



Central Kentucky Management Services, Inc.

UNIVERSITY OF KENTUCKY • 2023 FINANCIAL STATEMENTS

University of Kentucky
Central Kentucky Management Services, Inc.
A Component Unit of the University of Kentucky
Financial Statements
Years Ended June 30, 2023 and 2022

CONTENTS	PAGE
Independent Auditor's Report	1
Management's Discussion and Analysis	4
Financial Statements	
Statements of Net Position	8
Statements of Revenues, Expenses and Changes in Net Position	9
Statements of Cash Flows	10
Notes to Financial Statements	11
Board of Directors	16

Independent Auditor's Report

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

Opinion

We have audited the financial statements of Central Kentucky Management Services, Inc. (CKMS), a nonprofit corporation affiliated with and a component unit of the University of Kentucky, as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise CKMS's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of CKMS, as of June 30, 2023 and 2022, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audits of the Financial Statements" section of our report. We are required to be independent of CKMS and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audits of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CKMS's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about CKMS's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the GASB, 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 audits 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.

Board of Directors
Central Kentucky
Management Services, Inc.
Page 3

Other Information

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

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

FORVIS,LLP

Louisville, Kentucky
October 6, 2023

CENTRAL KENTUCKY MANAGEMENT SERVICES, INC.
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2023 AND 2022

Central Kentucky Management Services, Inc.'s (CKMS) Management's Discussion and Analysis (MD&A) provides an overview of the financial position and activity of CKMS as of and for the years ended June 30, 2023 and 2022. This discussion has been prepared by management and should be read in conjunction with the accompanying financial statements and the notes appearing in the report.

Financial Highlights

- Total assets decreased \$181,645 or 6.8%. The most significant components of this change was a decrease of \$240,127 in due from the University of Kentucky offset by an increase in cash and cash equivalents of \$60,313.
- Total liabilities decreased \$181,645 or 6.8%. This change was due primarily to a decrease of \$104,669 in the escrow account payable to the UK Healthcare Hospital System and a decrease of \$74,633 in accounts payable and accrued liabilities.
- Net position remained at \$0.
- Operating revenues increased \$3,168,597 or 8.4% to \$41,071,422.
- Operating expenses increased \$3,168,665 or 8.4% to \$41,071,371.

Using the Financial Statements

This financial report consists of three financial statements: the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; and the Statement of Cash Flows. These financial statements are prepared in accordance with GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*.

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

The Statement of Net Position includes all assets, deferred outflows of resources, liabilities, and deferred inflows of resources. It is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

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

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

Reporting Entity

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

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

Condensed Financial Information

Statements of Net Position

	2023	2022	2021
ASSETS			
Current assets	\$ 2,496,827	\$ 2,676,150	\$ 2,057,109
Noncurrent assets	581	2,903	—
Total Assets	<u>2,497,408</u>	<u>2,679,053</u>	<u>2,057,109</u>
LIABILITIES			
Current liabilities	2,497,408	2,678,456	2,057,109
Noncurrent liabilities	—	597	—
Total Liabilities	<u>2,497,408</u>	<u>2,679,053</u>	<u>2,057,109</u>
NET POSITION	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

Assets. As of June 30, 2023, CKMS's total assets amounted to \$2,497,408. Cash and cash equivalents, CKMS's largest asset, totaled \$1,305,669 or 52.3% of total assets. Due from the University of Kentucky totaling \$1,174,924 or 47.0% was CKMS's second largest asset, representing reimbursements owed for staffing services due to the timing of payroll dates. Other current assets totaled \$16,234 or 0.7% of total assets and lease assets, net totaled \$581.

Total assets decreased \$181,645 for the year ended June 30, 2023, driven primarily by a decrease of \$240,127 in due from the University of Kentucky offset by an increase in cash and cash equivalents of \$60,313.

Liabilities. At June 30, 2023, CKMS's liabilities decreased \$181,645 to a total of \$2,497,408. Accounts payable and accrued liabilities, consisting of accrued wages, expenses, and payroll withholdings, was CKMS's largest liability totaling \$1,912,693 or 76.6% of total liabilities. The remaining liabilities, totaling \$584,715 or 23.4% of total liabilities, include an escrow account payable to the UK HealthCare Hospital System totaling \$584,118 (representing net operating revenue in excess of expenses excluding amortization) and lease liabilities, current totaling \$597.

Net Position. Net position was zero at June 30, 2023.

