NEW ISSUE | **RATINGS: Moody's: Aa3**
S&P: AA-
Book-Entry-Only | **(See "Ratings" herein)**

In the opinion of Bond Counsel for the 2009 Series B Bonds, interest on the 2009 Series B Bonds is exempt from Kentucky income tax and the 2009 Series B Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and any of its political subdivisions. HOWEVER, INTEREST ON THE 2009 SERIES B BONDS IS NOT EXCLUDIBLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES. See "TAX MATTERS" herein.

OFFICIAL STATEMENT RELATING TO

$100,765,000*
UNIVERSITY OF KENTUCKY
GENERAL RECEIPTS BONDS,
TAXABLE BUILD AMERICA BONDS, 2009 SERIES B

Dated: Date of delivery | **Due: November 1, as shown below**

The captioned 2009 Series B Bonds will be issued only as fully registered bonds, and when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the 2009 Series B Bonds. Purchasers will not receive certificates representing their ownership interest in the 2009 Series B Bonds purchased. So long as DTC or its nominee is the registered owner of the 2009 Series B Bonds, payments of the principal of and interest due on the Bonds will be made directly to DTC. The 2009 Series B Bonds bear interest from their dated date, payable semiannually, on May 1 and November 1, commencing May 1, 2010. Principal of, premium, if any, and interest on the 2009 Series B Bonds will be paid directly to DTC by U.S. Bank National Association, having offices in Louisville, Kentucky, as Trustee and Paying Agent. The 2009 Series B Bonds shall be issued only as fully registered bonds in denominations of $5,000 or integral multiples thereof, and shall mature on November 1, in accordance with the following schedule:

Year (November 1)	Amount*	Rate	Yield	Year (November 1)	Amount*	Rate	Yield
2017	$2,880,000			2029	$4,365,000		
2018	2,965,000			2030	4,540,000		
2019	3,055,000			2031	4,725,000		
2020	3,150,000			2032	4,920,000		
2021	3,255,000			2033	5,120,000		
2022	3,365,000			2034	5,330,000		
2023	3,480,000			2035	5,550,000		
2024	3,605,000			2036	5,780,000		
2025	3,745,000			2037	6,015,000		
2026	3,890,000			2038	6,265,000		
2027	4,040,000			2039	6,525,000		
2028	4,200,000						

The 2009 Series B Bonds are subject to optional redemption prior to their stated maturities as described herein.

The 2009 Series B Bonds constitute special obligations of the University of Kentucky and do not constitute a debt, liability or obligation of the Commonwealth of Kentucky nor a pledge of the full faith and credit of the Commonwealth. The 2009 Series B Bonds constitute Obligations under the Trust Agreement dated as of November 1, 2005 between the University and the Trustee, and the payment of the principal of, premium, if any, and interest on 2009 Series B Bonds is secured by a pledge of the University's General Receipts, as defined in the Trust Agreement. See "SECURITY FOR THE 2009 SERIES B BONDS."

The 2009 Series B Bonds are issued subject to the approval of legality by Peck, Shaffer & Williams LLP, Covington, Kentucky, Bond Counsel. Delivery of the 2009 Series B Bonds is expected on November 24, 2009 in New York, New York, through the facilities of DTC.

Dated: ______________, 2009

*Indicates preliminary, subject to change throughout.

THE UNIVERSITY OF KENTUCKY

TRUSTEE AND PAYING AGENT

U.S. Bank National Association
Louisville, Kentucky

BOND COUNSEL

Peck, Shaffer & Williams LLP
Covington, Kentucky

FINANCIAL ADVISOR

Morgan Keegan and Company, Inc.
Lexington, Kentucky

CUSIP NUMBERS

Year	Cusip # 914378	Year	Cusip # 914378
2017		2029	
2018		2030	
2019		2031	
2020		2032	
2021		2033	
2022		2034	
2023		2035	
2024		2036	
2025		2037	
2026		2038	
2027		2039	
2028			

REGARDING USE OF THIS OFFICIAL STATEMENT

This Official Statement does not constitute an offering of any security other than the original offering of the 2009 Series B Bonds of the University of Kentucky identified on the cover page hereof. No person has been authorized by the University of Kentucky to give any information or to make any representation other than that contained in this Official Statement, and if given or made such other information or representation must not be relied upon as having been given or authorized by the University of Kentucky or the Financial Advisor. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, and there shall not be any sale of the 2009 Series B Bonds by any person in any jurisdiction in which it is unlawful to make such offer, solicitation or sale.

The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the University of Kentucky since the date hereof.

Neither the Securities and Exchange Commission nor any other federal, state or other governmental entity or agency, except the University of Kentucky, will pass upon the accuracy or adequacy of this Official Statement or approve the 2009 Series B Bonds for sale (see "APPROVAL OF ISSUANCE OF BONDS").

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OFFICIAL STATEMENT RELATING TO

$100,765,000*
UNIVERSITY OF KENTUCKY
GENERAL RECEIPTS BONDS,
TAXABLE BUILD AMERICA BONDS 2009 SERIES B

INTRODUCTORY STATEMENT

This Official Statement, which includes the cover page and the Appendices appended hereto, is being distributed by the University of Kentucky (the "University") to furnish pertinent information to all who may become owners of its General Receipts Bonds, Taxable Build America Bonds 2009 Series B (the "2009 Series B Bonds") being offered hereby pursuant to the provisions of Sections 162.340 to 162.380 of the Kentucky Revised Statutes and Sections 58.010 to 58.140 of the Kentucky Revised Statutes, and pursuant to the terms of a Trust Agreement dated as of November 1, 2005 as supplemented by a Third Supplemental Trust Agreement dated as of November 1, 2009 (the "Third Supplemental Trust Agreement") between the University and U.S. Bank National Association (together, the "Trust Agreement").

The summaries and references to Sections of the Kentucky Revised Statutes and the Trust Agreement, as included in this Official Statement, do not purport to be comprehensive or definitive and are qualified in their entirety by reference to each such document. Unless otherwise defined herein, capitalized terms will have the meanings set forth in APPENDIX C.

THE 2009 SERIES B BONDS

General

The 2009 Series B Bonds will be dated the date set forth on the cover page of this Official Statement, will be issued in fully registered form and in denominations of $5,000 or any integral multiples thereof and will mature as to principal and will bear interest as set forth on the cover page. Interest accruing on the 2009 Series B Bonds will be payable semiannually on May 1 and November 1 of each year commencing May 1, 2010 to Holders of record on the preceding April 15 and October 15, respectively.

Book-Entry-Only System

The 2009 Series B Bonds initially will be issued solely in book-entry form to be held in the book-entry-only system maintained by The Depository Trust Company ("DTC"), New York, New York. So long as such book-entry system is used, only DTC will receive or have the right to receive physical delivery of 2009 Series B Bonds and, except as otherwise provided herein with respect to tenders by Beneficial Owners of Beneficial Ownership Interests, each as hereinafter defined, Beneficial Owners will not be or be considered to be, and will not have any rights as, owners or Holders of the 2009 Series B Bonds under the Resolution and Series Resolution. For additional information about DTC and the book-entry-only system see "APPENDIX E – Book-Entry-Only System."

Redemption Provisions

Optional Redemption. The 2009 Series B Bonds are subject to redemption at the option of the University, in whole or in part on any date (less than all of a single maturity to be selected by lot in such manner as determined by the Trustee), at a redemption price equal to the Make-Whole Redemption Price (determined by an independent accounting, investment banking, or financial advisory firm retained by the University to calculate such redemption price), plus accrued interest to the redemption date.

"Make-Whole Redemption Price" means the greater of (i) 100% of the principal amount of the 2009 Series B Bonds to be redeemed or (ii) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of the 2009 Series B Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the 2009 Series B Bonds are to be redeemed, discounted to the date on which the 2009 Series B Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate plus 25 basis points.

"Treasury Rate" means, as of any redemption date, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15(519) that has become publicly available at least two business days prior to the redemption date (excluding inflation indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to the maturity date of the 2009 Series B Bonds to be redeemed; provided, however, that if the period from the redemption date to such maturity date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year shall be used.

Extraordinary Optional Redemption. The 2009 Series B Bonds are subject to redemption at the option of the University, in whole or in part on any date (less than all of a single maturity to be selected by lot in such manner as determined by the Trustee), at a redemption price equal to the Extraordinary Redemption Price (determined by an independent accounting, investment banking, or financial advisory firm retained by the University to calculate such redemption price), plus accrued interest to the redemption date, if Section 54AA or 6431 of the Code is modified, amended or interpreted in a manner pursuant to which the University's 35% Credit Payments, hereinafter defined, from the United States Treasury are reduced or eliminated. See "BUILD AMERICA BONDS."

"Extraordinary Redemption Price" means the greater of (i) the principal amount of the 2009 Series B Bonds to be redeemed or (ii) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of the 2009 Series B Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which such 2009 Series B Bonds are to be redeemed, discounted to the date on which such 2009 Series B Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate, plus 100 basis points.

Mandatory Sinking Fund Redemption. The 2009 Series B Bonds maturing on the dates set forth below are subject to mandatory sinking fund redemption prior to maturity at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the redemption date, on the dates, in the years and in the principal amounts as follows:

Maturing November 1, ____*	
Date	Amount
November 1,	
November 1,	

Maturing November 1, ____*	
Date	Amount
November 1,	
November 1,	

*Maturity

Selection of Bonds for Redemption. The University has directed the Trustee to notify DTC that in the event less than all of any 2009 Series B Bonds are to be redeemed (including mandatory sinking fund redemption), any such redemption shall be on a pro rata basis in a principal amount equal to authorized denominations of $5,000 or any integral multiple thereof. The University and the Trustee are not making any representation relating to, and do not have any responsibility or obligation with respect to, whether DTC will follow the direction to redeem 2009 Series B Bonds on a pro rata basis in the event of a partial redemption as described above. If a 2009 Series B Bond subject to redemption is in a denomination larger than $5,000, a portion of such 2009 Series B Bond may be redeemed, but only in a principal amount equal to $5,000 or any integral multiple thereof, if the 2009 Series B Bond is one of the maturities or amounts or part of the maturities or amounts called for redemption. Upon surrender of any 2009 Series B Bond for redemption in part, the Trustee and Paying Agent shall (authenticate and) deliver an exchange 2009 Series B Bond or 2009 Series B Bonds in an aggregate principal amount equal to the unredeemed portion of the 2009 Series B Bond so surrendered.

Notice of Redemption. The Trustee and Paying Agent shall give notice of any redemption by sending at least one such notice by United States mail, first class, postage prepaid, not less than 30 and not more than 60 days prior to the date fixed for redemption to the registered owner of each 2009 Series B Bond to be redeemed in whole or in part, at the address shown on the bond register as of the date of mailing of such notice. Such notice shall identify (i) by designation, letters, numbers or other distinguishing marks, the 2009 Series B Bonds or portions thereof to be redeemed, (ii) the redemption price to be paid, (iii) the date fixed for redemption and (iv) the place or places where the amounts due upon redemption are payable.

BUILD AMERICA BONDS

As part of the American Recovery and Reinvestment Act of 2009 (the "Recovery Act"), Congress added Sections 54AA and 6431 to the Internal Revenue Code of 1986, as amended (the "Code"), which permit states and local governments to issue two types of taxable obligations, referred to as Build America Bonds, or "BABs," with federal subsidies to offset a portion of their interest costs, as an alternative to issuing traditional tax-exempt obligations. Interest on Build America Bonds is includable in gross income for federal income tax purposes. In order to qualify as Build America Bonds, the obligations must comply with certain requirements specified in the Code. If the obligations also comply with certain additional requirements specified in the Code, the Build America Bonds may constitute "Qualified Bonds" under Section 54AA of the Code, in which case an amount equal to 35% of the interest payable on such Qualified Bonds (the "Credit Payments") is payable to the issuer by the U.S. Treasury upon compliance by the issuer with certain procedural requirements provided in the Code and Treasury Regulations. This direct payment to the issuer is in lieu of the tax credits otherwise allowed to owners of Build America Bonds under Section 54AA of the Code.

The University designated the 2009 Series B Bonds both as Build America Bonds and as Qualified Bonds and intends to apply for Credit Payments pursuant to Section 6431 of the Code. The Credit Payments will be paid to the University only to the extent that the 2009 Series B Bonds remain Qualified Bonds, which requires the University to comply with certain covenants and to establish certain facts and expectations with respect to the 2009 Series B Bonds, the use and investment of proceeds thereof and the use of property financed thereby. Also, Credit Payments may be subject to offset against certain amounts that may, for unrelated reasons, be owed by the University to an agency of the United States of America. See also "TAX MATTERS" herein.

SECURITY FOR THE 2009 SERIES B BONDS

Pledge of General Receipts

Each 2009 Series B Bond is an "Obligation" under the Trust Agreement and the University has pledged its General Receipts and, under the terms of the Third Supplemental Trust Agreement, the Credit Payments, as security for its payment obligations thereunder.

"General Receipts" means, as reported in the Financial Statements (having the designations, to the extent not otherwise defined in the Trust Agreement, set forth in the Financial Statements or such successor designations that may hereafter be used in Financial Statements):

(a) certain operating and non-operating revenues of the University, being (i) Student Registration Fees, (ii) nongovernmental grants and contracts, (iii) recoveries of facilities and administrative costs, (iv) sales and services, (v) Hospital Revenues, (vi) Housing and Dining Revenues, (vii) auxiliary enterprises – other auxiliaries, (viii) other operating revenues, (ix) state appropriations (for general operations), (x) gifts and grants, (xi) investment income, (xii) other nonoperating revenues and (xiii) other;

(b) but excluding (i) any receipts described in clause (a) which are contracts, grants, gifts, donations or pledges and receipts therefrom which, under restrictions imposed in such contracts, grants, gifts, donations or pledges, or, which as a condition of the receipt thereof or of amounts payable thereunder are not available for payment of Debt Service Charges, (ii) federal grants and contracts, (iii) state and local grants and contracts, (iv) federal appropriations, (v) county appropriations, (vi) professional clinical service fees, (vii) auxiliary enterprises – athletics; (viii) capital appropriations, (ix) capital grants and gifts, and (x) additions to permanent endowments, including research challenge trust funds;

provided, however, that General Receipts may

(c) include any other receipts that may be designated as General Receipts from time to time by a resolution of the Board of Trustees of the University (the "Board") delivered to the Trustee; and

(d) exclude any receipts not heretofore pledged, which may be designated from time to time by a resolution of the Board delivered to the Trustee;

(e) exclude any receipts heretofore pledged, which may be designated from time to time by a resolution of the Board delivered to the Trustee and each Rating Service then rating any Obligations, but only if each such Rating Service confirms in writing to the University that the exclusion of any such receipt would not cause a reduction or withdrawal of the then current rating on any Outstanding Obligations.

The University has outstanding, certain Consolidated Educational Buildings Revenue Bonds (the "Building Bonds"), to which General Receipts described in (a)(i) above are pledged on a priority basis to the pledge of those General Receipts under the Trust Agreement. The University has covenanted not to issue any additional Building Bonds. The prior pledge of those General Receipts securing Building Bonds will terminate when there are no Building Bonds outstanding. See "APPENDIX A" for information regarding outstanding Building Bonds. Also see "APPENDIX A" for information regarding Obligations outstanding under the Trust Agreement.

State Intercept

If the University fails to make timely payment of any 2009 Series B Bond, the Secretary of the Finance and Administration Cabinet of the Commonwealth of Kentucky (the "Cabinet") is obligated, pursuant to KRS 164A.608, to apply to such payment, any funds that have been appropriated to the University that have not yet been disbursed. Payments due on the 2009 Series B Bonds are required to be deposited with the Trustee at least ten days prior to their due date. If the amount required to pay debt service is not on deposit by that date, the Trustee is obligated under the Trust Agreement to immediately notify the Secretary of the Cabinet of the default in payment. Under KRS 164A.608, the Secretary of the

Cabinet is required, within five days of the default, to remit the amount required to pay the amount due on any 2009 Series B Bond to the Trustee from those undisbursed funds.

Budgetary Process in the Commonwealth

The General Assembly is required by the Kentucky Constitution to adopt measures providing for the Commonwealth's revenues and appropriations for each fiscal year. The Governor is required by law to submit a biennial State Budget (the "State Budget") to the General Assembly during the legislative session held in each even numbered year. State Budgets have generally been adopted by the General Assembly during those legislative sessions, which end in mid-April, to be effective upon the Governor's signature for appropriations commencing for a two-year period beginning the following July 1.

Although the University is required to submit its budgets to the General Assembly for approval as a part of the State Budget, the pledge of General Receipts by the University described herein is not subject to appropriation.

Additional Obligations

The University has reserved the right to issue additional Obligations secured by a pledge of General Receipts. See "THE UNIVERSITY – Future Debt" and "APPENDIX C" – SUMMARY OF THE TRUST AGREEMENT."

SOURCES AND USES OF FUNDS

The sources and uses of funds in connection with the issuance of the 2009 Series B Bonds are as follows:

Sources of Funds	
Principal Amount of Bonds	$
[Less] [Plus] Net Original Issue [Discount] [Premium]	
Total Sources of Funds	
Uses of Funds	
Deposit to Project Fund (2009 Series B)	
Deposit to 2009 Series B Cost of Issuance Account	
Underwriter's Discount	
Total Uses of Funds	

THE 2009 SERIES B PROJECT

The 2009 Series B Project is described in the Budget Act as Expand Patient Care Facility-Hospital Phase III, which continues the expansion of and limited renovation to the existing University Hospital, situated adjacent to the existing Hospital Critical Care Center and the Gill Heart Institute, and the addition of a parking structure and overhead concourse (bridge) connector to the new addition (the "Construction Project"). The Kentucky General Assembly has authorized a total project scope of $700 million. The University Board of Trustees has approved a project scope of $532.3 million at this time. Future project additions up to the total authorization will be phased over the next four to eight years, depending on need and financial feasibility. The 2009 Series B Bonds were authorized in the First Extraordinary Session of the 2009 Kentucky General Assembly. The bond proceeds will be applied to the costs of the Construction Project in lieu of $100 million of other University funds previously authorized for Construction Project costs.

In general the Construction Project consists of the following:

1. Hospital Expansion of approximately 1,237,850 exterior gross square feet of building space. Interior fit-up spaces identified for the initial phase of the hospital program elements is 549,219 square feet. (fit-up figure includes 136,974 square feet of mechanical spaces). The remaining 633,572 square feet will be shelled for future program interior fit-up. Program elements of this initial phase presently includes: four new acute care Nursing Units (128 private patient room beds configured as a 12 bed ICU and 20-bed med/surge nursing units); new Security Office, new Loading Dock and Bulk Processing space; pedestrian and staff links for each floor of the new and existing Hospital buildings; new Emergency Services department with adjacent support of Radiology services containing two new CT Scan units and two R/F X-Ray suites; Emergency Services Department will also contain Stat Lab and Ultrasound Room with Panarex X-ray unit; shell space for new Diagnostic and Treatment Department; new lobby and entrance and two new helipads on the roof to access the new Emergency Services Department.

2. Parking Structure containing space for 1,600 cars.

3. Bridge concourse over South Limestone Street connecting the new parking structure and new hospital expansion. The estimated size is 20 feet in width and 250 feet in length.

4. Infrastructure expansion to the University's heating and cooling piping loops to include one (1-125,000 lb/HR) new boiler and four new 2,500 ton chillers. Three new emergency generators are being installed to support new Hospital power loads and added support for existing loads (2 MW of electrical capacity).

5. Renovation of existing Critical Care Center and Gill Heart Institute buildings, to interface with the new hospital expansion for operational efficiencies. Renovation is limited to construction required to make new building connections.

6. New entrance drives to support new Hospital Public and Visitor entrance and site improvements for Emergency Services entrance. New Employee entrance created to facilitate shuttle bus activity from remote parking locations.

THE TRUST AGREEMENT

The terms and provisions of the Trust Agreement control both outstanding Obligations and all Obligations that may be issued pursuant to the Trust Agreement, including the 2009 Series B Bonds. Please see APPENDIX C – "SUMMARY OF THE TRUST AGREEMENT."

THE UNIVERSITY

General

Mission. The University is a public, land grant university dedicated to improving people's lives through excellence in education, research and creative work, service and health care. As Kentucky's flagship institution, the University plays a critical leadership role by promoting diversity, inclusion, economic development and human well-being.

Vision. The University will be one of the nation's 20 best public research universities.

Values. The University of Kentucky is guided by its core values:

- Integrity
- Excellence

- Mutual respect and human dignity
- Diversity and inclusion
- Academic freedom
- Shared governance
- Work-life sensitivity
- Civic engagement
- Social responsibility

The University contributes to the economic development and quality of life within Kentucky's borders and beyond. From Paducah to Pikeville and from Covington to Cumberland, the University of Kentucky is committed to the individual success of students; to research that both stretches the bounds of knowledge and provides practical solutions; and to the provision of extension services, health care, creative experiences, life-long learning, and countless other efforts to improve the lives of Kentuckians where they live and work and raise their families.

In 1997, the Commonwealth placed in statute the mandate that the University become a Top 20 public research university by 2020. This mandate recognized the strong symbiotic relationship between a state's economic and social condition and its intellectual capital. That capital is most readily available at land-grant, research universities. Strong institutions matter because people in states that are home to leading research universities enjoy higher educational attainment and higher incomes, are less likely to live in poverty, and are more likely to lead healthier lives. President Lee T. Todd Jr. focused the University on achieving this goal through the development of the Top 20 Business Plan in 2005 that gained national prominence for its vision and detail.

"As the state's flagship institution, the University is mindful of its responsibility to help all Kentuckians," Todd says. "Our land-grant mission calls on us to make a positive impact across the state. We need to be an education leader, while remaining accessible to all Kentuckians. We need to be a cultural leader, sharing new ideas and opportunities across the state. And we need to be leading Kentucky's charge into the new economy. We are the catalyst for a new Commonwealth."

History. Nestled in the heart of Kentucky's scenic Bluegrass Region, the University was founded in 1865 as a land-grant university. From its beginnings with only 190 students and 10 professors, the University's campus now covers 795 acres on its main campus and is home to more than 26,000 students and more than 13,500 employees. The University also operates research laboratories across Kentucky.

Students. Students from all 120 Kentucky counties, every state in the U.S. and over 100 countries provide a diverse learning and cultural environment that enriches the educational experience at the University. While the student population has enjoyed steady growth in the past several years, the average ACT score of entering freshmen has continually exceeded the national average. The high quality of the University's students is confirmed by their successful competition for the most prestigious awards, including the Fulbright, Truman, Goldwater and Marshall scholarships. The University has three times been selected as one of only 13 universities nationwide to participate in the Beckman Foundation Scholarship Program, allowing the University to award grants of $19,300 to students to support their research projects. Boasting 13 Truman Scholars, the University has won recognition from the Harry S. Truman Foundation as an honor institution for exemplary participation.

Outreach. Thousands of Kentuckians from across the state feel the impact of the University's research and public service annually, through programs aimed at improving existing businesses and building new ones, creating jobs, improving health and strengthening communities. Programs like Health Education through Extension Leadership (HEEL) bring the results of health research to local communities, helping boost the quality of life across the state.

Meanwhile, Kentuckians have responded to the University's commitment to the Commonwealth through their remarkable support of The Campaign for the University of Kentucky. The fund-raising effort – the largest in state history – to enhance facilities, academic programs, public service and scholarships surpassed its $1 billion goal. The generosity of the University's alumni and friends allowed the University to fully utilize its allocation of state support available through Kentucky's Research Challenge Trust Fund program.

Programs. University students enjoy an enormous array of choices, with some 200 majors and degree programs in 16 academic and professional colleges available. The University is one of only seven public universities nationally to house colleges of Agriculture, Engineering, Medicine and Pharmacy on a single campus.

Research. The University has consistently increased its research and development portfolio. Today, UK is doing over $154 million in federally-financed research and $337 million in total research. A recent national ranking by Academic Analytics placed UK 19th among public institutions for the scholarly productivity of its faculty.

Medical Centers. The UK Chandler Medical Center, opened in 1960, stands among the nation's finest academic medical centers. Its faculty, students and staff take pride in achieving excellence in education, patient care, research and community service. One of only two Level One Trauma Centers in Kentucky, UK cares for the most critically injured and ill patients in the region. More than 600 faculty physicians and dentists, 570 resident physicians and a staff of 4,880 provide care in the 791 licensed beds at UK Chandler Hospital, Kentucky Children's Hospital and UK HealthCare Good Samaritan Hospital.

In 2007, ground was broken for the new, $532 million UK Chandler Hospital. This more than one million square-foot facility, to be opened in phases starting with the Emergency Department in 2010, is the cornerstone of a 20-year, $2.5 billion plan to construct the Commonwealth Medical Campus of the Future. Among the campus' components are a $133 million Biological Pharmaceutical Building set to open in Spring 2010, additional research buildings, a new shared Health Sciences Learning Center, and additional buildings to house programs for the colleges of Medicine, Nursing, Health Sciences, Dentistry and Public Health.

Libraries. No university can provide adequate opportunities to its students – or to the residents of the state it serves – without outstanding library facilities. The University of Kentucky operates a nationally-recognized research library system, with the capstone being the world-class William T. Young Library. UK's book endowment is the largest among public universities. Its library network and technology provide extraordinary services to students in the colleges of Medicine, Law, Engineering, Fine Arts and other programs. Meanwhile, students, faculty, staff and Kentucky residents can use UK Libraries' advanced technology to access the most up-to-date information from online journals, government publications and private studies.

Governing Board

The governing body of the University is the Board consisting of twenty members, sixteen appointed by the Governor of the Commonwealth of Kentucky; two faculty members elected by the faculty; one student member, who is the President of the student body, or if he or she is not a full-time student who maintains permanent residence in the Commonwealth, a full-time student who does maintain permanent residency in the Commonwealth elected by the student body; and one member of the University staff. Pursuant to Section 164.160 of the Kentucky Revised Statutes, the Board is a body corporate with the powers usually vested in corporations and, as such, subject to the statutes of the Commonwealth, has control and management of the University, together with the properties and funds thereof.

Administrative Officers

The President of the University is Dr. Lee T. Todd, Jr.; the Provost is Kumble R. Subbaswamy; the Executive Vice President for Finance and Administration is Frank Butler; and the Executive Vice President for Health Affairs is Dr. Michael Karpf.

Future Debt

The State may authorize other projects at the University to be directly funded from proceeds of Obligations, including Agency Fund Revenue Bonds issued by the State Property and Buildings Commission or the Kentucky Asset/Liability Commission. The current State Budget authorizes bonds to be issued for the following projects:

Renovate Blazer Hall Cafeteria	$2,800,000
Renovate Student Center Food Court	$2,675,000
Sanitary Sewer Expansion/Replacement	$10,000,000

In addition, Obligations to refund outstanding bonds, notes and Obligations may be issued to achieve debt service savings.

Payment of the debt service on the above authorized bonds would be the obligation of the University.

TAX MATTERS

General

In the opinion of Bond Counsel for the 2009 Series B Bonds, interest on the 2009 Series B Bonds is exempt from Kentucky income tax and the 2009 Series B Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and any of its political subdivisions under the laws of the Commonwealth of Kentucky as presently enacted and construed. HOWEVER, INTEREST ON THE 2009 SERIES B BONDS IS NOT EXCLUDIBLE FROM GROSS INCOME OF THE HOLDERS OF THE 2009 SERIES B BONDS FOR FEDERAL INCOME TAX PURPOSES. OWNERS OF THE 2009 SERIES B BONDS SHOULD CONSULT WITH THEIR OWN TAX ADVISORS AS TO THE FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF THE ACQUISITION, OWNERSHIP AND DISPOSITION OF THE 2009 SERIES B BONDS.

A copy of the opinion of Bond Counsel for the 2009 Series B Bonds is set forth in APPENDIX D, attached hereto.

Original Issue Discount and Premium

Certain of the 2009 Series B Bonds (the "Discount 2009 Series B Bonds") may be offered and sold to the public at an original issue discount ("OID"). OID is the excess of the stated redemption price at maturity (the principal amount) over the "issue price" of such 2009 Series B Bonds, provided that excess equals or exceeds a statutory de minimis amount (one-quarter of one percent of the 2009 Series B Bond's stated redemption price at maturity multiplied by the number of complete years to its maturity). The issue price of a Discount 2009 Series B Bond is the initial offering price to the public (other than to bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which a substantial amount of the Discount 2009 Series B Bonds of the same maturity are sold pursuant to that offering. For federal income tax purposes, OID accrues to the owner of a Discount 2009 Series B Bond over the period to maturity based on the constant yield method, compounded semiannually (or over a shorter permitted compounding interval selected by the owner). The portion of OID that accrues during the time a U.S. owner owns a Discount 2009 Series B Bond (i) constitutes interest includible in the U.S.

owner's gross income for federal income tax purposes and (ii) is added to the U.S. owner's tax basis for purposes of determining gain or loss on the maturity, redemption, prior sale, or other disposition of the Discount 2009 Series B Bond. The effect of OID is to accelerate the recognition of taxable income during the term of the Discount 2009 Series B Bond.

Certain of the 2009 Series B Bonds (the "Premium 2009 Series B Bonds") may be offered and sold to the public at a price in excess of their stated redemption price (the principal amount) at maturity. If a U.S. owner purchases a Premium 2009 Series B Bond, that owner will be considered to have purchased such a Premium 2009 Series B Bond with "amortizable bond premium" equal in amount to such excess. The U.S. owner may elect, in accordance with the applicable provisions of Section 171 of the Code, to amortize that premium as an offset to the interest payments on the Premium 2009 Series B Bond using a constant yield to maturity method over the remaining term of the Premium 2009 Series B Bond (or, if required by applicable Treasury Regulations, to an earlier call date). Pursuant to Section 67(b)(11) of the Code, the amortization of that premium is not considered a miscellaneous itemized deduction. Any amortization of bond premium will reduce the basis of the Premium 2009 Series B Bond pursuant to Section 1016(a)(5) of the Code.

Owners of Discount or Premium 2009 Series B Bonds (or book entry interests in them) should consult their own tax advisers as to the determination for federal tax purposes of the amount of OID or amortizable bond premium properly accruable in any period with respect to the Discount or Premium 2009 Series B Bonds and as to other federal tax consequences and the treatment of OID and amortizable bond premium for purposes of state or local taxes on (or based on) income.

Backup Withholding

General information reporting requirements will apply to payments of principal and interest made on a 2009 Series B Bond and the proceeds of the sale of a 2009 Series B Bond to non-corporate holders of the 2009 Series B Bonds, and "backup withholding" at a rate of 28% will apply to such payments if the owner fails to provide an accurate taxpayer identification number in the manner required or fails to report all interest required to be shown on its federal income tax returns. A beneficial owner of a 2009 Series B Bond that is a U.S. owner can obtain complete exemption from backup withholding by providing a properly completed IRS Form W-9 (Request for Taxpayer Identification Number and Certification).

Nonresident Owners

Under the Code, interest and OID on any 2009 Series B Bond whose beneficial owner is a nonresident alien, foreign corporation or other non-United States person (Nonresident) are generally not subject to United States income tax or withholding tax (including backup withholding) if the Nonresident provides the payor of interest on the 2009 Series B Bonds with an appropriate statement as to its status as a Nonresident. This statement can be made on IRS Form W-8BEN or a successor form. If, however, the Nonresident conducts a trade or business in the United States and the interest or OID on the 2009 Series B Bonds held by the Nonresident is effectively connected with such trade or business, that interest or OID will be subject to United States income tax but will generally not be subject to United States withholding tax (including backup withholding).

Circular 230

THE FOREGOING DISCUSSION OF TAX MATTERS WAS NOT INTENDED OR WRITTEN BY BOND COUNSEL TO BE USED, AND IT CANNOT BE USED, FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON AN OWNER OF THE 2009 SERIES B BONDS. THE FOREGOING DISCUSSION OF TAX MATTERS WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE 2009 SERIES B BONDS. EACH PROSPECTIVE OWNER OF THE 2009 SERIES B BONDS SHOULD SEEK ADVICE BASED ON THE

PROSPECTIVE OWNER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

CONTINUING DISCLOSURE

In accordance with Securities and Exchange Commission Rule 15c2-12 (the "Rule"), the University (the "Obligated Person") will agree, pursuant to a Continuing Disclosure Agreement to be dated the first day of the month in which the 2009 Series B Bonds are sold (the "Disclosure Agreement"), to be delivered on the date of delivery of the 2009 Series B Bonds, to cause the following information to be provided:

(a) to the Municipal Securities Rulemaking Board (the "MSRB"), certain annual financial information and operating data, including audited financial statements prepared in accordance with generally accepted accounting principles, generally consistent with the information contained in Appendices A, B and C; such information shall be provided on or before 270 days following the fiscal year ending on the preceding June 30, commencing with the fiscal year ending June 30, 2010;

(b) to the MSRB, notice of the occurrence of certain events, if material, with respect to the 2009 Series A Bonds, which events are as follows;

(1) Principal and interest payment delinquencies;
(2) Non-payment related defaults;
(3) Unscheduled draws on debt service reserves reflecting financial difficulties;
(4) Unscheduled draws on credit enhancements reflecting financial difficulties;
(5) Substitution of credit or liquidity providers, or their failure to perform;
(6) Adverse tax opinions or events affecting the tax-exempt status of security;
(7) Modifications to rights of security holders;
(8) Bond calls, except for mandatory scheduled redemptions not otherwise contingent upon the occurrence of the event;
(9) Defeasances;
(10) Release, substitution or sale of property securing repayment of the securities;
(11) Rating changes;
(12) The cure, in the manner provided under the Resolutions, of any payment or nonpayment related default under the Resolutions; and
(13) The issuance of any indebtedness on a parity with the Bonds; and

(c) to the MSRB, notice of a failure (of which the Obligated Persons have knowledge) of an Obligated Person to provide the required Annual Financial Information on or before the date specified in the Disclosure Agreement.

The Disclosure Agreement provides a Holder of the 2009 Series B Bonds, including Beneficial Owners of the 2009 Series B Bonds, with certain enforcement rights in the event of a failure by the University to comply with the terms thereof; however, default under the Disclosure Agreement does not constitute an event of default under the Resolutions. The Disclosure Agreement may also be amended or terminated under certain circumstances in accordance with the Rule as more fully described therein. Holders of the 2009 Series B Bonds are advised that the Disclosure Agreement, the form of which is obtainable from the Financial Advisor, should be read in its entirety for more complete information regarding its contents.

The University has complied with its continuing disclosure requirements as of the date of this Official Statement.

Financial information regarding the University may be obtained from the Treasurer, University of Kentucky, 301 Peterson Service Building, South Limestone Street, Lexington, Kentucky 40506-0005.

PENDING LITIGATION

There is no controversy or litigation of any nature now pending or threatened restraining or enjoining the issuance, sale, execution or delivery of the 2009 Series B Bonds, or in any way contesting or affecting the validity of the 2009 Series B Bonds or any proceedings of the University taken with respect to the issuance of sale thereof, or the pledge or application of any moneys or security provided for the payment of the 2009 Series B Bonds or the due existence or powers of the University.

APPROVAL OF LEGALITY

Legal matters incident to the authorization, issuance, sale and delivery of the 2009 Series B Bonds are subject to the approval of Peck, Shaffer & Williams LLP, Covington, Kentucky, Bond Counsel to the University. The approving legal opinion of Bond Counsel will be printed on the 2009 Series B Bonds and will contain a statement of state and local tax exemption as represented herein. Bond Counsel has reviewed the information herein pertaining to the 2009 Series B Bonds under the headings "THE 2009 SERIES B BONDS," "SECURITY FOR THE 2009 SERIES B BONDS," "THE TRUST AGREEMENT," "TAX MATTERS," APPENDIX C, APPENDIX D and APPENDIX F, and is of the opinion that such information is a fair summary of the principal provisions of the instruments and information therein described. Said firm has not otherwise participated in the preparation of the Official Statement or the Appendices attached hereto and has not verified the accuracy or completeness of the information contained under any heading other than those stated above, nor of any financial information, enrollment numbers, projections, or computations relating thereto, and therefore, can make no representation with respect to such information. A certification as to the matters set forth under "PENDING LITIGATION" will be delivered by the University with the 2009 Series B Bonds.

FINANCIAL ADVISOR

Morgan Keegan and Company, Inc., Lexington, Kentucky, has acted as Financial Advisor to the University in connection with the issuance of the 2009 Series B Bonds and will receive a fee, payable from Bond proceeds, for its services as Financial Advisor. The University has granted the Financial Advisor the right to submit a bid for the 2009 Series B Bonds, either alone or as a member of an underwriting syndicate.

APPROVAL OF ISSUANCE OF BONDS

Pursuant to Chapter 42 of the Kentucky Revised Statutes, issuance of the 2009 Series B Bonds must be approved by the Cabinet's Office of Financial Management.

FINANCIAL STATEMENTS

The financial statements of the University as of and for the year ended June 30, 2009, included in this Official Statement in APPENDIX B, have been audited by BKD LLP, independent auditors, as stated in their report appearing herein.

