



UK HealthCare Hospital System

UNIVERSITY OF KENTUCKY • 2021 FINANCIAL STATEMENTS



UK HealthCare Hospital System
An Organizational Unit of the University of Kentucky
Financial Statements
Years Ended June 30, 2021 and 2020

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the UK HealthCare Hospital System (System), an organizational unit of the University of Kentucky (University), as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the System'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 the System as of June 30, 2021 and 2020, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the System are intended to present the financial position, changes in financial position and cash flows of only that portion of the business-type activities that is attributable to the transactions of the System. They do not purport, and do not, present fairly the financial position of the University as of June 30, 2021 and 2020, the changes in its financial position or its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with 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.

BKD, LLP

Louisville, Kentucky
October 8, 2021

**UK HEALTHCARE HOSPITAL SYSTEM
AN ORGANIZATIONAL UNIT OF THE UNIVERSITY OF KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2021 AND 2020**

The following Management’s Discussion and Analysis (MD&A) provides an overview of the financial position and activities of the UK HealthCare Hospital System for the years ended June 30, 2021 and 2020. UK HealthCare Hospital System includes Albert B. Chandler University Hospital, including Kentucky Children’s Hospital (collectively Chandler); UK HealthCare Good Samaritan Hospital (Good Samaritan); Kentucky Healthcare Enterprise, Inc. (KHE), a wholly owned for-profit subsidiary; Surgery Blue LLC, a wholly owned for-profit subsidiary, its for-profit subsidiary, Surgery Center of Lexington, LLC (51% ownership); and Beyond Blue Corporation, a wholly owned non-profit subsidiary (collectively, the System or UK Healthcare). Management has prepared this discussion, and we encourage you to read it in conjunction with the financial statements and the notes appearing in this report.

About UK HealthCare System

UK HealthCare, the University’s advanced academic medical center and clinical care network, is uniquely equipped to provide advanced subspecialty care to the people of Kentucky. The academic medical center and health system provides patient care on par – in terms of both volume and complexity – with the nation’s top 25 percent of academic medical centers. In July 2021, UK HealthCare was listed number one in Kentucky in the latest U.S. News and World Reports Best Hospitals ranking for the sixth year in a row. To be recognized as a Best Hospital, UK HealthCare had to rank high nationally on a stringent data-driven ratings system that gauges performance. The analysis includes multiple clinical specialties, procedures and conditions. Scores are based on a variety of patient outcome and care-related factors such as mortality and patient safety, as well as reputation.

The System operates two hospital units under one Joint Commission Accreditation and two licenses in addition to ambulatory services. The major service units include Albert B. Chandler Hospital, Good Samaritan Hospital and the Kentucky Clinic. The System has a combined total of 965 licensed beds with an average daily census of 787 patients. On a monthly basis, the system provides over 1,419 inpatient surgeries, 1,430 outpatient surgeries, 37,909 radiology procedures, 7,872 emergency department visits, and 210,613 hospital based outpatient clinic visits.

Under a management contract entered into with the Kentucky Cabinet for Health and Family Services, the System also operates and manages Eastern State Hospital, a 300,000 square-foot facility located on the University’s Coldstream Research Campus. The psychiatric facility, opened in September 2013, provides a modern setting for both acute and long-term inpatient psychiatric treatment for adults living within Fayette County and the 50 surrounding counties.

UK HealthCare’s Markey Cancer Center remains the state’s only cancer center designated by the National Cancer Institute (NCI), which reflects the University’s position as a frontrunner in cancer treatment and research. UK HealthCare is one of an elite group of medical centers in the United States that have a NCI designation, a federally funded Center on Aging, and a highly prized Clinical and Translational Science Award grant.

UK HealthCare’s dramatic growth within the last decade is in large part the result of a commitment to support the state’s overall system of care by working hand-in-hand with local community providers to bring specialty care closer to the patient. These relationships take on different dimensions in each locality (management agreements, affiliate networks, outreach, etc.) and support keeping less acute care in the local community and smoothing the process for more complex, serious cases to be treated in UK HealthCare’s Lexington facilities. The goal is better care at all points of the continuum.

Financial Highlights

The System's overall financial position remains strong with assets of \$3.03 billion, deferred outflows of resources of \$4.4 million, liabilities of \$831.1 million, and deferred inflows of resources of \$79 thousand. Net position, which represents the System's residual interest in assets after liabilities are deducted, was \$2.20 billion or 72.7% of total assets. For the fiscal year ended June 30, 2021, the System reported net income before other revenues, expenses, gains and losses of \$689.0 million, generating a margin of 27.5%.

Financial results for fiscal year 2021 exceeded prior year's revenues with net outpatient revenues, including the provision for doubtful accounts, increasing approximately \$173.0 million or 19.8% over the prior fiscal year and net inpatient revenues, including the provision for doubtful accounts, which increased \$74.3 million or 6.6% over the previous fiscal year. The primary driver was that the System was able to recognize \$482.3 million of Medicaid Directed Payments revenue during the current fiscal year.

- Total assets increased \$499.1 million or 19.7%. This increase is due to increases in cash and cash equivalents of \$145.3 million, accounts receivable, net, of \$62.5 million, inventories and other assets of \$12.0 million, estimated third-party payer settlements of \$98.7 million, long-term investments of \$98.7 million, capital assets, net, of \$81.3 million, and other noncurrent assets of \$1.2 million. This increase was offset by a decrease in notes receivable of \$745 thousand.
- Deferred outflows of resources decreased \$1.1 million, which represents the unamortized difference between the reacquisition price and the net carrying amount of the refunded debt.
- Total liabilities increased \$4.8 million or 0.6% as a result of increases in accounts payable and accrued expenses of \$45.9 million and other long-term liabilities of \$8.1 million. These increases were offset by decreases in unearned revenue of \$25.9 million, long-term debt of \$22.5 million, and capital lease obligations of \$813 thousand.
- Deferred inflows of resources increased \$13 thousand, which represents the beneficial interest from an irrevocable external trust that the system will receive in future years.
- Total net position increased \$493.1 million or 28.9% primarily due to the current year net income.
- Operating revenues increased \$357.6 million or 16.6% primarily due to an increase in net patient revenue of \$339.2 million.
- Operating expenses increased \$219.7 million or 12.9%. The largest increases came from supplies of \$84.6 million, personnel costs of \$60.2 million, and purchased services of \$49.4 million.
- The net nonoperating revenues increase of \$116.1 million primarily resulted from increases of \$93.7 million in investment income, \$30.3 million in Provider Relief Fund, and \$415 thousand in capital gifts. These increases were offset by an increase of \$8.0 million in other nonoperating expenses and a decrease of \$800 thousand in gifts and non-exchange grants.

Operating Statistics

The following table presents utilization statistics for the System for fiscal years ended 2021, 2020 and 2019:

Discharges:	2021	2020	2019
Medicare	13,502	14,330	15,058
Medicaid	13,562	13,912	14,778
Commercial/Blue Cross	9,997	10,323	10,734
Patient/Charity	446	801	1,019
Total discharges	<u>37,507</u>	<u>39,366</u>	<u>41,589</u>
Average daily census	787.29	754.44	773.61
Average length of stay	7.66	7.01	6.79
Outpatient visits:			
Hospital clinics	789,811	585,697	600,712
Emergency visits	94,459	104,116	111,819
Total visits	<u>884,270</u>	<u>689,813</u>	<u>712,531</u>

2021. Total discharges decreased by 1,859 or 4.7% compared to the prior fiscal year. The decrease occurred due to decreases in Medicaid discharges of 350, Medicare discharges of 828, Commercial/Blue Cross of 326, and Patient/Charity of 355. Overall, the Diagnosis-Related Group case mix index increased to 2.2395 from 2.0850 and the average length of stay increased by 0.65 days to 7.66 days. The case mix for Chandler was at 2.3961 while Good Samaritan was at 1.4361. Total outpatient visits increased by 194,457 or 28.2% over the prior year.

Using the Financial Statements

The System presents its financial reports in a “business type activity” format, in accordance with Governmental Accounting Standards Board Statement (GASB) No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* and GASB Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities – an amendment of GASB Statement No. 34*. In addition to this MD&A section, the financial report includes Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, Statements of Cash Flows and Notes to the Financial Statements. GASB requires that statements be presented on a System-wide basis.

Reporting Entity

The System is an organizational unit of the University of Kentucky (the University), which is a component unit of the Commonwealth of Kentucky (the Commonwealth) and is included in the basic financial statements of the Commonwealth. The financial statements of the System include Kentucky Healthcare Enterprise, Inc. (KHE), a wholly owned for-profit subsidiary; Surgery Blue, LLC, a wholly owned for-profit subsidiary, its for-profit subsidiary, Surgery Center of Lexington, LLC (51% ownership); and Beyond Blue Corporation, a wholly owned non-profit subsidiary. The System provides inpatient, outpatient, and emergency care services for residents of the Commonwealth.

Statement of Net Position

The Statement of Net Position is the System’s balance sheet. It reflects the total assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (equity) of the System as of June 30, 2021, with comparative information as of June 30, 2020. Liabilities due within one year, and assets available

to pay those liabilities, are classified as current. Other assets and liabilities are classified as non-current. Net position, the difference between total assets plus deferred outflows of resources and total liabilities plus deferred inflows of resources, is an important indicator of the System's current financial condition, while the change in net position is an indicator of whether the overall financial position has improved or worsened during the year. Generally, assets, deferred outflows of resources, liabilities, and deferred inflows of resources are reported using current values. A major exception is capital assets, which are stated at historical cost, less accumulated depreciation.

A summarized comparison of the System's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position at June 30, 2021, 2020 and 2019 follows:

Condensed Statements of Net Position (in thousands)

	<u>2021</u>	<u>2020</u>	<u>2019</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
Current assets	\$ 1,389,160	\$ 1,062,117	\$ 685,118
Capital asset, net	1,140,183	1,058,839	1,014,284
Other noncurrent assets	498,997	408,310	502,866
Deferred outflows of resources	4,403	5,549	6,806
Total assets and deferred outflows of resources	<u>3,032,743</u>	<u>2,534,815</u>	<u>2,209,074</u>
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES			
Current liabilities	293,851	272,377	212,943
Noncurrent liabilities	537,282	553,974	564,693
Deferred inflows of resources	79	66	64
Total liabilities and deferred inflows of resources	<u>831,212</u>	<u>826,417</u>	<u>777,700</u>
NET POSITION			
Net investment in capital assets	587,407	535,054	509,782
Nonexpendable other	1,667	1,616	1,590
Restricted expendable	11,735	11,748	14,667
Unrestricted	1,600,722	1,159,980	905,335
Total net position	<u>\$ 2,201,531</u>	<u>\$ 1,708,398</u>	<u>\$ 1,431,374</u>

Assets. As of June 30, 2021, the System's total assets amounted to approximately \$3.03 billion. Capital assets, net of depreciation, of \$1.14 billion or 37.7% of total assets represented the System's largest asset. Cash and cash equivalents of \$1.03 billion or 33.9% of total assets is the second largest asset, and long-term investments of \$410.5 million or 13.6% of total assets were the System's third largest asset. Accounts receivable, net, primarily patient-related, of \$264.2 million or 8.7% represents another significant asset of the System.

Total assets increased by \$499.1 million during the year ended June 30, 2021. The increase was the result of several factors: cash and cash equivalents increased \$145.3 million, accounts receivable, net, increased \$62.5 million, inventories and other assets increased \$12.0 million, estimated third-party payer settlements increased \$98.7 million, long-term investments increased \$98.7 million, capital assets, net, increased \$81.3 million, and other assets increased \$1.2 million. These increases were offset by a decrease in notes receivable of \$745 thousand.

Deferred Outflows of Resources. Deferred outflows of resources totaled \$4.4 million, a decrease of \$1.1 million, which represents the unamortized difference between the reacquisition price and the net carrying amount of the refunded debt. The System refunded General Receipts 2005 Notes Series A and General Receipts 2007 Notes Series A and B during fiscal year 2015.

Liabilities. As of June 30, 2021, the System's liabilities totaled \$831.1 million. Long-term debt (current and non-current), which consists of general receipts notes and note payable to the University, comprised the largest liability of \$505.2 million or 60.8% of total liabilities. Accounts payable and accrued liabilities totaled \$190.5 million or 22.9% of liabilities, while unearned revenue represented approximately \$76.4 million or 9.2% of liabilities. Capital lease obligations totaled \$24.4 million or 2.9% of liabilities. Long-term liabilities, other accounted for \$34.5 million or 4.2% of liabilities and consisted primarily of unamortized bond premium.

