



**UNIVERSITY OF KENTUCKY • 2020 FINANCIAL STATEMENTS**  
**Central Kentucky Management Services, Inc.**

**University of Kentucky**  
**Central Kentucky Management Services, Inc.**  
**A Component Unit of the University of Kentucky**  
**Financial Statements**  
**Years Ended June 30, 2020 and 2019**

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## Independent Auditor's Report

Board of Directors  
Central Kentucky  
Management Services, Inc.  
University of Kentucky  
Lexington, Kentucky

We have audited the accompanying financial statements of Central Kentucky Management Services, Inc. (CKMS), a not-for-profit corporation affiliated with and a component unit of the University of Kentucky (University), as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise CKMS's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CKMS as of June 30, 2020 and 2019, and the changes in financial position and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context.

We have applied certain limited procedures to the required supplementary information, in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise CKMS's basic financial statements. The board of directors listing, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The board of directors listing has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

**BKD, LLP**

Louisville, Kentucky  
October 2, 2020

**CENTRAL KENTUCKY MANAGEMENT SERVICES, INC.**  
**A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEARS ENDED JUNE 30, 2020 AND 2019**

Central Kentucky Management Services, Inc.'s (CKMS) Management's Discussion and Analysis (MD&A) provides an overview of the financial position and activity of CKMS as of and for the years ended June 30, 2020 and 2019. This discussion has been prepared by management and should be read in conjunction with the accompanying financial statements and the notes appearing in the report.

**Financial Highlights**

- Total assets increased \$166,544 or 9.5%. The most significant components of this change were increases of \$209,348 in due from the University of Kentucky, offset by decreases of \$33,408 in cash and cash equivalents and \$9,044 in capital assets, net (equipment).
- Total liabilities increased \$175,588 or 10.2%. This change was due to an increase of \$141,022 in the escrow account payable to the UK Healthcare Hospital System and \$34,566 in accounts payable and accrued liabilities.
- Net position decreased \$9,044 or 21.6% to \$32,762.
- Operating revenues increased \$1,347,573 or 4.4% to \$31,820,137.
- Operating expenses increased \$1,346,546 or 4.4% to \$31,829,181.

**Using the Financial Statements**

This financial report consists of three financial statements: the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; and the Statement of Cash Flows. 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*.

One of the most important questions asked about CKMS's finances is whether CKMS is better off as a result of the year's activities. One key to answering this question is the financial statements of CKMS. The Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; and the Statement of Cash Flows present financial information on CKMS in a format similar to that used by corporations and present a long-term view of CKMS's finances. CKMS's net position (the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources) is one sign of CKMS's financial health. Over time, increases or decreases in net position indicate the improvement or erosion of CKMS's financial health.

The Statement of Net Position includes all assets, deferred outflows of resources, liabilities, and deferred inflows of resources. It is prepared under 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.

The Statement of Revenues, Expenses and Changes in Net Position presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. The utilization of long-lived assets, referred to as capital assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

Another important factor to consider when evaluating financial viability is CKMS's ability to meet financial obligations as they become due. The Statement of Cash Flows presents information related to cash inflows and outflows, summarized by operating, capital and related financing, and investing activities.

## Reporting Entity

CKMS provides collection services for the health care receivables of the University of Kentucky (the University) and its affiliated corporations. All commission revenues are received from these entities and the excess of revenues over expenses is distributed back to these entities. CKMS also provides staffing services to health care facilities for the University on a direct cost reimbursement basis.

CKMS is considered to be an affiliate and component unit of the University because the Board of Directors is appointed by the President of the University and the officers of CKMS are also officers of the University.

