PRELIMINARY OFFICIAL STATEMENT DATED MARCH 17, 2003

NEW ISSUE — **RATING: Moody's: ___**

Book-Entry Only — **(See "Rating" herein)**

In the opinion of Bond Counsel for the Series K (Third Series) Bonds, based upon an analysis of laws, regulations, rulings and court decisions, and assuming continuing compliance with certain covenants made by the University, and subject to the conditions and limitations set forth herein under the caption "TAX EXEMPTION," interest on the Series K (Third Series) Bonds (defined below) is excludable from gross income for Federal income tax purposes and is not a specific item of tax preference for purposes of the Federal individual or corporate alternative minimum taxes. Interest on the Series K (Third Series) Bonds (defined below) is exempt from Kentucky income tax and the Series K (Third Series) Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and any of its political subdivisions. See "TAX EXEMPTION" herein.

OFFICIAL STATEMENT RELATING TO

$5,120,000*
UNIVERSITY OF KENTUCKY
CONSOLIDATED EDUCATIONAL BUILDINGS
REFUNDING REVENUE BONDS
SERIES K (THIRD SERIES)

Dated: March 1, 2003 — **Due: May 1, as shown below**

The Series K (Third Series) 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 Series K (Third Series) Bonds. Purchasers will not receive certificates representing their ownership interest in the Series K (Third Series) Bonds purchased. So long as DTC or its nominee is the registered owner of the Series K (Third Series) Bonds, payments of the principal of and interest due on the Bonds will be made directly to DTC. The Series K (Third Series) Bonds bear interest from their dated date, payable semiannually, on May 1 and November 1, commencing November 1, 2003. Principal of, premium, if any, and interest on the Series K (Third Series) Bonds will be paid directly to DTC by Bank One Trust Company, NA, Lexington, Kentucky, as Trustee and Paying Agent. The Series K (Third Series) Bonds shall be issued only as fully registered bonds in the denomination of $5,000 or integral multiples thereof, and shall mature on May 1, in accordance with the following schedule:

Year	Amount*	Interest Rate	Price/ Yield	Year	Amount*	Interest Rate	Price/ Yield
2004	$670,000			2008	$750,000		
2005	705,000			2009	760,000		
2006	715,000			2010	790,000		
2007	730,000						

(Plus accrued interest)

The Series K (Third Series) Bonds are not subject to optional redemption prior to their stated maturities.

The Series K (Third Series) 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. Principal of and interest on the Series K (Third Series) Bonds are payable solely from the revenues of the Consolidated Educational Buildings Project.

The Series K (Third Series) Bonds are issued subject to the approval of legality by Peck, Shaffer & Williams LLP, Covington, Kentucky, Bond Counsel. Delivery of the Series K (Third Series) Bonds is expected on April 9, 2003 in New York, New York, through the facilities of DTC.

First Kentucky Securities Corporation
Financial Advisor

Dated: ______, 2003

*Preliminary, subject to change.

THE UNIVERSITY OF KENTUCKY

BOARD OF TRUSTEES

BOND COUNSEL

Peck, Shaffer & Williams LLP
Covington, Kentucky

FINANCIAL ADVISOR

First Kentucky Securities Corporation
Frankfort, Kentucky

REGARDING USE OF THIS OFFICIAL STATEMENT

This Official Statement does not constitute an offering of any security other than the original offering of the Series K (Third Series) 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 Series K (Third Series) 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 Series K (Third Series) Bonds for sale (see "APPROVAL OF ISSUANCE OF BONDS").

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OFFICIAL STATEMENT RELATING TO

$5,120,000*
UNIVERSITY OF KENTUCKY
CONSOLIDATED EDUCATIONAL BUILDINGS REFUNDING REVENUE BONDS,
SERIES K (THIRD SERIES)

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 Consolidated Educational Buildings Refunding Revenue Bonds, Series K (Third Series) (the "Series K (Third Series) Bonds") being offered hereby pursuant to the provisions of Sections 162.340, 162.380 and 58.010 to 58.140, inclusive, of the Kentucky Revised Statutes, and pursuant to the terms of a Basic Resolution (the "Resolution") adopted by the Board of Trustees of the University (the "Board") on September 20, 1960, and the Series K (Third Series) Resolution (the "Series Resolution") adopted by the Board on February 25, 2003.

The summaries and references to Sections of the Kentucky Revised Statutes, the Basic Resolution and the Series Resolution, 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.

THE UNIVERSITY OF KENTUCKY

The University is a comprehensive, Land-Grant institution located in Lexington, (Fayette County), Kentucky. Founded in 1865 under the provisions of the Morrill Land-Grant Act, the University began as part of Kentucky University. In 1878, the Agricultural and Mechanical College was separated from Kentucky University and reestablished on land given by Lexington and Fayette County. To provide a separate campus for the new institution, Lexington donated its 50-acre fairground and park, and along with Fayette County, contributed construction of the buildings. Thirty years later the name was changed to State University, Lexington, Kentucky, and in 1916 it became the University of Kentucky.

The University is organized into seventeen colleges and graduate schools plus extension programs, and operates a Community College located in Lexington, Kentucky. From an enrollment of 273 students in 1876, the University has more than 30,000 students and approximately 10,000 faculty and staff. The campus today has more than 100 major buildings including not only modern teaching and research facilities, but also renovated history-laden structures dating back to the 1800's. The University has produced two Nobel Laureates and seven governors of the state including the first female governor. Scientific advances in medicine, energy, equine and other fields of research have caused the University to be ranked among the top 100 research universities in the nation, the only one in Kentucky to be so recognized.

Effective January 14, 1998, the Board of Trustees pursuant to the direction of the General Assembly (The Kentucky Postsecondary Education Improvement Act of 1997) delegated to the Board of Regents of the Kentucky Community and Technical College System (KCTCS), the management responsibilities for the University of Kentucky Community College System (UKCC) except for the Lexington Community College. This delegation of management responsibilities to KCTCS includes management of facilities and grounds, assets, liabilities, revenues, personnel, programs, financial and accounting services and support services. Governmental Accounting and Financial Reporting Standards provide that the financial operations of the UKCC no longer be included in the University of Kentucky

*Preliminary, subject to change.

financial reports as of July 1, 1997. Therefore, in general, statistical information in this Official Statement does not include Community Colleges (other than Lexington Community College) for fiscal years after 1996-97.

THE SERIES K (THIRD SERIES) BONDS

General

The Series K (Third Series) 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, will mature as to principal and will bear interest as set forth on the cover page. Interest accruing on the Series K (Third Series) Bonds will be payable semiannually on May 1 and November 1 of each year commencing November 1, 2003 to holders of record on the preceding April 15 and October 15, respectively.

Book Entry Only System

The Series K (Third Series) 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 Series K (Third Series) 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 Series K (Third Series) 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

The Series K (Third Series) Bonds are not subject to redemption prior to their stated maturities.

DISPOSITION OF BOND PROCEEDS

The Series K (Third Series) Bonds proceeds will be applied as follows:

(a) The amount received from the purchaser(s) representing accrued interest from their dated date to the date of delivery, will immediately be deposited into the Consolidated Educational Buildings Project Bond and Interest Sinking Fund, as defined herein, to be maintained at Bank One Trust Company, NA, Lexington, Kentucky, the Trustee, Paying Agent, and Bond Registrar.

(b) There will be set aside and deposited to the University of Kentucky Consolidated Educational Buildings, Series K (Third Series) Escrow Account (the "Escrow Account"), the amount necessary to be held by the Escrow Agent to effect the refunding of the Series K (Second Series) Bonds as more fully described in "The Refunding Plan."

(c) There will be set aside an amount into a "Costs of Issuance Account" to be maintained by the Trustee and used to pay all expenses incident to the issuance, sale and delivery of the Series K (Third Series) Bonds, including the fee of the Financial Advisor, the rating fees and such other appropriate expenses as may be approved by the Board.

SECURITY FOR THE SERIES K (THIRD SERIES) BONDS

The Series K (Third Series) Bonds, together with the University's outstanding Consolidated Educational Buildings Revenue Bonds and any additional parity bonds, which may hereafter be issued and outstanding under the terms of the Basic Resolution and subsequent Series Resolutions (collectively, "Consolidated Educational Building Revenue Bonds") will be payable from and will constitute a charge upon the revenues to be derived by the University from the operation of its Consolidated Educational Buildings Project. The fees imposed upon and collected from all students using the Consolidated Educational Buildings at the beginning of each semester of the regular academic year and each summer session, including fees imposed for part time students, night school and extension courses, are designated as the source of revenues of the Project. Such revenues are known as the Student Registration Fees and the Board covenants that the same will be fixed (and, if necessary, revised and increased from time to time) at such rates as may be required to pay the interest on and principal of the Consolidated Educational Buildings Revenue Bonds as they respectively mature, to provide reserves therefore and to pay the operating costs of the Consolidated Educational Buildings Project to the extent they are not otherwise provided. All collections of the Student Registration Fees are to be set aside, as received into the Consolidated Educational Buildings Project Revenue Fund, as defined herein, and are made subject to a first lien and paramount charge for the security and source of payment of all outstanding Consolidated Educational Buildings Revenue Bonds.

As further security for these Series K (Third Series) Bonds and said outstanding parity bonds, there is created and granted by Sections 162.350 and 162.200 of the Kentucky Revised Statutes a statutory lien upon the Consolidated Educational Buildings Project of the University on a parity with all Consolidated Educational Buildings Revenue Bonds outstanding.

The Series K (Third Series) Bonds are additionally secured by the reserve fund established with respect to the Consolidated Educational Buildings Revenue Bonds.

THE REFUNDING PLAN

The University previously issued $7,575,000 principal amount of its Consolidated Educational Buildings Refunding Revenue Bonds, Series K (Second Series) Bonds (the "Series K (Second Series) Bonds") dated June 1, 1993 of which there is currently outstanding $5,515,000 in aggregate principal amount. The Series K (Second Series) Bonds were originally issued to refund the University of Kentucky Consolidated Educational Buildings Revenue Bonds, Series K that were originally issued to finance the Business and Economic Building Project comprised of (i) the addition of approximately 50,000 sq. ft. and (ii) building renovations involving a full spectrum of interior alterations providing for classrooms and faculty offices constituting the Series K Project. The Series K (Third Series) Bonds are being issued for the purpose of refunding the Series K (Second Series) Bonds through the deposit in escrow of sufficient funds to redeem the remaining Series K (Second Series) Bonds on May 1, 2003, at a redemption price equal to the principal amount maturing after May 1, 2003 plus a premium of 2%.

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SOURCES AND USES OF FUNDS

The sources and uses of funds in connection with the issuance of the Series K (Third Series) Bonds are as follows:

Sources of Funds	
Principal Amount of Bonds	$
University Funds and Transfer from Debt Service Reserve	
Accrued Interest	
Total Sources of Funds	
Uses of Funds	
Deposit to Escrow Fund	$
Accrued Interest	
Underwriter's Discount	
Costs of Issuance	
Total Uses of Funds	

CERTAIN PROVISIONS OF THE RESOLUTION AND SERIES K (THIRD SERIES) RESOLUTION

On September 20, 1960, the Board adopted the Resolution and authorized the issuance of its Consolidated Educational Buildings Revenue Bonds. The Project consists of all existing educational buildings and necessary appurtenances and all such buildings thereafter erected on property owned by the University, excluding housing and dining facilities and facilities used exclusively for athletics and excluding educational buildings which are leased rather than owned by the University.

The following statements are intended to provide only brief summaries of selected pertinent provisions of the Resolution and the Series Resolution. For detailed and complete information, reference is hereby made to the Resolution and the Series Resolution, copies of which are on file with the University and with Bank One Trust Company, NA, the Trustee for the outstanding Consolidated Educational Buildings Revenue Bonds. For purposes of the description in the following sections under the above styled general heading, previous bonds issued or any future bonds to be issued by the Series Resolutions will be referred to as the "Bonds." Additionally, for purposes of this description, revenues of the Project will be referred to as "Revenues."

Application of Revenues

There has been created and established a special fund known as the Consolidated Educational Buildings Project Revenue Fund in the custody of the Treasurer of the Board, separate and apart from other funds of the University. Such Consolidated Educational Buildings Project Revenue Fund (the "Revenue Fund") will be maintained, so long as any of the Bonds are outstanding and unpaid, as a trust fund in one or more banks which will be members of the Federal Deposit Insurance Corporation and will be expended and used by the Treasurer only in the manner specified in the Resolutions. Upon delivery of any Bonds issued pursuant to the Resolutions, all Revenues derived from the Project will be deposited as collected in the Revenue Fund to be held and administered by the Treasurer of the Board and will be paid out and applied for the uses and purpose set forth below.

Bond and Interest Sinking Fund. There is created and established a special account known as the Consolidated Educational Buildings Project Bond and Interest Sinking Fund (the "Bond Fund") which is maintained by and in the custody of the Trustee so long as any Bonds are outstanding and unpaid. The

Bond Fund will be used by the Trustee to pay interest on the Bonds as the same become due from time to time and to pay and retire the Bonds as they become due, or as otherwise provided in the Resolutions. From and after the delivery of any Bonds issued pursuant to the Resolutions, and thereafter commencing on May 1 of each year, the Treasurer will transfer from the Revenue Fund, and deposit to the credit of the Bond Fund all the Revenues as and when the same are received and deposited into the Revenue Fund, until there has been so deposited and paid into the Bond Fund an amount equal to the total interest and principal becoming due on or prior to the succeeding May 1, on the Bonds then outstanding.

Debt Service Reserve Fund. A debt service reserve in the Bond Fund is required to be maintained in an amount equal to the Maximum Aggregate Principal, Interest and Bond Fund Charges on the Bonds outstanding, as such term is defined below. Initially, and as any Series of Bonds are issued, the amount to be set aside into the Bond Fund will be 125% of the amount set forth above until the required amount is so accumulated and thereafter the same will be resumed and continued whenever and so long as required to restore and maintain such reserve. "Aggregate Principal, Interest and Bond Fund Charges" is defined as "of any particular date of computation and with respect to a particular twelve month period, an amount of money equal to the aggregate of the amounts required by the provisions of the Resolution and all Series Resolutions, to be paid into the Bond Fund in such twelve month period, for account of the interest on all outstanding Bonds becoming due during such twelve month period and to accomplish the retirement of the principal of any Bonds outstanding at or prior to the maturity thereof." Moneys in the Bond Fund in excess of the Aggregate Principal, Interest and Bond Fund Charges and the prescribed reserve may be used to purchase or redeem Bonds in advance of maturity.

When all required payments into the Bond Fund have been made in any particular twelve month period ending May 1, any moneys remaining in the Revenue Fund may be used by the Board in its discretion to pay the operating costs of the Project to the extent that such costs are not otherwise provided, or may be used for the purchase or retirement of Bonds in advance of maturity, or for any other lawful purpose. The reserve fund requirement has been met as set forth above.

Additional Bonds

The Board covenants and agrees that it will not hereafter create or permit the creation of or issue any bonds which will have a priority over the charge on the Revenues or the payments to be made into the Bond Fund.

Additional bonds ranking on a parity with the Bonds outstanding may be issued only for the purpose of erecting and completing educational buildings and necessary appurtenances which will become and constitute a part of the Project provided:

(a) That at the time of the issuance of the additional Bonds there is no deficiency in the amount required to be paid into the Bond Fund, and;

(b) That the average of the annual Revenues from the Project for the two fiscal years immediately preceding the issuance of the additional Bonds, as indicated in a statement by the Treasurer of the Board to be filed with the Trustee, was equal to not less than 1.25 times, the maximum Aggregate Principal, Interest and Bond Fund Charges in any succeeding twelve month period ending May 1 on the Bonds then outstanding and the additional Bonds proposed to be issued. For the purposes of computing average annual Revenues, the Treasurer shall make an adjustment in the amount of annual Revenues to reflect any increase or decrease in the Student Registration Fees being imposed at the time for the services of the Project.

The Board may also issue additional parity Bonds for the purpose of refunding all or any part of Bonds outstanding of one or more Series Resolutions as may be outstanding provided such refunding

Bonds issued prior to the maturity of the Bonds to be refunded will not result in an increase in the interest rate or in an acceleration of the maturity dates of the refunded Bonds.

The issuance of such additional Bonds shall be pursuant to the terms of an appropriate Series Resolution by the Board in accordance with the provisions of the Resolution.