Total liabilities increased \$4.8 million or 0.6% as a result of increases in accounts payable and accrued expenses of \$45.9 million and other long-term liabilities of \$8.1 million. These increases were offset by decreases in unearned revenue of \$25.9 million, long-term debt of \$22.5 million, and capital lease obligations of \$813 thousand.

Deferred Inflows of Resources. The System is the residual principal and income beneficiary of an irrevocable trust that is held and controlled by external trustees. For the years ended June 30, 2021 and 2020, the System received income from this trust of approximately \$400 and \$500, respectively. The market value of the irrevocable external trust assets as of June 30, 2021 and 2020 was approximately \$79 thousand and \$66 thousand, respectively.

Net Position. Net position as of June 30, 2021 totaled approximately \$2.20 billion, or 72.7% of total assets. Net investment in capital assets totaled \$587.4 million or 26.7% of total net position. Restricted net position totaled approximately \$13.4 million or 0.6% of total net position. Unrestricted net position accounted for \$1.60 billion or 72.7% of total net position. Total net position increased \$493.1 million or 28.9%.

Restricted net position is subject to externally imposed restrictions governing its use. Although unrestricted net position is not subject to externally imposed stipulations, substantially all of the unrestricted net position has been internally designated for capital projects and working capital requirements.

2020 Versus 2019. When comparing the fiscal year ended June 30, 2020 to the year ended June 30, 2019:

- Total assets increased by \$327.0 million during the year ended June 30, 2020. The increase was the result of several factors: cash and cash equivalents increased \$301.1 million, inventories and other assets increased \$7.0 million, capital assets, net, increased \$44.6 million, and estimated third-party payer settlements increased \$7.8 million. These increases were offset by decreases in accounts receivable, net, of \$30.4 million and long-term investments of \$3.1 million.
- Deferred outflows of resources decreased \$1.3 million, which represents the unamortized difference between the reacquisition price and the net carrying amount of the refunded debt. The System refunded General Receipts 2005 Notes Series A and General Receipts 2007 Notes Series A and B during the fiscal year 2015.
- Total liabilities increased \$48.7 million primarily due to an increase in accounts payable and accrued expenses of \$19.2 million, unearned revenue of \$38.4 million, capital lease obligations of \$2.0 million, and other long-term liabilities of \$169 thousand. This was offset by a decrease of long-term debt of \$11.0 million.
- Deferred inflows of resources as of June 30, 2020 and 2019 were approximately \$66 thousand and \$64 thousand, respectively, which presents the future gains by the System that is applicable to a future reporting period.
- Total net position increased \$277.0 million, primarily due to net income from continuing operations.

Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position is the System's income statement. It details how net position has fluctuated during the year ended June 30, 2021, with comparative information for the year ended June 30, 2020. This statement is prepared on the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged. All items that increase or decrease net position must appear on the Statement of Revenues, Expenses and Changes in Net Position as revenues, expenses, gains or losses.

Financial activities are reported as either operating or nonoperating. GASB Statement No. 35 requires gifts and investment income to be classified as nonoperating revenues. The utilization of long-lived capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

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

	2021	2020	2019
OPERATING REVENUES			
Net patient service revenues	\$ 2,347,631	\$ 2,008,383	\$ 1,647,676
Sales and services	115,494	98,679	69,760
Management contract revenue	43,447	41,930	41,177
Total operating revenues	<u>2,506,572</u>	<u>2,148,992</u>	<u>1,758,613</u>
OPERATING EXPENSES			
Salaries and benefits	791,336	731,176	679,646
Supplies and purchased services	780,997	647,006	527,145
Other expenses	239,345	222,405	195,586
Depreciation	76,226	69,025	66,959
Management contract expenses	40,351	38,970	38,032
Total operating expenses	<u>1,928,255</u>	<u>1,708,582</u>	<u>1,507,368</u>
NET INCOME FROM CONTINUING OPERATIONS	<u>578,317</u>	<u>440,410</u>	<u>251,245</u>
NONOPERATING REVENUES (EXPENSES)			
Provider relief fund	30,261	—	—
Additions to permanent endowments	51	26	335
Grants and gifts	4,385	4,770	4,395
Investment income	104,354	10,638	27,125
Interest expense	(17,799)	(18,223)	(23,535)
Transfers to the University of Kentucky	(195,859)	(157,918)	(142,217)
Other, net	(10,577)	(2,679)	4,718
Total nonoperating expenses	<u>(85,184)</u>	<u>(163,386)</u>	<u>(129,179)</u>
INCREASE IN NET POSITION	493,133	277,024	122,066
NET POSITION, beginning of year	<u>1,708,398</u>	<u>1,431,374</u>	<u>1,309,308</u>
NET POSITION, end of year	<u>\$ 2,201,531</u>	<u>\$ 1,708,398</u>	<u>\$ 1,431,374</u>

Operating Revenues

Total operating revenues were approximately \$2.51 billion for the year ended June 30, 2021, an increase of \$357.6 million or 16.6% over fiscal year 2020. The most significant source of operating revenue for the System was net patient service revenues of \$2.35 billion, an increase of \$339.2 million or 16.9% in fiscal year 2021 over 2020.

Inpatient net revenue, including bad debt, increased \$74.3 million or 6.6% over prior year. The primary driver of the increase was prior years' adjustments of \$93.6 million, including prior year Disproportionate Share Hospital (DSH) revenue. Directed Payments also increased \$29.3 million due to increased Medicaid eligible patients. These increases were offset by lower patient discharges of 1,859 resulting in \$48.6 million decrease in inpatient net revenue.

Directed Payments are the difference between the System's average commercial rate and the rates Medicaid Managed Care Organizations pay for healthcare services. The payments are applicable to both inpatient and outpatient hospital services. A per day and per visit gap has been calculated and is applied to Medicaid Managed Care volume.

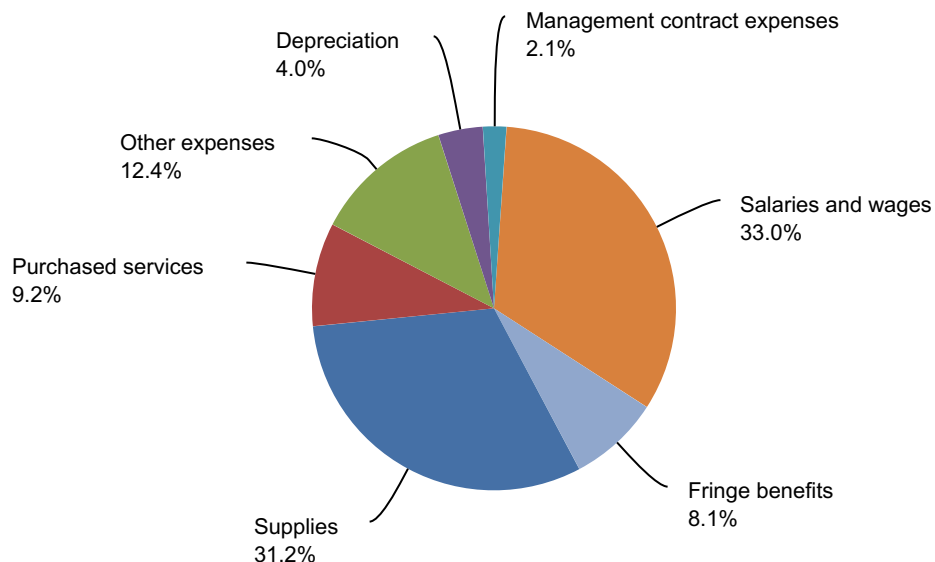
Surgery Blue had a net patient revenue increase over last year of \$1.5 million due to increased volume and patient mix.

Outpatient net revenue, including bad debt, increased by \$173.0 million or 19.8% over prior year. The primary driver was outpatient activity, which increased by 204,114 hospital clinic visits offset by a decrease of 9,657 emergency room visits. The increased outpatient activity resulted in a \$111.7 million increase in outpatient net revenue. Directed Payments also increased by \$61.3 million due to increased of Medicaid eligible patients.

The System was able to recognize \$482.3 million of Directed Payments revenue during the current fiscal year.

Bad debt provision decreased by \$9.5 million or 10.7% over the prior year as the System has seen fewer accounts referred to bad debt starting in April 2020 due to COVID-19 changes. Medicaid had presumptive coverage from April 2020 through March 2021. The Medicaid posted charges increased approximately 13.7% during that timeframe.

TOTAL OPERATING EXPENSES



Operating Expenses

Total operating expenses, including \$76.2 million of depreciation, were \$1.93 billion, an increase of \$219.7 million or 12.9% over the prior year.

Salaries and wages increased \$60.6 million over the prior fiscal year. The increase in salaries and wages was driven by a full-time equivalent (FTE) increase of 1,302, a 12.6% increase over prior year. The majority of this increase, 764 FTEs, was related to patient services. FTEs of 174 were related to information technology. FTEs of 122 were pharmacy related. The other FTEs were related to COVID-19 84 FTEs, graduate medical education of 37 FTEs, and finance of 16 FTEs. These increases were offset by an administration and support decrease of 38 FTEs. Fringe benefits decreased \$421 thousand or 0.3% primarily due to the decrease of employer retirement contribution from 10% to 5% in fiscal year 2021.

Supplies expenses increased \$84.6 million or 16.3% primarily due to increases in drugs, antibiotics, variable hospital supplies, and an increase in the outpatient population. Purchased services increased \$49.4 million or 38.8% primarily due to the increase in contract labor expenses. Other expenses increased \$16.9 million or 7.6% primarily due to increases in leases, computer licenses, maintenance, and subscriptions.

Nonoperating Revenues (Expenses)

Total net nonoperating revenues were \$110.7 million in fiscal year 2021 compared to \$5.5 million in total nonoperating expenses during the prior fiscal year, an increase of \$116.1 million. This increase was mainly due to an increase in investment income of \$93.7 million because of capital market upturn, an increase in Provider Relief Fund of \$30.3 million, and an increase of \$415 thousand in capital gifts. These increases were offset by an increase of \$8.0 million in other nonoperating expenses, and a decrease of \$800 thousand in gifts and non-exchange grants.

Transfers to the University of Kentucky were \$195.9 million in 2021 compared to \$157.9 million in 2020 primarily because of an increase in noncapital transfers of \$16.0 million. The increase is due to increased transfers to support the Center for Clinical and Translational Services, Pediatrics, and the College of Medicine. In addition, there was an increase in transfers to the University of Kentucky for capital purposes of \$22.0 million, primarily due to a \$25.0 million transfer for the College of Medicine health education building construction.

2020 Versus 2019. Total operating revenues were \$2.15 billion for the fiscal year ended June 30, 2020, an increase of \$390.4 million over the fiscal year ended June 30, 2019. The increase in operating revenues was primarily due to increased net patient service revenues.

Operating expenses totaled \$1.71 billion, an increase of \$201.2 million over fiscal year 2019. The increase was due primarily to higher costs for personnel and supplies.

Net nonoperating expenses totaled to \$5.5 million in fiscal year 2020 compared to nonoperating revenues of \$13.0 million in the prior year, a decrease of \$18.5 million. This decrease was mainly due to a reduction in investment income of \$16.5 million because of capital market downturn and a decrease of \$6.7 million in other nonoperating revenues. These decreases were offset by a reduction of interest expense of \$5.3 million and an increase of \$330 thousand in gifts and non-exchange grants.

Statement of Cash Flows

The Statement of Cash Flows details how cash has increased or decreased during the year ended June 30, 2021, with comparative financial information for the year ended June 30, 2020. It classifies the sources and uses of cash into the following categories:

- Operating activities
- Noncapital financing activities

- Capital and related financing activities
- Investing activities

Cash flows associated with the System's expendable net position appear in the operating and noncapital financing categories. Capital financing activities include payments for capital assets, proceeds from long-term debt, and debt repayments. Purchases and sales of investments are reflected in investing activities.

