



Central Kentucky Management Services, Inc.

UNIVERSITY OF KENTUCKY • 2025 FINANCIAL STATEMENTS

University of Kentucky
Central Kentucky Management Services, Inc.
A Component Unit of the University of Kentucky
Financial Statements
Years Ended June 30, 2025 and 2024

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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 the Central Kentucky Management Services, Inc. (CKMS), a component unit of the University of Kentucky, as of and for the years ended June 30, 2025 and 2024, 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, 2025 and 2024, 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 Audit 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 Audit 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 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 GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the listing of the board of directors, 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 Mazars, LLP

**Louisville, Kentucky
October 2, 2025**

**CENTRAL KENTUCKY MANAGEMENT SERVICES, INC.
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2025 AND 2024**

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, 2025 and 2024. 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 \$1,756,767 or 60.3%. The most significant components of this change was a decrease of \$1,455,476 in due from the University of Kentucky and a decrease of \$284,715 in cash and cash equivalents.
- Total liabilities decreased \$1,756,767 or 60.3%. This change was due primarily to a decrease of \$2,161,038 in accounts payable and accrued liabilities offset by an increase of \$406,469 in the escrow account payable to the UK Healthcare Hospital System (the System).
- Net position remained at \$0.
- Operating revenues decreased \$39,035,370 or 98.6% to \$568,366.
- Operating expenses decreased \$39,035,325 or 98.6% to \$568,048.

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 lease assets, is reflected in the financial statements as amortization, 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, and capital and related financing 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. Prior to July 1, 2024, CKMS also provided staffing services to healthcare facilities for the University on a direct cost reimbursement basis. Starting July 1, 2024, CKMS employees became employees of 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 the officers of CKMS are also officers of the University.

Condensed Financial Information

Statements of Net Position

	2025	2024	2023
ASSETS			
Current assets	\$ 1,151,158	\$ 2,905,667	\$ 2,496,827
Noncurrent assets	7,436	9,694	581
Total Assets	1,158,594	2,915,361	2,497,408
LIABILITIES			
Current liabilities	1,153,157	2,907,645	2,497,408
Noncurrent liabilities	5,437	7,716	—
Total Liabilities	1,158,594	2,915,361	2,497,408
NET POSITION	\$ —	\$ —	\$ —

Assets. As of June 30, 2025, CKMS's total assets amounted to \$1,158,594. Cash and cash equivalents totaling \$1,149,832 or 99.3% of total assets represented CKMS's largest asset. Lease assets, net totaling \$7,436 or 0.6% was CKMS's second largest asset. Other current assets totaled \$1,326 or 0.1% of total assets.

Total assets decreased \$1,756,767 for the year ended June 30, 2025, driven primarily by a decrease of \$1,455,476 in due from the University of Kentucky and a decrease of \$284,715 in cash and cash equivalents.

Liabilities. At June 30, 2025, CKMS's liabilities decreased \$1,756,767 to a total of \$1,158,594. Escrow account payable to the System was CKMS's largest liability totaling \$1,147,018 or 99.0% (representing net operating revenue in excess of expenses excluding amortization). The remaining liabilities, totaling \$11,576 or 1.0% of total liabilities, include lease liabilities totaling \$7,716 and accounts payable and accrued liabilities totaling \$3,860.

Net Position. Net position was zero at June 30, 2025.

2024 versus 2023. Total assets increased \$417,953 for the year ended June 30, 2024, primarily driven by increases of \$280,552 in due from the University of Kentucky, \$128,878 in cash and cash equivalents and \$9,113 in lease assets. Total liabilities increased \$417,953 due to increases of \$252,205 in accounts payable and accrued liabilities, \$156,431 in the escrow payable to the System and lease liabilities of \$9,317. Total net position remained at zero in 2024 from 2023.

Statements of Revenues, Expenses and Changes in Net Position

	<u>2025</u>	<u>2024</u>	<u>2023</u>
OPERATING REVENUES			
Collections	\$ 4,126,333	\$ 3,913,170	\$ 334,959,489
Reimbursements from (remittances to) the University of Kentucky and its affiliated corporations	(3,578,630)	904,599	(327,479,756)
Healthcare staffing services	—	34,766,392	33,572,114
Other revenues	<u>20,663</u>	<u>19,575</u>	<u>19,575</u>
Total operating revenues	<u>568,366</u>	<u>39,603,736</u>	<u>41,071,422</u>
OPERATING EXPENSES			
Salaries, wages and benefits	—	38,993,131	38,595,919
Other operating expenses	565,790	607,887	2,473,130
Amortization	<u>2,258</u>	<u>2,355</u>	<u>2,322</u>
Total operating expenses	<u>568,048</u>	<u>39,603,373</u>	<u>41,071,371</u>
NET INCOME FROM OPERATIONS	<u>318</u>	<u>363</u>	<u>51</u>
NONOPERATING REVENUES (EXPENSES)			
Interest on lease asset-related debt	(318)	(376)	(51)
Other nonoperating revenues, net	<u>—</u>	<u>13</u>	<u>—</u>
Total nonoperating expenses	<u>(318)</u>	<u>(363)</u>	<u>(51)</u>
INCREASE IN NET POSITION	<u>—</u>	<u>—</u>	<u>—</u>
NET POSITION, beginning of year	<u>—</u>	<u>—</u>	<u>—</u>
NET POSITION, end of year	<u><u>\$ —</u></u>	<u><u>\$ —</u></u>	<u><u>\$ —</u></u>