Default and Remedies

The Resolution defines an event of default, which includes: failure to pay principal when due or failure to pay any installment of interest when same become due or within 30 days thereafter; the Board being rendered incapable of fulfilling its obligations under the Resolutions; any building representing a part of the Project being destroyed or damaged and not being repaired or replaced and insurance proceeds not being deposited in the Bond Fund; an order or decree being entered appointing a Receiver of all or part of the Project or Revenues therefrom; and failure after written notice by the Trustee (who is required to give such notice at the written request of the owners of 15% in aggregate amount of the outstanding Bonds) to perform any covenant in the Resolution or any Series Resolution, in each case within or for the specified period of grace, if any.

Upon the happening and continuance of any event of default, then and in every such case the Trustee may, and upon the written request of the owners of not less than twenty-five percent (25%) in principal amount of the Bonds then outstanding, give notice in writing to the Board, declaring the principal of all Bonds outstanding to be due and payable immediately, and upon such declaration the same will become and be immediately due and payable, anything contained in the Resolution or any Series Resolution to the contrary notwithstanding; provided, however, that if at any time after the principal of the Bonds shall have been so declared to be due and payable, and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, or before the completion of the enforcement of any other remedy under the Resolutions, moneys will have been accumulated in the Bond Fund sufficient to pay all arrears of interest, if any, upon the Bonds then outstanding (except the interest accrued on such Bonds since the last interest payment date), and the charges, compensation, expenses, disbursements, advances and liabilities of the Trustee and all other amounts then payable by the Board under the Resolution will have been paid or a sum sufficient to pay the same will have been deposited with the Trustee, and every other default known to the Trustee in the observance or performance of any covenant, condition or agreement contained in the Bonds or in the Resolution or any Series Resolution (other than a default in the payment of the principal of such Bonds then due only because of a declaration of default) shall have been remedied to the satisfaction of the Trustee, then and in every such case the Trustee may, and upon the written request of the owners of not less than twenty-five percent (25%) in principal amount of the Bonds then outstanding shall, by written notice to the Board, rescind and annul such declaration and its consequences, but no such rescission or annulment shall extend to or affect any subsequent default or impair any right consequent thereon.

Upon the happening and continuance of any event of default, then and in every such case the Trustee may proceed, and upon the written request of the owners of not less than fifteen percent (15%) in principal amount of the Bonds then outstanding under the Resolution shall proceed to protect and enforce its rights and the rights of the bondholders under the laws of the Commonwealth of Kentucky or under the Resolution or any Series Resolution by such suits, actions or special proceedings in equity or at law, either for the specific performance of any covenant or agreement contained in the Resolution or in aid or execution of any power therein granted or for the enforcement of any proper legal or equitable remedy, as the Trustee, being advised by counsel, will deem most effectual to protect and enforce such rights.

In the enforcement of any remedy under the Resolution, the Trustee will be entitled to sue for, enforce payment of and receive any and all amounts then or during any default becoming, and at any time remaining, due from the Board for principal, interest, or otherwise under any of the provisions of the Resolution or any Series Resolution or the Bonds and unpaid together with any and all costs and expenses of collection and of all proceedings under the Resolution and under such Bonds, without prejudice to any other right or remedy of the Trustee or of the Bondholders, and to recover and enforce a judgment or decree against the Board, but solely as provided in the Resolution and in such Bonds for any portion of such amount remaining unpaid, with interest, costs and expenses, and to collect (solely from moneys from the Bond Fund and the Revenues of the Project pledged to the payment of the Bonds by the Resolution) in any manner provided by law, the moneys adjudged or decreed to be payable.

Anything in the Resolution to the contrary notwithstanding, the holders of a majority in principal amount of the outstanding Bonds shall have the right, by an instrument in writing executed and delivered to the Trustee, to direct the method and place of conducting all remedial proceedings to be taken by the Trustee thereunder, provided that such direction shall not be otherwise than in accordance with law or the provisions of the Resolution, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders not parties to such direction.

No holder of any of the Bonds shall have any right to institute any suit, action or proceeding in equity or at law for any remedy afforded by the Resolution unless such holder shall have previously given to the Trustee written notice of any event of default as in the Resolution provided, nor unless also the holders of 25% in principal amount of the outstanding Bonds shall have made written request to the Trustee and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted in the Resolution or to institute such action, suit or proceeding in its or their name, nor unless also there shall have been offered to the Trustee security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby, it being understood and intended that no one or more holders of Bonds shall have any right in any manner whatever by his or their action to enforce any right under the Resolution except in the manner provided in the Resolution.

Other Covenants of the Board

The Board covenants with the owners of the Bonds outstanding, among other things, the following:

(a) That it will establish, maintain and collect, as long as any Bonds are outstanding, such Student Registration Fees for the services of the Project as may be necessary (i) to pay the interest on and principal of the Bonds as they respectively mature, to provide reserves therefore and (ii) to pay the operating costs of the Project to the extent they are not otherwise provided. In order to assure full and continuous performance of this covenant with a margin for contingencies and temporary unanticipated reduction in Revenues the Board further covenants and agrees to establish, maintain and collect such Student Registration Fees as will produce Revenues, in each twelve month period ending May 1, equal to at least 110% of the current Aggregate Principal, Interest and Bond Fund Charges; and will, except as herein before set forth under "Application of Revenues", pay the current operating costs of the Project from available funds other than the Revenues derived from the Project;

(b) That it will procure and maintain to the extent available, fire and extended coverage insurance on the Project in amount sufficient to provide for not less than full recovery whenever the loss from causes covered by such insurance does not exceed 80% of the full insurable value of the Project. All insurance moneys (except property insurance proceeds in amounts of less than ten thousand dollars ($10,000), which shall be paid over to the Board) received by the Trustee shall be held by the Trustee as substituted security and used for the purpose of paying the reasonable costs or repairing or replacing part or all of the property damaged or destroyed or the reasonable costs of substitute facilities; provided, however, that the Board shall have furnished, in addition to the proceeds of such insurance, such moneys as may be required to complete such repairs, replacements or substitute facilities and said insurance moneys shall be paid out by the Trustee only when the same shall be fully sufficient to complete such repairs, replacement or substitute facilities as shown by a certificate of an architect or engineer. If insurance proceeds shall remain after the completion of the repairs, replacement or substitute facilities, or in the event of a failure to repair or replace the property damaged or destroyed, or to construct substitute facilities, the Trustee shall deposit such moneys in the Bond Fund and such moneys, to the extent of any excess over the required balance in the Bond Fund and the Debt Service Reserve Fund, shall be applied to the retirement of the Bonds;

(c) That unless provision is otherwise made by law for disposition by the Commonwealth of Kentucky of claims made against the University for bodily injury and/or death which may arise from operations of the Board, it will, if such insurance is not already in force, procure and maintain public liability insurance with limits of not less than $50,000/$100,000 to protect the Board from claims for bodily injury and/or death which may arise from the operation of the Board, including any use or occupancy of its grounds, structures, and vehicles;

(d) That it will keep accurate financial records and proper books relating to the Project, that such records and books shall be open to inspection by the Bondholder and their agents and representatives; and that not later than 90 days after the close of each fiscal year it will furnish to the Trustee, and to any bondowners who shall request the same in writing, copies of audit reports prepared by an independent certified public accountant or a firm of such accountants, who shall be satisfactory to the Trustee, or by an appropriate State auditing official, reflecting in reasonable detail the financial condition and record of operation of the University, the Project, and the pledged Revenues during the preceding fiscal year (July 1/June 30);

(e) That it will at all times maintain, preserve and keep the Project and every part thereof in good condition, repair and working order; and will from time to time make all needful and proper repairs, replacements, additions, betterments and improvements so that the operations and business of the Project shall at all times be conducted efficiently, properly and advantageously;

(f) That whenever any portion of the Project shall have been worn out or destroyed or shall have become obsolete, inefficient or otherwise unfit for use, the Board will procure and install substitutes of at least equal value, utility and efficiency, so that the value and efficiency of the Project will at all times be fully maintained; and

(g) That it will faithfully observe, do and perform all of its agreements and obligations provided for by the Bonds and the Resolutions.

BOARD AND ADMINISTRATIVE OFFICERS

Governing Board

The Governing Body of the University is the Board of Trustees (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.; Michael T. Nietzel is Provost; Jack C. Blanton is Senior Vice President for Administration; James W. Holsinger, Jr. is Senior Vice President and

Chancellor for the Medical Center; Wendy Baldwin is Vice President for Research; and Henry Clay Owen is Controller and Treasurer of the University.

FUTURE DEBT

The State may authorize other projects at the University to be directly funded from proceeds of Consolidated Educational Buildings Revenue Bonds ("CEBRB") or Agency Fund Revenue Bonds issued by the State Property and Buildings Commission ("SPBC"). In future years, the University expects to request approval to issue additional debt. The 1998 and 2000 General Assembly authorized the following additional projects at the University which are anticipated to be funded, in part, from the proceeds of CEBRB or SPBC bonds, the debt service on which will be payable from University funds:

Project	Authorized Bonds	CEBRB Bonds	SPBC Bonds
Biomedical Sciences Research Building	$65,000,000	$26,000,000	-0-
Center for Rural Health	$10,100,000	-0-	$6,100,000

The amounts set forth above exclude issuance costs, any reserve fund deposits and any capitalized interest. Authorized Bonds which are not CEBRB Bonds or SPBC Bonds will be paid from sources other than University funds.

TAX EXEMPTION

General

In the opinion of Bond Counsel for the Series K (Third Series) Bonds, based upon an analysis of existing laws, regulations, rulings and court decisions, interest on the Series K (Third Series) Bonds is excludable from gross income for Federal income tax purposes and interest on the Series K (Third Series) Bonds is not a specific item of tax preference under Section 57 of the Internal Revenue Code of 1986 (the "Code") for purposes of the Federal individual or corporate alternative minimum taxes. Furthermore, Bond Counsel for the Series K (Third Series) Bonds is of the opinion that interest on the Series K (Third Series) Bonds is exempt from income taxation by the Commonwealth and the Series K (Third Series) Bonds are exempt from ad valorem taxation by the Commonwealth and any of its political subdivisions.

A copy of the opinion of Bond Counsel for the Series K (Third Series) Bonds is set forth in Appendix D, attached hereto.

The Code imposes various restrictions, conditions, and requirements relating to the exclusion from gross income for Federal income tax purposes of interest on obligations such as the Series K (Third Series) Bonds. The University has covenanted to comply with certain restrictions designed to ensure that interest on the Series K (Third Series) Bonds will not be includable in gross income for Federal income tax purposes. Failure to comply with these covenants could result in interest on the Series K (Third Series) Bonds being includable in gross income for Federal income tax purposes and such inclusion could be required retroactively to the date of issuance of the Series K (Third Series) Bonds. The opinion of Bond Counsel assumes compliance with these covenants. However, Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Series K (Third Series) Bonds may adversely affect the tax status of the interest on the Series K (Third Series) Bonds.

Certain requirements and procedures contained or referred to in the Indenture and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Series K (Third Series) Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Series K (Third

Series) Bonds or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Peck, Shaffer & Williams LLP.

Although Bond Counsel for the Series K (Third Series) Bonds has rendered an opinion that interest on the Series K (Third Series) Bonds is excludable from gross income for Federal income tax purposes and that interest on the Series K (Third Series) Bonds is excludable from gross income for Kentucky income tax purposes, the ownership or disposition of, or the accrual or receipt of interest on, the Series K (Third Series) Bonds may otherwise affect a Bondholder's Federal, state or local tax liabilities. The nature and extent of these other tax consequences may depend upon the particular tax status of the Bondholder or the Bondholder's other items of income or deduction. Bond Counsel expresses no opinions regarding any tax consequences other than what is set forth in its opinion and each Bondholder or potential Bondholder is urged to consult with tax counsel with respect to the effects of purchasing, holding or disposing the Series K (Third Series) Bonds on the tax liabilities of the individual or entity.

For example, corporations are required to include all tax-exempt interest in determining "adjusted current earnings" under Section 56(c) of the Code, which may increase the amount of any alternative minimum tax owed. Similarly, tax-exempt interest may also increase the amount of any environmental tax owed under Section 59 of the Code, which is based on the alternative minimum taxable income of any corporation subject to that tax. Ownership or disposition of the Series K (Third Series) Bonds may result in other collateral Federal, state or local tax consequence for certain taxpayers, including, without limitation, increasing the federal tax liability of certain foreign corporations subject to the branch profits tax imposed by Section 884 of the Code, increasing the federal tax liability of certain insurance companies, under Section 832 of the Code, increasing the federal tax liability and affecting the status of certain S Corporations subject to Sections 1362 and 1375 of the Code, and increasing the federal tax liability of certain individual recipients of social security or Railroad Retirement benefits, under Section 86 of the Code. Ownership of any Series K (Third Series) Bonds may also result in the limitation of interest and certain other deductions for financial institutions and certain other taxpayers, pursuant to Section 265 of the Code. Finally, residence of the holder of Series K (Third Series) Bonds in a state other than Kentucky or being subject to tax in a state other than Kentucky, may result in income or other tax liabilities being imposed by such states or their political subdivisions based on the interest or other income from the Series K (Third Series) Bonds.

The University has NOT designated the Series K (Third Series) Bonds as "qualified tax-exempt obligations" under Section 265 of the Code.

Original Issue Premium

"Acquisition Premium" is the excess of the cost of a bond over the stated redemption price of such bond at maturity or, for bonds that have one or more earlier call dates, the amount payable at the next earliest call date. The Series K (Third Series) Bonds maturing on May 1 of the years ____ to ____, inclusive (as shown on the cover page hereof), are being initially offered and sold to the public at an Acquisition Premium (the "Premium Bonds"). For federal income tax purposes, the amount of Acquisition Premium on each bond the interest on which is excludable from gross income for federal income tax purposes ("tax-exempt bonds") must be amortized and will reduce the bondholder's adjusted basis in that bond. However, no amount of amortized Acquisition Premium on tax-exempt bonds may be deducted in determining bondholder's taxable income for federal income tax purposes. The amount of any Acquisition Premium paid on the Premium Bonds, or on any of the Series K (Third Series) Bonds, that must be amortized during any period will be based on the "constant yield" method, using the original bondholder's basis in such bonds and compounding semiannually. This amount is amortized ratably over that semiannual period on a daily basis.

Holders of any Series K (Third Series) Bonds, including any Premium Bonds, purchased at an Acquisition Premium should consult their own tax advisors as to the actual effect of such Acquisition

Premium with respect to their own tax situation and as to the treatment of Acquisition Premium for state tax purposes.

Original Issue Discount

The Series K (Third Series) Bonds maturing on May 1 of the years ____ to ____, inclusive, (as shown on the cover page hereof) are being offered and sold to the public at an original issue discount ("OID") from the amounts payable at maturity thereon (the "Discount Bonds"). OID is the excess of the stated redemption price of a bond at maturity (the face amount) over the "issue price" of such bond. The issue price 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 bonds of the same maturity are sold pursuant to that initial offering. For federal income tax purposes, OID on each bond will accrue over the term of the bond, and for the Discount Bonds, the amount of accretion will be based on a single rate of interest, compounded semiannually (the "yield to maturity"). The amount of OID that accrues during each semi-annual period will do so ratably over that period on a daily basis. With respect to an initial purchaser of a Discount Bond at its issue price, the portion of OID that accrues during the period that such purchaser owns the Discount Bond is added to such purchaser's tax basis for purposes of determining gain or loss at the maturity, redemption, sale or other disposition of that Discount Bond and thus, in practical effect, is treated as stated interest, which is excludable from gross income for federal income tax purposes.

Holders of Discount Bonds should consult their own tax advisors as to the treatment of OID and the tax consequences of the purchase of such Discount Bonds other than at the issue price during the initial public offering and as to the treatment of OID for state tax purposes.

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 Series K (Third Series) Bonds are sold (the "Disclosure Agreement"), to be delivered on the date of delivery of the Series K (Third Series) Bonds, to cause the following information to be provided:

(a) to each nationally recognized municipal securities information repository ("NRMSIR") and, if one is established for the Commonwealth, to its state information depository ("SID"), 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 180 days following the fiscal year ending on the preceding June 30, commencing with the fiscal year ending June 30, 2003;

(b) to each NRMSIR or to the Municipal Securities Rulemaking Board ("MSRB") and to the SID, notice of the occurrence of certain events, if material, with respect to the Series K (Third Series) Bonds, which events are as follows; and

(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; and
(12) The cure, in the manner provided under the Resolutions, of any payment or nonpayment Related default under the Resolutions.