## Condensed Financial Information

### Statements of Net Position

	<u>2020</u>	<u>2019</u>	<u>2018</u>
<b>ASSETS</b>			
Current assets	\$ 1,894,076	\$ 1,718,488	\$ 1,606,836
Noncurrent assets	32,762	41,806	51,877
Total Assets	<u>1,926,838</u>	<u>1,760,294</u>	<u>1,658,713</u>
<b>LIABILITIES</b>			
Current liabilities	1,894,076	1,718,488	1,606,836
Total Liabilities	<u>1,894,076</u>	<u>1,718,488</u>	<u>1,606,836</u>
<b>NET POSITION</b>			
Net investment in capital assets	<u>\$ 32,762</u>	<u>\$ 41,806</u>	<u>\$ 51,877</u>

**Assets.** As of June 30, 2020, CKMS's total assets amounted to \$1,926,838. Cash and cash equivalents, totaling \$1,140,278 or 59.2% of total assets, represented CKMS's largest asset. Due from the University of Kentucky was CKMS's second largest asset, totaling \$737,057 or 38.3% of total assets, representing reimbursements owed for staffing services due to the timing of payroll dates. Capital assets, net represented CKMS's third largest asset, totaling \$32,762 or 1.7% of total assets.

Total assets increased \$166,544 during the year ended June 30, 2020, driven primarily by an increase in due from the University of Kentucky of \$209,348, offset by decreases of \$33,408 in cash and cash equivalents and in capital assets, net of \$9,044.

**Liabilities.** At June 30, 2020, CKMS's liabilities increased 10.2% to a total of \$1,894,076. Accounts payable and accrued liabilities, consisting of accrued wages, expenses, and payroll withholdings, was CKMS's largest liability totaling \$1,410,212 or 74.5% of total liabilities. The remaining liabilities, totaling \$483,864 or 25.5% of total liabilities, were for an escrow account payable to the UK HealthCare Hospital System, representing net operating revenue in excess of expenses excluding depreciation.

**Net Position.** Net position at June 30, 2020 totaled \$32,762 or 1.7% of total assets, all of which were net investment in capital assets.

**2019 versus 2018.** Total assets increased \$101,581 during the year ended June 30, 2019, primarily driven by increases of \$86,976 in due from the University of Kentucky and \$25,699 in cash and cash equivalents, offset by a decrease of \$10,071 in capital assets, net. Total liabilities increased \$111,652 or 6.9% due to an increase of \$142,003 in the escrow payable to the UK HealthCare Hospital System, offset by a decrease of \$30,351 in accounts payable and accrued liabilities. Total net position decreased \$10,071 or 19.4% in 2019 from 2018.

**Statements of Revenues, Expenses and Changes in Net Position**

	<u>2020</u>	<u>2019</u>	<u>2018</u>
<b>OPERATING REVENUES</b>			
Collections	\$ 940,873,906	\$ 829,862,209	\$ 726,612,363
Remittances to the University of Kentucky and its affiliated corporations	(934,287,944)	(823,226,360)	(719,781,971)
Healthcare staffing services	24,798,554	23,473,705	25,042,468
Other revenues	435,621	363,010	374,275
Total operating revenues	<u>31,820,137</u>	<u>30,472,564</u>	<u>32,247,135</u>
<b>OPERATING EXPENSES</b>			
Salaries, wages and benefits	29,649,419	28,432,631	30,277,330
Other operating expenses	2,170,718	2,039,933	1,969,805
Depreciation	9,044	10,071	10,277
Total operating expenses	<u>31,829,181</u>	<u>30,482,635</u>	<u>32,257,412</u>
<b>NET LOSS FROM OPERATIONS</b>	<u>(9,044)</u>	<u>(10,071)</u>	<u>(10,277)</u>
<b>DECREASE IN NET POSITION</b>	(9,044)	(10,071)	(10,277)
<b>NET POSITION, beginning of year</b>	<u>41,806</u>	<u>51,877</u>	<u>62,154</u>
<b>NET POSITION, end of year</b>	<u>\$ 32,762</u>	<u>\$ 41,806</u>	<u>\$ 51,877</u>

**2020.** Operating revenues increased \$1,347,573 or 4.4% to \$31,820,137 for the year ended June 30, 2020. The sources of operating revenue for CKMS are collections for healthcare receivables for the University and its affiliated corporations and reimbursements for staffing services provided for the UK HealthCare Hospital System. The increase was primarily due to the net increase in reimbursements for staffing services provided for the UK Healthcare Hospital System.