The primary purpose of the Statement of Cash Flows is to provide information about the cash receipts and cash payments made by the System during the year that will allow financial statement readers to assess the System's:

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

Condensed Statements of Cash Flows (in thousands)

	<u>2021</u>	<u>2020</u>	<u>2019</u>
CASH PROVIDED (USED) BY:			
Operating activities	\$ 529,403	\$ 553,347	\$ 287,166
Noncapital financing activities	(170,896)	(124,234)	(128,937)
Capital and related financing activities	(218,777)	(141,775)	(117,904)
Investing activities	<u>5,587</u>	<u>13,787</u>	<u>14,524</u>
Net increase in cash and cash equivalents	145,317	301,125	54,849
CASH AND CASH EQUIVALENTS, beginning of year	<u>881,908</u>	<u>580,783</u>	<u>525,934</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 1,027,225</u></u>	<u><u>\$ 881,908</u></u>	<u><u>\$ 580,783</u></u>

2021. The major sources of cash included in operating activities were net patient service revenues of \$2.19 billion, sales and services of \$112.9 million, and management contract services of \$45.8 million. Cash payments for operating activities were \$990.0 million to vendors, \$789.8 million to employees for salaries, wages and fringe benefits, and \$40.5 million for management contract services.

Cash used by noncapital financing consists of transfers to the University of Kentucky for noncapital purposes of \$176.0 million offset by an inflow of cash from gifts of \$4.4 million and payments on loan from University departmental units of \$577 thousand.

Cash used by capital and related financing activities included purchases of capital assets of \$138.9 million and principal and interest payments on long-term obligations of \$43.4 million.

Investing activities included proceeds from sales and maturities of investments of \$127.7 million and interest and dividends of \$8.3 million. Cash of \$130.4 million was used to purchase investments.

2020 Versus 2019. Cash balances increased when comparing fiscal year 2020 versus fiscal year 2019 with a net increase in cash of approximately \$301.1 million. The net increase was the result of more cash provided by operating activities and investing activities than the cash used by noncapital financing activities and capital and related financing activities.

Key Ratios

The following table shows key liquidity and capital ratios for fiscal years 2021, 2020 and 2019:

	2021	2020	2019
Days cash on hand	202	196	147
Days of revenue in accounts receivable	41	37	51
Debt service coverage (times)	13.1	8.4	4.5

Days cash on hand increased to 202 days in fiscal year 2021 from 196 days in fiscal year 2020. Days cash on hand measures the average number of days' expenses the System maintains in cash. In addition, the System has access to working capital from the University and quasi-endowment investments of \$395.8 million.

The days of revenue in accounts receivable measures the average number of days it takes to collect accounts receivable. In fiscal year 2021, days in accounts receivable were 41 compared to 37 days in fiscal year 2020. Net accounts receivable increased by \$62.5 million from fiscal year 2020 to fiscal year 2021, which contributed to the increase in days in accounts receivable.

Debt service coverage ratio measures the amount of funds available to cover the principal and interest on long-term debt. The System's ratio for fiscal year 2021 is 13.1 versus 8.4 in fiscal year 2020 due to the increase in change in net position in fiscal year 2021 compared to fiscal year 2020.

Capital Asset and Debt Administration

Capital Assets. Capital assets, net of accumulated depreciation, totaled approximately \$1.14 billion at June 30, 2021, a net increase of \$81.3 million over the prior year. Significant changes in capital assets during fiscal 2020-2021 included (in millions):

Land, buildings and structures, net additions	\$ 49.0
Equipment and vehicles, net additions	37.2
Capitalized software additions	67.6
Artwork	0.1
Construction in process, net deletions	(10.0)
Increase in accumulated depreciation, net	(62.6)
Total	<u>\$ 81.3</u>

Debt. As of June 30, 2021, the System had \$489.9 million in general receipts project notes outstanding and a \$6.8 million loan due to the University; \$24.4 million is included in current liabilities with the remainder long-term. In addition, the System had \$24.4 million in capital leases. On February 28, 2019, approximately \$8.4 million of Surgery Blue promissory note was issued at a variable interest rate between 3.2% and 4.5%. The note was issued for the purpose of funding construction and development Lexington Surgery Center projects. This note is a multi-draw term loan payable in full upon the maturity date and upon the terms and conditions provided in the promissory note. As of June 30, 2021, the promissory note was \$8.5 million.

Economic Factors Impacting Future Periods

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

- Chandler Hospital remains No. 1 in Kentucky for the sixth consecutive year in the U.S. News & World Report's Best Hospitals rankings. Additionally, we are nationally ranked in four adult specialties. The Best Hospital designation is derived from a stringent data-driven ratings system that gauges performance in multiple clinical specialties, procedures and conditions. Scores are based on a variety of patient-outcome and care-related factors, such as mortality, patient safety and reputation. High performance in these national indicators is representative of our commitment to being an elite academic medical center dedicated to providing complex medical care in Kentucky and beyond. Annual inpatient discharges from the System are projected to be 40,700 for fiscal year 2022, an increase of 18.2% over fiscal year 2012. The annual total outpatient visits to the System are projected to exceed 2.4 million in fiscal year 2022, an increase of 156.6% over fiscal year 2012.
- In 2021, the System through Beyond Blue Corporation, a wholly owned non-profit subsidiary of the University, entered into a significant joint venture with King's Daughters Health System (KDHS) in Ashland. This is the System's most significant hospital partnership since the acquisition of Good Samaritan Hospital in 2007. The partnership with KDHS will create new opportunities to serve patients from the greater Ashland/Tri-State community that reaches across northeastern Kentucky, southern Ohio and West Virginia. Working more closely together, we can expand access to specialty and subspecialty care within that very large service area, enabling the region's people to stay closer to home for most treatments.
- Healthcare systems were challenged in unprecedented ways in both 2020 and 2021 due to the COVID-19 outbreak. The pandemic has the potential to impact our future financial situation until the threat of the virus is controlled. COVID-19 economic challenges include lost revenue due to cancelled services, purchasing and availability of personal protective equipment, drug costs and shortages, labor costs and capital costs incurred with operation of the Kroger Field vaccination clinic. There are also other indirect costs associated with COVID-19 which include providing child care, housing, transportation, medical screening and treatment for employees, particularly front line workers.
- COVID-19 funding opportunities like the Coronavirus Aid, Relief, and Economic Security (CARES) Act, Provider Relief Fund, Federal Emergency Management Agency (FEMA), and other grant sources have been allocated, requested, awarded, or received for eligible expenses or lost revenue related to the disruption of the System's operation due to COVID-19 crisis. The System received \$30.3 million in Provider Relief Fund in fiscal year 2020, which were recognized as revenue in fiscal year 2021. In addition, the System is in the process of requesting FEMA reimbursement of the Nutter Field Hospital that was built in preparation of COVID-19 outbreak and the Kroger Field vaccination clinic.

UK HEALTHCARE HOSPITAL SYSTEM
AN ORGANIZATIONAL UNIT OF THE UNIVERSITY OF KENTUCKY
STATEMENTS OF NET POSITION (in thousands)
JUNE 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current Assets		
Cash and cash equivalents	\$ 945,386	\$ 791,770
Accounts receivable (less allowance for doubtful accounts of \$60,812 in 2021 and 66,221 in 2020)	264,193	201,674
Inventories and other assets	62,158	50,170
Estimated third-party payer settlements	114,626	15,896
Notes receivable	2,797	2,607
Total current assets	<u>1,389,160</u>	<u>1,062,117</u>
Noncurrent Assets		
Restricted cash and cash equivalents	81,839	90,138
Long-term investments	410,549	311,826
Capital assets, net	1,140,183	1,058,839
Notes receivable	2,132	3,067
Other assets	4,477	3,279
Total noncurrent assets	<u>1,639,180</u>	<u>1,467,149</u>
Total assets	<u>3,028,340</u>	<u>2,529,266</u>
Deferred Outflows of Resources		
Total assets and deferred outflows of resources	<u>3,032,743</u>	<u>2,534,815</u>
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
Current Liabilities		
Accounts payable and accrued liabilities	190,534	144,602
Unearned revenue	76,426	102,339
Long-term debt - current portion	24,411	23,286
Capital lease obligations - current portion	2,480	2,150
Total current liabilities	<u>293,851</u>	<u>272,377</u>
Noncurrent Liabilities		
Long-term liabilities - other	34,541	26,487
Long-term liabilities - debt	480,818	504,421
Capital lease obligations	21,923	23,066
Total noncurrent liabilities	<u>537,282</u>	<u>553,974</u>
Total liabilities	<u>831,133</u>	<u>826,351</u>
Deferred Inflows of Resources		
Total liabilities and deferred inflows of resources	<u>831,212</u>	<u>826,417</u>
NET POSITION		
Net investment in capital assets	<u>587,407</u>	<u>535,054</u>
Restricted		
Nonexpendable other	<u>1,667</u>	<u>1,616</u>
Expendable		
Capital projects	4,452	1,635
Other	7,283	10,113
Total restricted expendable	<u>11,735</u>	<u>11,748</u>
Total restricted	<u>13,402</u>	<u>13,364</u>
Unrestricted		
	<u>1,600,722</u>	<u>1,159,980</u>
Total net position	<u>\$ 2,201,531</u>	<u>\$ 1,708,398</u>

See notes to financial statements.

UK HEALTHCARE HOSPITAL SYSTEM
AN ORGANIZATIONAL UNIT OF THE UNIVERSITY OF KENTUCKY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (in thousands)
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
OPERATING REVENUES		
Net patient service revenues, less provision for doubtful accounts of \$78,933 in 2021 and \$88,388 in 2020	\$ 2,347,631	\$ 2,008,383
Sales and services	115,494	98,679
Management contract revenue	43,447	41,930
Total operating revenues	<u>2,506,572</u>	<u>2,148,992</u>
OPERATING EXPENSES		
Salaries and wages	635,347	574,766
Fringe benefits	155,989	156,410
Supplies	604,145	519,551
Purchased services	176,852	127,455
Other expenses	239,345	222,405
Depreciation	76,226	69,025
Management contract expenses	40,351	38,970
Total operating expenses	<u>1,928,255</u>	<u>1,708,582</u>
Net income from continuing operations	<u>578,317</u>	<u>440,410</u>
NONOPERATING REVENUES (EXPENSES)		
Provider relief fund	30,261	—
Additions to permanent endowments	51	26
Gifts and non-exchange grants	3,866	4,666
Capital gifts	519	104
Investment income	104,354	10,638
Interest expense	(17,799)	(18,223)
Loss on disposal of capital assets	(1,446)	(1,510)
Other	(9,131)	(1,169)
Net nonoperating revenues	<u>110,675</u>	<u>(5,468)</u>
Net income before other revenues, expenses, gains or losses	<u>688,992</u>	<u>434,942</u>
Transfers to the University of Kentucky for noncapital purposes	(175,444)	(159,464)
Transfers from (to) the University of Kentucky for capital purposes	(20,415)	1,546
Total other expenses	<u>(195,859)</u>	<u>(157,918)</u>
INCREASE IN NET POSITION	493,133	277,024
NET POSITION, beginning of year	<u>1,708,398</u>	<u>1,431,374</u>
NET POSITION, end of year	<u>\$ 2,201,531</u>	<u>\$ 1,708,398</u>

See notes to financial statements.