CERTIFICATE CONCERNING OFFICIAL STATEMENT

Concurrently with the delivery of the 2009 Series B Bonds, the Treasurer of the Board will certify that, to the best of his knowledge, the Official Statement did not as of the date of delivery of the 2009 Series B Bonds, contain any untrue statements of a material fact or omit to state a material fact which should be included therein for the purpose for which the Official Statement is to be used, or which is necessary in order to make the statements contained therein, in light of the circumstances under which they were made, not misleading in any material respect.

COMPLETENESS OF OFFICIAL STATEMENT

The Board has approved and caused this Official Statement to be executed and delivered by its Chairman. This Official Statement is deemed final by the Board for purposes of Securities and Exchange Commission Rule 15c2-12(b)(1) as of the date hereof.

The financial information supplied by the Board and reported in APPENDIX A and APPENDIX B herein is represented by the Board to be correct. With respect to APPENDIX A, accounts required by Federal and State laws, rules and regulations to be audited annually by independent certified public accountants have been so audited and the financial information extracted from the annual audits and presented herein is incomplete to the degree that accounts not required to be so audited have not been included in the annual audits contained in APPENDIX B.

RATINGS

Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc. ("S&P") have assigned the 2009 Series B Bonds the respective ratings of "Aa3" and "AA-," respectively. Each rating reflects only the views of the respective Rating Agency. Explanations of the significance of the ratings may be obtained from each Rating Agency as follows: Moody's Investors Service, Inc., 7 World Trade Center, 250 Greenwich Street, New York, New York 10007, (212) 583-0300; and Standard & Poor's Ratings Services, a Division of the McGraw-Hill Companies, 55 Water Street, New York, New York 10041 (212) 438 2124.

A rating is not a recommendation to buy, sell or hold the 2009 Series B Bonds. There is no assurance that such ratings will continue for any given period of time or that they may not be lowered or withdrawn entirely. Any such downward change in or withdrawal of such ratings could have an adverse effect on the market price of the 2009 Series B Bonds.

UNDERWRITING

The 2009 Series B Bonds are to be purchased by ___________________________ (the "Underwriter"). The Underwriter has agreed, subject to certain conditions, to purchase the 2009 Series B Bonds at an aggregate purchase price of $__________ (which is equal to the principal amount of the 2009 Series B Bonds [less net original issue discount] [plus net original issue premium] of $__________ and less underwriting discount of $__________). The Underwriter will be obligated to purchase all of the 2009 Series B Bonds if any are purchased. The Underwriter has advised the University that it intends to make a public offering of the 2009 Series B Bonds at the initial public offering yields set forth on the cover page hereof, provided, however, that the Underwriter has reserved the right to make concessions to dealers and to change such initial public offering prices as the Underwriter shall deem necessary in connection with the marketing of the 2009 Series B Bonds.

MISCELLANEOUS

All quotations from, and summaries and explanations of, the Kentucky Revised Statutes, the Resolution and the Series Resolution, contained herein do not purport to be complete, and reference is made to such laws and documents for full and complete statements of their provisions. The Appendices attached hereto are a part of this Official Statement. Copies, in reasonable quantity, of the Resolution or the Series Resolution may be obtained from Morgan Keegan and Company, Inc., 489 East Main Street, Lexington, Kentucky 40507, Attention Mr. Bob Pennington (859) 232-8211.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. Except when otherwise indicated, the information set forth herein has been obtained from the University and has not been verified as to accuracy or completeness by, and is not to be construed as a representation of, the Financial Advisor or Bond Counsel. This Official Statement is not to be construed as a contract or agreement between the University and the purchasers or owners of any of the 2009 Series B Bonds.

UNIVERSITY OF KENTUCKY

By: /s/ ______________________________
Chairman, Board of Trustees

Attest:

UNIVERSITY OF KENTUCKY

By: /s/ ______________________________
Assistant Secretary

APPENDIX A

INFORMATION PERTAINING TO THE UNIVERSITY OF KENTUCKY

GENERAL

This APPENDIX A contains certain financial and operating information regarding the University. Reference is made to APPENDIX B for additional financial and operating information.

NOTE: Effective July 1, 2004, the Board of Trustees, pursuant to the direction of the Kentucky General Assembly, delegated to the Board of Regents of the Kentucky Community and Technical College System (KCTCS) the management of Lexington Community College. Therefore, in general, statistical information in this Official Statement does not include Lexington Community College for the fiscal years after 2003-04.

FISCAL YEAR 2010 BUDGET

The Fiscal Year 2010 budget for the University is $2,439,690,900, an increase of $212,724,500 from the final Fiscal Year 2009 budget.

OPERATIONS

Summary of Revenues, Expenses and Changes in Net Assets

The following is a summary of the University's revenues, expenses and changes in net assets for the most recent three Fiscal Year periods available:

	Fiscal Year (Dollars in Thousands)		
	2007	2008	2009
Operating revenue	$1,391,921	$1,563,013	$1,616,421
Operating expenses	1,765,220	1,912,879	2,026,647
Operating loss	(373,299)	(349,866)	(410,226)
Non-operating revenue, including state appropriations	548,848	368,799	326,722
Increase in net assets	$175,549	$18,933	$(83,504)

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Enrollment

The following schedule indicates the Fall Semester head count and full-time equivalent enrollment at the University for each of the academic years 2000-01 through 2009-10. The full-time enrollment calculation is made in accordance with the method used by the United States Department of Education. Note: Data from prior years has been slightly revised to conform with IPEDS.

	Community College[1]		Main Campus		Total	
Academic Year[1]	Head Count[3]	Full-Time Equivalent[2]	Head Count	Full-Time Equivalent[2]	Head Count	Full-Time Equivalent[2]
2000-01	7,214	5,431	23,114	20,277	30,328	25,708
2001-02	7,793	5,878	23,901	21,100	31,694	26,978
2002-03	8,270	6,251	24,985	21,872	33,255	28,123
2003-04	8,672	6,517	25,397	22,310	34,069	28,827
2004-05	N/A	N/A	25,686	22,629	25,686	22,629
2005-06	N/A	N/A	25,672	23,881	25,672	23,881
2006-07	N/A	N/A	26,382	23,291	26,382	23,291
2007-08	N/A	N/A	25,902	23,642	25,902	23,642
2008-09	N/A	N/A	26,055	23,936	26,055	23,936
2009-10	N/A	N/A	26,262	24,140	26,262	24,140

[1] Enrollment does not include the Community Colleges except for Lexington Community College
[2] Full-time and part-time enrollment equated to full-time enrollment
[3] As of June 30, 2004, Lexington Community College is part of KCTCS

In reviewing enrollment projections, consideration has been given to planning for adequate academic and housing accommodations for future enrollments. The programs will be developed so that academic and housing facilities will not be limiting factors on the enrollment growth projected. The enrollment projection for the University is set forth in the following tabulations:

Academic Year	Main Campus Fall Semester Student Enrollment (Full-Time Equivalent)[1]
2010-2011	24,450
2011-2012	24,750
2012-2013	25,100
2013-2014	25,400
2014-2015	25,750
2015-2016	26,100

[1] Projections based on 2009-2010 data

Approximately 23% of the students enrolled in the University are non-residents of Kentucky and it is anticipated that the percentage of non-resident enrollments will remain at this level in future years.

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Admissions Information – Fall Semester
Undergraduate Admissions

The following is a summary of certain undergraduate admission information for the most recent five years:

	2005	2006	2007	2008	2009
Number of Applications	10,515	10,024	10,619	11,120	12,195
Number Approved for Enrollment	8,123	8,073	8,172	8,757	8,966
Number Enrolled	3,844	4,190	3,922	4,110	4,145
Average ACT Scores (First time full-time Freshman)	24.75	23.92	24.3	24.4	24.7

State Appropriations

The following is a summary of the University's General Fund state appropriations for the most recent ten Fiscal Years:

Fiscal Year	Appropriation
2001	$307,821,000 [1]
2002	303,639,000 [1]
2003	304,735,000 [1]
2004	302,539,000 [1]
2005	295,807,600 [2]
2006	314,293,600 [2]
2007	319,859,300 [2]
2008	327,155,100 [2]
2009	315,161,856 [2]
2010	294,137,000 [2,3]

1 Does not include the Community Colleges appropriations except for Lexington Community College debt service appropriations.
2 Does not include any Community Colleges appropriations.
3 Includes $4,682,400 in Fiscal Year 2010 for debt service. Does not include $21,066,800 in state fiscal stabilization funds under the American Recovery and Reinvestment Act.

The amount of funds appropriated has been based in part on the debt service on the University's outstanding Consolidated Educational Buildings Revenue Bonds. The amounts set forth above, except for Fiscal Year 2010, are amounts actually received, which, in certain years, have been less than amounts included in the original state budget for that year. The Board presently intends, but is not obligated, to continue to seek to have funds appropriated by the General Assembly to partially support the operations of the University. THE GENERAL ASSEMBLY IS NOT NOW OBLIGATED, NOR WILL THERE BE AN OBLIGATION IN THE FUTURE TO MAKE APPROPRIATIONS TO THE UNIVERSITY. IN ADDITION, THERE CAN BE NO ASSURANCE THAT IN THE PERFORMANCE OF HIS OR HER OBLIGATION TO BALANCE THE STATE BUDGET ANNUALLY, THE GOVERNOR WILL NOT REDUCE OR ELIMINATE ANY APPROPRIATIONS WHICH ARE MADE.

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Grants and Contracts

The following is a summary of the University's grant and contract amounts for the most recent ten Fiscal Years:

Fiscal Year	Amount
2000	$128,116,917
2001	146,914,931
2002	170,378,424
2003	197,651,327
2004	218,890,770
2005	250,381,051
2006	270,278,010
2007	287,185,815
2008	290,923,063
2009	295,264,530

Student Financial Aid

The following is a summary of the University's student financial aid for the most recent ten Fiscal Years:

Fiscal Year	Amount
2000	$110,992,616 [1]
2001	129,340,356 [1]
2002	139,411,538 [1]
2003	167,461,348 [1]
2004	184,255,947 [1]
2005	171,972,107 [2]
2006	172,720,169 [2]
2007	167,665,430 [2]
2008	203,907,179 [2]
2009	231,428,460 [2]

[1] Does not include Community Colleges Student Financial Aid except for Lexington Community College.
[2] Does not include any Community Colleges Student Financial Aid.

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Comparative Report of Student Financial Aid

The following is a comparative summary of the University's student financial aid for the two most recent Fiscal Years:

	Fiscal Year 2008	Fiscal Year 2009
Scholarships & Grants	$47,221,364	$53,694,518
Federal Grants:		
Pell	8,987,280	10,543,766
Supplemental Educational Opportunity Grant (SEOG)	704,982	868,229
Academic Competiveness Grant (ACG)	615,572	686,872
Science and Mathematics Access to Retain Talent (SMART)	388,052	353,183
Teacher Education Assistance for College and Higher Education Grant Program (TEACH)		35,000
College Work Study	750,374	866,776
Financial Aid from Outside Agencies:		
State Grants	21,051,537	20,904,917
Agency Scholarships	1,081,557	796,432
Loans:		
National Direct Student Loans (Perkins)	5,502,232	2,088,303
Federal Direct Loans	81,594,927	105,694,205
Federal Family Education Loans (FFEL)	21,955,694	20,872,608
Health Professions Loans	307,160	417,800
Loans – Outside Agencies	13,122,463	13,181,516
Other Loans (Institutional)	623,984	424,335
Total	$203,907,179	$231,428,460

The University of Kentucky Albert B. Chandler Hospital

History and Background. The Albert B. Chandler Hospital (University Hospital) is an organizational unit of the University. It holds a position of leadership as a statewide, regional, and national tertiary referral hospital. Initial funds for the University Hospital were appropriated by the 1956 General Assembly, and the first patients were admitted to the University Hospital in 1962.

In its commitment to quality care, the Hospital and the Hospital's medical staff representing all medical and surgical specialties, provides a full scope of services, such as extensive pediatric services offering sophisticated neonatal intensive care, renal, bone marrow and solid organ transplant programs, and comprehensive high-risk obstetrical services. The Hospital and its staff are leaders in developing and refining new technology including imaging and comprehensive medical, surgical, cancer, geriatric, cardiac, and burn specialty programs. Patients benefiting from these services come from all of Kentucky's counties, contiguous states, other states, and many foreign countries.

Relationship to Other Units of the Academic Medical Center. Within the Academic Medical Center, along with the Albert B. Chandler Hospital, there are the Colleges of Medicine, Nursing, Dentistry, Pharmacy, Public Health, and Health Sciences.

In its support of the College of Medicine the University Hospital provides a facility for teaching and research. The College of Medicine annually graduates approximately 95 physicians and supervises the clinical experience of nearly 500 post-graduate physicians each year. The facilities at the medical school adjoin the Hospital containing lecture halls, classroom space, offices, and laboratories.

The primary function of the College of Medicine is the education of physicians through a four-year doctor of medicine degree (M.D.) program and three to seven year residency programs which are offered in 32 medical and surgical subspecialties. In addition, masters (M.S.), doctoral (PhD), and post-doctoral programs are offered in five basic science areas. The College of Medicine also operates the Sanders Brown Research Center on Aging, which is among the nation's leaders in Alzheimer's disease research. The Center is engaged in the multi-disciplinary study of the problems of aging. Both inpatient hospital and ambulatory patient care services are provided by the faculty of the College of Medicine within the Medical Center, as well as a number of clinical practice settings principally in Eastern Kentucky in conjunction with the University's eight Area Health Education Center Affiliations in Bowling Green, Hazard, Morehead, Mt Vernon, Madisonville, Murray, Louisville and Park Hills.

The other colleges within the Academic Medical Center, Nursing, Dentistry, Pharmacy, Public Health, and Health Sciences also use the Albert B. Chandler Hospital as a prime teaching site for students and residents and patient care facility to carry out their mission of research and education.

The University acquired Samaritan Hospital effective July 1, 2007. The community hospital is located adjacent to the University Campus and within walking distance of the University Hospital. Samaritan Hospital was renamed UK HealthCare Good Samaritan (UKHGS) and provides the University with an additional 332 license beds. UKHGS will retain an open staff model serving both community and College of Medicine physicians.

Hospital Mission, Vision and Critical Success Factors. The Hospital recognizes the need for organizational planning to maintain its position as a quality health care provider. The Hospital's mission is to help people of the Commonwealth and beyond gain and retain good health through creative leadership and quality initiatives in patient care, education and research. To achieve this Mission the Hospital has set a Vision of being a top 20 public academic health center, recognized nationally and internationally for excellence in patient care, education and research. In recent years, University Hospital has been recognized for performance excellence by Thompson Healthcare (formerly Solucient) which ranked the facility among the 100 Top Performance Improvement Leaders as well as being listed as one of “America’s Best Hospitals” for Gynecology and Ear, Nose and Throat by US News and World Report..

Hospital Administration. University Hospital and UKHGS are managed by the UK HealthCare executive group that includes the Executive Vice President for Health Affairs Michael Karpf M.D.; the Senior Vice President for Health Affairs and CFO of the HealthCare Enterprise Sergio Melgar; the Vice President for HealthCare Operations and Chief Clinical Officer Richard P. Lofgren, MD, MPH; the Vice President for Clinical Affairs/Dean of the College of Medicine Jay Perman, M.D.; the Chief Medical Officer Paul D. DePriest, M.D., MHCM.; and the Associate Vice President/Chief Information Officer for the UK Healthcare Enterprise Tim Tarnowski. Daily operations of the University Hospital are managed by Chief Administrative Officer Ann Smith, MPA, FACHE while operations at UKHGS are managed by Chief Administrative Officer Frank Beirne, CHE. Chief Nurse Executive Colleen H. Swartz, RN, MSN, MBA, is responsible for nursing at both facilities. The Chief Operating Officer responsible for Ambulatory Services is Jonathon Curtright.

Hospital Operating Results and Financial Condition.

Statement of Revenue, Expenses and Changes In Net Assets. The following is a summary of the University Hospital's revenue, expenses and changes in net assets for each of Fiscal Years 2007, 2008 and 2009.

	2007	2008	2009
	(Dollars in Thousands)		
Operating revenue	$537,431	$670,317	$704,912
Operating expenses	520,324	621,840	698,179
Operating income	17,107	48,477	6,733
Net non-operating revenue (expenses)	39,413	(9,303)	(36,556)
Net income before other revenues, expenses, gains or losses	56,520	39,174	(29,823)
Transfer to University	(9,319)	(19,811)	(17,907)
Net loss from discontinued operations	5	(20)	(17)
Increase in net assets	$47,206	$19,343	$(47,747)

Certain Operating Information.

	2007	2008	2009
Average Licensed Beds	473	775	791
Available Beds	473	611	636
Patient Days	148,289	178,217	180,776
Patient Days Equivalents [1]	240,201	279,530	288,048
Admissions	27,331	32,975	31,786
Discharges	27,292	32,929	31,768
Average Length of Stay (days)	5.43	5.41	5.69
Occupancy	85.89%	79.72%	77.87%
Emergency Visits	45,655	65,962	68,299
Outpatient Visits with Hospital Charge	290,910	340,867	336,748

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

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OUTSTANDING BONDS OF THE UNIVERSITY OF KENTUCKY

In addition to the 2009 Series B Bonds, the University has the following bonds outstanding as of June 30, 2009.

Consolidated Educational Buildings Revenue Bonds

	Year of Issue	Amount of Issue	Amount Outstanding	Year of Final Maturity
Series M (2nd Series)	1998	$4,695,000	$1,610,000	2011
Series N (2nd Series)	2001	18,795,000	6,165,000	2012
Series K (3rd Series)	2003	5,115,000	790,000	2010
Series S	2003	29,775,000	24,195,000	2024
Series T	2003	17,635,000	13,790,000	2023
Series O (2nd Series)	2003	9,335,000	5,115,000	2015
Series E, J & L (3rd Series)	2004	19,520,000	3,540,000	2011
Series P, Q & R (2nd Series)	2004	52,110,000	39,710,000	2021
Series U	2005	11,495,000	9,925,000	2025
TOTAL		$168,475,000	$104,840,000	

Obligations Outstanding Under the General Receipts Trust Agreement

	Year of Issue	Amount of Issue	Amount Outstanding	Year of Final Maturity
Kentucky Asset/Liability Commission				
General Receipts				
Project Notes, 2005 Series A	2005	$107,540,000	$107,540,000	2025
Refunding Project Notes, 2006 Series A	2006	66,305,000	62,760,000	2022
Refunding Project Notes, 2007 Series A	2007	77,905,000	77,905,000	2027
Refunding Project Notes, 2007 Series B	2007	80,245,000	80,245,000	2027
Total ALCo Notes		$334,215,000	$328,450,000	
University of Kentucky				
General Receipts Bonds				
2005 Series A Bonds	2005	7,160,000	6,395,000	2025
2006 Series A Bonds	2006	24,325,000	22,725,000	2026
2009 Series A Bonds	2009	33,350,000	33,350,000	2026
Total UK Bonds		$64,835,000	$62,470,000	
Lease Agreement dated February 20, 2009 with Kentucky Association of Counties Leasing Trust	2009	$35,000,000	$35,000,000	2028
Total Under Trust Agreement		$434,050,000	$425,920,000	

Please refer to the financial statements included in "APPENDIX C" for additional obligations of the University.

TOTAL ANNUAL DEBT SERVICE REQUIREMENTS
SECURED BY PLEDGED REVENUES AND RECEIPTS

Year Ending June 30	Existing Debt Service	Principal	Interest	Total	Total Debt Service
2010	$45,662,233.30				
2011	49,827,514.13				
2012	47,646,503.97				
2013	45,406,772.22				
2014	45,407,144.68				
2015	45,404,988.06				
2016	44,455,030.81				
2017	44,469,946.52				
2018	44,475,805.57				
2019	43,978,511.08				
2020	46,400,682.84				
2021	41,618,307.54				
2022	39,293,073.27				
2023	39,289,488.60				
2024	32,609,876.61				
2025	30,395,445.01				
2026	26,696,202.92				
2027	26,166,678.48				
2028	24,337,846.98				
2029	1,315,686.90				
2030	-				
2031	-				
2032	-				
2033	-				
2034	-				
2035	-				
2036	-				
2037	-				
2038	-				
2039	-				
2040	-				
Total	$764,857,739.49				

PLEDGED REVENUES – GENERAL RECEIPTS
UNIVERSITY OF KENTUCKY
FISCAL YEAR ENDING JUNE 30, 2009

Revenue Type	2009 Amount (000's)	Pledged (000's)	Prior Pledge Debt Service (000's)	Net General Receipts Pledged Revenues (000's)
Student tuition and fees	$195,244	$195,244	$15,433	$179,811
Nongovernmental grants and contracts	27,344	810		810
Recoveries of facilities and administrative costs	44,707	44,707		44,707
Sales and services	50,196	43,450		43,450
Hospital patient services	701,936	701,936		701,936
Auxiliary enterprises - housing and dining	39,283	39,283		39,283
Auxiliary enterprises - other	25,515	25,515		25,515
Other operating revenue	2,790	593		593
State appropriations	315,162	315,162		315,162
Gifts and grants	72,035	2,471		2,471
Investment income (loss)	(169,113)	11,564		11,564
TOTAL	$1,305,099	$1,380,735	$15,433	$1,365,302

APPENDIX B

CONSOLIDATED FINANCIAL STATEMENTS OF THE UNIVERSITY OF KENTUCKY AS OF JUNE 30, 2009

and

UNIVERSITY OF KENTUCKY UK HEALTHCARE HOSPITAL SYSTEM 2009 FINANCIAL STATEMENTS

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UNIVERSITY OF KENTUCKY®

2009 Financial Statements

University of Kentucky and Affiliated Corporations
A Component Unit of the Commonwealth of Kentucky
Financial Statements
Years Ended June 30, 2009 and 2008

TABLE OF CONTENTS

MESSAGE FROM THE PRESIDENT

If there was ever a time for the University of Kentucky's faculty, staff, and students to lose hope, 2008-09 was the year. Facing a mid-year appropriations reduction for the sixth time in eight years, a second consecutive year of no raises, and a gloomy economic outlook, it would have been easy for our campus community to relinquish our desire to transform the Commonwealth.

These difficult times we have faced challenged us to look inward, asking whether our collective ambitions are strong enough to withstand these trying times. Like they have time and again since I accepted this position, the faculty and staff of this institution have responded gallantly – with a consistent and tough determination to move forward though the path before us has grown more difficult. And they have refused to use a troubled period as an excuse to relinquish our role as leaders in the quest to build a better Kentucky.

Despite some of the most difficult economic and budget conditions in this University's storied history, the last 18 months have been a remarkable time for UK. We experienced a number of institutional records:

- Record high number of freshman applicants: 11,120
- Record high number of Governor's Scholars/School for the Arts students in the first-year class: 389
- Record high number of African-American first year students: 347
- Record high number of African-American undergraduate students: 1,234
- Record high retention rate: 81%
- Record high graduation rate: 61.4%
- Record high graduation rate for African-American students: 50.3%
- Record high doctoral student enrollment: 2,391
- Record high first-professional (Dentistry, Law, Medicine, and Pharmacy) enrollment: 1,558
- Record high first-professional (Dentistry, Law, Medicine, and Pharmacy) degrees awarded: 409
- Record high number of full-time faculty: 2,096
- Record high number of African-American faculty: 84 (including record number of 11 new African-American faculty)
- Record high number and percent of women in Executive/Administrative/Managerial positions: 234 (48.4%)
- Record high research expenditures reported to the National Science Foundation: $337 million

One reason we were able to experience such success is because our faculty and staff did not feel like they were fighting the good fight on their own. While other colleges and universities across the nation experienced a drop in financial support from alumni and friends, UK had a remarkably successful year in private giving. This past fiscal year, more than $68 million was raised for colleges and programs across the University. That's an 18% increase over the previous year. More than 30,000 donors made gifts – an increase of more than 6% from the previous year.

These accomplishments represent more than just numbers and rankings for the Commonwealth. As our fellow Kentuckians look to their University with anxious eyes, they see that resolve to continue our efforts to educate a 21st Century workforce and use our laboratories to discover and create. These twin responsibilities are the necessary ingredients to the building of businesses and communities and the creating of more and better jobs.

We remain committed to the mandate to be one of the best universities in the country. Not because of what such an achievement would mean for this institution; but because of what it means for our state. Strong universities matter because people in states that are home to leading research institutions enjoy higher educational attainment and higher incomes, are less likely to live in poverty, and are more likely to lead healthier lives. And no amount of clutter arising from our current condition can diminish that truth.

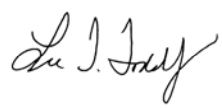
We are called today to be vocal guardians of our mandate. The last several months have damaged the state's economy. But we cannot let it erode our confidence in our ability to build an economy that is not only better than it is today, but stronger – much, much stronger - than it has ever been before. An economy that delivers prosperity that is wider and deeper and touches every edge of our state; one that can better withstand the inevitable ebbs and flows of national and international conditions.

We cannot let the unprecedented difficulty of the last year tempt us with a false nostalgia. An ambition to merely recover to our previous economic circumstance is no ambition at all. We must remember with unquestioned clarity that we labeled as unacceptable the low incomes, low educational attainment, and devastating health maladies that existed even before the current recession took hold. And they remain unacceptable now.

Aristotle said that, "Education is an ornament in prosperity and a refuge in adversity."

During these particularly trying days, I swell with pride knowing that UK's faculty, staff, students, alumni, and donors are working to provide the Commonwealth with the refuge it deserves.

Sincerely,



Lee T. Todd Jr.
President

BKD LLP
CPAs & Advisors

220 W. Main Street, Suite 1700
P.O. Box 1178
Louisville, KY 40201-1178
502.581.0435 Fax 502.581.0723 www.bkd.com

Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees
University of Kentucky
Lexington, Kentucky

We have audited the accompanying basic financial statements of the University of Kentucky and affiliated corporations (University), a component unit of the Commonwealth of Kentucky, as of and for the years ended June 30, 2009 and 2008, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Kentucky Medical Services Foundation, Inc. (KMSF), which statements reflect total assets of $107,533,968 and $100,114,346 as of June 30, 2009 and 2008, respectively and total revenues of $198,745,113 and $177,401,306 for the years then ended. Those financial statements were audited by other accountants whose report thereon has been furnished to us and our opinion, insofar as it relates to the amounts included for the University, is based on the report of the other accountants.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. The financial statements of KMSF, which are included in the University's reporting entity, were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, based on our audits and the reports of the other accountants, the financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 2009 and 2008, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 26, in 2009 the University changed its method of accounting for certain federal and state grants.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2009, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting, compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The accompanying management's discussion and analysis and pension information, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the supplementary information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements. The accompanying supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

BKD, LLP

October 1, 2009

Management's Discussion and Analysis

The following Management's Discussion and Analysis, or MD&A, provides an overview of the financial position and activities of the University of Kentucky (the University) and its affiliated corporations for the years ended June 30, 2009 and June 30, 2008. 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 diversity, inclusion, economic development and human well-being.

Vision. The University of Kentucky will be one of the nation's 20 best public research universities.

Values. The University of Kentucky is guided by its core values:

- Integrity
- Excellence
- Mutual respect and human dignity
- Diversity and inclusion
- Academic freedom
- Shared governance
- Work-life sensitivity
- Civic engagement
- Social responsibility

The University contributes to the economic development and quality of life within Kentucky's borders and beyond. From Paducah to Pikeville and from Covington to Cumberland, the University of Kentucky is committed to the individual success of students; to research that both stretches the bounds of knowledge and provides practical solutions; and to the provision of extension services, health care, creative experiences, life-long learning, and countless other efforts to improve the lives of Kentuckians where they live and work and raise their families.

In 1997, the Commonwealth placed in statute the mandate that the University of Kentucky become a Top 20 public research university by 2020. This mandate recognized the strong symbiotic relationship between a state's economic and social condition and its intellectual capital. That capital is most readily available at land-grant, research universities. Strong institutions matter because people in states that are home to leading research universities enjoy higher educational attainment and higher incomes, are less likely to live in poverty, and are more likely to lead healthier lives. President Lee T. Todd Jr. focused the University on achieving this goal through the development of the Top 20 Business Plan in 2005 that gained national prominence for its vision and detail.

"As the state's flagship institution, UK is mindful of its responsibility to help all Kentuckians," Todd says. "Our land-grant mission calls on us to make a positive impact across the state. We need to be an education leader, while remaining accessible to all Kentuckians. We need to be a cultural leader, sharing new ideas and opportunities across the state. And we need to be leading Kentucky's charge into the new economy. We are the catalyst for a new Commonwealth."

History. Nestled in the heart of Kentucky's scenic Bluegrass Region, UK was founded in 1865 as a land-grant university. From its beginnings with only 190 students and 10 professors, UK's campus now covers 795 acres on its main campus and is home to more than 26,000 students and more than 13,500 employees. The University also operates research laboratories across Kentucky.

Students. Students from all 120 Kentucky counties, every state in the U.S. and over 100 countries provide a diverse learning and cultural environment that enriches the educational experience at UK. While the student population has enjoyed steady growth in the past several years, the average ACT score of entering freshmen has continually exceeded the national average. The high quality of UK's students is confirmed by their successful competition for the most prestigious awards, including the Fulbright, Truman, Goldwater and Marshall scholarships. UK has three times been selected as one of only 13 universities nationwide to participate in the Beckman Foundation Scholarship Program, allowing the University to award grants of $19,300 to students to support their research projects. Boasting 13 Truman Scholars, UK has won recognition from the Harry S. Truman Foundation as an honor institution for exemplary participation.

Outreach. Thousands of Kentuckians from across the state feel the impact of UK's research and public service annually, through programs aimed at improving existing businesses and building new ones, creating jobs, improving health and strengthening communities. Programs like Health Education through Extension Leadership (HEEL) bring the results of health research to local communities, helping boost the quality of life across the state.

Meanwhile, Kentuckians have responded to the University's commitment to the Commonwealth through their remarkable support of The Campaign for the University of Kentucky. The fund-raising effort – the largest in state history – to enhance facilities, academic programs, public service and scholarships surpassed its $1 billion goal. The generosity of UK's alumni and friends allowed the University to fully utilize its allocation of state support available through Kentucky's Research Challenge Trust Fund program.

Programs. UK students enjoy an enormous array of choices, with some 200 majors and degree programs in 16 academic and professional colleges available. UK is one of only seven public universities nationally to house colleges of Agriculture, Engineering, Medicine and Pharmacy on a single campus.

Research. The University has consistently increased its research and development portfolio. Today, UK is doing over $154 million in federally-financed research and $337 million in total research. A recent national ranking by Academic Analytics placed UK 19th among public institutions for the scholarly productivity of its faculty.

Medical Centers. The UK Chandler Medical Center, opened in 1960, stands among the nation's finest academic medical centers. Its faculty, students and staff take pride in achieving excellence in education, patient care, research and community service. One of only two Level One Trauma Centers in Kentucky, UK cares for the most critically injured and ill patients in the region. More than 600 faculty physicians and dentists, 570 resident physicians and a staff of 4,880 provide care in the 791 licensed beds at UK Chandler Hospital, Kentucky Children's Hospital and UK HealthCare Good Samaritan Hospital.

In 2007, ground was broken for the new, $532 million UK Chandler Hospital. This more than one million square-foot facility, to be opened in phases starting with the Emergency Department in 2010, is the cornerstone of a 20-year, $2.5 billion plan to construct the Commonwealth Medical Campus of the Future. Among the campus' components are a $133 million Biological Pharmaceutical Building set to open in Spring 2010, additional research buildings, a new shared Health Sciences Learning Center, and additional buildings to house programs for the colleges of Medicine, Nursing, Health Sciences, Dentistry and Public Health.

Libraries. No university can provide adequate opportunities to its students – or to the residents of the state it serves – without outstanding library facilities. The University of Kentucky operates a nationally-recognized research library system, with the capstone being the world-class William T. Young Library. UK's book endowment is the largest among public universities. Its library network and technology provide extraordinary services to students in the colleges of Medicine, Law, Engineering, Fine Arts and other programs. Meanwhile, students, faculty, staff and Kentucky residents can use UK Libraries' advanced technology to access the most up-to-date information from online journals, government publications and private studies.

Financial Highlights
The University's overall financial position remains fiscally sound with assets of $3.25 billion and liabilities of $1.03 billion. Net assets, which represent the University's residual interest in assets after liabilities are deducted, were $2.21 billion (68 percent) of total assets.

- Total assets decreased $84.5 million (three percent), primarily due to declines in cash and endowment investments offset by an increase in net capital assets.

- Total liabilities were comparable to the previous year, at $1.03 billion.

- Total net assets decreased $83.5 million (four percent) from June 30, 2008 to June 30, 2009. Unrestricted net assets declined $57.4 million primarily as a result of a $59.9 million investment loss on quasi endowments; restricted net assets decreased $113.4 million largely due to investment losses on endowments; and capital assets, net of depreciation and related debt, increased $87.3 million.

- Operating revenues were $1.62 billion and operating expenses were $2.03 billion, resulting in a loss from operations of $410.2 million. Non-operating and other revenues, net of non-operating expenses, were $326.7 million, including $315.2 million in state appropriations. Overall, net assets decreased by $83.5 million.

Using the Financial Statements
The University presents its financial reports in a "business type activity" format, in accordance with Governmental Accounting Standards Board 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 Assets
- Statement of Revenues, Expenses, and Changes in Net Assets
- Statement of Cash Flows, and
- Notes to the Financial Statements

Reporting Entity
The University of Kentucky is a component unit of the Commonwealth of Kentucky. The financial statements of the University include the operations of the University and the following entities:

- University of Kentucky Research Foundation, and its for-profit subsidiaries, Kentucky Technology, Inc. and Coldstream Laboratories, Inc.
- University of Kentucky Athletic Association
- The Fund for Advancement of Education and Research in the University of Kentucky Medical Center
- University of Kentucky Business Partnership Foundation, Inc.
- University of Kentucky Center on Aging Foundation, 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.
- Kentucky Medical Services Foundation, Inc.
- University of Kentucky Faculty Club, Inc.
- Kentucky Healthcare Enterprises, Inc., a for-profit subsidiary.

Statement of Net Assets
The Statement of Net Assets is the University's balance sheet. It reflects the total assets, liabilities, and net assets (equity) of the University as of June 30, 2009, with comparative information as of June 30, 2008. Liabilities due within one year, and assets available to pay those liabilities, are classified as current. Other assets and liabilities are classified as non-current. Net assets (i.e. the difference between total assets and total liabilities) are an important indicator of the University's current financial condition, while the change in net assets is an indicator of whether the overall financial position has improved or worsened during the year.

Generally, assets and liabilities are reported using current values. A major exception is capital assets, which are stated at historical cost less accumulated depreciation. A summarized comparison of the University's assets, liabilities, and net assets as of June 30, 2009; June 30, 2008; and June 30, 2007 follows:

Condensed Statements of Net Assets (in thousands)

	2009	2008	2007
ASSETS			
Current assets	$ 628,141	$ 659,405	$ 608,720
Capital assets, net of depreciation	1,571,530	1,345,426	1,208,670
Other noncurrent assets	1,046,614	1,325,909	1,320,191
Total Assets	3,246,285	3,330,740	3,137,581
LIABILITIES			
Current liabilities	313,083	312,458	294,294
Noncurrent liabilities	720,121	721,697	565,636
Total Liabilities	1,033,204	1,034,155	859,930
NET ASSETS			
Invested in capital assets, net of related debt	909,736	822,409	773,962
Restricted			
Nonexpendable	500,182	487,815	448,506
Expendable	176,433	302,215	389,627
Unrestricted	626,730	684,146	665,556
Total Net Assets	$ 2,213,081	$ 2,296,585	$ 2,277,651

Assets. As of June 30, 2009, total assets amounted to $3.25 billion. The largest asset class was investment in capital (net of depreciation) which totaled $1.57 billion, or 48 percent of total assets. Endowment investments were $701.8 million, or 22 percent of total assets, and cash and cash equivalents totaled $441.6 million, or 14 percent of total assets. During the year, total assets decreased by a net $84.5 million primarily due to a decline in endowment investments resulting from unfavorable market conditions and a decrease in cash and cash equivalents. This decrease was offset by an increase in capital assets due to new additions of land, buildings, equipment and computer software.

Liabilities. As of June 30, 2009, total liabilities amounted to $1.03 billion. Bonds and notes payable, capital leases and other long-term obligations issued for educational buildings, the housing and dining system, the UK HealthCare Hospital System, equipment, and computer software totaled $788.0 million, or 76 percent of total liabilities. During the year, total liabilities decreased by $951,000 primarily due to a decrease in accounts payable and accrued liabilities offset by increases in deferred revenue and long-term liabilities.

Net Assets. The equity of the University of $2.21 billion as of June 30, 2009 is reported on the Statement of Net Assets in four net asset categories: invested in capital assets, net of related debt of $909.7 million (41 percent); restricted-nonexpendable of $500.2 million (23 percent); restricted-expendable of $176.4 million (eight percent); and unrestricted of $626.7 million (28 percent).

Restricted net assets are subject to externally imposed restrictions governing their use. Although unrestricted net assets are not subject to externally imposed stipulations, most of the unrestricted net assets have been internally designated for support of academic and research programs and initiatives, capital projects, and working capital requirements.

