in our community – who need the level of care that only we can provide; more communities, who we can partner with – through service and discovery – to solve the most of intractable of challenges.

This budget, then, underscores our record in advancing this state.

Yet, it also reveals our commitment – and the challenge still ahead – to do even more.

Markers of our progress and promise in this budget include:

This year's budget is a record $6.8 billion, representing a remarkable trajectory of growth of 150 percent over the last decade. The budget is 21 percent larger than last year's as it includes the full integration of the King's Daughters health system into the university.

More than 33,000 students for the first time were enrolled at UK. And this fall, we will announce a record 70 percent six-year graduation rate, placing us among the top institutions in the country. We must continue to grow, smartly and thoughtfully, while ensuring that students of all backgrounds, succeed at this place, prepared for lives of meaning and purpose.

To that end, as UK prepares to welcome a record first-year class of approximately 6,500 students, tuition increases for Kentucky undergraduates will be 2.75 percent. For the third year in a row the rolling average for increases is under 2 percent. Financial aid to students, which does not have to be repaid, will hit $285 million.

Our academic medical system – UK HealthCare – is now a $4 billion enterprise, which has grown by 300 percent over the last decade.

We are planning another $2.4 billion in new facilities that will expand advanced subspecialty care – for children and cancer patients, among others – and create greater access to primary care needs for members of our community.

In the coming year, the university is projecting nearly $500 million in revenue from research grants and contracts – the third straight year our efforts will top $400 million.

Much of that research growth is focused in Research Priority Areas – those issues and challenges most significant for Kentucky, from opioid misuse and cancer to equity and energy.

This coming year, we will expand those priority areas to include materials science, underscoring our state's ascent as a leader in advanced manufacturing.

UK is providing compensation increases to our people for the 10th time in 11 years. The last two years represent the largest set of investments in compensation increases in more than 15 years.

This year alone, UK will invest nearly $200 million in health coverage for employees to hold down the costs that our people pay for care. The university is increasing starting pay for Federal Work Study student employees as well as those who work in the Office for Student Success, while also implementing baseline graduate stipends for the first time. Those new efforts join progress already established in raising starting wages across the campus to $15 an hour.

Our people power our progress. Continual movement in competitive compensation and benefits helps ensure we recruit and retain the workforce that makes advancing Kentucky possible.

Our budget is our blueprint – a blueprint for what we have done and what there is still left to do. It is our answer, and our collective commitment, to the question that we ask of ourselves each day.

How do we advance Kentucky in everything that we do?

Eric Monday

Executive Vice President for Finance and Administration

FORV/S

600 N. Hurstbourne Parkway, Suite 350 / Louisville, KY 40222
P 502.581.0435 / **F** 502.581.0723
forvis.com

Independent Auditor's Report

Board of Trustees
University of Kentucky
Lexington, Kentucky

Report on the Audit of the Financial Statements

Opinions

We have audited the 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 year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

In our opinion, based on our audit and the reports of other auditors, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and fiduciary activities of the University as of June 30, 2023, 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.

We did not audit the financial statements of Kentucky Medical Services Foundation (KMSF) and Insure Blue, which are blended component units of the University, constituting 2.5%, 0.3% and 5.1%, respectively, of the assets, net position, and revenues of the business-type activities of the University, as of and for the year ended June 30, 2023. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for KMSF and Insure Blue, are based solely on the reports of the other auditors.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards)*. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the University, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions. The financial statements of KMSF and Insure Blue, which are included as blended component units included in the financial statements of the business-type activities, were not audited in accordance with *Government Auditing Standards*.

Emphasis of Matter

As discussed in Note 25 to the financial statements, in 2023, the University entered into a membership substitution agreement to acquire Royal Blue Health LLC, which resulted in a government combination. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 University's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension and other postemployment and long-term disability benefit plan information be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 GAAS, 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

Management is responsible for the other information included in the annual report. The other information comprises the governing board, administration and deans and directors listing and the message from the executive vice president for finance and administration but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2023, 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.

FORVIS, LLP

Louisville, Kentucky
October 6, 2023

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2023

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 fiscal year ended June 30, 2023. 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 one community from among many people – a place where everyone is welcome.

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, inclusion and belonging, 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 was mandated to become a major comprehensive research institution ranked nationally in the top 20 public universities by the year 2020.

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 UK's newest strategic plan at its October 2021 retreat. The plan considers the current operating context for higher education and focuses on five strategic principles that support our role as Kentucky's indispensable institution:

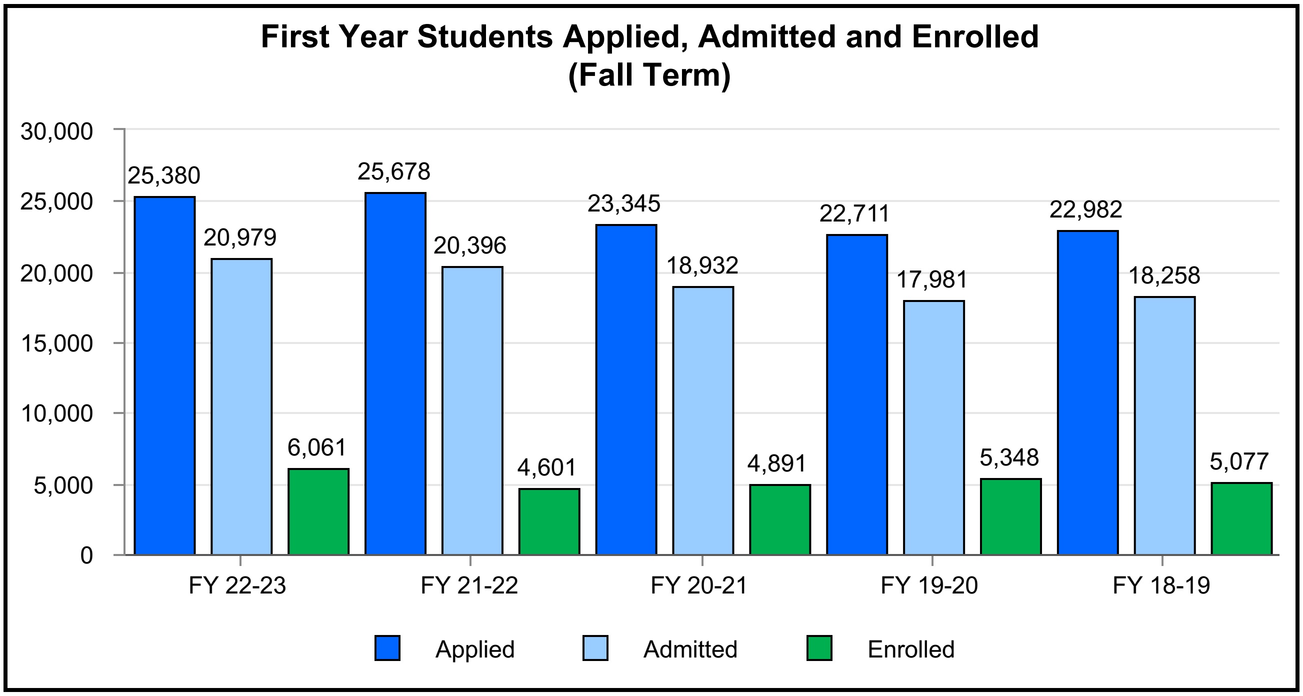
- **Putting Students First** – They are why we are here. Whether it is maintaining a modern curriculum that prepares our students for success, providing appropriate support for graduate students or ensuring that doctoral students start and complete their programs successfully, we must put students first.
- **Taking Care of Our People** – We will only accomplish our mission of advancing Kentucky when our people are compensated – in terms of pay and benefits – and supported in ways that lead the state, too.
- **Inspiring Ingenuity in Everything That We Do** – How do we embed innovation and discovery into every aspect of our institution? The breadth and depth of programming and offerings on one campus makes us distinctive in higher education. How do we incentivize the spark of ingenuity throughout our campus?
- **Ensuring Greater Trust, Transparency and Accountability** – We are Kentucky's institution. And that mantle holds with it heightened responsibilities around accountability and transparency. But we need to do more to instill a sense of trust in each other on issues ranging from shared governance to open accountability for how we perform and what we measure.
- **Many People; One Community** – UK is among the most inclusive communities of belonging in the Commonwealth. Our students will enter a world with deep divisions, but more interdependent than ever before. How do we model a community of belonging and inclusion?

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.

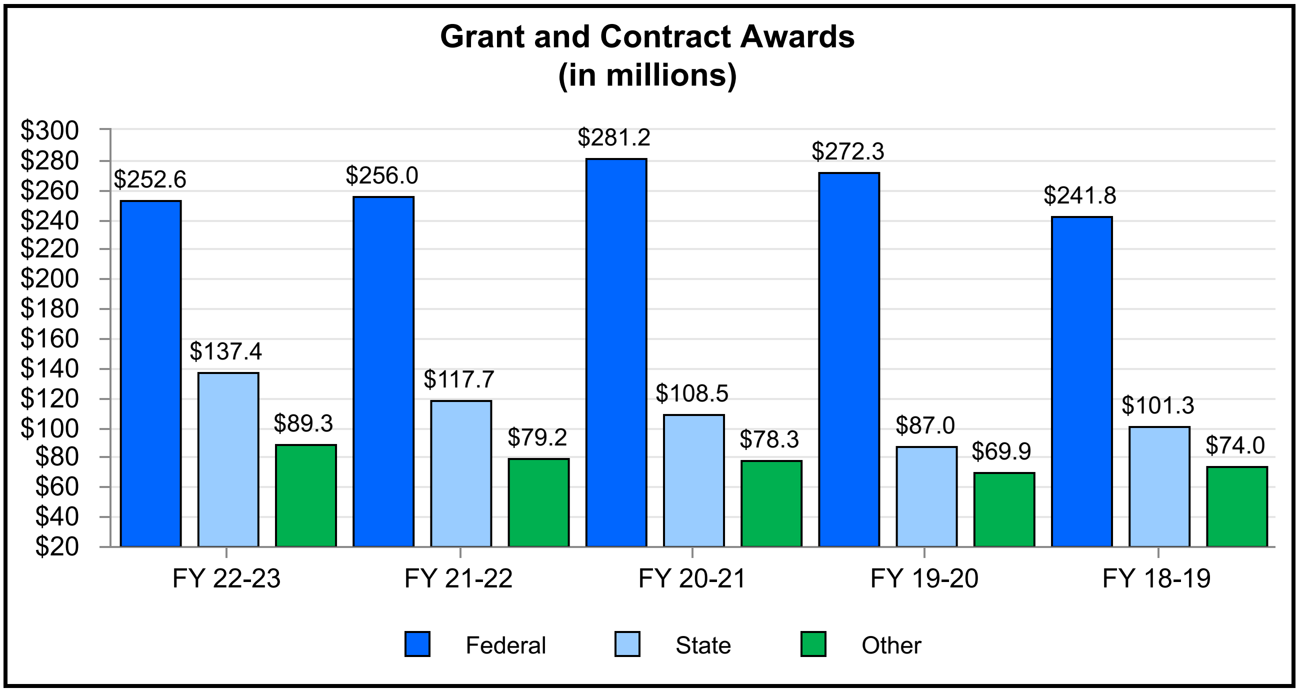
The University is accredited by the Commission on Colleges of the Southern Association of Colleges and Schools. This has been reaffirmed at approximately 10-year intervals since 1915, with the accreditation reaffirmation expected in December 2023. In addition, several degree programs and individual units are accredited by agencies appropriate to specific professions or fields.

Students. In Fall 2022, the University had 32,710 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 3,300 students (11.3%) since Fall 2013.



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 research expenses, as reported to the National Science Foundation as part of the Higher Education Research and Development (HERD) Survey, totaled $476.5 million for fiscal year 2021-22 compared to $429.2 million in fiscal year 2020-21. The research expenses 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 Statement of Revenues, Expenses and Changes in Net Position. The reported total University research expenses for fiscal year 2021-22 and associated rankings will be released by the National Science Foundation in late 2023. University of Kentucky Research Foundation (UKRF) awards (grants and contracts) received during fiscal year 2022-23 totaled $479.3 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; statewide arts and cultural contributions; 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 Hospital System (UK HealthCare or the System), 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 provide patient care on par - in terms of both volume and complexity - with the nation's top 25 percent of academic medical centers. For eight years in a row, UK HealthCare has been named the number one hospital in Kentucky by U.S. News and World Report's Best Hospitals rankings. 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.

Prior to December 1, 2022, UK HealthCare operated 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, Kentucky Children's Hospital and the Kentucky Clinic. The health system has a total of 1,086 licensed beds. On a monthly basis in 2023, UK HealthCare hospitals averaged 3,525 discharges, 3,190 surgeries, 10,285 emergency department visits and 108,367 hospital-based outpatient clinic visits.

On December 1, 2022, Ashland-based Royal Blue Health LLC (RBH or King's Daughters health system), the largest employer in northeastern Kentucky, officially became part of UK HealthCare — a move that will create greater access to high-quality care for more Kentuckians. The King's Daughters health system has more than 5,000 employees at two acute-care hospitals; more than 50 ambulatory centers and practice locations; a long-term care facility; medical transport company and six urgent care centers. This is the System's most significant hospital partnership since the acquisition of Good Samaritan Hospital in 2007. The partnership with RBH through King's Daughters health system creates new opportunities to serve patients from the greater Ashland/tri-state community that reaches across northeastern Kentucky, southern Ohio and West Virginia.

Working more closely together, we can expand access to specialty and subspecialty care within that very large service area, enabling the region's people to stay closer to home for treatments.

Under a management contract 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 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 together 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. As the premier research library in the Commonwealth, UK Libraries empowers lifelong learners to discover, create and connect by providing ever-expanding access to quality information and collaborating with academic and creative communities worldwide to advance knowledge, enhance scholarship and preserve the history and culture of the Commonwealth.

Financial Highlights

The University's overall financial position remains fiscally sound with assets of $10.58 billion, deferred outflows of resources of $37.3 million, liabilities of $2.60 billion and deferred inflows of resources of $536.8 million as of June 30, 2023. 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 $7.48 billion (70.7% of total assets).

- On December 1, 2022, the University's affiliate corporation Beyond Blue Corporation (BBC) acquired RBH through member substitution.The entity is reported as part of BBC and the impact as of the date of acquisition resulted in an increase in assets of $1.08 billion, deferred outflows of resources of $1.0 million, liabilities of $387.2 million, deferred inflows of resources of $1.1 million and net position of $695.5 million. Consequently, on January 1, 2023, BBC acquired Insure Blue (IB), formerly Integrated Health Insurance, Ltd., that provides health care, physician professional and comprehensive general liability coverage and excess coverage to the King's Daughters health system. This resulted in an increase in assets of $46.4 million, liabilities of $46.3 million and net position of $120 thousand.
- Total assets increased $2.14 billion (25%) primarily due to increases in cash and cash equivalents, notes, loans, leases and accounts receivable, capital assets, net and other long-term investments offset by decreases in current investments.
- Deferred outflows of resources increased $17.8 million (92%) primarily due to an increase in pensions due to the acquisition of RBH; an increase in the net difference between projected and actual earnings in the other post-employment benefit (OPEB) plans investments, assumptions changes and contributions subsequent to the measurement date; offset by a decrease due to the amortization of refunding debt.
- Total liabilities increased $538.0 million (26%) primarily due to increases in long-term liabilities, pension liabilities, net OPEB liabilities and accounts payable and accrued liabilities offset by a decrease in unearned revenue.
- Deferred inflows of resources decreased $70.2 million (12%) primarily due to a $61.9 million decrease in the OPEB Plan related to amortization of plan liabilities and decreases in the net difference between projected and actual earnings in the OPEB Plan investment, a $13.4 million decrease in service

concessions arrangements with Aramark, Barnes and Noble and Greystar offset by a $2.4 million increase in refunded bond premium.
- Total net position increased $1.69 billion (29%). Unrestricted net position increased $1.19 billion primarily due to the acquisition of RBH and the net increase in operating revenues in excess of operating expenses for the System. Net investment in capital assets increased $197.6 million. Restricted net position increased $303.7 million primarily due to increased funding for capital projects, gains on endowment investments due to a positive return on the endowment pool and new gifts and pledges.
- Operating revenues were $5.45 billion and operating expenses were $5.38 billion, resulting in a net income from operations of $73.0 million. Nonoperating and other revenues, net of nonoperating expenses, were $1.62 billion, including $695.6 million due to the acquisition of RBH and IB and $319.2 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:

- Statement of Net Position
- Statement of Revenues, Expenses and Changes in Net Position
- Statement of Cash Flows
- Statement of Fiduciary Net Position
- Statement of Changes in Fiduciary Net Position
- Notes to the Financial Statements
- Required Supplementary Information

The University implemented GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements,* and GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, in fiscal year 2023. The financial data in the MD&A for fiscal year 2022 was not restated.

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 Alumni Association, Inc.
- University of Kentucky Gluck Equine Research Foundation, Inc.
- University of Kentucky Humanities Foundation, Inc.
- University of Kentucky Mining Engineering Foundation, Inc.
- University of Kentucky Real Estate Foundation, Inc.
- University of Kentucky Research Foundation and its for-profit subsidiary, Kentucky Technology, Inc.
- Beyond Blue Corporation and its non-profit subsidiaries Royal Blue Health LLC and Insure Blue
- Central Kentucky Management Services, 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, 2023. 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, liabilities, deferred inflows of resources and deferred 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, 2023 and 2022 are as follows:

Condensed Statements of Net Position (in thousands)

	2023	2022
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current assets	$ 2,941,398	$ 2,046,783
Capital, lease, and subscription assets, net	4,091,975	3,574,867
Other noncurrent assets	3,543,563	2,814,127
Deferred outflows of resources	37,257	19,436
Total assets and deferred outflows of resources	10,614,193	8,455,213
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
Current liabilities	816,684	621,640
Noncurrent liabilities	1,781,374	1,438,419
Deferred inflows of resources	536,764	606,924
Total liabilities and deferred inflows of resources	3,134,822	2,666,983
NET POSITION		
Net investment in capital assets	2,173,352	1,975,798
Restricted		
Nonexpendable	727,323	702,268
Expendable	1,010,046	731,376
Unrestricted	3,568,650	2,378,788
Total net position	$ 7,479,371	$ 5,788,230

Assets. As of June 30, 2023, total assets amounted to $10.58 billion. The largest asset class was capital assets, net, that totaled $3.99 billion or 38% of total assets. Endowment investments were $1.89 billion, or 18% of total assets and cash and cash equivalents totaled $1.78 billion, or 17% of total assets. Notes, loans, leases and accounts receivable, net totaled $1.74 billion or 17% of total assets. During the year, total assets increased $2.14 billion primarily due to increases in cash and cash equivalents of $514.1 million, notes, loans, leases and accounts receivable, net of $578.7 million, capital assets, net of $462.6 million, subscription assets, net of $31.7 million, lease assets, net of $22.8 million, other long-term investments of $398.2 million and endowment investments of $134.0 million offset by a decrease in current investments of $43.8 million.

Deferred Outflows of Resources. The University's deferred outflows of resources totaled $37.3 million, an increase of $17.8 million, due to increases of $13.5 million related to pensions due to the net difference between projected and actual earnings on pension plan investments for RBH and increases of $5.3 million in the net difference between projected and actual earnings in the OPEB Plans investments and contributions subsequent to the measurement date. It also includes a decrease of $1.0 million related to the unamortized difference between the reacquisition price and the net carrying amount of refunded debt.

Liabilities. As of June 30, 2023, total liabilities amounted to $2.60 billion. Bonds, notes and capital debt obligations issued for educational buildings, housing, UK HealthCare facilities, Athletics' football stadium, student center and equipment totaled $1.37 billion or 53% of total liabilities. During the year, total liabilities increased $538.0 million primarily due to increases in accounts payable and accrued liabilities of $143.6 million, long-term liabilities of $357.9 million, net OPEB liabilities - retiree health of $27.6 million, and RBH pension obligations of $9.9 million offset by a decrease in unearned revenue of $5.1 million.