(c) to each NRMSIR or to the MSRB and to the SID, 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 holder of the Series K (Third Series) Bonds, including beneficial owners of the Series K (Third Series) 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 Series K (Third Series) 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.

Financial information regarding the University may be obtained from the Controller and 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 Series K (Third Series) Bonds, or in any way contesting or affecting the validity of the Series K (Third Series) 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 Series K (Third Series) 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 Series K (Third Series) 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 Series K (Third Series) Bonds and will contain a statement of tax exemption as represented herein. Bond Counsel has reviewed the information herein pertaining to the Series K (Third Series) Bonds under the headings "The Bonds", "Security for the Bonds", "Certain Provisions of the Resolution and Series K (Third Series) Resolution" and "Tax Exemption", 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 Series K (Third Series) Bonds.

FINANCIAL ADVISOR

First Kentucky Securities Corporation, Frankfort, Kentucky, has acted as Financial Advisor to the University in connection with the issuance of the Series K (Third Series) Bonds and will receive a fee, payable from Bond Proceeds, for its services as Financial Advisor.

APPROVAL OF ISSUANCE OF BONDS

Pursuant to Chapter 42 of the Kentucky Revised Statutes, issuance of the Series K (Third Series) Bonds must be approved by the Kentucky Finance and Administration Cabinet, Office of Financial Management.

FINANCIAL STATEMENTS

The financial statements of the University as of June 30, 2002 are attached as Appendix C.

CERTIFICATE CONCERNING OFFICIAL STATEMENT

Concurrently with the delivery of the Series K (Third Series) Bonds, the Treasurer of the Board of Trustees will certify that, to the best of his knowledge, the Official Statement did not as of the date of delivery of the Series K (Third Series) 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 of Trustees 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 of Trustees and reported in Appendix C herein is represented by the Board to be correct. With respect to Appendix C, 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 their 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 C.

RATING

As noted on the cover page of this Official Statement, Moody's Investors Service, Inc. ("Moody's") has given the Series K (Third Series) Bonds the rating of "___". Such rating reflects only the view of said organization. Any explanation of the significance of such rating may only be obtained from Moody's at the following address: Moody's Investors Service, Inc. at 99 Church Street, New York, New York 10007, (212) 553-0300.

There is no assurance that such rating will continue for any given period of time or that it may not be lowered or withdrawn entirely by Moody's. Any such downward change in or withdrawal of such rating could have an adverse effect on the market price of the Series K (Third Series) 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 First Kentucky Securities Corporation, 305 Ann Street, Suite 400, Frankfort, Kentucky 40602, Attention: Mr. R. Strand Kramer, Jr. (502) 875-4611.

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 Series K (Third Series) Bonds.

UNIVERSITY OF KENTUCKY

By: /s/ ______________________________
Chairman, Board of Trustees

Attest:

UNIVERSITY OF KENTUCKY

By: /s/ ______________________________
Secretary

APPENDIX A

University of Kentucky
Consolidated Educational Buildings Refunding Revenue Bonds
Series K (Third Series)

Current Budget
Operations
Coverage of Debt Service Requirements
Outstanding Obligations of the University of Kentucky

NOTE: Effective January 14, 1998, the Board of Trustees pursuant to the direction of the General Assembly (The Kentucky Postsecondary Education Improvement Act of 1997) delegated to the Board of Regents of the Kentucky Community and Technical College System (KCTCS), the management responsibilities for the University of Kentucky Community College System (UKCC) except for the Lexington Community College. This delegation of management responsibilities to KCTCS includes management of facilities and grounds, assets, liabilities, revenues, personnel, programs, financial and accounting services and support services. Governmental Accounting and Financial Reporting Standards provide that the financial operations of the UKCC no longer be included in the University of Kentucky financial reports as of July 1, 1997. Therefore, in general, statistical information in this Official Statement does not include Community Colleges (other than Lexington Community College) for the fiscal years after 1996-97.

FISCAL YEAR 2002-03 BUDGET

The 2002-03 fiscal year budget for the University of Kentucky is $1,341,113,400, an increase of $35,257,700 from fiscal year 2001-2002.

OPERATIONS

Enrollment

The following schedule indicates the Fall Semester head count and full-time equivalent enrollment at the University for each of the academic years 1992-93 through 2002-03. The full-time enrollment calculation is made in accordance with the method used by the United States Office of Education.

	Community College		Main Campus		Total	
Academic Year[1]	Head Count	Full-Time Equivalent[2]	Head Count	Full-Time Equivalent[2]	Head Count	Full-Time Equivalent[2]
1992-93	47,950	30,070	23,579	19,962	71,529	50,032
1993-94	48,212	30,501	23,670	20,137	71,882	50,638
1994-95	45,316	28,892	23,622	20,153	68,938	49,135
1995-96	43,619	24,145	24,378	20,290	67,997	44,435
1996-97	43,674	25,202	24,061	20,224	67,735	45,426
1997-98	5,558	3,658	24,171	20,307	29,729	23,965
1998-99	6,118	4,035	24,394	20,729	30,512	24,764
1999-00	6,807	4,461	23,742	20,128	30,549	24,589
2000-01	7,150	4,685	23,816	20,150	30,966	24,835
2001-02	7,793	5,871	23,901	20,878	31,694	26,749
2002-03	8,270	6,251	24,985	21,872	33,255	28,122

[1]Enrollment does not include the Community Colleges after 1996-1997 except for Lexington Community College.
[2]Full-time and part-time enrollment equated to full-time enrollment.

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 Estimated Fall Semester Student Enrollment (Full-Time Equivalent)*
2003-2004	21,875
2004-2005	21,925
2005-2006	21,975
2006-2007	22,025
2007-2008	22,075

* Projections based on 2002-2003 data

Approximately 20% 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.

Admissions Information - Fall Semester
Undergraduate Admissions

	1998	1999	2000	2001	2002
Number of Applications	7,899	8,320	8,328	8,449	8,879
Number Approved for Enrollment	6,182	6,096	6,552	6,914	7,250
Number Enrolled	2,849	2,681	2,957	3,037	3,718
Average ACT Scores (First time full-time Freshman)	24.7	24.5	24.5	24.3	24.03

State Appropriations

The General Assembly of the Commonwealth of Kentucky, based on an initial request from the Governor, approves a biennial budget for the University of Kentucky and for the Commonwealth's other public universities. The current biennium is for fiscal years 2002-03 and 2003-04.

University of Kentucky General Fund State Appropriations

1993-94	311,549,000
1994-95	321,316,000
1995-96	330,337,800
1996-97	345,895,900
1997-98	280,122,800[3]
1998-99	294,706,700[3]
1999-00	295,285,300[3]
2000-01	307,830,100[3]
2001-02	322,210,600[1,3]
2002-03	313,431,000[2,3]

[1] Included in the above appropriation is $11,238,592 in fiscal year 2001-2002 for debt service.
[2] Included in the above appropriation is $7,449,325 in fiscal year 2002-03 for debt service.
[3] Does not include the Community Colleges appropriations except for Lexington Community College.

The amount of funds so appropriated has been based in part on the debt service on the University's outstanding Consolidated Educational Buildings Refunding Revenue Bonds. 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 IN THE FUTURE, AN OBLIGATION 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. THE BONDS ARE SECURED BY AND PAYABLE SOLELY FROM THE REVENUES FROM THE PROJECT, AND NOT BY ANY APPROPRIATIONS.

The General Assembly is required by the Kentucky Constitution to adopt measures providing for the state'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 for a two-year period, commencing on the following July 1. The Governor submitted a proposed State Budget for the two-year period that begins July 1, 2002, during the regularly scheduled legislative session that began in January 2002. The regular legislative session of the General Assembly adjourned on April 15, 2002 without adoption of a State Budget by the General Assembly. Upon conclusion of the regular session, the Governor called a special session for the sole purpose of adopting a State Budget. This special legislative session also adjourned without adoption of a State Budget. As such, the General Assembly failed to enact a State Budget by July 1, 2002. Based upon advice received from the Attorney General of Kentucky, the Governor has authorized expenditures by executive order. The executive order includes funding for continuing operations of the University. Kentucky courts have previously held that the executive branch has certain authority to expend funds where a legislative budget appropriation is inadequate. However, the nature and extent of a governor's power to authorize expenditures in lieu of an enacted State Budget has not been addressed. Litigation has been filed in Franklin Circuit Court to seek a judicial determination on these questions. To date, all parties to the proceedings agree that the Governor has some power to authorize expenditures in the absence of a legislatively enacted State Budget.

Furthermore, to date, no party to the proceedings has challenged the propriety of funding for continuing operations of the University. If the courts determine that an executive order authorizing funding for continuing operations of the University is not permitted by law, the ability to continue University operations may be impaired. If the University is unable to continue operations, sufficient funds may not be available to pay the debt service on the Series K (Third Series) Bonds.

The General Assembly has met and delivered a proposed budget to the Governor for his review. The Governor has until March 21, 2003 to veto any bills presented to him. At the present time it cannot be determined whether the proposed budget bill will be vetoed, signed into law by the Governor or allowed by the Governor to become law without his signature.

Student Financial Aid

1992-93	$ 80,157,734
1993-94	90,375,884
1994-95	113,541,154
1995-96	134,287,110
1996-97	139,075,157
1997-98	146,673,202
1998-99	108,902,995[1]
1999-00	110,992,616[1]
2000-01	129,340,356[1]
2001-02	139,411,538[1]

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

Grants & Contracts

1992-93	$ 82,219,311
1993-94	98,668,798
1994-95	105,061,695
1995-96	109,320,906
1996-97	114,686,921
1997-98	119,852,159
1998-99	124,819,725[1]
1999-00	128,116,917[1]
2000-01	146,914,931[1]
2001-02	170,378,424[1]

[1]Does not include Community Colleges grants and contracts except for Lexington Community College.

Comparative Report of Student Financial Aid

A summary of the University's student financial aid is presented for the most recent two year period available:

	2000-2001	2001-2002
Scholarships & Grants	$ 30,345,894	$ 30,552,862
Federal Grants		
Pell	10,909,553	13,391,178
Supplemental Educational Opportunity Grant (SEOG)	1,658,201	1,114,145
College Work Study	845,536	1,609,176
Financial Aid from Outside Agencies		
Federal Grants (FAFSA)	788,683	881,080
State Grants	8,167,674	11,825,039
Agency Scholarships	7,251,676	7,127,845
Loans		
National Direct Student Loans (Perkins)	4,164,847	2.695,105
Health Professions	627,106	453,521
Guaranteed Student Loans – Outside Agencies	63,118,295	67,815,609
Other	1,462,891	1,945,978
Total Program Expenditures	$129,340,356	$139,411,538

ESTIMATED COVERAGE OF DEBT SERVICE REQUIREMENTS

This calculation of coverage of estimated debt service requirements as set forth below is based on the schedule of annual debt service requirements for the Consolidated Educational Buildings Refunding Revenue Bonds as shown herein.

Calculation for Parity Bonds[1]
(Minimum Allowable Coverage - 1.25x):

Average of Adjusted Revenues, 2000-01/2001-02	$123,325,408
Maximum Annual Debt Service Requirement[2]	$18,385,563
Times Maximum Debt Service Covered	6.71 x

[1]Certified by Treasurer of the University
[2]Occurs in fiscal year 2003

OUTSTANDING OBLIGATIONS OF THE UNIVERSITY OF KENTUCKY

Consolidated Educational Buildings Revenue Bonds
Schedule of Bonds Payable as of May 1, 2003

	Year of Issue	Amount of Issue	Amount Outstanding	Year Of Final Maturity
Series M	1991	$9,755,000	$1,585,000	2005
Series G,H & I (2nd Series)	1993	27,940,000	8,440,000	2006
Series K (2nd Series)	1993	7,575,000	5,515,000	2010
Series E, J. L (2nd Series)	1994	38,970,000	26,155,000	2011
Series O	1995	12,015,000	9,105,000	2015
Series M (2nd Series)	1998	4,695,000	4,510,000	2011
Series P	1998	6,200,000	5,395,000	2018
Series Q	2000	29,870,000	28,380,000	2020
Series R	2001	20,510,000	19,835,000	2021
Series N (2nd Series)	2001	18,795,000	17,460,000	2012
TOTAL		$176,325,000	$126,380,000	

Please refer to the financial statements included in Appendix C for additional obligations of the University of Kentucky.

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APPENDIX B

University of Kentucky
Consolidated Educational Buildings Refunding Revenue Bonds

Total Estimated Annual Debt Service Requirements

UNIVERSITY OF KENTUCKY
CONSOLIDATED EDUCATIONAL BUILDINGS REFUNDING REVENUE BONDS

TOTAL ESTIMATED ANNUAL DEBT SERVICE REQUIREMENTS

Year Ending June 30	Existing Debt Service[1]	Series K (Third Series) Principal	Series K (Third Series) Interest	Series K (Third Series) Total	Total Debt Service
2004	$14,675,375.00	$670,000	$141,735.42	$811,735.42	$15,487,110.42
2005	14,671,337.50	705,000	108,087.50	813,087.50	15,484,425.00
2006	14,671,875.00	715,000	93,987.50	808,987.50	15,480,862.50
2007	13,194,082.50	730,000	77,900.00	807,900.00	14,001,982.50
2008	10,406,607.50	750,000	61,475.00	811,475.00	11,218,082.50
2009	10,437,485.00	760,000	44,600.00	804,600.00	11,242,085.00
2010	10,465,710.00	790,000	23,700.00	813,700.00	11,279,410.00
2011	10,490,785.00				10,490,785.00
2012	7,671,192.50				7,671,192.50
2013	5,437,338.76				5,437,338.76
2014	5,434,248.76				5,434,248.76
2015	5,436,393.76				5,436,393.76
2016	4,436,837.50				4,436,837.50
2017	4,447,662.50				4,447,662.50
2018	4,449,937.50				4,449,937.50
2019	3,963,675.00				3,963,675.00
2020	6,376,612.50				6,376,612.50
2021	1,590,750.00				1,590,750.00
Total	$148,257,906.28	$5,120,000.00	$551,485.42	$5,671,485.42	$153,929,391.70

[1]Excludes Series K (Second Series) Bonds to be refunded and amounts due May 1, 2003

Source: University of Kentucky and Financial Advisor

APPENDIX C

University of Kentucky
Consolidated Educational Buildings Refunding Revenue Bonds
Series K (Third Series)

Financial Statements as of June 30, 2002

Consolidated *Financial* Statements

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis of the University of Kentucky's financial statements provides an overview of the financial position and activities of the University and its affiliated corporations for the year ended June 30, 2002. This discussion has been prepared by management and should be read in conjunction with the consolidated financial statements and the notes thereto, which follow this section. The financial statements and related notes, and this discussion and analysis are the responsibility of management.

Financial Highlights

- The University's financial position remained strong at June 30, 2002, with assets of $1.98 billion and liabilities of $475.0 million. Net assets, which represent the University's residual interest in assets after liabilities are deducted, were $1.51 billion or 76% of total assets. Financial operations were in accordance with the revenue expectations and the approved budget plan.
- Total assets increased $69.1 million, or 3.6%, primarily due to an increase in capital assets.
- Total liabilities decreased $22.9 million, or 4.6%, due to a reduction in long-term liabilities, primarily due to payments of current year principal maturities on bonds and capital lease obligations.
- Total net assets increased $92.0 million, or 6.5%, due to an increase in net capital assets of $70.1 million, an increase in current unrestricted net assets of $18.5 million, primarily from hospital operations, and an increase of $3.4 million in restricted net assets.
- Operating revenues were $848.1 million and operating expenditures were $1.18 billion, resulting in a loss from operations of $333.6 million. Nonoperating revenues, including $303.6 million in state appropriations, net of nonoperating expenses, were $425.6 million, which, when combined with the loss from operations, resulted in an overall increase in net assets of $92.0 million.
- Endowment assets decreased $22.6 million during the year despite net principal additions of $27.9 million. The decrease resulted from a negative total return of $27.4 million and spending distributions of $23.1 million.