**UK HEALTHCARE HOSPITAL SYSTEM
AN ORGANIZATIONAL UNIT OF THE UNIVERSITY OF KENTUCKY
STATEMENTS OF CASH FLOWS (in thousands)
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net patient service revenues	\$ 2,190,992	\$ 2,033,397
Sales and services	112,873	98,679
Management contract services	45,804	39,519
Payments to vendors and contractors	(990,027)	(870,254)
Salaries, wages and fringe benefits	(789,775)	(713,110)
Payments on management contract services	(40,451)	(34,143)
Other payments	(13)	(741)
Net cash provided by operating activities	<u>529,403</u>	<u>553,347</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Provider relief fund	—	30,261
Gifts	4,444	4,817
Additions to permanent endowments	51	26
Payments on loans from University of Kentucky departmental units	577	426
Transfers to the University of Kentucky for noncapital purposes	(175,968)	(159,764)
Net cash used by noncapital financing activities	<u>(170,896)</u>	<u>(124,234)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(138,924)	(102,942)
Principal payments-capital leases and long-term obligations	(25,352)	(23,673)
Interest payments-capital leases and long-term obligations	(18,030)	(20,020)
Proceeds from long-term obligations	585	8,415
Other capital and related financing payments	(12,563)	(5,101)
Transfers from (to) the University of Kentucky for capital purposes	(24,493)	1,546
Net cash used by capital and related financing activities	<u>(218,777)</u>	<u>(141,775)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	127,711	167,995
Interest and dividends on investments	8,299	13,990
Purchase of investments	(130,423)	(168,198)
Net cash provided by investing activities	<u>5,587</u>	<u>13,787</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>145,317</u>	<u>301,125</u>
CASH AND CASH EQUIVALENTS, beginning of year	<u>881,908</u>	<u>580,783</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 1,027,225</u>	<u>\$ 881,908</u>
Reconciliation of net income from continuing operations to net cash provided by operating activities:		
Net income from continuing operations	\$ 578,317	\$ 440,410
Adjustments to reconcile net income from continuing operations to net cash provided by operating activities:		
Depreciation	76,226	69,025
Write off of principal note/lease receivable	947	633
Provision for doubtful accounts	(78,933)	(88,388)
Change in assets and liabilities:		
Accounts receivable	16,414	118,809
Inventories and other	(11,987)	(6,965)
Estimated third-party payer settlements receivable and payable	(98,731)	(7,791)
Other assets	(2,023)	(1,236)
Accounts payable and accrued liabilities	44,711	20,751
Unearned revenue	4,348	8,110
Long-term liabilities	114	(11)
Net cash provided by operating activities	<u>\$ 529,403</u>	<u>\$ 553,347</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Transfer of capital assets (to) from UK	\$ 4,078	\$ 2,777
Capital lease additions	\$ 1,475	\$ 6,267
Capital lease additions by Lexington Surgery Center	\$ 507	\$ 1,811
Capital asset change in accounts payable and long-term liabilities - other	\$ 13,091	\$ 2,791
Capitalized interest, net of investment income	\$ 1,724	\$ 1,584
Amortized bond premium	\$ 3,701	\$ 3,986
Amortized difference between reacquisition price and net carrying amount of refunded debt	\$ 1,146	\$ 1,257
Investment unrealized gains (losses)	\$ 93,423	\$ (6,682)

See notes to financial statements.

**UK HEALTHCARE HOSPITAL SYSTEM
AN ORGANIZATIONAL UNIT OF THE UNIVERSITY OF KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The UK HealthCare Hospital System (the System) is an organizational unit of the University of Kentucky (the University) which is a component unit of the Commonwealth of Kentucky (the Commonwealth) and is included in the basic financial statements of the Commonwealth. The financial statements of the System include Albert B. Chandler University Hospital including Kentucky Children's Hospital (collectively Chandler); UK HealthCare Good Samaritan Hospital (Good Samaritan); Kentucky Healthcare Enterprise, Inc. (KHE), a wholly owned for-profit subsidiary, which has no balances or transactions as of and for the years ended June 30, 2021 and 2020; Beyond Blue Corporation, a wholly owned non-profit subsidiary; Surgery Blue, LLC, a wholly owned for-profit subsidiary that manages the joint venture between the System and Kings Daughter Health System that began on April 1, 2021, and its for-profit subsidiary, Surgery Center of Lexington, LLC (51% ownership). Surgery Blue, LLC was established in August 2018. The Surgery Center of Lexington, LLC has a calendar-year basis fiscal year from January 1 through December 31. Therefore, the financial statements of Surgery Center of Lexington, LLC as of December 31, 2020 and 2019 are included in the System's financial statements as of June 30, 2021 and 2020, respectively.

The System provides inpatient, outpatient, and emergency care services for residents of the Commonwealth.

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 it be maintained permanently by the System.

Expendable - Net position whose use by the System is subject to externally imposed stipulations that can be fulfilled by actions of the System pursuant to those stipulations or that expire by the passage of time.
- Unrestricted: Net position whose use by the System is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the University's Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

The financial statement presentation is intended to provide a comprehensive, entity-wide perspective of the System's assets, 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. The System reports as a Business Type Activity (BTA) as defined by GASB Statement No. 35. BTA's are those activities that are financed in whole or part by fees charged to external parties for goods and services.

Cash and Cash Equivalents. The System considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. The System also considers investments held in the Commonwealth's investment pools to be cash equivalents.

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

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

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

Long-term Investments. The System's endowment investments are administered as part of the University's pooled endowment funds. All endowments are managed in a consolidated investment pool which consists of more than 2,400 named funds. All contributing endowments participate in the income and appreciation of the pool on a per unit basis commensurate with their contribution to the pool. New endowments purchase units in the pool at the current value, which is calculated each month based on the fair value of the pool investments divided by the number of pool units outstanding. The market value method of accounting for pooled endowment funds is employed to ensure proper distribution of market price changes, realized gains (losses) on sales, accrued income earned, and distribution of investment earnings for expenditure by participating funds.

Pooled Endowment Funds. In accordance with the Kentucky Uniform Prudent Management of Institutional Funds Act (UPMIFA), as adopted by the Commonwealth in July 2010, the University employs a total return method for establishing investment objectives and spending policies designed to achieve financial equilibrium for endowment funds over the long term. The University makes expenditure decisions in accordance with UPMIFA and donor gift agreements. UPMIFA prescribes guidelines for expenditure of a donor-restricted endowment fund (in the absence of overriding, explicit donor stipulations) and focuses on the entirety of a donor-restricted endowment fund, that is, both the original gift amount(s) and net appreciation. In accordance with the standard of prudence prescribed by UPMIFA and consistent with industry standards, the University has adopted a spending policy whose long-term objective is to maintain the purchasing power of each endowment and provide a predictable and sustainable level of income to support current operations.

The adopted spending policy is a "hybrid" spending policy, which includes both the market value of the endowment and the current level of inflation in determining spending each year. Annual spending will be calculated by taking a weighted average comprising 60% of the prior year's spending, adjusted for inflation, and 40% of the amount that results when the target annual spending rate of four percent is applied to the average market value of the endowment over the preceding 36 months. The spending amount determined by the formula will be constrained so that the calculated rate is at least 3.5%, and not more than five percent, of the current endowment market value.

The University also utilized an endowment management fee to support internal management and fundraising costs related to the endowment. For the years ended June 30, 2021 and 2020, the University's annual endowment management fee was 0.90%.

To protect endowment funds from permanent impairment of value, spending and management fee withdrawals are suspended on endowments with a market value less than the contributed value by more than 20%. Additionally, endowments with a market value less than the contributed value by more than 10%

undergo a formal review to determine the appropriate level of spending in accordance with various factors set forth in UPMIFA. All donor restrictions and stipulations prevail in decisions regarding preservation and spending of endowment funds.

For each of the years ended June 30, 2021 and 2020, management elected to retain the spending distribution in the quasi-endowment and the amounts available for spending in accordance with the University's endowment spending policy were \$12.1 million and \$11.5 million, respectively.

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

The System capitalizes interest costs as a component of construction in progress, based on the interest cost of borrowing specifically for a currently active project, net of interest earned on investments acquired with the proceeds of the borrowing. The System also capitalizes interest costs as a component of construction in progress on projects funded by unrestricted funds based on the interest costs of borrowings no longer associated with a specific project. The calculation is based on a project's average expenditures times the weighted average interest rate borrowings.

Equipment with a unit cost of \$5 thousand and having an estimated useful life of greater than one year is capitalized. Institutional software costing more than \$400 thousand is capitalized. Renovations to buildings, infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred.

Depreciation of capital assets is computed on a straight-line basis over the estimated useful lives of the respective assets, generally 40 years for buildings, 10 - 25 years for land and building improvements and infrastructure, 3 - 20 years for equipment and vehicles and 10 years for capitalized software.

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

The System evaluates capital assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital asset has occurred. If a capital asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, the accumulated depreciation will be accelerated. The amount of the impairment loss will be recorded as the net book value divided proportionately over its remaining years of useful life. No asset impairment was recognized during the years ended June 30, 2021 and 2020.

Deferred Outflows of Resources. A deferred outflow of resources is a loss in net position by the System that is applicable to a future reporting period. Deferred outflows of resources are reported in the statement of net position, but are not recognized in the financial statements as expense until in the related period. Deferred outflows of resources of \$4.4 million and \$5.5 million as of June 30, 2021 and 2020, respectively, consisted of the unamortized difference between the reacquisition price and the net carrying amount of the refunded debt. The System issued General Receipts 2014 Bonds Series D to refund General Receipts 2005 Notes Series A which was originally issued to fund the construction of the patient care facility. General Receipts Notes 2007 Series A and B originally issued to fund construction of the patient care facility were refunded by the General Receipts 2015 Bond Series B.

Unearned Revenue. Unearned revenue consists of funds generated from the Kentucky AIDS Drug Assistance Program (KADAP) to be used for allowable costs within the program, and other unearned amounts. KADAP is governed by the Public Health office and administered by the System. The funds are to support the operations of the KADAP Income Reinvestment Program.

Compensated Absences. The amount of vacation leave earned but not taken by employees at June 30, 2021

is recorded as a liability by the System. Temporary disability leave payable upon termination under the University's payout policy is also recorded as a liability on the University's financial statements. Compensated absence liabilities are computed using the pay rates in effect at the statement of net position date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Deferred Inflows of Resources. A deferred inflow of resources is a gain in net position by the System that is applicable to a future reporting period. Deferred inflows of resources are reported in the Statement of Net Position but are not recognized in the financial statements as revenue until in the related period. Deferred inflows of resources of \$79 thousand as of June 30, 2021 and \$66 thousand as of June 30, 2020 consisted of the beneficial interest from an irrevocable external trust that the system will receive in future years.

Net Patient Service Revenues. Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered, including contractual allowances and estimated retroactive adjustments under reimbursement programs with third-party payers and include a provision for doubtful accounts. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient skilled nursing services are paid at prospectively determined per diem rates that are based on the patients' acuity. Certain inpatient nonacute services and defined medical education costs are paid based on a cost reimbursement methodology. The System is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the System and audits thereof by the Medicare fiscal intermediary.

Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology for certain services and at prospectively determined rates for all other services. The System is reimbursed for cost reimbursable services at tentative rates with final settlement determined after submission of annual cost reports by the System and audits thereof by the Medicaid fiscal intermediary.

Revenue from the Medicare and Medicaid programs accounted for approximately 39% and 19%, respectively, of the System's net patient service revenues before the provision for doubtful accounts for the year ended June 30, 2021 and approximately 39% and 20%, respectively, for the year ended June 30, 2020. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. With the impact of COVID-19 and unemployment, more Kentuckians applied and received presumptive Medicaid. These changes have an impact on both Medicaid uninsured payments. Prior year audits were completed and the System was able to recognize \$93.6 million of Medicaid Disproportionate Share Hospital (DSH) revenue and other settlements during fiscal year 2021, of which \$20.5 million was previously reserved in estimated third-party payer settlements in the fiscal year 2020 statement of net position. The calculation methodology for supplemental payments was adjusted during fiscal year 2020 and is now referred to as "Directed Payments". These new payments replace the Medicaid Managed Care Organization's portion of Intensity Operating Allowance and Physician Supplemental Payments. With Directed Payments, there is no longer an uncompensated care to be filed with DSH payments. Therefore, the System did not qualify for DSH payments for fiscal year 2021 or fiscal year 2020. The Directed Payments are the difference between the System's average commercial rate and the rates Medicaid Managed Care Organizations pay for healthcare services. The payments are applicable to both inpatient and outpatient hospital services. A per day and per visit gap has been calculated and is applied to Medicaid Managed Care volume. The program is based upon data two years in arrears. The payments are based upon two components: access and quality. For fiscal year 2021, access is 90% of the program and quality is 10%. The Commonwealth withholds the quality component as well as an additional 5% for reconciliation, which occurs 14 months following the end of the first quarter, i.e., November 2021 for July through September 2020. A receivable for these dollars has been applied to the third party liability account for fiscal year 2021. Directed Payments of \$482.3 million and \$391.6 million were recognized in net patient service revenue in fiscal year

2021 and 2020. The Center for Medicaid Services has now waived reconciliation for fiscal year 2021. The Department of Medicaid Services will be refunding the 5% withhold in the near future thus relieving this receivable.

The System also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the System under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Management Contract Revenue. The System entered into a contract with the Kentucky Cabinet for Health and Family Services (CHFS) to manage Eastern State Hospital (ESH) and Central Kentucky Recovery Center (CKRC). Under the contract the System is reimbursed 100% of the related operating expenses up to a limit of \$37.3 million, and \$2.2 million, for ESH and CKRC, respectively. The System also receives an eight percent management fee. The initial contract term was August 13, 2013 to June 30, 2014 with the option to renew the contract for two additional one-year terms. Subsequent to year end, the contract was renewed for the period of July 1, 2021 to June 30, 2022 with substantially the same terms.