Operating expenses, including \$9,044 of depreciation, totaled \$31,829,181, an increase of \$1,346,546 or 4.4% from the prior year. Salaries and wages comprised \$22,826,984 or 71.7% of total operating expenses. The increase was due to increases in salaries, wages, and employee benefits related to staffing and other support provided to the UK HealthCare Hospital System as well as, an increase in legal and professional expenses. The increase was offset by an decrease in other operating expenses.

**2019 versus 2018.** During the year ended June 30, 2019, operating revenues decreased \$1,774,571 or 5.5% primarily due to the net decrease in reimbursements for staffing services provided for the UK HealthCare Hospital System. Operating expenses decreased \$1,774,777 or 5.5% due primarily to decreases in salaries, wages, and employee benefits as well as a decrease in communications expenses.

Another way to assess the financial health of an organization is to look at the Statement of Cash Flows. The primary purpose of the Statement of Cash Flows is to provide information about the cash receipts and cash payments made by CKMS during the period. The Statement of Cash Flows also helps financial statement readers assess CKMS's:

- ability to generate future net cash flows,
- ability to meet obligations as they become due, and
- need for external financing.

### Statements of Cash Flows

	<u>2020</u>	<u>2019</u>	<u>2018</u>
<b>CASH PROVIDED (USED) BY:</b>			
Operating activities	\$ (33,408)	\$ 25,699	\$ 332,458
Net increase (decrease) in cash and cash equivalents	(33,408)	25,699	332,458
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>1,173,686</u>	<u>1,147,987</u>	<u>815,529</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>\$ 1,140,278</u>	<u>\$ 1,173,686</u>	<u>\$ 1,147,987</u>

**2020.** Cash receipts of \$6,726,984 relate to collections, net of remittances to the University and its affiliated corporations, and \$24,589,206 relates to the reimbursements for staffing services provided for the UK HealthCare Hospital System. Cash payments for operating activities were primarily made to employees for salaries, wages, and benefits of \$29,617,929.

**2019 versus 2018.** The net increase in cash of \$25,699 was due to cash provided by operating activities.

### **Capital Assets and Debt Administration**

**Capital Assets.** Capital assets, net of accumulated depreciation, totaled \$32,762 at June 30, 2020, a net decrease of \$9,044 from 2019. Capital assets represent purchases of equipment. There were no additions or disposals of equipment during fiscal year 2019-20 and depreciation expense was \$9,044.

**Debt.** CKMS does not have any debt outstanding as of June 30, 2020 or 2019.

### **Factors Impacting Future Periods**

The quantity and quality of healthcare receivables of the University and its related corporations could affect future financial results. Changes to the Affordable Care Act or other healthcare reforms would impact the U.S. healthcare system. CKMS cannot predict the potential impact these reforms may have on future financial results. The potential net financial impact of COVID-19 to CKMS is still unknown due to the uncertainty of the pandemic's duration, potential economic downturn and a resulting impact to the collections and remittances by CKMS for the University and its affiliates.



**CENTRAL KENTUCKY MANAGEMENT SERVICES, INC.**  
**A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY**  
**STATEMENTS OF NET POSITION**  
**JUNE 30, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 1,140,278	\$ 1,173,686
Due from the University of Kentucky	737,057	527,709
Other current assets	16,741	17,093
Total current assets	<u>1,894,076</u>	<u>1,718,488</u>
<b>Noncurrent Assets</b>		
Capital assets, net	32,762	41,806
Total noncurrent assets	<u>32,762</u>	<u>41,806</u>
Total assets	<u>1,926,838</u>	<u>1,760,294</u>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Escrow account - University of Kentucky and its affiliated corporations	483,864	342,842
Accounts payable and accrued liabilities	1,410,212	1,375,646
Total current liabilities	<u>1,894,076</u>	<u>1,718,488</u>
Total liabilities	<u>1,894,076</u>	<u>1,718,488</u>
<b>NET POSITION</b>		
Net investment in capital assets	<u>\$ 32,762</u>	<u>\$ 41,806</u>