Deferred Inflows of Resources. The University's deferred inflows of resources totaled $536.8 million that represent service concession arrangements with Greystar of $359.7 million, Aramark of $85.7 million and Barnes and Noble of $2.3 million. Deferred inflows of resources also include trusts and annuities of $16.8 million that represent the beneficial interest that the University will receive in future years and OPEB long-term disability and retiree health of $64.7 million. During the year, deferred inflows of resources decreased $70.2 million primarily due to a decrease in OPEB of $61.9 million due to amortization of plan liabilities and decreases in the net difference between projected and actual earnings in the OPEB Plans investments. Aramark and Greystar service concession arrangements decreased $7.6 million and $5.4 million, respectively, due to the amortization of earned revenue. Premiums from refunded bonds increased $2.4 million and trusts and annuities increased $587 thousand.

Net Position. The University's net position of $7.48 billion as of June 30, 2023 is reported on the Statement of Net Position in three net position categories: net investment in capital assets, $2.17 billion (29%); restricted nonexpendable, $727.3 million (10%) and restricted expendable, $1.01 billion (14%); and unrestricted, $3.57 billion (48%).

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 $1.69 billion during the year ended June 30, 2023. Net investment in capital assets increased $197.6 million due to $151.9 million from the RBH acquisition and additions of capital assets, lease assets, subscription assets and principal payments of capital debt offset by depreciation and amortization expense. Restricted net position increased $303.7 million primarily as a result of increased funding for capital projects, gains on endowment investments due to a favorable return on the endowment pool, and new gifts and pledges. Unrestricted net position increased $1.19 billion primarily due to the acquisition of RBH and IB and other increases in UK HealthCare net patient revenue.

Statement of Revenues, Expenses and Changes in Net Position

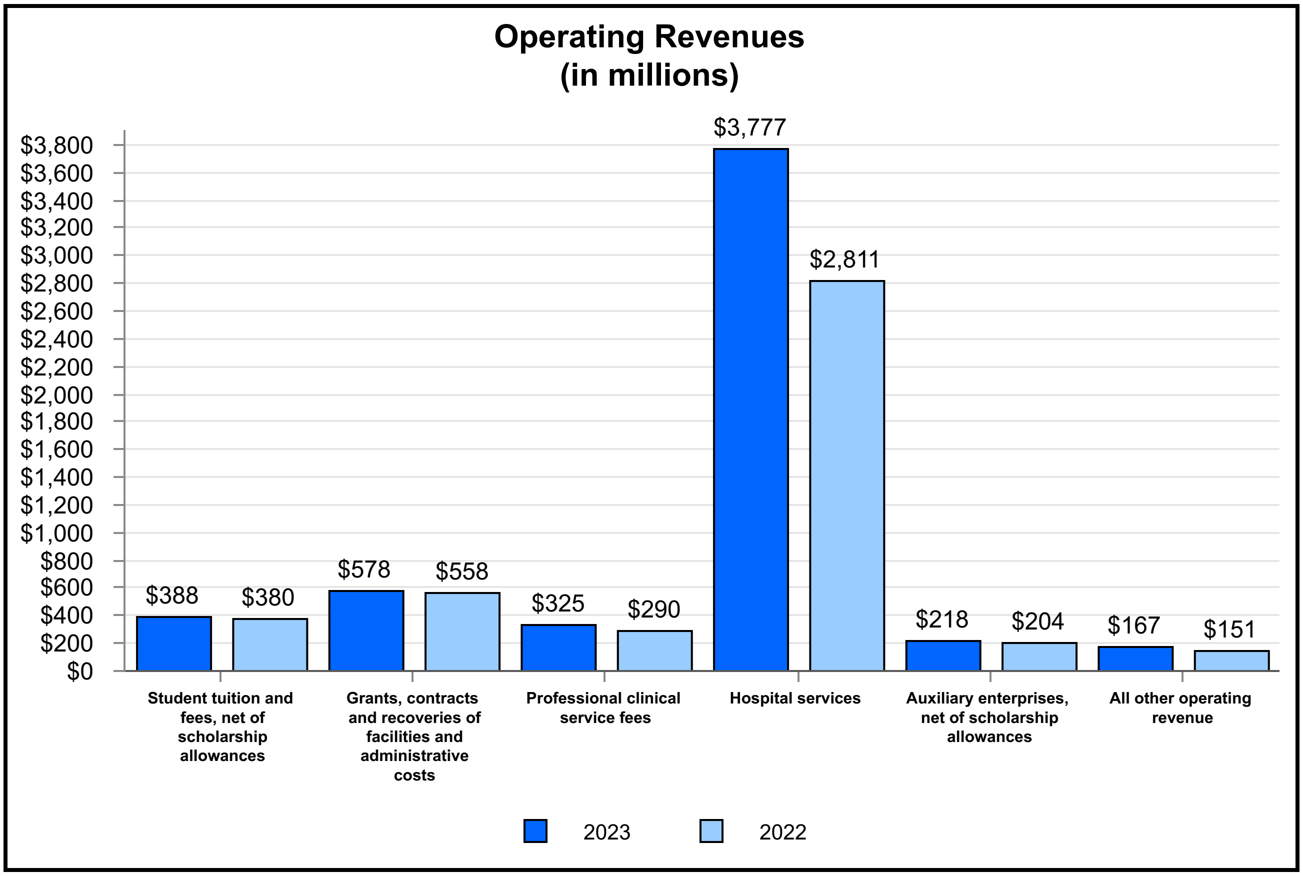
The Statement of Revenues, Expenses and Changes in Net Position is the University's income statement. It details how net position has changed during the year ended June 30, 2023. This statement is prepared on the accrual basis of accounting whereby revenues and assets are recognized when the service 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 may report 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, 2023 and 2022 are as follows:

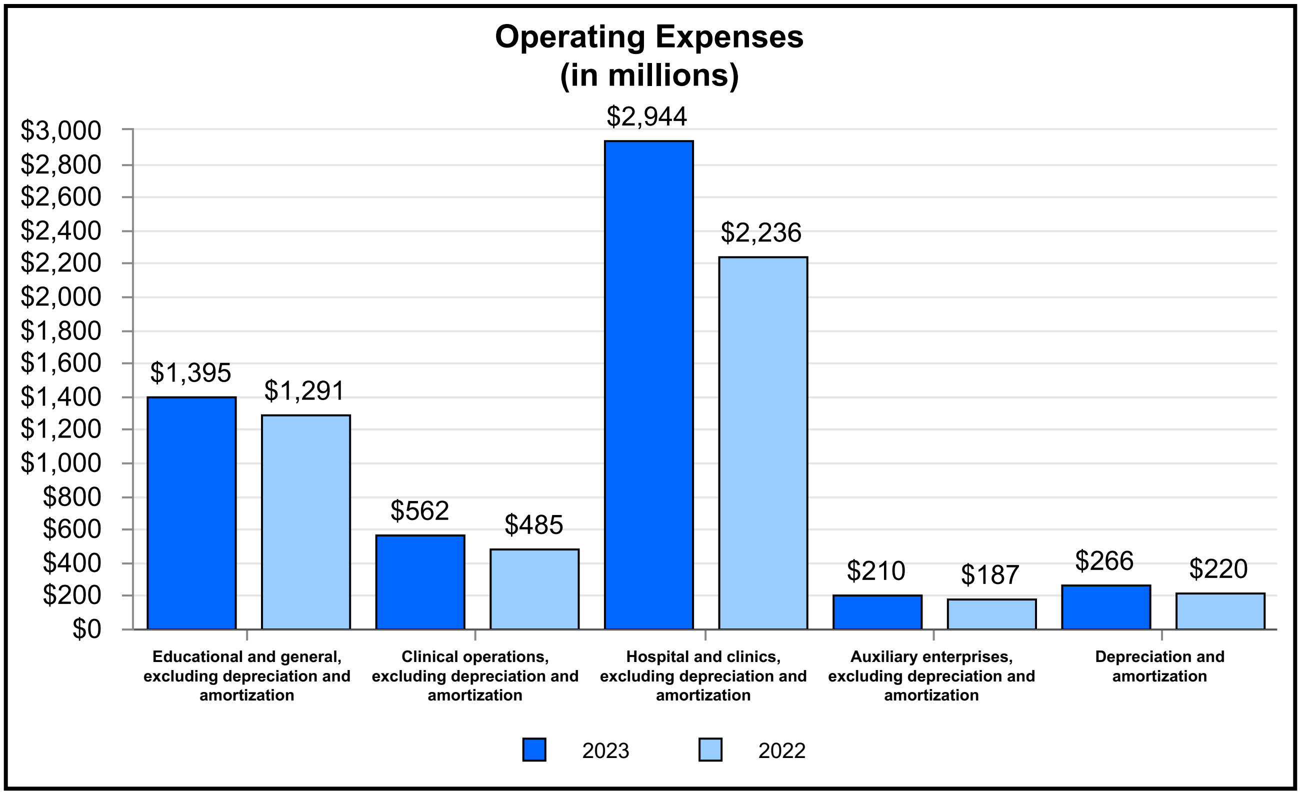
Condensed Statements of Revenues, Expenses and Changes in Net Position (in thousands)

	2023	2022
OPERATING REVENUES		
Student tuition and fees, net of scholarship allowances	$ 387,631	$ 380,023
Grants and contracts	484,722	468,306
Recoveries of facilities and administrative costs	93,470	89,891
Sales and services	84,810	78,393
Federal and county appropriations	54,791	44,404
Professional clinical service fees	325,108	289,691
Hospital services	3,776,635	2,811,332
Auxiliary enterprises, net of scholarship allowances	218,451	204,104
Other operating revenues	27,008	27,986
Total operating revenues	5,452,626	4,394,130
OPERATING EXPENSES		
Educational and general, excluding depreciation and amortization	1,395,412	1,291,499
Clinical operations, excluding depreciation and amortization	562,157	485,202
Hospital and clinics, excluding depreciation and amortization	2,944,381	2,235,603
Auxiliary enterprises, excluding depreciation and amortization	210,115	186,716
Depreciation and amortization	266,140	219,526
Other operating expenses	1,417	2,725
Total operating expenses	5,379,622	4,421,271
NET INCOME (LOSS) FROM OPERATIONS	73,004	(27,141)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	319,235	271,317
COVID-19 funding	4,005	69,097
Gift and non-exchange grants	237,260	125,806
Investment income (loss)	222,035	(121,772)
Interest on capital asset-related debt	(49,067)	(40,928)
Capital grants and gifts	123,469	64,215
Additions to permanent endowments	21,704	20,404
Other, net	43,914	(64,228)
Special item - acquisition of Royal Blue Health and Insure Blue	695,582	—
Total nonoperating revenues	1,618,137	323,911
INCREASE IN NET POSITION	1,691,141	296,770
NET POSITION, beginning of year	5,788,230	5,491,460
NET POSITION, end of year	$ 7,479,371	$ 5,788,230



Total operating revenues were $5.45 billion for the year ended June 30, 2023, an increase of $1.06 billion (24%). The primary components of operating revenues were student tuition and fees, net of scholarship allowances, of $387.6 million; grants and contracts and recoveries of facilities and administrative costs of $578.2 million; professional clinical service fees of $325.1 million; hospital services of $3.78 billion and auxiliary enterprises of $218.5 million.

The most significant increase was in hospital services revenue of $965.3 million attributable primarily to net patient revenues generated from the King's Daughters health system of $631.8 million as well as an increase in UK HealthCare net patient revenues due to increases in both inpatient services and outpatient services activity. Directed Payments increased due to increased eligibility of Medicaid patients and higher commercial rates. Other significant increases in operating revenues are related to grants and contracts and recoveries of facilities and administrative costs of $20.0 million, net tuition and fees of $7.6 million and auxiliary enterprises of $14.3 million.



Operating expenses totaled $5.38 billion, an increase of $958.4 million (22%). Of this amount, $1.40 billion, excluding depreciation and amortization, was expended for educational and general programs, including instruction, research and public service. Clinical operations expenses, excluding depreciation and amortization, were $562.2 million; hospital and clinics expenses, excluding depreciation and amortization, amounted to $2.94 billion and auxiliary enterprises expenses, excluding depreciation and amortization, were $210.1 million. Depreciation and amortization expenses for the year amounted to $266.1 million.

Hospital and clinics expenses, excluding depreciation and amortization, increased $708.8 million primarily due to additional staffing and supplies, in part related to the additions from the King's Daughters health system of $492.8 million. Educational and general expenses, excluding depreciation and amortization, increased $103.9 million primarily due to increases in research of $27.8 million, institutional support of $25.2 million, operations and maintenance of plant of $19.3 million, academic support of $16.7 million, instruction of $15.0 million offset by a decrease in student services of $1.8 million. Clinical operations expenses, excluding depreciation and amortization, increased $77.0 million primarily due to an increase in personnel costs. Auxiliary enterprises expenses, excluding depreciation and amortization, increased $23.4 million primarily due to increases in athletics expenses of $15.7 million, other auxiliary expenses of $4.4 million and housing and dining expenses of $3.3 million in part due to an increase in enrollment. Depreciation and amortization expense increased $46.6 million primarily due to the implementation of GASB Statement No. 96 in 2023 and additions from the King's Daughters health system.

The net income from operations for the year was $73.0 million. Nonoperating and other revenues including special items, net of expenses, totaled $1.62 billion and included $695.6 million related to the acquisition of RBH and IB and state appropriations of $319.2 million, an increase of $47.9 million. COVID-19 funding totaled $4.0 million, a decrease of $65.1 million primarily due to prior year funding from the Higher Education Emergency Relief Fund III of $47.2 million and the American Rescue Plan Act of $21.7 million. Gifts and non-exchange grants totaled $237.3 million, an increase of $111.5 million. Investment income totaled $222.0 million, an increase of $343.8 million from prior year investment loss of $121.8 million; capital grants and gifts totaled $123.5 million, an increase of $59.3 million; additions to permanent endowments totaled $21.7 million, an increase of $1.3 million; and other, net revenues totaled $43.9 million, an increase of $108.1 million primarily due to a decrease in UK HealthCare expenses related to the Directed Payments match for King's

Daughters health system after the acquisition and a decrease in expenses associated with the HEERF III funding that ended last year.

Statement of Cash Flows

The Statement of Cash Flows details how cash has increased or decreased during the fiscal year ended June 30, 2023. 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, capital debt repayments and principal and interest paid or received on leases and subscriptions. 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, 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, 2023 and 2022 are as follows:

Condensed Statements of Cash Flows (in thousands)

	2023	2022
CASH PROVIDED (USED) BY:		
Operating activities	$ 38,557	$ (149,766)
Noncapital financing activities	511,393	405,814
Capital and related financing activities	(220,266)	(234,405)
Investing activities	184,411	(59,577)
Net increase (decrease) in cash and cash equivalents	514,095	(37,934)
CASH AND CASH EQUIVALENTS, beginning of year	1,264,786	1,302,720
CASH AND CASH EQUIVALENTS, end of year	$ 1,778,881	$ 1,264,786

The University's cash and cash equivalents increased $514.1 million in fiscal year 2023. Total cash provided by operating activities was $38.6 million, an increase of $188.3 million. Total cash provided by investing activities was $184.4 million, an increase of $244.0 million. Total cash used by capital and related financing activities was $220.3 million, a decrease of $14.1 million reflecting both capital funding sources (debt proceeds) and uses (purchases of capital assets and debt service). Total cash provided by noncapital financing activities was $511.4 million, an increase of $105.6 million.

Major uses of cash for operating activities were payments to employees for salaries, wages and benefits of $2.97 billion and to vendors and contractors of $2.09 billion. Major sources of cash provided by operating activities were hospital services of $3.59 billion; grants and contracts and recoveries of facilities and administrative costs of $571.9 million; student tuition and fees of $387.3 million; and professional clinical service fees of $279.0 million.

Noncapital financing activities include state appropriations from the Commonwealth of $319.2 million and gifts and grants other than capital purposes of $187.0 million.

Capital and related financing activities include $225.2 million that was expended for construction and purchases of capital assets and $152.7 million that was expended for principal and interest payments on capital debt, lease, and subscription obligations offset by proceeds of capital debt of $167.1 million and capital grants and gifts of $38.1 million.

Investing activities include proceeds from sales and maturities of investments of $837.3 million, interest and dividends on investments of $90.0 million and cash acquired with the acquisition of RHB and IB of $45.0 million offset by cash of $787.9 million used for purchases of investments.

Capital, Lease and Subscription Assets and Debt Administration

<u>Capital, Lease and Subscription Assets.</u>

Capital assets, net of accumulated depreciation, totaled $3.99 billion at June 30, 2023, an increase of $462.6 million. Capital assets as of June 30, 2023 and significant changes in capital assets during the year are as follows (in millions):

	Balance June 30, 2022	Net Additions (Deletions)	Balance June 30, 2023
Land and land improvements	$ 353	$ 60	$ 413
Buildings, fixed equipment and infrastructure	4,465	414	4,879
Equipment, vehicles and capitalized software	1,047	121	1,168
Library materials and art	174	—	174
Certificate of need	12	—	12
Construction in progress	132	64	196
Accumulated depreciation	(2,654)	(196)	(2,850)
Total	$ 3,529	$ 463	$ 3,992

At June 30, 2023, the University had commitments in construction in progress for capital projects totaling approximately $1.51 billion in scope. Major projects include the construction of the new UK HealthCare Ambulatory Cancer Surgery Center, Cancer Center Parking Garage, College of Medicine Education Building, renovation of patient care facilities, campus modernization and asset preservation projects. The estimated cost to complete the projects in progress is approximately $1.37 billion. Additionally, RBH had capital expenditure commitments of approximately $21.6 million related to construction contracts.

Lease assets, net of accumulated amortization which totaled $68.7 million at June 30, 2023 are as follows (in millions):

	Balance June 30, 2022	Net Additions (Deletions)	Balance June 30, 2023
Buildings	$ 28	$ 29	$ 57
Equipment	25	17	42
Vehicles	1	(1)	—
Accumulated amortization	(8)	(22)	(30)
Total	$ 46	$ 23	$ 69

Subscription assets, net of accumulated amortization, which totaled $31.7 million at June 30, 2023 are as follows (in millions):

	Balance July 1, 2022	Net Additions (Deletions)	Balance June 30, 2023
Subscription assets	$ 16	$ 25	$ 41
Accumulated amortization	—	(9)	(9)
Total	$ 16	$ 16	$ 32

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, was adopted during fiscal year 2023 resulting in the recognition of subscription assets, net of $16.1 million as of July 1, 2022.

Debt.

At June 30, 2023, capital obligations amounting to $1.37 billion, summarized by trust indenture and type, are as follows (in millions):

	2023	2022
General Receipts bonds	$ 1,011	$ 975
Revenue bonds	230	—
Capital financed obligations	44	47
Capital debt obligations	65	63
Notes payable	24	23
Total	$ 1,374	$ 1,108

Debt increased $265.8 million during the year primarily due to the addition of $240.7 million in debt obligations from the acquisition of RBH, the issuance of $90.7 million of General Receipts Bonds 2022 Series B and C and a net increase of $310 thousand from the refunding of General Receipts Bonds 2014 Series A by General Receipts Bonds 2022 Series D offset by principal payments on bonds of $62.2 million and net decreases in capital financed obligations, capital debt obligations and notes payable of $3.7 million.

At June 30, 2023, lease obligations totaled $70.3 million and subscription liabilities totaled $28.2 million.

Economic and Other Factors That Will Affect the Future

Senior leaders believe 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, and efficiency and effectiveness initiatives will enable the university to obtain the resources necessary to meet its strategic objectives. The following are known facts and circumstances that may influence future financial results:

Higher Education

Review of Postsecondary Education. In March 2023, the Kentucky General Assembly passed Senate Joint Resolution 98 directing the Kentucky Council on Postsecondary Education (CPE) to conduct a study of the structure of higher education governance in the Commonwealth; the impact and feasibility of establishing a regional, residential, four-year public university in southeastern Kentucky; and the impact of transferring the responsibility for traditional academic subjects from the Kentucky Community and Technical College System to the regional universities. CPE is to submit a report on the comprehensive study, with findings and recommendations, to the Kentucky Legislative Research Commission by December 1, 2023.