Charity Care. The System provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Since the System does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of charges forgone for services and supplies furnished under the System's charity care policy aggregated to approximately \$35.8 million and \$65.1 million in 2021 and 2020, respectively. The costs of charity care provided under the System's charity care policy were \$10.1 million and \$17.2 million for the years ended June 30, 2021 and 2020, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.

Provider Relief Fund (PRF). The Coronavirus Aid, Relief, and Economic Security (CARES) Act was passed by Congress and signed into law by President Donald Trump on March 27, 2020. This over \$2 trillion economic relief package delivers on the federal government's commitment to protecting the American people from the public health and economic impacts of COVID-19. Based on the CARES Act, the federal government distributed direct payments through the PRF to the System in the amount of \$30.3 million, which was recognized as unearned revenue in the Statement of Net Position in fiscal year 2020 and as revenue in fiscal year 2021. The System is accounting for such payments as voluntary nonexchange transactions. Revenue is recognized when all eligibility requirements have been met. These payments are recorded as nonoperating revenue - provider relief fund in the System's statements of revenues, expenses and changes in net position. To receive from the PRF, a provider must have billed Medicare fee-for-services and provide diagnoses, testing, or care for individuals with possible or actual cases of COVID-19. PRF, if used within the terms and conditions of the program, do not need to be repaid to the federal government. The provider is required to use the payments for healthcare related expenses or lost revenues that are attributable to coronavirus. If the System has unused funds at June 30, 2021, those funds will need to be returned. Appropriate expenses include healthcare-related expenses or lost revenue due to the coronavirus, which includes prevention, preparation, training, reporting, treatment, and declined services. The PRF is subject to government oversight, including potential audits.

Income Taxes. The University, of which the System is an organizational unit, is an agency and instrumentality of the Commonwealth, pursuant to Kentucky Revised Statutes sections 164.100 through 164.280. Accordingly, the University is excluded from federal income taxes as an organization described in Section 115 of the Internal Revenue Code of 1986, as amended.

Restricted Asset Spending Policy. The System's policy is that restrictions on assets cannot be fulfilled by the expenditure of unrestricted funds for similar purposes. The determination of whether restricted or unrestricted funds are expended for a particular purpose is made on a case-by-case basis. Restricted funds remain restricted until spent for the intended purpose.

Operating Activities. The System defines operating activities, as reported on the Statements of Revenues, Expenses and Changes in Net Position, as those that generally result from exchange transactions, such as payments received for providing goods and services and payments made for goods and services received. Nearly all of the System’s revenues and expenses are from exchange transactions. Certain revenues relied upon for operations, such as gifts and investment income, are recorded as non-operating revenues, in accordance with GASB Statement No. 35.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The accompanying financial statements include estimates for items such as contractual allowances, allowances for doubtful accounts, estimated third-party payer settlements and estimated medical claims payable.

Recent Accounting Pronouncements. As of June 30, 2021, the GASB has issued the following applicable statements to the System but are not yet implemented.

- GASB Statement No. 87, *Leases*, issued June 2017. The provisions of the Statement are effective for fiscal years beginning after December 15, 2019 (fiscal year 2021). Due to the COVID-19 pandemic, GASB issued Statement No. 95 *Postponement of the Effective Dates of Certain Authoritative Guidance* extending the provisions of this statement by 18 months to fiscal year 2022. This statement requires certain lease assets and liabilities for leases that previously were classified as operating leases to be recognized as deferred inflows of resources or deferred outflows of resources based on the payment provisions of the contract. The statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The System has yet to determine the impact Statement No. 87 will have on its financial statements.
- GASB Statement No. 89, *Accounting for Interest Cost Incurred before the end of a Construction Period*, issued June 2018. The provisions of the statement are effective for fiscal years beginning after December 15, 2019 (fiscal year 2021). Due to the COVID-19 pandemic, GASB issued Statement No. 95 *Postponement of the Effective Dates of certain Authoritative Guidance* extending the provisions of this statement by one year to fiscal year 2022. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a BTA or enterprise fund. The System has yet to determine the impact statement No. 89 will have on its financial statements.

2. DEPOSITS AND INVESTMENTS

The fair value of deposit and investment, by Statement of Net Position classification, at June 30, 2021 and 2020 are as follows (in thousands):

	2021	2020
Statement of Net Position classification:		
Cash and cash equivalents	\$ 945,386	\$ 791,770
Restricted cash and cash equivalents	81,839	90,138
Total cash and cash equivalents	1,027,225	881,908
Long-term investments	410,549	311,826
Total Deposits and Investments	\$ 1,437,774	\$ 1,193,734

Fair Value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at a measurement date. The framework for measuring fair value established by generally accepted accounting principles provides a fair value hierarchy as follows:

- Level 1 Quoted prices in active markets for identical assets or liabilities
- Level 2 Observable inputs other than level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

The System categorizes its fair value measurements within the fair value hierarchy. Certain investments are measured at fair value using net asset value per share (or its equivalent), practical expedient, amortized costs, or historical costs and therefore have not been classified in the fair value hierarchy. These investments have been included in the table below to permit reconciliation of the fair value hierarchy to the amounts presented in the Statements of Net Position.

The System has the following valuation measurements, by type, at June 30, 2021 and 2020 (in thousands):

	2021					
	Fair Value Measurement Using					
	Total Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Measured at Fair Value	Amortized or Historical Cost
Cash and cash equivalents	\$ 1,027,225	\$ —	\$ —	\$ —	\$ —	\$ 1,027,225
Cash surrender value of life insurance policies	22	—	—	—	—	22
University's pooled endowment fund	410,527	—	—	410,527	410,527	—
Total deposits and investments	\$ 1,437,774	\$ —	\$ —	\$ 410,527	\$ 410,527	\$ 1,027,247
	2020					
	Fair Value Measurement Using					
	Total Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Measured at Fair Value	Amortized or Historical Cost
Cash and cash equivalents	\$ 881,908	\$ —	\$ —	\$ —	\$ —	\$ 881,908
Cash surrender value of life insurance policies	651	—	—	—	—	651
University's pooled endowment fund	311,175	—	—	311,175	311,175	—
Total deposits and investments	\$ 1,193,734	\$ —	\$ —	\$ 311,175	\$ 311,175	\$ 882,559

Where quoted market prices are available in an active market, securities are classified within level 1 of the valuation hierarchy. If quoted prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in level 2 of the valuation hierarchy.

The investment in University pooled endowment fund is derived based on the per unit calculation as described in footnote 1, thus is deemed to be a level 3 investment. For more information regarding the fair value measurements, refer to the University's financial statements, footnote 2. There have been no significant changes in the valuation techniques during the year ended June 30, 2021.

The composition of the University's pooled endowment fund based upon fair value at June 30, 2021 and 2020 is as follows:

	2021	2020
Cash and cash equivalents	1.3 %	0.3 %
Diversifying strategies	16.3 %	14.0 %
Global equity - hedged	—	5.9 %
Global equity - international	16.9 %	14.8 %
Global equity - private	21.6 %	19.9 %
Global equity - U.S.	17.6 %	15.2 %
Global fixed income - high quality/rate sensitive	5.7 %	6.0 %
Global fixed income - private credit	2.5 %	2.8 %
Global fixed income - public credit	3.9 %	5.0 %
Real assets - private	9.2 %	10.5 %
Real assets - public	5.0 %	5.6 %
Total	100.0 %	100.0 %

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

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

- Cash and cash equivalents on deposit with the University, which the University invests in deposits with banks and the Commonwealth. The University also invests cash on deposit in money market funds and the University's pooled endowment fund.
- Endowment investments in the University's pooled endowment fund.

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.

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

Deposit and Investment Risks. The System's deposits and investments are exposed to various risks including credit, interest rate and foreign currency risk, as discussed in more detail below. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could affect the investment amounts in the Statements of Net Position.

Credit Risk. Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligation, causing the System to experience a loss of principal. As a means of limiting its exposure to losses arising from credit risk, the University's investment policies limit the exposure of its various investment types, as follows:

- Cash 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.
- Deposits with the Commonwealth consist of securities eligible for short-term investments under state law. The University invests a portion of its operating cash in a diversified pool of money market funds. Fund investments include U.S. Treasury and agency securities, certificates of deposit, commercial paper, repurchase agreements and other short-term fixed income securities.
 - Endowment managers are permitted to use derivative instruments to limit credit risk.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investment or collateral securities that are in possession of an outside party. As a means of limiting its exposure to losses arising from custodial credit risk, the University's investment policies limit the exposure of its various investment types, as follows:

- Cash and cash equivalents on deposit with the University invested in deposits and money market funds are held in the University's name by various financial institutions. Deposits with the Commonwealth are held in the Commonwealth's name. The University maintains records evidencing the System's ownership interest in such balances.
- Endowment investments are held in the University's name by the University's custodian. The University maintains records of the System's ownership interest (units) in the University's pooled endowment fund.

Concentrations of Credit Risk. The System's investments can be exposed to a concentration of credit risk if significant amounts are invested in any one issuer. As a means of limiting its exposure to concentrations of credit risk, the University's investment policies limit concentrations in various investment types, as follows:

- Cash and cash equivalents on deposit with the University are not limited as to the maximum amount that may be invested in one issuer. However, the University's cash deposits in excess of federal deposit insurance are required to be fully collateralized by U.S. Treasury and/or U.S. agency securities or other similar investments as provided by Kentucky Revised Statutes 41.240.
- The University's endowment fixed income managers are limited to a maximum investment in any one issuer of no more than five percent of total investments excluding sovereign debt of governments belonging to the Organization for Economic Cooperation and Development and U.S. agencies.

At June 30, 2021 and 2020, the System had no investments in any one issuer that represented five percent or more 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. As a means of limiting its exposure to fair value losses arising from increasing interest rates, the University's investment policies limit the maturity of its various investment types, as follows:

- Cash 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 and money market funds be available for use on the next business day.
- Endowment managers are permitted to use derivative instruments to limit interest rate risk. Additionally, endowment investments held by the University's actively managed intermediate-term fixed income manager are limited to a duration that is within two years of the duration of the Barclays U.S. Intermediate Aggregate Bond Index and unconstrained fixed income strategies have been implemented to further mitigate interest rate risk.

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

The System's exposure to foreign currency risk derives from certain endowment investments of the University's pooled endowment fund. The University's investment policy allows fixed income managers to invest a portion of their portfolios in non-U.S. securities. Additionally, the investment policy allows various pooled fund managers to invest in accordance with the guidelines established in each individual fund's

prospectus, which allows for investment in non-U.S. securities. Endowment managers are permitted to use derivative instruments to limit foreign currency risk.

3. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net, as of June 30, 2021 and 2020 are as follows (in thousands):

	2021		
	Gross Receivable	Allowance	Net Receivable
Medicare, Medicaid and other third parties	\$ 303,354	\$ (51,334)	\$ 252,020
Private pay	21,004	(9,178)	11,826
Pledges receivable	647	(300)	347
Total	<u>\$ 325,005</u>	<u>\$ (60,812)</u>	<u>\$ 264,193</u>

	2020		
	Gross Receivable	Allowance	Net Receivable
Medicare, Medicaid and other third parties	\$ 252,307	\$ (59,767)	\$ 192,540
Private pay	15,259	(6,280)	8,979
Pledges receivable	329	(174)	155
Total	<u>\$ 267,895</u>	<u>\$ (66,221)</u>	<u>\$ 201,674</u>

The above pledges receivable are shown net of present value discount.

In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the System is required to record operating and capital pledges as revenue when all eligibility requirements have been met. For the years ended June 30, 2021 and 2020, the System recorded the discounted value of operating and capital pledges using a rate of two percent.