Total net assets decreased $83.5 million during the year ended June 30, 2009. Invested in capital assets, net of related debt, increased $87.3 million primarily due to the additions of capital assets and principal payments of capital debt. Restricted net assets decreased $113.4 million principally as a result of a $195.1 million loss on endowment investments due to a negative return on the endowment pool. The loss was partially offset by gifts to endowments totaling $10.0 million. Unrestricted net assets decreased $57.4 million primarily due to $59.9 million loss on quasi endowment investments offset by excess unrestricted revenues over expenses in the UK HealthCare Hospital System of $13.9 million.

2008 Versus 2007. During the year ended June 30, 2008:

- Total assets increased $193.2 million primarily due to increases in cash from bond proceeds and the timing of grant reimbursements; and capital assets due to new additions of land, buildings, equipment and computer software.

- Liabilities increased $174.2 million primarily due to the issuance of additional bonds, notes, capital leases and other long-term obligations for the purchase and/or construction of land, buildings, equipment and computer software.

- Total net assets increased by $18.9 million during the year ended June 30, 2008. Invested in capital assets, net of related debt, increased $48.4 million, primarily due to payment of current year maturities of principal on bonds and capital leases. Restricted net assets decreased $48.1 million primarily due to endowment investment losses. Unrestricted net assets increased $18.6 million primarily due to unrestricted revenues in excess of expenses in the Hospital System of $13.5 million and general funds revenues in excess of expenses of $5.4 million.

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets is the University's income statement. It details how net assets have changed during the year ended June 30, 2009, with comparative information for the year ended June 30, 2008. 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 assets appear on the Statement of Revenues, Expenses and Changes in Net Assets as revenues, expenses, gains or losses.

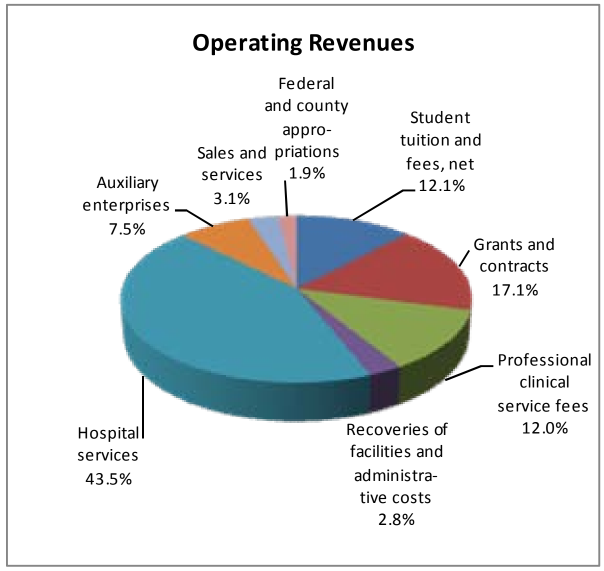
Financial activities are reported as either operating or non-operating. GASB Statement No. 35 requires state appropriations, gifts, and investment and endowment income to be classified as non-operating revenues. Accordingly, the University reports a net operating loss prior to the addition of non-operating revenues. 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 gift 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 assets for years ended June 30, 2009; June 30, 2008; and June 30, 2007 follows.

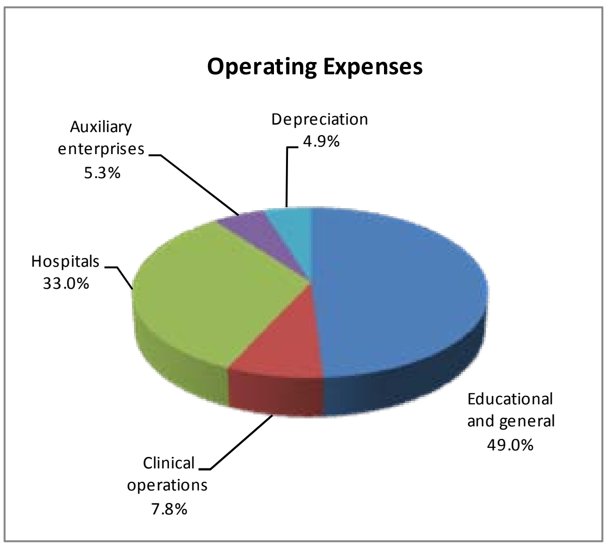
Condensed Statements of Revenues, Expenses and Changes in Net Assets
(in thousands)

	2009	2008	2007
OPERATING REVENUES			
Student tuition and fees, net of scholarship allowances	$ 195,244	$ 178,237	$ 166,742
Grants and contracts	275,468	299,842	289,808
Hospital services	701,936	667,531	535,814
Professional clinical service fees	193,391	174,929	164,432
Auxiliary enterprises, net of scholarship allowances	121,655	114,370	105,005
Sales and services	50,195	51,084	45,717
Recoveries of facilities and administrative costs	44,707	44,137	43,792
Federal and county appropriations	31,035	31,062	30,675
Other operating revenues	2,790	1,821	1,507
Total operating revenues	1,616,421	1,563,013	1,383,492
OPERATING EXPENSES			
Educational and general, excluding depreciation	993,605	989,828	940,314
Clinical operations, excluding depreciation	158,841	130,194	133,271
Hospital, excluding depreciation	667,994	596,260	501,506
Auxiliary enterprises, excluding depreciation	106,897	102,549	99,630
Depreciation	99,067	93,731	90,270
Other operating expenses	243	317	229
Total operating expenses	2,026,647	1,912,879	1,765,220
NET LOSS FROM OPERATIONS	(410,226)	(349,866)	(381,728)
NONOPERATING REVENUES (EXPENSES)			
State appropriations	315,162	327,155	319,859
Capital appropriations	3,446	-	-
Capital grants and gifts	107,546	13,503	23,536
Gifts and grants	72,035	53,935	42,647
Investment income (loss)	(169,113)	(49,382)	160,975
Interest on capital asset-related debt	(15,862)	(14,098)	(12,723)
Additions to permanent endowments	9,990	34,611	29,931
Other, net	3,518	3,076	(6,948)
Total nonoperating revenues (expenses)	326,722	368,800	557,277
Total increase (decrease) in net assets	(83,504)	18,934	175,549
Net assets, beginning of year	2,296,585	2,277,651	2,102,102
Net assets, end of year	$ 2,213,081	$ 2,296,585	$ 2,277,651

Total operating revenues were $1.62 billion for the year ended June 30, 2009, an increase of $53.4 million (three percent). The primary components of operating revenues were student tuition and fees of $195.2 million; grants, contracts and recoveries of facilities and administrative costs of $320.2 million; hospital services of $701.9 million; and professional clinical fee income of $193.4 million.

The major increase was in hospital services revenue of $34.4 million. Good Samaritan patient net revenue increased by $24.5 million while Chandler Hospital increased $9.9 million. Other significant increases in operating revenues related to net student tuition and fees of $17.0 million due to tuition and fee rate increases and professional clinical service fees of $18.5 million. The increases were partially offset by a $24.4 million decrease in grants and contracts primarily due to a change in accounting principle. $21.1 million federal and state grants were reported as nonoperating revenues in the current fiscal year instead of operating revenues as they were in the past.





Operating expenses totaled $2.03 billion, an increase of $113.8 million (six percent). Of this amount, $993.6 million (excluding depreciation) was expended for educational and general programs, including instruction, research and public service. Hospital System expenses, excluding depreciation, amounted to $668 million and clinical operations expenses, excluding depreciation, were $158.8 million. Depreciation expense for the year amounted to $99.1 million.

The most significant increase was in Hospital System expenses, excluding depreciation, of $71.7 million (12 percent) from the operations of Chandler Hospital - $53.8 million, and Good Samaritan Hospital - $17.9 million. Additionally, clinical operation expenses increased $28.6 million for personnel, supplies and equipment, as well as new clinics that opened during the fiscal year. Depreciation expense increased $5.3 million (six percent) due primarily to the addition of related capital assets.

The net loss from operations for the year was $410.2 million. Nonoperating and other revenues, net of expenses, totaled $326.7 million and included: state appropriations of $315.2 million – a decrease of $12.0 million; investment loss of $169.1 million – an increase of $119.7 million; gifts and grants of $72.0 million – an increase of $18.1 million primarily due to the change in accounting principle mentioned above; and capital gifts and grants of $107.5 million – an increase of $94.0 million. The increase from operating and capital gifts and grants partially offset the reduction in state appropriations and the significant loss on investment income.

2008 Versus 2007. Total operating revenues were $1.56 billion for the year ended June 30, 2008, including: student tuition and fees of $178.2 million (11 percent); grants, contracts, and recoveries of facilities and administrative costs of $344.0 million (22 percent); professional clinical service fees of $174.9 million (11 percent); and hospital services of $667.5 million (42 percent). Operating revenues for fiscal year 2008 increased $179.5 million or 13 percent over fiscal year 2007, primarily due to increases in hospital services revenues of $131.7 million; student tuition and fees of $11.5 million; and grants and contracts of $10.0 million.

Operating expenses totaled $1.91 billion in fiscal year 2008. Of this amount, $989.8 million, excluding depreciation, (52 percent), was expended for educational and general programs, including instruction, research and public service. Hospital expenses, excluding depreciation, totaled $596.3 million (31 percent of the total expenses) and clinical operations expenses, excluding depreciation, were $130.2 million (seven percent). Depreciation amounted to $93.7 million (five percent). Operating expenses for fiscal year 2008 increased $147.7 million (eight percent) over fiscal year 2007 primarily due to increases in hospital expenses, excluding depreciation, of $94.8 million (19 percent). $68.3 million was the result of the addition of Good Samaritan Hospital. Additionally, Chandler Hospital reported a $26.4 million increase in personnel, supplies, equipment and building operations. Educational and general expenses increased $49.5 million (five percent) due primarily to increases in research, institutional support and public service.

The net loss from operations for the 2008 fiscal year totaled $349.9 million. Nonoperating and other revenues, net of expenses, totaled $368.8 million, resulting in an increase in net assets of $18.9 million for the year. Nonoperating revenue includes state appropriations of $327.2 million, which increased $7.3 million from June 30, 2007 to June 30, 2008.

Statement of Cash Flows

The Statement of Cash Flows details how cash has increased (or decreased) during the fiscal year ended June 30, 2009, with comparative financial information for the fiscal year ended June 30, 2008. The sources and uses of cash are arranged in the following categories:

- Operating activities
- Noncapital financing activities
- Capital financing activities
- Investing activities

Cash flows associated with the University's expendable net assets appear in the operating and non-capital financing categories. Capital financing activities include payments for capital assets, proceeds from long-term debt and debt repayments. Purchases and sales 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 and 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 years ended June 30, 2009; June 30, 2008; and June 30, 2007 follows:

Condensed Statement of Cash Flows (in thousands)

	2009	2008	2007
CASH PROVIDED (USED) BY:			
Operating activities	$ (307,813)	$ (304,072)	$ (276,760)
Noncapital financing activities	401,342	424,806	391,570
Capital and related financing activities	(226,694)	(56,828)	(146,771)
Investing activities	(3,819)	(771)	5,649
Net increase (decrease) in cash and cash equivalents	(136,984)	63,135	(26,312)
Cash and cash equivalents, beginning of year	578,538	515,403	541,715
Cash and cash equivalents, end of year	$ 441,554	$ 578,538	$ 515,403

The University's cash and cash equivalents decreased $137.0 million in fiscal year 2009. Total cash provided by operating and non-capital financing activities was $93.5 million, a decrease of $27.2 million compared to fiscal year 2008. Total cash used by capital financing activities was $226.7 million, reflecting both capital funding sources (debt proceeds) and uses (purchases of capital assets and debt service). Total cash used by investing activities was $3.8 million.

Major sources of cash received from operating activities were student tuition and fees of $196.5 million; hospital services of $710.5 million; grants, contracts, and recoveries of facilities and administrative costs of $335.2 million; and professional clinical service fees of $192.2 million. Major uses of cash for operating activities were payments to employees for salaries and benefits of $1.25 billion and to vendors and contractors of $679.8 million.

Noncapital financing activities include state appropriations from the Commonwealth of Kentucky of $315.2 million and gifts of $80.0 million.

Capital and related financing activities include proceeds of capital debt of $68.3 million and capital grants and gifts of $96.9 million. Cash of $293.4 million was expended for construction and acquisition of capital assets and $59.1 million was expended for principal and interest payments on debt.

Investing activities include proceeds from sales and maturities of investments of $1.38 billion and interest and dividends on investments of $46.8 million. Cash of $1.44 billion was used to purchase investments.

2008 Versus 2007. Cash balances were higher when comparing fiscal year 2008 with fiscal year 2007. The $63.1 million net increase in cash was created primarily from more cash provided by non-capital financing activities and less cash used by capital related activities offset by more cash used by operating activities.

Capital Asset and Debt Administration

Capital Assets

Capital assets, net of accumulated depreciation, totaled $1.57 billion at June 30, 2009, an increase of $226.1 million. Capital assets as of June 30, 2009 and significant changes in capital assets during the years ended June 30, 2007; June 30, 2008; and June 30, 2009 follow (in millions):

	Balance June 30, 2007	Net Additions FY 07-08	Balance June 30, 2008	Net Additions FY 08-09	Balance June 30, 2009
Land and land improvements	$ 128	$ 6	$ 134	$ 4	$ 138
Buildings, fixed equipment and infrastructure	1,335	87	1,422	95	1,517
Equipment, vehicles and capitalized software	496	37	533	37	570
Library materials and art	143	3	146	6	152
Construction in progress	104	72	176	165	341
Accumulated depreciation	(997)	(69)	(1,066)	(80)	(1,146)
Total	$ 1,209	$ 136	$ 1,345	$ 227	$ 1,572

At June 30, 2009, the University has capital construction projects in progress totaling approximately $769.8 million in scope. Major projects include the new Patient Care Facility and the Biological Pharmaceutical Research Building. The estimated cost to complete the projects in progress is approximately $384.8 million.

Debt

At June 30, 2009, capital debt amounted to $677.0 million, summarized by trust indenture and type as follows (in millions):

	2009	2008	2007
General Receipts bonds and notes	$ 390.9	$ 361.5	$ 207.3
Consolidated Educational Buildings Revenue Bonds	104.8	115.7	126.2
Commonwealth Library Project (W.T. Young Library) Bonds	-	37.8	39.0
Capital lease obligations	154.5	156.1	143.4
Notes payable	26.8	5.5	21.6
Total	$ 677.0	$ 676.6	$ 537.5

Debt increased $400,000 during the year primarily due to the issuance of notes for the purchase of KMSF buildings and capital leases for the purchase of equipment, reduced by principal payments for the University's debt obligations.

Economic Factors That Will Affect the Future

Executive management believes the University is well-positioned to maintain its strong financial condition and to continue providing excellent service to students, patients, the community and the Commonwealth of Kentucky. The University's strong financial condition, as evidenced by the receipt of credit ratings of Aa3 and AA- from Moody's Investors Service and Standard & Poor's Ratings Services, respectively, will provide a high degree of flexibility in obtaining funds on competitive terms. This flexibility, along with ongoing efforts toward revenue diversification and cost containment, will enable the University to obtain the necessary resources to sustain excellence. The following are known facts and circumstances that will affect future financial results:

- As a result of the Commonwealth's economy, state appropriations for fiscal year 2010 are uncertain. In March 2009, the University absorbed a two percent reduction in state appropriations for operations. This reduction was originally imposed as non-recurring. However, it is anticipated this reduction will be imposed as recurring for fiscal year 2010 (though no Executive Order has been issued to date). A further complication exists because the originally enacted 2010 state appropriation (in April 2008) included a one percent increase over the originally enacted fiscal year 2009 appropriation. In sum, a recurring two percent reduction combined with the expected loss of the one percent increase results in a net three percent ($9.4 million) reduction in state appropriations when fiscal year 2010 original is compared to fiscal year 2010 actual. Because economic conditions in the Commonwealth continue to deteriorate, it is uncertain whether there will be additional reductions in state appropriations in 2009-10.
- Tuition rates for fiscal year 2010 will increase an average of approximately five percent for resident undergraduate students and five percent for non-resident undergraduate students. The tuition rate increases, along with adjustments for projected enrollment, are expected to generate additional operating revenues of approximately $17.2 million.
- As of June 30, 2009, grants and contracts of approximately $370.3 million have been awarded to the University but not expended. These contracts will provide grant revenue in future periods.
- A new hospital patient care facility with an estimated construction cost of $532.0 million has been approved by the General Assembly and construction is under way. General Receipts Notes in the amount of $265.7 million have been issued to provide initial funding for this project. The remainder of the funding for this project will come from hospital cash reserves.
- The University concluded its Campaign for the University of Kentucky in Fiscal Year 2009, exceeding the goal of $1 billion. Campaign pledges in the amount of $59.8 million are due to be received in future years.
- The University will continue its long-term endowment investment strategy to maximize total returns, at an appropriate level of risk, while utilizing a spending rate policy to insulate programs funded by the endowment from temporary market volatility.

Economic challenges will continue to have an impact on the future. However, management believes the University of Kentucky will be able to sustain its sound financial position and continue its progress toward becoming one of America's Top 20 public research institutions.

UNIVERSITY OF KENTUCKY AND AFFILIATED CORPORATIONS
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
STATEMENTS OF NET ASSETS
JUNE 30, 2009 AND 2008

	2009	2008
ASSETS		
Current Assets		
Cash and cash equivalents	$ 378,008,688	$ 388,839,660
Notes, loans and accounts receivable, net	209,201,081	229,444,385
Investments	3,834,071	6,882,493
Inventories and other assets	37,096,674	34,239,083
Total current assets	628,140,514	659,405,621
Noncurrent Assets		
Restricted cash and cash equivalents	63,545,515	189,698,543
Endowment investments	701,762,044	896,819,682
Other long-term investments	211,939,888	178,265,961
Notes, loans and accounts receivable, net	51,754,493	45,074,337
Other noncurrent assets	17,612,357	16,049,959
Capital assets, net	1,571,530,212	1,345,425,917
Total noncurrent assets	2,618,144,509	2,671,334,399
Total assets	3,246,285,023	3,330,740,020
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	170,105,665	182,904,473
Deferred revenue	68,755,940	60,089,686
Long-term liabilities - current portion	74,221,448	69,464,119
Total current liabilities	313,083,053	312,458,278
Noncurrent Liabilities		
Deferred revenue	6,305,546	5,972,467
Long-term liabilities	713,815,756	715,724,493
Total noncurrent liabilities	720,121,302	721,696,960
Total liabilities	1,033,204,355	1,034,155,238
NET ASSETS		
Invested in capital assets, net of related debt	909,736,433	822,409,128
Restricted		
Nonexpendable		
Scholarships and fellowships	106,739,359	98,381,676
Research	232,694,344	229,370,895
Instruction	72,176,410	71,938,787
Academic support	82,065,465	81,846,550
Other	6,505,828	6,277,350
Total restricted nonexpendable	500,181,406	487,815,258
Expendable		
Scholarships and fellowships	26,633,837	61,483,715
Research	5,919,752	71,234,186
Instruction	5,756,794	45,958,353
Academic support	8,849,427	32,461,741
Loans	10,100,004	9,843,737
Capital projects	57,041,784	56,087,533
Debt service	3,321,353	5,140,282
Auxiliary	14,374,112	7,333,133
Other	44,435,542	12,672,356
Total restricted expendable	176,432,605	302,215,036
Total restricted	676,614,011	790,030,294
Unrestricted	626,730,224	684,145,360
Total net assets	$ 2,213,080,668	$ 2,296,584,782

See notes to financial statements.

UNIVERSITY OF KENTUCKY AND AFFILIATED CORPORATIONS
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
OPERATING REVENUES		
Student tuition and fees	$ 261,101,412	$ 238,848,034
Less: Scholarship allowances	(65,857,400)	(60,611,448)
Net tuition and fees	195,244,012	178,236,586
Federal grants and contracts	157,468,186	159,664,651
State and local grants and contracts	90,655,458	114,417,369
Nongovernmental grants and contracts	27,344,046	25,760,168
Recoveries of facilities and administrative costs	44,707,250	44,137,137
Sales and services	50,195,812	51,084,255
Federal appropriations	16,584,047	17,044,673
County appropriations	14,451,243	14,017,057
Professional clinical service fees	193,390,926	174,929,376
Hospital services	701,936,084	667,530,857
Auxiliary enterprises:		
Housing and dining	45,021,377	40,639,060
Less: Scholarship allowances	(5,738,615)	(5,499,024)
Net housing and dining	39,282,762	35,140,036
Athletics	56,856,918	55,931,152
Other auxiliaries	25,514,674	23,298,626
Other operating revenues	2,790,076	1,820,589
Total operating revenues	1,616,421,494	1,563,012,532
OPERATING EXPENSES		
Educational and general:		
Instruction	240,313,163	247,539,837
Research	251,361,721	253,327,811
Public service	218,489,297	214,763,937
Libraries	18,661,730	18,184,540
Academic support	73,702,860	72,037,499
Student services	26,881,506	26,130,984
Institutional support	81,413,593	72,167,147
Operations and maintenance of plant	58,556,828	60,933,691
Student financial aid	24,224,600	24,742,343
Depreciation	65,247,100	61,543,692
Total educational and general	1,058,852,398	1,051,371,481
Clinical operations (including depreciation of $2,182,905 in 2009 and $1,453,575 in 2008)	161,023,668	131,647,716
Hospital and clinics (including depreciation of $28,026,771 in 2009 and $25,568,921 in 2008)	696,020,757	621,828,347
Auxiliary enterprises:		
Housing and dining (including depreciation of $3,067,994 in 2009 and $3,003,019 in 2008)	38,941,416	37,721,463
Athletics (including depreciation of $541,996 in 2009 and $2,161,461 in 2008)	56,936,410	58,062,434
Other auxiliaries	14,629,789	11,929,954
Other operating expenses	243,034	317,313
Total operating expenses	2,026,647,472	1,912,878,708
Net loss from operations	(410,225,978)	(349,866,176)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	315,161,856	327,155,104
Gifts and grants	72,035,090	53,934,881
Investment income (loss)	(169,112,621)	(49,381,525)
Interest on capital asset-related debt	(15,862,134)	(14,098,305)
Other nonoperating revenues and expenses, net	6,205,488	6,854,346
Net nonoperating revenues (expenses)	208,427,679	324,464,501
Net loss before other revenues, expenses, gains or losses	(201,798,299)	(25,401,675)
Capital appropriations	3,445,500	-
Capital grants and gifts	107,546,249	13,502,788
Additions to permanent endowments, including Research Challenge Trust Funds of $25,856,304 in 2008	9,990,091	34,610,672
Other, net	(2,687,655)	(3,778,464)
Total other revenues (expenses)	118,294,185	44,334,996
INCREASE (DECREASE) IN NET ASSETS	(83,504,114)	18,933,321
NET ASSETS, beginning of year	2,296,584,782	2,277,651,461
NET ASSETS, end of year	$ 2,213,080,668	$ 2,296,584,782

See notes to financial statements.

UNIVERSITY OF KENTUCKY AND AFFILIATED CORPORATIONS
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	$ 196,484,801	$ 178,107,517
Grants and contracts	287,815,457	310,751,727
Recoveries of facilities and administrative costs	47,362,845	45,000,751
Sales and services	53,339,526	45,614,666
Federal appropriations	17,254,543	20,046,283
County appropriations	15,502,364	13,600,530
Payments to vendors and contractors	(679,765,474)	(593,947,438)
Student financial aid	(24,199,537)	(24,735,315)
Salaries, wages and benefits	(1,251,596,509)	(1,197,401,683)
Professional clinic service fees	192,191,168	166,780,304
Hospital services	710,548,886	625,489,984
Auxiliary enterprise receipts:		
Housing and Dining	39,164,301	34,810,945
Athletics	58,014,172	56,346,302
Other auxiliaries	25,213,008	23,076,975
Loans issued to students	(20,764,879)	(16,195,630)
Collection of loans to students	21,396,140	13,066,109
Self insurance receipts	45,589,764	34,086,983
Self insurance payments	(44,727,061)	(39,510,760)
Other operating receipts (payments), net	3,363,260	939,018
Net cash provided (used) by operating activities	(307,813,225)	(304,072,732)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	315,161,856	327,155,104
Gifts and grants received for other than capital purposes:		
Gifts received for endowment purposes	10,009,607	34,591,042
Gifts received for other purposes	70,028,627	48,497,039
Agency and loan program receipts	137,758,878	112,393,351
Agency and loan program payments	(139,696,126)	(110,968,637)
Other noncapital financing receipts (payments), net	8,079,644	13,138,611
Net cash provided (used) by noncapital financing activities	401,342,486	424,806,510
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	3,445,500	-
Capital grants and gifts	96,858,703	11,539,879
Purchases of capital assets	(293,361,014)	(218,198,925)
Proceeds from capital debt	68,325,514	224,266,115
Payments to refunding bond agents	(38,090,250)	-
Principal paid on capital debt and leases	(42,977,538)	(53,905,237)
Interest paid on capital debt and leases	(16,114,679)	(12,557,527)
Other capital and related financing receipts (payments), net	(4,780,218)	(7,972,475)
Net cash provided (used) by capital and related financing activities	(226,693,982)	(56,828,170)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	1,384,472,748	1,780,775,353
Interest and dividends on investments	46,797,312	62,020,038
Purchase of investments	(1,435,089,340)	(1,843,566,384)
Net cash provided (used) by investing activities	(3,819,279)	(770,993)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(136,984,000)	63,134,615
CASH AND CASH EQUIVALENTS, beginning of year	578,538,203	515,403,588
CASH AND CASH EQUIVALENTS, end of year	$ 441,554,203	$ 578,538,203
Reconciliation of net loss from operations		
to net cash used by operating activities:		
Net loss from operations	$ (410,225,978)	$ (349,866,176)
Adjustments to reconcile net loss from operations		
to net cash used by operating activities:		
Depreciation expense	99,066,766	93,730,668
Change in assets and liabilities:		
Notes, loans and accounts receivable, net	22,095,011	(53,061,124)
Inventories and other assets	(3,393,265)	(7,469,281)
Accounts payable and accrued liabilities	(23,816,878)	11,513,018
Deferred revenue	8,999,902	5,777,023
Long-term liabilities	(538,783)	(4,696,860)
Net cash used by operating activities	$ (307,813,225)	$ (304,072,732)

See notes to financial statements.

UNIVERSITY OF KENTUCKY AND AFFILIATED CORPORATIONS
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
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 and is included in the basic financial statements of the Commonwealth. The financial statements of the University include the operations of the University, its for-profit subsidiary (Kentucky Healthcare Enterprise, Inc.) and its affiliated non-profit corporations (entities for which the University is financially accountable as defined by Statement No. 14 and amended by Statement No. 39 of the Governmental Accounting Standards Board (GASB), and which meet the definition of an affiliated corporation under Kentucky Revised Statute (KRS) section 164A.550) as follows: the University of Kentucky Research Foundation and its for-profit subsidiaries (Kentucky Technology, Inc. and Coldstream Laboratories, Inc.); The Fund for Advancement of Education and Research in the University of Kentucky Medical Center; University of Kentucky Athletic Association; Central Kentucky Management Services, Inc.; University of Kentucky Mining Engineering Foundation, Inc.; University of Kentucky Business Partnership Foundation, Inc.; University of Kentucky Gluck Equine Research Foundation, Inc.; University of Kentucky Humanities Foundation, Inc.; and University of Kentucky Center on Aging Foundation, Inc. The financial statements also include the operations of Kentucky Medical Services Foundation, Inc. (KMSF) and University of Kentucky Faculty Club, Inc, (doing business as the Hilary J. Boone Center), 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 also include the operations of the UK HealthCare Hospital System (the System), an organizational unit of 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. 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 assets categories:

- Invested in capital assets, net of related debt: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

- Restricted: *Nonexpendable* – Net assets 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 assets 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 assets whose use by the University is not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Trustees 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, liabilities, net assets, revenues, expenses, changes in net assets and cash flows.

Pursuant to GASB Statement No. 20, the University has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989 and do not conflict with or contradict GASB pronouncements.

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. BTA's are those activities that are financed in whole or part by fees charged to external parties for goods and services.

Cash and Cash Equivalents. The University considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Noncurrent cash and cash equivalents includes plant funds allocated for capital projects, debt service reserves 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.

Notes, Loans 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 sponsors for reimbursement of expenses made pursuant to contracts and grants, and pledges that are verifiable, measurable and expected to be collected. Accounts receivable are recorded net of estimated uncollectible amounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Inventories. Inventories are stated principally at the lower of average cost or market.

Pooled Endowment Funds. The University employs the total return concept of investment management for setting investment objectives and determining investment performance. This concept recognizes dividends and interest, plus or minus realized and unrealized gains or losses, in determining the total return earned during any particular period. 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.

The Uniform Management of Institutional Funds Act (UMIFA), as adopted by the Commonwealth of Kentucky, permits the University to appropriate an amount of the realized and unrealized endowment appreciation to support current programs. Accordingly, spendable return from the endowment is determined using the total return philosophy. This philosophy recognizes a prudent amount of realized and unrealized gains as spendable return in addition to traditional yield. Distribution of investment earnings for expenditure by participating funds is supported first by traditional yield earned and, if necessary, a transfer from the endowment of any prior years' accumulated earnings (unexpended traditional yield) or net realized or unrealized gains.

The University's endowment spending rule provides for annual distributions of 4.5 percent of the three-year moving average market value of fund units. For the years ended June 30, 2009 and 2008 approximately $18,427,000 and $10,805,000, respectively, was transferred from endowment realized and unrealized gains to support current programs in accordance with the University's endowment spending rule. Additionally, the University assesses eligible endowment accounts with a management fee of 0.5 percent of total asset value.

Investments. Investments in marketable debt and equity securities are carried at fair value, as determined by the major securities markets. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the Statement of Revenues, Expenses and Changes in Net Assets. Other investments, including guaranteed investment contracts, repurchase agreements and certificates of deposit are valued at face value and are fully collateralized.

Capital Assets. Capital assets are stated at cost at date of acquisition or, in the case of gifts, at fair market value at date of gift.

The University capitalizes interest costs as a component of construction in progress based on the interest cost of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing.

Equipment with a unit cost of $2,000 or more ($1,000 for computers) and having an estimated useful life of greater than one year 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 40 years for buildings, 10 – 25 years for land and building improvements and infrastructure, 10 years for library books, and 5 – 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.

Deferred Revenue. Deferred revenue consists primarily of amounts received from grant and contract sponsors that have not yet been earned under the terms of the agreement. Deferred revenue also includes amounts received in advance of an event, such as advance athletic ticket sales relating to future fiscal years and unearned summer school revenue. Deferred 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, 2009 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 assets date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

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 and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants and other federal and state programs similar to Pell, 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 an allowance 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 nonacute 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 29 percent and 24 percent, respectively, of the System's net patient services revenues for the year ended June 30, 2009 and approximately 30 percent and 22 percent, respectively, for the year ended June 30, 2008. 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.

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.

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.

Income Taxes. The University is an agency and instrumentality of the Commonwealth of Kentucky, pursuant to Kentucky Revised Statutes 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 of 1986. 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 Internal Revenue Code section 501(c)(3). KMSF and the University of Kentucky Faculty Club are also not-for-profit corporations as described in Section 501 (c)(3) and 501 (c)(7), respectively, of the Internal Revenue Code.

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 on the Statement of Revenues, Expenses and Changes in Net Assets, 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 non-operating revenues in accordance with GASB Statement No. 35.

The University has classified operating expenses based upon their functional classification. Operating expenses by natural classification are presented in Note 23. During fiscal years 2009 and 2008, departmental research in nonsponsored accounts of $64,084,000 and $47,087,000, respectively, was recorded as research expense in the Statements of Revenues, Expenses and Changes in Net Assets.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to use 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, self-insurance reserves, accrued expenses and other liability accounts.

Recent Accounting Pronouncements. The GASB has issued certain statements which are applicable to the University for fiscal years ending after June 30, 2009. The University does not expect the adoption of these statements to have a material effect on its financial statements.

2. DEPOSITS AND INVESTMENTS

The fair value of deposits and investments, by type, at June 30, 2009 and 2008 is as follows (in thousands):

	2009	2008
Deposits with banks and the Commonwealth of Kentucky	$ 75,282	$ 154,181
U.S. Treasury fixed income securities	22,457	17,036
Government agency fixed income securities	96,596	93,923
Common and preferred stocks	7,475	10,079
Pooled equity funds	431,702	593,540
Private equity funds	20,057	15,745
Pooled absolute return	15,000	-
Pooled real return	22,183	-
Pooled real estate funds	57,403	79,877
Pooled fixed income funds	437,632	492,722
Corporate fixed income securities	56,514	53,745
Guaranteed investment contracts	1,741	8,010
Repurchase agreements	20,081	70,297
Certificates of deposit	21,200	25,561
Cash and cash equivalents	73,029	44,860
Other	738	930
Total	$ 1,359,090	$ 1,660,506

	2009	2008
Statement of Net Assets classification		
Cash and cash equivalents	$ 378,009	$ 388,840
Current investments	3,834	6,882
Restricted cash and cash equivalents	63,545	189,698
Endowment investments	701,762	896,820
Other long-term investments	211,940	178,266
Total	$ 1,359,090	$ 1,660,506

Deposit and investment policies. The University's Board of Trustees is responsible for establishing deposit and investment policies. Once established, the Board has delegated day-to-day management to the Treasurer of the University, who is also the Treasurer of the Board. Deposit and investment policies are developed to insure compliance with state laws and regulations as well as to establish and maintain sound financial management practices.

The University follows Kentucky Revised Statutes (KRS 42.500) for the investment of public funds, which list allowable investment instruments including: obligations of the United States or a United States government agency; obligations of any corporation of the United States Government; collateralized certificates of deposit; highly rated uncollateralized certificates of deposit, bankers acceptances and commercial paper; highly rated securities issued by a state or local government; and mutual funds comprised of any of the above allowable investments.

For purposes of investment management, the majority of the University's deposits and investments can be grouped into five significant categories, as follows:

- Overnight investments include deposits, money markets and repurchase agreements with local banks, the Commonwealth of Kentucky and other financial institutions.
- Bond revenue fund investments held by the Treasurer of the Commonwealth of Kentucky as required by the University's bond trust indentures and invested in pooled fixed income funds managed by the Commonwealth of Kentucky.

- Short-term investments managed by the University, including individual securities purchased and held by the University and short-term investments in pooled fixed income funds managed by the Commonwealth of Kentucky.
- 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.

The Treasurer manages the overnight and short-term investment programs of the University based on the Overnight and Short-Term Investment Policy approved by the Investment Committee of the University's Board of Trustees. 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 University's Board of Trustees establishes and maintains the University's Endowment Investment Policies.

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:

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 investment (deposits and repurchase agreements) policies minimize credit risk in several ways. Deposits are governed by state law which requires full collateralization. Credit risk on repurchase agreements with local banks is mitigated by the issuing financial institution's pledge of specific U.S. treasury or agency securities, held in the name of the University by the Federal Reserve Bank. Credit risk on repurchase agreements with the Commonwealth of Kentucky is mitigated by the Commonwealth's requirement that providers of overnight repurchase agreements collateralize these investments at 102 percent of face value with U.S. Treasury or agency securities, pledged in the name of the Commonwealth. Money market fund portfolios consist of securities eligible for short-term investments.

- Bond revenue fund investments held in the Commonwealth's investment pools can invest in U.S. treasuries and agencies; commercial paper or asset backed securities rated in the highest category by a nationally recognized rating agency; 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 rating agency; shares of mutual funds (up to 10%); and state and local property tax certificates of delinquency secured by interests in real estate.

- Short-term investments managed by the University are limited to U.S. Treasury securities; securities issued by U.S. government agencies or government sponsored entities; money market securities, including: commercial paper rated the highest by a nationally recognized rating agency, collateralized certificates of deposit, and bankers' acceptances for banks rated A or higher; repurchase and reverse repurchase agreements collateralized at 102 percent; municipal obligations rated A1 or higher; and money market mutual funds invested in any of the above noted security types. Short-term investments held in the Commonwealth's investment pools are subject to the same credit quality requirements as denoted above for bond revenue fund investments.

- Investment securities held in bond debt service reserve funds may be invested and reinvested solely in bonds or interest bearing notes of the United States Government.

- Endowment investments held by fixed income managers are generally limited to holdings of high quality fixed income securities. These managers may invest a portion of the portfolio in other below-investment grade bonds, non-U.S. dollar denominated bonds, and emerging market bonds, provided the overall credit quality of the fixed income portfolios is not lower than A-.