Kentucky Postsecondary Education Performance Funding Model. As part of HB 303, the 2016 Session of the Kentucky General Assembly created the Postsecondary Education Working Group consisting of the president of the Kentucky Council on Postsecondary Education, postsecondary institution leaders and representatives from the Governor's office and the legislature to develop a funding model that aligns state funding to performance and student success metrics. Fiscal year 2023-24 will be the seventh year the Kentucky General Assembly has used the performance funding model to allocate state funds to the public universities and the Kentucky Community and Technical College System. UK has performed extremely well - achieving the highest number of growth rates above the sector average for every year the model has been in use. For fiscal year 2023-24, UK achieved growth rates above the sector average on nine of the eleven metrics, earning $33.3 million or 44.0% of the available state funds for the universities.

Pursuant to KRS 164.092, CPE is to convene the Postsecondary Education Working Group every three years to determine if the model is functioning as expected, identify any unintended consequences of the model, and recommend any adjustments to the model. As required, the Working Group is currently reviewing the model and CPE is to report the results of the review and any recommendations to the Governor, the Interim Joint Committee on Appropriations and Revenue, and the Interim Joint Committee on Education by December 1, 2023.

Enrollment Growth and Student Success. The University begins the 2023 fall semester with another expected record first-year class of more than 6,400 students and an overall enrollment of about 33,000. With regard to student success, the university's four-year graduation rate has skyrocketed by almost 20 percentage points to 55.2 percent in ten years. The number of degrees awarded has increased more than 22 percent in the same period and a significant increase is expected to be reported for academic year 2023-24.

UK HealthCare

For the eighth consecutive year, UK HealthCare is ranked as the No. 1 hospital in Kentucky in the 2023-24 Best Hospitals rankings and ratings from U.S. News & World Report. Annual inpatient discharges from UK's hospitals exceeded 42,300 for fiscal year 2023, about 900 discharges above budget. Ambulatory visits topped 1.3 million in fiscal year 2023, almost 100,000 visits above budget. Markey Cancer Center, Kentucky's only NCI-designated cancer center, was included in the U.S. News Top 50 national ranking for cancer care for the seventh consecutive year. Effective December 1, 2022, the King's Daughters health system, located in Ashland, Kentucky, was integrated into the University significantly expanding patient access to UK HealthCare.

In December 2022, the UK Board of Trustees (the Board) approved construction of an outpatient cancer and advanced ambulatory building and parking garage on the west side of South Limestone to support Markey's mission to increase access for Kentucky's most complex patients. UK HealthCare's Kentucky Children's Hospital opened a new behavioral health unit for pediatric patients.

In April 2023, the Board approved construction of an additional three floors for ambulatory services within the building, which is projected to open in 2027. The Board also endorsed a financial plan that projects $2.40 billion in capital investments across fiscal years 2023-28. Investments include a second patient bed tower on the Chandler campus, new operating suites and new procedures rooms; recruiting and retaining a workforce that aligns with volume growth rates while reducing agency workforce; establishing pipelines to building workforce; and the design/plan of four additional ambulatory sites based on UK employee residence, demographic growth and accessibility in underserved areas of Fayette County. The Board also endorsed UK HealthCare moving forward with design planning of a medical office building to be located on the approximately 27 acres of property in the Hamburg development along U.S. Interstate I-75.

UK Research

With thoughtful planning, multi-disciplinary collaboration and execution, UK Research has achieved extraordinary growth in external funding. UK faculty were awarded $479.3 million in annual grants and contracts for fiscal year 2022-23, a six percent increase compared to the prior fiscal year. As of June 30, 2023, grant and contracts of approximately $391.3 million have been awarded to the University but not expended. The current environment compels a focus on research where the needs of Kentuckians and the Commonwealth are most pressing. UK Research is using strategic investment funds to seed innovative collaborative research and help investigators secure federal funding.

Summary

Our mission to **advance Kentucky** – for nearly 160 years – has never changed. Now, more than ever, the Commonwealth depends on the University to uplift its citizens and communities. UK's Strategic Plan – UK-PURPOSE – defines the five principles and key objectives that serve as a north star for guiding institutional decisions. With compassion and grit, the University has adopted new technology, business models and revamped campus operations. The University's wide array of programs allows us to excel in multidisciplinary studies and foster an environment of cooperative engagement across all colleges, programs and research endeavors.

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
STATEMENT OF NET POSITION (in thousands)
JUNE 30, 2023

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	
Current Assets	
Cash and cash equivalents	$ 1,525,985
Notes, loans, leases and accounts receivable, net	1,277,855
Investments	19,792
Inventories and other assets	117,766
Total current assets	2,941,398
Noncurrent Assets	
Restricted cash and cash equivalents	252,896
Endowment investments	1,888,185
Other long-term investments	921,392
Notes, loans, leases and accounts receivable, net	466,016
Other noncurrent assets	15,074
Capital assets, net	3,991,593
Lease assets, net	68,685
Subscription assets, net	31,697
Total noncurrent assets	7,635,538
Total assets	**10,576,936**
Deferred Outflows of Resources	37,257
Total assets and deferred outflows of resources	**10,614,193**
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	
Current Liabilities	
Accounts payable and accrued liabilities	533,714
Unearned revenue	151,745
Long-term liabilities - current portion	131,225
Total current liabilities	816,684
Noncurrent Liabilities	
Unearned revenue	191,937
Long-term liabilities	1,532,956
Net pension liability	9,927
Net other postemployment benefit liability - retiree health	42,481
Net other postemployment benefit liability - long-term disability	4,073
Total noncurrent liabilities	1,781,374
Total liabilities	**2,598,058**
Deferred Inflows of Resources	536,764
Total liabilities and deferred inflows of resources	**3,134,822**
NET POSITION	
Net investment in capital assets	2,173,352
Restricted	
Nonexpendable	
Scholarships and fellowships	228,275
Research	303,147
Instruction	91,068
Academic support	88,025
Other	16,808
Total restricted nonexpendable	727,323
Expendable	
Scholarships and fellowships	146,610
Research	148,158
Instruction	77,281
Academic support	149,637
Loans	12,134
Capital projects	248,657
Debt service	2,675
Auxiliary	49,988
Other	174,906
Total restricted expendable	1,010,046
Total restricted	1,737,369
Unrestricted	3,568,650
Total net position	**$ 7,479,371**

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, 2023

OPERATING REVENUES	
Student tuition and fees	$ 593,970
Less: Scholarship allowances	(206,339)
Net student tuition and fees	387,631
Federal grants and contracts	293,362
State and local grants and contracts	159,498
Nongovernmental grants and contracts	31,862
Recoveries of facilities and administrative costs	93,470
Sales and services	84,810
Federal appropriations	20,060
County appropriations	34,731
Professional clinical service fees	325,108
Hospital services	3,776,635
Auxiliary enterprises:	
Housing and dining	38,050
Less: Scholarship allowances	(1,317)
Net housing and dining	36,733
Athletics	127,931
Other auxiliaries	53,787
Other operating revenues	27,008
Total operating revenues	**5,452,626**
OPERATING EXPENSES	
Educational and general:	
Instruction	333,060
Research	377,361
Public service	268,495
Libraries	22,956
Academic support	112,800
Student services	53,249
Institutional support	60,444
Operations and maintenance of plant	111,156
Student financial aid	55,891
Depreciation and amortization	89,480
Total educational and general	1,484,892
Clinical operations (including depreciation and amortization of $8,837)	570,994
Hospital and clinics (including depreciation and amortization of $131,805)	3,076,186
Auxiliary enterprises:	
Housing and dining (including depreciation and amortization of $10,888)	30,076
Athletics (including depreciation and amortization of $16,284)	174,584
Other auxiliaries (including depreciation and amortization of $8,846)	41,473
Other operating expenses	1,417
Total operating expenses	**5,379,622**
Net income from operations	**73,004**
NONOPERATING REVENUES (EXPENSES)	
State appropriations	319,235
COVID-19 funding	4,005
Gifts and non-exchange grants	237,260
Investment income	222,035
Interest on capital asset, lease and subscription-related debt	(49,067)
Other nonoperating revenues and expenses, net	3,011
Net nonoperating revenues	**736,479**
Net income before other revenues, expenses, gains or losses and special item	**809,483**
Capital grants and gifts	123,469
Additions to permanent endowments	21,704
Other, net	40,903
Special item - acquisition of Royal Blue Health and Insure Blue	695,582
Total other revenues	**881,658**
INCREASE IN NET POSITION	**1,691,141**
NET POSITION, beginning of year	**5,788,230**
NET POSITION, end of year	**$ 7,479,371**

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, 2023

CASH FLOWS FROM OPERATING ACTIVITIES	
Student tuition and fees	$ 387,256
Grants and contracts	479,783
Recoveries of facilities and administrative costs	92,124
Sales and services	92,034
Federal appropriations	20,108
County appropriations	34,908
Payments to vendors and contractors	(2,093,965)
Payments on short-term leases	(171)
Student financial aid	(55,944)
Salaries, wages and benefits	(2,968,678)
Professional clinical service fees	278,955
Hospital services	3,587,341
Auxiliary enterprises receipts	159,964
Loans issued to students	(15,687)
Collection of loans to students	18,276
Self insurance receipts	84,763
Self insurance payments	(86,693)
Other receipts	24,183
Net cash provided by operating activities	**38,557**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State appropriations	319,235
COVID-19 funding	4,005
Gifts and grants received for other than capital purposes:	
Gifts received for endowment purposes	21,704
Gifts received for other purposes	165,345
Agency and loan program receipts	351,371
Agency and loan program payments	(353,091)
Other financing receipts	2,824
Net cash provided by noncapital financing activities	**511,393**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital grants and gifts	38,098
Purchases of capital assets	(225,212)
Proceeds from capital debt	167,123
Payments to refunding bond agents	(75,489)
Proceeds from sales of capital assets	426
Principal paid on capital debt	(70,956)
Interest paid on capital debt	(45,722)
Principal payments received on leases receivable	657
Interest payments received on leases receivable	(47)
Principal paid on leases payable	(21,104)
Interest paid on leases payable	(1,955)
Principal paid on subscriptions payable	(12,679)
Interest paid on subscriptions payable	(243)
Other financing receipts	26,837
Net cash used by capital and related financing activities	**(220,266)**
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales and maturities of investments	837,345
Interest and dividends on investments	89,952
Cash acquired from purchases of investments	(787,861)
Cash acquired from acquisition of Royal Blue Health and Insure Blue	44,975
Net cash provided by investing activities	**184,411**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**514,095**
CASH AND CASH EQUIVALENTS, beginning of year	**1,264,786**
CASH AND CASH EQUIVALENTS, end of year	**$ 1,778,881**

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, 2023

Reconciliation of net income from operations		
to net cash provided by operating activities:		
Net income from operations	$	73,004
Adjustments to reconcile net income from operations		
to net cash provided by operating activities:		
Depreciation and amortization expense		266,140
Change in assets and liabilities:		
Notes, loans, leases and accounts receivable, net		(207,573)
Inventories and other assets		(12,029)
Deferred outflows of resources		(17,807)
Accounts payable and accrued liabilities		30,937
Unearned revenue		(4,664)
Long-term liabilities		(22,679)
Pension liabilities		16,467
Net OPEB liabilities		31,681
Deferred inflows of resources		(114,920)
Net cash provided by operating activities	**$**	**38,557**
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Lease obligations incurred	$	26,928
Subscription obligations incurred	$	12,019
Gifts of capital assets	$	2,187
Trade in of land, equipment and vehicles	$	12,324
Gifts of other assets held for sale	$	1,730
Capital asset change in accounts payable and long-term liabilities	$	14,169
Amortized bond discount and premium	$	5,457
Amortized difference between reacquisition price and net carrying amount of refunded debt	$	805
Investment unrealized gains	$	130,287
In connection with the acquisition of Royal Blue Health and Insure Blue noncash assets, deferred outflows of resources, liabilities and deferred inflows of resources assumed were as follows:		
Patient and other accounts receivable	$	98,310
Other current assets	$	145,964
Other long-term investments	$	405,776
Capital assets	$	395,876
Other assets	$	38,263
Deferred outflows of resources	$	1,015
Current liabilities	$	(108,533)
Long-term debt	$	(239,875)
Other long-term liabilities	$	(85,100)
Deferred inflows of resources	$	(1,089)

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, 2023

ASSETS		
Cash and cash equivalents	$	10,374
Accrued interest receivable		139
Investments		309,923
Total assets		320,436
LIABILITIES		
Accounts payable and accrued liabilities		—
Total liabilities		—
NET POSITION		
Net position restricted for postemployment benefits	$	320,436

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, 2023

Revenues		
Investment income:		
Interest and dividend income	$	3,979
Net appreciation in fair value of investments		15,697
Net investment gain		19,676
Contributions:		
University of Kentucky		11,401
Beneficiaries		4,353
Total contributions		15,754
Total gains		35,430
Expenses		
Administrative expenses		2,128
Payments to retirees and beneficiaries		15,576
Total expenses		17,704
Special item - acquisition of Royal Blue Health fiduciary assets		55,171
INCREASE IN NET POSITION		72,897
NET POSITION restricted for postemployment benefits, beginning of year		247,539
NET POSITION restricted for postemployment benefits, end of year	$	320,436

See notes to financial statements

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, *The Financial Reporting Entity* and amended by Statement No. 39, *Determining Whether Certain Organizations are Component Units,* Statement No. 61, *The Financial Reporting Entity: Omnibus - An Amendment of GASB Statements No.14 and No. 34* and Statement No. 80, *Blending Requirements for Certain Component Units,* of the Governmental Accounting Standards Board (GASB) and which meet the definition of an affiliated corporation under Kentucky Revised Statutes (KRS) section 164A.550). The affiliates are presented as blended component units since University management has operational responsibility for each affiliated corporation and are as follows:

- University of Kentucky Research Foundation (UKRF) and its for-profit subsidiary, Kentucky Technology, Inc. (KTI). KTI has a calendar-year based fiscal year from January 1 through December 31. Therefore, the financial statements of KTI as of and for the year ended December 31, 2022 are included in the UKRF's financial statements as of June 30, 2023.
- University of Kentucky Gluck Equine Research Foundation, Inc. (UKGERF)
- University of Kentucky Humanities Foundation, Inc. (UKHF)
- University of Kentucky Mining Engineering Foundation, Inc. (UKMEF)
- Central Kentucky Management Services, Inc. (CKMS)
- Beyond Blue Corporation (BBC) and its non-profit subsidiary Royal Blue Health, LLC (RBH or King's Daughters health system) and Insure Blue (IB)

The financial statements of the University also include non-profit entities for which the University is financially accountable as defined by GASB, but which are not affiliated corporations under KRS and are as follows:

- Kentucky Medical Services Foundation, Inc. (KMSF)
- University of Kentucky Alumni Association, Inc. (UKAA)
- University of Kentucky Real Estate Foundation, Inc. (UKREF)

KMSF and UKREF are included within the University reporting entity as blended component units as they provide services entirely to the University. UKAA is included within the University reporting entity as a blended component unit as it has a dual reporting/funding model which integrates UKAA with the University.

The financial statements of the University also include the operations of organizational units of the University and are as follows:

- Kentucky Tobacco Research and Development Center (KTRDC)
- WUKY Radio
- UK HealthCare Hospital System (the System) which includes the following:
    - BBC, an affiliated corporation that includes its non-profit subsidiaries RBH acquired December 1, 2022, and IB acquired January 1, 2023.
    - Kentucky Healthcare Enterprise, Inc., a wholly owned for-profit subsidiary.
    - Surgery Blue, LLC, a wholly owned for-profit subsidiary and its for-profit subsidiary, Surgery Center of Lexington, LLC (SCL) (51% ownership). SCL has a calendar-year based fiscal year from January 1 through December 31. Therefore, the financial statements of SCL as of

and for the year ended December 31, 2022 are included in the System's financial statements as of June 30, 2023.

  - Separate financial statements were not issued in fiscal year 2023 for BBC or Surgery Blue, LLC. Nevertheless, these affiliated corporations are included in the University's financial statements.

The separate financial statements for the above entities can be found at: www.uky.edu/ufs/financial-statements.

The King's Daughters Medical Center Retirement Plan (Pension Plan or the Plan) is a single-employer defined benefit plan included in the University's financial statements as a pension trust fiduciary fund. The board of Royal Blue Health, LLC performs the governing duties of the Pension Plan, as the Pension Plan does not have a separate board. The fiduciary fund statements are presented as of December 31, 2022, the Plan's fiscal year-end.

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 University Board of Trustees (the Board) 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, 2023, 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, lease, and subscription assets, net of accumulated depreciation/amortization, outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets, lease liabilities, subscription liabilities, deferred outflows of resources and deferred inflows of resources.

- 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 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 Pension Plan and 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, equity securities and negotiable certificates of deposit are carried at fair value, as determined by the major securities markets. Alternative investments are stated at net asset value. Life insurance policies, non-negotiable certificates of deposit and guaranteed investment contracts are stated at cost. See note 2 for more information on the fair value determination. Changes in unrealized gains (losses) on the carrying value of investments are reported as a component of investment income (loss) in the Statement of Revenues, Expenses and Changes in Net Position.

Notes, Loans, Leases 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 various lessees; amounts due from the Commonwealth for capital projects; amounts due from sponsors for reimbursement of expenses made pursuant to grants and contracts; amounts due under multimedia rights contract and service concession arrangements; and pledges that are verifiable, measurable and expected to be collected. Accounts receivable is 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 2,564 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%, 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 0.5%, for a maximum annual assessment of one percent, to support additional expenses related to the capital campaign. For the year ended June 30, 2023, the University’s annual endowment management fee was 0.9%.

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 year ended June 30, 2023 are as follows (in thousands):

Gross spending policy distribution	$	66,308
Reinvested spending policy distribution		(33,146)
Net spending policy distribution	$	33,162
Management fee	$	14,370

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, *Fair Value Measurement and Application*.

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 for UKAA) 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.

Lease Assets. Lease assets are initially recorded at the initial measurement of the lease liability, plus lease payment made at/or before the commencement of the lease term, less any incentives received from the lessor at/or before the commencement of the lease, plus initial direct costs that are ancillary to place the asset into service. Lease assets are amortized on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset.

Subscription Assets. Subscription assets are initially recorded at the initial measurement of the subscription liability, plus subscription payments made at/or before the commencement of the subscription-based information technology arrangement (SBITA) term, less any SBITA vendor incentives received from the SBITA vendor at/or before the commencement of the SBITA term, plus capitalizable initial implementation costs. Subscription assets are amortized on a straight-line basis over the shorter of the SBITA term or the useful life of the underlying information technology asset.

Capital, Lease and Subscription Assets Impairment. The University evaluates capital, lease and subscription assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital, lease or subscription asset has occurred. If a capital, lease or subscription asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, the accumulated depreciation or amortization 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 impairment of $2.0 million was recognized during the year ended June 30, 2023.

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 Statement 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 the 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, 2023 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.

Interest Rate Agreements. RBH's asset/liability strategy is to have a mixture of fixed- and variable-rate debt to take advantage of market fluctuations. As part of this strategy, RBH entered into the 2016 interest rate swap agreement (2016 agreement) for its 2016 B bonds. The intention of the swap is to reduce exposure to interest rate fluctuations. The University evaluated the 2016 agreement for effectiveness as of June 30, 2023 under the synthetic instrument method and determined it to be an ineffective hedge, thus it is reported as an investment derivative instrument. RBH has also entered into the 2006 interest rate swap agreement (2006 agreement) that was determined to be an ineffective hedge as the related bonds (hedgeable item) have been retired, thus it is reported as an investment derivative instrument. The agreements with the counterparties are scheduled to end on February 1, 2036 and September 1, 2036, respectively.