2022 versus 2021. Total assets increased \$621,944 for the year ended June 30, 2022, primarily driven by increases of \$621,978 in due from the University of Kentucky and \$2,903 in lease assets, net offset by decreases of \$3,305 in cash and cash equivalents. Total liabilities increased \$621,944 or 30.2% due to increases of \$406,280 in accounts payable and accrued liabilities \$212,724 in the escrow payable to the UK HealthCare Hospital System and lease liabilities of \$2,940. Total net position remained at zero in 2022 from 2021.

Statements of Revenues, Expenses and Changes in Net Position

	2023	2022	2021
OPERATING REVENUES			
Collections	\$ 334,959,489	\$ 503,666,368	\$1,045,833,108
Remittances to the University of Kentucky and its affiliated corporations	(327,479,756)	(496,224,984)	(1,038,880,191)
Healthcare staffing services	33,572,114	30,441,866	25,422,073
Other revenues	19,575	19,575	423,677
Total operating revenues	<u>41,071,422</u>	<u>37,902,825</u>	<u>32,798,667</u>
OPERATING EXPENSES			
Salaries, wages and benefits	38,595,919	35,937,876	30,283,511
Other operating expenses	2,473,130	1,962,508	2,515,156
Amortization	2,322	2,322	1,138
Total operating expenses	<u>41,071,371</u>	<u>37,902,706</u>	<u>32,799,805</u>
NET INCOME (LOSS) FROM OPERATIONS	<u>51</u>	<u>119</u>	<u>(1,138)</u>
NONOPERATING EXPENSES			
Interest on lease asset-related debt	(51)	(119)	—
Loss on disposal of capital assets	—	—	(31,624)
Total nonoperating expenses	<u>(51)</u>	<u>(119)</u>	<u>(31,624)</u>
INCREASE (DECREASE) IN NET POSITION	—	—	(32,762)
NET POSITION, beginning of year	—	—	32,762
NET POSITION, end of year	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

2023. Collections decreased \$168,706,879 or 33.5% due to a decrease in active collections caused by the implementation of the EPIC system and as a result were no longer recorded by CKMS when the legacy system phased out as of February 28, 2023. Operating revenues increased \$3,168,597 or 8.4% to \$41,071,422 for the year ended June 30, 2023. The sources of operating revenue for CKMS are collections for healthcare receivables for the University and its affiliated corporations and reimbursements for staffing services provided for the UK HealthCare Hospital System. The increase was primarily due to the net increase in reimbursements for staffing services provided for the UK Healthcare Hospital System.

Operating expenses totaled \$41,071,371, an increase of \$3,168,665 or 8.4% from the prior year. Salaries, wages and benefits comprised \$38,595,919 or 94.0% of total operating expenses. The increase was due to increases in salaries and wages related to staffing and other support provided to the UK HealthCare Hospital System of \$3,016,173 offset by a \$358,130 decrease in employee benefits. Other operating expenses increased \$510,622 due to increases in legal and professional expenses of \$443,057, communications of \$37,032 and other expenses of \$30,533.

2022 versus 2021. During the year ended June 30, 2022, operating revenues increased \$5,104,158 or 15.6% primarily due to a net increase in reimbursements for healthcare staffing services provided for the UK HealthCare Hospital System. Operating expenses increased \$5,102,901 or 15.6% due primarily to increases in salaries, wages, and employee benefits related to staffing and other support provided to UK HealthCare Hospital System.

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

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

Statements of Cash Flows

	<u>2023</u>	<u>2022</u>	<u>2021</u>
CASH PROVIDED (USED) BY:			
Operating activities	\$ 62,712	\$ (908)	\$ 108,383
Capital and related financing activities	(2,399)	(2,397)	—
Net increase (decrease) in cash and cash equivalents	60,313	(3,305)	108,383
CASH AND CASH EQUIVALENTS, beginning of year	<u>1,245,356</u>	<u>1,248,661</u>	<u>1,140,278</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 1,305,669</u>	<u>\$ 1,245,356</u>	<u>\$ 1,248,661</u>

Cash provided from operating activities consists of cash receipts of \$7,375,064 related to collections, net of remittances to the University and its affiliated corporations, and \$33,812,241 related to the reimbursements for staffing services provided for the UK HealthCare Hospital System. Cash payments for operating activities were primarily made to employees for salaries, wages, and benefits of \$38,648,992. Cash used for capital and related financing activities consists of principal and interest payments on leases totaling \$2,399.

2022 versus 2021. The net decrease in cash of \$3,305 was due to cash used by operating activities and cash used by capital and related financing activities.

Capital Assets and Debt Administration

Capital and Lease Assets. Capital assets, net of accumulated depreciation, totaled \$0 at June 30, 2023, no change from 2022. Lease assets, net of accumulated amortization, totaled \$581 at June 30, 2023.