Using the Consolidated Financial Statements

The Consolidated Financial Statements consist of a Statement of Net Assets (Balance Sheet), a Statement of Revenues, Expenses and Changes in Net Assets (Income Statement), a Statement of Cash Flows, and Notes to the Financial Statements. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 35, ***Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities.***

The financial statements differ significantly in both the form and the accounting principles utilized from previous financial statements, which focused on the accountability of fund groups. The Consolidated Financial Statements for fiscal year 2002 focus on the financial condition, results of operations, and cash flows of the University as a whole, with resources classified for accounting and reporting purposes into four net asset categories: invested in capital assets (net of related debt), restricted-nonexpendable, restricted-expendable, and unrestricted.

In addition to the change in emphasis to a University-wide perspective, another significant change is that revenues and expenses are now categorized as either operating or nonoperating. Significant recurring sources of revenues, including state appropriations, gifts and investment income (loss) are now considered nonoperating, as defined by GASB Statement No. 35. Further, depreciation of capital assets is now reported in the financial statements as an operating expense.

The Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows will now provide an entity-wide perspective of the University in a format similar to corporate financial statements.

Reporting Entity

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

- University of Kentucky Research Foundation, and its for-profit subsidiary, Kentucky Technology, 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 Equine Research Foundation, Inc.
- University of Kentucky Humanities Foundation, Inc.
- University of Kentucky Mining Engineering Foundation, Inc.
- Health Care Collection Service, Inc.
- Kentucky Healthcare Enterprises, Inc., a for-profit subsidiary.

Consolidated Statement of Net Assets

The Consolidated Statement of Net Assets presents the financial position of the University at the end of the fiscal year and includes all assets and liabilities. Net assets, the difference between total assets and total liabilities, is an important indicator of the 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 summary of the University's assets, liabilities and net assets at June 30, 2002 is as follows:

Condensed Consolidated Statement of Net Assets (in thousands)

ASSETS	
Current assets	$ 395,040
Capital assets	835,604
Other noncurrent assets	751,800
Total Assets	1,982,444
LIABILITIES	
Current liabilities	174,102
Noncurrent liabilities	300,916
Total Liabilities	475,018
NET ASSETS	
Invested in capital assets, net of related debt	607,663
Restricted	
Nonexpendable	307,732
Expendable	205,147
Unrestricted	386,884
Total Net Assets	$1,507,426

Assets. As of June 30, 2002, total assets amounted to $1.98 billion. Of this amount, investment in capital assets (net of depreciation) of $835.6 million, or 42% of total assets, represented the largest asset class. Endowment assets amounted to $417.2 million, including investments of $414.8 million or 21% of total assets, and cash and cash equivalents amounted to $356.3 million or 18% of total assets. During the year total assets increased by $69.1 million, primarily due to increases in capital assets.

Liabilities. As of June 30, 2002, total liabilities amounted to $475.0 million. Bonds payable for educational buildings, the housing and dining system, the University hospital and the W.T. Young library amounted to $211.3 million, or 44.5% of total liabilities. During the year total liabilities decreased by $22.9 million primarily due to principal payments on bonds and capital lease obligations.

Net Assets. The equity of the University of $1.51 billion at June 30, 2002 is reported on the Statement of Net Assets in four net asset categories: invested in capital assets, net of related debt, $607.7 million (40%), restricted-nonexpendable, $307.7 million (20%), restricted-expendable, $205.1 million (14%), and unrestricted, $386.9 million (26%).

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 designated for support of academic and research programs and initiatives, capital projects and working capital requirements.

Total net assets increased by $92.0 million during the year ended June 30, 2002. Invested in capital, net of related debt, increased by $70.1 million, primarily due to acquisition of capital assets of $134.9 million, offset by current year depreciation expense of $64.7 million. Restricted net assets increased by $3.4 million, due to an increase in permanent endowments of $34.8 million, and a decrease in expendable restricted net assets of $31.4 million, primarily due to market losses on endowment investments. Unrestricted net assets increased $18.5 million, primarily due to University Hospital operating revenues in excess of expenses.

Consolidated Statement of Revenues, Expenses and Changes in Net Assets

The Consolidated Statement of Revenues, Expenses and Changes in Net Assets 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 Consolidated 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 and endowment income to be classified as nonoperating revenues. Accordingly, the University reports a net operating loss for the year prior to the addition of 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. Tuition must be reduced by gift scholarships and institutional aid, and is reported net of scholarship allowances in the financial statements.

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

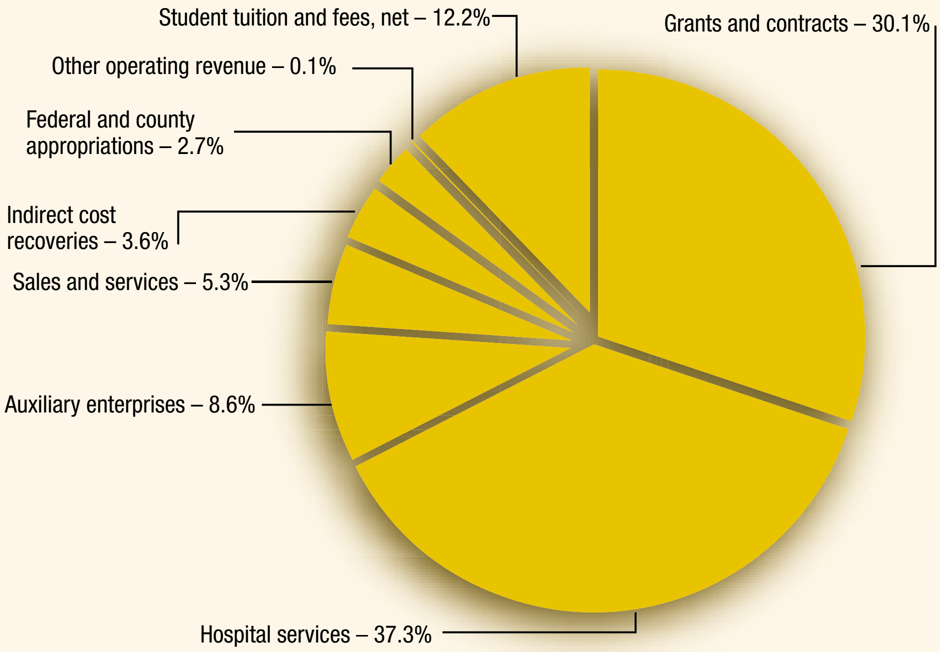
OPERATING REVENUES	
Student tuition and fees, net	$ 103,770
Grants and contracts	255,697
Hospital services	316,345
Auxiliary enterprises	73,189
Sales and services	45,140
Indirect cost recoveries	30,406
Federal and county appropriations	23,051
Other operating revenue	510
Total operating revenues	848,108
OPERATING EXPENSES	
Educational and general, excluding depreciation	761,564
Hospitals and clinics, excluding depreciation	283,656
Auxiliary enterprises, excluding depreciation	71,361
Depreciation	64,688
Other	474
Total operating expenses	1,181,743
OPERATING LOSS	(333,635)
NONOPERATING REVENUES (EXPENSES)	
State appropriations	303,639
Capital appropriations	49,002
Capital grants and gifts	12,626
Gifts and grants	30,241
Endowment income	12,625
Investment income (loss)	(10,238)
Interest on capital asset - related debt	(12,575)
Additions to permanent endowments	29,107
Other	11,252
Total nonoperating revenues (expenses)	425,679
Total increase in net assets	92,044
Net assets, beginning of year as restated	1,415,382
Net assets, end of year	$1,507,426

Total operating revenues were $848.1 million for the year ended June 30, 2002, including student tuition and fees of $103.8 million (12.2%), grants, contracts and indirect cost recoveries of $286.1 million (33.7%) and hospital services of $316.3 million (37.3%).

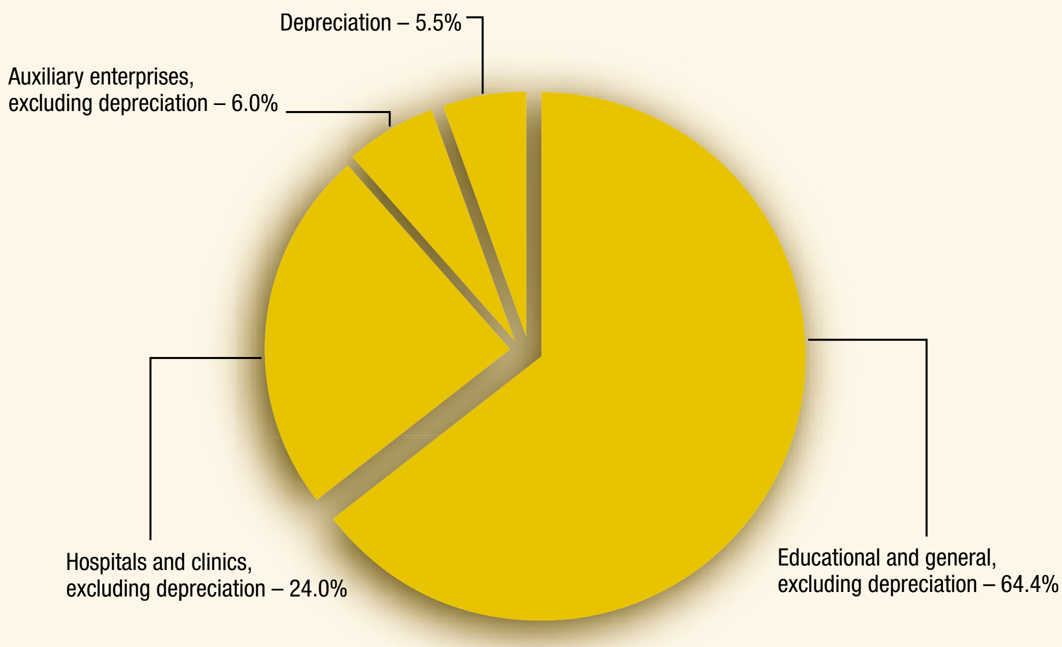
Operating expenses totaled $1.18 billion. Of this amount, $761.6 million, or 64% was expended for educational and general programs, including the functions of instruction, research and public service. Hospital and clinics expenses, excluding depreciation, amounted to $283.6 million, or 24% of the total expenses.

The net loss from operations for the year amounted to $333.6 million. Nonoperating revenues, net of expenses, amounted to $425.6 million, resulting in an increase in net assets of $92.0 million for the year. Nonoperating revenues include state appropriations of $303.6.

Operating Revenues



Operating Expenses



Consolidated Statement of Cash Flows

The Consolidated Statement of Cash Flows presents information related to the University's cash inflows and outflows summarized by operating, capital, financing and investing activities. The primary purpose of the Consolidated 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 ability to generate future net cash flows,
- The ability to meet obligations as they become due, and
- The possible need for external financing.

Condensed Consolidated Statement of Cash Flows (in thousands)

Cash provided/(used by):	
Operating activities	$ (244,611)
Noncapital financing activities	361,336
Capital and related financing activities	(106,746)
Investing activities	7,184
Net increase in cash	17,163
Cash and cash equivalents, beginning of year	339,179
Cash and cash equivalents, end of year	$ 356,342

Major sources of cash received from operating activities are student tuition and fees ($101.0 million), hospital services ($340.1 million) and grants, contracts and indirect cost recoveries ($288.8 million). Major uses of cash for operating activities were payments to employees for salaries and benefits ($702.6 million) and to vendors and contractors ($385.7 million).

Noncapital financing activities includes state appropriations from the Commonwealth of Kentucky of $303.6 million.

Capital and related financing activities include capital appropriations from the Commonwealth of Kentucky of $44.0 million and other receipts of $21.7 million. Cash of $134.9 million was expended for construction and acquisition of capital assets and $37.5 million was expended for principal and interest payments on debt.

Investing activities include proceeds from sales and maturities of investments of $617.3 million and interest and dividends on investments of $23.0 million. Cash of $633.1 million was used to purchase investments.

Capital Asset and Debt Administration

Capital Assets

Capital assets, net of accumulated depreciation, totaled $835.6 million at June 30, 2002, an increase of $79.9 million. Capital assets as of June 30, 2002 and significant changes in capital assets during the year are as follows (in millions):

	Balance June 30, 2002	Net Additions FY 01-02
Land and land improvements	$ 76	$ 5
Buildings, fixed equipment and infrastructure	902	36
Equipment, vehicles and capitalized software	330	17
Library materials and art	108	8
Construction in progress	141	59
Accumulated depreciation	(721)	(45)
Total	$ 836	$ 80

At June 30, 2002, the University has capital construction projects in progress totaling $289.4 million in scope. Major projects include: the Biomedical/Biological Sciences Research Building, the Aging Allied Health Building phase II, the Mechanical Engineering Building, the Primary Care/Outpatient Diagnosis and Treatment Center, and the Plant Sciences Building.

Debt

At June 30,2002, bonds payable amounted to $211.3 million, summarized below by trust indenture (in millions):

Consolidated Educational Buildings Revenue Bonds	$	126.4
Consolidated Housing and Dining System Revenue Bonds		31.0
Hospital Revenue Bonds		9.3
Commonwealth Library Project (W.T. Young Library) Bonds		44.6
Total	$	211.3

Bonds payable decreased approximately $19 million during the year due to payments of current year bond maturities.

The University has legislative authority to issue Consolidated Educational Buildings Revenue Bonds in the amount of $26 million to provide the University's portion of funding for the Biological-Biomedical Science Research Building (BBSRB). It is anticipated that issuance of these bonds will occur in the 2003-04 fiscal year.

Economic Factors Impacting Future Periods

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

- The General Assembly of the Commonwealth of Kentucky has not adopted a budget for the 2002-04 biennium. Governor Paul Patton implemented, by executive order, an emergency-spending plan for fiscal year 2003. The Board of Trustees of the University has approved an operating budget for fiscal year 2003.

- Tuition rates for fiscal year 2003 were increased approximately 6% for resident and 2% for nonresident undergraduate and graduate students. The increase is expected to generate additional operating revenues of approximately $11.3 million.

- At June 30, 2002, grants and contracts of approximately $139 million had been awarded to the University, but not expended. These contracts will provide grant revenue to future periods. Grants and contracts awarded to the University in fiscal year 2002 were a record high of $212 million.

- The University is conducting its Campaign for the University of Kentucky, a capital campaign with a goal of $600 million. At June 30, 2002, nearly $500 million of gifts had been received or pledged toward this goal.

- 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.

- The University does not record a liability for post-employment retiree health benefits. Future changes in governmental accounting standards may require that this liability be recognized in the financial statements. This liability will have a significant impact on the University’s financial statements.

INDEPENDENT AUDITORS' REPORT

Deloitte & Touche

To the Board of Trustees of the
University of Kentucky

and

the Secretary of Finance and
Administration Cabinet of the
Commonwealth of Kentucky

We have audited the accompanying consolidated statement of net assets of the University of Kentucky (an agency of the Commonwealth of Kentucky) and affiliated corporations as of June 30, 2002, and the related consolidated statements of revenues, expenses and changes in net assets and of cash flows for the year then ended. These consolidated financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the University of Kentucky and affiliated corporations as of June 30, 2002, and their consolidated revenues, expenses and changes in net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the University has implemented a new financial reporting model as required by the provisions of the Governmental Accounting Standards Board ("GASB") Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities,* as of and for the year ended June 30, 2002.