The System has recorded an allowance for uncollectible patient accounts receivable equal to 20.7% and 27.0% of patient accounts receivable as of June 30, 2021 and 2020, respectively. A summary of the changes in the allowance for uncollectible patient accounts receivable is as follows:

	2021	2020
Balance, beginning of year	\$ 66,221	\$ 63,724
Provision for doubtful accounts	78,933	88,388
Receivables charged off, net of recoveries	(84,342)	(85,891)
Balance, end of year	<u>\$ 60,812</u>	<u>\$ 66,221</u>

4. CAPITAL ASSETS, NET

Capital assets as of June 30, 2021 and capital asset activity for the year ended June 30, 2021 are summarized as follows (in thousands):

	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 31,406	\$ —	\$ —	\$ 31,406
Non-depreciable land improvements	18,809	—	—	18,809
Depreciable land improvements	9,332	6	—	9,338
Buildings	1,036,992	42,330	—	1,079,322
Fixed equipment	45,430	6,702	—	52,132
Infrastructure	31,859	5	—	31,864
Equipment	336,276	54,619	17,904	372,991
Vehicles	1,567	696	245	2,018
Capitalized software	140,711	67,622	—	208,333
Artwork	2,888	115	—	3,003
Construction in process	36,984	17,932	27,944	26,972
Certificate of need	11,609	—	—	11,609
	<u>1,703,863</u>	<u>190,027</u>	<u>46,093</u>	<u>1,847,797</u>
<u>Accumulated Depreciation:</u>				
Depreciable land improvements	6,572	324	—	6,896
Buildings	300,189	27,682	—	327,871
Fixed equipment	27,193	3,685	—	30,878
Infrastructure	12,219	1,275	—	13,494
Equipment	222,114	34,771	13,391	243,494
Vehicles	1,044	223	245	1,022
Capitalized software	75,693	8,266	—	83,959
	<u>645,024</u>	<u>76,226</u>	<u>13,636</u>	<u>707,614</u>
Capital assets, net	<u>\$ 1,058,839</u>	<u>\$ 113,801</u>	<u>\$ 32,457</u>	<u>\$ 1,140,183</u>

Capital assets as of June 30, 2020 and capital asset activity for the year ended June 30, 2020 are summarized as follows (in thousands):

	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 31,406	\$ —	\$ —	\$ 31,406
Non-depreciable land improvements	17,859	950	—	18,809
Depreciable land improvements	9,081	251	—	9,332
Buildings	999,438	38,346	792	1,036,992
Fixed equipment	41,433	3,997	—	45,430
Infrastructure	31,859	—	—	31,859
Equipment	321,389	29,621	14,734	336,276
Vehicles	1,281	322	36	1,567
Capitalized software	112,001	28,710	—	140,711
Artwork	2,863	25	—	2,888
Construction in process	22,200	31,159	16,375	36,984
Certificate of need	11,609	—	—	11,609
	<u>1,602,419</u>	<u>133,381</u>	<u>31,937</u>	<u>1,703,863</u>
<u>Accumulated Depreciation:</u>				
Depreciable land improvements	6,251	321	—	6,572
Buildings	274,564	26,281	656	300,189
Fixed equipment	23,858	3,335	—	27,193
Infrastructure	10,944	1,275	—	12,219
Equipment	204,599	30,770	13,255	222,114
Vehicles	908	172	36	1,044
Capitalized software	67,011	8,682	—	75,693
	<u>588,135</u>	<u>70,836</u>	<u>13,947</u>	<u>645,024</u>
Capital assets, net	<u>\$ 1,014,284</u>	<u>\$ 62,545</u>	<u>\$ 17,990</u>	<u>\$ 1,058,839</u>

Additions to equipment and depreciation included equipment purchased by the Surgery Center of Lexington, LLC, of \$507 thousand for both cost and depreciation in fiscal year 2021.

At June 30, 2021, the System has commitments in construction projects in progress totaling approximately \$177.6 million in scope. The estimated cost to complete these projects was approximately \$147.9 million. Such construction is principally financed by the System's cash reserves and proceeds from the System general receipts bonds.

Interest costs incurred during construction, net of related investment income, are capitalized. Total interest capitalized was \$1.7 million for 2021 and \$1.6 million for 2020.

During 2021 and 2020, the System utilized capital leases to acquire various items of equipment. The net book value for capitalized leased land, buildings and equipment is \$48.5 million and \$50.0 million at June 30, 2021 and 2020, respectively. The net book value for capitalized leased land, buildings and equipment for the Surgery Center of Lexington, LLC is recorded as \$14.0 million for the years ended June 30, 2021 and 2020, respectively.

5. NOTES RECEIVABLE

Notes receivable at June 30, 2021 and 2020 are as follows (in thousands):

	<u>2021</u>	<u>2020</u>
Non-interest bearing, unsecured receivable from UK College of Pharmacy	\$ 2,932	\$ 3,367
Non-interest bearing, unsecured receivable from UK College of Nursing	1,997	2,307
Total	<u>\$ 4,929</u>	<u>\$ 5,674</u>
Current portion	\$ 2,797	\$ 2,607
Noncurrent portion	2,132	3,067
Total	<u>\$ 4,929</u>	<u>\$ 5,674</u>

6. OTHER ASSETS

Other assets at June 30, 2021 and 2020 are as follows (in thousands):

	<u>2021</u>	<u>2020</u>
Amounts on deposit with trustee	\$ 79	\$ 67
Noncurrent portion of prepaid expenses	1,749	490
Pledges receivable noncurrent, net	494	553
Goodwill	2,155	2,169
Total	<u>\$ 4,477</u>	<u>\$ 3,279</u>

The amounts on deposit with the trustee represent cash equivalents, measured as a level 1 on the fair value hierarchy as discussed in note 2.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2021 and 2020 are summarized as follows (in thousands):

	<u>2021</u>	<u>2020</u>
Payable to vendors and contractors	\$ 116,137	\$ 71,188
Due to the University of Kentucky	5,791	6,244
Accrued expenses, including vacation leave	68,606	67,170
Total	<u>\$ 190,534</u>	<u>\$ 144,602</u>

8. LONG-TERM DEBT

Long-term debt as of June 30, 2021 and 2020 are summarized as follows (in thousands):

	2021					
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Noncurrent Portion
General Receipts						
Project Notes	\$ 509,267	\$ —	\$ 19,325	\$ 489,942	\$ 20,269	\$ 469,673
Note Payable	8,409	585	457	8,537	799	7,738
Due to the University of Kentucky	10,031	—	3,281	6,750	3,343	3,407
Total	<u>\$ 527,707</u>	<u>\$ 585</u>	<u>\$ 23,063</u>	<u>\$ 505,229</u>	<u>\$ 24,411</u>	<u>\$ 480,818</u>
	2020					
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Noncurrent Portion
General Receipts						
Project Notes	\$ 525,537	\$ —	\$ 16,270	\$ 509,267	\$ 19,325	\$ 489,942
Note Payable	—	8,415	6	8,409	733	7,676
Due to the University of Kentucky	13,148	—	3,117	10,031	3,228	6,803
Total	<u>\$ 538,685</u>	<u>\$ 8,415</u>	<u>\$ 19,393</u>	<u>\$ 527,707</u>	<u>\$ 23,286</u>	<u>\$ 504,421</u>

Principal maturities and interest on long-term debt for the next five years and in subsequent five-year periods as of June 30, 2021 are as follows (in thousands):

	Principal	Interest	Total
2022	\$ 24,411	\$ 21,044	\$ 45,455
2023	25,468	19,949	45,417
2024	23,226	18,801	42,027
2025	24,288	17,687	41,975
2026	25,327	16,599	41,926
2027-2031	111,659	66,369	178,028
2032-2036	106,510	45,066	151,576
2037-2041	111,130	21,651	132,781
2042-2046	50,225	5,296	55,521
2047-2048	2,985	105	3,090
Total	<u>\$ 505,229</u>	<u>\$ 232,567</u>	<u>\$ 737,796</u>

Bond premiums, which are included in current and noncurrent accrued liabilities, are amortized over the life of the bond using the effective interest method.

The general receipts project notes consist of bonds in the original amount of \$552.4 million dated November 24, 2009 through February 20, 2018, which bear interest at 2.34% to 3.65%. The bonds are payable in annual installments through June 30, 2048. The System is required to make semi-annual deposits of varying amounts to the debt service funds held by the trustees. The bonds are secured by pledged revenues of the University, which include the net revenues of the System.

On November 24, 2009, \$100.6 million of the University of Kentucky General Receipts 2009 Bonds Series B were issued at a net interest cost of 3.59%. These bonds were issued as Build America Bonds (BAB) as authorized under the American Recovery and Reinvestment Act of 2009. The System will receive an annual cash subsidy from the U.S. Treasury equal to 35% of the interest payable on the bonds. This subsidy, which was approximately \$1.6 million and \$1.7 million during fiscal years 2021 and 2020, respectively, is included in gifts and non-exchange grants in the Statements of Revenues, Expenses and Changes in Net Position. The subsidy payment is contingent on federal regulations and may be subject to change. On March 1, 2013, President Barack Obama signed an executive order on reducing the budgetary authority in accounts subject to sequestration. As a result, the BAB subsidy was reduced to approximately 33% in 2021 and 2020.

On July 30, 2010, the System entered into an unsecured internal loan agreement with the University to acquire funding for construction of a suite of operating rooms in the patient care facility. Funds were transferred to the construction project as needed and will be repaid over a ten year period. Interest shall be charged based on the historical performance of the two-year U.S. Treasury note plus one percent. The total effective rate was 1.91% for interest payments in 2021 and 3.56% in 2020. The annual interest rate will be determined March 1 and be effective for the following fiscal year.

On February 28, 2019, approximately \$8.4 million of Surgery Blue promissory note was issued at a variable interest rate between 3.2% and 4.5%. These notes were issued for the purpose of funding construction and development Lexington Surgery Center projects. This note is a multi-draw term loan payable in full upon the maturity date and upon the terms and conditions provided in the promissory note.

9. CAPITAL LEASE OBLIGATIONS

Capital lease obligations as of June 30, 2021 and 2020 are summarized as follows (in thousands):

2021					
Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Noncurrent Portion
\$ 25,216	\$ 1,475	\$ 2,288	\$ 24,403	\$ 2,480	\$ 21,923
2020					
Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Noncurrent Portion
\$ 23,228	\$ 6,267	\$ 4,279	\$ 25,216	\$ 2,150	\$ 23,066

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

Years ended June 30		
2022		\$ 3,578
2023		3,504
2024		3,460
2025		3,396
2026		3,354
2027 and later		14,365
Total		31,657
	Less amount representing interest	(7,254)
	Present value of net minimum lease payments	\$ 24,403

Capital lease obligations are at varying rates of imputed interest of 0.95% to 4.45%.

10. LONG-TERM LIABILITIES - OTHER

Other long-term liabilities as of June 30, 2021 and 2020 are summarized as follows (in thousands):

	2021			
	Beginning Balance	Additions	Reductions	Ending Balance
Refundable deposits	\$ 10	\$ —	\$ —	\$ 10
Workers compensation	220	—	39	181
Noncurrent construction retainage	384	25	384	25
Noncurrent unamortized bond premium	25,873	77	3,777	22,173
Noncurrent lease payable	—	12,152	—	12,152
Long-term liabilities - other	<u>\$ 26,487</u>	<u>\$ 12,254</u>	<u>\$ 4,200</u>	<u>\$ 34,541</u>

	2020			
	Beginning Balance	Additions	Reductions	Ending Balance
Refundable deposits	\$ 21	\$ —	\$ 11	\$ 10
Workers compensation	339	—	119	220
Noncurrent construction retainage	85	384	85	384
Noncurrent unamortized bond premium	25,873	—	—	25,873
Long-term liabilities - other	<u>\$ 26,318</u>	<u>\$ 384</u>	<u>\$ 215</u>	<u>\$ 26,487</u>

11. DESIGNATIONS OF UNRESTRICTED NET POSITION

Unrestricted net position is designated for specific purposes by action of the University's Board of Trustees or management or may otherwise be limited by contractual obligations. Commitments for the use of unrestricted net position at June 30, 2021 and 2020 are as follows (in thousands):

	2021	2020
Working capital requirements	\$ 1,076,012	\$ 757,586
Future capital expenditures	524,710	402,394
Total	<u>\$ 1,600,722</u>	<u>\$ 1,159,980</u>

12. INVESTMENT INCOME (LOSS)

Components of investment income for the years ended June 30, 2021 and 2020 are as follows (in thousands):

	<u>2021</u>	<u>2020</u>
Interest and dividends earned on endowment investments	\$ 3,431	\$ 3,542
Realized and unrealized gains (losses) on endowment investments	99,571	(4,385)
Interest and dividends on cash and non-endowment investments	1,301	11,040
Realized and unrealized gains on non-endowment investments	51	441
Total	<u>\$ 104,354</u>	<u>\$ 10,638</u>

13. PLEDGED REVENUES

The University has substantially pledged all of the unrestricted operating and nonoperating revenues, including the System revenues, to repay the general receipts bonds and notes issued during 2009 to 2018. Only the General Receipts 2009 Bonds Series B, General Receipts Bonds 2014 Series D, General Receipts Bonds 2015 Series A and B and General Receipts 2018 Bonds Series A are reflected as the System debt. Proceeds from the bonds and notes provided funding for the construction of the patient care facility and the refunding of previously issued notes. The bonds and notes are payable from unrestricted operating and nonoperating revenues and are payable through 2048. Annual principal and interest payments on bonds and notes are expected to require less than three percent of pledged revenues. The total principal and interest remaining to be paid on the bonds and notes is \$730.1 million and \$763.5 million as of June 30, 2021 and 2020, respectively. Principal and interest paid for each of the years ended June 30, 2021 and 2020 was \$40.2 million and \$37.2 million, respectively.