At June 30, 2009 and 2008, respectively, the credit quality of the University's fixed income investments is as follows (in thousands):

	2009								
	S&P/Moody's Credit Ratings								
	AAA/Aaa	AA/Aa	A	BBB/Baa	BB/Ba	B	Not rated	Rating Not Applicable	Total
U.S. Treasury fixed income								$ 22,457	$ 22,457
Government agency fixed income	$ 96,596							-	96,596
Pooled fixed income	-	$ 1,889					$ 435,743	-	437,632
Corporate fixed income	-	171	$ 2,394	$ 43,954	$ 141	$ 9,340	514	-	56,514
Guaranteed investment contracts	-	-	-	-	-	-	1,741	-	1,741
Repurchase agreements	-	-	-	-	-	-	15,140	4,941	20,081
Certificates of deposit	-	-	-	-	-	-	21,200	-	21,200
Cash and cash equivalents	60,479	-	-	-	-	-	1,614	10,936	73,029
Total fixed income investments	$ 157,075	$ 2,060	$ 2,394	$ 43,954	$ 141	$ 9,340	$ 475,952	$ 38,334	$ 729,250

	2008						
	S&P/Moody's Credit Ratings						
	AAA/Aaa	AA/Aa	A	BBB/Baa	Not rated	Rating Not Applicable	Total
U.S. Treasury fixed income						$ 17,036	$ 17,036
Government agency fixed income	$ 93,923					-	93,923
Pooled fixed income	207	$ 2,652			$ 489,863	-	492,722
Corporate fixed income	24,454	-	$ 1,368	$ 27,923	-	-	53,745
Guaranteed investment contracts	-	-	-	-	8,010	-	8,010
Repurchase agreements	-	-	-	-	65,355	4,942	70,297
Certificates of deposit	-	-	-	-	25,561	-	25,561
Cash and cash equivalents	36,776	-	7,092	-	932	60	44,860
Total fixed income investments	$ 155,360	$ 2,652	$ 8,460	$ 27,923	$ 589,721	$ 22,038	$ 806,154

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 deposits and repurchase agreements are not exposed to custodial credit risk other than repurchase agreements with the Commonwealth of Kentucky which are held in the Commonwealth's name. Money market investments are held in the University's name by the University's custodian.
- Bond revenue fund investments held in the Commonwealth's investment pools are held in the Commonwealth's name by the Commonwealth's custodian.
- Short-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 investments managed by the University are held in the University's name by the University's custodian.
- Investment securities held in bond debt service reserve funds are held by the respective bond trustee in a specific trust account for the benefit of the University and bondholders.
- Endowment investments are held in the University's name by the University's custodian.

At June 30, 2009 and 2008, respectively, the following University deposit and investment balances held in the name of the Commonwealth of Kentucky included in the above significant investment types, were exposed to custodial credit risk as follows (in thousands):

	2009				
	State Deposits	Bond Revenue Investments	Short-term Investments	Other State Investments	Total
Uninsured and collateralized with securities held by the pledging financial institution's trust department or agent but not in the University's name	$ 56,674				$ 56,674
Uninsured, not registered in the name of the University and held by the counterparty but not in the University's name	-	$ 222,937	$ 60,156	$ 84,136	367,229
Total	$ 56,674	$ 222,937	$ 60,156	$ 84,136	$ 423,903

	2008					
	State Deposits	Overnight Investments	Bond Revenue Investments	Short-term Investments	Other State Investments	Total
Uninsured and collateralized with securities held by the pledging financial institution's trust department or agent but not in the University's name	$ 136,670	$ 54,000				$190,670
Uninsured, not registered in the name of the University and held by the counterparty but not in the University's name	-	-	$ 230,183	$ 60,051	$ 103,794	394,028
Total	$ 136,670	$ 54,000	$ 230,183	$ 60,051	$ 103,794	$584,698

Concentrations of Credit Risk. 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 deposits and repurchase agreements are not limited as to the maximum amount that may be invested in one issuer. However, all such investments in excess of Federal Depository Insurance are required to be fully collateralized by U.S. treasury and/or U.S. agency securities or other similar investments as provided by KRS 41.240.
- Bond revenue fund investments and short-term 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 25 percent of an individual pool and $25,000,000 per issuer, inclusive of commercial paper, bankers' acceptances and certificates of deposit; and U. S. dollar denominated sovereign debt shall not exceed 5 percent of any individual portfolio and $25,000,000 per issuer.
- There is no specific limit on the maximum amount of short-term investments managed by the University that may be invested in one issuer, other than the requirement that the amount of money invested at any one time in commercial paper, bankers' acceptances and municipal obligations shall not exceed 20 percent.

- There is no specific limit on the maximum amount of investment securities held in bond 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.
- Endowment fixed income managers are limited to a maximum investment in any one issuer of no more than 5 percent of total investments.

At June 30, 2009 and 2008, the University has no investments in any one issuer, other than U.S. treasury and/or agency securities, that represent 5 percent or more of total investments.

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, money markets and repurchase agreements have limited exposure to interest rate risk due to the short-term nature of the investment. The University requires that all deposits and repurchase agreements be available for use on the next business day.
- Bond revenue fund investments and short-term investments held in the Commonwealth's short-term investment pool are limited to a duration that does not exceed 90 days. Such investments in the Commonwealth's intermediate-term investment pool must maintain a modified duration of less than 3 years.
- Short-term investments managed by the University are generally limited to a maximum maturity of 24 months.
- Investment securities held in bond debt service reserve funds are required to have a maturity no later than two years from the date of the investment.
- Endowment investments held by fixed income managers are limited to a duration that is within +/-25 percent of the duration of the Lehman Aggregate Bond Index.

Below is the maturity distribution of the University's fixed income investments at June 30, 2009 (in thousands):

	2009						
	Maturities in Years						
Investment Type	Less than 1	1-3	3-5	5-10	Greater than 10	Managed based on duration	Total
U.S. Treasury fixed income	$ 9,659		$ 56	$ 67	$ 17	$ 12,658	$ 22,457
Government agency fixed income	25,480	$ 45,540	23,046	994	-	1,536	96,596
Pooled fixed income	-	-	-	-	-	437,632	437,632
Corporate fixed income	-	338	302	1,096	-	54,778	56,514
Guaranteed investment contracts	1,198	100	443	-	-	-	1,741
Repurchase agreements	15,140	-	-	1,008	3,933	-	20,081
Certificates of deposit	17,200	4,000	-	-	-	-	21,200
Cash and cash equivalents	73,029	-	-	-	-	-	73,029
Total fixed income investments	$ 141,706	$ 49,978	$ 23,847	$ 3,165	$ 3,950	$ 506,604	$ 729,250

Below is the maturity distribution of the University's fixed income investments at June 30, 2008 (in thousands):

	2008						
	Maturities in Years						
Investment Type	Less than 1	1-3	3-5	5-10	Greater than 10	Managed based on duration	Total
U.S. Treasury fixed income	$ 16,724			$ 108	$ 27	$ 177	$ 17,036
Government agency fixed income	15,132	$ 20,771	$ 5,595	651	-	51,774	93,923
Pooled fixed income	-	-	-	-	-	492,722	492,722
Corporate fixed income	-	318	296	1,116	153	51,862	53,745
Guaranteed investment contracts	3,561	948	-	326	3,175	-	8,010
Repurchase agreements	65,356	-	-	1,008	3,933	-	70,297
Certificates of deposit	21,561	4,000	-	-	-	-	25,561
Cash and cash equivalents	44,860	-	-	-	-	-	44,860
Total fixed income investments	$ 167,194	$ 26,037	$ 5,891	$ 3,209	$ 7,288	$ 596,535	$ 806,154

At June 30, 2009 and 2008, the University had the following investments managed based on duration (in thousands):

	2009		2008	
Investment Type	Fair Value	Modified Duration (Years)	Fair Value	Modified Duration (Years)
U.S. Treasury fixed income securities				
Pooled endowment fund	$ 12,658	0.79	$ 177	15.35
Government agency fixed income securities				
Pooled endowment fund	1,536	0.10	51,774	2.26
Pooled fixed income funds				
Pooled endowment fund	68,513	4.96	95,835	4.54
Other endowment investments	1,889	3.95	2,859	4.00
Commonwealth of Kentucky short-term pool	285,967	0.65	263,148	0.30
Commonwealth of Kentucky intermediate pool	81,263	1.10	130,880	1.61
Corporate fixed income securities				
Pooled endowment fund	54,778	3.36	51,862	2.13
Total	$ 506,604		$ 596,535	

Foreign Currency Risk. Foreign currency risk is the risk that changes 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 limited endowment investments, including pooled fixed income funds, a pooled global equity fund and pooled non-U.S. equity funds. The University's endowment investment policy allows fixed-income managers to invest a portion of their funds in non-U.S. securities and equity fund managers of co-mingled portfolios to invest in accordance with the guidelines established in the individual fund's prospectus.

At June 30, 2009 and 2008, the following endowment investments were subject to foreign currency risk (in thousands):

Endowment Investment	Fair Value 2009	Fair Value 2008
Pooled fixed income funds	$ 6,668	$ 8,152
Pooled private equity funds	5,475	-
Pooled equity funds	217,181	170,003
Pooled absolute return funds	15,000	-
Pooled real return funds	22,183	-
	$ 266,507	$ 178,155

The University invests in various securities. Investment securities are exposed to various interest rate, market and credit risks, discussed above. 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 net assets.

3. NOTES, LOANS AND ACCOUNTS RECEIVABLE, NET

Notes, loans and accounts receivable as of June 30, 2009 are as follows (in thousands):

	2009		
	Gross Receivable	Allowance	Net Receivable
Hospital patient accounts	$ 109,863	$ (15,113)	$ 94,750
Hospital third-party payor settlements	5,006	-	5,006
KMSF patient accounts	28,627	(3,082)	25,545
Dentistry patient accounts	3,716	(1,176)	2,540
Student loans	28,040	(2,346)	25,694
Reimbursement receivable - grants and contracts	45,375	(344)	45,031
Reimbursement receivable - federal appropriations	429	-	429
Pledges receivable	55,056	(21,183)	33,873
Accrued interest receivable	3,759	-	3,759
Student receivables	10,580	(4,854)	5,726
Other	18,773	(170)	18,603
Total	$ 309,224	$ (48,268)	$ 260,956
Current portion			$ 209,201
Noncurrent portion			51,755
Total			$ 260,956

Notes, loans and accounts receivable as of June 30, 2008 are as follows (in thousands):

	2008		
	Gross Receivable	Allowance	Net Receivable
Hospital patient accounts	$115,418	$(21,271)	$ 94,147
Hospital third-party payor settlements	13,181	-	13,181
KMSF patient accounts	30,108	(3,772)	26,336
Dentistry patient accounts	4,304	(1,227)	3,077
Student loans	28,701	(2,393)	26,308
Reimbursement receivable - grants and contracts	56,090	(503)	55,587
Reimbursement receivable - federal appropriations	1,100	-	1,100
Pledges receivable	41,762	(15,167)	26,595
Accrued interest receivable	4,621	-	4,621
Student receivables	9,048	(3,928)	5,120
Other	18,560	(113)	18,447
Total	$322,893	$(48,374)	$274,519
Current portion			$229,445
Noncurrent portion			45,074
Total			$274,519

4. CAPITAL ASSETS, NET

Capital assets as of June 30, 2009 and capital asset activity for the year ended June 30, 2009 are summarized below (in thousands):

	June 30, 2008	Additions	Deletions	June 30, 2009
Land	$ 60,251	$ 3,185		$ 63,436
Land improvements - nonexhaustible	20,737	708		21,445
Land improvements - exhaustible	52,896	382		53,278
Buildings	1,314,833	76,281	$ 100	1,391,014
Fixed equipment - communications	53,987	5,948	-	59,935
Infrastructure	52,936	12,839	-	65,775
Equipment	429,062	61,677	29,991	460,748
Vehicles	20,821	1,249	1,605	20,465
Library materials	132,247	4,070	233	136,084
Nondepreciable library materials	6,430	52	-	6,482
Capitalized software	83,054	6,142	-	89,196
Art	7,574	1,440	-	9,014
Construction in progress	176,674	181,372	17,490	340,556
	2,411,502	355,345	49,419	2,717,428
Accumulated Depreciation				
Land improvements - exhaustible	45,023	1,328	-	46,351
Buildings	552,312	35,808	2	588,118
Fixed equipment - communications	31,106	3,837	-	34,943
Infrastructure	14,240	2,374	-	16,614
Equipment	278,833	39,004	17,740	300,097
Vehicles	16,470	1,799	1,503	16,766
Library materials	108,447	5,558	-	114,005
Capitalized software	19,645	9,359	-	29,004
	1,066,076	99,067	19,245	1,145,898
Capital assets, net	$ 1,345,426	$ 256,278	$ 30,174	$ 1,571,530

Capital assets as of June 30, 2008 and capital asset activity for the year ended June 30, 2008 are summarized below (in thousands):

	June 30, 2007	Additions	Deletions	June 30, 2008
Land	$ 58,204	$ 3,123	$ 1,076	$ 60,251
Land improvements - nonexhaustible	17,099	3,638	-	20,737
Land improvements - exhaustible	52,384	512	-	52,896
Buildings	1,236,775	84,867	6,809	1,314,833
Fixed equipment - communications	48,339	5,648	-	53,987
Infrastructure	50,120	2,816	-	52,936
Equipment	404,173	54,826	29,937	429,062
Vehicles	19,416	2,120	715	20,821
Library materials	128,613	3,988	354	132,247
Nondepreciable library materials	6,381	49	-	6,430
Capitalized software	72,625	10,429	-	83,054
Art	7,305	269	-	7,574
Construction in progress	104,017	100,201	27,544	176,674
	2,205,451	272,486	66,435	2,411,502
Accumulated Depreciation				
Land improvements - exhaustible	43,545	1,478	-	45,023
Buildings	522,867	33,231	3,786	552,312
Fixed equipment - communications	27,529	3,577	-	31,106
Infrastructure	12,179	2,061	-	14,240
Equipment	259,975	38,793	19,935	278,833
Vehicles	15,195	1,990	715	16,470
Library materials	102,638	5,809	-	108,447
Capitalized software	12,853	6,792	-	19,645
	996,781	93,731	24,436	1,066,076
Capital assets, net	$ 1,208,670	$ 178,755	$ 41,999	$ 1,345,426

At June 30, 2009, the University had construction projects in process totaling approximately $769.8 million in scope. The estimated cost to complete these projects was approximately $384.8 million. Such construction was principally financed by proceeds from the University's general receipts bonds, capital appropriations from the Commonwealth of Kentucky and cash reserves.

Interest costs incurred during construction, net of related investment income, are capitalized. Total interest capitalized was $8,094,000 for 2009 and $5,772,000 for 2008.

During 2009, the University utilized capital leases to acquire various items of equipment costing approximately $30.3 million. Additionally, the University has capital lease agreements to finance renovations to Commonwealth Stadium and the construction of several buildings. The University also has utilized capital leases to fund the purchase and implementation of its new administrative computing systems and for the lease purchase of land and buildings associated with its purchase of Good Samaritan Hospital. The net book value for capitalized leased land, buildings and equipment is $160.8 million and $184.5 million at June 30, 2009 and 2008, respectively.

Non-cash capital asset and related financing activities are summarized below (in thousands):

	2009	2008
Capital lease additions	$ 44,479	$ 3,835
Gifts of capital assets	5,551	843
Capital asset additions in accounts payable	29,055	17,703
Capitalized interest, net of investment income	8,094	5,772
Amortized bond discount, premium and cost of issues	148	309
Capital lease termination	68	-
Total	$ 87,395	$ 28,462

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2009 and 2008, respectively, follow (in thousands):

	2009	2008
Payable to vendors and contractors	$ 86,070	$ 84,785
Accrued expenses, including vacation and sick leave	54,558	69,967
Employee withholdings and deposits payable to third parties	29,478	28,152
Total	$ 170,106	$ 182,904

6. DEFERRED REVENUE

Deferred revenue as of June 30, 2009 and 2008, respectively, follows (in thousands):

	2009	2008
Unearned summer school revenue	$ 6,198	$ 4,455
Unearned hospital revenue	11,685	11,512
Unearned grants and contracts revenue	41,164	35,946
Prepaid athletic ticket sales	13,289	12,075
Other	2,725	2,074
Total	$ 75,061	$ 66,062
Current portion	$ 68,755	$ 60,090
Noncurrent portion	6,306	5,972
Total	$ 75,061	$ 66,062

Noncurrent deferred revenue activity for the years ended June 30, 2009 and 2008 is summarized below (in thousands):

	June 30, 2007	Additions	Reductions	June 30, 2008	Additions	Reductions	June 30, 2009
Noncurrent deferred revenue	$ 5,701	$ 271	$ -	$ 5,972	$ 334	$ -	$ 6,306

7. LONG-TERM LIABILITIES

Long-term liabilities as of June 30, 2009 and long-term liability activity for the year ended June 30, 2009 are summarized below (in thousands):

	June 30, 2008	Additions	Reductions	June 30, 2009	Current Portion	Noncurrent Portion
Bonds, notes and capital leases						
General receipts notes	$ 331,320		$ 2,870	$ 328,450	$ 7,400	$ 321,050
General receipts bonds	30,200	$ 33,350	1,080	62,470	2,560	59,910
Educational buildings bonds	115,705	-	10,865	104,840	11,245	93,595
Library bonds	37,770	-	37,770	-	-	-
Capital leases and other long-term obligations	156,103	56,680	58,295	154,488	25,718	128,770
Notes payable	5,510	21,899	620	26,789	4,883	21,906
Total bonds, notes and capital leases	676,608	111,929	111,500	677,037	51,806	625,231
Other liabilities						
Medical malpractice	31,853	7,785	12,857	26,781	4,277	22,504
Long-term disability	-	16	-	16	16	-
Annuities payable	6,271	85	1,749	4,607	423	4,184
Health insurance	12,296	31,471	33,658	10,109	10,109	-
Automobile and property self insurance	-	273	-	273	273	-
Other postemployment benefits trust	6,620	7,531	3,003	11,148	-	11,148
Federal loan programs	21,547	1,135	648	22,034	-	22,034
Workers compensation	15,076	9,013	4,089	20,000	5,872	14,128
Compensated absences	3,345	1,385	-	4,730	490	4,240
Supplemental disability	114	-	102	12	12	-
Arbitrage rebate	823	76	474	425	49	376
Unamortized bond premium	9,929	1,116	624	10,421	624	9,797
Outstanding check liability	288	-	288	-	-	-
Unemployment compensation	418	609	757	270	270	-
Other	-	174	-	174	-	174
Total other liabilities	108,580	60,669	58,249	111,000	22,415	88,585
Total	$ 785,188	$ 172,598	$ 169,749	$ 788,037	$ 74,221	$ 713,816

Long-term liabilities as of June 30, 2008, and long-term liability activity for the year ended June 30, 2008, are summarized as follows (in thousands):

	June 30, 2007	Additions	Reductions	June 30, 2008	Current Portion	Noncurrent Portion
Bonds, notes and capital leases						
General receipts notes	$ 175,915	$ 158,150	$ 2,745	$ 331,320	$ 2,870	$ 328,450
General receipts bonds	31,240	-	1,040	30,200	1,080	29,120
Educational buildings bonds	126,225	-	10,520	115,705	10,865	104,840
Library bonds	39,035	-	1,265	37,770	1,320	36,450
Capital leases and other long-term obligations	143,415	36,306	23,618	156,103	21,133	134,970
Notes payable	21,626	3,000	19,116	5,510	5,112	398
Total bonds, notes and capital leases	537,456	197,456	58,304	676,608	42,380	634,228
Other liabilities						
Medical malpractice	31,977	3,235	3,359	31,853	6,511	25,342
Long-term disability	9,823	-	9,823	-	-	-
Annuities payable	6,704	185	618	6,271	608	5,663
Health insurance	10,904	32,116	30,724	12,296	12,296	-
Other postemployment benefits trust	-	6,620	-	6,620	-	6,620
Federal loan programs	21,894	527	874	21,547	-	21,547
Workers compensation	10,076	5,000	-	15,076	5,394	9,682
Compensated absences	3,437	-	92	3,345	507	2,838
Supplemental disability	355	-	241	114	91	23
Arbitrage rebate	528	433	138	823	417	406
Unamortized bond premium	3,690	6,696	457	9,929	554	9,375
Outstanding check liability	644	288	644	288	288	-
Unemployment compensation	523	372	477	418	418	-
Total other liabilities	100,555	55,472	47,447	108,580	27,084	81,496
Total	$ 638,011	$ 252,928	$ 105,751	$ 785,188	$ 69,464	$ 715,724

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 7 percent.

Bond discounts and premiums are amortized over the life of the bond using a method that approximates the effective interest method.

Bonds payable consist of general receipts bonds, general receipts notes and Consolidated Educational Building Revenue bonds (CEBRB) in the original amount of $565,305,000 dated June 1, 1998 through February 19, 2009, which bear interest at 1.15% to 5.00%. The bonds are payable in annual installments through October 1, 2027. 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. Capital leases are due in periodic installments through May 1, 2024 and bear interest at 3.12% to 4.45%.

The indenture agreements require that certain funds be established with the trustee and with the Commonwealth of Kentucky. In addition, CEBRB bonds require a debt service reserve equal to the highest annual aggregate debt service payment due during the remaining lives of the bonds. Currently this amount is $15,433,000.

On February 19, 2009, $33,350,000 of University of Kentucky General Receipts Bonds Series 2009A were issued at a net interest cost of 3.84%, representing a full refunding of the Lexington Fayette Urban County Government Bonds, Series 1998 (Library) bonds. These bonds were sold with a delivery date of March 12, 2009 and will reduce the University's total debt service payments over the next 17 years by approximately

$3,525,000, representing an economic gain (difference between the present value of the debt service payments on the old and the new debt) of approximately $2,785,000.

Principal maturities and interest on bonds, notes and capital leases for the next five years and in subsequent five-year periods as of June 30, 2009, are as follows (in thousands):

	Principal	Interest	Total
2010	$ 51,806	$ 28,856	$ 80,662
2011	50,125	28,435	78,560
2012	47,727	25,562	73,289
2013	46,133	22,670	68,803
2014	56,717	20,692	77,409
2015-2019	165,929	79,433	245,362
2020-2024	159,280	42,347	201,627
2025-2029	99,320	9,592	108,912
Total	$ 677,037	$ 257,587	$ 934,624

At June 30, 2009, assets with a fair market value of approximately $104,557,000 have been placed on deposit with trustees to totally defease bonds with a par amount of $104,835,000. The liability for these fully defeased bonds is not included in the financial statements.

8. COMPONENTS OF RESTRICTED EXPENDABLE NET ASSETS

Restricted expendable net assets are 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, 2009 and June 30, 2008, respectively, restricted expendable net assets were composed of the following (in thousands):

	2009	2008
Appreciation (depreciation) on permanent endowments	$ (47,017)	$ 100,678
Term endowments	5,309	7,113
Quasi-endowments initially funded with restricted assets	36,360	42,681
Funds restricted for capital projects and debt service	60,363	61,228
Funds restricted for noncapital purposes	111,318	80,671
Loan funds (primarily University funds required for federal match)	10,100	9,844
Total	$ 176,433	$ 302,215

9. DESIGNATIONS OF UNRESTRICTED NET ASSETS

Unrestricted net assets are designated for specific purposes by action of the Board of Trustees or management or may otherwise be limited by contractual agreements. Commitments for the use of unrestricted net assets as of June 30, 2009 and June 30, 2008, respectively, are as follows (in thousands):

	2009	2008
Working capital requirements	$ 47,263	$ 60,620
Budget appropriations for future year fiscal operations	95,664	81,155
Designated for capital projects	24,204	24,283
Designated for renewal and replacement of capital assets	14,589	12,136
Hospital System	382,002	426,823
Affiliated corporations and component units	63,008	79,128
Total	$ 626,730	$ 684,145

10. PLEDGED REVENUES

Under the University's General Receipts Trust Indenture, substantially all of the unrestricted operating and non-operating revenues of the University are pledged to secure the payment of debt. For the years ended June 30, 2009 and June 30, 2008, respectively, pledged revenues are as follows (in thousands):

	2009	2008
Student tuition and fees	$ 195,244	$ 178,237
Nongovernmental grants and contracts	810	559
Recoveries of facilities and administrative costs	44,707	44,137
Sales and services	43,450	41,283
Hospital services	701,936	667,531
Auxiliary enterprises - housing and dining	39,283	35,140
Auxiliary enterprises - other	25,515	23,299
Other operating revenue	593	612
State appropriations	315,162	327,155
Gifts and grants	2,471	2,411
Investment income	11,564	22,522
	$ 1,380,735	$ 1,342,886

11. INVESTMENT INCOME

Components of investment income (loss) for the years ended June 30, 2009 and June 30, 2008 are as follows (in thousands):

	2009	2008
Interest and dividends earned on endowment investments	$ 29,426	$ 27,716
Realized and unrealized gains and losses on endowment investments	(212,117)	(102,587)
Interest and dividends on cash and non-endowment investments	15,275	29,906
Realized and unrealized gains and losses on non-endowment investments	(3,562)	(6,123)
Investment income from external trusts	1,865	1,706
Total	$ (169,113)	$ (49,382)

12. FUNDS HELD IN TRUST BY OTHERS

The University is the income beneficiary of various trusts that are held and controlled by external trustees. For the years ended June 30, 2009 and 2008, the University received income from these trusts of approximately $1,865,000 and $1,706,000, respectively. The market value of the external trust assets as of June 30, 2009 and June 30, 2008 was approximately $44,729,000 and $56,512,000, respectively. 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.

13. PLEDGES AND DEFERRED GIFTS

At June 30, 2009, pledges are expected to be collected primarily over the next five years, as follows (in thousands):

Operating purposes	$ 18,552
Capital projects	45,224
Total	$ 63,776
Less discounts and allowances	(29,903)
Total	$ 33,873

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 ($26,348,000 at June 30, 2009) are not recognized as revenue until the gifts are actually received. For the years ended June 30, 2009 and 2008, the University recorded the discounted value of operating and capital pledges using a rate of 5 percent, net of the allowance for uncollectible pledges, of approximately $33,873,000 and $26,595,000, respectively.

Deferred gifts through insurance, known bequests and irrevocable trusts in which the University has a remainder interest are estimated to be approximately $89,995,000 at June 30, 2009. The University records these amounts as revenue when the cash is received.

14. GRANTS AND CONTRACTS AWARDED

At June 30, 2009, grants and contracts of approximately $370,263,000 have been awarded to the University and the University of Kentucky Research Foundation but not expended. These amounts will be recognized in future periods.

15. PENSION PLANS

Regular full-time employees, including faculty, are participants in the University of Kentucky Retirement Plan, a defined contribution plan. The University of Kentucky Retirement 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 University of Kentucky Retirement 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 5 percent and the University contributes 10 percent of the participant's eligible compensation to the retirement plan. Participants in group V contribute 1 percent and the University contributes 2 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/College
Retirement Equities Fund (TIAA/CREF)
Fidelity Investments Institutional Services Company

Under the fully funded University of Kentucky Retirement Plan, the University and plan participants make contributions to provide fully vested retirement benefits to employees in individually owned contracts. The University's contributions and costs for 2009 and 2008 were approximately $73,391,000 and $69,818,000, respectively. Employees contributed approximately $36,233,000 in 2009 and $34,362,000 in 2008. The University's total payroll costs were approximately $965,364,000 and $920,282,000, respectively, for the years ended June 30, 2009 and 2008. The payroll for employees covered by the retirement plan was approximately $733,911,000 and $698,180,000 for the years ended 2009 and 2008, respectively.

In addition to retirement benefits provided from the group retirement plan, the University provides supplemental retirement income benefits to certain eligible employees in each of the retirement groups (see Note 16).

16. MINIMUM ANNUAL RETIREMENT BENEFITS AND SUPPLEMENTAL RETIREMENT INCOME

Employees in retirement groups I, II and III, referred to in Note 15 above, who were age 40 or older prior to the date of establishment of each group plan, and who were employed by the University prior to that date, qualify for the minimum annual retirement benefit provisions of the retirement plan. Benefits for these eligible employees are based upon a percentage, determined through years of service, of the participant's annual salary in the last year of employment prior to retirement. Retirement benefits as determined are funded by each individual retiree's accumulation in the group retirement plan, with the balance, if necessary, provided by the University as supplemental retirement income.

The Legislature of the Commonwealth of Kentucky has appropriated funds to the University for payment of supplemental retirement income benefits since adoption of the group retirement plans, and is expected to continue this practice. However, the Constitution of the Commonwealth of Kentucky prohibits the commitment of future revenues beyond the end of the current biennium. Accordingly, the University does not recognize the liability for supplemental retirement income benefits during the service life of covered employees, but recognizes its costs when funds are appropriated by the Legislature and payments are made. The University intends to continue paying supplemental retirement income benefits contingent upon the Legislature continuing to appropriate funds required to make these payments. Supplemental retirement benefit payments were approximately $2,611,000 and $2,880,000 for the years ended June 30, 2009 and 2008, respectively.

The latest actuarial valuation was prepared as of July 1, 2008, by TIAA CREF. The actuarial present value of accumulated supplemental retirement income benefits as determined by this valuation, utilizing an assumed rate of return of 7 percent, was $15,206,000.

17. HEALTH INSURANCE BENEFITS FOR RETIREES

The University administers a single-employer defined benefit healthcare plan including medical and prescription drug benefits. The plan provides lifetime healthcare 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 healthcare plan on an “access only” basis upon retirement, but 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. Human Resources Policies and Procedures define retiree health benefits and can be amended by the President of the University as delegated by the University’s Board of Trustees. Employees who were hired before August 1, 1965 are also eligible for $5,000 of life insurance coverage upon retirement.

The retiree health plan does not issue a publicly available financial report, but is included in this report of the University using the economic resources measurement focus and the accrual basis of accounting under which expenses, including benefits and refunds, are recorded when the liability is incurred. Employer contributions are recorded in the accounting period in which they are earned and become measureable. Investments are reported at fair market value and based on published prices and quotations from major investment brokers at current exchange rates, as available.

The contribution requirements of plan members and the University are established and may be amended by the President of the University. 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. However, retirees must pay the greater of $25 per month or 10 percent of the total plan cost. For fiscal year 2009, the University contributed $14.4 million to the plan. Plan members receiving benefits contributed 29.5 percent of the premium costs, an average for combined single and family coverage. In fiscal year 2009, total member contributions were approximately $3.0 million.

The University has established a trust fund to segregate plan assets, and currently plans to contribute amounts to the trust fund sufficient to fully fund the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The University will continue to finance retiree benefits by pre-funding benefits and contributing the ARC into a segregated, protected trust fund and will amortize the initial unfunded accrued liability (UAL) over a thirty-year closed period. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ARC of $14.1 million is 2.4 percent of annual covered payroll. There are no long-term contracts for contributions to the plan. The following table presents the other postemployment benefits (OPEB) cost for the year, the amount contributed and changes in the OPEB Plan for fiscal year 2009 (in thousands):

Annual required contribution	$ 14,059
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Contributions made	(14,421)
Increase in net OPEB obligation (asset)	(362)
Net OPEB obligation (asset) - Beginning of year	-
Net OPEB obligation (asset) - End of year	$ (362)

The University’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for fiscal year 2009 and 2008, was as follows (in thousands):

Fiscal Year Ended	Annual OPEB cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2008	$ 13,649	100.0%	
6/30/2009	$ 14,059	102.6%	$ (362)

As of July 1, 2009, the actuarial accrued liability (AAL) for benefits was $150.2 million, with an actuarial value of assets of $11.1 million, resulting in an unfunded actuarial accrued liability (UAAL) of $139.1 million. The covered payroll (annual payroll of active employees covered by the plan) was $590.4 million and the ratio of the UAAL to the covered payroll was 23.6 percent at June 30, 2009. The University implemented the University of Kentucky Other Postemployment Benefits (OPEB) Trust in July 2007, after the July 1, 2007 actuarial valuation date. As of June 30, 2009, net trust fund assets totaled $11.1 million.

Actuarial valuation of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Actuarially determined amounts are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, is designed to present multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The projection of benefits for financial reporting purposes is based on the substantive plan (the plan as understood by the employer and the plan members) and includes the type of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects for legal or contractual funding limitations on the pattern of cost sharing between the employer and plan member in the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2008 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included an 8 percent discount rate based on the University's funding policy (ARC funding) based on the expected long-term return on the separate trust assets that will be used to finance the payment of plan benefits. The projected annual healthcare trend rate is 8 percent for the pre-65 members and 8.75 percent for the post-65 members initially, reduced in decrements to an ultimate rate of 5 percent after five years. The expected long-term payroll growth rate was assumed to be 3 percent per year. The UAAL is being amortized as a level percent of pay amount on a closed basis. The remaining amortization period at July 2008 was twenty nine years.

18. LONG-TERM DISABILITY BENEFIT PLAN

The University is self insured for a long-term disability income program and has established a trust for the purpose of paying claims and establishing necessary reserves. Regular employees with a full-time equivalent of .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 benefits receives primary and supplemental payment 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. The University provides supplemental payment benefits for 42 months following the date of disability onset based on the following schedule (for current long-term disability participants or employees approved for long-term disability benefits prior to October 1, 2006):

Months	Percentage of Salary
1-6	100%
7-18	90%
19-30	80%
31-42	70%
43- End of Benefit	60%

Claimants that file applications and who are approved for benefits on October 1, 2006 or after receive benefits based on a new schedule. For the first six months they receive 100% of the basic salary then receive 60% of the basic salary after that time. Benefits end when 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), a $10,000 life insurance benefit, and retirement contributions equal to 10 percent of pre-disability salary per year for applications filed on or after October 1, 2006 and 15 percent of pre-disability salary per year for applications filed before October 1, 2006.

The long-term disability plan does not issue a publicly available financial report, but is included in this report of the University using the economic resources measurement focus and the accrual basis of accounting under which expenses, including benefits and refunds, are recorded when the liability is incurred. Employer contributions are recorded in the accounting period in which they are earned and become measureable. Investments are reported at fair market value and based on published prices and quotations from major investment brokers at current exchange rates, as available. The coverage of the long-term disability benefits is established and may be amended by the President of the University.

The University currently plans to contribute amounts to the trust fund sufficient to fully fund the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The University will continue to finance long-term disabilities by pre-funding benefits and contributing to the ARC into a segregated, protected trust fund and will amortize the initial unfunded accrued liability (UAL) over a thirty year closed period. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ARC of $2.2 million is .5 percent of annual covered payroll. There are no long-term contracts for contributions to the plan. The following table presents the OPEB cost for the year, the amount contributed and changes in the OPEB Plan for fiscal year 2009 (in thousands):

Annual required contribution	$ 2,240
Interest on net OPEB obligation	(9)
Adjustment to annual required contribution	7
Contributions made	(2,231)
Increase in net OPEB obligation (asset)	7
Net OPEB obligation (asset) - Beginning of year	-
Net OPEB obligation (asset) - End of year	$ 7

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2009 and 2008, was as follows (in thousands):

Fiscal Year Ended	Annual OPEB cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2008	$ 2,208	100.0%	
6/30/2009	$ 2,238	99.7%	$ 7

As of July 1, 2009, the actuarial accrued liability (AAL) for benefits was $22.0 million and the actuarial value of assets was $6.6 million, resulting in an unfunded actuarial accrued liability (UAAL) of $15.4 million. The covered payroll (annual payroll of active employees covered by the plan) was $473.8 million and the ratio of the UAAL to the covered payroll was 3.3 percent at June 30, 2009.

Actuarial valuation of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of events far into the future. Major factors affecting all long-term disability benefits are the rate at which people become disabled and how quickly they are expected to recover from disability. These rates will improve or deteriorate over time, for example with the state of the economy, with technological development and heath related events. Other factors that could also impact the liability include salary inflation, changes in utilization patterns, changes to government programs and technological advances, such as new drugs or equipment. Actuarially determined amounts are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, is designed to present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The projection of benefits for financial reporting purposes is based on the substantive plan (the plan as understood by the employer and the plan members) and includes the type of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2008 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included an 8 percent discount rate based on the University's funding policy (ARC funding) based on the expected long-term return on the separate trust assets that will be used to finance the payment of plan benefits. The projected elimination period is six months; termination (mortality and recovery from disability) and gender and age-related disability incidence rates are based on the 1987 Commissioner's Group Long Term Disability Table, payments are assumed to be made until the later of i) age 65 or ii) five years after date of disability. The projected long-term income benefit is based on actual net benefit currently being paid with social security offset. For people who have been disabled for less than 24 months and are currently not entitled to a social security offset, it was assumed that the offset will eventually be approved according to the following table:

Months Since Disability	Proportion
<12	5%
12-17	40%
18-23	40%
24+	80%

The future salary increase for active members was assumed to be 3 percent per year. The UAAL is being amortized as a level percent of pay amount on a closed basis. The remaining amortization period at July 1, 2008 was twenty nine years.

19. RISK MANAGEMENT

The University is exposed to various risks of loss related to torts; theft of, damage to, and 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 Fund), (2) Sovereign Immunity and the State Board of Claims, or (3) in the case of risks not covered by the Fund and Sovereign Immunity, commercial insurance, participation in insurance risk retention groups or self-insurance.

The Fund covers losses to property from fire, wind, earthquake, flood and most other causes of loss between $250,000 and $500,000 per occurrence. Losses in excess of $500,000 are insured by commercial carriers up to $500 million per occurrence, buildings at replacement cost and contents on an actual cash value basis. As a state agency, the University is vested with Sovereign Immunity and is subject to the provisions of the Board of Claims Act, under which the University's liability for certain negligence claims is limited to $200,000 for any one person or $350,000 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 2008 to 2009. 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 of Kentucky. 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 6 percent. The malpractice liability as of June 30, 2009 is based on the requirements of GASB Statement No. 10, which requires that a liability for claims be recorded if it is probable that a liability 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, 2009.

The University also self-insures certain employee benefits, including health insurance, worker's compensation, unemployment claims and a long-term disability supplemental reserve, to the extent not covered by insurance. The University has recorded an estimate for asserted claims at June 30, 2009.