The Management's Discussion and Analysis (MD&A) on pages 2 through 7 is not a required part of the basic financial statements, but is supplementary information required by GASB. This supplementary information is the responsibility of the University's management. 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 such information and we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 6, 2002, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

September 6, 2002
Louisville, Kentucky

Deloitte
Touche
Tohmatsu

UNIVERSITY OF KENTUCKY AND AFFILIATED CORPORATIONS
CONSOLIDATED STATEMENT OF NET ASSETS
JUNE 30, 2002

ASSETS	
Current Assets	
Cash and cash equivalents	$ 245,566,649
Notes, loans and accounts receivable, net	134,784,105
Inventories and other	14,688,788
Total current assets	395,039,542
Noncurrent Assets	
Restricted cash and cash equivalents	110,775,519
Endowment investments	414,784,126
Other long-term investments	201,097,461
Notes, loans and accounts receivable, net	25,143,192
Capital assets, net	835,603,880
Total noncurrent assets	1,587,404,178
Total assets	1,982,443,720
LIABILITIES	
Current Liabilities	
Accounts payable and accrued liabilities	95,209,976
Deferred revenue	42,624,189
Long-term liabilities - current portion	36,267,612
Total current liabilities	174,101,777
Noncurrent Liabilities	
Long-term liabilities	300,916,372
Total liabilities	475,018,149
NET ASSETS	
Invested in capital assets, net of related debt	607,662,960
Restricted	
Nonexpendable	
Scholarships and fellowships	58,886,920
Research	127,519,689
Instruction	49,775,066
Academic support	68,774,532
Other	2,775,398
Total restricted nonexpendable	307,731,605
Expendable (See note 9.)	
Scholarships and fellowships	30,558,386
Research	37,065,355
Instruction	33,705,038
Academic support	9,288,300
Loans	7,750,713
Capital projects	49,986,926
Debt service	14,132,105
Other	22,659,877
Total restricted expendable	205,146,700
Total restricted	512,878,305
Unrestricted (See note 10.)	386,884,306
Total net assets	$1,507,425,571

See notes to consolidated financial statements

UNIVERSITY OF KENTUCKY AND AFFILIATED CORPORATIONS
CONSOLIDATED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2002

OPERATING REVENUES	
Student tuition and fees	$ 133,915,941
Less: Scholarship allowances	(30,145,793)
Net tuition and fees	103,770,148
Federal grants and contracts	106,302,165
State and local grants and contracts	49,643,203
Nongovernmental grants and contracts	99,751,921
Indirect cost recoveries	30,406,284
Sales and services	45,139,948
Federal appropriations	14,400,994
County appropriations	8,649,815
Hospital services	316,344,568
Auxiliary enterprises:	
Housing and dining	32,191,800
Less: Scholarship allowances	(4,495,648)
Net housing and dining	27,696,152
Athletics	35,635,768
Other auxiliaries	9,857,368
Other operating revenues	509,829
Total operating revenues	848,108,163
OPERATING EXPENSES	
Educational and general:	
Instruction	236,449,207
Research	170,113,907
Public service	157,736,901
Libraries	12,852,395
Academic support	47,071,284
Student services	18,690,589
Institutional support	47,372,665
Operations and maintenance of plant	46,219,286
Student financial aid	25,057,009
Depreciation	45,426,274
Total educational and general	806,989,517
Hospital and clinics (including depreciation of $15,011,754)	298,667,864
Auxiliary enterprises:	
Housing and dining (including depreciation of $1,799,542)	31,642,219
Athletics (including depreciation of $2,450,217)	35,912,791
Other auxiliaries	8,055,833
Other operating expenses	474,990
Total operating expenses	1,181,743,214
Net loss from operations	(333,635,051)
NONOPERATING REVENUES (EXPENSES)	
State appropriations	303,639,256
Gifts and grants	30,240,861
Investment income (loss)	(10,237,648)
Endowment income	12,624,975
Interest on capital asset-related debt	(12,574,751)
Other nonoperating revenues and expenses, net	(111,463)
Net nonoperating revenues (expenses)	323,581,230
Net loss before other revenues, expenses, gains, or losses	(10,053,821)
Capital appropriations	49,002,114
Capital grants and gifts	12,626,433
Additions to permanent endowments, including Research Challenge Trust Funds of $8,586,454	29,106,731
Other, net	11,362,157
Total other revenues (expenses)	102,097,435
Increase in net assets	92,043,614
NET ASSETS, beginning of year as restated	1,415,381,957
NET ASSETS, end of year	$1,507,425,571

See notes to consolidated financial statements

UNIVERSITY OF KENTUCKY AND AFFILIATED CORPORATIONS
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2002

CASH FLOWS FROM OPERATING ACTIVITIES	
Student tuition and fees	$ 101,001,794
Grants and contracts	257,948,648
Indirect cost recoveries	30,860,490
Sales and services	45,216,891
Federal appropriations	14,599,019
County appropriations	8,853,565
Payments to vendors and contractors	(385,662,342)
Student financial aid	(24,235,625)
Salaries, wages and benefits	(702,623,044)
Hospital services	340,066,788
Auxilliary enterprise receipts:	
Housing and dining	26,755,486
Athletics	36,135,849
Other auxiliaries	9,914,347
Loans issued to students	23,352
Collection of loans to students	261,384
Self insurance receipts	31,038,903
Self insurance payments	(35,313,518)
Other receipts (payments), net	546,715
Net cash provided (used) by operating activities	(244,611,298)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State appropriations	303,639,256
Gifts and grants received for other than capital purposes:	
Gifts received for endowment purposes	29,106,731
Gifts received for other purposes	29,757,503
Agency and loan program receipts	75,739,289
Agency and loan program payments	(76,027,203)
Other nonoperating receipts (payments), net	(879,560)
Net cash provided (used) by noncapital financing activities	361,336,016
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital appropriations	43,969,460
Capital grants and gifts	3,115,937
Purchases of capital assets	(134,898,092)
Proceeds from capital debt and leases	6,100,000
Principal paid on capital debt and leases	(24,763,783)
Interest paid on capital debt and leases	(12,727,717)
Other capital and related financing receipts (payments), net	12,457,958
Net cash provided (used) by capital and related financing activities	(106,746,237)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales and maturities of investments	617,273,637
Interest and dividends on investments	23,044,912
Purchase of investments	(633,133,850)
Net cash provided (used) by investing activities	7,184,699
NET INCREASE IN CASH	17,163,180
CASH AND CASH EQUIVALENTS, beginning of year	339,178,988
CASH AND CASH EQUIVALENTS, end of year	$356,342,168
Reconciliation of net loss from operations to net cash used by operating activities:	
Operating loss	$(333,635,051)
Adjustments to reconcile net loss	
to net cash used by operating activities:	
Depreciation expense	64,687,787
Change in assets and liabilities:	
Notes, loans and accounts receivable, net	21,729,254
Inventories and other assets	652,074
Accounts payable and accrued liabilities	1,200,746
Deferred revenue	3,422,569
Long term liabilities	(2,668,677)
Net cash used by operating activities	$(244,611,298)

See notes to consolidated 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 general-purpose financial statements of the Commonwealth. The consolidated 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 of the Governmental Accounting Standards Board) as follows: The University of Kentucky Research Foundation and its for-profit subsidiary (Kentucky Technology, Inc.); The Fund for Advancement of Education and Research in the University of Kentucky Medical Center; University of Kentucky Athletic Association; Health Care Collection Service, Inc.; University of Kentucky Mining Engineering Foundation, Inc.; University of Kentucky Business Partnership Foundation, Inc.; University of Kentucky Equine Research Foundation, Inc.; University of Kentucky Humanities Foundation, Inc.; and the University of Kentucky Center on Aging Foundation, Inc.

Basis of Presentation

The accompanying consolidated 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).

Effective July 1, 2001, the University adopted GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, as amended by GASB Statement No. 37. GASB No. 35 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 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 required by GASB Statement No. 35 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. It replaces the fund group perspective previously required.

Beginning of the year fund balances have been restated to reflect the application of the provisions of GASB 35, as follows (in thousands):

Combined fund balances, as previously reported	$2,153,899
Accumulated depreciation, beginning of the year	(689,253)
Grants and contracts restricted fund balances required by GASB 35 to be reported as deferred revenues	(16,769)
Loan fund balances required by GASB 35 to be reported as liabilities	(19,552)
Capital assets expensed due to change in capitalization policy, net	(12,943)
Combined fund balances, restated as net assets	$1,415,382

Summary of Significant Accounting Policies

Accrual Basis. The consolidated 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 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. Cash and cash equivalents consist of deposits with local banks and with the Commonwealth of Kentucky and investments in repurchase agreements. Deposits with local banks and investment in repurchase agreements are covered by federal depository insurance or collateralized by securities held in the University's name by its agents. Deposits with the Commonwealth of Kentucky are covered by federal depository insurance or collateralized by securities held by the Commonwealth in the Commonwealth's name. 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 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.

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 gain/loss 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 an annual distribution of 5% of the three-year moving average market value of fund units. For the year ended June 30, 2002, approximately $9,539,000 was transferred from endowment realized and unrealized gains to support current programs in accordance with the University's endowment spending rule. Appreciation on endowments available to support future spending rule distributions amounted to approximately $57,700,000 at June 30, 2002.

Investments. Investments in marketable 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 (loss) in the statement of revenues, expenses and changes in net assets.

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, except for the following: (1) the University has title to certain tracts of land which were either donated or purchased at a nominal price with no book value assigned to these properties; and (2) buildings acquired prior to June 30, 1958, were recorded at appraised value of $33,000,000 at that date.

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.

The University capitalizes, but does not depreciate, works of art and historical treasures 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.

Student Tuition and Fees. Student tuition and fees are presented net of scholarships and fellowships applied to student accounts. Stipends and other payments made directly to students are presented as student financial aid expenses.

Hospital Services Revenue. Hospital services revenue is 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. 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.

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 170 (b)(1)(A)(ii) of the Internal Revenue Code of 1986. The majority of the University's affiliated non-profit organizations have been granted exemption from federal income taxation pursuant to the provisions of Internal Revenue Code section 501(c)(3).

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.

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.

2. 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 Trust Fund, 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, 2002 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	$ 66,700	$ 66,700	$ 13,024
2000 Biennium	100,000	66,700	61,600	28,255
Total	$200,000	$133,400	$128,300	$ 41,279

Requests for state match funds totaling approximately $2.1 million are outstanding as of June 30, 2002.

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:

	1998 Biennium	2000 Biennium
Pledges due in fiscal years 2002 or prior	$ 1,617	$ 1,338
Pledges due in fiscal year 2003	5,024	2,100
Pledges due in fiscal year 2004	6,383	4,201
Pledges due in fiscal year 2005		8,832
Pledges due in fiscal year 2006		10,695
Pledges due in fiscal year 2007		1,089
Total	$ 13,024	$ 28,255

3. Notes, Loans and Accounts Receivable

Notes, loans and accounts receivable as of June 30, 2002 are as follows (in thousands):

	Gross Receivable	Allowance	Net Receivable
Hospital patient accounts	$106,252	($35,726)	$ 70,526
Student loans	25,400	(3,327)	22,073
Reimbursement receivable - grants and contracts	20,805		20,805
Pledges receivable	8,949	(3,446)	5,503
Accrued interest receivable	10,299		10,299
Receivable for malpractice insurance	10,925		10,925
Other	23,177	(3,381)	19,796
	$205,807	($45,880)	$ 159,927
Current portion			134,784
Noncurrent portion			$ 25,143

4. Investments

The fair value and cost of the University's investments as of June 30, 2002 is as follows (in thousands):

	Fair Value	Cost
Type of investment		
United States government securities	$202,081	$199,511
Common and preferred stocks	165,161	181,043
Pooled equity funds	110,129	96,891
Corporate bonds	69,706	67,943
Repurchase agreements	30,560	30,560
Equity in health care corporations	31,082	31,082
Cash and cash equivalents	6,813	6,804
Other	350	350
Total	$615,882	$614,184

	Fair Value	Cost
Statement of Net Assets classification		
Endowment investment	$414,784	$414,373
Other long-term investments	201,098	199,811
Total	$615,882	$614,184

All investments of the University are registered in the name of the University of Kentucky or held in the University's name by its agents and trustees.

The University owns approximately 84% of CHA Service Company (CHA), a Kentucky for-profit corporation, established to provide an integrated health care delivery system throughout the Commonwealth of Kentucky. The University accounts for its investment in CHA by the equity method since, under the provisions of CHA's by-laws, the University cannot exercise control over the day-to-day operations of CHA. A summary of the University's investment in CHA is as follows (in thousands):

	June 30, 2001	FY2001-02	June 30, 2002
Investment	$ 38,180		$ 38,180
Equity in income (losses) through December 31, 2001 (CHA's fiscal year end)	(18,330)	$ 9,555	(8,775)
Carrying value	$ 19,850	$ 9,555	$ 29,405

The University's equity in the net income of CHA for the six months ended June 30, 2002 was approximately $4,429,000 (unaudited). This income is not reflected in the University's consolidated financial statements as of June 30, 2002.

5. **Capital Assets, net**

Capital assets as of June 30, 2002 are summarized as follows (in thousands):

	Beginning Balance	Additions	Deletions	Ending Balance
Land	$ 28,771	$ 2,165		$ 30,936
Land improvements - nonexhaustible	1,553	965	$ 92	2,426
Land improvements - exhaustible	40,880	2,251	5	43,126
Buildings	833,167	34,865	10,232	857,800
Fixed equipment - communications	23,405	1,966	12	25,359
Infrastructure	9,470	9,755		19,225
Equipment	296,188	27,818	15,574	308,432
Vehicles	15,067	1,120	368	15,819
Library Materials	93,235	8,322	385	101,172
Capitalized software	1,848	3,833		5,681
Art	6,440	60		6,500
Construction in progress	82,184	76,773	18,207	140,750
	1,432,208	169,893	44,875	1,557,226
Accumulated Depreciation				
Land improvements - exhaustible	33,458	1,567	5	35,020
Buildings	366,493	22,446	4,351	384,588
Fixed equipment - communications	12,293	1,806	5	14,094
Infrastructure	3,751	573		4,324
Equipment	180,222	32,226	14,807	197,641
Vehicles	10,490	1,342	394	11,438
Library Materials	69,789	4,728		74,517
	676,496	64,688	19,562	721,622
Capital assets, net	$ 755,712	$ 105,205	$ 25,313	$ 835,604

At June 30, 2002, the University has construction projects in process totaling approximately $290 million in scope. The estimated cost to complete these projects is approximately $141 million. Such construction is principally financed by appropriations from the Commonwealth of Kentucky and proceeds from bonds.

The University has utilized capital leases to acquire various items of equipment costing approximately $19.5 million and financing/lease agreements with the Kentucky Asset/Liability Commission to (a) finance renovations to Commonwealth Stadium and (b) to provide financing for various construction projects.

6. **Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities as of June 30, 2002 are as follows (in thousands):

Payable to vendors and contractors	$38,920
Accrued expenses, primarily vacation and sick leave	31,199
Employee withholdings and deposits payable to third parties	25,091
Total	$95,210

7. Deferred Revenue

Deferred revenue as of June 30, 2002 is as follows (in thousands):

Unearned summer school revenue	$ 3,644
Unearned hospital revenue - State Medicare reimbursement	4,178
Unearned grants and contracts revenue	20,752
Prepaid athletic revenues, primarily ticket sales	8,418
Unearned state deferred maintenance pool funds	3,853
Other	1,779
Total	$ 42,624

8. Long-term Liabilities

Long-term liabilities as of June 30, 2002 are summarized as follows (in thousands):

	Beginning Balance	Additions	Deletions	Ending Balance	Current Portion	Noncurrent Portion
Bonds, notes and capital leases						
Educational buildings bonds	$ 140,100		$ 13,720	$ 126,380	$ 12,455	$ 113,925
Housing and dining bonds	33,336		2,315	31,021	2,400	28,621
Hospital bonds	10,920		1,600	9,320	1,680	7,640
Library bonds	45,470		925	44,545	980	43,565
Capital leases	45,773	$ 9,153	6,120	48,806	5,940	42,866
Notes payable	1,500	8	83	1,425		1,425
Total bonds, notes and capital leases	277,099	9,161	24,763	261,497	23,455	238,042
Other liabilities						
Medical malpractice	30,425	1,000	4,276	27,149	4,003	23,146
Long-term disability	10,798	1,989	2,115	10,672	1,925	8,747
Annuities payable	6,206		548	5,658	417	5,241
Health insurance	3,236	17,730	18,111	2,855	2,855	
Federal loan programs	19,552	967	304	20,215		20,215
Worker's compensation	3,330	4,395	4,409	3,316	1,792	1,524
Mining and Minerals Trust	2,642		1,516	1,126		1,126
Compensated absences	2,000	250		2,250	380	1,870
Supplemental disability	648	369	360	657	380	277
Arbitrage rebate	755	489	127	1,117	389	728
Outstanding check liability	379	472	379	472	472	
Unemployment compensation	87	113		200	200	
Total other liabilities	80,058	27,774	32,145	75,687	12,813	62,874
Total	$ 357,157	$ 36,935	$ 56,908	$ 337,184	$ 36,268	$ 300,916

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

	Principal	Interest	Total
2003	$ 23,455	$ 12,188	$ 35,643
2004	27,124	11,653	38,777
2005	18,755	10,178	28,933
2006	17,542	9,337	26,879
2007	16,105	8,513	24,618
2008 - 2012	61,175	33,126	94,301
2013 - 2017	47,775	19,640	67,415
2018 - 2022	37,490	7,466	44,956
2023 - 2025	12,076	1,090	13,166
Total	$ 261,497	$ 113,191	$ 374,688

9. 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. At June 30, 2002, restricted expendable net assets were composed of the following (in thousands):

Appreciation on permanent endowments	$ 27,999
Term endowments	4,593
Quasi-endowments initially funded with restricted assets	40,485
Funds restricted for capital projects	64,781
Funds restricted for non-capital purposes	59,539
Loan funds (primarily University funds required for Federal match)	7,750
Total	$ 205,147

10. 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 at June 30, 2002 are as follows (in thousands):

Working capital requirements	$ 149,993
Budget appropriations for fiscal 2002-03 operations	21,837
Designated for capital projects	77,792
Designated for renewal and replacement of capital assets	119,040
Quasi-endowments initially funded with unrestricted assets	18,222
Total	$ 386,884

11. Pledged Revenues

Certain revenues reflected in the Statement of Revenues, Expenses and Changes in Net Assets as of June 30, 2002, are pledged as security for the University's outstanding bonds, as follows (in thousands):

Student tuition and fees, pledged as collateral for the University's Consolidated Educational Buildings Revenue Bonds	$133,916
Housing and Dining system revenues, pledged as collateral for the University's Consolidated Housing and Dining System Revenue Bonds	$ 23,463
Hospital patient services revenue, pledged as collateral for the University's Hospital Revenue Bonds	$318,949

12. Funds Held in Trust by Others

The University is the income beneficiary of various trusts that are held and controlled by independent trustees. For the year ended June 30, 2002, the University received income from these trusts of approximately $957,000. The University has no equity interest in the principal of the trusts that, accordingly, are recorded at a nominal value of $1 each.