See notes to financial statements

**CENTRAL KENTUCKY MANAGEMENT SERVICES, INC.**  
**A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
<b>OPERATING REVENUES</b>		
Collections	\$ 940,873,906	\$ 829,862,209
Remittances to the University of Kentucky and its affiliated corporations	(934,287,944)	(823,226,360)
Healthcare staffing services	24,798,554	23,473,705
Other revenues	435,621	363,010
Total operating revenues	<u>31,820,137</u>	<u>30,472,564</u>
<b>OPERATING EXPENSES</b>		
Salaries and wages	22,826,984	21,937,330
Employee benefits	6,822,435	6,495,301
Legal and professional	1,256,483	1,090,911
Communications	252,976	241,988
Depreciation	9,044	10,071
Other expenses	661,259	707,034
Total operating expenses	<u>31,829,181</u>	<u>30,482,635</u>
Net loss from operations	<u>(9,044)</u>	<u>(10,071)</u>
<b>DECREASE IN NET POSITION</b>	(9,044)	(10,071)
<b>NET POSITION, beginning of year</b>	<u>41,806</u>	<u>51,877</u>
<b>NET POSITION, end of year</b>	<u>\$ 32,762</u>	<u>\$ 41,806</u>

See notes to financial statements

**CENTRAL KENTUCKY MANAGEMENT SERVICES, INC.  
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Collections	\$ 940,873,906	\$ 829,862,209
Remittances to the University of Kentucky and its affiliated corporations	(934,146,922)	(823,084,357)
Healthcare staffing services	24,589,206	23,386,729
Payments to vendors and contractors	(1,506,031)	(1,330,512)
Salaries, wages and benefits	(29,617,929)	(28,464,346)
Other payments	<u>(225,638)</u>	<u>(344,024)</u>
Net cash provided (used) by operating activities	<u>(33,408)</u>	<u>25,699</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(33,408)	25,699
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>1,173,686</u>	<u>1,147,987</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u><u>\$ 1,140,278</u></u>	<u><u>\$ 1,173,686</u></u>
<b>Reconciliation of net loss from operations to net cash provided (used) by operating activities:</b>		
Operating loss	\$ (9,044)	\$ (10,071)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Depreciation expense	9,044	10,071
Change in assets and liabilities:		
Due from the University of Kentucky	(209,348)	(86,976)
Other current assets	352	1,023
Escrow account - University of Kentucky and its affiliated corporations	141,022	142,003
Accounts payable and accrued liabilities	<u>34,566</u>	<u>(30,351)</u>
<b>Net cash provided (used) by operating activities</b>	<u><u>\$ (33,408)</u></u>	<u><u>\$ 25,699</u></u>

See notes to financial statements

**CENTRAL KENTUCKY MANAGEMENT SERVICES, INC.**  
**A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

Central Kentucky Management Services, Inc. (CKMS) provides collection services for the health care receivables of the University of Kentucky (the University) and its affiliated corporations. All commission revenues are received from these entities and the excess of revenues over expenses (excluding depreciation) is distributed back to these entities. CKMS also provides staffing services to health care facilities for the University on a direct cost reimbursement basis. Substantially all CKMS transactions are with the University. CKMS is considered to be an affiliate and component unit of the University because the Board of Directors is appointed by the president of the University and officers of CKMS are also officers of the University.

**Basis of Presentation**

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). GASB establishes standards for external financial reporting for public colleges and universities and requires that resources be classified for accounting and reporting purposes into the following net position categories:

- Net investment in capital assets: 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 position subject to externally imposed stipulations that they be maintained permanently by CKMS.
  - Expendable* – Net position whose use by CKMS is subject to externally imposed stipulations that can be fulfilled by actions of CKMS pursuant to those stipulations or that expire by the passage of time.
- Unrestricted: Net position whose use by CKMS is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

The financial statement presentation is intended to provide a comprehensive, entity-wide perspective of CKMS's assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, expenses, changes in net position and cash flows.

**Summary of Significant Accounting Policies**

Accrual Basis. The financial statements have been prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when an obligation has been incurred. CKMS 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 include all highly liquid investments with a maturity of three months or less.