20. 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.

21. 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 the Bill, include support of efforts by the University of Kentucky to attain status as a top-20 public research university. The RCTF Endowment Match Program provides state funds on a dollar-for-dollar 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.

The status of the RCTF endowed funds as of June 30, 2009, is summarized as follows (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	$ 21,046
Total	$ 300,000	$ 202,191	$ 202,191	$ 21,046

Interest income of approximately $2.2 million earned on the state matching funds is included in the University’s share of the 2000 biennium funding.

The University expects to fully realize all outstanding matching pledges; however, it may 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 with other eligible gifts. A payment schedule of the outstanding pledges is shown below (in thousands):

	2002 Biennium
Pledges due in fiscal year 2009 or prior	$ 437
Pledges due in fiscal year 2010	1,453
Pledges due in fiscal year 2011	8,415
Pledges due in fiscal year 2012	2,690
Pledges due in fiscal year 2013	8,051
Total	$ 21,046

22. CANCER RESEARCH MATCHING FUND

The Kentucky General Assembly created the Cancer Research Institutions Matching Fund, which is funded by a one-cent surtax levied on each 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, 2009 and June 30, 2008, respectively, follows (in thousands):

	2009	2008
Funds from private sources approved for match	$ 3,710	$ 4,089
Cigarette excise tax funds distributed	2,550	3,020
Total cancer research matching fund revenues	$ 6,260	$ 7,109
Cancer research matching fund expenses	$ 9,644	$ 5,019

23. NATURAL CLASSIFICATION

The University's operating expenses by natural classification were as follows for the years ended June 30, 2009 and June 30, 2008, respectively (in thousands):

	2009	2008
Salaries and wages	$ 965,840	$ 928,498
Employee benefits	271,590	263,438
Supplies and services	502,607	466,249
Depreciation	99,067	93,731
Student scholarships and financial aid	38,304	38,672
Purchased utilities	49,276	43,728
Other, various	99,963	78,563
Total	$ 2,026,647	$ 1,912,879

24. CURRENT ECONOMIC CONDITIONS

The current economic environment presents the University with unprecedented circumstances and challenges, which in some cases have resulted in large declines in the fair value of investments and other assets; declines in contributions, governmental support, patient revenue and grant revenue; constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the University.

Current economic conditions have made it challenging for many donors to continue to contribute to not-for profit organizations. A significant decline in the fair value of investments, as well as contribution revenue could have an adverse impact on the University's future operating results. As the Commonwealth continues to struggle with the impact of these economic conditions at the state level, governmental support will continue to decline as well.

In addition, the rising unemployment rate has made it difficult for certain of our patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on UK Healthcare's future operating results. Further, the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medicaid program.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in investment values; allowances for contribution and patient receivables; and the valuation of intangibles that could negatively impact the University's ability to meet debt covenants or maintain sufficient liquidity.

25. RECLASSIFICATIONS

Certain reclassifications to fiscal year 2008 comparative amounts have been made to conform to the fiscal year 2009 financial statement classifications. Pell grants of $8,830,000 previously reported as operating revenue in the Statements of Revenues, Expenses and Changes in Net Assets are now being reported as nonoperating revenue. Certain transactions previously reported as instruction are now being reported as research. Additionally, certain transactions previously reported as cash flows from operating activities are now being reported as cash flows from noncapital financing activities in the Statements of Cash Flows. Such classifications had no effect on the change in net assets.

26. CHANGE IN ACCOUNTING PRINCIPLE

In 2009, the University changed its method of accounting for its federal and state grants similar to Pell based upon determination that these are nonexchange transactions. The effect of this change had no impact on net assets for June 30, 2009. The operating revenues and nonoperating revenues (expenses) line items in the Statements of Revenues, Expenses and Changes in Net Assets for fiscal year 2009 were affected by the following:

	Before Change in Method	After Change in Method
Federal grants reported as operating revenues	$ 1,039,717	
State grants reported as operating revenues	20,076,845	
Federal grants reported as nonoperating revenues	-	$ 1,039,717
State grants reported as nonoperating revenues	-	20,076,845
Total	$ 21,116,562	$ 21,116,562

UNIVERSITY OF KENTUCKY AND AFFILIATED CORPORATIONS
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION

1. HEALTH INSURANCE BENEFITS FOR RETIREES

The University of Kentucky's (the University) Other Postemployment Benefit Plan (OPEB Plan) is administered through the University's OPEB Trust Fund as an irrevocable trust. Assets of the trust fund are dedicated to providing post-retirement health insurance coverage to current and eligible future university retirees. Only employees hired prior to January 1, 2006 are eligible to receive post-retirement health insurance benefits.

The following schedules present the University's actuarially determined funding progress and required contributions for the University's Other Postemployment Benefits Trust using the projected unit credit actuarial cost method:

Schedule of Funding Progress by Valuation Date
(In thousands)

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2007	$ 7,251	$ 141,171	$ 133,920	5.1%	$ 614,928	21.8%
July 1, 2008	$ 11,148	$ 150,220	$ 139,072	7.4%	$ 590,446	23.6%

Schedule of Employer Contributions
(In thousands)

Year Ended	Annual Required Contributions	Percentage Contributed
June 30, 2008	$ 13,649	100.0%
June 30, 2009	$ 14,059	102.6%

2. LONG-TERM DISABILITY BENEFIT PLAN

The University is self insured for a long-term disability income program and has established a trust for the purpose of paying claims and establishing necessary reserves. Regular employees with a full-time equivalent of .75 or greater who have completed 12 months of service are automatically enrolled in the plan.

The following schedules present the University's actuarially determined funding progress and required contributions for the University's long-term disability benefit trust fund using the projected unit credit actuarial cost method:

Schedule of Funding Progress by Valuation Date
(In thousands)

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2007	$ 7,601	$ 21,583	$ 13,982	35.2%	$ 444,981	3.1%
July 1, 2008	$ 6,551	$ 22,044	$ 15,493	29.7%	$ 473,835	3.3%

Schedule of Employer Contributions
(In thousands)

Year Ended	Annual Required Contributions	Percentage Contributed
June 30, 2008	$ 2,208	100.0%
June 30, 2009	$ 2,240	99.7%

UNIVERSITY OF KENTUCKY AND AFFILIATED CORPORATIONS
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
STATEMENT OF NET ASSETS SCHEDULE
JUNE 30, 2009
(in thousands)

	UK	Research Foundation	The Fund	Gluck Equine Research Foundation	Athletic Association	Humanities Foundation	Mining Engineering Foundation	Business Partnership Foundation	Center on Aging	Central Kentucky Management Services	Boone Center	Kentucky Medical Services Foundation	Total
ASSETS													
Current Assets													
Cash and cash equivalents	$ 328,798	$ 15,893	$ 12,144	$ 567	$ 19,264	$ 35	$ 13	$ 225	$ 60	$ 517		$ 493	$ 378,009
Notes, loans and accounts receivable, net	135,473	45,098	3,016	14	296						39	25,265	209,201
Investments												3,834	3,834
Inventories and other	30,228	2,717			4,084					13	14	41	37,097
Total current assets	494,499	63,708	15,160	581	23,644	35	13	225	60	530	53	29,633	628,141
Noncurrent Assets													
Restricted cash and cash equivalents	63,489						57						63,546
Endowment investments	678,300	3,225	171	6,746	238	1,026	1,360	10,696					701,762
Other long-term investments	173,731	6,322										31,887	211,940
Notes, loans and accounts receivable, net	51,071		3	51				4				625	51,754
Other noncurrent assets	17,016											596	17,612
Capital assets, net	1,522,652	2,349			1,854					375	30	44,270	1,571,530
Total noncurrent assets	2,506,259	11,896	174	6,797	2,092	1,026	1,417	10,700	-	375	30	77,378	2,618,144
Total assets	3,000,758	75,604	15,334	7,378	25,736	1,061	1,430	10,925	60	905	83	107,011	3,246,285
LIABILITIES													
Current Liabilities													
Accounts payable and accrued liabilities	150,124	11,603	773	17	2,564	1				530	53	4,441	170,106
Deferred revenue	13,962	41,505			13,289								68,756
Long-term liabilities - current portion	68,624											5,597	74,221
Total current liabilities	232,710	53,108	773	17	15,853	1	-	-	-	530	53	10,038	313,083
Noncurrent Liabilities													
Deferred revenue	6,305												6,305
Long-term liabilities	691,157											22,659	713,816
Total noncurrent liabilities	697,462	-	-	-	-	-	-	-	-	-	-	22,659	720,121
Total liabilities	930,172	53,108	773	17	15,853	1	-	-	-	530	53	32,697	1,033,204
INTERFUND BALANCES	25,230	(1,569)	(738)		(127)							(22,796)	-
NET ASSETS													
Invested in capital assets, net of related debt	884,255	2,349			1,854					375		20,903	909,736
Restricted													
Nonexpendable	486,049	751	31	4,607		614	649	7,481					500,182
Expendable	164,812	3,019	827	2,754	290	446	781	3,444	60				176,433
Total restricted	650,861	3,770	858	7,361	290	1,060	1,430	10,925	60	-	-	-	676,615
Unrestricted	560,700	14,808	12,965		7,612						30	30,615	626,730
Total net assets	$ 2,095,816	$ 20,927	$ 13,823	$ 7,361	$ 9,756	$ 1,060	$ 1,430	$ 10,925	$ 60	$ 375	$ 30	$ 51,518	$ 2,213,081

UNIVERSITY OF KENTUCKY AND AFFILIATED CORPORATIONS
A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2009
(in thousands)

	UK	Research Foundation	The Fund	Gluck Equine Research Foundation	Athletic Association	Humanities Foundation	Mining Engineering Foundation	Business Partnership Foundation	Center on Aging	Central Kentucky Management Services	Boone Center	Kentucky Medical Services Foundation	Total
OPERATING REVENUES													
Student tuition and fees, net	$ 195,244												$ 195,244
Federal grants and contracts	1,909	$ 155,559											157,468
State and local grants and contracts	20,975	69,476	$ 205										90,656
Nongovernmental grants and contracts	(1,553)	26,531	2,366										27,344
Recoveries of facilities and administrative costs	234	44,473											44,707
Sales and services	31,613		11,603			$ 1			$ 29	$ 6,052	$ 898		50,196
Federal appropriations	16,584												16,584
County appropriations	14,451												14,451
Professional clinical service fees												$ 193,390	193,390
Hospital services	701,936												701,936
Auxiliary enterprises:													
Housing and Dining, net	39,283												39,283
Athletics					$ 56,857								56,857
Other auxiliaries	25,515												25,515
Other operating revenues	(1,307)	1,924	8								(33)	2,198	2,790
Total operating revenues	1,044,884	297,963	14,182	-	56,857	1	-	-	29	6,052	865	195,588	1,616,421
OPERATING EXPENSES													
Educational and general:													
Instruction	226,443	13,107	574			3	$ 40	$ 146					240,313
Research	87,570	163,299	434	$ 19			40						251,362
Public service	111,271	106,236	973				9						218,489
Libraries	18,658		4										18,662
Academic support	67,841	2,082	3,430					350					73,703
Student services	26,768	44	68			1							26,881
Institutional support	74,297	712	317	15					76	5,996			81,413
Operations and maintenance of plant	58,517	40											58,557
Student financial aid	21,928	1,709	323			53		212					24,225
Depreciation	64,611	534								96	6		65,247
Total educational and general	757,904	287,763	6,123	34	-	57	89	708	76	6,092	6	-	1,058,852
Clinical operations (including depreciation of $1,454)												161,024	161,024
Hospital (including depreciation of $25,569)	695,912		109										696,021
Auxiliary enterprises:													
Housing and dining (including depreciation of $3,003)	38,941												38,941
Athletics (including depreciation of $2,161)	(722)				57,658								56,936
Other auxiliaries	13,144										1,486		14,630
Other expenses	178										65		243
Total operating expenses	1,505,357	287,763	6,232	34	57,658	57	89	708	76	6,092	1,557	161,024	2,026,647
Net income (loss) from operations	(460,473)	10,200	7,950	(34)	(801)	(56)	(89)	(708)	(47)	(40)	(692)	34,564	(410,226)
NONOPERATING REVENUES (EXPENSES)													
State appropriations	315,162												315,162
Gifts and grants	71,093	198	231	199		1	3	71	98		141		72,035
Investment income (loss)	(163,652)	(732)	71	(1,797)	79	(277)	(394)	(2,897)		5		481	(169,113)
Interest on capital asset-related debt	(13,959)	(115)			(627)							(1,161)	(15,862)
Grant to/(from) the University for non-capital purposes	51,252	(4,107)	(9,119)	(687)	6,768	(5)	(7)	(58)	(50)		570	(44,557)	-
Other nonoperating revenues and expenses, net	2,933	1,463			1,810								6,206
Net nonoperating revenues (expenses)	262,829	(3,293)	(8,817)	(2,285)	8,030	(281)	(398)	(2,884)	48	5	711	(45,237)	208,428
Net income (loss) before other revenues, expenses, gains, or losses	(197,644)	6,907	(867)	(2,319)	7,229	(337)	(487)	(3,592)	1	(35)	19	(10,673)	(201,798)
Capital appropriations	3,446												3,446
Capital grants and gifts	104,484	3,270										(208)	107,546
Additions to permanent endowments	9,960						4	26					9,990
Grant to/(from) the University for capital purposes	22,558	(8,849)	(439)		(13,270)								-
Other, net	(889)	(150)			(1,649)								(2,688)
Total other revenues	139,559	(5,729)	(439)	-	(14,919)	-	4	26	-	-	-	(208)	118,294
INCREASE (DECREASE) IN NET ASSETS	(58,085)	1,178	(1,306)	(2,319)	(7,690)	(337)	(483)	(3,566)	1	(35)	19	(10,881)	(83,504)
NET ASSETS, beginning of year	2,153,901	19,749	15,129	9,680	17,446	1,397	1,913	14,491	59	410	11	62,399	2,296,585
NET ASSETS, end of year	$ 2,095,816	$ 20,927	$ 13,823	$ 7,361	$ 9,756	$ 1,060	$ 1,430	$ 10,925	$ 60	$ 375	$ 30	$ 51,518	$ 2,213,081

University of Kentucky
Governing Board and Administrative Staff as of June 30, 2009

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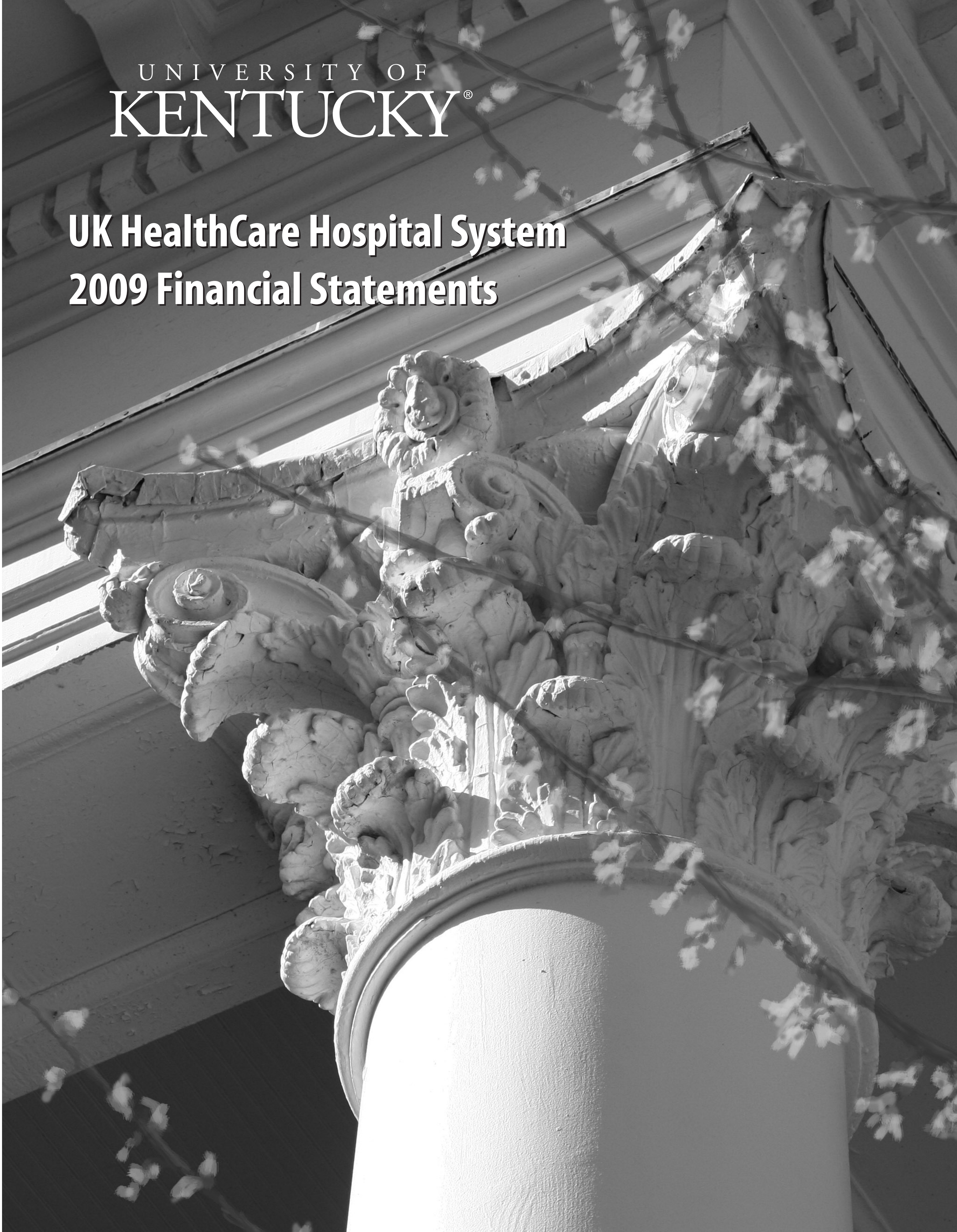
UK HealthCare Hospital System
2009 Financial Statements



UK HealthCare Hospital System
An Organizational Unit of the University of Kentucky
Financial Statements
Years Ended June 30, 2009 and 2008

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BKD LLP
CPAs & Advisors

220 W. Main Street, Suite 1700
P.O. Box 1178
Louisville, KY 40201-1178
502.581.0435 Fax 502.581.0723 www.bkd.com

Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees
University of Kentucky
UK HealthCare Hospital System
Lexington, Kentucky

We have audited the accompanying statements of net assets of the UK HealthCare Hospital System (System), an organizational unit of the University of Kentucky, as of June 30, 2009 and 2008, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the System as of June 30, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis, as listed in the table of contents, is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the supplementary information and express no opinion on it.

BKD, LLP

October 1, 2009

Management's Discussion and Analysis

The following Management's Discussion and Analysis, or MD&A, provides an overview of the financial position and activities of the UK HealthCare Hospital System for the years ended June 30, 2009 and 2008. UK HealthCare Hospital System includes Albert B. Chandler University Hospital, including Kentucky Children's Hospital (collectively Chandler); UK HealthCare Good Samaritan Hospital (Good Samaritan); and Kentucky Healthcare Enterprise, Inc. (KHE), a wholly owned for-profit subsidiary (collectively, the System). Management has prepared this discussion, and we encourage you to read it in conjunction with the financial statements and the notes appearing in this report.

About UK HealthCare System

The UK Chandler Medical Center, opened in 1960, stands among the nation's finest academic medical centers. Its faculty, students and staff take pride in achieving excellence in education, patient care, research, and community service. One of two Level 1 Trauma Centers in Kentucky, Chandler cares for the most critically injured and ill patients in the region.

More than 600 faculty physicians and dentists, 570 resident physicians and a staff of 4,880 provide care in the 791 licensed beds at UK Chandler Hospital, Kentucky Children's Hospital and UK HealthCare Good Samaritan Hospital.

The System's mission is to help the people of the Commonwealth and beyond gain and retain good health through creative leadership and quality initiatives in patient care, education and research. The System serves patients primarily from central and eastern Kentucky and offers a full spectrum of routine and specialty services appropriate for a major regional quaternary care center.

Financial Highlights

The System's overall financial position remains strong with assets of $998.2 million and liabilities of $453.8 million. Net assets, which represent the System's residual interest in assets after liabilities are deducted, were $544.4 million or 54.5 percent of total assets. For the fiscal year ended June 30, 2009, the System reported a net loss before other changes in net assets of $29.8 million, generating a margin of (4.2) percent.

- Financial results for fiscal year 2009 exceeded prior year revenues with net inpatient revenues, excluding the provision for doubtful accounts, increasing approximately $17.4 million or 3.6 percent over the prior fiscal year and net outpatient revenues, excluding the provision for doubtful accounts, increasing $20.7 million or 9.3 percent over the previous fiscal year. The change in net patient service revenue is primarily the result of increases in rates and an overall increase in the case mix index.
- Total assets decreased $31.0 million or 3.0 percent. This decrease is primarily due to decreases in restricted cash and cash equivalents of $129.1 million and long-term investments of $49.4 million. This was offset by an increase in capital assets, net, of $138.4 million.
- Total liabilities increased $16.7 million or 3.8 percent, primarily due to increases of $9.2 million in accounts payable and $10.5 million in capital lease obligations.
- Total net assets decreased $47.7 million or 8.1 percent, primarily due to the current year net loss.
- Operating revenues increased $34.6 million or 5.2 percent.
- Operating expenses increased $76.3 million or 12.3 percent due primarily to increases in purchased services, supplies and personnel costs.
- Net nonoperating revenues decreased $27.3 million due to an increase in the current year investment loss of $28.8 million.

Operating Statistics

The following table presents utilization statistics for the System for fiscal years ended 2009, 2008 and 2007:

	2009	2008	2007
Discharges:			
Medicare	9,370	9,718	7,093
Medicaid	9,032	8,995	7,828
Commercial/Blue Cross	9,868	10,546	9,074
Patient/charity	3,498	3,667	3,297
Total discharges	31,768	32,926	27,292
Average daily census	495	487	406
Average length of stay	5.69	5.41	5.43
Outpatient visits:			
Hospital clinics	312,208	301,427	290,910
Emergency visits	68,299	66,045	45,655
Total visits	380,507	367,472	336,565

2009. Total discharges decreased by 1,158 or 3.5 percent compared to the prior fiscal year. The decrease occurred primarily in the third quarter, with a decrease of 733 discharges from the prior year or 63% of the total decline. Patient volume was negatively impacted by the historical bad weather in Kentucky during the 2009 winter months.

Overall the case mix index increased to 1.6436 from 1.6098 and the average length of stay increased 0.28 to 5.69. The case mix for Chandler was at 1.8156 while Good Samaritan was at 1.1133.

Total outpatient visits increased by 13,035 or 3.5 percent over the prior year.

Using the Financial Statements

The System presents its financial reports in a “business type activity” format, in accordance with Governmental Accounting Standards Board 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*. In addition to this MD&A section, the financial report includes a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, a Statement of Cash Flows and Notes to the Financial Statements. GASB requires that statements be presented on a System-wide basis.

Reporting Entity

The UK HealthCare Hospital System is an organizational unit of the University of Kentucky (the University), which is a component unit of the Commonwealth of Kentucky and is included in the basic financial statements of the Commonwealth. The financial statements of the System include Kentucky Healthcare Enterprise, Inc. (KHE), a wholly owned for-profit subsidiary. The System provides inpatient, outpatient and emergency care services for residents of the Commonwealth of Kentucky.

Statement of Net Assets

The Statement of Net Assets is the System's balance sheet. It reflects the total assets, liabilities and net assets (equity) of the System as of June 30, 2009, with comparative information as of June 30, 2008. Liabilities due within one year, and assets available to pay those liabilities, are classified as current. Other assets and liabilities are classified as non-current. Net assets, the difference between total assets and total liabilities, are an important indicator of the System's current financial condition, while the change in net assets is an indicator of whether the overall financial position has improved or worsened during the year. Generally, assets and liabilities are reported using current values. A major exception is capital assets, which are stated at historical cost, less accumulated depreciation. A summarized comparison of the System's assets, liabilities and net assets at June 30, 2009, 2008 and 2007 follows:

Condensed Statements of Net Assets (in thousands)

	2009	2008	2007
ASSETS			
Current assets	$ 286,800	$ 272,386	$ 238,677
Capital asset, net of depreciation	488,596	350,241	252,440
Other noncurrent assets	222,790	406,604	311,146
Total Assets	998,186	1,029,231	802,263
LIABILITIES			
Current liabilities	89,091	74,665	51,032
Noncurrent liabilities	364,709	362,433	178,441
Total Liabilities	453,800	437,098	229,473
NET ASSETS			
Invested in capital assets, net of related debt	124,643	135,130	128,207
Nonexpendable other	115	14	14
Restricted expendable	25,801	17,118	8,412
Unrestricted	393,827	439,871	436,157
Total Net Assets	$ 544,386	$ 592,133	$ 572,790

Assets. As of June 30, 2009, the System's total assets amounted to approximately $998.2 million. Capital assets, net of depreciation, of $488.6 million or 48.9 percent represented the System's largest asset. Long-term investments of $176.2 million or 17.7 percent of total assets were the System's second largest asset. Cash and cash equivalents totaling $173.5 million or 17.4 percent of total assets represent another significant asset of the System. The System had accounts receivable, primarily patient-related, of $95.9 million or 9.6 percent of total assets at year end.

Total assets decreased by $31.0 million during the year ended June 30, 2009. The decrease was the result of several factors: restricted cash and cash equivalents decreased $129.1 million due to the expenditure of cash on the new patient care facility; the continuing decline in market condition caused the fair value of endowment investments to decline $49.4 million; and capital assets, net of accumulated depreciation, increased $138.4 million primarily due to the construction of the new patient care facility.

Liabilities. At June 30, 2009, the System's liabilities totaled approximately $453.8 million. Long-term debt, which consists of general receipts project notes, comprised the largest liability of $265.7 million or 58.6 percent of total liabilities. Capital lease obligations totaled $96.4 million or 21.2 percent of liabilities. Accrued expenses, primarily payroll, vacation and other employee benefits, totaled $41.9 million or 9.2 percent of liabilities. Accounts payable represent approximately $38.1 million or 8.4 percent of liabilities.

Net Assets. Net assets at June 30, 2009 totaled approximately $544.4 million, or 54.5 percent of total assets. Net assets invested in capital assets, net of related debt, totaled $124.6 million or 22.9 percent of total net assets. Restricted net assets totaled approximately $25.9 million or 4.8 percent of total net assets. Unrestricted net assets accounted for $393.8 million or 72.3 percent of total net assets. Total net assets decreased $47.7 million or 8.1 percent.

Restricted net assets are subject to externally imposed restrictions governing their use. Although unrestricted net assets are not subject to externally imposed stipulations, substantially all of the unrestricted net assets have been internally designated for capital projects and working capital requirements.

2008 Versus 2007 When comparing the fiscal year ended June 30, 2008 to the year ended June 30, 2007:

- Total assets increased by $227.0 million, primarily due to an increase in restricted cash of $94.0 million from the issuance of general receipts project notes and a $97.8 million increase in capital assets, net.

- Total liabilities increased $207.6 million, primarily due to the increase of $158.2 million in long-term liabilities which was the result of the new notes being issued during the year.

- Total net assets increased $19.3 million, primarily due to net income for the year.

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets is the System's income statement. It details how net assets have fluctuated during the year ended June 30, 2009, with comparative information for the year ended June 30, 2008. 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. All items that increase or decrease net assets must appear on the Statement of Revenues, Expenses and Changes in Net Assets 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. 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.

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

	2009	2008	2007
OPERATING REVENUES			
Net patient service revenues	$ 686,604	$ 653,092	$ 530,128
Sales and services	18,308	17,225	7,303
Total operating revenues	704,912	670,317	537,431
OPERATING EXPENSES			
Salaries and wages	220,194	202,596	167,078
Fringe benefits	58,661	52,559	42,965
Supplies	172,710	153,663	128,356
Purchased services	142,909	119,596	109,281
Other expenses	75,678	67,857	50,952
Depreciation	28,027	25,569	21,692
Total operating expenses	698,179	621,840	520,324
OPERATING INCOME-continuing operations	6,733	48,477	17,107
NONOPERATING REVENUES (EXPENSES)			
State appropriations	1,053	1,053	1,053
Permanent additions to endowments	1	1	1
Gifts	8,238	4,607	1,355
Investment income (loss)	(42,393)	(13,597)	32,951
Interest expense	(3,666)	(1,017)	(131)
Gain (loss) on disposal of capital assets	(535)	(246)	(66)
Other	746	(104)	(799)
Gain on sale of investment	-	-	5,049
Net income before other revenues, expenses, gains or losses	(29,823)	39,174	56,520
Transfer (to) the University of Kentucky-noncapital	(11,255)	(19,795)	(8,558)
Transfer (to) the University of Kentucky-capital	(6,652)	(16)	(761)
DISCONTINUED OPERATIONS			
Net income (loss) from discontinued operations	(17)	(20)	5
Total increase (decrease) in net assets	(47,747)	19,343	47,206
Net assets, beginning of year	592,133	572,790	525,584
Net assets, end of year	$ 544,386	$ 592,133	$ 572,790

Operating Revenues:

Total operating revenues were approximately $704.9 million for the year ended June 30, 2009, an increase of $34.6 million or 5.2 percent over fiscal year 2008. The most significant source of operating revenue for the System was net patient service revenue of $686.6 million. Net patient revenues increased $33.5 million or 5.1 percent in fiscal year 2009 over 2008. Approximately $26.9 million of the net patient revenues increase occurred in the first two quarters and $7.6 million increase in the fourth quarter.

The majority of the net patient service revenue increase was the result of a rate increase along with an increase in overall case mix. Patient service revenues are presented net of estimated allowances from contractual arrangements with Medicare, Medicaid and other third-party payors and have been estimated based on the terms of reimbursement and contracts currently in effect. A provision for doubtful accounts is also included.

The System has experienced an increased number of write-offs during fiscal year 2009 as a result of current economic conditions. Consequently, the provision for doubtful accounts increased $4.6 million or 10.0 percent during the period.

The following table shows net patient revenue by funding source for fiscal years ended June 30, 2009, 2008 and 2007 (in thousands):

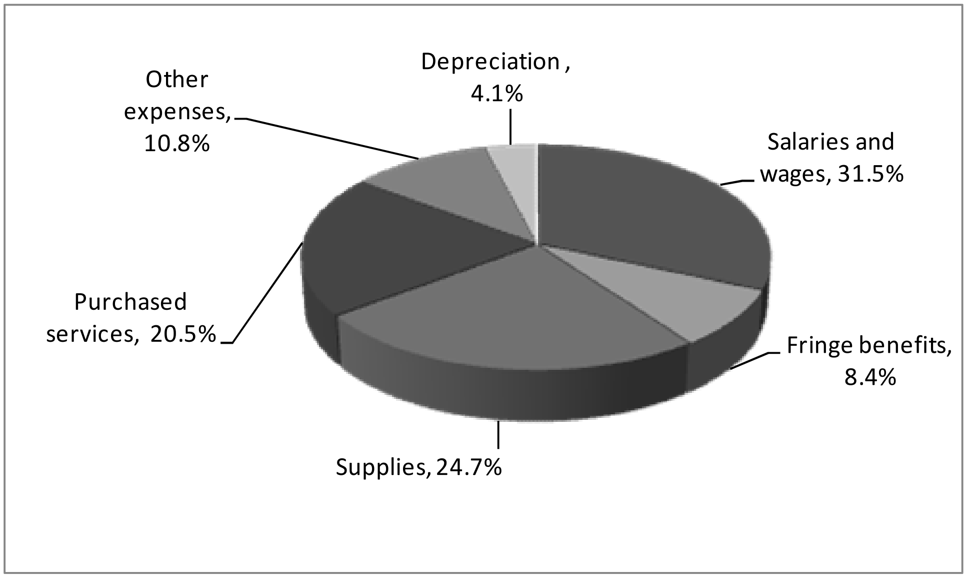
Payor	2009	2008	2007
Medicare	$ 199,207	$ 195,494	$ 147,569
Medicaid	162,711	145,983	125,607
Commercial/Blue Cross	325,585	310,130	247,456
Patient/charity	49,858	47,629	54,269
Bad debt	(50,757)	(46,144)	(44,773)
Total	$ 686,604	$ 653,092	$ 530,128

Net revenues for Medicare represent payments for services provided to patients under Title XVIII of the Social Security Act. Payments for inpatient services provided to Medicare beneficiaries are paid on a per-discharge basis at rates set at the national level with adjustments for prevailing area labor costs. The System receives additional payments for direct and indirect costs for graduate medical education, disproportionate share of indigent patients, capital reimbursement and outlier payments on cases with unusually high costs of care. System outpatient care is reimbursed under a prospective payment system. Medicare reimburses the System for allowable costs at a tentative rate with final settlement of such items determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. Settlements with the Medicare program for prior years' cost reports are recognized in the year the settlement is resolved.

Net revenues for Medicaid represent payments for services provided to Medicaid beneficiaries. Payments for inpatient services are paid on a per discharge basis and include Intensity Operating Allowance revenues, which are intergovernmental transfer payments available for public institutions to assure access to medical care for Medicaid participants. Outpatient services are reimbursed based upon a combination of fee schedule, per case and retrospective cost settlement basis.

Net revenues for patient/charity include reimbursement for uncompensated care by the Commonwealth of Kentucky from Disproportionate Share System funds.

TOTAL OPERATING EXPENSES



Operating Expenses:

Total operating expenses, including $28.0 million of depreciation and amortization, were $698.2 million, an increase of $76.3 million or 12.3 percent over the prior year.

Salaries and employee benefit expenses increased by $23.7 million over the prior fiscal year due to additional staffing required for increased patient activity and merit increases.

Supplies expenses increased by $19.0 million or 12.4 percent primarily due to increases in overall patient activity and higher costs.

Purchased services increased $23.3 million or 19.5 percent from fiscal year 2008. The majority of the increase, $12.2 million, came from purchased services provided by the University of Kentucky College of Medicine. Outsourced services, including agency nurses of $3.9 million, also increased.

Other expenses rose by $7.8 million or 11.5 percent in fiscal year 2009. Maintenance and repair along with equipment service contracts increased $2.1 million. Other factors contributing to the increase were higher professional liability insurance costs of $3.0 million and utility costs of $1.1 million.

Nonoperating Revenues (Expenses):

Total nonoperating expenses, net of revenues, were $36.6 million in fiscal year 2009 compared to nonoperating expenses of $9.3 million during the prior fiscal year. This increase is primarily due to a net investment loss of $42.4 million in fiscal year 2009 compared to an investment loss of $13.6 million in the prior year. The endowment pool posted a total loss of 20.9% for fiscal 2009 versus a total loss of 8.2% in the prior year.

2008 Versus 2007 Total operating revenues were $670.3 million for the fiscal year ended June 30, 2008, an increase of $132.9 million over the year ended June 30, 2007. Essentially all of the increase in operating revenues was due to increased patient activity.

Operating expenses totaled $621.8 million, an increase of $101.5 million over 2007. The increase was primarily caused by higher costs for personnel, purchased services and medical supplies.

Nonoperating revenues, net of expenses, amounted to a $9.3 million net loss in fiscal year 2008 compared to $39.4 million net income in the prior year. The decrease of $48.7 million was primarily due to a loss on investments of $13.6 million in 2008 compared to income of $33.0 million in 2007.

Statement of Cash Flows

The Statement of Cash Flows details how cash has increased or decreased during the year ended June 30, 2009, with comparative financial information for the year ended June 30, 2008. It classifies the sources and uses of cash into the following categories:

- Operating activities
- Noncapital financing activities
- Capital and related financing activities
- Investing activities

Cash flows associated with the System's expendable net assets appear in the operating and noncapital financing categories. Capital financing activities include payments for capital assets, proceeds from long-term debt and debt repayments. Purchases and sales 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 System during the year that will allow financial statement readers to assess the System's:

- Ability to generate future net cash flows
- Ability to meet obligations as they become due
- Possible need for external financing

Condensed Statements of Cash Flows (in thousands)

Cash provided (used) by:	2009	2008	2007
Operating activities	$ 37,722	$ 45,696	$ 27,425
Noncapital financing activities	1,570	(13,489)	(7,481)
Capital and related financing activities	(163,877)	69,348	(80,486)
Investing activities	16,414	(16,758)	(25,261)
Net increase (decrease) in cash and cash equivalents	(108,171)	84,797	(85,803)
Cash and cash equivalents, beginning of year	281,697	196,900	282,703
Cash and cash equivalents, end of year	$ 173,526	$ 281,697	$ 196,900

2009. The major source of cash included in operating activities was patient service revenues of $694.5 million. The largest cash payments for operating activities were $398.5 million to suppliers and $276.5 million to employees for salaries, wages and fringe benefits.

Cash provided by noncapital financing activities consisted primarily of gift income, offset by transfers to the University for noncapital purposes.

Capital and related financing activities include $47.2 million proceeds from capital leases. Cash of $139.2 million was expended for construction and acquisition of capital assets and $58.0 million was expended for principal and interest payments on capital leases and long term debt.