14. RETIREMENT PLANS

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

Group I	Established July 1, 1964, for faculty and certain administrative officials.
Group II	Established July 1, 1971, for staff members in the clerical, technical and service categories.
Group III	Established July 1, 1972, for staff members in the managerial, professional and scientific categories.

Participation in these groups of the University of Kentucky Retirement Plan is mandatory for all regular full-time employees age 30 and older. Participation is voluntary until age 30. The System contributes 10% and each employee contributes five percent of eligible compensation. All payments are vested immediately for employees hired prior to January 1, 2010. For employees hired after January 1, 2010, employer contributions are vested after three years. Due to the COVID-19 pandemic and fiscal responsibility, the University decided to lower the retirement plan contributions to 5% for fiscal year 2021, but has returned it to 10% in fiscal year 2022.

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

- Teachers Insurance and Annuity Association (TIAA)
- Fidelity Investments Institutional Services Company

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

The total contributions charged to operations for the various retirement plans were approximately \$22.0 million and \$40.4 million for the years ended June 30, 2021 and 2020, respectively. Employees contributed \$22.0 million and \$20.2 million during fiscal years 2021 and 2020, respectively. The payroll for employees covered by the retirement plans was \$439.2 million and \$403.9 million for fiscal years 2021 and 2020, respectively.

15. HEALTH INSURANCE BENEFITS FOR RETIREES

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

The University provides a pre-65 credit of up to 90% 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 \$88 per month for fiscal year 2021 and \$25 per month for fiscal year 2020 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 Other Postemployment Benefit trust based on a funding policy supported by an actuarial study in accordance with the parameters of GASB Statement No. 75.

As an organizational unit of the University, the System has recognized its share of the contribution in employee benefit costs and has no additional liability for this benefit as of June 30, 2021.

16. RISK MANAGEMENT

The University, of which the System is an organizational unit, is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by (1) the State Fire and Tornado Insurance Fund (the Fund), (2) Sovereign Immunity and the Commonwealth's 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 \$5 thousand and \$1.0 million per occurrence. Losses in excess of \$1.0 million are insured by commercial carriers up to \$1.5 billion per occurrence. Buildings and contents are insured at replacement cost. As a state agency, the University is vested with Sovereign Immunity and is subject to the provisions of the Board of Claims Act, under which the University's liability for certain negligence claims is limited to \$200 thousand for any one person or \$350 thousand for all persons damaged by a single act of negligence. Claims against educators' errors and omissions and wrongful acts are insured through a reciprocal risk retention group. There have been no significant reductions in insurance coverage from fiscal year 2020 to 2021. Settlements have not exceeded insurance coverage during the past five years.

The University and its agents are insured against medical malpractice by a combination of Sovereign Immunity, self-insurance, commercial liability insurance, and an excess coverage fund established by the Commonwealth. An actuarial valuation is performed to determine the self insurance funding requirements and the fund liability, which has been discounted using an interest rate of 3.5%. The malpractice liability at June 30, 2021, is based on the requirements of GASB Statement No. 10, which requires that a liability for claims be recorded if it is probable that a liability has occurred and the amount of loss can be reasonably estimated. The liability includes an estimate for claims that have been incurred but not reported at June 30, 2021. All assets

and liabilities related to medical malpractice are recorded in the financial records of the University and, accordingly, no assets or liabilities related to medical malpractice are recorded on the System's financial statements. However, the System does fund its required share of the actuarially determined medical malpractice expense.

The University is self-insured for the long-term disability income program and has established a 501(c)(9) trust for purposes of paying claims and establishing necessary reserves. The University currently plans to contribute to the trust based on an amount actuarially determined in accordance with the parameters of GASB Statement No. 75. As an organizational unit of the University, the System has recognized its share of the contribution in employee benefit costs and has no additional liability for this benefit at June 30, 2021.

The University also self-insures certain employee benefits, including health insurance, worker's compensation and unemployment claims. The University has recorded an estimate for asserted claims as of June 30, 2021.

17. TRANSACTIONS WITH RELATED PARTIES

Due to the nature of the relationship of the System with the University, the System has substantial transactions with the University, including purchases of various supplies and services. Additionally, the University and its affiliates provide certain administrative support functions to the System. The System paid approximately \$18.8 million and \$19.9 million, respectively, in fiscal year 2021 and 2020 to the University as reimbursement for various educational and support functions. The System also recognized income from the University for providing medical services to employees under a capitation health plan. During 2021 and 2020, the System received payments of approximately \$35.7 million and \$36.4 million, respectively, from the University for the capitation health plan. Noncapital transfers between the System and the University were \$175.4 million and \$159.5 million, respectively, for fiscal years 2021 and 2020. In addition, capital transfers from the University were \$20.4 million for fiscal year 2021 and \$1.5 million in transfers from the System to the University in fiscal year 2020.

18. FUNDS HELD IN TRUST BY OTHERS

The System is the residual principal and income beneficiary of an irrevocable trust that is held and controlled by external trustees. For the years ended June 30, 2021 and 2020, the System received income from this trust of approximately \$400 and \$500, respectively. The market value of the irrevocable external trust assets as of June 30, 2021 and 2020 was approximately \$79 thousand and \$66 thousand, respectively.

19. CURRENT ECONOMIC UNCERTAINTIES

While the COVID-19 pandemic continues to impact the economy, the duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

20. COMBINED STATEMENTS

The System and its blended component unit's statements were summarized as follows for the years ended June 30, 2021 and 2020:

UNIVERSITY OF KENTUCKY HEALTHCARE
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY
COMBINED STATEMENT OF NET POSITION (in thousands)
AS OF JUNE 30, 2021

	University of Kentucky Healthcare	Surgery Blue, LLC	Beyond Blue Corporation	Eliminations	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES					
Current Assets					
Cash and cash equivalents	\$ 944,212	\$ 1,174	\$ —	\$ —	\$ 945,386
Accounts receivable (less allowance for doubtful accounts)	259,883	1,689	2,621	—	264,193
Inventories and other assets	62,101	57	—	—	62,158
Estimated third-party payor settlements	114,626	—	—	—	114,626
Notes receivable	2,797	—	—	—	2,797
Total current assets	<u>1,383,619</u>	<u>2,920</u>	<u>2,621</u>	<u>—</u>	<u>1,389,160</u>
Noncurrent Assets					
Restricted cash and cash equivalents	81,839	—	—	—	81,839
Long-term investments	411,827	—	—	(1,278)	410,549
Capital assets, net	1,126,171	14,012	—	—	1,140,183
Notes receivable	2,132	—	—	—	2,132
Other assets	2,322	2,155	—	—	4,477
Total noncurrent assets	<u>1,624,291</u>	<u>16,167</u>	<u>—</u>	<u>(1,278)</u>	<u>1,639,180</u>
Total assets	<u>3,007,910</u>	<u>19,087</u>	<u>2,621</u>	<u>(1,278)</u>	<u>3,028,340</u>
Deferred Outflows of Resources	4,403	—	—	—	4,403
Total assets and deferred outflows of resources	<u>3,012,313</u>	<u>19,087</u>	<u>2,621</u>	<u>(1,278)</u>	<u>3,032,743</u>
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES					
Current Liabilities					
Accounts payable and accrued liabilities	188,338	1,463	733	—	190,534
Unearned revenue	76,426	—	—	—	76,426
Long-term debt - current portion	23,612	799	—	—	24,411
Capital lease obligations - current portion	2,160	320	—	—	2,480
Total current liabilities	<u>290,536</u>	<u>2,582</u>	<u>733</u>	<u>—</u>	<u>293,851</u>
Noncurrent Liabilities					
Long-term liabilities - other	34,427	114	—	—	34,541
Long-term liabilities - debt	473,080	7,738	—	—	480,818
Capital lease obligations	16,121	5,802	—	—	21,923
Total noncurrent liabilities	<u>523,628</u>	<u>13,654</u>	<u>—</u>	<u>—</u>	<u>537,282</u>
Total liabilities	<u>814,164</u>	<u>16,236</u>	<u>733</u>	<u>—</u>	<u>831,133</u>
Deferred Inflows of Resources	79	—	—	—	79
Total liabilities and deferred inflows of resources	<u>814,243</u>	<u>16,236</u>	<u>733</u>	<u>—</u>	<u>831,212</u>
NET POSITION					
Net investment in capital assets	<u>587,407</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>587,407</u>
Restricted					
Nonexpendable other	1,667	—	—	—	1,667
Expendable	11,735	—	—	—	11,735
Total restricted	<u>13,402</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>13,402</u>
Unrestricted	<u>1,597,261</u>	<u>2,851</u>	<u>1,888</u>	<u>(1,278)</u>	<u>1,600,722</u>
Total net position	<u>\$ 2,198,070</u>	<u>\$ 2,851</u>	<u>\$ 1,888</u>	<u>\$ (1,278)</u>	<u>\$ 2,201,531</u>

UNIVERSITY OF KENTUCKY HEALTHCARE
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY
COMBINED STATEMENT OF NET POSITION (in thousands)
AS OF JUNE 30, 2020

	University of Kentucky Healthcare	Surgery Blue, LLC	Beyond Blue Corporation	Eliminations	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES					
Current Assets					
Cash and cash equivalents	\$ 790,957	\$ 813	\$ —	\$ —	\$ 791,770
Accounts receivable (less allowance for doubtful accounts)	200,312	1,362	—	—	201,674
Inventories and other assets	50,110	60	—	—	50,170
Estimated third-party payor settlements	15,896	—	—	—	15,896
Notes receivable	2,607	—	—	—	2,607
Total current assets	<u>1,059,882</u>	<u>2,235</u>	<u>—</u>	<u>—</u>	<u>1,062,117</u>
Noncurrent Assets					
Restricted cash and cash equivalents	90,138	—	—	—	90,138
Long-term investments	313,292	—	—	(1,466)	311,826
Capital assets, net	1,043,979	14,860	—	—	1,058,839
Notes receivable	3,067	—	—	—	3,067
Other assets	1,110	2,169	—	—	3,279
Total noncurrent assets	<u>1,451,586</u>	<u>17,029</u>	<u>—</u>	<u>(1,466)</u>	<u>1,467,149</u>
Total assets	<u>2,511,468</u>	<u>19,264</u>	<u>—</u>	<u>(1,466)</u>	<u>2,529,266</u>
Deferred Outflows of Resources	5,549	—	—	—	5,549
Total assets and deferred outflows of resources	<u>2,517,017</u>	<u>19,264</u>	<u>—</u>	<u>(1,466)</u>	<u>2,534,815</u>
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES					
Current Liabilities					
Accounts payable and accrued liabilities	143,236	1,366	—	—	144,602
Unearned revenue	102,339	—	—	—	102,339
Long-term debt - current portion	22,553	733	—	—	23,286
Capital lease obligations - current portion	1,880	270	—	—	2,150
Total current liabilities	<u>270,008</u>	<u>2,369</u>	<u>—</u>	<u>—</u>	<u>272,377</u>
Noncurrent Liabilities					
Long-term liabilities - other	26,487	—	—	—	26,487
Long-term liabilities - debt	496,745	7,676	—	—	504,421
Capital lease obligations	17,065	6,001	—	—	23,066
Total noncurrent liabilities	<u>540,297</u>	<u>13,677</u>	<u>—</u>	<u>—</u>	<u>553,974</u>
Total liabilities	<u>810,305</u>	<u>16,046</u>	<u>—</u>	<u>—</u>	<u>826,351</u>
Deferred Inflows of Resources	66	—	—	—	66
Total liabilities and deferred inflows of resources	<u>810,371</u>	<u>16,046</u>	<u>—</u>	<u>—</u>	<u>826,417</u>
NET POSITION					
Net investment in capital assets	<u>534,874</u>	<u>180</u>	<u>—</u>	<u>—</u>	<u>535,054</u>
Restricted					
Nonexpendable other	1,616	—	—	—	1,616
Expendable	11,748	—	—	—	11,748
Total restricted	<u>13,364</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>13,364</u>
Unrestricted	<u>1,158,408</u>	<u>3,038</u>	<u>—</u>	<u>(1,466)</u>	<u>1,159,980</u>
Total net position	<u>\$ 1,706,646</u>	<u>\$ 3,218</u>	<u>\$ —</u>	<u>\$ (1,466)</u>	<u>\$ 1,708,398</u>