As of the June 30, 2023, the 2016 agreement had a fair value of $4.4 million and the 2006 agreement has a fair value of $707 thousand calculated using the par value method, i.e., the fixed and variable rates, respectively, on the swaps were compared with the current fixed rates that could be achieved in the marketplace should the swaps be unwound. The fair value of the agreements of $5.1 million was recognized in long-term liabilities in the Statement of Net Position and was classified within level 2 of the valuation hierarchy. The change in fair value of the interest rate agreements was $1.3 million for the year June 30, 2023 and was recorded in investment income in the Statement of Revenues, Expenses and Changes in Net Position.

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 Statement 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 31% and 42%, respectively, of the System's net patient services revenues before the provision for doubtful accounts for the year ended June 30, 2023. 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 Medicaid payments.The calculation methodology for supplemental payments was adjusted during fiscal year 2020 and is now referred to as Directed Payments. These payments replaced 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 average commercial rate and the rates Medicaid Managed Care Organizations pay for health care services. The 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 2023, access was 90% of the program and quality was 10%. 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 2023 for July through September 2022. A receivable for these dollars has been applied to the third party liability account for fiscal year 2023. Directed Payments of $814.6 million were recognized in net patient service revenue in fiscal year 2023. The Department of Medicaid Services will be refunding the 5% withheld in the near future thus relieving this receivable.

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 $82.0 million for the year ended June 30, 2023. The costs of charity care provided under the System's charity care policy were $24.4 million for the year ended June 30, 2023. 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 $41.9 million for ESH for the year ended June 30, 2023; and $2.2 million for CKRC for the year ended June 30, 2023. 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, 2023 to June 30, 2024.

Income Taxes. The University is an agency and instrumentality of the Commonwealth, pursuant to KRS 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 (IRC) 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 IRC section 501(c)(3). KMSF, UKAA and UKREF are not-for-profit corporations as described in section 501(c)(3) of the IRC.

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 24. During fiscal year 2023, departmental research in non-sponsored accounts of approximately $116.6 million was recorded as research expense in the Statement 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 20.

Pensions and Other Postemployment Benefit (OPEB) Plans. The University has a single-employer defined OPEB benefit, Health Insurance Benefits for Retirees plan and long-term disability plan (LTD). The University also has a single-employer defined benefit retirement plan (Pension Plan) from RBH. For purposes of measuring the net Plan liability (asset), deferred outflows of resources, deferred inflows of resources and Plan expenses, information about the fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions for the pension plan) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Adoption of GASB Statement No. 94. In April 2020, GASB issued Statement No. 94, *Accounting for Public-Private and Public-Public Partnerships and Availability Payment Arrangements,* which provided guidance on accounting and financial reporting for availability payment arrangements (APAs). It defined an APA as an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining or operating an underlying nonfinancial asset for a period in an exchange or exchange-like transaction. The adoption of this statement resulted in no impact on the University's financial statements.

Adoption of GASB Statement No. 96. In May 2020, GASB issued Statement No. 96, *Accounting for Subscription-based Information Technology Arrangements,* which improved the usefulness of financial statements by requiring recognition of information technology subscription-based arrangement assets and liabilities. The University's financial statements now include subscription assets, subscription liabilities and additional components associated with recording subscription assets and subscription liabilities. The adoption of this statement resulted in recording $16.1 million in subscription assets and subscription liabilities as of July 1, 2022.

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

- GASB Statement No. 101, *Compensated Absences*, issued June 2022. The provisions of this statement are effective for fiscal years beginning after December 15, 2023 (fiscal year 2025). It provides guidance for measuring liability for leave that has not been used, generally using an employee’s pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities. With respect to financial statements prepared using the current financial resources measurement focus, it requires that expenditures be recognized for the amount that normally would be liquidated with expendable available financial resources. The University has yet to determine the impact GASB Statement No. 101 will have on its financial statements.

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, as approved by the Investment Committee of the University's Board of Trustees and maintained by the Operating Fund Investment Committee. 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, 2023 is as follows (in thousands):

Statement of Net Position classification		
Deposits		
Current cash and cash equivalents	$	1,525,985
Restricted cash and cash equivalents		252,896
Total deposits		1,778,881
Investments		
Current investments		19,792
Endowment investments		1,888,185
Other long-term investments		921,392
Total investments		2,829,369
Total deposits and investments	$	4,608,250

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 cost, or historical cost 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 Statement of Net Position.

The University has the following valuation measurements, by type, at June 30, 2023 (in thousands):

	Total value	Fair Value Measurement Using: 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)	Amortized or historical cost
Non-endowed deposits and investments							
Cash and cash equivalents	$ 509,044	$ —	$ —	$ —	$ —	$ —	$ 509,044
Cash surrender value of life insurance policies	9,990	—	—	—	—	—	9,990
Certificates of deposit	29,342	—	28,843	—	28,843	—	499
Diversifying strategies[1,3]	44,869	44,864	—	—	44,864	5	—
Deposits with the Commonwealth of Kentucky[2]	14,250	—	—	—	—	—	14,250
Global equity - international	62,332	9,384	943	—	10,327	52,005	—
Global equity - private[3]	261	—	—	—	—	8	253
Global equity - U.S.	113,708	31,813	3,878	—	35,691	78,013	4
Global fixed income - public fixed income[4]	1,875,749	67,092	604,212	—	671,304	103,872	1,100,573
Global fixed income - private credit[3]	1	—	—	—	—	1	—
Guaranteed investment contracts	12,681	—	—	—	—	—	12,681
Other	3	—	—	—	—	—	3
Real assets - private[3]	14,323	—	—	1	1	14,322	—
Real assets - public	33,512	1,803	—	—	1,803	31,709	—
Total non-endowed deposits and investments	2,720,065	154,956	637,876	1	792,833	279,935	1,647,297
Endowed deposits and investments							
Cash and cash equivalents	5,131	—	—	—	—	—	5,131
Diversifying strategies[1,3]	238,173	—	—	—	—	238,173	—
External trusts	14,265	—	—	14,265	14,265	—	—
Global equity - international	311,229	203,336	227	2	203,565	107,664	—
Global equity - private[3]	383,690	—	—	—	—	383,690	—
Global equity - U.S.	452,123	49,109	1,074	—	50,183	401,940	—
Global fixed income - public fixed income	150,489	70,453	64,396	—	134,849	15,640	—
Global fixed income - private credit[3]	70,990	—	—	—	—	70,990	—
Other	1	—	1	—	1	—	—
Real assets - private[3]	230,677	—	—	36,986	36,986	193,691	—
Real assets - public	31,417	6,346	57	—	6,403	25,014	—
Total endowed deposits and investments	1,888,185	329,244	65,755	51,253	446,252	1,436,802	5,131
Total deposits and investments	$ 4,608,250	$ 484,200	$ 703,631	$ 51,254	$ 1,239,085	$ 1,716,737	$ 1,652,428

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) Real assets - private includes alternative investments whose fair market value is measured using its net asset value as of December 31, 2022 of $393 thousand. Diversifying strategies, 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, 2023 of $30.9 million, $383.7 million, $43.5 million and $193.3 million, respectively. Global fixed income - private credit includes alternative investments whose fair market value is measured using level 3 unobservable inputs as of March 31, 2023 of $37.0 million.
4) Non-endowed global fixed income - public fixed income includes deposits and investments in the Commonwealth's limited pool and intermediate pool funds. As of June 30, 2023, $1.10 billion was held in the Commonwealth's limited-term investment pool and $174.3 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.

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, 2023 are as follows (in thousands):

		Redemption Frequency/Notice Period						
	Net asset value (NAV)	Daily, weekly/ 1 - 7 days	Semi-monthly, monthly/ 15 - 30 days	Quarterly/ 45 - 90 days	Semi-annually/ 60 - 180 days	Annually/ 360 days	End of term/ 5 to 10 years	Unfunded commitments
Diversifying strategies	$ 238,178	$ 17,443	$ 45,327	$ 98,345	$ 19,185	$ 18,811	$ 39,067	$ 2,283
Global equity - international	159,669	52,004	89,162	12,843	—	5,660	—	—
Global equity - private	383,698	—	—	—	—	—	383,698	242,254
Global equity - U.S.	479,953	442,837	37,116	—	—	—	—	—
Global fixed income - public fixed income	119,512	103,872	15,640	—	—	—	—	—
Global fixed income - private credit	70,991	—	—	—	—	—	70,991	3,671
Real assets - private	208,013	—	—	14,318	—	—	193,695	67,527
Real assets - public	56,723	31,709	14,521	10,493	—	—	—	—
Total measured at net asset value	$1,716,737	$ 647,865	$ 201,766	$ 135,999	$ 19,185	$ 24,471	$ 687,451	$ 315,735

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 Statement 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 B and a minimum commercial paper quality of A3/P3. Issuer quality below BBB is limited to 10% and a minimum A- portfolio average quality is maintained. The low duration strategies have been classified as global fixed income - public fixed income in the note 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, 2023, the credit quality of the University's fixed income investments is summarized below (in thousands):

	S&P/Moody's Credit Ratings							
	AAA/Aaa	AA/Aa	A	BBB/Baa	Below BBB/Baa	Not rated	Rating not applicable	Total
Non-endowed deposits and investments								
Cash and cash equivalents	$ 413,831	$ —	$ —	$ —	$ —	$ 95,213	$ —	$ 509,044
Certificates of deposit	—	—	—	—	—	29,342	—	29,342
Global fixed income - public fixed income	120,719	51,140	113,255	61,552	2,461	1,448,549	78,073	1,875,749
Global fixed income - private credit	—	—	—	—	—	1	—	1
Guaranteed investment contracts	—	364	—	—	—	12,317	—	12,681
Total non-endowed fixed income investments	534,550	51,504	113,255	61,552	2,461	1,585,422	78,073	2,426,817
Endowed deposits and investments								
Cash and cash equivalents	4,691	—	—	—	—	440	—	5,131
Global fixed income - public fixed income	59,821	223	8,223	6,223	1,445	29,389	45,165	150,489
Global fixed income - private credit	—	—	—	—	—	70,990	—	70,990
Total endowed fixed income investments	64,512	223	8,223	6,223	1,445	100,819	45,165	226,610
Total fixed income investments	$ 599,062	$ 51,727	$121,478	$ 67,775	$ 3,906	$ 1,686,241	$ 123,238	$ 2,653,427

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 - public fixed income investments whose fair market value was $1.27 billion as of June 30, 2023, 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.

As of June 30, 2023, there were $7.8 million of cash and cash equivalents held by component units of the University by various financial institutions that were exposed to custodial credit risk. These balances were uninsured or uncollateralized.

<u>Concentrations of Credit Risk.</u> 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 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. Additionally, no single issuer, with the exception of government and agency issuers, shall exceed three percent of the portfolio at purchase and high yield issuers may not exceed one percent 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. Specific mortgage pools and trusts are considered separate issuers and each tranche within a collateralized mortgage obligation is considered a separate issue;
    - issuer quality below BBB at 10%;
    - non-U.S. dollar denominated at 30% excluding money market securities and money market futures;
    - emerging markets at five percent and
    - foreign currency exposure at five percent.
- 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 core-plus fixed income manager is 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, 2023, 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 a duration of less than three years.
- Short/intermediate-term investments managed by the University are limited to a maximum duration of five years, intermediate/long-term investments managed by the University are limited to a maximum duration of 10 years, 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 investments 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 one year.
- 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, the University's actively managed core-plus fixed income portfolio manager is limited to a duration that is within two years of the duration of the Barclays U.S. Aggregate Bond Index. Unconstrained fixed income strategies have been implemented to further mitigate interest rate risk.

For June 30, 2023, the maturity distribution of the University's fixed income investments is summarized below (in thousands):

	Maturities in Years						
	Less than 1	1-5	5-10	Greater than 10	Managed based on duration	Alternative strategy[1]	Total
Non-endowed deposits and investments							
Cash and cash equivalents	$ 509,044	$ —	$ —	$ —	$ —	$ —	$ 509,044
Certificates of deposit	23,405	5,937	—	—	—	—	29,342
Global fixed income - public fixed income	38,736	70,235	3,588	23	1,763,167	—	1,875,749
Global fixed income - private credit[1]	—	—	—	—	—	1	1
Guaranteed investment contracts	—	12,681	—	—	—	—	12,681
Total non-endowed fixed income investments	571,185	88,853	3,588	23	1,763,167	1	2,426,817
Endowed deposits and investments							
Cash and cash equivalents	5,131	—	—	—	—	—	5,131
Global fixed income - public fixed income	—	—	—	—	150,489	—	150,489
Global fixed income - private credit[1]	—	—	—	—	—	70,990	70,990
Total endowed fixed income investments	5,131	—	—	—	150,489	70,990	226,610
Total fixed income investments	$ 576,316	$ 88,853	$ 3,588	$ 23	$ 1,913,656	$ 70,991	$ 2,653,427

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

At June 30, 2023, the University had the following investments managed based on duration (in thousands):

	Fair Value	Modified Duration (Years)
Non-endowed deposits and investments		
Global fixed income - public fixed income		
415(m) matching plan	$ 5,881	7.0
UKAA	228	6.7
Commonwealth of Kentucky intermediate pool	174,291	1.0
Commonwealth of Kentucky limited pool	1,100,572	0.1
Externally managed low duration strategy funds	314,615	1.0
KMSF	4,530	4.3
KTI	434	4.7
Royal Blue Health	145,663	4.7
Insure Blue	16,953	3.0
Total non-endowment investments	1,763,167	
Endowed deposits and investments		
Global fixed income - public fixed income	150,489	6.6
Total endowment investment	150,489	
Total managed based on duration	$ 1,913,656	

The University acquired $386.5 million and $20.5 million from the acquisition of RBH and IB, respectively, in fiscal year 2023.

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. One of the University's low duration strategies allows for non-U.S. dollar denominated securities limited to 30% excluding money market securities and money market futures. Within the same portfolio, foreign currency exposure is limited to five percent with any currency hedging requirements met through either hedged cash bond exposure or a combination of forward and derivative positions coupled with a long currency position in the same currency. The value of these investments included in the following table was $30.8 million as of June 30, 2023 and the fair market value of the hedges related to those investments was $1.6 million as of June 30, 2023. 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, 2023, the following endowment and operating investments were subject to foreign currency risk (in thousands):

	Fair Value
Global equity - international	$ 2
Global equity - private	3,742
Global fixed income - public fixed income	30,843
Real assets - private	1,396
Total	$ 35,983

3. NOTES, LOANS, LEASES AND ACCOUNTS RECEIVABLE, NET

Notes, loans, leases and accounts receivable as of June 30, 2023 is as follows (in thousands):

	Gross Receivable	Allowance	Net Receivable
Accrued interest receivable	$ 2,121	$ —	$ 2,121
Commonwealth funded capital projects	88,962	—	88,962
Dentistry patient accounts (net of contractual allowances)	2,680	(62)	2,618
Hospital patient accounts (net of contractual allowances)	652,333	(112,430)	539,903
Hospital third-party payer settlements	482,603	—	482,603
KMSF patient accounts (net of contractual allowances)	57,095	(23,950)	33,145
Leases receivable	1,296	—	1,296
Medical Group third-party payer settlements	49,518	—	49,518
Multimedia rights receivable	225,914	—	225,914
Pledges receivable (less discounts of $25,217)	171,158	(26,454)	144,704
Reimbursement receivable - federal appropriations	2,452	—	2,452
Reimbursement receivable - grants and contracts	60,361	(370)	59,991
Service concession arrangements	43,976	—	43,976
Student accounts	36,753	(18,147)	18,606
Student loans	16,547	(1,868)	14,679
Other	33,392	(9)	33,383
Total	$ 1,927,161	$ (183,290)	$ 1,743,871
Current portion			$ 1,277,855
Noncurrent portion			466,016
Total			$ 1,743,871

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 year ended June 30, 2023, 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 $373.7 million at June 30, 2023. The University records these amounts as revenue when the cash is received.

The University leases a portion of its property to various third parties, the terms of which expire 2024 through 2080. Payments are constant based on the individual contract terms and conditions. Leases receivable and deferred inflows of resources are reported at the present values using the University's implicit interest rate unless otherwise noted in the contract terms. Leases receivable are reported in notes, loans, leases and accounts receivable, net. The amortization of the discount for lessor contracts is recorded as accrued interest receivable in notes, loans, leases and accounts receivable, net current in the Statement of Net Position and recorded as interest income in the Statement of Revenues, Expenses and Changes in Net Position.

Revenue recognized under lease contracts during the year ended June 30, 2023 was $118 thousand, which includes both lease revenue and interest income.

4. CAPITAL, LEASE AND SUBSCRIPTION ASSETS, NET

Capital assets as of June 30, 2023 and capital asset activity for the year ended June 30, 2023 are summarized below (in thousands):

	June 30, 2022	Additions	Deletions	June 30, 2023
Land	$ 105,975	$ 38,763	$ 84	$ 144,654
Land improvements - nonexhaustible	92,792	2,501	—	95,293
Land improvements - exhaustible	153,886	18,424	—	172,310
Buildings	4,128,039	405,342	5,031	4,528,350
Fixed equipment - communications	187,395	5,298	—	192,693
Infrastructure	151,685	8,716	—	160,401
Equipment	729,770	150,958	32,620	848,108
Vehicles	23,693	2,788	1,674	24,807
Library materials	149,785	801	826	149,760
Nondepreciable library materials	8,090	130	—	8,220
Capitalized software	291,899	1,467	—	293,366
Art	16,071	137	—	16,208
Certificate of need	11,609	116	—	11,725
Intangible assets	100	—	—	100
Construction in progress	131,438	173,745	109,896	195,287
Total	6,182,227	809,186	150,131	6,841,282
Accumulated Depreciation				
Land improvements - exhaustible	108,536	9,617	84	118,069
Buildings	1,473,195	125,321	5,031	1,593,485
Fixed equipment - communications	129,537	10,267	—	139,804
Infrastructure	69,871	5,970	—	75,841
Equipment	522,566	64,484	30,291	556,759
Vehicles	19,027	1,735	1,051	19,711
Library materials	147,249	713	—	147,962
Capitalized software	183,191	14,767	—	197,958
Intangible assets	80	20	—	100
Total	2,653,252	232,894	36,457	2,849,689
Capital assets, net	$ 3,528,975	$ 576,292	$ 113,674	$ 3,991,593

At June 30, 2023, the University had commitments for capital projects currently underway in which the total budgeted costs were $1.51 billion. Of this amount, $1.37 billion remain to be incurred not including RBH. Such construction was principally financed by cash reserves, gifts and grants, and proceeds from the University's general receipts bonds. Additionally, RBH had capital expenditure commitments of approximately $21.6 million related to construction contracts.

During fiscal year 2023, the University utilized capital financing to acquire various capital assets. As of June 30, 2023, the net book value of land, buildings and software acquired through capital financing included in the above schedule totaled $88.1 million.

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. On July 18, 2022 Phase II was finalized. In Phase II, the University took ownership of additional campus streets at a value of $12.0 million in exchange for 199 acres of the Coldstream property, which had a historical booked value of $232 thousand, for a gain of approximately $11.8 million.

On December 1, 2022, the University obtained $395.9 million of capital assets, net from the acquisition of RBH.

Lease assets as of June 30, 2023 and lease asset activity for the year ended June 30, 2023 are summarized below (in thousands):

	June 30, 2022	Additions	Deletions	June 30, 2023
Buildings	$ 28,538	$ 32,157	$ 3,435	$ 57,260
Equipment	24,351	16,976	121	41,206
Vehicles	697	—	697	—
Total	53,586	49,133	4,253	98,466
Accumulated Amortization				
Buildings	5,313	10,471	1,903	13,881
Equipment	2,381	13,640	121	15,900
Total	7,694	24,111	2,024	29,781
Lease assets, net	$ 45,892	$ 25,022	$ 2,229	$ 68,685

The additions from the acquisition of RBH were $21.8 million.