Investing activities included proceeds from sales and maturities of investments of $331.1 million and interest and dividends of $10.3 million. Cash of $325.0 million was used to purchase investments.

2008 Versus 2007 Cash balances increased when comparing fiscal year 2008 versus fiscal year 2007 with a net increase in cash of approximately $84.8 million, primarily due to proceeds from capital debt received in fiscal year 2008.

Key Ratios

The following table shows key liquidity and capital ratios for fiscal years 2009, 2008 and 2007:

	2009	**2008**	**2007**
Days cash on hand	89	87	102
Days of revenue in accounts receivable	51	53	47
Debt service coverage (times)	(0.8)	3.5	11.0

Days cash on hand increased to 89 days in fiscal year 2009 from 87 days in fiscal year 2008. Days cash on hand measures the average number of days' expenses the System maintains in cash.

The days of revenue in accounts receivable measures the average number of days it takes to collect patient accounts receivable. Fiscal year 2009 days in accounts receivable decreased to 51 versus 53 days in 2008. Under Governmental Accounting Standards, net patient revenue is reduced by the provision for doubtful accounts while nongovernmental hospitals report the provision for bad debts as an expense.

Debt service coverage ratio measures the amount of funds available to cover the principal and interest on long-term debt. The System's ratio for fiscal year 2009 is (0.8) versus 3.5 in fiscal year 2008 due to the loss for the year.

Capital Asset and Debt Administration

Capital Assets

Capital assets, net of accumulated depreciation, totaled approximately $488.6 million at June 30, 2009, a net increase of $138.4 million over the prior year end. Significant changes in capital assets during fiscal 2008-2009 included (in millions):

• Land, buildings and structures, net additions	$ 39.3
• Equipment and vehicles, net additions	$ 22.8
• Capitalized software additions	$ 6.2
• Artwork	$ 0.3
• Construction in process, net additions	$ 90.7
• Increase in accumulated depreciation, net	$ (20.9)

Debt

At year-end, the System had $265.7 million in general receipts project notes outstanding; $4.4 million is included in current liabilities with the remainder long term.

Economic Factors Impacting Future Periods

The following are known facts and circumstances that will affect future financial results:

- Net patient revenue for fiscal year 2010 is budgeted to increase approximately $62.4 million due to an annual rate increase effective July 1, 2009 and a projected increase in discharges due to growth. Growth includes the impact of strategic initiatives in Cardiology, Hematology/Oncology, Orthopedics, Neurosurgery, Digestive Health and Pediatrics.
- State appropriations continue to remain constant at $1.1 million.
- The construction of the new one-million square-foot UK Chandler Hospital is underway with the emergency room in the new Hospital scheduled to open in August 2010. The new facility is the cornerstone of a 20-year, $2.5 billion plan for the south side of campus to construct an academic medical campus of the future that will further accelerate growth in research and health education.

UK HEALTHCARE HOSPITAL SYSTEM
AN ORGANIZATIONAL UNIT OF THE UNIVERSITY OF KENTUCKY
STATEMENTS OF NET ASSETS (in thousands)
JUNE 30, 2009 AND 2008

	2009	2008
ASSETS		
Current Assets		
Cash and cash equivalents	$ 163,484	$ 142,587
Accounts receivable (less allowance for doubtful accounts of $15,642 and $21,271)	95,895	94,641
Inventories and other assets	20,398	20,020
Accrued interest receivable	127	65
Estimated third-party payor settlements receivable	5,006	13,181
Notes receivable	1,890	1,892
Total current assets	286,800	272,386
Noncurrent Assets		
Restricted cash and cash equivalents	10,042	139,110
Long-term investments	176,159	225,550
Capital assets, net	488,596	350,241
Notes receivable	11,938	12,888
Other assets	24,651	29,056
Total noncurrent assets	711,386	756,845
Total assets	998,186	1,029,231
LIABILITIES		
Current Liabilities		
Accounts payable and accrued expenses	66,874	57,649
Deferred revenue	5,376	5,538
Due to University of Kentucky	-	3,000
Long-term debt - current portion	4,395	-
Capital lease obligations - current portion	12,446	8,478
Total current liabilities	89,091	74,665
Noncurrent Liabilities		
Accrued expenses	13,137	13,288
Deferred revenue	6,306	5,974
Long-term liabilities	261,295	265,690
Capital lease obligations	83,971	77,481
Total noncurrent liabilities	364,709	362,433
Total liabilities	453,800	437,098
NET ASSETS		
Invested in capital assets, net of related debt	124,643	135,130
Restricted		
Nonexpendable other	115	14
Expendable		
Debt service	407	2,134
Capital projects	19,662	13,011
Other	5,732	1,973
Total restricted expendable	25,801	17,118
Total restricted	25,916	17,132
Unrestricted	393,827	439,871
Total net assets	$ 544,386	$ 592,133

See notes to financial statements.

UK HEALTHCARE HOSPITAL SYSTEM
AN ORGANIZATIONAL UNIT OF THE UNIVERSITY OF KENTUCKY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (in thousands)
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
OPERATING REVENUES		
Net patient service revenues, less provision for doubtful accounts of $ 50,757 and $ 46,144	$ 686,604	$ 653,092
Sales and services	18,308	17,225
Total operating revenues	704,912	670,317
OPERATING EXPENSES		
Salaries and wages	220,194	202,596
Fringe benefits	58,661	52,559
Supplies	172,710	153,663
Purchased services	142,909	119,596
Other expenses	75,678	67,857
Depreciation	28,027	25,569
Total operating expenses	698,179	621,840
Net income from continuing operations	6,733	48,477
NONOPERATING REVENUES (EXPENSES)		
State appropriations	1,053	1,053
Permanent additions to endowments	1	1
Gifts	8,238	4,607
Investment income (loss)	(42,393)	(13,597)
Interest expense	(3,666)	(1,017)
(Loss) on disposal of capital assets	(535)	(246)
Other	746	(104)
Net nonoperating revenues (expenses)	(36,556)	(9,303)
Net income (loss) before other revenues, expenses, gains or losses	(29,823)	39,174
Transfers (to) the University of Kentucky for noncapital purposes	(11,255)	(19,795)
Transfers (to) the University of Kentucky for capital purposes	(6,652)	(16)
Total other revenues (expenses)	(17,907)	(19,811)
Income (loss) from discontinued operations	(17)	(20)
INCREASE (DECREASE) IN NET ASSETS	(47,747)	19,343
NET ASSETS, beginning of year	592,133	572,790
NET ASSETS, end of year	$ 544,386	$ 592,133

See notes to financial statements.

UK HEALTHCARE HOSPITAL SYSTEM
AN ORGANIZATIONAL UNIT OF THE UNIVERSITY OF KENTUCKY
STATEMENTS OF CASH FLOWS (in thousands)
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net patient service revenues	$ 694,521	$ 612,801
Sales and services	18,308	23,205
Payments to vendors and contractors	(398,473)	(339,471)
Salaries, wages and fringe benefits	(276,510)	(251,655)
Other receipts (payments)	(124)	816
Net cash provided by operating activities	37,722	45,696
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	1,053	1,053
Gifts	6,852	2,026
Additions to permanent endowments	1	1
Payments on lease receivable	-	98
Payments on loans to University of Kentucky departmental units	316	3,128
Transfers (to) the University of Kentucky for noncapital purposes	(6,652)	(19,795)
Net cash provided (used) by noncapital financing activities	1,570	(13,489)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of capital assets	752	120
Purchases of capital assets	(139,166)	(117,981)
Reduction of (payment) for deposits/Good Samaritan CON	-	6,476
Principal payments-capital leases and long-term obligations	(43,129)	(6,365)
Interest payments-capital leases and long-term obligations	(14,915)	(8,702)
Proceeds from capital leases	47,200	32,126
Proceeds from capital debt	-	164,846
Payments to bond agents - cost of issuance	(145)	(1,133)
Transfers (to) the University of Kentucky for capital purposes	(14,474)	(39)
Net cash provided (used) by capital and related financing activities	(163,877)	69,348
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	331,111	414,879
Purchase of investments	(324,986)	(445,626)
Interest and dividends on investments	10,289	13,989
Net cash provided (used) by investing activities	16,414	(16,758)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(108,171)	84,797
CASH AND CASH EQUIVALENTS, beginning of year	281,697	196,900
CASH AND CASH EQUIVALENTS, end of year	$ 173,526	$ 281,697
Reconciliation of net income from continuing operations to net cash provided by operating activities:		
Net income from continuing operations	$ 6,733	$ 48,477
Income (loss) from discontinued operations	(17)	(20)
Adjustments to reconcile net income from continuing operations to net cash provided (used) by operating activities:		
Depreciation	28,027	25,569
Write off of principal - note receivable	222	263
Provision for doubtful accounts	50,757	46,144
Change in assets and liabilities:		
Accounts receivable	(52,012)	(73,113)
Inventories and other	(378)	(7,282)
Estimated third-party payor settlements receivable	8,175	(9,153)
Other assets	223	(361)
Accounts payable and accrued expenses	(3,659)	14,956
Deferred revenue	(349)	216
Net cash provided by operating activities	$ 37,722	$ 45,696
Non cash transactions:		
Transfer of capital assets to (from) UK	$ 3,218	$ 23
Capital lease additions	$ 6,387	$ 671
Capital asset additions in accounts payable	$ 18,188	$ 11,688
Capitalized interest, net of investment income	$ 8,094	$ 5,772
Amortized project notes cost of issuance	$ 89	$ 89
Adjustment of capital lease obligation	$ -	$ (3,958)

See notes to financial statements.

UK HEALTHCARE HOSPITAL SYSTEM
AN ORGANIZATIONAL UNIT OF THE UNIVERSITY OF KENTUCKY
NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The UK HealthCare Hospital System is an organizational unit of the University of Kentucky (the University) which is a component unit of the Commonwealth of Kentucky and is included in the basic financial statements of the Commonwealth. The financial statements of UK HealthCare Hospital System include Albert B. Chandler University Hospital including Kentucky Children's Hospital (collectively Chandler); UK HealthCare Good Samaritan Hospital (Good Samaritan); and Kentucky Healthcare Enterprise, Inc. (KHE), a wholly owned for-profit subsidiary (collectively, the System).

UK HealthCare Hospital System provides inpatient, outpatient, and emergency care services for residents of the Commonwealth of Kentucky.

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 Governmental Accounting Standards Board (GASB). GASB establishes standards for external financial reporting for public colleges and universities and requires that resources be classified for accounting and reporting purposes into the following net assets categories:

- Invested in capital assets, net of related debt: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

- Restricted:
  Nonexpendable – Net assets subject to externally imposed stipulations that they be maintained permanently by the System.

  Expendable – Net assets whose use by the System is subject to externally imposed stipulations that can be fulfilled by actions of the System pursuant to those stipulations or that expire by the passage of time.

- Unrestricted: Net assets whose use by the System is not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Trustees 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 System's assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows.

Pursuant to GASB Statement No. 20, the System has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989 and do not conflict with or contradict GASB pronouncements.

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 System reports as a Business Type Activity (BTA) as defined by GASB Statement No. 35. BTA's are those activities that are financed in whole or part by fees charged to external parties for goods and services.

Cash and Cash Equivalents. The System considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Noncurrent cash and cash equivalents include the System's plant funds allocated for capital projects, with the exception of unrestricted renewal and replacement cash, which is included in current cash and cash equivalents, and endowment fund cash pending transfer to the custodian for investment. Cash and cash equivalents held by the University's endowment fund managers are included in endowment investments.

Accounts Receivable. The System reports patient accounts receivable for services rendered at net realizable amounts from third-party payers and others. The System provides an allowance for doubtful accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Inventories. Inventories are stated principally at the lower of cost or market.

Long Term Investments. The System's endowment investments are administered as part of the University's pooled endowment funds. The University employs the total return concept of investment management for setting investment objectives and determining investment performance. This concept recognizes dividends and interest, plus or minus realized and unrealized gains or losses, in determining the total return earned during any particular period. 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.

The Uniform Management of Institutional Funds Act (UMIFA), as adopted by the Commonwealth of Kentucky, permits the University to appropriate an amount of the realized and unrealized endowment appreciation to support current programs. Accordingly, spendable return from the endowment is determined using the total return philosophy. This philosophy recognizes a prudent amount of realized and unrealized gains as spendable return in addition to traditional yield. Distribution of investment earnings for expenditure by participating funds is supported first by traditional yield earned and, if necessary, a transfer from the endowment of any prior years' accumulated earnings (unexpended traditional yield) or net realized or unrealized gains.

The University's endowment spending rule provides for annual distributions of 4.50 percent of the three-year moving average market value of fund units. For the years ended June 30, 2009 and 2008 approximately $4.3 and $2.5 million, respectively, was transferred from endowment realized and unrealized gains to support current programs in accordance with the University's endowment spending rule. Additionally, the University assesses eligible endowment accounts with a management fee of 0.5 percent of total asset value.

Capital Assets. Capital assets are stated at cost at date of acquisition or, in the case of gifts, at fair market value at date of gift.

The System capitalizes interest costs as a component of construction in progress, based on the interest cost of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing.

Equipment with a unit cost of $2,000 or more ($1,000 for computers) and having an estimated useful life of greater than one year 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 40 years for buildings, 10 – 25 years for land and building improvements and infrastructure, 10 years for library books and 5 – 20 years for equipment and vehicles.

Title to all capital assets of the System belongs to the University. The financial information relating to capital assets represents assets that the System occupies and uses. Transfer of capital assets to/from the University represents changes in control of individual assets within divisions of the University from one period to another.

Deferred Revenue. Deferred revenue consists of amounts received from the federal government through the Commonwealth of Kentucky for Disproportionate Share System (DSH) funds and other unearned amounts. The DSH amounts are recognized as revenue over the term of the federal government fiscal year, October 1 – September 30.

Compensated Absences. The amount of vacation leave earned but not taken by employees at June 30, 2009 is recorded as a liability by the System. Temporary disability leave payable upon termination under the University's payout policy is also recorded as a liability on the University's books. Compensated absence liabilities are computed using the pay rates in effect at the statement of net assets date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Net Patient Service Revenues. Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including contractual allowances and estimated retroactive adjustments under reimbursement programs with third-party payors and include 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 nonacute 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 29 percent and 24 percent, respectively, of the System's net patient service revenues for the year ended June 30, 2009 and approximately 30 percent and 22 percent, respectively for the year ended June 30, 2008. 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.

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.

Income Taxes. The University, of which the System is an organizational unit, is an agency and instrumentality of the Commonwealth of Kentucky, pursuant to Kentucky Revised Statutes 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 of 1986, as amended.

Restricted Asset Spending Policy. The System'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 System defines operating activities, as reported on the Statement of Revenues, Expenses and Changes in Net Assets, 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 System's revenues and expenses are from exchange transactions. Certain revenues relied upon for operations, such as state appropriations, gifts and investment income, are recorded as non-operating revenues, in accordance with GASB Statement No. 35.

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 contractual allowances, allowances for doubtful accounts, estimated third-party payor settlements and estimated medical claims payable.

Recent Accounting Pronouncements. The GASB has issued certain statements which are applicable to the System for fiscal years ending after June 30, 2009. The System does not expect the adoption of these statements to have a material effect on its financial statements.

2. DEPOSITS AND INVESTMENTS

The fair value of deposits and investments, by type, at June 30, 2009 and 2008 follows (in thousands):

	2009	2008
Cash on deposit with the Commonwealth of Kentucky	$ 173,526	$ 281,697
United States government securities	10,382	10,140
Investment in University of Kentucky pooled endowment funds	165,777	215,410
	$ 349,685	$ 507,247
Statement of Net Assets classification:		
Cash and cash equivalents	163,484	142,587
Restricted cash and cash equivalents	10,042	139,110
Long-term investments	176,159	225,550
	$ 349,685	$ 507,247

At June 30, 2009, the University's pooled endowment fund consists of pooled equity funds (61.2%), private equity funds (2.7%), pooled real estate funds (8.3%), government agency fixed income funds (0.2%), corporate fixed income funds (7.9%), pooled fixed income funds (9.9%), pooled absolute return funds (2.2%), pooled real return funds (3.2%), U.S. Treasury fixed income funds (1.8%), and cash equivalents (2.6%). At June 30, 2008, the University's pooled endowment fund consists of pooled equity funds (66.0%), private equity funds (1.7%), pooled real estate funds (9.0%), government agency fixed income funds (5.8%), corporate fixed income funds (5.9%), pooled fixed income funds (10.8%) and cash equivalents (0.8%).

Deposit and investment policies. The University's Board of Trustees is responsible for establishing deposit and investment policies for the System. Once established, the Board has delegated day-to-day management to the Treasurer of the University. Deposit and investment policies are developed to insure compliance with state laws and regulations as well as to establish and maintain sound financial management practices.

The System follows Kentucky Revised Statutes (KRS 42.500) for the investment of public funds, which list allowable investment instruments to include: obligations of the United States or a United States government agency; obligations of any corporation of the United States Government; collateralized certificates of deposit; highly rated uncollateralized certificates of deposit, bankers acceptances and commercial paper; highly rated securities issued by a state or local government; and mutual funds comprised of any of the above allowable investments.

For purposes of investment management, the System's deposits and investments can be grouped into four significant categories, as follows:

- Cash on deposit with the University of Kentucky, which the University invests in deposits and repurchase agreements with local banks and the Commonwealth of Kentucky;
- Bond revenue fund investments held by the Treasurer of the Commonwealth of Kentucky, as required by the University's general receipts trust indenture, and invested in pooled fixed income funds managed by the Commonwealth of Kentucky;

- Short-term investments managed by the University, including individual securities purchased and held by the University and short-term investments in pooled fixed income funds managed by the Commonwealth of Kentucky and,
- Endowment investments in the University's pooled endowment fund.

Cash on deposit with the University and short-term investments are managed by the University following the University's Statement of Investment Objectives and Policies for Short-Term Current Funds Investments established by the Investment Committee of the University's Board of Trustees.

The System's policy for the investment of bond revenue funds is governed by the University's General Receipts bond trust indenture.

Endowment investments are managed by the University's Endowment Investment Policy as established by the Investment Committee of the University's Board of Trustees, which governs the University's pooled endowment fund.

Deposit and investment risks. The System's deposits and investments are exposed to various risks, including credit, interest rate and foreign currency risk, as discussed in more detail below:

Credit Risk. Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligation, causing the System 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:

- Cash on deposit with the Commonwealth of Kentucky is governed by policy that minimizes credit risk in several ways. Deposits are governed by state law which requires full collateralization. Credit risk on repurchase agreements with local banks is mitigated by the issuing financial institution's pledge of specific U.S. treasury or agency securities, held in the name of the University by the Federal Reserve Bank. Credit risk on repurchase agreements with the Commonwealth of Kentucky is mitigated by the Commonwealth's requirement that providers of overnight repurchase agreements collateralize these investments at 102% of face value with U.S. treasury or agency securities, pledged in the name of the Commonwealth.
- Bond revenue funds held in the Commonwealth's investment pools can be invested in U.S. treasuries and agencies; commercial paper or asset backed securities rated in the highest category by a nationally recognized rating agency; 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 rating agency; shares of mutual funds (up to 10%); and state and local property tax certificates of delinquency secured by interests in real estate.
- Short-term investments managed by the University are limited to direct obligations of the U.S. Treasury, other appropriate securities issued by federal agencies, repurchase agreements of U.S. government obligations, and certificates of deposit collateralized by U.S. government obligations or general obligations of the University of Kentucky. Short-term investments held in the Commonwealth's investment pools are subject to the same credit quality requirements as denoted above for bond revenue fund investments.
- Endowment investments held by fixed income managers are generally limited to holdings of high quality fixed income securities. These managers may invest a portion of the portfolio in other below-investment grade bonds, non-U.S. dollar denominated bonds and emerging market bonds, provided the overall credit quality of the fixed income portfolios is not lower than A-.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of the failure of the counterparty, the System 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:

- Cash on deposit with the Commonwealth of Kentucky is invested in deposits and repurchase agreements with local banks, which are held in the University's name, and deposits and repurchase agreements with the Commonwealth of Kentucky, which are held in the Commonwealth's name.

- Bond revenue fund investments and short-term investments held in the Commonwealth's investment pools are held in the Commonwealth's name by the Commonwealth's custodian.
- Short-term investments managed by the University are held in the University's name by the University's custodian.
- Endowment investments are held in the University's name by the University's custodian.

Concentrations of Credit Risk. System 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:

- Cash on deposit with the University is not limited as to the maximum amount that may be invested in one issuer. However, all such investments in excess of Federal Depository Insurance are required to be fully collateralized by U.S. treasury and/or U.S. agency securities or other similar investments as provided by KRS 41.240.
- Bond revenue fund and short-term 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 twenty-five (25) percent of an individual pool and $25,000,000 per issuer, inclusive of commercial paper, bankers' acceptances and certificates of deposit; and U. S. dollar denominated sovereign debt shall not exceed five (5) percent of any individual portfolio and $25,000,000 per issuer.
- There is no specific limit on the maximum amount of short-term investments managed by the University that may be invested in one issuer. However, such investments are limited to direct U.S. government obligations (U.S. Treasuries) and U.S. government agencies.
- Endowment investment managers are limited to a maximum investment in any one issuer of no more than 5 percent of total investments.

At June 30, 2009 and 2008, the System has no investments in any one issuer that represent 5 percent or more of total investments.

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:

- Cash on deposit with the Commonwealth of Kentucky has limited exposure to interest rate risk due to the short-term nature of the investment. The University requires that all deposits and repurchase agreements be available for use on the next business day.
- Bond revenue fund and short-term investments held in the Commonwealth's short-term investment pool are limited to a duration that does not exceed 90 days. Such investments in the Commonwealth's intermediate-term investment pool must maintain a modified duration of less than 3 years.
- Short-term investments managed by the University are limited to a maximum maturity of 24 months.
- Endowment investments held by fixed income managers are limited to a duration that is within +/-25% of the duration of the Lehman Aggregate Bond Index.

Foreign Currency Risk. Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit.

The System's exposure to foreign currency risk derives from certain limited endowment investments, including pooled fixed income funds, a pooled global equity fund, and a pooled non-U.S. equity fund. The University's endowment investment policy allows fixed-income managers to invest a portion of their funds in non-U.S. securities and equity fund managers of co-mingled portfolios to invest in accordance with the guidelines established in the individual fund's prospectus. The System invests in various securities. Investment securities are exposed to various interest rate, market and credit risks, discussed above. 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 net assets.

3. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net, as of June 30, 2009 and 2008 are as follows (in thousands):

	2009	2008
Medicare, Medicaid and other third parties	$ 91,145	$ 86,639
Private pay	3,605	7,508
Pledges receivable	1,145	494
Total accounts receivable, net	$ 95,895	$ 94,641

At June 30, 2009, pledges totaling approximately $8.0 million are expected to be collected primarily over the next ten years for operating and capital purposes. In accordance with GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions," the System is required to record operating and capital pledges as revenue when all eligibility requirements have been met. Accordingly, for the year ended June 30, 2009 the System recorded the discounted value of operating and capital pledges receivable of approximately $5.1 million, including $4.0 million in noncurrent - other assets.

4. CAPITAL ASSETS, NET

Capital assets as of June 30, 2009 and capital asset activity for the year ended June 30, 2009 are summarized as follows (in thousands):

	Beginning Balance	Additions	Deletions	Ending Balance
Land	$ 21,533	$ 785		$ 22,318
Non-depreciable land improvements	3,629	679		4,308
Depreciable land improvements	3,699	137		3,836
Buildings	218,030	23,510	$ 100	241,440
Fixed equipment	8,119	1,438	-	9,557
Infrastructure	509	12,834	-	13,343
Equipment	153,502	30,360	7,583	176,279
Vehicles	734	20	-	754
Capitalized software	19,618	6,162	-	25,780
Artwork	-	256	-	256
Construction in process	124,642	119,568	28,837	215,373
	554,015	195,749	36,520	713,244
Accumulated Depreciation:				
Depreciable land improvements	3,310	(43)	-	3,267
Buildings	95,192	6,282	3	101,471
Fixed equipment	3,788	756	-	4,544
Infrastructure	10	643	-	653
Equipment	91,485	16,455	6,394	101,546
Vehicles	354	160	-	514
Capitalized software	9,635	3,018	-	12,653
	203,774	27,271	6,397	224,648
Capital assets, net	$ 350,241	$ 168,478	$ 30,123	$ 488,596

Capital assets as of June 30, 2008 and capital asset activity for the year ended June 30, 2008 are summarized as follows (in thousands):

	Beginning Balance	Additions	Deletions	Ending Balance
Land	$ 19,508	$ 3,101	$ 1,076	$ 21,533
Non-depreciable land improvements	40	3,589	-	3,629
Depreciable land improvements	3,171	528	-	3,699
Buildings	186,216	39,149	7,335	218,030
Fixed equipment	7,178	952	11	8,119
Infrastructure	64	447	2	509
Equipment	139,860	24,100	10,458	153,502
Vehicles	439	295	-	734
Capitalized software	16,311	3,307	-	19,618
Construction in process	68,738	94,563	38,659	124,642
	441,525	170,031	57,541	554,015
Accumulated Depreciation:				
Depreciable land improvements	2,918	392	-	3,310
Buildings	93,665	5,595	4,068	95,192
Fixed equipment	3,175	617	3	3,789
Infrastructure	9	1	-	10
Equipment	82,205	16,088	6,809	91,484
Vehicles	210	144	-	354
Capitalized software	6,903	2,732	-	9,635
	189,085	25,569	10,880	203,774
Capital assets, net	$ 252,440	$ 144,462	$ 46,661	$ 350,241

At June 30, 2009 the System has construction projects in process totaling approximately $487.9 million in scope. The estimated cost to complete these projects is approximately $286.4 million. Such construction is principally financed by proceeds from the University's general receipts bonds and System cash reserves.

Interest costs incurred during construction, net of related investment income, are capitalized. Total interest capitalized was $8.1 million for 2009 and $5.8 million for 2008.

During 2009 and 2008, respectively, the System has utilized capital leases to acquire various items of equipment. The net book value for capitalized leased land, buildings and equipment is $53.0 million and $48.7 million at June 30, 2009 and 2008, respectively.

5. NOTES RECEIVABLE

Notes receivable at June 30, 2009 and 2008 are as follows (in thousands):

	2009	2008
Noncurrent portion of non-interesting bearing, unsecured receivable from UK Parking and Transportation, payable $250,000 annually through 2013	$ 1,500	$ 1,750
Noncurrent portion of non-interesting bearing, unsecured receivable from UK Office of Associate Vice President-Research, payable $500,000 annually, 2003 through 2010	713	1,213
Noncurrent portion of non-interesting bearing, unsecured receivable from UK Office of Associate Vice President-Research payable $475,000 annually, through 2009	-	475
Noncurrent portion of non-interesting bearing, unsecured receivable from UK College of Pharmacy	6,795	6,795
Noncurrent portion of interest bearing, 7.0%, capital equipment lease receivable from Coldstream Laboratories Inc (CLI) payable $18,224 monthly , through 2013	1,082	1,082
Noncurrent portion of non-interest bearing, unsecured receivable from UK College of Pharmacy	2,817	2,817
Notes receivable	921	648
Total	$ 13,828	$ 14,780
Current portion	$ 1,890	$ 1,892
Noncurrent portion	11,938	12,888
Total	$ 13,828	$ 14,780

6. OTHER ASSETS

Other assets at June 30, 2009 and 2008 are as follows (in thousands):

	2009	2008
Unamortized bond cost of issuance - noncurrent portion	$ 1,807	$ 1,926
Amounts on deposit with trustee, primarily invested in U.S. government agencies	4,670	11,054
Investment in Coldstream Laboratories Inc., through loan to University of Kentucky Research Foundation	1,760	825
Noncurrent portion of prepaid expenses	839	1,061
Pledge receivable noncurrent	3,966	2,581
Good Samaritan Certificate of Need licensed beds	11,609	11,609
Total	$ 24,651	$ 29,056

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2009 and 2008 are summarized as follows (in thousands):

	2009	2008
Payable to vendors and contractors	$ 38,111	$ 31,826
Accrued expenses, including vacation leave	28,763	25,823
Total	$ 66,874	$ 57,649

8. LONG-TERM DEBT

Long-term debt as of June 30, 2009 and 2008 are summarized as follows (in thousands):

2009	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Noncurrent Portion
General Receipts Project Notes	$ 265,690	-	-	$ 265,690	$ 4,395	$ 261,295
	$ 265,690	-	-	$ 265,690	$ 4,395	$ 261,295

2008	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Noncurrent Portion
General Receipts Project Notes	$ 107,540	158,150	-	$ 265,690	-	$ 265,690
	$ 107,540	158,150	-	$ 265,690	-	$ 265,690

Principal maturities and interest on notes for the next five years and in subsequent five-year periods as of June 30, 2009 are as follows (in thousands):

	Principal	Interest	Total
2010	$ 4,395	$ 12,331	$ 16,726
2011	9,605	12,074	21,679
2012	9,995	11,682	21,677
2013	10,415	11,260	21,675
2014	10,875	10,799	21,674
2015-2019	62,725	45,657	108,382
2020-2024	79,015	29,367	108,382
2025-2028	78,665	8,042	86,707
Total	$ 265,690	$ 141,212	$ 406,902

Bond discounts and premiums, which are included in current and noncurrent accrued expenses, are amortized over the life of the bond using a method that approximates the effective interest method.

The General Receipts Project Notes consist of bonds in the original amount of $265.7 million dated October 27, 2005 through November 8, 2007, which bear interest at 3.30% to 5.0%. The bonds are payable in annual installments through October 1, 2027. The System is required to make semi-annual deposits of varying amounts to the debt service funds held by the trustees. The bonds are secured by pledged revenues of the University, which include the net revenues of the System.

9. CAPITAL LEASE OBLIGATIONS

Capital lease obligations as of June 30, 2009 and 2008 are summarized as follows (in thousands):

	2009					
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Noncurrent Portion
Leases	$ 85,959	53,587	43,129	$ 96,417	12,446	$ 83,971

	2008					
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Noncurrent Portion
Leases	$ 63,485	32,797	10,323	$ 85,959	8,478	$ 77,481

Scheduled payments of capital lease obligations are as follows (in thousands):

Years ending June 30	
2010	$ 16,438
2011	15,678
2012	15,008
2013	14,208
2014	10,677
2015 and later years	49,551
Total	121,560
Less amount representing interest	(25,143)
Present value of net minimum lease payments	$ 96,417

Capital lease obligations are at varying rates of imputed interest of 3.48% to 4.96%.

10. OTHER LONG-TERM LIABILITIES

Other long-term liabilities as of June 30, 2009 and 2008 are summarized as follows (in thousands):

	2009			
	Beginning Balance	Additions	Reductions	Ending Balance
Refundable deposits	$ 5,321	$ 5,317	5,020	$ 5,618
Non-current unamortized bond premium	7,967		448	7,519
Accrued expenses	$ 13,288	5,317	5,468	$ 13,137

	Beginning Balance	Additions	Reductions	Ending Balance
Deferred revenue	$ 5,974	$ 329	-	$ 6,303

	2008			
	Beginning Balance	Additions	Reductions	Ending Balance
Refundable deposits	$ 5,079	$ 6,426	6,184	$ 5,321
Non-current unamortized bond premium	1,956	8,260	2,249	7,967
Accrued expenses	$ 7,035	14,686	8,433	$ 13,288

	Beginning Balance	Additions	Reductions	Ending Balance
Deferred revenue	$ 5,701	$ 273	-	$ 5,974

11. DESIGNATIONS OF UNRESTRICTED NET ASSETS

Unrestricted net assets are designated for specific purposes by action of the University's Board of Trustees or management or may otherwise be limited by contractual obligations. Commitments for the use of unrestricted net assets at June 30, 2009 and 2008 are as follows (in thousands):

	2009	2008
Working capital requirements	$ 212,827	$ 198,879
Future capital expenditures	181,000	240,992
Total	$ 393,827	$ 439,871

12. INVESTMENT INCOME

Components of investment income for the years ended June 30, 2009 and 2008 are as follows (in thousands):

	2009	2008
Interest and dividends earned on endowment investments	$ 5,290	$ 6,052
Realized and unrealized gains and (losses) on endowment investments	(49,650)	(23,837)
Interest and dividends on cash and non-endowment investments	17	4,183
Realized and unrealized gains and (losses) on non-endowment investments	1,950	5
Total	$ (42,393)	$ (13,597)

13. PROGRAM FOR INDIGENT CARE AND CHARITY CARE

The System is reimbursed for uncompensated care, including indigent care, by the Commonwealth of Kentucky based upon available Disproportionate Share System funds. The amounts are included in net patient service revenues and summarized below (in thousands):

	2009	2008
Revenue from the Commonwealth of Kentucky	$ 24,340	$ 24,334
2.5% tax paid by System on patient cash receipts	(11,755)	(11,755)
Matching contribution pay by the System	(7,254)	(7,250)
Net amount received, included in net patient service revenues	$ 5,331	$ 5,329

The amount of charges forgone for services and supplies furnished under the System's charity care policy aggregated to approximately $105,000 and $86,000 in 2009 and 2008, respectively.

14. PLEDGED REVENUES

Substantially all operating and nonoperating revenues are pledged as collateral for the General Receipts Project Notes.

15. PENSION PLANS

Regular full-time employees of the System are participants in the University of Kentucky Retirement Plan, a defined contribution plan. System employees participate in one of the following three groups of the University of Kentucky Retirement Plan:

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.

Participation in these groups of the University of Kentucky Retirement Plan is mandatory for all regular full-time employees age 30 and older. Participation is voluntary until age 30. The System contributes 10 percent and each employee contributes 5 percent of eligible compensation.

The University has authorized three retirement plan carriers, as follows:

Teachers Insurance and Annuity Association/College
Retirement Equities Fund (TIAA/CREF)
Fidelity Investments Institutional Services Company
American Century Investments

In addition to retirement benefits provided from the group retirement plan, the System provides supplemental retirement income benefits to certain eligible employees of the System.

The total contributions charged to operations for the various retirement plans were approximately $16.5 million and $15.2 million for the years ended June 30, 2009 and 2008, respectively. Employees contributed $8.2 million and $7.6 million during 2009 and 2008, respectively. The payroll for employees covered by the retirement plans was $164.9 million and $152.4 million for 2009 and 2008, respectively.

16. HEALTH INSURANCE BENEFITS FOR RETIREES

The University administers a single-employer defined-benefit healthcare plan including medical and prescription drug benefits. The plan provides lifetime healthcare insurance benefits for eligible retirees and their surviving spouses. Human Resources Policies and Procedures define retiree health benefits and can be amended by the President of the University as delegated by the University's Board of Trustees

The University provides a pre-65 credit of up to 90 percent 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 percent of the "true retiree" cost of the post-65 medical plan. However, retirees must pay the greater of $25 per month or 10 percent of total plan cost.

The University has established a trust fund to segregate plan assets, and currently plans to contribute amounts to the trust fund sufficient to fully fund the annual required contribution, an amount actuarially determined in accordance with the parameters of GASB Statement 45.

As an organizational unit of the University, the System has recognized its share of the contribution in employee benefit costs and has no additional liability for this benefit at June 30, 2009.

17. RISK MANAGEMENT

The University, of which the System is an organizational unit, is exposed to various risks of loss related to torts; theft of, damage to, and 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 Fund), (2) Sovereign Immunity and the State Board of Claims, or (3) in the case of risks not covered by the Fund and Sovereign Immunity, commercial insurance, participation in insurance risk retention groups or self-insurance.

The Fund covers losses to property from fire, wind, earthquake, flood and most other causes of loss between $250,000 and $500,000 per occurrence. Losses in excess of $500,000 are insured by commercial carriers up to $500 million per occurrence, buildings at replacement cost and contents on an actual cash value basis. As a state agency, the University is vested with Sovereign Immunity and is subject to the provisions of the Board of Claims Act, under which the University's liability for certain negligence claims is limited to $200,000 for any one person or $350,000 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 2008 to 2009. 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 of Kentucky. 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 six percent. The malpractice liability at June 30, 2009, is based on the requirements of GASB Statement No. 10, which requires that a liability for claims be recorded if it is probable that a liability 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 at June 30, 2009. All assets and liabilities related to medical malpractice are recorded in the financial records of the University. However, the System does fund its required share of the actuarially determined medical malpractice expense and, accordingly, no assets or liabilities related to medical malpractice are recorded on the System's financial statements.

The University is self-insured for the long-term disability income program and has established a 501(c)(9) trust for purposes of paying claims and establishing necessary reserves. The University currently plans to contribute amounts to the trust fund sufficient to fully fund the annual required contribution of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. As an organizational unit of the University, the System has recognized its share of the contribution in employee benefit costs and has no additional liability for this benefit at June 30, 2009.

The University also self-insures certain employee benefits, including health insurance, worker's compensation and unemployment claims. The University has recorded an estimate for asserted claims at June 30, 2009.

18. TRANSACTIONS WITH THE UNIVERSITY OF KENTUCKY

Due to the nature of the relationship of the System with the University, the System has substantial transactions with the University, including purchases of various supplies and services. Additionally, the University and its affiliates provide certain administrative support functions to the System. During 2009 and 2008, the System paid approximately $6.9 million and $4.9 million, respectively, to the University as reimbursement for various educational and support functions. The System also recognized income from the University for providing medical services to employees under a capitation health plan. During 2009 and 2008, the System received payments of approximately $31.7 million and $34.1 million respectively, from the University.