13. Pledges and Deferred Gifts

Pledges totaling approximately $55,119,000 are expected to be collected primarily over the next five years, as follows (in thousands):

Operating purposes	$ 4,303
Capital projects	5,355
Endowment principal	45,461
Total	$55,119

In accordance with GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions", the University is required to record operating and capital pledges as revenue when all eligibility requirements have been met. Endowment pledges are not recognized as revenue until the gifts are actually received. Accordingly, for the year ended June 30, 2002, the University recorded the discounted value of operating and capital pledges of approximately $8,949,000.

Deferred gifts through insurance, known bequests and irrevocable trusts in which the University has a remainder interest are estimated to be approximately $47,600,000 at June 30, 2002. The University records these amounts as revenue when the cash is received.

14. Grants and Contracts Awarded

At June 30, 2002, grants and contracts of approximately $139 million had been awarded to the University and the University of Kentucky Research Foundation but not expended. These amounts will be recognized in future periods as revenues as expenses are incurred.

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% and the University contributes 10% of the participant's eligible compensation to the retirement plan. Participants in group V contribute 1% and the University contributes 2% of the participant's eligible compensation to the retirement plan.

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

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

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 2002 were approximately $43,334,000 and the employees contributed approximately $21,538,000. The University's total payroll costs were approximately $647,455,000. The payroll for employees covered by the retirement plan was approximately $433,338,000.

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, 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 the 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 $3,962,000 for 2002.

The latest actuarial valuation was prepared as of June 30, 2002 by TIAA. The actuarial present value of accumulated supplemental retirement income benefits as determined by this valuation, utilizing an assumed rate of return of 7%, was $25,672,000.

17. Health Insurance Benefits for Retirees

The University provides a health care credit towards health insurance coverage to retirees who have a minimum of fifteen years service. The University recognizes the cost of providing this credit by expensing the credit in the year provided. These health care credits totaled approximately $3,891,000 for the year ended June 30, 2002. At June 30, 2002, 2,022 retirees met the service requirement and were receiving the health care credit.

18. 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 and $500,000 per occurrence. Losses in excess of $500,000 are insured by commercial carriers up to $500 million per occurrence principally 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 and $350,000 for multiple claims resulting from a single act of negligence. Claims against educators' errors and omissions and wrongful acts are insured through a risk retention group. There have been no significant reductions in insurance coverage from 2001 to 2002. 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 self-insurance, commercial liability insurance, and an excess coverage fund established by the Commonwealth of Kentucky. The malpractice liability at June 30, 2002 is based on the requirements of Governmental Accounting Standards Board 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, 2002.

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 estimated long-term disability payments for known claims at June 30, 2002 are reported at their present value assuming an investment yield of 7.0%.

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, 2002.

Long-term liabilities related to self-insurance are detailed in Note 8, above.

19. Contingencies

The University is defendant in various lawsuits. 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.

20. Natural Classification

The University's operating expenses by natural classification were as follows for the year ended June 30, 2002 (in thousands):

Salaries and wages	$ 578,889
Employee benefits	127,198
Repairs and maintenance	60,040
Supplies	137,768
Depreciation	64,688
Student scholarships and financial aid	29,736
Utilities	43,454
Communications	17,144
Professional services	57,864
Travel	12,405
Resale	9,419
Other, various	43,138
Total	$1,181,743

21. Segment Information

A segment is an identifiable activity reported as a stand-alone entity for which one or more revenue bonds are outstanding. A segment has a specifically identifiable revenue stream pledged in support of revenue bonds and has related expenses, gains and losses, assets, and liabilities, that are required by an external party to be accounted for separately.

The University has two segments that meet the reporting requirements of GASB 35: the University of Kentucky Albert B. Chandler Medical Center University Hospital (Hospital) and the University of Kentucky Housing and Dining System (Housing and Dining System).

The Hospital, which is an organizational unit of the University, provides inpatient, outpatient and emergency care services for residents of the Commonwealth of Kentucky. The Hospital Revenue Bonds are collateralized by a pledge of the Hospital's gross receipts.

The Housing and Dining System is an organizational unit of the University that manages the University's dormitories, cafeterias and student center. Certain revenues from student housing and dining facilities are pledged for retirement of the Consolidated Housing and Dining System Revenue Bonds. Further, all bonds are collateralized by land and buildings.

Condensed Statement of Net Assets at June 30, 2002 (in thousands)

	Hospital	Housing & Dining System
Assets:		
Current assets	$256,995	$ 3,510
Noncurrent assets	157,360	42,230
Total assets	414,355	45,740
Liabilities:		
Current liabilities	35,452	4,546
Noncurrent liabilities	13,700	28,824
Total liabilities	49,152	33,370
Net assets:		
Invested in capital, net of related debt	90,586	7,889
Restricted	3,543	3,598
Unrestricted	271,074	883
Total net assets	$365,203	$12,370

Condensed Statement of Revenues, Expenses and Changes in Net Assets for the year ended June 30, 2002 (in thousands)

	Hospital	Housing & Dining System
Operating revenues	$318,949	$ 35,186
Operating expenses	(283,315)	(30,027)
Depreciation expense	(14,733)	(1,800)
Operating income	20,901	3,359
Nonoperating revenues	19,775	819
Nonoperating expenses	(3,219)	(4,223)
Excess (deficit) of revenues over expenses	37,457	(45)
Transfers from other University units		285
Loss from discontinued operation	(5,014)	
Other	(687)	(234)
Increase in net assets	31,756	6
Net assets, beginning of year	333,447	12,364
Net assets, end of year	$365,203	$12,370

Condensed Statement of Cash Flows for the year ended June 30, 2002 (in thousands)

	Hospital	Housing & Dining System
Net cash flows provided by operating activities	$ 56,020	$ 4,025
Net cash flows used by noncapital financing activities	(6,206)	(2,632)
Net cash flows used by capital and related financing activities	(21,215)	(11,416)
Net cash flows provided by investing activities	7,652	803
Net increase (decrease) in cash and cash equivalents	36,251	(9,220)
Cash and cash equivalents, beginning of year	157,419	11,967
Cash and cash equivalents, end of year	$193,670	$ 2,747

INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

Deloitte & Touche

To the Board of Trustees of the
University of Kentucky

and

the Secretary of Finance and
Administration Cabinet of the
Commonwealth of Kentucky

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The additional consolidating information contained on pages 26 and 27, is presented for the purpose of additional analysis of the basic consolidated financial statements rather than to present the financial position, results of operations and cash flows of the individual entities, and is not a required part of the basic consolidated financial statements. This additional information is the responsibility of the University's management. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic consolidated financial statements taken as a whole.

Deloitte & Touche LLP

September 6, 2002
Louisville, Kentucky

Deloitte
Touche
Tohmatsu

UNIVERSITY OF KENTUCKY AND AFFILIATED CORPORATIONS
STATEMENT OF NET ASSETS
CONSOLIDATING SCHEDULE
JUNE 30, 2002
(in thousands)

	UK	UK Research Foundation	The Fund	Equine Research Foundation	UK Athletic Association	Humanities Foundation	Mining Engineering Foundation	Business Partnership Foundation	Center on Aging	Health Care Collection Service	Total
ASSETS											
Current Assets											
Cash and cash equivalents	$ 210,117	$ 13,626	$ 6,661	$ 4,378	$ 10,012	$ 35		$ 181	$ 358	$ 199	$ 245,567
Notes, loans and accounts receivable, net	111,625	20,904	1,992	3	260						134,784
Inventories and other	11,524	1,334			1,821					10	14,689
Total current assets	333,266	35,864	8,653	4,381	12,093	35	-	181	358	209	395,040
Noncurrent Assets											
Restricted cash and cash equivalents	110,577	199									110,776
Endowment investments	388,077	3,503	200	7,899	278	1,130	$ 1,938	11,759			414,784
Other long-term investments	197,403	200		158	3,336						201,097
Notes, loans and accounts receivable, net	25,143										25,143
Capital assets, net	773,005	4,666			57,528					405	835,604
Total noncurrent assets	1,494,205	8,568	200	8,057	61,142	1,130	1,938	11,759	-	405	1,587,404
Total assets	1,827,471	44,432	8,853	12,438	73,235	1,165	1,938	11,940	358	614	1,982,444
LIABILITIES											
Current Liabilities											
Accounts payable and accrued liabilities	87,432	6,374	125		1,066	1		3		209	95,210
Deferred revenue	13,027	21,179			8,418						42,624
Long-term liabilities - current portion	35,224				1,044						36,268
Total current liabilities	135,683	27,553	125	-	10,528	1	-	3	-	209	174,102
Noncurrent Liabilities											
Long-term liabilities	255,904	1,425			43,587						300,916
Total liabilities	391,587	28,978	125	-	54,115	1	-	3	-	209	475,018
INTERFUND BALANCES	4,228	-	(554)	(3,674)							-
NET ASSETS											
Invested in capital assets, net of related debt	587,916	3,241			16,101					405	607,663
Restricted											
Nonexpendable	293,251	1,109	38	4,676		605	865	7,188			307,732
Expendable	190,238	3,014	593	4,088	475	559	1,073	4,749	358		205,147
Total restricted	483,489	4,123	631	8,764	475	1,164	1,938	11,937	358	-	512,879
Unrestricted	368,707	8,090	7,543		2,544						386,884
Total net assets	$1,440,112	$ 15,454	$ 8,174	$ 8,764	$ 19,120	$ 1,164	$ 1,938	$ 11,937	$ 358	$ 405	$1,507,426

UNIVERSITY OF KENTUCKY AND AFFILIATED CORPORATIONS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
CONSOLIDATING SCHEDULE FOR THE YEAR ENDED JUNE 30, 2002
(in thousands)

	UK	UK Research Foundation	The Fund	Equine Research Foundation	UK Athletic Association	Humanities Foundation	Mining Engineering Foundation	Business Partnership Foundation	Center on Aging	Health Care Collection Service	Total
OPERATING REVENUES											
Student tuition and fees, net	$ 103,770										$ 103,770
Federal grants and contracts	16,666	$ 89,636									106,302
State and local grants and contracts	18,746	30,869	$ 28								49,643
Nongovernmental grants and contracts	75,850	22,243	1,659								99,752
Indirect cost recoveries	246	30,160									30,406
Sales and services	32,463	1,051	8,206			$ 2	$ 4		$ 14	$ 3,400	45,140
Federal appropriations	14,401										14,401
County appropriations	8,650										8,650
Hospital patient services	316,345										316,345
Auxiliary enterprises:											
Housing and Dining, net	27,696										27,696
Athletics					$ 35,636						35,636
Other auxiliaries	9,857										9,857
Other operating revenues	510										510
Total operating revenues	625,200	173,959	9,893	-	35,636	2	4	-	14	3,400	848,108
OPERATING EXPENSES											
Educational and general:											
Instruction	222,881	13,297	139			17	36	$ 74	5		236,449
Research	61,295	108,497	35	$ 1			35	74	177		170,114
Public service	128,699	28,639	390				8	1			157,737
Libraries	12,848		4				-				12,852
Academic support	42,625	2,114	2,047				-	285			47,071
Student services	18,492	108	82			9	-				18,691
Institutional support	43,467	257	380				-			3,269	47,373
Operations and maintenance of plant	46,209	7	3				-				46,219
Student financial aid	21,998	2,779	42			58	-	180			25,057
Depreciation	45,180	187	-				-			59	45,426
Total educational and general	643,694	155,885	3,122	1	-	84	79	614	182	3,328	806,989
Hospital and clinics (including depreciation of $15,012)	298,668						-				298,668
Auxiliary enterprises:							-				
Housing and Dining (including depreciation of $1,800)	31,642						-				31,642
Athletics (including depreciation of $2,450)	5,676				30,237		-				35,913
Other auxiliaries	8,056						-				8,056
Other expenses	475						-				475
Total operating expenses	988,211	155,885	3,122	1	30,237	84	79	614	182	3,328	1,181,743
Net income (loss) from operations	(363,011)	18,074	6,771	(1)	5,399	(82)	(75)	(614)	(168)	72	(333,635)
NONOPERATING REVENUES (EXPENSES)											
State appropriations	303,639										303,639
Gifts and grants	20,751	302	6,794	2,140	52	3	1	81	117		30,241
Investment income	(8,901)	43	207	(718)	503	(105)	(183)	(1,106)	14	8	(10,238)
Endowment income	11,827	106	6	248	7	33	56	342			12,625
Interest on capital asset-related debt	(10,340)				(2,235)						(12,575)
Grant to/(from) the University for non-capital purposes	26,831	(12,240)	(13,384)	(620)	(172)	(12)	(21)	(382)			-
Other nonoperating revenues and expenses	(2,901)	1,500			1,290						(111)
Net nonoperating revenues	340,906	(10,289)	(6,377)	1,050	(555)	(81)	(147)	(1,065)	131	8	323,581
Net income (loss) before other revenues, expenses, gains, or losses	(22,105)	7,785	394	1,049	4,844	(163)	(222)	(1,679)	(37)	80	(10,054)
Capital appropriations	49,002						-				49,002
Capital grants and gifts	11,773	854					-				12,627
Additions to permanent endowments	28,992	1		-		2	5	107			29,107
Grant to/(from) the University for capital purposes	15,875	(7,879)	(159)	(3,488)	(4,303)	-	(4)	(20)	(22)		-
Other	11,559				(197)		-				11,362
Total other revenues	117,201	(7,024)	(159)	(3,488)	(4,500)	2	1	87	(22)	-	102,098
Increase (decrease) in net assets	95,096	761	235	(2,439)	344	(161)	(221)	(1,592)	(59)	80	92,044
NET ASSETS, beginning of year	1,345,016	14,693	7,939	11,203	18,776	1,325	2,159	13,529	417	325	1,415,382
NET ASSETS, end of year	$ 1,440,112	$ 15,454	$ 8,174	$ 8,764	$ 19,120	$ 1,164	$ 1,938	$ 11,937	$ 358	$ 405	$ 1,507,426

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APPENDIX D

University of Kentucky
Consolidated Educational Buildings Refunding Revenue Bonds
Series K (Third Series)

Form of Bond Counsel Opinion

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[Date of Delivery]

University of Kentucky
Lexington, Kentucky

Re: $_________ University of Kentucky Consolidated Educational Buildings Refunding Revenue Bonds, Series K (Third Series), dated March 1, 2003

Gentlemen:

We have acted as bond counsel in connection with the issuance by the Board of Trustees of the University of Kentucky, a public body corporate and educational institution and agency of the Commonwealth of Kentucky (the "Issuer") of $5,120,000 of University of Kentucky Consolidated Educational Buildings Refunding Revenue Bonds, Series K (Third Series), dated March 1, 2003 (the "Series K (Third Series) Bonds") pursuant to Sections 162.340 to 162.380, inclusive, of the Kentucky Revised Statutes, as amended (the "Act"), a Resolution adopted by the Issuer on September 20, 1960 (the "Resolution"), and a Series K (Third Series) Resolution adopted by the Issuer on February 25, 2003 (the "Series K (Third Series) Resolution"), for the purpose of financing the cost, not otherwise provided, of the Series K (Third Series) Project, as described in the Series K (Third Series) Resolution, as part of the Consolidated Educational Buildings Project of the Issuer. We have examined the law and the transcript of proceedings pursuant to which the Series K (Third Series) 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 Richard E. Plymale, Esq., as General Counsel to the Issuer, representations of the Issuer contained in the Resolution, the Series K (Third Series) Resolution 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 Issuer 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 Resolution and the Series K (Third Series) Resolution, perform the agreements on its part contained therein and issue the Series K (Third Series) Bonds.