Subscription assets as of June 30, 2023 and subscription asset activity for the year ended June 30, 2023 are summarized below (in thousands):

	July 1, 2022	Additions	Deletions	June 30, 2023
Subscription assets	$ 16,134	$ 24,698	$ —	$ 40,832
Accumulated amortization	—	9,135	—	9,135
Subscription assets, net	$ 16,134	$ 15,563	$ —	$ 31,697

The University adopted GASB Statement No. 96 and recorded its subscription assets of $16.1 million as of July 1, 2022 and the additions from the acquisition of RBH were $14.0 million.

5. DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources as of June 30, 2023 are as follows (in thousands):

OPEB long-term disability	$ 5,742
OPEB retiree health	15,379
Pension plan	13,508
Refunding bonds	2,628
Total	$ 37,257

Deferred outflows of resources from the pension plan are more fully described in note 17. Deferred outflows of resources from OPEB plans are more fully described in notes 18 and 19.

Deferred outflows of resources from refunding bonds represents the difference between the reacquisition price and net carrying amount of refunded debt with 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 $1.0 million for fiscal year 2023.

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2023 are as follows (in thousands):

Payable to vendors and contractors	$ 279,698
Accrued expenses, including vacation and sick leave	215,943
Accrued interest payable	15,623
Employee withholdings and deposits payable to third parties	22,450
Total	$ 533,714

7. UNEARNED REVENUE

Unearned revenues as of June 30, 2023 and unearned revenue activity for the year ended June 30, 2023 are summarized below (in thousands):

	June 30, 2022	Additions	Reductions	June 30, 2023	Current Portion	Noncurrent Portion
Unearned summer school revenue	$ 13,640	$ 13,111	$ 13,640	$ 13,111	$ 13,111	$ —
Unearned hospital revenue	37,394	36,613	21,029	52,978	52,978	—
Unearned grants and contracts revenue	42,902	103,795	99,425	47,272	45,259	2,013
Unearned multimedia rights revenue	233,268	18,830	43,366	208,732	19,243	189,489
Athletic ticket sales and contracts	15,117	32,770	32,349	15,538	15,367	171
Other	6,416	26,411	26,776	6,051	5,787	264
Total	$ 348,737	$ 231,530	$ 236,585	$ 343,682	$ 151,745	$ 191,937

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 modification to add Rupp Arena media rights of $67.5 million was singed in July 2018, which increased the total amount to be received to $329.0 million. A modification in November 2020 extended the contract for an additional year. A modification in June 2022 to provide relief to JMI from the impact of COVID-19 pandemic restriction allowed JMI to reduce the fiscal year 2021-22 guaranteed rights fee payment by $3.0 million and pay this amount back in equal amounts each year for ten years with interest. A modification in June 2023 allowed JMI to reduce the guaranteed rights fee amount over the life of the contract by $5.5 million and instead contribute funds for the construction of space in Rupp Arena for a state-of-the-art studio and control rooms to be used by the University. The modifications to the original contract resulted in a total guaranteed rights fee of $349.6 million to be received through the end of the contract in fiscal year 2033-34.

8. LONG-TERM LIABILITIES

Long-term liabilities as of June 30, 2023 and long-term liability activity for the year ended June 30, 2023 are summarized below (in thousands):

	July 1, 2022	Additions	Reductions	June 30, 2023	Current Portion	Noncurrent Portion
Bonds, notes and capital debt						
General receipts bonds	$ 974,635	$ 166,285	$ 129,835	$ 1,011,085	$ 49,110	$ 961,975
Revenue bonds	—	145,245	5,715	139,530	5,545	133,985
Capital financed obligations	47,040	—	3,140	43,900	3,265	40,635
Capital debt obligations	63,113	7,452	5,650	64,915	6,270	58,645
Notes payable	7,738	2,701	1,747	8,692	2,051	6,641
Total	1,092,526	321,683	146,087	1,268,122	66,241	1,201,881
Notes and leases from direct borrowings and direct placements						
Revenue bonds	—	92,767	1,982	90,785	2,899	87,886
Notes payable	15,702	—	598	15,104	625	14,479
Total	15,702	92,767	2,580	105,889	3,524	102,365
Total bonds, notes and capital debt	1,108,228	414,450	148,667	1,374,011	69,765	1,304,246
Other liabilities						
Annuities payable	2,760	126	262	2,624	371	2,253
Automobile and property self insurance	56	133	168	21	21	—
Compensated absences	4,758	336	—	5,094	845	4,249
Federal loan programs	13,094	758	3,298	10,554	—	10,554
Health insurance	13,881	69,743	67,896	15,728	15,728	—
Insurance executory costs	16,934	—	253	16,681	253	16,428
Medical malpractice	28,052	31,415	23,372	36,095	5,333	30,762
Lease obligations	43,377	48,030	21,104	70,303	20,460	49,843
Subscription obligations	16,134	24,698	12,679	28,153	11,514	16,639
Interest rate swap agreements	—	8,628	3,504	5,124	—	5,124
Unamortized bond premium	37,429	6,895	8,225	36,099	—	36,099
Unemployment compensation	339	590	710	219	219	—
Workers' compensation	15,963	3,801	4,211	15,553	5,626	9,927
Other	21,436	32,243	5,757	47,922	1,090	46,832
Total other liabilities	214,213	227,396	151,439	290,170	61,460	228,710
Total	$ 1,322,441	$ 641,846	$ 300,106	$ 1,664,181	$ 131,225	$ 1,532,956

The July 1, 2022 balances were revised to reflect $31.9 million of capital financed obligations, rather than as direct placement revenue bonds.

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 8.8%.

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 $1.91 billion dated November 24, 2009 through October 24, 2022, 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. Other capital debt obligations are due in periodic installments through May 1, 2049 and bear interest at 2.1% to 4.3%. All bonds, except for the General Receipts 2009 Bonds Series B, General Receipts 2012 Bonds Series A, General Receipts 2017 Bonds Series A and B, General Receipts 2018 Bonds Series B, General Receipts 2019 Bonds Series A, General Receipts 2020 Bonds Series B, General Receipts 2022 Bonds Series A and General Receipts 2022 Bonds Series C, totaling $1.11 billion, are callable between now and April 2032. 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 September 6, 2022, approximately $90.7 million University of Kentucky General Receipts Bonds 2022 Series B and C were issued at a net interest cost of 3.6% and 3.5%, respectively. These bonds were issued for the purpose of funding campus modernization and asset preservation projects.

On October 24, 2022, the University issued $75.6 million of General Receipts 2022 Bonds Series D with an average interest rate of 3.4% percent to advance refund $75.3 million of outstanding General Receipts 2014 Bonds Series A maturing in years 2028 to 2030 and 2032 to 2038 with an average interest rate of 3.8%. The net proceeds of $75.5 million (after payment of $121 thousand in issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded General Receipts 2014 Bonds Series A. As a result, the General Receipts 2014 Bonds Series A maturing in 2028 to 2030 and 2032 to 2038 are considered to be defeased and the liability for those bonds has been removed from the University’s Statement of Net Position.The refunding portion of these bonds will reduce the University's total debt service payments over the next 15 years by approximately $8.3 million, representing an economic gain of approximately $6.5 million.

On December 1, 2022, the University acquired RBH via member substitution and the University assumed a total debt obligation of $239.9 million at the time of acquisition. RBH had Revenue Bonds Series 2016 A and B, Revenue Bonds Series 2019 and Revenue Bonds Series 2022. These bonds are secured by a security interest in the gross receipts of RBH and a first lien Mortgage and Security interest in mortgaged property. Payments of bond principal on the Revenue Bonds Series 2019 are also secured by an insurance policy issued by a commercial insurer. These bonds have an original amount of $261.9 million dated September 23, 2016 through September 22, 2022, which bear interest at 3.0% to 3.9%. The bonds are payable in annual installments through February 1, 2052. All bonds are callable on February 1, 2030, except for the Series 2016 A which is callable on February 1, 2026.

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 (QECB) 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% (QECB) of the interest payable on the bonds. The subsidy, which was approximately $2.0 million for fiscal year 2023, was included in gifts and non-exchange grants in the Statement 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% and the QECB subsidy was reduced to approximately 75% in fiscal year 2023.

The University's General Receipts 2019 Bonds Series A and B, Certificates of Participation, 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 $30.5 million as of June 30, 2023.

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 $15.1 million as of June 30, 2023.

The RBH Revenue Bonds Series 2016B and Series 2022 are from direct placements, which are secured by a security interest in the gross receipts of RBH and a first lien mortgage and security interest in mortgaged property.

Under the term of the Master Trust Indenture, there are limits on the incurrence of additional borrowing and requirements of certain measures of financial performance to be maintained as long as the bonds are outstanding for the Revenue Bonds Series 2022.

Kings Daughters health system has a line of credit with a bank in the amount of $15.0 million. The borrowings on the line bear interest at the Adjusted Term Secured Overnight Financing Rate (SOFR) rate per annum (2.96% at June 30, 2023). King's Daughters health system did not have borrowings under the line as of June 30, 2023. The line of credit has a maturity date of March 25, 2025.

Other long-term liabilities acquired by RBH totaled $59.1 million which included lease obligations of $21.8 million, medical malpractice of $16.6 million, subscription obligations of $14.0 million, interest rate swap agreements of $6.4 million and other long-term liabilities of $192 thousand.

Principal maturities and interest on bonds, notes and capital debt obligations for the next five fiscal years and in subsequent five-year fiscal periods as of June 30, 2023, are as follows (in thousands):

			Notes and capital financed obligations from direct borrowings and direct placements		
	Principal	Interest	Principal	Interest	Total
2024	$ 66,241	$ 51,120	$ 3,524	$ 4,046	$ 124,931
2025	78,667	47,342	3,771	3,888	133,668
2026	65,802	44,332	3,922	3,729	117,785
2027	68,471	41,455	4,062	3,564	117,552
2028	68,572	38,524	4,217	3,398	114,711
2029-2033	301,245	156,711	33,700	13,039	504,695
2034-2038	312,937	95,046	23,498	6,389	437,870
2039-2043	232,387	36,709	9,055	3,766	281,917
2044-2048	72,020	5,335	10,510	2,309	90,174
2049-2052	1,780	56	9,630	638	12,104
Total	$ 1,268,122	$ 516,630	$ 105,889	$ 44,766	$ 1,935,407

The University leases buildings and equipment, the terms of which expire in various years through 2033. The lease liabilities are reported at net present value using the University's incremental borrowing rate unless otherwise noted in the contract term.

Principal and interest on lease obligations for the next five fiscal years and in subsequent five-year fiscal periods as of June 30, 2023, are as follows (in thousands):

	Principal	Interest	Total
2024	$ 20,460	$ 1,891	$ 22,351
2025	17,033	1,295	18,328
2026	14,602	807	15,409
2027	7,525	444	7,969
2028	5,505	254	5,759
2029-2033	5,178	240	5,418
Total	$ 70,303	$ 4,931	$ 75,234

The University leases software subscriptions, the terms of which expire in various years through 2028. The University adopted GASB Statement No. 96 and recorded subscription liabilities of $16.1 million as of July 1, 2022. The subscription liabilities are reported at net present value using the University's incremental borrowing rate unless otherwise noted in the contract term.

Principal and interest on subscription liabilities for the next five fiscal years as of June 30, 2023, are as follows (in thousands):

	Principal	Interest	Total
2024	$ 11,514	$ 663	$ 12,177
2025	8,333	398	8,731
2026	4,984	185	5,169
2027	3,293	68	3,361
2028	29	—	29
Total	$ 28,153	$ 1,314	$ 29,467

9. DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources as of June 30, 2023 are as follows (in thousands):

Aramark service concession arrangement	$ 85,709
Barnes and Noble service concession arrangement	2,267
Forward delivery agreement	2,464
Greystar service concession arrangement	359,682
Lessor contracts	2,665
OPEB long-term disability	4,836
OPEB retiree health	59,903
Gain on refunded bonds	2,412
Trusts and annuities	16,826
Total	$ 536,764

The University 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 capital assets with a carrying value of $286.0 million at June 30, 2023, and deferred inflows of resources in the amount of $274.2 million at June 30, 2023, 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 Lewis Honors College. These residence halls are reported as capital assets with a carrying value of $99.8 million at June 30, 2023, and deferred inflows of resources in the amount of $85.5 million at June 30, 2023, 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 Phase 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 capital assets with a carrying value of $40.5 million at June 30, 2023, and deferred inflows of resources in the amount of $34.0 million at June 30, 2023, pursuant to the service concession arrangement. The present value of the guaranteed minimum payments over the remaining 16 years of the contract is reported as a receivable of $43.76 million and deferred inflows of resources in the amount of $51.7 million pursuant to the service concession arrangement at June 30, 2023.

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 bookstore is reported as a capital asset with a carrying value of $2.9 million at June 30, 2023, and deferred inflows of resources in the amount of $1.76 million at June 30, 2023, pursuant to the service concession arrangement. The present value of the guaranteed minimum payments over the remaining seven years is reported after the contract period as a receivable of $219,290 and deferred inflows of resources in the amount of $507,799 pursuant to the service concession arrangement as of June 30, 2023.

Deferred inflows for leases receivable is more fully described in note 3. As of June 30, 2023, the deferred inflows for leases of University property to various third parties were $2.7 million and amortized on a straight line basis according to the contract terms.

As of June 30, 2023, the beneficial interests from trusts and annuities that the University will receive in the future years of $16.8 million were recorded in deferred inflows of resources.

As of June 30, 2023, 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 $59.9 million, and the corresponding amounts for the LTD Plan were $4.8 million.

As of June 30, 2023, the deferred inflows of resources from the gain on refunded bonds was $2.4 million. This consists of General Receipts 2022 Bonds Series D issued October 24, 2022. Amortization of the deferred inflows of resources from this refunding bond was $161 thousand for fiscal year 2023.

The University entered into a bond purchase agreement with Morgan Stanley on February 17, 2021, granting Morgan Stanley the option to purchase the General Receipts 2022 Bonds Series A in the future, which refunded General Receipts 2014 Bonds Series B. Upon the closing date on February 23, 2021, the University received $3.2 million from Morgan Stanley as a forward delivery agreement, representing the net present value savings of the refunding. As of June 30, 2023, the deferred inflows for the net present value savings of these refunding bonds were $2.5 million.

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, 2023, restricted expendable net position is composed of the following (in thousands):

Appreciation on permanent endowments	$	339,904
Term endowments		10,603
Quasi-endowments initially funded with restricted assets		272,150
Funds restricted for capital projects and debt service		251,332
Funds restricted for noncapital purposes		123,923
Loan funds (primarily University funds required for federal match)		12,134
Total	$	1,010,046

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, 2023 are as follows (in thousands):

Working capital requirements	$	92,390
Designated for future year fiscal operations		110,664
Designated for OPEB liability (see notes 18 and 19)		(90,172)
Designated for pension liability (see note 17)		3,581
Designated for capital projects		52,507
Designated for renewal and replacement of capital assets		64,478
UK HealthCare Hospital System		3,145,939
Affiliated corporations and component units		189,263
Total	$	3,568,650

12. PLEDGED REVENUES

Pledged revenues for the year ended June 30, 2023 as defined by the General Receipts Trust Indenture are as follows (in thousands):

Student tuition and fees	$	387,631
Nongovernmental grants and contracts		1,075
Recoveries of facilities and administrative costs		93,470
Sales and services		84,156
Hospital services		3,143,419
Auxiliary enterprises - housing and dining		36,733
Auxiliary enterprises - athletics		127,931
Auxiliary enterprises - other		53,787
Other operating revenue		1,157
State appropriations		319,235
Gifts and grants		3,168
Investment income		72,689
Total	$	4,324,451

The University has substantially pledged all of the unrestricted operating and nonoperating revenues to repay the general receipts bonds and capital debt obligations issued from 2009 to 2022. Proceeds from the bonds and capital debt obligations 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 two percent of pledged revenue. The total principal and interest remaining to be paid on the bonds is approximately $1.48 billion at June 30, 2023. Principal and interest paid for fiscal year 2023 was $97.9 million.

13. INVESTMENT INCOME

Components of investment income for the year ended June 30, 2023 are as follows (in thousands):

Interest and dividends earned on endowment investments	$	23,927
Realized and unrealized gains on endowment investments		111,334
Interest and dividends on cash and non-endowment investments		60,614
Realized and unrealized gains on non-endowment investments		23,437
Investment income from external trusts		2,723
Total	$	222,035

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 year ended June 30, 2023, the University received income from these trusts of approximately $2.3 million. The market value of the perpetual external trust assets as of June 30, 2023 was approximately $46.5 million. 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 year ended June 30, 2023, the University received income from these trusts of approximately $423 thousand. The market value of the irrevocable external trust assets as of June 30, 2023 was approximately $14.3 million 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 year ended June 30, 2023, the University received income from these self-administered trusts of approximately $101 thousand. The market value of the self-administered trusts as of June 30, 2023 was approximately $1.9 million and is included in endowment investments.

15. GRANTS AND CONTRACTS AWARDED

At June 30, 2023, grants and contracts of approximately $391.3 million 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 (Plan), a defined contribution plan. The 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 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.

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 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 year 2023 was approximately $165.0 million. Employees contributed approximately $82.8 million in fiscal year 2023. The University's total payroll costs were approximately $2.12 billion for the year ended June 30, 2023. The payroll for employees covered by the retirement plan was approximately $2.10 billion for the year ended June 30, 2023.

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 employee contributions are optional. KMSF contributions for 2023 were approximately $1.1 million. The total payroll costs for employees covered by the defined contribution plan were approximately $10.4 million for the year ended June 30, 2023. Participants become vested after one year of service.

The King's Daughters Medical Center's Base Contribution Plan and RBH Matching Contribution Plan were established to cover substantially all employees employed subsequent to December 31, 1992, (except for collectively bargained employees at that time) who qualify as to age and length of service and those employees who were participants in the defined benefit plan and qualify as to length of service, but as of January 1, 2011 elected to become a limited participant in the defined benefit plan and an active participant in the defined contribution plans. Effective January 1, 2011, employees subject to collective bargaining may participate in the Base and Matching Plans. The contributions are three percent of the participants' compensation for the Base Plan and 50% of eligible participant contributions up to three percent of the employee's contribution for the Matching Plan, unless such contributions are suspended or terminated. King's Daughters health system contributions were approximately $9.8 million to the Plans for the period from December 1, 2022, through the fiscal year ended June 30, 2023.

17. PENSION PLAN

On December 1, 2022, the University acquired RBH through member substitution and assumed the obligation of the King's Daughters Medical Center retirement plan (Pension Plan or Plan).

RBH contributes to the King's Daughter Medical Center retirement plan a single-employer plan covering substantially all employees employed January 1, 2011 and prior. The Pension Plan is administered by the governing board of RBH. Benefit provisions are contained in the plan document and were established and can be amended by action of RBH's governing body. The Pension Plan issues publicly available financial statements and required disclosures through December 31, 2022 which can be obtained at www.efast.dol.gov/5500search/.

The Pension Plan provides retirement and death benefits to plan members and their beneficiaries. Normal retirement benefits for participants 65 years or older are calculated as a monthly benefit equal to the greater of 0.75 percent of the first $650 of their average monthly earnings plus 1-1/4 percent of the excess of their average monthly earnings over $650, all multiplied by years of credited service, to a maximum of 35 years plus 1-1/4 percent of average monthly earnings times credited service in excess of 35 years. Earnings used in the benefit formula cannot exceed $230 thousand indexed as provided by law or a dollar amount multiplied by years of credited service. Early retirement benefits for participants 55 or older and 10 years of service as the normal retirement benefit reduced by 1/300th for each month by the which the commencement date of benefits precedes normal retirement date. Late retirement benefits for participants that are employed beyond age 70 ½ are calculated as the greater of earnings and credited service as of the actual retirement date or the normal retirement benefit increased actuarially to their late retirement date. Death benefits are equal to 50% of the participant's accrued benefits. If a participant has attained age 55 and completed 10 years of service, the death benefit payable to their spouse is equal to one half of the benefit payable if the participant had elected to retire the day they died and chosen the joint and one-half to spouse form of payment. If a participant dies prior to attaining age 55 but after completing five years of service, his spouse (if any) is entitled to a benefit commencing at the time the participant could have retired, if still living, and equal to 50% of the qualified joint and 50% survivor benefit payable at retirement.