19. CURRENT ECONOMIC CONDITIONS

The current economic environment presents hospitals with unprecedented circumstances and challenges, which in some cases have resulted in large declines in the fair value of investments, other assets, and contributions; constraints on liquidity; and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the System.

Current economic conditions, including the rising unemployment rate, have made it difficult for some patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay patients and patients with other payers may significantly impact revenue, which could have an adverse impact on the System future operating results. Further, the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medicaid program.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in investment values (including defined benefit plan investments) and allowances for accounts and contributions receivable that could negatively impact the System ability to meet debt covenants or maintain sufficient liquidity.

20. RECLASSIFICATIONS

Certain transactions previously reported in cash flows from capital and related financing activities in the Statements of Cash Flows are now reported in cash flows from investing activities.

APPENDIX C

SUMMARY OF THE TRUST AGREEMENT

The following is a summary of certain provisions of the Trust Agreement dated as of November 1, 2005, between the University and U.S. Bank National Association, as Trustee. This summary is not to be regarded as a complete statement of the Trust Agreement to which reference is made for a complete statement of the actual terms thereof. Copies of the Trust Agreement are on file with the Trustee.

Defined Terms

The terms defined below are among those used in the Official Statement and in this summary of the Trust Agreement. Except where otherwise indicated or provided, words in the singular number include the plural as well as the singular number and vice versa.

"Act" means Sections 162.340 to 162.380 of the Kentucky Revised Statutes, Chapter 56 of the Kentucky Revised Statutes and Sections 58.010 to 58.140 of the Kentucky Revised Statutes as the same may be amended, modified, revised, supplemented, or superseded from time to time.

"Additional Obligation Instruments" means agreements providing for the repayment of money that the University may, from time to time, be authorized to enter into under the laws of the Commonwealth. The definition of Additional Obligation Instruments does not include "Bond" or "Bonds," "Note" or "Notes," Financing Agreements or SPBC Leases.

"ALCo" means the Kentucky Asset/Liability Commission and any successor thereto.

"Authenticating Agent" means the Trustee and the Registrar for the series of Obligations and any bank, trust company or other Person designated as an Authenticating Agent for such series of Obligations by or in accordance with the Trust Agreement.

"Beneficial Owner" means, with respect to the Obligations, a Person owning a Beneficial Ownership Interest therein, as evidenced to the satisfaction of the Trustee.

"Beneficial Ownership Interest" means the beneficial right to receive payments and notices with respect to a series of Obligations which are held by a Depository under a Book Entry System.

"Board" means the Board of Trustees of the University, or if there shall be no such Board of Trustees, such Person or body which, pursuant to law or the organizational documents of the University, is vested with the power to direct the management and policies of the University, and shall include any committee empowered to act on behalf of such board or body.

"Bond" or "Bonds" means any bond, or all of the bonds, or an issue or series of bonds, as the case may be, as so identified in the certificate of the Fiscal Officer, of the University issued pursuant to the 2005 General Bond Resolution, a Series Resolution and the Trust Agreement. The definition of Bond and Bonds does not include "Note" or "Notes," Financing Agreements, SPBC Leases or Additional Obligation Instruments.

"Bond Counsel" means an attorney or firm of attorneys of nationally recognized standing on the subject of municipal bonds selected by the University or its counsel and acceptable to the Trustee.

"Book Entry Form" or "Book Entry System" means, with respect to the Obligations, a form or system, as applicable, under which (a) the Beneficial Ownership Interests may be transferred only through a book entry and (b) physical Obligation certificates in fully registered form are registered only in the name of a Depository or its nominee as Holder, with the physical Obligation certificates "immobilized" in the custody of the Depository. The Book Entry System maintained by and the responsibility of the Depository and not maintained by or the responsibility of the University or the Trustee is the record that identifies, and records the transfer of the interests of, the owners of book entry interests in the Obligations.

"Business Day" means a day of the year, other than a Saturday or Sunday, on which banks located in the city in which the principal corporate trust office of the Trustee is located are not required or authorized to remain closed or a day on which The New York Stock Exchange is not closed.

"Certificate of Award" means, with respect to any series of Obligations, the Certificate of Award for such series, if any, authorized in the applicable Series Resolution or the contract of purchase for such series of Obligations.

"Commonwealth" means the Commonwealth of Kentucky.

"Costs of University Facilities" means the costs of or related to University Facilities, and the financing thereof, for the payment of which Obligations may be issued under the Act.

"Credit Support Instrument" means an irrevocable letter of credit, line of credit, standby bond purchase agreement, insurance policy, guaranty or surety bond or similar instrument providing for the payment of or guaranteeing the payment of principal or purchase price of and interest on Obligations when due, either to which the University is a party or which is provided at the request of the University.

"Credit Support Provider" means the provider of a Credit Support Instrument.

"Debt Service Charges" means, generally, for any applicable time period, (i) the principal (including any Mandatory Sinking Fund Requirements), interest and redemption premium, if any, required to be paid by the University on Obligations pursuant to any Series Resolution, less any capitalized interest for such time period and accrued interest on deposit in the Debt Service Payment Account; (ii) any amounts due to a Credit Support Provider to the extent as set forth in a Credit Support Instrument; and (iii) any amounts due to a Hedge Provider to the extent as set forth in an Interest Rate Hedge Agreement.

"Debt Service Fund" means the Debt Service Fund authorized and created pursuant to the Trust Agreement.

"Debt Service Payment Account" means the Debt Service Payment Account within the Debt Service Fund authorized and created pursuant to the Trust Agreement.

"Debt Service Reserve Account" means the Debt Service Reserve Account authorized and created pursuant to the Trust Agreement.

"Depository" means any securities depository that is a clearing agency under federal law operating and maintaining, together with its participants a Book Entry System to record beneficial ownership of a series of Obligations, and to effect transfers of such Obligations, in Book Entry Form, and includes the Depository Trust Company (a limited purpose trust company), New York, New York.

"Direct Participant" means a Participant as defined in the Letter of Representations.

"Eligible Investments" means any investment authorized by Section 42.500 and 56.520(5) of the Kentucky Revised Statutes, as the same may be amended, modified, revised, supplemented, or superseded from time to time.

"Extraordinary Services" and "Extraordinary Expenses" means all services rendered and all reasonable expenses (including counsel fees) properly incurred by the Trustee under the Trust Agreement, other than Ordinary Services and Ordinary Expenses. Extraordinary Services and Extraordinary Expenses shall specifically include services rendered or expenses incurred by the Trustee in connection with, or in contemplation of, an Event of Default.

"Event of Default" means an Event of Default as defined in the Trust Agreement.

"Financial Statements" means the University's Annual Consolidated Financial Statements.

"Financing Agreement" means a "Financing Agreement" as defined in Chapter 56 of the Kentucky Revised Statutes between the University and ALCo or the applicable state agency as then provided by law. The definition of Financing Agreement does not include "Bond" or "Bonds," "Note" or "Notes" or Additional Obligation Instruments, but may also mean an SPBC Lease.

"Fiscal Officer" means either the Treasurer of the University or such other person designated by the Chairman of the Board to act as Fiscal Officer for purposes of the Trust Agreement.

"Fiscal Year" means a period of twelve consecutive months constituting the fiscal year of University commencing on the first day of July of any year and ending on the last day of June of the next succeeding calendar year, both inclusive, or such other consecutive twelve month period as hereafter may be established from time to time for budgeting and accounting purposes of the University by the Board to be evidenced, for purposes of the Financing Agreement, by a certificate of a Fiscal Officer filed with the Trustee.

"Fitch" means Fitch Ratings.

"General Receipts" means, as reported in the Financial Statements (having the designations, to the extent not otherwise defined in the Financing Agreement, set forth in the Financial Statements or such successor designations that may hereafter be used in Financial Statements):

(a) certain operating and non-operating revenues of the University, being (i) Student Registration Fees, (ii) nongovernmental grants and contracts, (iii) recoveries of facilities and administrative costs, (iv) sales and services, (v) Hospital Revenues, (vi) Housing and Dining Revenues, (vii) auxiliary enterprises – other auxiliaries, (viii) other operating revenues, (ix) state appropriations (for general operations), (x) gifts and grants, (xi) investment income, (xii) other nonoperating revenues and (xiii) other;

(b) but excluding (i) any receipts described in clause (a) which are contracts, grants, gifts, donations or pledges and receipts therefrom which, under restrictions imposed in such contracts, grants, gifts, donations or pledges, or, which as a condition of the receipt thereof or of amounts payable thereunder are not available for payment of Debt Service Charges, (ii) federal grants and contracts, (iii) state and local grants and contracts, (iv) federal appropriations, (v) county appropriations, (vi) professional clinical service fees, (vii) auxiliary enterprises – athletics; (viii) capital appropriations, (ix) capital grants and gifts, and (x) additions to permanent endowments, including research challenge trust funds;

provided, however, that General Receipts may

(c) include any other receipts that may be designated as General Receipts from time to time by a resolution of the Board delivered to the Trustee; and

(d) exclude any receipts not pledged under the Trust Agreement, which may be designated from time to time by a resolution of the Board delivered to the Trustee;

(e) exclude any receipts pledged under the Trust Agreement, which may be designated from time to time by a resolution of the Board delivered to the Trustee and each Rating Service then rating any Obligations, but only if each such Rating Service confirms in writing to the University that the exclusion of any such receipt would not cause a reduction or withdrawal of the then current rating on any Outstanding Obligations.

"Government Bonds" means (a) direct obligations of the United States of America for the payment of which the full faith and credit of the United States of America is pledged, (b) obligations issued by a Person controlled or supervised by and acting as an instrumentality of the United States of America, the payment of the principal of, premium, if any, and interest on which is fully guaranteed as a full faith and credit obligation of the United States of America (including any securities described in (a) or (b) issued or held in book-entry form on the books of the Department of Treasury of the United States of America or Federal Reserve Bank), and (c) securities which represent an interest in the obligations described in (a) and (b) above.

"Hedge Provider" means the provider of an Interest Rate Hedge Agreement.

"Holder" means any Person in whose name a registered Obligation is registered; provided that ALCo, or its assignee, shall be the Holder of any Financing Agreement and SPBC, or its assignee, shall be the Holder of any SPBC Lease.

"Hospital Revenues" means operating revenues having the designation "hospital services" in the Financial Statements or any successor designation or designations for such receipts that may hereafter be used in Financial Statements.

"Housing and Dining Bonds" means Obligations, the proceeds of which will be used to pay Costs of University Facilities which constitute Housing and Dining Facilities.

"Housing and Dining Facilities" means Housing and Dining Facilities, as defined in the Prior Housing Indenture.

"Housing and Dining Revenues" means operating revenues (auxiliary enterprises) having the designation "housing and dining" in the Financial Statements or any successor designation or designations for such receipts that may hereafter be used in Financial Statements.

"Indirect Participant" means a Person utilizing the Book Entry System of the Depository by, directly or indirectly, clearing through or maintaining a custodial relationship with a Direct Participant.

"Interest Payment Dates" means the dates specified in the applicable Series Resolution or Certificate of Award on which interest on the Obligations or any series of Obligations is to be paid.

"Interest Rate Hedge Agreement" means an interest rate swap, an interest rate cap or other such arrangement obtained, either directly by the University (or the Trustee on behalf of the University) or through ALCo, with the goal of lowering the effective interest rate to the University on Obligations or hedging the exposure of the University with respect to its obligations on the Obligations against fluctuations in prevailing interest rates.

"Letter of Representations" means the Blanket Letter of Representations from the University to the Depository.

"Mandatory Sinking Fund Requirements" means amounts required by any Series Resolution or the Certificate of Award to be deposited to the Debt Service Payment Account in any fiscal year for the purpose of retiring principal maturities of Obligations which by the terms of such Obligations are due and payable, if not called for prior redemption, in any subsequent fiscal year.

"Maximum Annual Debt Service" means the highest amount of (i) Debt Service Charges plus (ii) the principal of and interest on all Prior Obligations that are outstanding under the terms of the Prior Basic Resolution or the Prior Housing Indenture, for the current or any future Fiscal Year.

"Moody's" means Moody's Investors Service, Inc., a Delaware corporation, and its successors and assigns.

"Notes" or "Note" means any note or all of the notes, or an issue of notes, as the case may be, as so identified in the certificate of the Fiscal Officer issued by the University in anticipation of the issuance of Obligations or receipt of grants or appropriations to pay Costs of University Facilities, or to pay costs of refunding or retirement of Notes previously issued pursuant to the Act, the 2005 General Bond Resolution, a Series Resolution and the Trust Agreement. The definition of Note and Notes does not include "Bond" or "Bonds," Financing Agreements, SPBC Leases or Additional Obligation Instruments.

"Obligations" means Bonds, Notes, Financing Agreements, SPBC Leases and Additional Obligation Instruments.

"Ordinary Services" and "Ordinary Expenses" means those services normally rendered and those expenses (including counsel fees) normally incurred by a trustee under instruments similar to the Trust Agreement.

"Original Purchaser" means, as to any Obligations, the Person or Persons expressly named in the applicable Series Resolution or the Certificate of Award as the original purchaser of those Obligations from the University.

"Outstanding" means, as of any date, Notes and Bonds which have been authenticated, and with respect to all Obligations, have been delivered, or are then being delivered, by the Trustee or the University under the Trust Agreement except:

(a) Obligations surrendered for exchange or transfer or canceled because of payment or redemption at or prior to such date;

(b) Obligations for the payment, redemption or purchase for cancellation of which sufficient moneys have been deposited prior to such date with the Trustee or Paying Agents (whether upon or prior to the maturity or redemption date of any such Obligations), or which are deemed to have been paid and discharged pursuant to the provisions of the Trust Agreement; provided that if such Obligations are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given or arrangements satisfactory to the Trustee shall have been made there for, or waiver of such notice satisfactory in form to the Trustee shall have been filed with the Trustee, and provided, further, that if such Obligations are to be purchased for cancellation, a firm offer for sale stating the price has been received and accepted; and

(c) Lost, stolen, mutilated or destroyed Obligations in lieu of which others have been authenticated, if applicable, (or payment, when due, of which is made without replacement) under the Trust Agreement.

"Paying Agents" means any banks or trust companies designated as the paying agencies or places of payment for Obligations by or pursuant to the applicable Series Resolution, and their successors designated pursuant to the Trust Agreement, and shall also mean the Trustee when so designated for such purpose.

"Person" means an individual, a corporation, a partnership, an association, a joint stock company, a joint venture, a trust, an unincorporated organization, or a government or any agency or political subdivision thereof.

"Predecessor Obligation" of any particular Obligation means every previous Obligation evidencing all or a portion of the same debt as that evidenced by the particular Obligation. For the purposes of this definition, any Bond or Note authenticated and delivered under the Trust Agreement in lieu of a lost, stolen or destroyed Bond or Note shall, except as otherwise provided in the Trust Agreement, be deemed to evidence the same debt as the lost, stolen or destroyed Bond or Note.

"Prior Basic Resolution" means the resolution adopted by the Board on September 20, 1960, that has provided for the issuance of Consolidated Educational Buildings Revenue Bonds of the University.

"Prior Financing Documents" means, collectively, the Prior Basic Resolution and the Prior Housing Indenture.

"Prior Funds" means all funds and accounts created by the Prior Financing Documents that are pledged as security and a source of payment of bonds and notes issued thereunder.

"Prior Housing Indenture" the Trust Indenture and Supplemental Trust Indenture dated as of June 1, 1965 (and all supplemental indentures related thereto) between the University and Farmers' Bank & Capital Trust Company that, has provided for the issuance of Housing and Dining Bonds.

"Prior Obligations" means any notes or bonds that are outstanding under the Prior Financing Documents.

"Prior Pledged Funds" means, collectively, all funds and accounts created under the Prior Financing Documents.

"Prior Pledged Revenues" means amounts required to be deposited in the "Revenue Fund" created by the Prior Basic Resolution and in the "System Revenue Fund" created by the Prior Housing Indenture.

"Project Fund" means the Project Fund created pursuant to the Trust Agreement.

"Purchase Price" means, as to any series of Obligations, the amount provided for in the Series Resolution and the Certificate of Award authorized thereby, plus accrued interest, if any, on the aggregate principal amount of those Obligations from their date to the date of their delivery to the Original Purchaser and payment therefor.

"Rating Service" means Fitch, Moody's, S&P or any other nationally recognized rating service.

"Redemption and Purchase Account" means the Redemption and Purchase Account authorized and created pursuant to the Trust Agreement.

"Register" means the books kept and maintained by the Registrar for the registration and transfer of Obligations pursuant to the Trust Agreement.

"Registrar" means, with respect to a series of Obligations, the keeper of the Register for those Obligations, which shall be the Trustee except as may be otherwise provided by or pursuant to the Series Resolution for those Obligations, each of which shall be a transfer agent registered in accordance with Section 17(A)(c) of the Securities Exchange Act of 1934.

"Regular Record Date" means, with respect to any Obligation and unless otherwise provided in the Series Resolution authorizing the particular series of Obligations, the fifteenth day of the calendar month next preceding an Interest Payment Date applicable to that Obligation.

"Reimbursement Agreement" means, with respect to a series of Obligations, any agreement or agreements between one or more Credit Support Providers and the University under or pursuant to which a Credit Support Instrument for such series of Obligations is issued or provided and which sets forth the respective obligations of the University and of the Credit Support Provider.

"Remarketing Agent" means any entity which acts as the remarketing agent with respect to a series of Obligations.

"Revenue Fund" means the Revenue Fund authorized and created pursuant to the Trust Agreement.

"S&P" means Standard & Poor's Rating Services, a Division of The McGraw Hill Companies, and its successors and assigns.

"Series Resolution" means a Resolution of the Board authorizing one or more series of Obligations and the execution and delivery of a Supplemental Trust Agreement, all in accordance with the 2005 General Bond Resolution and the Trust Agreement.

"SPBC" means the State Property and Buildings Commission of the Commonwealth and any successor thereto.

"SPBC Lease" means a lease between the University and SPBC or the applicable state agency as then provided by law. The definition of SPBC Lease does not include "Bond" or "Bonds," "Note" or "Notes" or Additional Obligation Instruments, but may also mean a Financing Agreement.

"Special Funds" means the Debt Service Fund and accounts therein and any other funds or accounts permitted by, established under, or identified in the Trust Agreement or a Series Resolution and designated as Special Funds. The Revenue Fund shall not be a Special Fund.

"Student Registration Fees" means operating revenues having the designation "student tuition and fees" in the Financial Statements or any successor designation or designations for such receipts that may hereafter be used in Financial Statements.

"Subordinated Indebtedness" means obligations which, with respect to any issue thereof, are secured by a pledge of the General Receipts which is subordinate to that of the holders of Obligations and which are evidenced by instruments, or issued under an indenture or other document, containing provisions for the subordination of such obligations.

"Supplemental Trust Agreement" means any one or more of Supplemental Trust Agreements entered into by the parties pursuant to the Trust Agreement and a Series Resolution.

"Tender Agent" means any entity which acts as a tender agent for a series of Obligations.

"Trust Agreement" means the Trust Agreement, dated as of November 1, 2005, between the University and the Trustee, as the same may be duly amended, modified or supplemented in accordance with its terms.

"Trustee" means the Trustee at the time serving under the Trust Agreement, originally U.S. Bank National Association and any successor Trustee as determined or designated under or pursuant to the Trust Agreement.

"2005 General Bond Resolution" means the resolution of the Board adopted on September 20, 2005, authorizing the execution and delivery of the Trust Agreement.

"University" means the University of Kentucky, a public body corporate, and an educational institution and agency of the Commonwealth of Kentucky, and every part and component thereof as from time to time existing, and when the context requires, includes the Board.

"University Facilities" means buildings and appurtenances to be used in connection with the University for educational purposes, including, but not limited to any Authorized Project, any Building, any Building project and any Public project, as those terms are defined in the Act, and further includes any one, part of, or any combination of such facilities, and further includes site improvements, utilities, machinery, furnishings and any separate or connected buildings, structures, improvements, sites, open space and green space areas, utilities or equipment to be used in, or in connection with the operation or maintenance of, or supplementing or otherwise related to the services or facilities to be provided by such facilities.

Any reference in the Financing Agreement to the University, the Board, or to any officers or to other public boards, commissions, departments, institutions, agencies, bodies, entities or officers, shall include those which succeed to their functions, duties or responsibilities pursuant to or by operation of law or who are lawfully performing their functions. Any reference to a section or provision of the Kentucky Revised Statutes or to the laws of Kentucky shall include such section or provision and such laws as from time to time amended, modified, revised, supplemented, or superseded, provided that no such amendment, modification, revision, supplementation, or super session shall alter the obligation to pay the Debt Service Charges in the amount and manner, at the times, and from the sources provided in this Resolution, the applicable Series Resolution, and the Trust Agreement, except as otherwise permitted in the Trust Agreement.

Debt Service Fund and Other Special Funds

The Trustee will hold and administer the Debt Service Fund and any other Special Fund created under the Trust Agreement, together with the accounts contained therein, upon the terms and conditions, including, without limitation, the terms and conditions set forth in the Trust Agreement and the applicable Series Resolution and/or Supplemental Trust Agreement for the investment of moneys deposited in such Funds, set forth in the applicable Series Resolution and the Trust Agreement.

There will be maintained in the Debt Service Fund the following Accounts: the Debt Service Payment Account, the Debt Service Reserve Account and the Redemption and Purchase Account. The Trustee will maintain a separate subaccount within the Debt Service Payment Account for each series of Obligations and each separate subaccount will secure only the particular series of Obligations to which it is related. (Section 4.01)

Use of Debt Service Payment Account; Intercept

The Debt Service Account is pledged to and will be used solely for the payment of Debt Service Charges as they fall due. Payments sufficient in an amount to pay the Debt Service Charges as they become due will be paid by the University directly to the Trustee, and deposited in the Debt Service Payment Account to the extent moneys in the Debt Service Payment Account are not otherwise available therefore. Upon the occurrence and during the continuation of an Event of Default described in the Trust Agreement with respect to a specific series of Obligations, if a subaccount in the Debt Service Reserve Account has been created to secure such series of Obligations, moneys in the applicable subaccount of the Debt Service Reserve Account may be transferred by the Trustee to the Debt Service Payment Account to be used to pay Debt Service Charges with respect to such series of Obligations pursuant to the Trust Agreement. Except as provided in the Trust Agreement, moneys in the Debt Service Payment Account shall be used solely for the payment of Debt Service Charges on the Obligations, for the redemption of Obligations prior to maturity, for the payment of any amounts due to a Credit Support Provider to the extent as set forth in a Credit Support Instrument, for the payment of any amounts due to a Hedge

Provider to the extent as set forth in an Interest Rate Hedge Agreement and as otherwise provided in the Trust Agreement and the 2005 General Bond Resolution.

If, ten days prior to any date that the payment of Debt Service Charges are due, sufficient funds are not on deposit in the Debt Service Payment Account to enable the Trustee to pay such Debt Service Charges, or if the Trustee shall have transferred funds from a Debt Service Reserve Account to the Debt Service Payment Account to forestall a default in the payment of Debt Service Charges, then in each such instance the Trustee shall immediately notify the Treasurer of the University and the Secretary of the Finance and Administration Cabinet of the Commonwealth in writing of such event and request that amounts be remitted to the Trustee pursuant to the then applicable provisions of Section 164A.608 of the Kentucky Revised Statutes to cure such deficiency or to restore the amount transferred from the Debt Service Reserve Account. (Section 4.02)

Debt Service Reserve Account

The Trustee will hold and administer a Debt Service Reserve Account to be used, solely for the payment of Debt Service Charges with respect to any series of Obligations for which a reserve fund has been mandated pursuant to the Series Resolution which authorized the issuance of such series of Obligations. A separate subaccount shall be created in the Supplemental Debt Service Reserve Account for each series of Obligations for which a reserve fund has been mandated by the Series Resolution which authorized such series of Obligations and each separate subaccount shall secure only the particular series of Obligations to which it is related.

If, on the date upon which Debt Service Charges on any Obligations which are secured by a Debt Service Reserve Account or subaccount held by the Trustee fall due, the subaccount within the Debt Service Payment Account related to such Obligations is insufficient to meet such Debt Service Charges to be paid therefrom on such date, the Trustee will immediately transfer from the appropriate subaccount of the Debt Service Reserve Account an amount sufficient to make up such deficiency in the subaccount of the Debt Service Payment Account. Except as may be provided in the applicable Series Resolution or Supplemental Trust Agreement, if on the day upon which amounts are due to a Hedge Provider under an Interest Rate Hedge Agreement or are due to a Credit Support Provider in reimbursement for amounts provided under a Credit Support Instrument, the amount in the subaccount within the Debt Service Payment Account related to such Debt Service Charges (other than from any amounts provided under an Interest Rate Hedge Agreement or Credit Support Instrument) is insufficient to pay such amounts to such Hedge Provider or Credit Support Provider on that date, the Trustee, without necessity for any further order of the University or officer thereof, will make available for such reimbursement any amounts in the related subaccount of the Debt Service Reserve Account for the series of Obligations to which the Interest Rate Hedge Agreement or Credit Support Instrument applies that are necessary to make up that insufficiency. The amount so transferred will be applied only to the payment of Debt Service Charges on the Obligations to which that Debt Service Reserve Account pertains or for the payment of any amounts due to a Hedge Provider under an Interest Rate Hedge Agreement or to a Credit Support Provider as reimbursement of draws under a Credit Support Instrument in connection with the Obligations to which that Debt Service Reserve Account pertains.

Subject to the foregoing, any amount in a subaccount of the Debt Service Reserve Account in excess of the amount required to be maintained therein pursuant to the Series Resolution which created such subaccount or the Certificate of Award (the "Required Amount") will be transferred to the Debt Service Payment Account or to the Redemption and Purchase Account for the purposes thereof, if and to the extent ordered by the Fiscal Officer. Such excess will be determined by calculating the Required Amount with reference to Outstanding Obligations of the particular series only, excluding any Obligations for the redemption or purchase of which such excess is being transferred to the Redemption and Purchase Account.

Within one hundred eighty (180) days after the end of each Fiscal Year, the University shall, from General Receipts, restore to the various subaccounts within the Debt Service Reserve Account any amounts transferred therefrom or any decrease in value determined pursuant to Section 4.14 of the Trust Agreement in such Fiscal Year so that the amounts in such subaccounts are at least equal to the various Required Amounts. (Section 4.03)

Redemption and Purchase Account

There will be deposited in the Redemption and Purchase Account that portion (if any) of the proceeds of refunding Obligations, as provided in the Series Resolution authorizing their issuance, allocated to the payment of the principal, interest and redemption premium, if any, or purchase price of the Obligations to be refunded, funded or retired through the issuance of such refunding Obligations; amounts to be transferred thereto from the Debt Service Reserve Account by order of the Fiscal Officer pursuant to Section 4.03 of the Trust Agreement; and any other amounts made available by the University for the purposes of the Redemption and Purchase Account. Amounts for the redemption of Obligations to be provided pursuant to the mandatory sinking fund requirements of the Series Resolution authorizing such Obligations will not be deposited to the credit of the Redemption and Purchase Account, but shall be deposited to the credit of the Debt Service Payment Account.

Any amounts in the Redemption and Purchase Account may be committed, by Series Resolution or other action by the Board, for the retirement of and for Debt Service Charges on specified Obligations and, so long as so committed, will be used solely for such purposes whether directly or through transfer to the Debt Service Fund. Subject to the foregoing provisions of the Trust Agreement, the Fiscal Officer may cause moneys in the Redemption and Purchase Account to be used to purchase any Obligations for cancellation and to redeem any Obligations in accordance with the redemption provisions of the applicable Series Resolution. From moneys in the Redemption and Purchase Account, the Trustee will transmit or otherwise disburse such amounts at such times as required for the redemption or purchase for cancellation of Obligations, and Debt Service Charges, in accordance with the applicable Series Resolution, or other action by the Board or order of the Fiscal Officer not inconsistent therewith. Any amounts in the Redemption and Purchase Account not required for the purposes thereof pursuant to a commitment theretofore made, may be transferred to the Debt Service Payment Account or the Debt Service Reserve Account upon order of the Fiscal Officer. (Section 4.04)

Project Fund

Upon the issuance and delivery of Obligations, the proceeds of which will be used to pay Costs of University Facilities, the Treasury of the Commonwealth, will hold and administer a fund designated the "University of Kentucky Project Fund" with an additional series identification for each series of Obligations.

Amounts in a Project Fund will be disbursed therefrom by the Treasurer of the Commonwealth according to such inspection, audit, and disbursement procedures as may from time to time be provided by law, for the purpose of paying Costs of University Facilities as identified in the related Series Resolution or Supplemental Trust Agreement and to reimburse the University for any payments which may have been made from other available resources in anticipation of the issuance of such Obligations.

Any balance remaining in a Project Fund after the final payment of all Costs of University Facilities for which such Project Fund was created, will be deposited in the Debt Service Fund and (i) credited to the related subaccount, if any, within the Debt Service Reserve Account if and to the extent that such subaccount of the Debt Service Reserve Account contains less than the Required Amount, and/or (ii) either applied as a credit against the next deposit required to be made into the Debt Service Payment Fund, or used to purchase Obligations in the open market at a purchase price not exceeding par plus accrued interest, as may be directed by the Fiscal Officer; provided that, if proceedings are then pending or imminently contemplated for incurring additional Costs of University Facilities which are or will be paid from the proceeds of Obligations, any such unexpended balance may be taken into account in determining the amount of Obligations to be authorized for such purpose, or may otherwise be applied to such Costs of University Facilities, in which event such unexpended balance may be transferred to a Project Fund created for such purpose.

If so provided in any Series Resolution or a Supplemental Trust Agreement, to the extent permitted by law, a Project Fund may be held and disbursed by the Trustee. Furthermore, if the Obligations with respect to which a Project Fund is created are Financing Agreements, SPBC Leases or Additional Obligation Instruments, a Project Fund may be created in accordance with the requirements of such Financing Agreements, SPBC Leases or Additional Obligation Instruments. (Section 4.05)

General Covenant

So long as any Obligations are Outstanding pursuant to the Trust Agreement, the University covenants and agrees: (i) to fix, make, adjust and collect such fees, rates, rentals, charges and other items of General Receipts so that there shall inure to the University General Receipts, in view of other revenues and resources available to the University, sufficient: to pay Debt Service Charges then due or to become due in the current Fiscal Year; to pay any other costs and expenses payable under the Trust Agreement; and to pay all other costs and expenses necessary for the proper maintenance and successful and continuous operation of the University; and (ii) that it will include in its budget for each Fiscal Year the amount required to be paid to the Debt Service Fund established under Section 4.02 of the Trust Agreement, during such Fiscal Year. (Section 4.12)

Investment of Debt Service Fund and Project Fund

Except as provided in the Trust Agreement, moneys in the Debt Service Fund and the Project Fund shall be invested and reinvested by the Trustee (or the Fiscal Officer, as applicable) in Eligible Investments at the oral or written direction of the University, but if oral, confirmed promptly in writing. Investment of moneys in the Debt Service Fund shall mature or be redeemable at the times and in the amounts necessary to provide moneys to pay Debt Service Charges as they become due at stated maturity, by redemption or pursuant to any mandatory sinking fund requirements. Each investment of moneys in the Debt Service Fund and the Project Fund will mature or be redeemable without penalty at such time as may be necessary to make payments when necessary from such fund. In the absence of any written direction from the Fiscal Officer, the Trustee will invest all funds in sweep accounts, money-market funds and similar short-term investments, provided that all such investments shall constitute Eligible Investments. The Trustee may trade with itself or its affiliates in the purchase and sale of securities for such investments.

Subject to any directions from the University with respect thereto, the Trustee may sell at the best price reasonably obtainable Project Fund investments and reinvest the proceeds therefrom in Eligible Investments maturing or redeemable as aforesaid. Any of those investments may be purchased from or sold to the Trustee, the Registrar, an Authenticating Agent, a Paying Agent, or any bank, trust company or savings and loan association affiliated with any of the foregoing. The Trustee will sell or redeem investments credited to the Debt Service Fund to produce sufficient moneys applicable under the Trust Agreement to and at the times required for the purposes of paying Debt Service Charges when due as aforesaid, and shall do so without necessity for any order on behalf of the University and without restriction by reason of any order. An investment made from moneys credited to the Debt Service Fund and the Project Fund will constitute part of that respective fund, and each respective fund will be credited with all proceeds of sale and income from investment of moneys credited thereto.

For purposes of qualifying any investment as an Eligible Investment, where such qualification is dependent upon the rating assigned to such investment by a Rating Service, such qualification will be determined as of the date of purchase of such investment or deposit thereof with the Trustee, whichever is later. (Section 4.15)

Revenue Fund

So long as any Obligations remain Outstanding, there will be maintained a Revenue Fund, which, to the extent required by law, may be a fund (and accounts) in the Commonwealth's management administrative and reporting system. There will be maintained in the Revenue Fund the following Accounts: a "Student Registration Fees Account," a "Hospital Revenues Account" and a "Housing and Dining Revenues Account." The "Revenue Fund" created pursuant to the Prior Bond Resolution will continue to be maintained so long as any bonds remain outstanding under the Prior Bond Resolution, such Revenue Fund will constitute the Student Registration Fees Account of the Revenue Fund until there are no bonds outstanding under the Prior Bond Resolution and all Student Registration Fees will be deposited therein. The "Revenue Fund" created pursuant to a Master Resolution adopted by the Board on June 25, 1986 will continue to be maintained as the Hospital Revenues Account of the Revenue Fund and all Hospital Revenues shall be deposited therein. The "System Revenue Fund" created pursuant to the Prior Housing Indenture will continue to be maintained so long as any bonds remain outstanding under the Prior Housing Indenture, such System Revenue Fund will constitute the Housing and Dining Revenues Account of the Revenue Fund until there are no bonds outstanding under the Prior Housing Indenture and all Housing and Dining Revenues will be deposited therein. (Section 4.16)

Maintenance of Pledge

The University will not make any pledge or assignment of or create or suffer any lien or encumbrance upon the Debt Service Fund and, except for the existing pledges under the Prior Basic Resolution and Prior Housing Indenture, the University will not make any pledge or assignment of or create or suffer any lien or encumbrance upon the General Receipts prior to or on a parity with the pledge thereof under the Trust Agreement, except as authorized or permitted under the Trust Agreement. The University will issue no additional bonds or notes under the Prior Basic Resolution. The University will issue no additional bonds or notes under the Prior Housing Indenture unless, with respect to a series of Housing and Dining Bonds, (i) such bonds or notes could be issued as Obligations under the Trust Agreement within the limitations set forth in Section 2.01 of the Trust Agreement and (ii) it is provided in the supplemental indenture authorizing such notes or bonds that on the date no Housing and Dining Bonds are outstanding under the Prior Housing Indenture, other than notes or bonds issued in accordance with Section 4.18 of the Trust Agreement, the lien securing such Housing and Dining Bonds created by the Prior Housing Indenture will terminate and such Housing and Dining Bonds will continue as Obligations under the Trust Agreement on a parity with all other Obligations. (Section 4.18)

Events of Default

Events of Default under the Trust Agreement include:

(a) Failure to pay any Debt Service Charges when and as the same becomes due and payable;

(b) Failure to pay the principal of or any premium on any Prior Obligations when and as the same becomes due and payable, whether at the stated maturity thereof or by redemption or acceleration or pursuant to any mandatory sinking fund requirements;

(c) Failure by the University to perform or observe any other covenant, agreement or condition on the part of the University contained in the Trust Agreement or in the Obligations, which failure or Event of Default shall have continued for a period of 30 days after written notice, by registered or certified mail, given to the University by the Trustee, specifying the failure or

Event of Default and requiring the same to be remedied, which notice shall be given by the Trustee upon the written request of the Holders of not less than twenty-five percent in aggregate principal amount of the Obligations then Outstanding; provided that the Person or Persons requesting such notice may agree in writing to a 90-day extension of such period prior to the expiration of the initial 30-day period; provided further, however, that if the University will proceed to take curative action which, if begun and prosecuted with due diligence, cannot be completed within a period of 90 days, then such period shall be increased without such written extension up to 180 days as will be necessary to enable the University to diligently complete such curative action;

(d) The University will (i) admit in writing its inability to pay its debts generally as they become due, (ii) have an order for relief entered in any case commenced by or against it under federal bankruptcy laws, as now or hereafter in effect, (iii) commence a proceeding under any federal or state bankruptcy, insolvency, reorganization or similar laws, or have such a proceeding commenced against it and have either an order of insolvency or reorganization entered against it or have the proceeding remain undismissed and unstayed for 90 days, (iv) make an assignment for the benefit of creditors, or, (v) have a receiver or trustee appointed for it or for the whole or substantial part of its property. (Section 6.01)

Supplemental Trust Agreements Not Requiring Consent of Holders

The University and the Trustee without the consent of, or notice to, any of the Holders, may enter into indentures supplemental to the Trust Agreement and other instruments evidencing the existence of a lien as shall not, in the opinion of the Trustee, be inconsistent with the terms and provisions of the Trust Agreement for any one or more of the following purposes:

(a) To cure any ambiguity, inconsistency or formal defect or omission in the Trust Agreement or in any Supplemental Trust Agreement;

(b) To grant to or confer upon the Trustee for the benefit of the Holders any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Holders or the Trustee;

(c) To subject additional revenues or property to the lien and pledge of the Trust Agreement;

(d) To add to the covenants and agreements of the University contained in the Trust Agreement other covenants and agreements thereafter to be observed for the protection of the Holders, or, if in the judgment of the Trustee such is not to the prejudice of the Trustee or the Holders, to surrender or limit any right, power or authority reserved to or conferred upon the University in the Trust Agreement, including the limitation of rights of redemption so that in certain instances Obligations of different series will be redeemed in some prescribed relationship to one another;

(e) To evidence any succession to the University and the assumption by such successor of the covenants and agreements of the University contained in the Trust Agreement or other instrument providing for the operation of the University or University Facilities, and the Obligations;

(f) In connection with the issuance of Obligations in accordance with Sections 2.01 and 2.02 of the Trust Agreement;

(g) To permit the Trustee to comply with any obligations imposed upon it by law;

(h) To permit the exchange of Obligations, at the option of the Holder or Holders thereof, for coupon Obligations of the same series payable to bearer, in an aggregate principal amount not exceeding the unmatured and unredeemed principal amount of the Predecessor Obligations, bearing interest at the same rate or rates and maturing on the same date or dates, with coupons attached representing all unpaid interest due or to become due thereon if, in the opinion of nationally recognized Bond Counsel selected by the University and acceptable to the Trustee, that exchange would not result in the interest on any of the Obligations Outstanding becoming subject to federal income taxation;

(i) To specify further the duties and responsibilities of, and to define further the relationship among, the Trustee, the Registrar and any Authenticating Agents or Paying Agents;

(j) To achieve compliance of the Trust Agreement with any applicable federal or Kentucky laws, including tax laws;

(k) To modify any provisions of the Trust Agreement in order to obtain a Credit Support Instrument or Interest Rate Hedge Agreement, so long as such modifications affect only the Obligations to which such Credit Support Instrument or Interest Rate Hedge Agreement relate; and

(l) In connection with any other change to the Trust Agreement which, in the judgment of the Trustee, is not to the material prejudice of the Trustee or the Holders of the Obligations.