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. Equipment with a unit cost of \$5,000 or more and having an estimated useful life of greater than one year is 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 3 – 20 years for equipment.

Operating Activities. CKMS defines operating activities, as reported on the Statement of Revenues, Expenses, and Changes in Net Position, as those that generally result from exchange transactions, such as payments received for providing goods and services and payments made for services and goods received.

Income Taxes. CKMS is exempt from federal income tax under the Internal Revenue Code as a section 501(c)(3) organization.

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 depreciable lives on capital assets and accrued liability accounts.

## 2. DEPOSITS AND INVESTMENTS

The fair value of deposits and investments, by type, at June 30, 2020 and 2019 are as follows:

	2020	2019
Cash and cash equivalents on deposit with the University	<u>\$ 1,140,278</u>	<u>\$ 1,173,686</u>

Deposit and Investment Policies. CKMS follows the deposit and investment policies established by the University's Board of Trustees. Such policies are developed to establish and maintain sound financial management practices for the investment and management of CKMS's funds.

For purposes of investment management, CKMS's deposits and investments can be grouped into one significant category as follows: cash and cash equivalents on deposit with the University, which the University invests in deposits with banks.

Cash and cash equivalents on deposit with the University are managed based on the University's Operating Fund Investment Policy established by the Treasurer of the University.

Deposit and Investment Risks. CKMS's deposits and investments are exposed to various risks including credit, interest rate and foreign currency risk, as discussed in more detail below.

Credit Risk. Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligation, causing CKMS to experience a loss of principal. Cash and cash equivalents on deposit with the University are governed by policy that minimizes risk in several ways. The University's deposits, in Federal Deposit Insurance Corporation (FDIC) insured financial institutions, are covered up to \$250,000 at each FDIC insured institution. State law requires that deposits in excess of this coverage be fully collateralized, therefore depository institutions issue a pledge of specific U.S. Treasury or agency securities, held in the name of the University by the Federal Reserve Bank, to cover all amounts over the \$250,000 coverage.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of the failure of the counterparty, CKMS will not be able to recover the value of its investment or collateral securities that are in possession of an outside party. Cash and cash equivalents on deposit with the University are invested in deposits held in the University's name. The University maintains records evidencing CKMS's ownership interest in such balances.

Concentrations of Credit Risk. CKMS's investments can be exposed to a concentration of credit risk if significant amounts are invested in any one issuer. Cash and cash equivalents on deposit with the University are not limited as to the maximum amount that may be deposited or invested in one issuer. However, the University's cash deposits in excess of federal deposit insurance are required to be fully collateralized by U.S. Treasury and/or U.S. agency securities or other similar investments as provided by KRS 41.240.

At June 30, 2020, CKMS had no underlying investments in any one issuer which represented more than five percent of total investments, other than U.S. Treasury and agency obligations.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Cash and cash equivalents on deposit with the University have limited exposure to interest rate risk due to the short-term nature of the investment. The University requires that all deposits be available for use on the next business day.

Foreign Currency Risk. Foreign currency risk is the risk that fluctuations in exchange rates will adversely affect the fair value of an investment or deposit. CKMS is not exposed to foreign currency risk.

### 3. CAPITAL ASSETS, NET

Capital assets as of June 30, 2020 and 2019 are summarized as follows:

	2020			
	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	\$ 730,149	\$ —	\$ —	\$ 730,149
Accumulated depreciation	688,343	9,044	—	697,387
Capital assets, net	<u>\$ 41,806</u>	<u>\$ (9,044)</u>	<u>\$ —</u>	<u>\$ 32,762</u>

  

	2019			
	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	\$ 730,149	\$ —	\$ —	\$ 730,149
Accumulated depreciation	678,272	10,071	—	688,343
Capital assets, net	<u>\$ 51,877</u>	<u>\$ (10,071)</u>	<u>\$ —</u>	<u>\$ 41,806</u>

### 4. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2020 and 2019 are as follows:

	2020	2019
Accounts payable	\$ 9,944	\$ 6,868
Accrued wages, expenses, and payroll taxes	1,400,268	1,368,778
Total	<u>\$ 1,410,212</u>	<u>\$ 1,375,646</u>