Effective January 1, 2011, a plan amendment was approved to freeze the benefit accruals in the plan. New employees since the amendment date have not been eligible to participate.

For Plan reporting purposes, GASB Statement No. 67, *Financial Reporting for Pension Plans*, measures net pension liability as of December 31, 2022 for fiscal year 2023. For employer reporting purposes, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, measures net pension liability as of

December 31, 2022 for fiscal year 2023. The following note disclosure is presented in order to comply with GASB Statement No. 67 and GASB Statement No. 68.

The net pension liability was measured as of December 31, 2022 for the period from December 1, 2022 through June 30, 2023. The total pension liability used to calculate the net pension liability was determined using an actuarial valuation as of January 1, 2021 and rolled forward to December 31, 2022 using the following actuarial assumptions as of December 31, 2022:

Inflation	N/A
Salary increases	N/A
Investment rate of return	5.25% net of pension plan investment expense

Mortality rates were based on the Pri-2012 employee and retiree tables, no collar. For surviving beneficiaries of deceased participants: Pri-2012 contingent survivor mortality table. All tables include generational projection based on SOA Scale Mortality Projection-2021.

The actuarial assumptions used in the June 30, 2023 valuation was based on the results of an actuarial experience study for the period January 1, 2022 through December 31, 2022.

The members covered by the Plan at December 31, 2022 are as follows:

Inactive members or beneficiaries currently receiving benefits	669
Inactive members entitled to but not yet receiving benefits	279
Active plan members	290
Total plan members	1,238

The Plan legally invests in direct obligations and other obligations guaranteed as to principal by the U.S. Treasury, U.S. agencies and instrumentalizes, bank repurchase agreements, corporate bonds, equity securities, money market mutual funds, mutual funds and collective investment funds.

The fair value of deposits and investments, by Statement of Fiduciary Net Position classification, at June 30, 2023 is as follows (in thousands):

Statement of Fiduciary Net Position classification		
Cash and cash equivalents	$	1,147
Investments		52,502
Total deposits and investments	$	53,649

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. See footnote 2 for a description of the framework used to measure fair value.

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 Statement of Fiduciary Net Position.

The Pension Plan has the following valuation measurements, by type, at June 30, 2023 (in thousands):

		Fair Value Measurement Using			
	Total value	Quoted prices in active markets for identical assets (Level 1)	Total measured at fair value	Net asset value (NAV)	Amortized or historical cost
Cash and cash equivalents	$ 1,147	$ —	$ —	$ —	$ 1,147
Diversifying strategies	2,268	—	—	2,268	—
Global equity - international	6,569	—	—	6,569	—
Global equity - U.S.	9,854	—	—	9,854	—
Global fixed income - public fixed income	30,143	30,143	30,143	—	—
Real assets - private	1,960	—	—	1,960	—
Real assets - public	1,708	—	—	1,708	—
Total deposits and investments	$ 53,649	$ 30,143	$ 30,143	$ 22,359	$ 1,147

The pension 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 Statement of Fiduciary Net Position.

The trustee of the pension 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, 2023, the pension 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. See note 2 for a description of credit, interest rate, foreign currency and concentration of credit risks.

For the year ended June 30, 2023, the annual money-weighted rate of return on the Plan investments, net of Plan investment expense, was (19.17%). 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 pension plan investments was determined using a building-block approach considering the Plan's long-term inflation assumption of 2.5%, the Plan's target asset allocation, long-term real rate of return for each asset class and net of assumed investment expenses.

The target allocation and real rate of return for both the University and Plan for each major asset class are summarized in the following table:

	Target Allocation	Long-Term Expected Real Rate of Return (Geometric)
Asset Class		
Fixed income	55%	3.0%
Global equity	32%	5.9%
Hedged equity	5%	2.4%
Inflation sensitive assets	8%	2.1%
Total	100%	

The discount rate is based on the expected rate of return on pension plan investments (net of investment expenses) of 5.25% and a municipal bond rate of 3.72%. Considering the Plan's contribution history in the most recent five-years, as well as our professional judgment that at a non-ERISA Plan, the Plan will formulate a contribution policy to target full funding, the pension plan's fiduciary net position and future contributions are projected to be sufficient to finance the future benefit payments of the current plan members for all projection years. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of the projected benefit payments to determine the total pension liability.

RBH's governing body has the authority to establish and amend the contribution requirements and definition of active employees. The governing body establishes rates based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. RBH is required to contribute the actuarially determined rate. The employees may not make contributions to the Plan. For the period from December 1, 2022, through June 30, 2023, the University's contribution was $0.

Changes in the total pension liability, plan fiduciary net position and the net pension liability for the University and Plan at June 30, 2023 are as follows (in thousands):

	Increase (decrease)		
	Total Pension liability (asset)	Plan fiduciary net position	Net Pension liability (asset)
Balance, beginning of period 12/1/2022 (based on 12/31/2021 measurement date)	$ 64,721	$ 71,262	$ (6,541)
Change recognized for the fiscal year:			
Interest	3,285	—	3,285
Contributions from the employer	—	1,015	(1,015)
Net investment income	—	(13,255)	13,255
Benefit payments	(4,318)	(4,318)	—
Administrative expense	—	(943)	943
Net changes	(1,033)	(17,501)	16,468
Balance recognized at 6/30/2023 (based on 12/31/2022 measurement date)	$ 63,688	$ 53,761	$ 9,927

The net pension liability of the Plan has been calculated using a discount rate of 5.25%. The following presents the net pension liability, as well as what the University's net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (4.25%) or one-percentage-point higher (6.25%) than the current discount rate (in thousands):

	1% Decrease (4.25%)	Current Rate (5.25%)	1% Increase (6.25%)
Total pension liability	$ 70,196	$ 63,688	$ 58,194
Plan fiduciary net position	(53,761)	(53,761)	(53,761)
Net pension liability	$ 16,435	$ 9,927	$ 4,433

For the period from December 1, 2022, through June 30, 2023, the University recorded pension expense of $4.0 million. At June 30, 2023, the University reported deferred outflows of resources related to pensions of $13.5 million for the net difference between projected and actual earnings on pension plan investments.

Deferred outflows of resources as of June 30, 2023, related to pensions will be recognized in pension expense as follows:

2024	$	3,377
2025		3,377
2026		3,377
2027		3,377
	$	13,508

18. 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 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 Statement of Fiduciary Net Position, Statement of Changes in Fiduciary Net Position and Required Supplementary Information.

For Plan reporting purposes, GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, measures net OPEB liability as of June 30, 2023 for fiscal year 2023. For employer reporting purposes, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, measures net OPEB liability as of July 1, 2022 for fiscal year 2023. The following note disclosure is presented in order to comply with GASB Statement No. 75 and GASB Statement No. 74.

The OPEB liabilities measured as of July 1, 2022 were based upon the plan members as of January 1, 2021:

Inactive members receiving benefits	3,378
Inactive members entitled to but not yet receiving benefits	493
Active plan members	4,406
Total plan members	8,277

The OPEB liabilities measured as of June 30, 2023, were based upon the plan members as of January 1, 2023:

Inactive members receiving benefits	3,500
Inactive members entitled to but not yet receiving benefits	495
Active plan members	3,700
Total plan members	7,695

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 year 2023, the University contributed $9.1 million to the plan. Plan members receiving benefits contributed 47.9% of the premium costs, an average for combined single and family coverage. In fiscal year 2023, total member contributions were approximately $4.4 million.

The University’s employer net OPEB liability of $42.5 million was measured as of July 1, 2022 for the fiscal year ended June 30, 2023. The University's Plan net OPEB liability of $17.7 million was measured as of June 30, 2023 for the fiscal year ended June 30, 2023. 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, 2022 and June 30, 2023 were determined using the following actuarial assumptions applied to all periods included in the measurement:

Health care trend rate	For employer reporting: Post-65 Medical rate is 9.2% for 2022 decreasing to an ultimate rate of 4.5% in 2030. Post-65 RX 9.2% initial rate for 2022 decreasing to an ultimate rate of 4.5% in 2030; Pre-65 6.2% initial rate for 2022 decreasing to an ultimate rate of 4.5% in 2030. For Plan reporting: Post-65 Medical rate is 5.0% for 2023 decreasing to an ultimate rate of 4.5% in 2032. Post-65 RX 5.0% initial rate for 2023 decreasing to an ultimate rate of 4.5% in 2032; Pre-65 7.8% initial rate for 2023 decreasing to an ultimate rate of 4.5% in 2032.
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, 2022, PUB-2010 Amounts Weighted Mortality Table, with mortality improvement projected generationally using scale Mortality Projection-2021 for the employer. For June 30, 2023, PUB-2010 Amounts Weighted Mortality Table, with mortality improvement projected generationally using scale Mortality Projection-2021 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 Carveout program with a deductible that is tied to the Medicare Part B deductible to a fully-insured Medicare Advantage plan effective 1/1/2019.

The actuarial assumptions used as of July 1, 2022 and June 30, 2023 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 2023 are as follows (in thousands):

Total OPEB liability	$ 266,213
Less: Plan fiduciary net position	(223,732)
Total net OPEB liability	$ 42,481
Plan fiduciary net position as percentage of the total OPEB liability	84.0%

The components of the Plan's net OPEB liability of the University measured at June 30 for fiscal year 2023 are as follows (in thousands):

Total OPEB liability	$ 257,031
Less: Plan fiduciary net position	(239,361)
Total net OPEB liability	$ 17,670
Plan fiduciary net position as a percentage of the total OPEB liability	93.1%

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 Statement of Fiduciary Net Position classification, at June 30, 2023 is as follows (in thousands):

Statement of Fiduciary Net Position classification	
Cash and cash equivalents	$ 6,894
Investments	232,467
Total deposits and investments	$ 239,361

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. See footnote 2 for a description of the framework used to measure fair value.

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 Statement of Fiduciary Net Position.

The OPEB Plan has the following valuation measurements, by type, at June 30, 2023 (in thousands):

		Fair Value Measurement Using					
	Total value	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)	Amortized or historical cost
Cash and cash equivalents	$ 7,492	$ —	$ —	$ —	$ —	$ —	$ 7,492
Diversifying strategies	29,689	—	—	—	—	29,689	—
Global equity - international	38,703	25,283	—	—	25,283	13,420	—
Global equity - private	47,828	—	—	—	—	47,828	—
Global equity - U.S.	55,701	5,598	—	—	5,598	50,103	—
Global fixed income - public fixed income	18,466	8,539	7,977	—	16,516	1,950	—
Global fixed income - private credit	8,849	—	—	—	—	8,849	—
Real assets - private	28,754	—	—	4,610	4,610	24,144	—
Real assets - public	3,879	761	—	—	761	3,118	—
Total deposits and investments	$ 239,361	$ 40,181	$ 7,977	$ 4,610	$ 52,768	$ 179,101	$ 7,492

Cash and cash equivalents on deposit with the University are managed within guidelines established by the University's Operating Fund Investment Policy, as approved by the Investment Committee of the University's Board of Trustees and maintained by the Operating Fund Investment Committee. 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 of Trustees, which governs the University's pooled endowment fund.

OPEB 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 Statement of Fiduciary Net Position.

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

The following reflects the approved asset allocation for both the employer and Plan as of June 30, 2023.

Asset Category	Target Allocation
Diversifying strategies	12%
Global equity	64%
Global fixed income	12%
Real assets	12%

For the year ended June 30, 2023, the annual money-weighted rate of return on the OPEB Plan investments, net of OPEB Plan investment expense, was 7.9%. 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, 2022:

Asset Category	Long-term Expected Real Rate of Return
Diversifying strategies	4.4%
Global equity	6.8%
Global fixed income	3.1%
Real assets	4.8%

The following reflects the expected rates of return for the Plan, presented as geometric means, by asset allocation as of June 30, 2023:

Asset Category	Long-term Expected Real Rate of Return
Diversifying strategies	4.5%
Global equity	7.1%
Global fixed income	3.2%
Real assets	5.8%

The discount rate used to measure the total OPEB liability for the employer and Plan was 7.5% for the year ended June 30, 2023, which was the same from the July 1, 2022 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 contributions. 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, 2023 are as follows (in thousands):

	Increase (decrease)		
	Total OPEB liability (asset)	Plan fiduciary net position	Net OPEB liability (asset)
Balance recognized at 7/1/2022 (based on 7/1/2021 measurement date)	$ 254,841	$ 239,967	$ 14,874
Change recognized for the fiscal year:			
Service cost	1,973	—	1,973
Interest on the total OPEB liability	18,924	—	18,924
Differences between expected and actual experience	(1,187)	—	(1,187)
Changes of assumptions	798	—	798
Benefit payments	(9,136)	(9,136)	—
Contributions from the employer	—	9,143	(9,143)
Net investment income	—	(14,090)	14,090
Administrative expense	—	(2,152)	2,152
Net changes	11,372	(16,235)	27,607
Balance recognized at 6/30/2023 (based on 7/1/2022 measurement date)	$ 266,213	$ 223,732	$ 42,481

The following presents the employer's fiscal year 2023 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):

	1% Decrease (6.5%)	Current Rate (7.5%)	1% Increase (8.5%)
Total OPEB liability	$ 301,335	$ 266,213	$ 237,715
Plan fiduciary net position	(223,732)	(223,732)	(223,732)
Net OPEB liability	$ 77,603	$ 42,481	$ 13,983

The following presents what the employer's fiscal year 2023 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):

	1% Decrease	Trend Rate	1% Increase
Total OPEB liability	$ 233,394	$ 266,213	$ 306,796
Plan fiduciary net position	(223,732)	(223,732)	(223,732)
Net OPEB liability	$ 9,662	$ 42,481	$ 83,064

The following presents the Plan's fiscal year 2023 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):

	1% Decrease (6.5%)	Current Rate (7.5%)	1% Increase (8.5%)
Total OPEB liability	$ 290,990	$ 257,031	$ 228,789
Plan fiduciary net position	(239,361)	(239,361)	(239,361)
Net OPEB liability (asset)	$ 51,629	$ 17,670	$ (10,572)

The following presents what the Plan's fiscal year 2023 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):

	1% Decrease	Trend Rate	1% Increase
Total OPEB liability	$ 226,913	$ 257,031	$ 293,262
Plan fiduciary net position	(239,361)	(239,361)	(239,361)
Net OPEB liability (asset)	$ (12,448)	$ 17,670	$ 53,901

For the year ended June 30, 2023, the University recorded OPEB expense reduction of $24.9 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	$ 765	$ (13,935)
Net difference between expected and actual earnings on OPEB Plan investment	4,526	—
Assumption changes	1,002	(45,968)
Contributions made subsequent to the measurement date of the net OPEB liability	9,086	—
Total	$ 15,379	$ (59,903)

At June 30, 2023, the University reported $9.1 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, 2024. Other amounts (in thousands) reported as deferred outflows of resources and deferred inflows of resources at June 30, 2023, related to OPEB will be recognized in OPEB expense as follows:

2024	$ (25,806)
2025	(15,758)
2026	(16,966)
2027	4,920
	$ (53,610)

19. 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 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 Statement of Fiduciary Net Position, Statement of Changes in Fiduciary Net Position and Required Supplementary Information.

For Plan reporting purposes, GASB Statement No. 74 measures net LTD liability as of June 30, 2023 for fiscal year 2023. For employer reporting purposes, GASB Statement No. 75 measures net LTD liability as of July 1, 2022 for fiscal year 2023. The following note 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, 2022 were based upon the following plan participants as of January 1, 2021:

Disabled members	
Count of members	130
Average age at valuation date	56.7
Average duration since disability (in years)	9.0
Average monthly income net benefit	$857.00
Active (healthy) members	
Count of members	19,145
Average age at valuation date	43.7
Average years of service	9.2

The LTD liabilities measured as of June 30, 2023 were based upon the following plan participants as of January 1, 2023:

Disabled members	
Count of members	120
Average age at valuation date	56.5
Average duration since disability (in years)	9.7
Average monthly income net benefit	$817.00
Active (healthy) members	
Count of members	19,223
Average age at valuation date	43.8
Average years of service	9.0

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, 2023, the University's contribution was approximately $2.3 million.

The University's employer net LTD liability of $4.1 million was measured as of July 1, 2022, for the fiscal year ended June 30, 2023. The University's Plan net LTD liability $7.7 million was measured as of June 30, 2023 for the fiscal year ended June 30, 2023. The total LTD liability used to calculate the net LTD liability was determined by an actuarial valuation as of the measurement date. The University's employer net LTD is recorded as other noncurrent assets in the Statement of Net Position.

The total LTD liabilities measured as of July 1, 2022 and June 30, 2023 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, 2022, PUB-2010 Public Plans, with mortality improvement projected generationally using Mortality Projection-2021 for the employer. For June 30, 2023 PUB-2010 Public Plans, with mortality improvement projected generationally using Mortality Projection-2021 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; ii) five years after date of disability; or iii) 12 months after the valuation date.

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, 2022, the mortality table was updated from the PUB-2010 Amounts Weighted Mortality Table, with mortality improvement projected generationally using scale Mortality Projection-2020 to PUB-2010 Amounts Weighted Mortality Table, with mortality improvement projected generationally using scale Mortality Projection-2021.

The actuarial assumptions used as of July 1, 2022 and June 30, 2023 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 2023 are as follows (in thousands):

Total LTD liability	$ 27,880
Less: Plan fiduciary net position	(23,807)
Total net LTD liability	$ 4,073
Plan fiduciary net position as a percentage of the total LTD liability	85.4%

The components of the Plan's net LTD liability of the University measured at June 30, for fiscal year 2023 are as follows (in thousands):

Total LTD liability	$ 35,025
Less: Plan fiduciary net position	(27,314)
Total net LTD liability	$ 7,711
Plan fiduciary net position as a percentage of the total LTD liability	78.0%

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, 2023.

The fair value of deposits and investments, by Statement of Fiduciary Net Position classification, at June 30, 2023 is as follows (in thousands):

Statement of Fiduciary Net Position classification	
Cash and cash equivalents	$ 2,333
Investments	24,954
Total deposits and investments	$ 27,287

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. See footnote 2 for a description of the framework used to measure fair value.

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 Statement of Fiduciary Net Position.

The LTD Plan has the following valuation measurements, by type, at June 30, 2023 (in thousands):

		Fair Value Measurement Using		
	Total value	Quoted prices in active markets for identical assets (Level 1)	Total measured at fair value	Amortized or historical cost
Cash and cash equivalents	$ 2,333	$ —	$ —	$ 2,333
Diversifying strategies	674	674	674	—
Global equity - international	6,170	6,170	6,170	—
Global equity - U.S.	11,543	11,543	11,543	—
Global fixed income - public fixed income	6,567	6,567	6,567	—
Total deposits and investments	$ 27,287	$ 24,954	$ 24,954	$ 2,333

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 Statement 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, 2023, 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. See note 2 for a description of credit, interest rate, foreign currency and concentration of credit risks.