2. The Resolution and the Series K (Third Series) Resolution have been duly adopted by the Issuer and constitute valid and binding obligations of the Issuer enforceable upon the Issuer.

3. The Series K (Third Series) Bonds have been duly authorized, executed and delivered by the Issuer and constitute valid and binding obligations and commitments of the Issuer payable solely from the sources provided therefore in the Resolution and the Series K (Third Series) Resolution.

4. The Series K (Third Series) Bonds and any additional parity bonds heretofore and hereafter issued and outstanding under the terms of the Resolution are and will be payable from and constitute a paramount charge upon the defined Revenues (student registration fees from all students attending the University of Kentucky, Lexington, Kentucky) derived by the Issuer from the operation of its Consolidated Educational Buildings Project, which consists of all the educational buildings and appurtenant facilities of the Issuer now in existence and hereafter acquired, excluding housing facilities and facilities used exclusively for athletics and excluding educational buildings which are leased rather than owned by the Issuer. As further security for the Series K (Third Series) Bonds and any parity bonds heretofore or hereafter issued pursuant to the Resolution, there is created and granted by Sections 162.200

and 162.350 of the Kentucky Revised Statutes, as amended, a statutory mortgage lien upon the Consolidated Educational Buildings Project of the Issuer.

5. Under the laws, regulations, rulings and judicial decisions in effect as of the date hereof, interest, including original issue discount, on the Series K (Third Series) Bonds is excludible from gross income for Federal income tax purposes, pursuant to the Internal Revenue Code of 1986, as amended (the "Code"). Furthermore, interest on the Series K (Third Series) Bonds will not be treated as a specific item of tax preference, under Section 57(a)(5) of the Code, in computing the alternative minimum tax for individuals and corporations. In rendering the opinions in this paragraph, we have assumed continuing compliance with certain covenants designed to meet the requirements of Section 103 of the Code. We express no other opinion as to the federal tax consequences of purchasing, holding or disposing of the Series K (Third Series) Bonds.

6. Interest on the Series K (Third Series) Bonds is exempt from income taxation and the Series K (Third Series) Bonds are exempt from ad valorem taxation by the Commonwealth and any of its political subdivisions.

7. The Issuer has not designated the Series K (Third Series) Bonds as "qualified tax-exempt obligations" pursuant to Section 265 of the Code.

It is to be understood that the rights of the owners of the Series K (Third Series) Bonds and the enforceability of the Series K (Third Series) Bonds, the Resolution and the Series K (Third Series) Resolution 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,

APPENDIX E

Book Entry Only System

The Series K (Third Series) 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 Series K (Third Series) 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 Series K (Third Series) Bonds under the Resolution and Series Resolution.

The following information about the book-entry only system applicable to the Series K (Third Series) 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 Series K (Third Series) 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 Series K (Third Series) Bond certificate will be issued for in the aggregate principal amount of the Series K (Third Series) Bonds and will be deposited with DTC.

DTC, the world's largest 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 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 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, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, 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.

Purchases of Series K (Third Series) Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series K (Third Series) Bonds on DTC's records. The ownership interest of each actual purchaser of each Series K (Third Series) Bond ("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 Series K (Third Series) 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 Series K (Third Series) Bonds, except in the event that use of the book-entry system for the Series K (Third Series) Bonds is discontinued.

To facilitate subsequent transfers, all Series K (Third Series) 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 Series K (Third Series) 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 Series K (Third Series) Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series K (Third Series) 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 Series K (Third Series) Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Series K (Third Series) Bond documents. For example, Beneficial Owners of Series K (Third Series) Bonds may wish to ascertain that the nominee holding the Series K (Third Series) 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 Series K (Third Series) 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 Series K (Third Series) Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City 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 Series K (Third Series) Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and interest payments on the Series K (Third Series) 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 City 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 Series K (Third Series) 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 Series K (Third Series) 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, Series K (Third Series) 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, Series K (Third Series) 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 SERIES K (THIRD SERIES) 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 SERIES K (THIRD SERIES) BONDS OR THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE SERIES K (THIRD SERIES) 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 SERIES K (THIRD SERIES) 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 Series K (Third Series) 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 Series K (Third Series) 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 Series K (Third Series) 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 Series K (Third Series) 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 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:

$_________
UNIVERSITY OF KENTUCKY
CONSOLIDATED EDUCATIONAL BUILDING REFUNDING REVENUE BONDS,
SERIES K (THIRD SERIES)

Dated as of: March 1, 2003

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THIS CONTINUING DISCLOSURE AGREEMENT (the "Agreement") is made and entered into as of the 1st day of March, 2003, between Bank One Trust Company, NA, as disclosure agent (the "Disclosure Agent") and the University of Kentucky (the "Issuer").

RECITALS

WHEREAS, the Issuer has issued or will issue its Consolidated Educational Buildings Refunding Revenue Bonds, Series K (Third Series) in the original aggregate principal amount of $_________ (the "Bonds") pursuant to a Resolution approved by the Board of Trustees of the Issuer on September 20, 1960 and a Series K (Third Series) Resolution approved by the Board of Trustees of the University on February 25, 2003 (collectively, the "Resolution") to redeem and retire its outstanding Consolidated Educational Buildings Revenue Bonds, Series K (Second Series) Bonds, dated June 1, 1993, that were originally issued to refund the University of Kentucky Consolidated Educational Buildings Revenue Bonds, Series K that were originally issued to finance the Business and Economic Building Project comprised of (i) the addition of approximately 50,000 sq. ft. and (ii) building renovations involving a full spectrum of interior alterations providing for classrooms and faculty offices constituting the Series K Project which Project is located in Fayette County, Kentucky (collectively, the "Project"); and

WHEREAS, the Bonds have been offered and sold pursuant to a Preliminary Official Statement, dated March 19, 2003, and a final Official Statement, dated March 26, 2003 (the "Offering Document"); and Morgan Keegan & Company, Inc. has agreed to purchase the Bonds based on their 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 Resolution. Notwithstanding the foregoing, the term "Disclosure Agent" shall originally mean Bank One Trust Company, NA, Lexington, 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 balance sheet, a statement of revenue and expenditure and a statement of changes in fund balances. 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.

"*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 Resolution, of any payment or nonpayment related default under the Resolution; 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.

"NRMSIR" shall mean any nationally recognized municipal securities information repository, as such term is used in the Release.

"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.

"Release" shall mean Securities and Exchange Commission Release No. 34-34961.

"SEC" shall mean the Securities and Exchange Commission.

"SID" shall mean the state information depository ("SID"), as such term is used in the Release, if and when a SID is created for the State.

"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.

(B) This Agreement applies to the Bonds and any Additional Bonds issued under the Resolution.

(C) 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 Resolution. 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 Resolution, 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 Resolution 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, 2003 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 Resolution 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 Resolution, 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 Resolution;

(b) to each NRMSIR, 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 NRMSIR by whatever means are mutually acceptable to the Disclosure Agent or the Issuer, as applicable, and the NRMSIR;

(c) to the SID (if a SID is established for the State), 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 SID by whatever means are mutually acceptable to the Disclosure Agent or the Issuer, as applicable, and the SID;

(d) to the MSRB, 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 MSRB by whatever means are mutually acceptable to the Disclosure Agent or the Issuer, as applicable, and the MSRB; and/or

(e) 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 or the Issuer, as applicable, and the SEC.

(2) Information shall be transmitted to the following:

(a) all Annual Financial Information and Operating Data shall be made available to each NRMSIR and to the SID (if a SID is established for the State);

(b) notice of all Material Event occurrences and all notices of the failure to provide Annual Financial Information or Operating Data within the time specified in Section 2(B)(1) hereof shall be made available to each NRMSIR or the MSRB and to the SID (if a SID is established for the State); and

(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.

(d) to the extent any Annual Financial Information or Operating Data is included in a document filed with each NRMSIR and SID (if a SID is established for the State) or the SEC, the Issuer shall have been deemed to have provided that information if a statement specifically referencing the filed document is filed with each NRMSIR and SID (if a SID is established for the State) as part of the Issuer's obligation to file Annual Financial Information and Operating Data pursuant to this Agreement. Additionally, if the referenced document is a final official statement (as that term is defined in Rule 15c2-12(f)(3)), it must be available from the MSRB.

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 as provided in Appendix A attached hereto.

(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 Resolution or under law or equity, the Issuer shall 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 Controller and Treasurer 301 Peterson Service Building Lexington, Kentucky 40506-0005 Attention: Henry Clay Owen Telephone/Fax: (606) 257-4758/4805
To the Disclosure Agent:	Bank One Trust Company, NA 201 East Main Street Lexington, Kentucky 40507 Attention: Corporate Trust Department Telephone/Fax: (606) 231-2997/2349

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: ______________________________
Controller and Treasurer

By: ______________________________

BANK ONE TRUST COMPANY, NA,
Disclosure Agent

By: ______________________________

Title: ______________________________

24006\5

OFFICIAL TERMS AND CONDITIONS OF BOND SALE

Re: University of Kentucky Consolidated Educational Buildings Refunding Revenue Bonds, Series K (Third Series), dated March 1, 2003, in the principal amount of $5,120,000*

The Treasurer of the Board of Trustees of the University of Kentucky, Lexington, Kentucky (the "Board") will until March 26, 2003, at 10:00 A.M., E.S.T., receive in the office of Controller and Treasurer, 301 Peterson Service Building, University of Kentucky Campus, Lexington, Kentucky 40506-0005, sealed, competitive bids for the purchase of the above-identified Bonds (the "Series K (Third Series) Bonds"). To be considered, a bid for the purchase of said Bonds must be submitted on an Official Bid Form and must be delivered to such office no later than the date and hour indicated. Electronic bids may also be received via PARITY, as described below. Proposals for the purchase of the Bonds will be considered by the Treasurer of the Board and a decision regarding the acceptance will be made by the Treasurer on that date.

DESCRIPTION AND MATURITIES OF BONDS

The Series K (Third Series) Bonds will be issued only as fully registered bonds in the denomination of $5,000 principal amount or any multiple of $5,000 within a single maturity (as designated by the Purchasers), will bear interest payable semiannually on May 1 and November 1 of each year to maturity (first interest payment date, November 1, 2003), and will mature on May 1 of the years and in the principal amounts, as follows:

Year	Amount*	Year	Amount*
2004	$670,000	2008	$750,000
2005	705,000	2009	760,000
2006	715,000	2010	790,000
2007	730,000		

*The principal maturities are subject to change as provided in the Series K (Third Series) Resolution pursuant to which the Series K (Third Series) Bonds will be issued.

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Series K (Third Series) Bonds. The Series K (Third Series) Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Series K (Third Series) Bond certificate will be issued for each maturity of the Series K (Third Series) Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

Purchases of the Series K (Third Series) Bonds under the DTC system must be made by or through securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations (the "Direct Participants"), which will receive a credit for the Series K (Third Series) Bonds on DTC's records. The ownership interest of each actual purchaser of each Series K (Third Series) Bond (a "Beneficial Owner") is in turn to be recorded on the records of Direct Participants or securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant (the "Indirect Participants"). Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are 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 Series K (Third Series) Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series K (Third Series) Bonds, except in the event that use of the book-entry system for the Series K (Third Series) Bonds is discontinued.

The Series K (Third Series) Bonds shall be lettered and numbered from R-1 upward, or such numbering shall be made in such other appropriate manner as may be determined by Bank One Trust Company, NA, Lexington, Kentucky, the Trustee, Bond Registrar, Transfer Agent, Payee Bank and Depository Bank.

The person in whose name any Series K (Third Series) Bond is registered on the Record Date (April 15 or October 15) with respect to an interest payment date shall be entitled to receive the interest payable on such interest payment date.

The Series K (Third Series) Bonds are not subject to optional redemption prior to their maturities.

AUTHORITY AND PURPOSE OF BONDS

These Bonds are issued in full compliance with the Constitution and Statutes of the Commonwealth of Kentucky, including Sections 162.340-162.380, and 58.010-58.140 of the Kentucky Revised Statutes, and under and pursuant to the Resolution adopted by the Board on September 20, 1960 (the "Basic Resolution"), and to the Resolution adopted on February 25, 2003, authorizing these Bonds (the "Series K (Third Series) Resolution"), for the purpose of refunding its Consolidated Educational Buildings Refunding Revenue Bonds, Series K (Second Series) Bonds (the "Series K (Second Series) Bonds") dated June 1, 1993 of which there is currently $5,515,000 in aggregate principal amount outstanding. The Series K (Second Series) Bonds were originally issued to refund the University of Kentucky Consolidated Educational Buildings Revenue Bonds, Series K that were originally issued to finance the Business and Economic Building Project comprised of (i) the addition of approximately 50,000 sq. ft. and (ii) building renovations involving a full spectrum of interior alterations providing for classrooms and faculty offices constituting the Series K Project.

SECURITY

These Series K (Third Series) Bonds, together with all outstanding bonds issued for the Consolidated Educational Buildings Project, as defined in the Basic Resolution, and any additional parity bonds which may hereafter be issued and outstanding under the terms of the Basic Resolution and any subsequent Resolutions, are and will be payable from and will constitute a pledge, charge and lien upon the Revenues to be derived by the University from the operation of its Consolidated Educational Buildings Project. The fee imposed upon and collected from all students of the University at Lexington, Kentucky, as an incident to registration at the beginning of each semester of the regular academic year and each summer session, including fees imposed for part-time students, night school and extension courses, is designated as the source of Revenues of the Consolidated Educational Buildings Project. Such fees are known as the Student Registration Fees (the "Registration Fee") and the Board covenants that the same will be fixed and if necessary revised and increased from time to time at such rates as may be required to pay the interest on and principal of the Bonds as they respectively mature, to provide reserves therefor, and to pay the operating costs of the Project to the extent that such costs are not otherwise provided. All collections of the Student Registration Fee are to be set aside as received into the Consolidated Educational Buildings Project Revenue Fund and are made subject to a first lien and paramount charge for the security and source of payment of all outstanding Consolidated Educational Buildings Revenue Bonds.

As further security for the Bonds, a statutory mortgage lien upon the Project is created and granted by the Series K (Third Series) Resolution pursuant to Sections 162.350 and 162.200 of the Kentucky Revised Statutes, in favor of the Series K (Third Series) Bonds and all parity bonds, including those heretofore issued and those hereafter issued.

BIDDING CONDITIONS AND RESTRICTIONS

The Public offering of the Series K (Third Series) Bonds is made up on the following specific conditions and provisions:

A. A minimum price is required for the entire issue of not less than $5,081,600 (99.25% of par), plus accrued interest from the date of the Bonds (March 1, 2003) to the date of delivery, payable in Federal Funds.

B. The successful bidder will be required to deposit with Bank One Trust Company, NA, Lexington, Kentucky, for the account of University of Kentucky immediately available funds in the amount of 2% of the par amount of Bonds awarded, representing the good faith deposit, by the close of business on March 27, 2003. The amount of the good faith deposit, without interest, will be deducted from the purchase price at the time of delivery of the Series K (Third Series) Bonds.

C. The determination of the best bid will be made on the basis of the lowest net interest cost calculated by computing the total interest payable on the Bonds from March 1, 2003, through the Final Maturity Date, plus discount or less premium, as set forth in the Official Bid Form, for exactly $5,120,000 of Series K (Third Series) Bonds under the terms and conditions therein specified. Upon determination of the lowest net interest cost, the Board shall immediately proceed to adjust such principal amounts of the Series K (Third Series) Bonds to determine the maturities of its final bond issue. The successful bidder will be required to accept the final bond issue as so computed, whether the principal amount has been increased or decreased by up to $510,000, and to pay the percentage purchase price based upon the aggregate amount of the final bond issue.