2025. Operating revenue decreased \$39,035,370 or 98.6% to \$568,366 for the year end June 30, 2025. The decrease was primarily due to CKMS no longer providing staffing services to the System. Effective July 1, 2024, all CKMS employees, including Eastern State Hospital employees, were transitioned to the System. As a result, CKMS no longer recognized staffing services revenue resulting in a decrease of \$34,766,392 or 100.0%.

Remittances to the University of Kentucky and its affiliated corporations totaled \$3,578,630 in fiscal year 2025 due to collections revenue exceeding the collections expense compared to a reimbursement of \$904,599 in fiscal year 2024. Following the transition, personnel expenses were recorded directly under the System, and reimbursements are no longer required. Collection revenues increased \$213,163 or 5.4% due to higher dollar volume of accounts referred to and collected by CKMS.

Operating expenses totaled \$568,048, a decrease of \$39,035,325 or 98.6% from prior year. The decrease was mainly due to decreases in salaries and wages of \$31,102,370 and employee benefits of \$7,890,761. Beginning in fiscal year 2025, these expenses were paid by the System rather than CKMS following the employee transition. Communication expenses decreased \$67,305 offset by an increase in other expenses of \$25,494.

2024 versus 2023. Effective June 30, 2024, CKMS collection services for health care receivables was changed to collections for delinquent accounts only. Operating revenues decreased \$1,467,686 or 3.6% primarily due to a decrease in collections offset by an increase in reimbursements for healthcare staffing services provided to the the System. Operating expenses decreased \$1,467,998 or 3.6% due primarily to

decrease in legal and professional services and salaries and wages related to staffing and other support provided to the System offset by an increase in employee benefits.

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

	2025	2024	2023
CASH PROVIDED (USED) BY:			
Operating activities	\$ (282,196)	\$ 131,381	\$ 62,712
Capital and related financing activities	(2,519)	(2,503)	(2,399)
Net increase (decrease) in cash and cash equivalents	(284,715)	128,878	60,313
CASH AND CASH EQUIVALENTS, beginning of year	1,434,547	1,305,669	1,245,356
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 1,149,832</u>	<u>\$ 1,434,547</u>	<u>\$ 1,305,669</u>

Cash provided from operating activities consists of cash receipts of \$954,172 related to collections and remittances net of collections to the University and its affiliated corporations and \$1,455,476 related to the reimbursements for staffing services provided for the the System. Cash payments for operating activities of \$2,160,330 represented reimbursements to the System for salaries, wages and benefits accrued in fiscal year 2024. Following the transition of CKMS employees to the System, no payroll related expenses were incurred in fiscal year 2025. Cash used for capital and related financing activities consisted primarily of principal and interest payments on leases totaling \$2,519.

2024 versus 2023. The net increase in cash of \$128,878 was due to cash provided by operating activities offset by 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, 2025, no change from 2024. Lease assets, net of accumulated amortization, totaled \$7,436 and \$9,694 at June 30, 2025 and 2024, respectively.

Debt. CKMS does not have any debt outstanding as of June 30, 2025 or 2024. Lease liabilities totaled \$7,716 and \$9,914 at June 30, 2025 and 2024, respectively.

Factors Impacting Future Periods

The quantity and quality of health care 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, 2025 AND 2024

	<u>2025</u>	<u>2024</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,149,832	\$ 1,434,547
Due from the University of Kentucky	—	1,455,476
Other current assets	1,326	15,644
Total current assets	<u>1,151,158</u>	<u>2,905,667</u>
Noncurrent Assets		
Lease assets, net	7,436	9,694
Total noncurrent assets	<u>7,436</u>	<u>9,694</u>
Total assets	<u>1,158,594</u>	<u>2,915,361</u>
LIABILITIES		
Current Liabilities		
Escrow account - University of Kentucky and its affiliated corporations	1,147,018	740,549
Accounts payable and accrued liabilities	3,860	2,164,898
Lease liabilities - current portion	2,279	2,198
Total current liabilities	<u>1,153,157</u>	<u>2,907,645</u>
Noncurrent Liabilities		
Lease liabilities	5,437	7,716
Total noncurrent liabilities	<u>5,437</u>	<u>7,716</u>
Total liabilities	<u>1,158,594</u>	<u>2,915,361</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, 2025 AND 2024