### 5. PENSION PLAN

Eligible staff members of CKMS are participants in the University of Kentucky Retirement Plan. Under this plan, CKMS and plan participants make contributions to provide retirement benefits for employees. All payments were vested immediately for employees hired before January 1, 2010. For employees hired after that date, employee contributions are vested after three years, which was an amendment to the vesting rule adopted in 2013. CKMS contributes 10% of eligible compensation and employees contribute five percent of eligible compensation. CKMS's share of the costs of these benefits was \$1,678,247 and \$1,565,914 for the

years ended June 30, 2020 and 2019, respectively. Employees contributed \$1,064,485 in 2020 and \$1,015,330 in 2019. CKMS's total payroll costs were \$22,826,984 and \$21,937,330 for the years ended June 30, 2020 and 2019, respectively. The total payroll for employees covered by the retirement plan was \$16,782,474 in 2020 and \$15,659,143 in 2019. Due to the COVID-19 pandemic and fiscal responsibility, CKMS has decided to lower its retirement plan contributions to five percent for fiscal year 2021.

## **6. LEASES**

Office space is provided to CKMS by the UK HealthCare Hospital System at no charge. The fair rental value of the office space including utilities was \$330,374 for both years ended June 30, 2020 and 2019, respectively, and is recorded in other revenues and other expenses.

## **7. RISK MANAGEMENT**

CKMS is exposed to various risks of loss related to torts; theft of, damages to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance, extension of coverage by the University's participation in an insurance risk retention group or by self-insurance. There have been no significant reductions in insurance coverage from 2019 to 2020. Settlements have not exceeded insurance coverage during the past three years.

The University is self-insured for the long-term disability income program and has established a 501(c)(9) trust for purposes of paying claims and establishing necessary reserves. The University also self-insures certain employee benefits, unemployment claims, and a long-term disability supplemental reserve, to the extent not covered by insurance. CKMS employees are covered under both of these University plans.

## **8. HEALTH INSURANCE BENEFITS FOR RETIREES**

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

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

The University has established a trust fund to segregate plan assets and the contribution requirements of plan members and the University are established and may be amended by the president of the University. The University contributed to the OPEB trust based on an actuarially determined rate in accordance with the parameters of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

CKMS has recognized its share of the contribution in employee benefit costs and has no additional liability for this benefit at June 30, 2020.

## **9. LONG-TERM DISABILITY (LTD) BENEFITS**

The University of Kentucky LTD plan is administered through the University's LTD trust fund as an irrevocable trust. The trust pays claims and establishes necessary reserves. The trust is not a separate legal entity and is governed by the University's Board. The coverage of the LTD benefits is established and may be amended by the president of the University.

Regular employees with a full-time equivalent of 0.75 or greater who have completed 12 months of service are automatically enrolled in the plan. To be covered, an employee must be actively at work on the first day of

the month after the employee completes one full year of service. An employee approved for long-term disability receives benefits based on the employee's basic regular monthly salary at the time of the onset of the disabling condition. Primary income benefits provide payment of 60% of the basic regular monthly salary less any disability received from government programs and/or another employer for the same condition. Basic salary for medical faculty is defined as the tenure base salary. Other sources of income used in the benefit formula include Social Security, worker's compensation or other similar government programs, veterans' or other governmental disability payments, or other employer-sponsored disability benefits.

The University has established a trust fund to segregate plan assets and the contribution requirements of plan members and the University are established and may be amended by the president of the University. The University contributed to the LTD trust based on an actuarially determined rate in accordance with the parameters of GASB Statement No. 75.

CKMS has recognized its share of the contribution in employee benefit costs and has no additional liability for this benefit at June 30, 2020.

## **10. CURRENT ECONOMIC UNCERTAINTIES**

As a result of the spread of the SARS-CoV-2 virus and the incidence of COVID-19, economic uncertainties have arisen which may negatively affect the financial position, results of operations and cash flows of CKMS. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.



## BOARD OF DIRECTORS

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Eric N. Monday, Executive Vice President

William E. Thro, Secretary

Craig Collins, Treasurer

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