The following reflects the approved asset allocation for the employer and Plan as of June 30, 2023:

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

The annual money-weighted rate of return on the LTD Plan investments, net of LTD Plan investment expense was 12.6% for the year ended June 30, 2023. 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, 2022:

Asset Category	Long-term Expected Real Rate of Return
Diversifying strategies	4.2%
Global equity	7.5%
Global fixed income	2.1%

The following reflects the expected rates of return for the Plan, presented as arithmetic means, by asset allocation as of June 30, 2023:

Asset Category	Long-term Expected Real Rate of Return
Diversifying strategies	2.3%
Global equity	4.1%
Global fixed income	1.7%

The discount rate used to measure the total LTD liability for the employer and Plan was 6.5% for the year ended June 30, 2023, which was the same from the July 1, 2022 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, 2023, are as follows (in thousands):

	Increase (decrease)		
	Total LTD liability (asset)	Plan fiduciary net position	Net LTD liability (asset)
Balance recognized at 7/1/2022			
(based on 7/1/2021 measurement date)	$ 26,421	$ 28,217	$ (1,796)
Change recognized for the fiscal year:			
Service cost	2,597	—	2,597
Interest on the total LTD liability	1,821	—	1,821
Differences between expected and actual experience	(927)	—	(927)
Changes of assumptions	1	—	1
Benefit payments	(2,033)	(2,033)	—
Contributions from the employer	—	1,825	(1,825)
Net investment income	—	(4,121)	4,121
Administrative expense	—	(81)	81
Net changes	1,459	(4,410)	5,869
Balance recognized at 6/30/2023 (based on 7/1/2022 measurement date)	$ 27,880	$ 23,807	$ 4,073

The following presents the employer's 2023 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):

	1% Decrease (5.5%)	Current Rate (6.5%)	1% Increase (7.5%)
Total LTD liability	$ 28,925	$ 27,880	$ 26,900
Plan fiduciary net position	(23,807)	(23,807)	(23,807)
Total net LTD liability	$ 5,118	$ 4,073	$ 3,093

The following presents the Plan's 2023 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):

	1% Decrease (5.5%)	Current Rate (6.5%)	1% Increase (7.5%)
Total LTD liability	$ 36,972	$ 35,025	$ 33,172
Plan fiduciary net position	(27,314)	(27,314)	(27,314)
Total net LTD liability	$ 9,658	$ 7,711	$ 5,858

For the year ended June 30, 2023, 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	$ 529	$ (4,758)
Net difference between expected and actual earnings on LTD Plan investment	2,485	—
Assumption changes	413	(78)
Contributions made subsequent to the measurement date of the net LTD liability	2,315	—
Total	$ 5,742	$ (4,836)

At June 30, 2023, the University reported $2.3 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, 2024. Other amounts, in thousands, reported as deferred outflows of resources and deferred inflows of resources at June 30, 2023, related to OPEB will be recognized in LTD expense as follows:

2024	$ (105)
2025	(59)
2026	(314)
2027	588
2028	(779)
Total thereafter	(740)
	$ (1,409)

20. 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 Commonwealth's Board of Claims, 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 $10 thousand and $5.0 million per occurrence. Losses in excess of $5.0 million are insured by commercial carriers up to $1.00 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 Board of Claims, 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 2022 to 2023. 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 4.5%. The malpractice liability as of June 30, 2023 is based on the requirements of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, 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, 2023.

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, 2023.

21. 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 Statement 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 noncontributory defined benefit pension plan and a defined benefit postretirement health care plan whereby it agrees to provide certain postretirement benefits to eligible employees. The benefit obligation for these Plans 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 these liabilities materially in the near term.

22. RESEARCH CHALLENGE TRUST FUND

The Research Challenge Trust Fund (RCTF) was created by the Kentucky General Assembly with the passage of the Postsecondary Education Improvement Act of 1997 (House Bill 1). The objectives of the RCTF, as stated in House Bill 1, include support of efforts by the University to attain status as a top-20 public research university. The RCTF Endowment Match Program provides state funds on a dollar-for-dollar minimum match basis. This program, also known as "Bucks for Brains," supports endowed chairs, professorships and graduate fellowships, and the research and graduate mission of the University.

With the passage of the 2022-2024 Budget of the Commonwealth, the 2022 General Assembly authorized $30.0 million in General Fund supported bonds in 2022-2023 for the Research Challenge Trust Fund (RCTF) to support the Endowment Match Program at Kentucky Public Universities. In accordance with KRS 164.7917, these funds were allocated two-thirds to the University of Kentucky ($20.0 million) and one-third to the University of Louisville ($10.0 million). The RCTF funds will support initiatives in the fields of science, technology, engineering, mathematics, and health (STEM+H). UK will use the RCTF funds at a 2:1 donor contribution to RCTF match ratio.

The status of the RCTF endowed funds as of June 30, 2023 is summarized below (in thousands):

	Kentucky General Assembly Funding	University of Kentucky Share of Funding	State Funds Received to Date	Matching Pledges Receivable
1998 Biennium	$ 100,000	$ 66,667	$ 66,667	$ —
2000 Biennium	100,000	68,857	68,857	—
2002 Biennium	100,000	66,667	66,667	—
2008 Biennium: Capital Projects	21,927	21,927	21,927	—
2008 Biennium: RCTF	28,073	11,406	11,406	—
2022 Biennium	30,000	20,000	—	11,030
Total	$ 380,000	$ 255,524	$ 235,524	$ 11,030

Interest income of approximately $2.2 million was earned on the state matching funds and included in the University's share of the 2000 biennium funding. As of June 30, 2023, all private gifts and pledges matched by the RCTF program have been received.

The University expects to fully realize all outstanding matches; however, it might be obligated to return any state funds and accrued interest income related to pledges not received within five years of the initial pledge dates if unable to replace the unpaid pledges and other eligible gifts.

A payment schedule of the outstanding pledges as of June 30, 2023 is shown below (in thousands):

	2022 Biennium
2024	$ 1,892
2025	1,990
2026	2,300
2027	2,299
2028	2,549
Total	$ 11,030

23. CANCER RESEARCH MATCH

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, 2023 is as follows (in thousands):

Funds from private sources approved for match	$ 8,450
Cigarette excise tax funds distributed	1,390
Total cancer research matching fund revenues	$ 9,840
Cancer research matching fund expenses	$ 9,752

24. NATURAL CLASSIFICATION

The University's operating expenses by natural classification for the year ended June 30, 2023 is as follows (in thousands):

Salaries and wages	$ 2,359,497
Employee benefits	599,354
Supplies and services	1,775,299
Depreciation and amortization	266,140
Student scholarships and financial aid	88,489
Purchased utilities	57,901
Other, various	232,942
Total	$ 5,379,622

25. MEMBER SUBSTITUTION

In April 2021, the University entered into a significant joint venture through the Affiliation, Member Substitution and Formation Agreement dated January 29, 2021, by and among King's Daughters Health System, Inc. (KDHS), Beyond Blue Corporation (BBC), a component unit of the University ("the UK Member"), and Royal Blue Health LLC. Effective December 1, 2022, KDHS transferred its membership interest in RBH to BBC, whereby BBC became the sole member of RBH, and the operating agreement of RBH was also amended and restated such that the University appoints the governing board of RBH, and upon dissolution of RBH, the net assets revert to BBC. The primary reason for the combination is to increase the availability and quality of healthcare services while providing high-quality, efficient and cost-effective healthcare services for the benefit of the communities in which the KDHS operates. The consideration provided in connection with the combination was the assumption of $387.2 million in liabilities of RBH. BBC acquired $1.08 million in assets and $695.5 million in net position from the acquisition of RBH.

26. CURRENT ECONOMIC UNCERTAINTIES

While inflation continues to impact the economy, the duration of this uncertainty and the ultimate financial effects cannot be reasonably estimated at this time. Management and staff anticipate increased costs to impact the upcoming year.

27. COMBINED CONDENSED STATEMENTS

The University of Kentucky and its blended component units' condensed statements as of and for the year ended June 30, 2023 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, 2023
(in thousands)

	UK	UKRF	UKGERF	UKHF	UKMEF	CKMS	UKAA	KMSF	UKREF	BBC	Eliminations	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES												
Current Assets												
Cash and cash equivalents	$ 1,244,532	$ 141,240	$ —	$ —	$ 182	$ 1,306	$ 1,529	$ 28,091	$ 561	$ 108,544	$ —	$ 1,525,985
Notes, loans, leases and accounts receivable, net	1,021,819	60,647	—	2	—	1,175	271	36,184	—	255,461	(97,704)	1,277,855
Investments	—	—	—	—	—	—	—	18,772	—	1,020	—	19,792
Inventories and other assets	81,517	3,792	—	—	—	16	93	913	1,730	29,750	(45)	117,766
Total current assets	2,347,868	205,679	—	2	182	2,497	1,893	83,960	2,291	394,775	(97,749)	2,941,398
Noncurrent Assets												
Restricted cash and cash equivalents	249,028	—	—	—	—	—	—	—	—	3,868	—	252,896
Endowment investments	1,854,399	19,063	10,743	1,759	2,260	—	—	—	—	—	(39)	1,888,185
Other long-term investments	448,452	2,563	—	—	—	—	25,201	50,760	—	396,473	(2,057)	921,392
Notes, loans, leases and accounts receivable, net	465,072	—	—	2	—	—	130	812	—	—	—	466,016
Other noncurrent assets	11,226	155	—	—	—	—	—	—	—	3,693	—	15,074
Capital assets, net	3,477,111	12,606	—	—	—	—	12	92,124	—	409,740	—	3,991,593
Lease assets, net	95,753	209	—	—	—	1	—	—	—	19,950	(47,228)	68,685
Subscription assets, net	19,531	531	—	—	—	—	—	—	—	11,635	—	31,697
Total noncurrent assets	6,620,572	35,127	10,743	1,761	2,260	1	25,343	143,696	—	845,359	(49,324)	7,635,538
Total assets	8,968,440	240,806	10,743	1,763	2,442	2,498	27,236	227,656	2,291	1,240,134	(147,073)	10,576,936
Deferred Outflows of Resources	23,749	—	—	—	—	—	—	—	—	13,508	—	37,257
Total assets and deferred outflows of resources	8,992,189	240,806	10,743	1,763	2,442	2,498	27,236	227,656	2,291	1,253,642	(147,073)	10,614,193
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES												
Current Liabilities												
Accounts payable and accrued liabilities	403,914	12,862	—	—	1	2,497	1,064	133,679	—	108,375	(128,678)	533,714
Unearned revenue	104,384	45,322	—	—	—	—	43	1,853	—	188	(45)	151,745
Long-term liabilities - current portion	113,871	1,219	—	—	—	1	—	5,897	—	19,163	(8,926)	131,225
Total current liabilities	622,169	59,403	—	—	1	2,498	1,107	141,429	—	127,726	(137,649)	816,684
Noncurrent Liabilities												
Unearned revenue	189,831	2,013	—	—	—	—	93	—	—	—	—	191,937
Long-term liabilities	1,227,565	5,582	—	—	—	—	—	62,548	—	284,371	(47,110)	1,532,956
Net pension liability	—	—	—	—	—	—	—	—	—	9,927	—	9,927
Net OPEB retiree health liabilities	42,481	—	—	—	—	—	—	—	—	—	—	42,481
Net OPEB long-term disability liabilities	4,073	—	—	—	—	—	—	—	—	—	—	4,073
Total noncurrent liabilities	1,463,950	7,595	—	—	—	—	93	62,548	—	294,298	(47,110)	1,781,374
Total liabilities	2,086,119	66,998	—	—	1	2,498	1,200	203,977	—	422,024	(184,759)	2,598,058
Deferred Inflows of Resources	535,834	—	—	—	—	—	—	—	—	930	—	536,764
Total liabilities and deferred inflows of resources	2,621,953	66,998	—	—	1	2,498	1,200	203,977	—	422,954	(184,759)	3,134,822
NET POSITION												
Net investment in capital assets	1,960,243	6,629	—	—	—	—	12	23,679	—	182,789	—	2,173,352
Restricted												
Nonexpendable	720,268	826	4,931	618	680	—	30	—	—	—	(30)	727,323
Expendable	995,568	5,354	5,812	1,145	1,761	—	9	—	—	406	(9)	1,010,046
Total restricted	1,715,836	6,180	10,743	1,763	2,441	—	39	—	—	406	(39)	1,737,369
Unrestricted	2,694,157	160,999	—	—	—	—	25,985	—	2,291	647,493	37,725	3,568,650
Total net position	$ 6,370,236	$ 173,808	$ 10,743	$ 1,763	$ 2,441	$ —	$ 26,036	$ 23,679	$ 2,291	$ 830,688	$ 37,686	$ 7,479,371

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, 2023
(in thousands)

	UK	UKRF	UKGERF	UKHF	UKMEF	CKMS	UKAA	KMSF	UKREF	BBC	Eliminations	Total
OPERATING REVENUES												
Student tuition and fees, net	$ 387,631	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 387,631
Federal grants and contracts	10,665	281,157	—	—	—	—	—	7	—	1,533	—	293,362
State and local grants and contracts	130,808	28,690	—	—	—	—	—	—	—	—	—	159,498
Nongovernmental grants and contracts	366,667	30,467	—	—	—	—	—	—	—	310	(365,582)	31,862
Recoveries of facilities and administrative costs	214	93,256	—	—	—	—	—	—	—	—	—	93,470
Sales and services	68,261	17,016	1	—	—	41,071	953	—	16	—	(42,508)	84,810
Federal appropriations	20,060	—	—	—	—	—	—	—	—	—	—	20,060
County appropriations	34,731	—	—	—	—	—	—	—	—	—	—	34,731
Professional clinical service fees	—	—	—	—	—	—	—	325,227	—	—	(119)	325,108
Hospital services	3,157,246	—	—	—	—	—	—	—	—	638,482	(19,093)	3,776,635
Auxiliary enterprises:												
Housing and dining, net	36,773	—	—	—	—	—	—	—	—	—	(40)	36,733
Athletics	128,336	—	—	—	—	—	—	—	—	—	(405)	127,931
Other auxiliaries	53,817	—	—	—	—	—	—	—	—	—	(30)	53,787
Other operating revenues	1,157	—	—	—	—	—	—	36,942	—	—	(11,091)	27,008
Total operating revenues	4,396,366	450,586	1	—	—	41,071	953	362,176	16	640,325	(438,868)	5,452,626
OPERATING EXPENSES												
Educational and general:												
Instruction	319,135	13,889	—	—	39	—	—	—	—	—	(3)	333,060
Research	120,260	258,433	3	—	—	—	—	—	—	—	(1,335)	377,361
Public service	144,329	124,074	—	—	—	—	—	—	—	—	92	268,495
Libraries	22,956	—	—	—	—	—	—	—	—	—	—	22,956
Academic support	109,341	3,558	—	—	—	—	—	—	—	—	(99)	112,800
Student services	53,259	3	—	1	—	—	—	—	—	—	(14)	53,249
Institutional support	59,881	817	13	—	—	41,069	4,389	—	42	—	(45,767)	60,444
Operations and maintenance of plant	111,087	317	—	—	—	—	—	—	—	—	(248)	111,156
Student financial aid	47,631	8,227	—	33	—	—	—	—	—	—	—	55,891
Depreciation and amortization	87,146	2,223	—	—	—	2	16	—	—	—	93	89,480
Total educational and general	1,075,025	411,541	16	34	39	41,071	4,405	—	42	—	(47,281)	1,484,892
Clinical operations (including depreciation and amortization of $8,837)	521,442	—	—	—	—	—	—	362,427	—	—	(312,875)	570,994
Hospital and clinics (including depreciation and amortization of $131,805)	2,564,228	—	—	—	—	—	—	—	—	522,591	(10,633)	3,076,186
Auxiliary enterprises:												
Housing and dining (including depreciation and amortization of $10,888)	30,373	—	—	—	—	—	—	—	—	—	(297)	30,076
Athletics (including depreciation and amortization of $16,284)	174,873	—	—	—	—	—	—	—	—	—	(289)	174,584
Other auxiliaries (including depreciation and amortization of $8,846)	41,563	—	—	—	—	—	—	—	—	—	(90)	41,473
Other operating expenses	1,417	—	—	—	—	—	—	—	—	—	—	1,417
Total operating expenses	4,408,921	411,541	16	34	39	41,071	4,405	362,427	42	522,591	(371,465)	5,379,622
Net income (loss) from operations	(12,555)	39,045	(15)	(34)	(39)	—	(3,452)	(251)	(26)	117,734	(67,403)	73,004
NONOPERATING REVENUES (EXPENSES)												
State appropriations	319,235	—	—	—	—	—	—	—	—	—	—	319,235
COVID-19 funding	4,005	—	—	—	—	—	—	—	—	—	—	4,005
Gifts and non-exchange grants	239,471	234	1	6	—	—	2,579	—	—	29	(5,060)	237,260
Investment income (loss)	197,423	5,466	790	123	175	—	3,010	1,408	—	15,273	(1,633)	222,035
Interest on capital, lease and subscription asset-related debt	(41,235)	(25)	—	—	—	—	—	(3,259)	—	(6,204)	1,656	(49,067)
Grants to (from) the University for noncapital purposes	16,963	(16,164)	(568)	(14)	(20)	—	—	—	—	(197)	—	—
Other nonoperating revenues and expenses, net	(14,780)	952	—	—	—	—	241	—	(615)	(62)	17,275	3,011
Net nonoperating revenues (expenses)	721,082	(9,537)	223	115	155	—	5,830	(1,851)	(615)	8,839	12,238	736,479
Net income (loss) before other revenues, expenses, gains, or losses and special item	708,527	29,508	208	81	116	—	2,378	(2,102)	(641)	126,573	(55,165)	809,483
Capital grants and gifts	116,584	6,874	—	—	—	—	—	—	—	11	—	123,469
Additions to permanent endowments	22,387	—	—	—	1	—	—	—	—	—	(684)	21,704
Grants to (from) the University for capital purposes	20,397	(20,397)	—	—	—	—	—	—	—	—	—	—
Other, net	40,853	45	—	—	—	—	—	—	—	5	—	40,903
Special item - acquisition of Royal Blue Health and Insure Blue	—	—	—	—	—	—	—	—	—	695,582	—	695,582
Total other revenues (expenses)	200,221	(13,478)	—	—	1	—	—	—	—	695,598	(684)	881,658
INCREASE (DECREASE) IN NET POSITION	908,748	16,030	208	81	117	—	2,378	(2,102)	(641)	822,171	(55,849)	1,691,141
NET POSITION, beginning of year	5,461,488	157,778	10,535	1,682	2,324	—	23,658	25,781	2,932	8,517	93,535	5,788,230
NET POSITION, end of year	$ 6,370,236	$ 173,808	$ 10,743	$ 1,763	$ 2,441	$ —	$ 26,036	$ 23,679	$ 2,291	$ 830,688	$ 37,686	$ 7,479,371

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
COMBINED CONDENSED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2023
(in thousands)