Debt. CKMS does not have any debt outstanding as of June 30, 2023 or 2022.

Factors Impacting Future Periods

The quantity and quality of healthcare receivables of the University and its related corporations could affect future financial results. Changes to the Affordable Care Act or other healthcare reforms would impact the U.S. healthcare system. CKMS cannot predict the potential impact these reforms may have on future financial results.

CENTRAL KENTUCKY MANAGEMENT SERVICES, INC.
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY
STATEMENTS OF NET POSITION
JUNE 30, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,305,669	\$ 1,245,356
Due from the University of Kentucky	1,174,924	1,415,051
Other current assets	16,234	15,743
Total current assets	<u>2,496,827</u>	<u>2,676,150</u>
Noncurrent Assets		
Lease assets, net	<u>581</u>	<u>2,903</u>
Total noncurrent assets	<u>581</u>	<u>2,903</u>
Total assets	<u>2,497,408</u>	<u>2,679,053</u>
LIABILITIES		
Current Liabilities		
Escrow account - University of Kentucky and its affiliated corporations	584,118	688,787
Accounts payable and accrued liabilities	1,912,693	1,987,326
Lease liabilities - current portion	597	2,343
Total current liabilities	<u>2,497,408</u>	<u>2,678,456</u>
Noncurrent Liabilities		
Lease liabilities	<u>—</u>	<u>597</u>
Total noncurrent liabilities	<u>—</u>	<u>597</u>
Total liabilities	<u>2,497,408</u>	<u>2,679,053</u>
NET POSITION		
Total net position	<u>\$ —</u>	<u>\$ —</u>

See notes to financial statements

CENTRAL KENTUCKY MANAGEMENT SERVICES, INC.
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
OPERATING REVENUES		
Collections	\$ 334,959,489	\$ 503,666,368
Remittances to the University of Kentucky and its affiliated corporations	(327,479,756)	(496,224,984)
Healthcare staffing services	33,572,114	30,441,866
Other revenues	19,575	19,575
Total operating revenues	<u>41,071,422</u>	<u>37,902,825</u>
OPERATING EXPENSES		
Salaries and wages	31,546,790	28,530,617
Employee benefits	7,049,129	7,407,259
Legal and professional	1,815,992	1,372,935
Communications	284,151	247,119
Amortization	2,322	2,322
Other expenses	372,987	342,454
Total operating expenses	<u>41,071,371</u>	<u>37,902,706</u>
Net income from operations	<u>51</u>	<u>119</u>
NONOPERATING EXPENSES		
Interest on lease asset-related debt	(51)	(119)
Total nonoperating expenses	<u>(51)</u>	<u>(119)</u>
INCREASE IN NET POSITION	—	—
NET POSITION, beginning of year	—	—
NET POSITION, end of year	<u>\$ —</u>	<u>\$ —</u>

See notes to financial statements

**CENTRAL KENTUCKY MANAGEMENT SERVICES, INC.
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2023 AND 2022**

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Collections	\$ 334,959,489	\$ 503,666,368
Remittances to the University of Kentucky and its affiliated corporations	(327,584,425)	(496,012,260)
Healthcare staffing services	33,812,241	29,819,888
Payments to vendors and contractors	(2,122,189)	(1,612,332)
Salaries, wages and benefits	(38,648,992)	(35,539,693)
Other payments	(353,412)	(322,879)
Net cash provided (used) by operating activities	<u>62,712</u>	<u>(908)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal paid on leases payable	(2,343)	(2,286)
Interest paid on leases payable	(56)	(111)
Net cash used by capital and related financing activities	<u>(2,399)</u>	<u>(2,397)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	60,313	(3,305)
CASH AND CASH EQUIVALENTS, beginning of year	<u>1,245,356</u>	<u>1,248,661</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 1,305,669</u></u>	<u><u>\$ 1,245,356</u></u>
Reconciliation of net income from operations to net cash provided (used) by operating activities:		
Operating income	\$ 51	\$ 119
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Amortization expense	2,322	2,322
Change in assets and liabilities:		
Due from the University of Kentucky	240,127	(621,978)
Other current assets	(491)	(368)
Escrow account - University of Kentucky and its affiliated corporations	(104,669)	212,724
Accounts payable and accrued liabilities	(74,628)	406,273
Net cash provided (used) by operating activities	<u><u>\$ 62,712</u></u>	<u><u>\$ (908)</u></u>

See notes to financial statements

CENTRAL KENTUCKY MANAGEMENT SERVICES, INC.
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

Basis of Presentation

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

- Net investment in capital assets: Capital and lease assets, net of accumulated depreciation and amortization, and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- Restricted:
 - Nonexpendable* – Net position subject to externally imposed stipulations that they be maintained permanently by CKMS.
 - Expendable* – Net position whose use by CKMS is subject to externally imposed stipulations that can be fulfilled by actions of CKMS pursuant to those stipulations or that expire by the passage of time.
- Unrestricted: Net position whose use by CKMS is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

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

Summary of Significant Accounting Policies

Accrual Basis. The financial statements have been prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when an obligation has been incurred. CKMS reports as a Business-Type Activity (BTA) as defined by GASB 35. BTA's are those activities that are financed in whole or part by fees charged to external parties for goods and services.