D. Bidders must state an interest rate or rates in multiples of 1/8, 1/10 or 1/20 of 1%, or both.

E. There is no limit on the number of different rates which may be specified in any bid.

F. All Bonds of the same maturity shall bear the same and a single interest rate from the date thereof to maturity.

G. Interest rates must be on an ascending scale, in that the interest rate for Bonds of any maturity may not be less than the interest rate stipulated for any preceding maturity.

H. Bidders may require that a portion of the Series K (Third Series) Bonds be term bonds maturing on one or more dates (the "Term Bonds"); provided, however, that such Term Bonds will be subject to mandatory redemption by lot at a redemption price of 100% of the principal amount thereof plus accrued interest to the date of redemption on May 1 of the years and in the principal amounts set forth in the maturity schedule above.

I. The right to reject bids for any reason deemed advisable by the Treasurer of the Board and the right to waive any possible informalities, irregularities, or defects in any bid which, in the judgment of the Treasurer of the Board, with the advice of the Financial Advisor, shall be minor or immaterial, is expressly reserved.

J. Bids must be made on forms which, together with a Preliminary Official Statement, may be obtained from the Financial Advisor, First Kentucky Securities Corporation, 305 Ann Street, Suite 400, Frankfort, Kentucky 40602 or P.O. Box 554, Frankfort, Kentucky 40602, Attention Mr. R. Strand Kramer, Jr. (502) 875-4611. Bids must be enclosed in sealed envelopes marked "Bid for University of Kentucky Consolidated Educational Buildings Refunding Revenue Bonds, Series K (Third Series), dated March 1, 2003," and bids must be received by the Treasurer prior to the date and hour set for the sale. It is also possible to submit a bid by the delivery (including by facsimile) of a signed bid form to the Financial Advisor or University officials prior to the sale and completing the bid by telephone prior to the deadline for submitting bids. Bids may alternatively be submitted electronically via PARITY. For further information about PARITY, potential bidders may contact the Financial Advisor or Dalcomp at 40 West 23rd Street, 5th Floor, New York, NY 10010, tel: (212) 404-8102.

K. The purchasers of the Bonds shall pay the CUSIP Service Bureau charge for the assignment of CUSIP numbers, which numbers will be printed on the Bonds at no expense or cost to the purchasers. Neither the failure to print a CUSIP number on any Bond nor any error with respect thereto shall constitute cause for a failure or refusal by the purchasers thereof to accept delivery of and pay for the Bonds.

L. Delivery will be made at the Depository Trust Company, New York, New York, at no additional cost or expense to the purchasers. The Board will pay for the printing of the Bonds, which will contain the opinion of Bond Counsel. Delivery is expected on April 9, 2003.

M. Upon wrongful refusal of the purchasers to take delivery of and pay for the Bonds in Federal Funds when tendered for delivery, the good faith deposit shall be forfeited by such purchasers, and such amount shall be deemed liquidated damages for such default; provided, however, if the Bonds are not ready for delivery and payment within forty-five (45) days from the date of sale herein provided for, said purchasers shall be relieved of any liability to accept the Bonds hereunder. However, it is contemplated that the Bonds will be delivered on a date during such period as may be designated by representatives of the Board, and the purchasers will be required to accept delivery of and pay for the Bonds on any designated date within such 45 day period upon notice being given at least five (5) business day prior to the designated delivery date.

N. If the successful bidder desires to obtain insurance guaranteeing the payment of the principal and/or interest on the Bonds, the University agrees that it will cooperate with the successful bidder in obtaining such insurance, but all of the expenses and charges in connection therewith shall be borne by such bidder and the University shall not be liable to any extent therefor. The University has applied for a rating on the Series K (Third Series) Bonds from Moody's Investors Service, Inc. and will pay the fees associated therewith.

O. The successful bidder shall promptly advise the Financial Advisor to the Board of Trustees of (i) the reoffering price for each maturity of the Series K (Third Series) Bonds, and (ii) the principal amount sold to the public of each principal maturity of the Series K (Third Series) Bonds on the reoffering date.

P. Bidders are advised that First Kentucky Securities Corporation, of Frankfort, Kentucky, has been employed as Financial Advisor in connection with the issuance of these Series K (Third Series) Bonds. Their fee for services rendered with respect to the sale of the Series K (Third Series) Bonds is contingent upon the issuance and delivery of the Series K (Third Series) Bonds. They may submit a bid for the purchase of the Series K (Third Series) Bonds at the time of the advertised public sale of the Series K (Third Series) Bonds, either individually or as members of a syndicate organized to submit a bid for the purchase of the Series K (Third Series) Bonds.

Q. BIDDERS ARE FURTHER ADVISED THAT THE ISSUANCE OF THE SERIES K (THIRD SERIES) BONDS IS SUBJECT TO APPROVAL BY THE OFFICE OF FINANCIAL MANAGEMENT OF THE FINANCE AND ADMINISTRATION CABINET OF KENTUCKY ("OFM"). IT IS EXPECTED THAT, IN THE ABSENCE OF A STATE BUDGET FOR THE CURRENT FISCAL YEAR, OFM WILL CONTINUE TO OPERATE. HOWEVER, IF, AS A RESULT OF THE BUDGET SITUATION, OFM CEASES TO OPERATE PRIOR TO THE APPROVAL OF THE SALE OF THE SERIES K (THIRD SERIES) BONDS (WHICH IS EXPECTED TO BE GIVEN WITHIN 24 HOURS OF THE TIME OF THE SALE) THE UNIVERSITY WILL BE PRECLUDED FROM ISSUING THE SERIES K (THIRD SERIES) BONDS.

The Board of Trustees has agreed in the Series K (Third Series) Resolution to provide or cause to be provided, in accordance with the requirements of Rule 15c2-12, as amended and interpreted from time to time (the "Rule") promulgated by the Securities and Exchange Commission (the "Commission"), (i) on or prior to 270 days after the end of each fiscal year, certain annual financial information and operating data, including audited financial statements for the preceding fiscal year, generally consistent with the information contained in the Official Statement, and (ii) timely notice of the occurrence of certain material events with respect to the Series K (Third Series) Bonds.

The purchaser's obligation to purchase the Series K (Third Series) Bonds shall be conditioned upon its receiving, at or prior to the delivery of the Series K (Third Series) Bonds, in form and substance reasonably satisfactory to the purchaser, evidence that the Board of Trustees has made the limited continuing disclosure undertaking set forth above for the benefit of the holders of the Series K (Third Series) Bonds.

The Board of Trustees shall provide to the successful purchaser a final Official Statement in accordance with the Rule. Arrangements have been made with the printer, upon submission of completion text, to print a reasonable quantity of final Official Statements in sufficient time to meet the delivery requirements of the successful bidder under SEC or Municipal Securities Rulemaking Board Delivery Requirements, which Official Statements will be provided at the expense of the Board.

The Board of Trustees will furnish to the purchasers the customary No Litigation Certificate and the final, approving Legal Opinion of Peck, Shaffer & Williams LLP, Covington, Kentucky, without expense to the purchasers.

Concurrently with the delivery of the Series K (Third Series) Bonds, the Treasurer of the Board of Trustees will certify that, to the best of his knowledge, the Official Statement did not, as of its date, and does not, as of the date of delivery of the Bonds, contain any untrue statement 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 the light of the circumstances under which they were made, not misleading in any material respect.

TAX EXEMPTION

In the opinion of Bond Counsel for the Series K (Third Series) Bonds, based upon an analysis of existing laws, regulations, rulings and court decisions, interest on the Series K (Third Series) Bonds is excludable from gross income for Federal income tax purposes and interest on the Series K (Third Series) Bonds is not a specific item of tax preference under Section 57 of the Internal Revenue Code of 1986 (the "Code") for purposes of the Federal individual or corporate alternative minimum taxes.

The Code imposes various restrictions, conditions, and requirements relating to the exclusion from gross income for Federal income tax purposes of interest on obligations such as the Series K (Third Series) Bonds. The University has covenanted to comply with certain restrictions designed to ensure that interest on the Series K (Third Series) Bonds will not be includable in gross income for Federal income tax purposes. Failure to comply with these covenants could result in interest on the Series K (Third Series) Bonds being includable in gross income for Federal income tax purposes and such inclusion could be required retroactively to the date of issuance of the Series K (Third Series) Bonds. The opinion of Bond Counsel assumes compliance with these covenants. However, Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Series K (Third Series) Bonds may adversely affect the tax status of the interest on the Series K (Third Series) Bonds.

Certain requirements and procedures contained or referred to in the Indenture and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Series K (Third Series) Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Series K (Third Series) Bonds or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Peck, Shaffer & Williams LLP.

Although Bond Counsel for the Series K (Third Series) Bonds has rendered an opinion that interest on the Series K (Third Series) Bonds is excludable from gross income for Federal income tax purposes and that interest on all Series K (Third Series) Bonds is excludable from gross income for Kentucky income tax purposes, the ownership or disposition of, or the accrual or receipt of interest on, the Series K (Third Series) Bonds may otherwise affect a Bondholder's Federal, state or local tax liabilities. The nature and extent of these other tax consequences may depend upon the particular tax status of the Bondholder or the Bondholder's other items of income or deduction. Bond Counsel expresses no opinion regarding any tax consequences other than what is set forth in its opinion and each Bondholder or potential Bondholder is urged to consult with tax counsel with respect to the effects of purchasing, holding or disposing the Series K (Third Series) Bonds on the tax liabilities of the individual or entity.

For example, corporations are required to include all tax-exempt interest in determining "adjusted current earnings" under Section 56(c) of the Code, which may increase the amount of any alternative minimum tax owed. Similarly, tax-exempt interest may also increase the amount of any environmental tax owed under Section 59 of the Code, which is based on the alternative minimum taxable income of any corporation subject to that tax. Ownership or disposition of the Series K (Third Series) Bonds may result in other collateral Federal, state or local tax consequence for certain taxpayers, including, without limitation, increasing the federal tax liability of certain foreign corporations subject to the branch profits tax imposed by Section 884 of the Code, increasing the federal tax liability of certain insurance companies, under Section 832 of the Code, increasing the federal tax liability and affecting the status of certain S Corporations subject to Sections 1362 and 1375 of the Code, and increasing the federal tax liability of certain individual recipients of social security or Railroad Retirement benefits, under Section 86 of the Code. Ownership of any Series K (Third Series) Bonds may also result in the limitation of interest and certain other deductions for financial institutions and certain other taxpayers, pursuant to Section 265 of the Code. Finally, residence of the holder of Series K (Third Series) Bonds in a state other than Kentucky or being subject to tax in a state other than Kentucky, may result in income or other tax liabilities being imposed by such states or their political subdivisions based on the interest or other income from the Series K (Third Series) Bonds.

The University has NOT designated the Series K (Third Series) Bonds as "qualified tax-exempt obligations" under Section 265 of the Code.

The Board reserves the right to amend the Resolution authorizing the Series K (Third Series) Bonds without obtaining the consent of the owners of the Series K (Third Series) Bonds (i) to whatever extent shall, in the opinion of Bond Counsel, be deemed necessary to assure that interest on the Series K (Third Series) Bonds shall be exempt from Federal income taxation, and (ii) to whatever extent shall be permissible (without jeopardizing such tax exemption or the security of the owners of the Series K (Third Series) Bonds) to eliminate or reduce any restrictions concerning the project financed by the Series K (Third Series) Bonds, the investment of the proceeds of the Series K (Third Series) Bonds, or the application of such proceeds or of the revenues of the project financed by the Series K (Third Series) Bonds. The purchasers of the Series K (Third Series) Bonds will be deemed to have relied fully upon these covenants and undertakings on the part of the Board as part of the consideration for the purchase of the Series K

(Third Series) Bonds. To the extent that the Board obtains an opinion of nationally recognized bond counsel to the effect that non-compliance with any of the covenants contained in the Resolution authorizing the Series K (Third Series) Bonds would not subject interest on the Series K (Third Series) Bonds to Federal income taxation or Kentucky income taxation, the Board is not required to comply with such covenants and requirements.

If, prior to the delivery of the Series K (Third Series) Bonds, any event shall occur which alters the tax-exempt status of the Series K (Third Series) Bonds, the purchaser shall have the privilege of voiding the purchase contract by giving immediate written notice to the Board of Trustees, whereupon the amount of the good faith deposit of the purchaser will be returned to the purchaser, and all respective obligations of the parties will be terminated.

Bond Counsel has reviewed the Official Statement with regard to all matters pertaining to the legality and tax exemption of the Series K (Third Series) Bonds, including statements concerning the Board and the purpose and security of the Series K (Third Series) Bonds; but Bond Counsel has not reviewed any of the financial statements or other financial information in the Official Statement, and expresses no opinion thereon and assumes no responsibility in connection therewith.

/s/Henry Clay Owen
Treasurer, Board of Trustees,
University of Kentucky

24002\3

OFFICIAL BID FORM

$5,120,000*
UNIVERSITY OF KENTUCKY
CONSOLIDATED EDUCATIONAL BUILDINGS REFUNDING REVENUE BONDS
SERIES K (THIRD SERIES)
DATED March 1, 2003

Subject to the terms and conditions set forth in the Official Terms and Conditions of Sale of Bonds, providing for the sale of $5,120,000* of University of Kentucky Consolidated Educational Buildings Refunding Revenue Bonds, Series K (Third Series), dated March 1, 2003 (the "Bonds"), and in accordance with the notice of sale of the Bonds as advertised, to all of which the undersigned agrees, the undersigned hereby submits the following offer to purchase the Bonds.

We hereby bid for said $5,120,000 principal amount of Bonds the sum of $_________________ (not less than $5,081,600), plus accrued interest from March 1, 2003, to the date of delivery, at the following annual interest rates:

SCHEDULE OF PRINCIPAL AMOUNTS AND INTEREST RATES

Maturity May 1	Principal Amount	Serial Bond Rate	Term* Bond Rate	Maturity May 1	Principal Amount	Serial Bond Rate	Term* Bond Rate
2004	$670,000	__________	__________	2008	$750,000	__________	__________
2005	705,000	__________	__________	2009	760,000	__________	__________
2006	715,000	__________	__________	2010	790,000	__________	__________
2007	730,000	__________	__________				

*Bidders may elect to structure the maturities to include term bonds with mandatory sinking fund redemptions. To bid Term Bonds, put interest rate in Term Bond Rate column.

We understand that this bid may be accepted for as much as $5,630,000 of Bonds and for as little as $4,610,000 of Bonds, at the same price per $1,000 of Bonds as the price bid per $1,000 of Bonds by the undersigned with the variation in such amount being adjusted as determined by the Board of Trustees at the time of acceptance of the best bid.

We understand that the Board of Trustees will furnish the final, approving legal opinion of Peck, Shaffer & Williams LLP, Covington, Kentucky. We agree that if we are the successful bidder, immediately available funds in the amount of 2% of the par amount of Bonds awarded, payable to the University of Kentucky will be deposited in Farmers Bank & Capital Trust Company, Frankfort, Kentucky, by federal wire transfer, ABA No. 0839-0061-9, prior to the end of the business day on March 27, 2003, in accordance with the Notice of Bond Sale and the Official Terms, with the understanding that the amount thereof, without interest, will be deducted from the purchase price of the Bonds when tendered to us for delivery. If we are the successful bidder, we agree to accept and make payment for the Bonds in accordance with the terms of sale.

Respectfully submitted,

By: ______________________________
Bidder

Title: ______________________________

____
Address

Total interest cost from March 1, 2003, to final maturity	$______________________
Less premium bid or plus discount, if any	$______________________
Net interest cost	$______________________
Net interest cost (%)	______________________

The above computations of net interest cost and of average interest rate or cost, submitted for information only and are not part of this Bid.

ACCEPTANCE OF BID WITH ADJUSTMENT OF MATURITY AMOUNTS

Accepted by the Treasurer of University of Kentucky, with the change in maturities of Bonds being as follows:

SCHEDULE OF PRINCIPAL AMOUNTS AND INTEREST RATES

Maturity May 1	Principal Amount	Maturity May 1	Principal Amount
2004	____________	2008	____________
2005	____________	2009	____________
2006	____________	2010	____________
2007	____________		

Accepted this 26th day of March, 2003.

BOARD OF TRUSTEES OF THE UNIVERSITY OF KENTUCKY

By: ______________________________
Treasurer

24002\3