	UK	UKRF	UKGERF	UKHF	UKMEF	CKMS	UKAA	KMSF	UKREF	BBC	Eliminations	Total
CASH FLOWS FROM OPERATING ACTIVITIES												
Student tuition and fees	$ 387,256	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 387,256
Grants and contracts	505,519	337,940	—	—	—	—	—	7	—	1,899	(365,582)	479,783
Recoveries of facilities and administrative costs	(921)	93,045	—	—	—	—	—	—	—	—	—	92,124
Sales and services	77,126	17,126	—	—	—	40,834	906	(42)	520	—	(44,436)	92,034
Federal appropriations	20,108	—	—	—	—	—	—	—	—	—	—	20,108
County appropriations	34,908	—	—	—	—	—	—	—	—	—	—	34,908
Payments to vendors and contractors	(1,766,157)	(147,909)	(16)	(34)	(11)	(2,122)	(4,509)	(416,585)	(42)	(193,544)	436,964	(2,093,965)
Payments on short-term leases	(171)	—	—	—	—	—	—	—	—	—	—	(171)
Student financial aid	(55,944)	—	—	—	—	—	—	—	—	—	—	(55,944)
Salaries, wages and benefits	(2,379,450)	(261,706)	—	—	(28)	(38,649)	(1,842)	(2,833)	—	(284,170)	—	(2,968,678)
Professional clinical service fees	(49,518)	—	—	—	—	—	—	336,738	—	—	(8,265)	278,955
Hospital services	3,038,154	—	—	—	—	—	—	—	—	567,730	(18,543)	3,587,341
Auxiliary enterprises receipts	160,439	—	—	—	—	—	—	—	—	—	(475)	159,964
Loans issued to students	(15,687)	—	—	—	—	—	—	—	—	—	—	(15,687)
Collection of loans to students	18,276	—	—	—	—	—	—	—	—	—	—	18,276
Self-insurance receipts	80,905	—	—	—	—	—	—	3,858	—	—	—	84,763
Self-insurance payments	(86,693)	—	—	—	—	—	—	—	—	—	—	(86,693)
Other receipts (payments)	(1,815)	—	1	—	—	—	—	36,942	—	—	(10,945)	24,183
Net cash provided (used) by operating activities	(33,665)	38,496	(15)	(34)	(39)	63	(5,445)	(41,915)	478	91,915	(11,282)	38,557
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES												
State appropriations	319,235	—	—	—	—	—	—	—	—	—	—	319,235
COVID-19 funding	4,005	—	—	—	—	—	—	—	—	—	—	4,005
Gifts and grants received for other than capital purposes:												
Gifts received for endowment purposes	22,388	—	—	—	—	—	—	—	—	—	(684)	21,704
Gifts received for other purposes	167,149	238	1	8	1	—	2,579	—	400	29	(5,060)	165,345
Agency and loan program receipts	351,371	—	—	—	—	—	—	—	—	—	—	351,371
Agency and loan program payments	(353,091)	—	—	—	—	—	—	—	—	—	—	(353,091)
Grants (to) from the University for noncapital purposes	16,963	(16,164)	(568)	(14)	(20)	—	—	—	—	(197)	—	—
Other financing receipts (payments)	(15,004)	1,070	—	—	—	—	160	—	(615)	(62)	17,275	2,824
Net cash provided (used) by noncapital financing activities	513,016	(14,856)	(567)	(6)	(19)	—	2,739	—	(215)	(230)	11,531	511,393
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES												
Capital grants and gifts	30,214	6,873	—	—	—	—	—	—	—	11	1,000	38,098
Purchases of capital assets	(189,569)	(457)	—	—	—	—	—	(2,308)	—	(32,878)	—	(225,212)
Proceeds from capital debt	166,411	—	—	—	—	—	—	—	—	712	—	167,123
Payments to refunding bond agents	(75,489)	—	—	—	—	—	—	—	—	—	—	(75,489)
Proceeds from sales of capital assets	426	—	—	—	—	—	—	—	—	—	—	426
Principal paid on capital debt	(58,546)	—	—	—	—	—	—	(3,913)	—	(8,497)	—	(70,956)
Interest paid on capital debt	(37,163)	—	—	—	—	—	—	(3,259)	—	(5,165)	(135)	(45,722)
Principal payments received on leases receivable	502	—	—	—	—	—	—	—	—	155	—	657
Interest payments received on leases receivable	(68)	—	—	—	—	—	—	—	—	21	—	(47)
Principal paid on leases payable	(15,442)	(1,947)	—	—	—	(2)	—	—	—	(3,713)	—	(21,104)
Interest paid on leases payable	(1,619)	(30)	—	—	—	—	—	—	—	(306)	—	(1,955)
Principal paid on subscriptions payable	(8,187)	(412)	—	—	—	—	—	—	—	(4,080)	—	(12,679)
Interest paid on subscriptions payable	(166)	(2)	—	—	—	—	—	—	—	(75)	—	(243)
Grants (to) from the University for capital purposes	20,233	(20,233)	—	—	—	—	—	—	—	—	—	—
Other financing receipts (payments)	24,303	652	—	—	—	—	—	1,125	—	5	752	26,837
Net cash provided (used) by capital and related financing activities	(144,160)	(15,556)	—	—	—	(2)	—	(8,355)	—	(53,810)	1,617	(220,266)
CASH FLOWS FROM INVESTING ACTIVITIES												
Proceeds from sales and maturities of investments	681,686	7,414	3,709	585	807	—	3,234	65,410	—	74,500	—	837,345
Interest and dividends on investments	86,073	3,802	138	25	34	—	410	(1,808)	—	3,146	(1,868)	89,952
Purchases of investments	(717,467)	(6,708)	(3,483)	(570)	(732)	—	(2,894)	(1,964)	—	(54,045)	2	(787,861)
Cash acquired from acquisition of Royal Blue Health and Insure Blue	—	—	—	—	—	—	—	—	—	44,975	—	44,975
Net cash provided (used) by investing activities	50,292	4,508	364	40	109	—	750	61,638	—	68,576	(1,866)	184,411
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	385,483	12,592	(218)	—	51	61	(1,956)	11,368	263	106,451	—	514,095
CASH AND CASH EQUIVALENTS, beginning of year	1,108,077	128,648	218	—	131	1,245	3,485	16,723	298	5,961	—	1,264,786
CASH AND CASH EQUIVALENTS, end of year	$ 1,493,560	$ 141,240	$ —	$ —	$ 182	$ 1,306	$ 1,529	$ 28,091	$ 561	$ 112,412	$ —	$ 1,778,881

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
COMBINED STATEMENT OF FIDUCIARY NET POSITION (in thousands)
JUNE 30, 2023

	Pension Plan	OPEB Plan	LTD Plan	Total
ASSETS				
Cash and cash equivalents	$ 1,147	$ 6,894	$ 2,333	$ 10,374
Accrued interest receivable	112	—	27	139
Investments	52,502	232,467	24,954	309,923
Total assets	53,761	239,361	27,314	320,436
LIABILITIES				
Accounts payable and accrued liabilities	—	—	—	—
Total liabilities	—	—	—	—
NET POSITION				
Net position restricted for postemployment benefits	$ 53,761	$ 239,361	$ 27,314	$ 320,436

UNIVERSITY OF KENTUCKY
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
COMBINED STATEMENT OF CHANGES IN FIDUCIARY NET POSITION (in thousands)
FOR THE YEAR ENDED JUNE 30, 2023

	Pension Plan	OPEB Plan	LTD Plan	Total
Revenues				
Investment income:				
Interest and dividend income	$ 203	$ 2,933	$ 843	$ 3,979
Net appreciation in fair value of investments	(1,248)	14,754	2,191	15,697
Net investment gain	(1,045)	17,687	3,034	19,676
Contributions:				
University	—	9,086	2,315	11,401
Beneficiaries	—	4,353	—	4,353
Total contributions	—	13,439	2,315	15,754
Total gains	(1,045)	31,126	5,349	35,430
Expenses				
Administrative expenses	6	2,066	56	2,128
Payments to retirees and beneficiaries	359	13,431	1,786	15,576
Total expenses	365	15,497	1,842	17,704
Special item - acquisition of Royal Blue Health fiduciary assets	55,171	—	—	55,171
INCREASE IN NET POSITION	53,761	15,629	3,507	72,897
NET POSITION restricted for the postemployment benefits, beginning of year	—	223,732	23,807	247,539
NET POSITION restricted for the postemployment benefits, end of year	$ 53,761	$ 239,361	$ 27,314	$ 320,436

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

1. UNIVERSITY OF KENTUCKY NET PENSION LIABILITY AND RELATED RATIOS

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY (in thousands) AND RELATED RATIOS

	2023
Total pension liability	
Interest cost	$ 3,285
Benefit payments	(4,318)
Net change in total pension liability	(1,033)
Total pension liability, beginning	—
Acquisition of Royal Blue Health	64,721
Total pension liability, ending	63,688
Plan fiduciary net position	
Contributions - employer	1,015
Net investment income	(13,255)
Benefit payments, including refunds of employee contributions	(4,318)
Administrative expense	(943)
Net change in plan fiduciary net position	(17,501)
Plan fiduciary net position, beginning	—
Acquisition of Royal Blue Health	71,262
Plan fiduciary net position, ending	53,761
Net pension liability, ending	$ 9,927
Plan fiduciary net position as a percentage of total pension liability	84.4%
Covered-employee payroll	N/A
Net pension liability as a percentage of covered-employee payroll	0%

Notes to schedule:

The Schedule of Changes in the Net Pension Liability and Related Ratios is presented as of the measurement date of the December 31 prior to the end of the fiscal year listed above. Ten years of data for the Pension Plan is required and will be added as information becomes available.

Change of assumptions and benefit terms:

2023: The mortality table was updated to reflect the most recent publicly available, with mortality improvement projected generationally using scale Mortality Projection-2021.

SCHEDULE OF PENSION INVESTMENT RETURNS

Year	Annual money-weighted rate of return, net of investment expenses
2023	(19.17%)

SCHEDULE OF PENSION CONTRIBUTIONS (in thousands)

	2023
Actuarially determined contribution	$ —
Contribution in relation to actuarially determined contribution	—
Contribution deficiency (excess)	$ —
Covered employee payroll	N/A
Contribution as a percentage of covered employee payroll	0%

Notes to schedule:

Actuarially determined contributions rates are calculated as of December 1, prior to the end of the fiscal year in which contributions are reported. Ten years of data for the Pension Plan is required and will be added as information becomes available.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	The actuarial cost method used was entry age normal level percentage of pay.
Amortization method	The amortization method was level dollar, closed (pursuant to ERISA minimum required contribution).
Remaining Amortization period	The remaining amortization period was 15 years for new gains/losses.
Asset valuation method	Three year smoothed market date.
Inflation	2.5%
Salary increases	N/A
Investment rate of return	The investment rate of return was 5.25%.
Retirement age	Age-specific rates starting at age 55 with 100% retirement at age 70.
Mortality	Pri-2012 employee and retiree tables, no collar. For surviving beneficiaries of deceased participants: Pri-2012 contingent survivor mortality table. All tables include generational projection based on SOA Scale Mortality Projection-2021.

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

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

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

	2023	2022	2021	2020	2019	2018	2017
Total OPEB liability							
Service cost	$ 2,036	$ 1,973	$ 2,593	$ 2,668	$ 3,953	$ 3,710	$ 4,356
Interest cost	19,784	18,924	23,185	21,888	29,225	28,053	28,667
Change of benefit terms	—	—	—	—	(58,343)	—	—
Differences between expected and actual experience	(6,961)	(1,187)	(21,244)	757	1,921	(1,071)	12,087
Changes of assumptions	(14,963)	798	(51,723)	870	(63,511)	(3,559)	(40,408)
Benefit payments	(9,078)	(9,136)	(8,872)	(8,736)	(10,824)	(12,620)	(11,889)
Net change in total OPEB liability	(9,182)	11,372	(56,061)	17,447	(97,579)	14,513	(7,187)
Total OPEB liability, beginning	266,213	254,841	310,902	293,455	391,034	376,521	383,708
Total OPEB liability, ending	257,031	266,213	254,841	310,902	293,455	391,034	376,521
Plan fiduciary net position							
Contributions - employer	9,086	9,143	13,245	14,292	18,804	20,013	23,987
Contributions - beneficiaries	4,353	4,238	3,951	3,719	4,379	4,945	5,500
Net investment income (loss)	17,687	(14,090)	58,787	(839)	9,367	8,989	12,508
Benefit payments	(13,431)	(13,374)	(12,823)	(12,454)	(15,203)	(17,565)	(17,389)
Administrative expense	(2,066)	(2,152)	(1,814)	(1,611)	(1,376)	(783)	(674)
Net change in Plan fiduciary net position	15,629	(16,235)	61,346	3,107	15,971	15,599	23,932
Plan fiduciary net position, beginning	223,732	239,967	178,621	175,514	159,543	143,944	120,012
Plan fiduciary net position, ending	239,361	223,732	239,967	178,621	175,514	159,543	143,944
Net OPEB liability, ending	$ 17,670	$ 42,481	$ 14,874	$ 132,281	$ 117,941	$ 231,491	$ 232,577
Plan fiduciary net position as a percentage of OPEB liability	93.1%	84.0%	94.2%	57.5%	59.8%	40.8%	38.2%
Covered employee payroll	$ 533,743	$ 545,798	$ 544,901	$ 563,859	$ 459,655	$ 480,320	$ 494,158
Net OPEB liability as a percentage of covered employee payroll	3.3%	7.8%	2.7%	23.5%	25.7%	48.2%	47.1%

Notes to schedule:

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.

Change of assumptions and benefit terms:

2023: The health care trend rates have been updated to better anticipate future experience under the Plan.

2022: The mortality table was updated to the PUB-2010 Amounts Weighted Mortality Table, with mortality improvement projected generationally using scale Mortality Projection-2021.

2021: The mortality table was updated to the PUB-2010 Amounts Weighted Mortality Table, with mortality improvement projected generationally using scale Mortality Projection-2020; the health care trend rates have been updated to better anticipate future experience under the Plan.

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 Mortality Projection-2016; the health care trend rates have been updated to better anticipate future experience under the plan.

SCHEDULE OF OPEB INVESTMENT RETURNS

Year	Annual money-weighted rate of return, net of investment expenses
2023	7.9%
2022	(5.0%)
2021	27.8%
2020	(3.1%)
2019	5.5%
2018	6.5%
2017	10.3%

SCHEDULE OF OPEB CONTRIBUTIONS (in thousands)

	2023	2022	2021	2020	2019	2018	2017
Actuarially determined contribution	$ 5,710	$ 3,597	$ 12,958	$ 11,917	$ 20,600	$ 20,000	$ 24,454
Contribution in relation to actuarially determined contribution	(9,086)	(9,143)	(13,245)	(14,292)	(18,804)	(20,013)	(23,987)
Contribution deficiency (excess)	$ (3,376)	$ (5,546)	$ (287)	$ (2,375)	$ 1,796	$ (13)	$ 467
Covered employee payroll	$ 533,743	$ 545,798	$ 544,901	$ 563,859	$ 459,655	$ 480,320	$ 494,158
Contribution as a percentage of covered employee payroll	1.7%	1.7%	2.4%	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. Ten years of data for the OPEB Plan is required and will be added as information becomes available.

Methods and assumptions used to determine contribution rates:

Funding policy	For 2023, 2022, 2021 and 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. 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. 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.
Amortization	For 2023, 2022, 2021 and 2020, the amortization period was a 30 year closed For 2019 and 2018, the amortization period was a 15 year open period. For 2017, the amortization period was a 30 year closed period.
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 a 7.5% interest rate.
Health care trend rates	For 2023, post-65 medical 9.2% for 2023 and decreasing to an ultimate rate of 4.5% in 2030. Post-65 RX trend rate is 5.0% decreasing to an ultimate rate of 4.5% in 2032. Pre-65 rate is 6.2% decreasing to an ultimate rate of 4.5% in 2030. For 2022, post-65 medical 9.6% for 2022 and decreasing to an ultimate rate of 4.5% in 2030. Post-65 RX trend rate is 9.6% decreasing to an ultimate rate of 4.5% in 2030. Pre-65 rate is 6.4% decreasing to an ultimate rate of 4.5% in 2030. For 2021, post-65 medical 1.1% increasing to 312.2% for 2021 followed by 75.7% in 2022 and decreasing to an ultimate rate of 4.5% in 2031. Post-65 RX trend rate is 6.2% decreasing to an ultimate rate of 4.5% in 2031. Pre-65 rate is 6.3% decreasing to an ultimate rate of 4.5% in 2031. 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. 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. 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. 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.
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 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.
Mortality	For 2023, PUB-2010 Amounts Weighted Mortality Table, with mortality improvement projected generationally using scale Mortality Projection-2021. For 2022, PUB-2010 Amounts Weighted Mortality Table, with mortality improvement projected generationally using scale Mortality Projection-2020. For 2021, PUB-2010 Amounts Weighted Mortality Table, with mortality improvement projected generationally using scale Mortality Projection-2019. For 2020, PUB-2010 Amounts Weighted Mortality Table, with mortality improvement projected generationally using scale Mortality Projection-2018. 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. 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. 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.
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.

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

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

	2023	2022	2021	2020	2019	2018	2017
Total LTD liability							
Service cost	$ 2,675	$ 2,597	$ 2,309	$ 2,242	$ 2,241	$ 2,104	$ 1,606
Interest cost	1,929	1,821	1,790	1,775	1,750	1,555	1,569
Differences between expected and actual experience	(5,383)	(927)	(2,058)	(2,140)	(1,782)	1,017	138
Changes of assumptions	9,710	1	1	(3)	(123)	(8)	1,042
Benefit payments	(1,786)	(2,033)	(1,666)	(1,748)	(1,684)	(1,931)	(1,763)
Net change in total LTD liability	7,145	1,459	376	126	402	2,737	2,592
Total LTD liability, beginning	27,880	26,421	26,045	25,919	25,517	22,780	20,188
Total LTD liability, ending	35,025	27,880	26,421	26,045	25,919	25,517	22,780
Plan fiduciary net position							
Contributions - employer	2,315	1,825	1,894	1,789	2,063	2,002	2,020
Net investment income	3,034	(4,121)	5,994	145	1,548	1,264	1,956
Benefit payments	(1,786)	(2,033)	(1,666)	(1,748)	(1,684)	(1,931)	(1,763)
Administrative expense	(56)	(81)	(71)	(64)	(64)	(38)	(61)
Net change in plan fiduciary net position	3,507	(4,410)	6,151	122	1,863	1,297	2,152
Plan fiduciary net position, beginning	23,807	28,217	22,066	21,944	20,081	18,784	16,632
Plan fiduciary net position, ending	27,314	23,807	28,217	22,066	21,944	20,081	18,784
Net LTD liability (asset), ending	$ 7,711	$ 4,073	$ (1,796)	$ 3,979	$ 3,975	$ 5,436	$ 3,996
Plan fiduciary net position as a percentage of LTD liability	78.0%	85.4%	106.8%	84.7%	84.7%	78.7%	82.5%
Covered-employee payroll	$ 1,362,150	$ 1,224,432	$ 1,153,833	$ 1,097,046	$ 1,095,104	$ 977,928	$ 940,951
Net LTD liability as a percentage of covered-employee payroll	0.6%	0.3%	(0.2)%	0.4%	0.4%	0.6%	0.4%

Notes to schedule:

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 Plan is required and will be added as information becomes available.

Change of assumptions and benefit terms:

2023: Active factors used to estimate Social Security Offset for future disabled participants have been updated to better anticipate future experience under the Plan.

2022: The mortality table was updated to PUB-2010 Amounts Weighted Mortality Table, with mortality improvement projected generationally using scale Mortality Projection-2021.

2021: The mortality table was updated to PUB-2010 Amounts Weighted Mortality Table, with mortality improvement projected generationally using scale Mortality Projection-2020.

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%.

SCHEDULE OF LTD INVESTMENT RETURNS

Year	Annual money-weighted rate of return, net of investment expenses
2023	12.6%
2022	(15.4%)
2021	27.7%
2020	0.5%
2019	7.5%
2018	7.1%
2017	12.0%

SCHEDULE OF LTD CONTRIBUTIONS (in thousands)

	2023	2022	2021	2020	2019	2018	2017
Actuarially determined contribution	$ 2,316	$ 1,828	$ 1,935	$ 1,786	$ 2,060	$ 2,000	$ 1,984
Contribution in relation to actuarially determined contribution	(2,315)	(1,825)	(1,894)	(1,789)	(2,063)	(2,002)	(2,020)
Contribution deficiency (excess)	$ 1	$ 3	$ 41	$ (3)	$ (3)	$ (2)	$ (36)
Covered employee payroll	$ 1,362,150	$ 1,224,432	$ 1,153,833	$ 1,097,046	$ 1,095,104	$ 977,928	$ 940,951
Contribution as a percentage of covered employee payroll	0.2%	0.1%	0.2%	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. Ten years of data for the LTD Plan is required and will be added as information becomes available.

Methods and assumptions used to determine contribution rates:

Funding policy	For 2023, 2022, 2021 and 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.

	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. 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.
Amortization	For 2023, 2022, 2021 and 2020, the amortization period was a 15 year closed period. For 2019 and 2018, the amortization period was a 10 year open period. For 2017, the amortization period was a 30 year closed period.
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	For 2023, 2022, 2021, 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. 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.
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 2023, PUB-2010 Amounts Weighted Mortality Table, with mortality improvement projected generationally using Mortality Projection-2021. For 2022, PUB-2010 Amounts Weighted Mortality Table, with mortality improvement projected generationally using Mortality Projection-2020. For 2021, PUB-2010 Amounts Weighted Mortality Table, with mortality improvement projected generationally using Mortality Projection-2019. For 2020, PUB-2010 Amounts Weighted Mortality Table, with mortality improvement projected generationally using Mortality Projection-2018. 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. 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. 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.

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.

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

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