Cash and Cash Equivalents. Cash and cash equivalents include all highly liquid investments with a maturity of three months or less.

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

Lease Asset Impairment. CKMS evaluates lease assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a lease asset has occurred. If a lease asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, the accumulated amortization will be accelerated. The amount of the impairment loss will be recorded as the net book value divided proportionately over its remaining years of useful life. No lease asset impairment was recognized during the year ended June 30, 2023.

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

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

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to use estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The accompanying financial statements include estimates for items such as depreciable lives on capital assets and accrued liability accounts.

2. DEPOSITS AND INVESTMENTS

The fair value of deposits and investments, by type, at June 30, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents on deposit with the University	<u>\$ 1,305,669</u>	<u>\$ 1,245,356</u>

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

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

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

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

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

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

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

At June 30, 2023, CKMS had no underlying investments in any one issuer which represented more than five percent of total investments, other than U.S. Treasury and agency obligations.

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

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

3. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2023 and 2022 are as follows:

	2023	2022
Accounts payable	\$ 3,856	\$ 25,411
Accrued wages, expenses and payroll taxes	1,908,837	1,961,915
Total	<u>\$ 1,912,693</u>	<u>\$ 1,987,326</u>

4. RETIREMENT PLAN

Eligible staff members of CKMS are participants in the University of Kentucky Retirement Plan. Under this plan, CKMS and plan participants make contributions to provide retirement benefits for employees. All payments were vested immediately for employees hired before January 1, 2010. For employees hired after that date, employee contributions are vested after three years, which was an amendment to the vesting rule adopted in 2013. CKMS contributes 10% of eligible compensation and employees contribute five percent of eligible compensation. CKMS's share of the costs of these benefits was \$1,261,559 and \$1,861,419 for the years ended June 30, 2023 and 2022, respectively. Employees contributed \$1,309,594 in 2023 and \$1,244,295 in 2022. CKMS's total payroll costs were \$31,546,790 and \$28,530,617 for the years ended June 30, 2023 and 2022, respectively. The total payroll for employees covered by the retirement plan was \$17,943,777 in 2023 and \$18,614,194 in 2022.

5. TRANSACTIONS WITH THE UNIVERSITY OF KENTUCKY

Office space is provided to CKMS by the UK HealthCare Hospital System at no charge. The fair rental value of the office space including utilities is recorded in other revenues and other expenses.

	2023	2022
Rent on office space	\$ 19,575	\$ 19,575
Due from the University of Kentucky	\$ 1,174,924	\$ 1,415,051
Escrow account - University of Kentucky	\$ 578,650	\$ 688,787

6. RISK MANAGEMENT

CKMS is exposed to various risks of loss related to torts; theft of, damages to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance, extension of coverage by the University's participation in an insurance risk retention group or by self-insurance. The insurance coverage limit was reduced from \$1.50 billion in 2022 to \$1.00 billion in 2023. Settlements have not exceeded insurance coverage during the past three years.

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

7. HEALTH INSURANCE BENEFITS FOR RETIREES

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

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 or 10% of total plan cost. The University has established a trust fund to segregate plan assets and the contribution requirements of plan members and the University are established and may be amended by the president of the University. The University contributed to the OPEB trust based on an actuarially determined rate in accordance with the parameters of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

CKMS has recognized its share of the contribution in employee benefit costs and has no additional liability for this benefit at June 30, 2023 and 2022.

8. LONG-TERM DISABILITY (LTD) BENEFITS

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

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

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

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

CKMS has recognized its share of the contribution in employee benefit costs and has no additional liability for this benefit at June 30, 2023 and 2022.

BOARD OF DIRECTORS

Robert DiPaola, President and Chair
Eric N. Monday, Executive Vice President
William E. Thro, Secretary
Craig Collins, Treasurer
Angela S. Martin, Assistant Treasurer



UNIVERSITY FINANCIAL SERVICES
301 Peterson Service Building • Lexington, KY 40506-0005

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