The provisions of (g) and (j) above will not be deemed to constitute a waiver by the Trustee, the Registrar, the University or any Holder of any right which it may have in the absence of those provisions to consent to the application of any change in law to the Trust Agreement or the Obligations. (Section 7.01)

Supplemental Trust Agreements Requiring Consent of Holders

Exclusive of supplemental indentures referred to in Section 7.01 of the Trust Agreement and subject to the terms and provisions and limitations contained in this paragraph, and not otherwise, the Holders of a majority in aggregate principal amount of the Obligations then Outstanding shall have the right, from time to time, anything contained in the Trust Agreement to the contrary notwithstanding, to consent to and approve the execution by the University and the Trustee of such other indenture or indentures supplemental to the Trust Agreement as shall be deemed necessary and desirable by the University for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Trust Agreement; provided that nothing in this paragraph or in the Trust Agreement will permit, or be construed as permitting, a Supplemental Trust Agreement providing for (a)(i) a reduction in the percentage of Obligations the consent of the Holders of which are required to consent to such Supplemental Trust Agreement or (ii) a preference or priority of any Obligation or Obligations over any other Obligation or Obligations, without the consent of the Holders of all Obligations then Outstanding, (b) effect a change in the times, amount or currency of payment of the principal of, premium, if any, on or interest on any Obligation or a reduction in the principal amount or redemption price of any Obligation or the rate of interest thereon, without the consent of the Holder of each such Obligation so affected or (c) modify the right of the Holders of not less than twenty-five percent in aggregate principal amount of the Obligations then Outstanding and in default as to payment of principal, premium or interest to compel the Trustee to declare the principal of all Obligations to be due and payable, without the consent of the Holders of a majority in aggregate principal amount of the Obligations then Outstanding.

If at any time the University request the Trustee to enter into any such Supplemental Trust Agreement for any of the purposes of Section 7.02 of the Trust Agreement, the Trustee, upon being satisfactorily indemnified with respect to expenses, shall cause notice of the proposed execution of such Supplemental Trust Agreement to be mailed by first class mail, postage prepaid, to all Holders of Obligations then Outstanding at their addresses as they appear on the Registrar at the close of business on the Business Day immediately preceding that mailing. The Trustee will not, however, be subject to any liability to any Holder by reason of its failure to mail, or the failure of such Holder to receive, the notice required by the Trust Agreement, and any such failure shall not affect the validity of such Supplemental Trust Agreement when consented to and approved as provided in Section 7.02 of Trust Agreement. Such notice will briefly set forth the nature of the proposed Supplemental Trust Agreement and will state that copies thereof are on file at the principal corporate trust office of the Trustee for inspection by all Holders.

If within such period, not exceeding one year, as prescribed by the University, following the mailing of such notice, the Trustee receives an instrument or instruments purporting to be executed by the Holders of a majority in aggregate principal amount of the Obligations then Outstanding, which instrument or instruments shall refer to the proposed Supplemental Trust Agreement described in such notice and will specifically consent to and approve the execution thereof in substantially the form of the copy thereof referred to in such notice as on file with the Trustee, thereupon, but not otherwise, the Trustee will execute such Supplemental Trust Agreement in substantially such form; without liability or responsibility to any Holder of any Obligation, whether or not such Holder will have consented thereto.

Any such consent is binding upon the Holder of the Obligation giving such consent, upon any subsequent Holder of such Obligation and upon the Holder of any Obligation issued in exchange therefor (whether or not such subsequent Holder thereof has notice thereof), unless such consent is revoked in writing by the Holder of such Obligation giving such consent or by a subsequent Holder thereof by filing with the Trustee, prior to the execution by the Trustee of such Supplemental Trust Agreement, such revocation and, if such Obligation or Obligations are transferable by delivery, proof that such Obligations are held by the signer of such revocation in the manner permitted by Section 9.01 of the Trust Agreement. At any time after the Holders of the required percentage of the Obligations shall have filed their consents to the Supplemental Trust Agreement, the Trustee shall make and file with the University a written statement that the, Holders of such required percentage of the Obligations have filed such consents. Such written statement shall be conclusive evidence that such consents have been so filed.

If the Holders of the required percentage in aggregate principal amount of the Obligations shall have consented to and approved the execution thereof as provided in the Trust Agreement, no Holder of any Obligation has any right to object to the execution of such Supplemental Trust Agreement, to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question the propriety of the execution thereof or to enjoin or restrain the Trustee or the University from executing the same or from taking any action pursuant to the provisions thereof.

Authorization to the Trustee; Effect of Supplemental Trust Agreements

The Trustee is authorized to join with the University in the execution of any such Supplemental Trust Agreement provided for in the Trust Agreement and to make the further agreements and stipulations which may be contained therein. Any Supplemental Trust Agreement executed in accordance with the provisions of the Trust Agreement will thereafter form a part of the Trust Agreement, all the terms and conditions contained in any such Supplemental Trust Agreement as to any provision authorized to be contained therein will be deemed to be part of the terms and conditions of the Trust Agreement for any and all purposes, the Trust Agreement will be and be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Trust Agreement of the University, the Trustee, the Registrar, the Authenticating Agents, the Paying Agents and all Holders of Obligations then Outstanding will thereafter be determined, exercised and enforced thereunder, subject in all respects to such modifications and amendments. Express reference to such executed Supplemental Trust Agreement may be made in the text of any Obligations issued thereafter, if deemed necessary or desirable by the Trustee or the University. There will be no modification, change or amendment to the Trust Agreement or any other document related to the Obligations which affect the rights, duties or obligations of the Trustee thereunder, without the Trustee's prior written consent.

Opinion of Counsel

The Trustee is entitled to receive, and shall be fully protected in relying upon, the opinion of any counsel approved by it, who may be counsel for the University, as conclusive evidence that any such proposed Supplemental Trust Agreement complies with the provisions of the Trust Agreement and that it is proper for the Trustee, under the provisions of the Trust Agreement, to join in the execution of such Supplemental Trust Agreement. (Section 7.04)

Modification by Unanimous Consent

Notwithstanding anything contained elsewhere in the Trust Agreement, the rights and obligations of the University and of the Holders of the Obligations, and the terms and provisions of the Obligations and the Trust Agreement or any Supplemental Trust Agreement, may be modified or altered in any respect with the consent of the University and the consent of the Holders of all of the Obligations then Outstanding and the Trustee. (Section 7.05)

Release of Trust Agreement

If the University pays or cause to be paid and discharged, or there shall otherwise by paid to the Holders of the Outstanding Obligations all Debt Service Charges due or to become due thereon and provision shall also be made for paying all other sums payable under the Trust Agreement, then and in that event the Trust Agreement (except for Sections 4.02, 4.04, 4.05, 8.02 and 8.03 thereof) will cease, determine and become null and void, and the covenants, agreements, and other obligations of the University under the Trust Agreement are discharged and satisfied, and thereupon the Trustee will release the Trust Agreement, including the cancellation and discharge of the lien thereof, and execute and deliver to the University such instruments in writing as required to satisfy and terminate the lien thereof and to enter on the records such satisfaction and discharge and to re-convey to the University the estate created by the Trust Agreement and such other instruments to evidence such release and discharge as may be reasonably required by the University, and the Trustee and Paying Agents will assign and deliver to the University any property at the time subject to the lien of the Trust Agreement which may then be in their possession, except amounts in the Debt Service Fund required to be held by the Trustee and Paying Agents under Section 4.07 of the Trust Agreement or otherwise for the payment of Debt Service Charges. (Section 8.01)

Payment and Discharge of Obligations

All the Outstanding Obligations of one or more series will be deemed to have been paid and discharged within the meaning of the Trust Agreement, including without limitation, Section 8.01 of the Trust Agreement if either (i) the Trustee as paying agent and any Paying Agents are required to hold, in the Debt Service Payment Account in trust for and irrevocably committed thereto, sufficient moneys or (ii) the Trustee is required to hold, in the Debt Service Fund in trust for and irrevocably committed thereto, investments qualifying as Government Bonds as of the date of the determination required in Section 8.02 of the Trust Agreement which are, in either case, certified by an independent public accounting firm of national reputation to be of such maturities and interest payment dates and to bear such interest as will, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom (likewise to be held in trust and committed, except as provided in the Trust Agreement), be sufficient together with moneys referred to in clause (i) above, for the payment, at their maturity, redemption or due date, as the case may be, of all Debt Service Charges on those Obligations to their maturity, redemption or due date, as the case may be, or if Event of Default in such payment will have occurred on such date then to the date of the tender of such payment; provided that if any of such Obligations are to be redeemed prior to the maturity thereof, notice of such redemption will have been duly given or irrevocable provisions satisfactory to the Trustee have been duly made for the giving of such notice; provided that if the Obligations are to be redeemed prior to the maturity thereof, notice of such redemption shall have been duly given or irrevocable provision satisfactory to the Trustee shall have been duly made for the giving of such notice. (Section 8.02)

Survival of Certain Provisions

Notwithstanding the foregoing, those provisions of a Series Resolution and the Trust Agreement relating to the maturity of Obligations, interest payments and dates thereof, optional and mandatory redemption provisions, credit against Mandatory Sinking Fund Requirements, exchange, transfer and registration of Obligations, replacement of mutilated, destroyed, lost or stolen Obligations, the safekeeping and cancellation of Obligations, non-presentment of Obligations, the holding of moneys in trust, repayments to the University from the Special Funds and the rights, remedies and duties of the Trustee and the Registrar in connection with all of the foregoing, shall remain in effect and shall be binding upon the Trustee, the Registrar, the Authenticating Agent, Paying Agents and the Holders notwithstanding the release and discharge of the lien of the Trust Agreement. The provisions of the Article XIII of the Trust Agreement shall survive the release and discharge of the Trust Agreement. (Section 8.03)

Limitation of Rights

With the exception of rights expressly conferred in the Trust Agreement, nothing expressed or mentioned in or to be implied from the Trust Agreement or the Obligations is intended or shall be construed to give to any Person other than the parties to the Trust Agreement, the University, any Credit Support Provider and the Holders of the Obligations any legal or equitable right, remedy or claim under or in respect to the Trust Agreement or any covenants, conditions and provisions in contained in the Trust Agreement; the Trust Agreement and all of the covenants, conditions and provisions of the Trust Agreement being intended to be and being for the sole and exclusive benefit of the parties hereto, the University, any Credit Support Provider and the Holders of the Obligations as provided in the Trust Agreement. (Section 9.02)

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APPENDIX D

FORM OF BOND COUNSEL OPINION

[Date of Delivery]

University of Kentucky
Lexington, Kentucky

Re: $100,765,000* University of Kentucky General Receipts Bonds, Taxable Build America Bonds 2009 Series B

Gentlemen:

We have acted as bond counsel in connection with the issuance by the University of Kentucky, a public body corporate and educational institution and agency of the Commonwealth of Kentucky (the "University"), of $100,765,000* of University of Kentucky General Receipts Bonds, Taxable Build America Bonds 2009 Series B (the "2009 Series B Bonds") pursuant to Sections 162.340 to 162.380 of the Kentucky Revised Statutes and Sections 58.010 to 58.140 of the Kentucky Revised Statutes, as amended (the "Act"); the 2005 General Bond Resolution of the Board of Trustees of the University (the "Board") adopted on September 20, 2005 (the "2005 General Bond Resolution") authorizing the execution and delivery of a Trust Agreement dated as of November 1, 2005 (the "Trust Agreement") between the University and U.S. Bank National Association, as trustee (the "Trustee"); and a 2009 Series B Resolution adopted by the University on September 15, 2009 (the "2009 Series B Resolution") authorizing the execution and delivery of a Fourth Supplemental Trust Agreement, dated as of November 1, 2009 (the "2009 Series B Supplement") between the University and the Trustee, for the purpose of financing the cost, not otherwise provided, of the Project, as described in the 2009 Series B Resolution. We have examined the law and the transcript of proceedings pursuant to which the 2009 Series B Bonds have been authorized and issued, and such other matters as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon the opinion of General Counsel to the University, representations of the University contained in the 2005 General Bond Resolution, the Trust Agreement, the 2009 Series B Resolution, the 2009 Series B Supplement and in the transcript of proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

Based on our examination, we are of the opinion, as of the date hereof and under existing law, as follows:

1. The University is a duly created and validly existing public body corporate and educational institution and agency of the Commonwealth of Kentucky, with full power to adopt the 2005 General Bond Resolution and the 2009 Series B Resolution, to perform the agreements on its part contained therein and in the Trust Agreement and the 2009 Series B Supplement and to issue the 2009 Series B Bonds.

2. The 2005 General Bond Resolution and the 2009 Series B Resolution have been duly adopted by the University and constitute valid and binding obligations of the University enforceable upon the University.

3. The Trust Agreement and the 2009 Series B Supplement have been duly authorized, executed and delivered by the University and are each valid and binding obligations of the University, enforceable in accordance with their respective terms.

4. The 2009 Series B Bonds have been duly authorized, executed and delivered by the University and constitute valid and binding obligations of the University payable solely from the sources provided therefore in the 2005 General Bond Resolution, the 2009 Series B Resolution, the Trust Agreement and the 2009 Series B Supplement.

5. The 2009 Series B Bonds and any additional Obligations, as defined in the Trust Agreement, heretofore and hereafter issued and outstanding under the terms of the Trust Agreement are and will be payable from the General Receipts, as defined in the Trust Agreement, which have been pledged thereunder as provided in the Trust Agreement and the 2009 Series B Supplement.

6. Interest on the 2009 Series B Bonds is not excludible from gross income for Federal income tax purposes. We express no other opinion as to the federal tax consequences of purchasing, holding or disposing of the 2009 Series B Bonds.

7. Interest on the 2009 Series B Bonds is exempt from income taxation and the 2009 Series B Bonds are exempt from ad valorem taxation by the Commonwealth and any of its political subdivisions.

It is to be understood that the rights of the owners of the 2009 Series B Bonds and the enforceability of the 2009 Series B Bonds, 2005 General Bond Resolution, the 2009 Series B Resolution, the Trust Agreement and the 2009 Series B Supplement may be subject to bankruptcy, insolvency, reorganization, moratorium and other laws in effect from time to time affecting creditors' rights, and to the exercise of judicial discretion in accordance with general equitable principles.

Very truly yours,
PECK, SHAFFER & WILLIAMS LLP

APPENDIX E

BOOK-ENTRY-ONLY SYSTEM

The 2009 Series B Bonds initially will be issued solely in book-entry form to be held in the book-entry-only system maintained by The Depository Trust Company ("DTC"), New York, New York. So long as such book-entry system is used, only DTC will receive or have the right to receive physical delivery of 2009 Series B Bonds and, except as otherwise provided herein with respect to tenders by Beneficial Owners of beneficial ownership interests, each actual purchaser of each 2009 Series B Bond (a "Beneficial Owner") will not be or be considered to be, and will not have any rights as, owner or holder of the 2009 Series B Bonds under the Trust Agreement.

The following information about the book-entry-only system applicable to the 2009 Series B Bonds has been supplied by DTC. Neither the University nor the Trustee makes any representations, warranties or guarantees with respect to its accuracy or completeness.

DTC will act as securities depository for the 2009 Series B Bonds. The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered 2009 Series B Bond certificate will be issued for in the aggregate principal amount of the 2009 Series B Bonds and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of 2009 Series B Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2009 Series B Bonds on DTC's records. The ownership interest of each Beneficial Owner is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial owners will not receive written confirmation from DTC of their purchase. Beneficial owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial

Owner entered into the transaction. Transfers of ownership interests in the 2009 Series B Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial owners will not receive certificates representing their ownership interests in 2009 Series B Bonds, except in the event that use of the book-entry system for the 2009 Series B Bonds is discontinued.

To facilitate subsequent transfers, all 2009 Series B Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2009 Series B Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2009 Series B Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2009 Series B Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial owners of 2009 Series B Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2009 Series B Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2009 Series B Bond documents. For example, Beneficial Owners of 2009 Series B Bonds may wish to ascertain that the nominee holding the 2009 Series B Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Trustee and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2009 Series B Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2009 Series B Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the University as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts 2009 Series B Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and interest payments on the 2009 Series B Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the University or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with 2009 Series B Bonds held for the accounts of customers in bearer form or registered in "street name" and will be the responsibility of such Participant and not of DTC or its nominee, the Trustee or the University, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the University or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the 2009 Series B Bonds at any time by giving reasonable notice to the University or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, 2009 Series B Bond certificates are required to be printed and delivered.

The University may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, 2009 Series B Bond certificates will be printed and delivered.

NEITHER THE UNIVERSITY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DIRECT PARTICIPANT, INDIRECT PARTICIPANT OR ANY BENEFICIAL OWNER OR ANY OTHER PERSON NOT SHOWN ON THE REGISTRATION BOOKS OF THE TRUSTEE AS BEING A HOLDER WITH RESPECT TO: (1) THE BONDS; (2) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (3) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PURCHASE PRICE OF TENDERED BONDS OR THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE BONDS; (4) THE DELIVERY BY ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE INDENTURE TO BE GIVEN TO HOLDERS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS; OR (6) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS HOLDER.

Each Beneficial Owner for whom a Direct Participant or Indirect Participant acquires an interest in the 2009 Series B Bonds, as nominee, may desire to make arrangements with such Direct Participant or Indirect Participant to receive a credit balance in the records of such Direct Participant or Indirect Participant, to have all notices of redemption, elections to tender 2009 Series B Bonds or other communications to or by DTC which may affect such Beneficial Owner forwarded in writing by such Direct Participant or Indirect Participant, and to have notification made of all debt service payments.

Beneficial owners may be charged a sum sufficient to cover any tax, fee, or other governmental charge that may be imposed in relation to any transfer or exchange of their interests in the 2009 Series B Bonds.

The University cannot and does not give any assurances that DTC, Direct Participants, Indirect Participants or others will distribute payments of debt service on the 2009 Series B Bonds made to DTC or its nominee as the registered owner, or any redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or that DTC, Direct Participants or Indirect Participants will serve and act in the manner described in this Official Statement.

The information in this APPENDIX E concerning DTC and DTC's book-entry system has been obtained from sources that the University believes to be reliable, but the University takes no responsibility for the accuracy thereof.

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APPENDIX F

FORM OF CONTINUING DISCLOSURE AGREEMENT

CONTINUING DISCLOSURE AGREEMENT

Relating to:

$100,765,000*
UNIVERSITY OF KENTUCKY
GENERAL RECEIPTS BONDS,
TAXABLE BUILD AMERICA BONDS 2009 SERIES B

Dated as of: November 1, 2009

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THIS CONTINUING DISCLOSURE AGREEMENT (the "Agreement") is made and entered into as of the 1st day of February, 2009, between U.S. Bank National Association, as disclosure agent (the "Disclosure Agent") and the University of Kentucky (the "Issuer").

RECITALS

WHEREAS, the Issuer has issued or will issue its General Receipts Bonds, Taxable Build America Bonds 2009 Series B in the original aggregate principal amount of $100,765,000* (the "Bonds") pursuant to a Trust Agreement dated as of November 1, 2005 between the Issuer and the Disclosure Agent, as supplemented (the "Trust Agreement"), to (i) pay the budgeted costs of the Hospital Phase III Project and (ii) pay the costs of issuing the Bonds; and

WHEREAS, the Bonds have been offered and sold pursuant to a Preliminary Official Statement, dated October 30, 2009, and a final Official Statement, dated _____________, 2009 (the "Offering Document"); and ___________________ has agreed to purchase the Bonds based on its competitive bid pursuant to the Issuer's Notice of Bond Sale as to the Bonds (the "Original Purchaser"); and

WHEREAS, the Disclosure Agent and the Issuer, wish to provide for the disclosure of certain information concerning the Bonds, the Project and other matters on an ongoing basis as set forth herein for the benefit of Bondholders (as hereinafter defined) in accordance with the provisions of Securities and Exchange Commission Rule 15c2-12, as amended from time to time (the "Rule");

NOW, THEREFORE, in consideration of the mutual promises and agreements made herein and in the Indenture, the receipt and sufficiency of which consideration is hereby mutually acknowledged, the parties hereto agree as follows:

Section 1. Definitions; Scope of this Agreement(A) All terms capitalized but not otherwise defined herein shall have the meanings assigned to those terms in the Trust Agreement. Notwithstanding the foregoing, the term "Disclosure Agent" shall originally mean U.S. Bank National Association, having offices in Louisville, Kentucky; any successor disclosure agent shall automatically succeed to the rights and duties of the Disclosure Agent hereunder, without any amendment hereto. The following capitalized terms shall have the following meanings:

"Annual Financial Information" shall mean a copy of the annual audited financial information prepared for the Issuer which shall include, if prepared, a statement of net assets, and the related statements of revenues, expenses and changes in net assets and of cash flows. All such financial information shall be prepared using generally accepted accounting principles, provided, however, that the Issuer may change the accounting principles used for preparation of such financial information so long as the Issuer includes as information provided to the public, a statement to the effect that different accounting principles are being used, stating the reason for such change and how to compare the financial information provided by the differing financial accounting principles. Any or all of the items listed above may be set forth in other documents, including Offering Documents of debt issues of the Issuer, the Board or related public entities, which have been transmitted to the MSRB, or may be included by specific reference to documents available to the public on the MSRB's Internet Website or filed with the SEC.

"*Beneficial Owner*" shall mean any person which has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

"*Bondholders*" shall mean any holder of the Bonds and any Beneficial Owner thereof.

"MSRB" shall mean the Municipal Securities Rulemaking Board.

"Material Event" shall mean any of the events listed in items (i) through (xiii) below the occurrence of which the Issuer obtains knowledge, and which the Issuer determines would constitute material information for Bondholders, provided, that the occurrence of an event described in clauses (i), (iii), (iv), (v), (viii), (ix) and (xi) shall always be deemed to be material. The following events with respect to the Bonds, if material, shall constitute Material Events:

(i) Principal and interest payment delinquencies;

(ii) Non-payment related defaults;

(iii) Unscheduled draws on debt service reserves reflecting financial difficulties;

(iv) Unscheduled draws on credit enhancements reflecting financial difficulties;

(v) Substitution of credit or liquidity providers, or their failure to perform;

(vi) Adverse tax opinions or events affecting the tax-exempt status of the security;

(vii) Modifications to rights of security holders;

(viii) Bond calls, except for mandatory scheduled redemptions not otherwise contingent upon the occurrence of an event;

(ix) Defeasances;

(x) Release, substitution or sale of property securing repayment of the securities;

(xi) Rating changes;

(xii) The cure, in the manner provided under the Trust Agreement, of any payment or nonpayment related default under the Trust Agreement; and

(xiii) The issuance of any Additional Bonds or other indebtedness on a parity with the Bonds.

The SEC requires the listing of (i) through (xi) although some of such events may not be applicable to the Bonds.

"Operating Data" shall mean an update of the Operating Data contained in Appendix A of the Offering Document.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

"SEC" shall mean the Securities and Exchange Commission.

"State" shall mean the Commonwealth of Kentucky.

"Turn Around Period" shall mean (i) five (5) business days, with respect to Annual Financial Information and Operating Data delivered by the Issuer to the Disclosure Agent; (ii) two (2) business days with respect to Material Event occurrences disclosed by the Issuer to the Disclosure Agent; or (iii) two (2) business days with respect to the failure, on the part of the Issuer, to deliver Annual Financial Information and Operating Data to the Disclosure Agent which period commences upon notification by the Issuer of such failure, or upon the Disclosure Agent's actual knowledge of such failure.

(A) This Agreement applies to the Bonds and any Additional Bonds issued under the Trust Agreement.

(B) The Disclosure Agent shall have no obligation to make disclosure about the Bonds or the Project except as expressly provided herein ; provided that nothing herein shall limit the duties or obligations of the Disclosure Agent, as Paying Agent, under the Trust Agreement. The fact that the Disclosure Agent or any affiliate thereof may have any fiduciary or banking relationship with the Issuer, apart from the relationship created by the Trust Agreement, shall not be construed to mean that the Disclosure Agent has actual knowledge of any event or condition except in its capacity as Paying Agent under the Trust Agreement or except as may be provided by written notice from the Issuer.

Section 2. Disclosure of Information.

(A) General Provisions. This Agreement governs the Issuer's direction to the Disclosure Agent, with respect to information to be made public. In its actions under this Agreement, the Disclosure Agent is acting not as Paying Agent but as the Issuer's agent.

(B) Information Provided to the Public. Except to the extent this Agreement is modified or otherwise altered in accordance with Section 3 hereof, the Issuer shall make or cause to be made public the information set forth in subsections (1), (2) and (3) below:

(1) Annual Financial Information and Operating Data. Annual Financial Information and Operating Data at least annually not later than 180 days following the end of each fiscal year, beginning with the fiscal year ending June 30, 2009 and continuing with each fiscal year thereafter, for which the information is provided, taking into account the Turn Around Period, and, in addition, all information with respect to the Bonds required to be disseminated by the Trustee pursuant to the Indenture.

(2) Material Events Notices. Notice of the occurrence of a Material Event.

(3) Failure to Provide Annual Financial Information. Notice of the failure of Issuer to provide the Annual Financial Information and Operating Data by the date required herein.

(C) Information Provided by Disclosure Agent to Public.

(1) The Issuer directs the Disclosure Agent on its behalf to make public in accordance with subsection (D) of this Section 2 and within the time frame set forth in clause (3) below, and the Disclosure Agent agrees to act as the Issuer's agent in so making public, the following:

(a) the Annual Financial Information and Operating Data;

(b) Material Event occurrences;

(c) the notices of failure to provide information which the Issuer has agreed to make public pursuant to subsection (B)(3) of this Section 2;

(d) such other information as the Issuer shall determine to make public through the Disclosure Agent and shall provide to the Disclosure Agent in the form required by subsection (C)(2) of this Section 2. If the Issuer chooses to include any information in any Annual Financial Information report or in any notice of occurrence of a Material Event, in addition to that which is specifically required by this Agreement, the Issuer shall have no obligation under this Agreement to update such information or include it in any future Annual Financial Information report or notice of occurrence of a Material Event; and

(2) The information which the Issuer has agreed to make public shall be in the following form:

(a) as to all notices, reports and financial statements to be provided to the Disclosure Agent by the Issuer, in the form required by the Trust Agreement or other applicable document or agreement; and

(b) as to all other notices or reports, in such form as the Disclosure Agent shall deem suitable for the purpose of which such notice or report is given.

(3) The Disclosure Agent shall make public the Annual Financial Information, the Operating Data, the Material Event occurrences and the failure to provide the Annual Financial Information and Operating Data within the applicable Turn Around Period. Notwithstanding the foregoing, Annual Financial Information, Operating Data and Material Events shall be made public on the same day as notice thereof is given to the Bondholders of outstanding Bonds, if required in the Trust Agreement, and shall not be made public before the date of such notice. If on any such date, information required to be provided by the Issuer to the Disclosure Agent has not been provided on a timely basis, the Disclosure Agent shall make such information public as soon thereafter as it is provided to the Disclosure Agent.

(D) Means of Making Information Public.

(1) Information shall be deemed to be made public by the Issuer or the Disclosure Agent under this Section if it is transmitted to one or more of the following as provided in subsection (D)(2) of this Section 2:

(a) to the Bondholders of outstanding Bonds, by the method prescribed by the Trust Agreement;

(b) to the MSRB, in an electronic format as prescribed by the MSRB, accompanied by identifying information as prescribed by the MSRB; and/or;

(c) to the SEC, by (i) electronic facsimile transmissions confirmed by first class mail, postage prepaid, or (ii) first class mail, postage prepaid; provided that the Issuer or the Disclosure Agent is authorized to transmit information to a SEC by whatever means are mutually acceptable to the Disclosure Agent, the Issuer and the Board, and the SEC.

(2) Information shall be transmitted to the following:

(a) all Annual Financial Information and Operating Data shall be transmitted to the MSRB;

(b) notice of all Material Events and notice of a failure by the Issuer or the Board to provide Annual Financial Information on or before the date specified in Section 2(B)(1) hereof shall be transmitted to the MSRB;

(c) all information described in clauses (a) and (b) shall be made available to any Bondholder upon request, but need not be transmitted to the Bondholders who do not so request; and

(d) to the extent the Issuer or the Board is obligated to file any Annual Financial Information or Operating Data with the MSRB pursuant to this Agreement, such Annual Financial Information or Operating Data may be set forth in the document or set of documents transmitted to the MSRB, or may be included by specific reference to documents available to the public on the MSRB's Internet Website or filed with the SEC.

Nothing in this subsection shall be construed to relieve the Disclosure Agent, as Paying Agent, of its obligation to provide notices to the holders of all Bonds if such notice is required by the Indenture.

With respect to requests for periodic or occurrence information from Bondholders, the Disclosure Agent may require payment by requesting of holders a reasonable charge for duplication and transmission of the information and for the Disclosure Agent's administrative expenses incurred in providing the information.

Nothing in this Agreement shall be construed to require the Disclosure Agent to interpret or provide an opinion concerning the information made public. If the Disclosure Agent receives a request for an interpretation or opinion, the Disclosure Agent may refer such request to the Issuer for response.

(E) Disclosure Agent Compensation. The Issuer shall pay or reimburse the Disclosure Agent for its fees and expenses for the Disclosure Agent's services rendered in accordance with this Agreement.

(F) Indemnification of Disclosure Agent. In addition to any and all rights of the Disclosure Agent to reimbursement, indemnification and other rights pursuant to the Trust Agreement or under law or equity, the Issuer shall, to the extent permitted by law, indemnify and hold harmless the Disclosure Agent and its respective officers, directors, employees and agents from and against any and all claims, damages, losses, liabilities, reasonable costs and expenses whatsoever (including attorney fees) which such indemnified party may incur by reason of or in connection with the Disclosure Agent's performance under this Agreement; provided that the Issuer shall not be required to indemnify the Disclosure Agent for any claims, damages, losses, liabilities, costs or expenses to the extent, but only to the extent, caused by the willful misconduct or gross negligence of the Disclosure Agent in such disclosure of information hereunder. The obligations of the Issuer under this Section shall survive resignation or removal of the Disclosure Agent and payment of the Bonds.

Section 3. Amendment or Waiver.

Notwithstanding any other provision of this Agreement, the Issuer and the Disclosure Agent may amend this Agreement (and the Disclosure Agent shall agree to any reasonable amendment requested by the Issuer) and any provision of this Agreement may be waived, if such amendment or waiver is supported by an opinion of nationally recognized bond counsel or counsel expert in federal securities laws acceptable to both the Issuer and the Disclosure Agent to the effect that such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule as well as any change in circumstance.

Section 4. Miscellaneous.

(A) Representations. Each of the parties hereto represents and warrants to each other party that it has (i) duly authorized the execution and delivery of this Agreement by the officer of such party whose signature appears on the execution pages hereto, (ii) that it has all requisite power and authority to execute, deliver and perform this Agreement under its organizational documents and any corporate resolutions now in effect, (iii) that the execution and delivery of this Agreement, and performance of the terms hereof, does not and will not violate any law, regulation, ruling, decision, order, indenture, decree, agreement or instrument by which such party is bound, and (iv) such party is not aware of any litigation or proceeding pending, or, to the best of such party's knowledge, threatened, contesting or questioning its existence, or its power and authority to enter into this Agreement, or its due authorization, execution and delivery of this Agreement, or otherwise contesting or questioning the issuance of the Bonds.

(B) Governing Law. This Agreement shall be governed by and interpreted in accordance with the laws of the State; provided that, to the extent that the SEC, the MSRB or any other federal or state agency or regulatory body with jurisdiction over the Bonds shall have promulgated any rule or regulation governing the subject matter hereof, this Agreement shall be interpreted and construed in a manner consistent therewith.

(C) Severability. If any provision hereof shall be held invalid or unenforceable by a court of competent jurisdiction, the remaining provisions hereof shall survive and continue in full force and effect.

(D) Counterparts. This Agreement may be executed in one or more counterparts, each and all of which shall constitute one and the same instrument.

(E) Termination. This Agreement may be terminated by any party to this Agreement upon thirty days' written notice of termination delivered to the other party or parties to this Agreement; provided the termination of this Agreement is not effective until (i) the Issuer, or its successor, enters into a new continuing disclosure agreement with a disclosure agent who agrees to continue to provide, to each NRMSIR, SID and/or MSRB and the Bondholders of the Bonds, all information required to be communicated pursuant to the rules promulgated by the SEC or the MSRB, (ii) nationally recognized bond counsel or counsel expert in federal securities laws provides an opinion that the new continuing disclosure agreement is in compliance with all State and Federal Securities laws and (iii) notice of the termination of this Agreement is provided to each NRMSIR, the appropriate SID, if any, and/or MSRB.

This Agreement shall terminate when all of the Bonds are or are deemed to be no longer outstanding by reason of redemption or legal defeasance or at maturity.

(F) Defaults: Remedies. A party shall be in default of its obligations hereunder if it fails to carry out or perform its obligations hereunder.

If an event of default occurs and continues beyond a period of thirty (30) days following notice of default given in writing to such defaulting party by any other party hereto or by a beneficiary hereof as identified in Section 4(G), the non-defaulting party or any such beneficiary may (and, at he request of the Participating Underwriter or the holders of at least 25% aggregate principal amount of Outstanding Bonds, the non-defaulting party shall), enforce the obligations of the defaulting party under this Agreement; provided, however, the sole remedy available in any proceeding to enforce this Agreement shall be an action in mandamus, for specific performance or similar remedy to compel performance.

(G) Beneficiaries. This Agreement is entered into by the parties hereof and shall inure solely to the benefit of the Issuer, the Disclosure Agent, the Participating Underwriter and Bondholders, and shall create no rights in any other person or entity.

Section 5. Additional Disclosure Obligations.

The Issuer acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933, the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder, may apply to the Issuer, and that under some circumstances compliance with this Agreement, without additional disclosures or other action, may not fully discharge all duties and obligations of the Issuer under such laws.

Section 6. Notices.

Any notices or communications to or among any of the parties to this Disclosure Agreement may be given as follows:

To the Issuer:	University of Kentucky Office of the Treasurer 301 Peterson Service Building Lexington, Kentucky 40506-0005 Attention: Treasurer Telephone/Fax: (859) 257-4758/4805
To the Disclosure Agent:	U.S. Bank National Association Locator CN-KY-0850 One Financial Square Louisville, Kentucky 40202 Attention: Corporate Trust Department Telephone/Fax: (502) 562-6436/(502) 562-6371

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

IN WITNESS WHEREOF, the Disclosure Agent and the Issuer have each caused their duly authorized officers to execute this Agreement, as of the day and year first above written.

UNIVERSITY OF KENTUCKY, Issuer

By: ______________________________
Treasurer

[Signatures continue on the following page.]

IN WITNESS WHEREOF, the Disclosure Agent and the Issuer have each caused their duly authorized officers to execute this Agreement, as of the day and year first above written.

UNIVERSITY OF KENTUCKY, Issuer

By: ______________________________
Treasurer

U.S. BANK NATIONAL ASSOCIATION,
Disclosure Agent

By: ______________________________

Title: ______________________________