UNIVERSITY OF KENTUCKY HEALTHCARE
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (in thousands)
FOR THE YEAR ENDED JUNE 30, 2021

	University of Kentucky Healthcare	Surgery Blue, LLC	Beyond Blue Corporation	Eliminations	Total
OPERATING REVENUES					
Net patient service revenues, less provision for doubtful accounts	\$ 2,333,845	\$ 13,786	\$ —	\$ —	\$ 2,347,631
Sales and services	112,697	176	2,621	—	115,494
Management contract revenue	43,447	—	—	—	43,447
Total operating revenues	<u>2,489,989</u>	<u>13,962</u>	<u>2,621</u>	<u>—</u>	<u>2,506,572</u>
OPERATING EXPENSES					
Salaries and wages	632,099	3,243	5	—	635,347
Fringe benefits	155,342	647	—	—	155,989
Supplies	597,964	6,181	—	—	604,145
Purchased services	175,859	265	728	—	176,852
Other expenses	237,666	1,679	—	—	239,345
Depreciation	75,080	1,146	—	—	76,226
Management contract expenses	40,351	—	—	—	40,351
Total operating expenses	<u>1,914,361</u>	<u>13,161</u>	<u>733</u>	<u>—</u>	<u>1,928,255</u>
Net income from continuing operations	<u>575,628</u>	<u>801</u>	<u>1,888</u>	<u>—</u>	<u>578,317</u>
NONOPERATING REVENUES (EXPENSES)					
Provider relief fund	30,261	—	—	—	30,261
Additions to permanent endowments	51	—	—	—	51
Gifts and non-exchange grants	3,866	—	—	—	3,866
Capital gifts	519	—	—	—	519
Investment income	104,158	8	—	188	104,354
Interest expense	(17,145)	(654)	—	—	(17,799)
Loss on disposal of capital assets	(1,446)	—	—	—	(1,446)
Other	(8,609)	(522)	—	—	(9,131)
Net nonoperating revenues (expenses)	<u>111,655</u>	<u>(1,168)</u>	<u>—</u>	<u>188</u>	<u>110,675</u>
Net income (loss) before other revenues, expenses, gains, or losses	<u>687,283</u>	<u>(367)</u>	<u>1,888</u>	<u>188</u>	<u>688,992</u>
Transfers to the University of Kentucky for noncapital purposes	(175,444)	—	—	—	(175,444)
Transfers from the University of Kentucky for capital purposes	(20,415)	—	—	—	(20,415)
Total other expenses	<u>(195,859)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(195,859)</u>
INCREASE (DECREASE) IN NET POSITION	<u>491,424</u>	<u>(367)</u>	<u>1,888</u>	<u>188</u>	<u>493,133</u>
NET POSITION, beginning of year	<u>1,706,646</u>	<u>3,218</u>	<u>—</u>	<u>(1,466)</u>	<u>1,708,398</u>
NET POSITION, end of year	<u>\$ 2,198,070</u>	<u>\$ 2,851</u>	<u>\$ 1,888</u>	<u>\$ (1,278)</u>	<u>\$ 2,201,531</u>

UNIVERSITY OF KENTUCKY HEALTHCARE
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (in thousands)
FOR THE YEAR ENDED JUNE 30, 2020

	University of Kentucky Healthcare	Surgery Blue, LLC	Beyond Blue Corporation	Eliminations	Total
OPERATING REVENUES					
Net patient service revenues, less provision for doubtful accounts	\$ 1,996,086	\$ 12,297	\$ —	\$ —	\$ 2,008,383
Sales and services	98,633	46	—	—	98,679
Management contract revenue	41,930	—	—	—	41,930
Total operating revenues	<u>2,136,649</u>	<u>12,343</u>	<u>—</u>	<u>—</u>	<u>2,148,992</u>
OPERATING EXPENSES					
Salaries and wages	571,685	3,081	—	—	574,766
Fringe benefits	155,834	576	—	—	156,410
Supplies	514,711	4,840	—	—	519,551
Purchased services	127,205	250	—	—	127,455
Other expenses	220,556	1,849	—	—	222,405
Depreciation	68,336	689	—	—	69,025
Management contract expenses	38,970	—	—	—	38,970
Total operating expenses	<u>1,697,297</u>	<u>11,285</u>	<u>—</u>	<u>—</u>	<u>1,708,582</u>
Net income from continuing operations	<u>439,352</u>	<u>1,058</u>	<u>—</u>	<u>—</u>	<u>440,410</u>
NONOPERATING REVENUES (EXPENSES)					
Provider relief fund	—	—	—	—	—
Additions to permanent endowments	26	—	—	—	26
Gifts and non-exchange grants	4,666	—	—	—	4,666
Capital gifts	104	—	—	—	104
Investment income	10,846	10	—	(218)	10,638
Interest expense	(17,869)	(354)	—	—	(18,223)
Loss on disposal of capital assets	(1,523)	13	—	—	(1,510)
Other	(869)	(300)	—	—	(1,169)
Net nonoperating revenues (expenses)	<u>(4,619)</u>	<u>(631)</u>	<u>—</u>	<u>(218)</u>	<u>(5,468)</u>
Net income before other revenues, expenses, gains, or losses	<u>434,733</u>	<u>427</u>	<u>—</u>	<u>(218)</u>	<u>434,942</u>
Transfers to the University of Kentucky for noncapital purposes	(159,464)	—	—	—	(159,464)
Transfers to the University of Kentucky for capital purposes	1,546	—	—	—	1,546
Total other expenses	<u>(157,918)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(157,918)</u>
INCREASE (DECREASE) IN NET POSITION	<u>276,815</u>	<u>427</u>	<u>—</u>	<u>(218)</u>	<u>277,024</u>
NET POSITION, beginning of year	<u>1,429,831</u>	<u>2,791</u>	<u>—</u>	<u>(1,248)</u>	<u>1,431,374</u>
NET POSITION, end of year	<u>\$ 1,706,646</u>	<u>\$ 3,218</u>	<u>\$ —</u>	<u>\$ (1,466)</u>	<u>\$ 1,708,398</u>

UNIVERSITY OF KENTUCKY HEALTHCARE
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY
COMBINED STATEMENT OF CASH FLOWS (in thousands)
FOR THE YEAR ENDED JUNE 30, 2021

	University of Kentucky Healthcare	Surgery Blue, LLC	Beyond Blue Corporation	Eliminations	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Net patient service revenues	\$ 2,177,532	\$ 13,460	\$ —	\$ —	\$ 2,190,992
Sales and services	112,697	176	—	—	112,873
Management contract services	45,804	—	—	—	45,804
Payments to vendors and contractors	(981,731)	(8,113)	5	(188)	(990,027)
Salaries, wages and fringe benefits	(786,097)	(3,673)	(5)	—	(789,775)
Payments on management contract services	(40,451)	—	—	—	(40,451)
Other payments	(13)	—	—	—	(13)
Net cash provided (used) by operating activities	<u>527,741</u>	<u>1,850</u>	<u>—</u>	<u>(188)</u>	<u>529,403</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Provider relief fund	—	—	—	—	—
Gifts	4,444	—	—	—	4,444
Additions to permanent endowments	51	—	—	—	51
Payments on loans from University of Kentucky departmental units	577	—	—	—	577
Transfers to the University of Kentucky for noncapital purposes	(175,443)	(525)	—	—	(175,968)
Net cash used by noncapital financing activities	<u>(170,371)</u>	<u>(525)</u>	<u>—</u>	<u>—</u>	<u>(170,896)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Purchases of capital assets	(138,771)	(153)	—	—	(138,924)
Principal payments-capital leases and long-term obligations	(24,602)	(750)	—	—	(25,352)
Interest payments-capital leases and long-term obligations	(17,376)	(654)	—	—	(18,030)
Proceeds from long-term obligations	—	585	—	—	585
Other capital and related financing payments	(12,563)	—	—	—	(12,563)
Transfers from the University of Kentucky for capital purposes	(24,493)	—	—	—	(24,493)
Net cash used by capital and related financing activities	<u>(217,805)</u>	<u>(972)</u>	<u>—</u>	<u>—</u>	<u>(218,777)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sales and maturities of investments	127,711	—	—	—	127,711
Interest and dividends on investments	8,103	8	—	188	8,299
Purchase of investments	(130,423)	—	—	—	(130,423)
Net cash provided by investing activities	<u>5,391</u>	<u>8</u>	<u>—</u>	<u>188</u>	<u>5,587</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>144,956</u>	<u>361</u>	<u>—</u>	<u>—</u>	<u>145,317</u>
CASH AND CASH EQUIVALENTS, beginning of year	<u>881,095</u>	<u>813</u>	<u>—</u>	<u>—</u>	<u>881,908</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 1,026,051</u>	<u>\$ 1,174</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,027,225</u>

UNIVERSITY OF KENTUCKY HEALTHCARE
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY
COMBINED STATEMENT OF CASH FLOWS (in thousands)
FOR THE YEAR ENDED JUNE 30, 2020

	University of Kentucky Healthcare	Surgery Blue, LLC	Beyond Blue Corporation	Eliminations	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Net patient service revenues	\$ 2,021,816	\$ 11,581	\$ —	\$ —	\$ 2,033,397
Sales and services	98,632	47	—	—	98,679
Management contract services	39,519	—	—	—	39,519
Payments to vendors and contractors	(863,918)	(6,554)	—	218	(870,254)
Salaries, wages and fringe benefits	(709,583)	(3,527)	—	—	(713,110)
Payments on management contract services	(34,143)	—	—	—	(34,143)
Other receipts (payments)	(741)	—	—	—	(741)
Net cash provided by operating activities	<u>551,582</u>	<u>1,547</u>	<u>—</u>	<u>218</u>	<u>553,347</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Provider relief fund	30,261	—	—	—	30,261
Gifts	4,817	—	—	—	4,817
Additions to permanent endowments	26	—	—	—	26
Payments on loans from University of Kentucky departmental units	426	—	—	—	426
Transfers to the University of Kentucky for noncapital purposes	(159,464)	(300)	—	—	(159,764)
Net cash used by noncapital financing activities	<u>(123,934)</u>	<u>(300)</u>	<u>—</u>	<u>—</u>	<u>(124,234)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Purchases of capital assets	(94,540)	(8,402)	—	—	(102,942)
Principal payments-capital leases and long-term obligations	(23,421)	(252)	—	—	(23,673)
Interest payments-capital leases and long-term obligations	(19,666)	(354)	—	—	(20,020)
Proceeds from long-term obligations	—	8,415	—	—	8,415
Other capital and related financing payments	(5,119)	18	—	—	(5,101)
Transfers to the University of Kentucky for capital purposes	1,546	—	—	—	1,546
Net cash used by capital and related financing activities	<u>(141,200)</u>	<u>(575)</u>	<u>—</u>	<u>—</u>	<u>(141,775)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sales and maturities of investments	167,995	—	—	—	167,995
Interest and dividends on investments	14,198	10	—	(218)	13,990
Purchase of investments	(168,198)	—	—	—	(168,198)
Net cash provided (used) by investing activities	<u>13,995</u>	<u>10</u>	<u>—</u>	<u>(218)</u>	<u>13,787</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>300,443</u>	<u>682</u>	<u>—</u>	<u>—</u>	<u>301,125</u>
CASH AND CASH EQUIVALENTS, beginning of year	<u>580,652</u>	<u>131</u>	<u>—</u>	<u>—</u>	<u>580,783</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 881,095</u>	<u>\$ 813</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 881,908</u>



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