	2025	2024
OPERATING REVENUES		
Collections	\$ 4,126,333	\$ 3,913,170
Reimbursements from (remittances to) the University of Kentucky and its affiliated corporations	(3,578,630)	904,599
Healthcare staffing services	—	34,766,392
Other revenues	20,663	19,575
Total operating revenues	<u>568,366</u>	<u>39,603,736</u>
OPERATING EXPENSES		
Salaries and wages	—	31,102,370
Employee benefits	—	7,890,761
Legal and professional	506	792
Communications	211,304	278,609
Amortization	2,258	2,355
Other expenses	353,980	328,486
Total operating expenses	<u>568,048</u>	<u>39,603,373</u>
Net income from operations	<u>318</u>	<u>363</u>
NONOPERATING REVENUES (EXPENSES)		
Interest on lease asset-related debt	(318)	(376)
Other nonoperating revenues, net	—	13
Total nonoperating expenses	<u>(318)</u>	<u>(363)</u>
INCREASE IN NET POSITION	—	—
NET POSITION, beginning of year	—	—
NET POSITION, end of year	<u><u>\$ —</u></u>	<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, 2025 AND 2024

	<u>2025</u>	<u>2024</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Collections	\$ 4,126,333	\$ 3,913,170
Reimbursements from (remittances to) the University of Kentucky and its affiliated corporations	(3,172,161)	1,061,030
Healthcare staffing services	1,455,476	34,485,840
Payments to vendors and contractors	(198,197)	(278,112)
Salaries, wages and benefits	(2,160,330)	(38,741,636)
Other payments	(333,317)	(308,911)
Net cash provided (used) by operating activities	<u>(282,196)</u>	<u>131,381</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal paid on leases payable	(2,198)	(2,151)
Interest paid on leases payable	(321)	(365)
Other receipts	—	13
Net cash used by capital and related financing activities	<u>(2,519)</u>	<u>(2,503)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(284,715)	128,878
CASH AND CASH EQUIVALENTS, beginning of year	<u>1,434,547</u>	<u>1,305,669</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 1,149,832</u></u>	<u><u>\$ 1,434,547</u></u>
Reconciliation of net income from operations to net cash provided by operating activities:		
Operating income	\$ 318	\$ 363
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Amortization expense	2,258	2,355
Change in assets and liabilities:		
Due from the University of Kentucky	1,455,476	(280,552)
Other current assets	14,318	590
Escrow account - University of Kentucky and its affiliated corporations	406,469	156,431
Accounts payable and accrued liabilities	(2,161,035)	252,194
Net cash provided (used) by operating activities	<u><u>\$ (282,196)</u></u>	<u><u>\$ 131,381</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, 2025 AND 2024

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. Effective July 1, 2024, CKMS no longer provides staffing services to healthcare facilities for the UK Healthcare Hospital System (the System) and all CKMS employees, including Eastern State Hospital employees, became employees of the University. 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 have occurred that indicate a significant, unexpected decline in the service utility of a lease asset. 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 years ended June 30, 2025 and 2024.

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, 2025 and 2024 was as follows:

	2025	2024
Cash and cash equivalents on deposit with the University	\$ 1,149,832	\$ 1,434,547

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 and/or U.S. 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, 2025 and 2024, 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, 2025 and 2024 were as follows:

	2025	2024
Accounts payable	\$ 3,860	\$ 4,556
Accrued wages, expenses and payroll taxes	—	2,160,342
Total	<u>\$ 3,860</u>	<u>\$ 2,164,898</u>

4. RETIREMENT PLAN

Through June 30, 2024, eligible staff members of CKMS were participants in the University of Kentucky Retirement Plan. Under this plan, CKMS and plan participants made contributions to provide retirement benefits for employees. Beginning July 1, 2024, CKMS employees were transitioned to the University. All payments were vested immediately for employees hired before January 1, 2010. For employees hired after that date, employee contributions were vested after three years, which was an amendment to the vesting rule adopted in 2013. CKMS contributed 10% of eligible compensation and employees contributed five percent of eligible compensation. CKMS's share of the costs of these benefits was \$0 and \$2,007,371 for the years ended June 30, 2025 and 2024, respectively. Employees contributed \$0 in 2025 and \$1,353,554 in 2024. CKMS's total payroll costs were \$0 and \$31,102,370 for the years ended June 30, 2025 and 2024, respectively. The total payroll for employees covered by the retirement plan was \$0 in 2025 and \$20,084,803 in 2024.

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.

	2025	2024
Rent on office space	\$ 20,663	\$ 19,575
Due from the University of Kentucky	\$ —	\$ 1,455,476
Escrow account - University of Kentucky	\$ 1,147,018	\$ 740,549

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 of CKMS prior to July 1, 2024; 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 up to \$1.00 billion per occurrence in 2025 and 2024. 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 prior to July 1, 2024 were covered under both of these University plans for fiscal year 2024.

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UNIVERSITY FINANCIAL SERVICES
301 Peterson Service Building • Lexington, KY 40506-0005
<https://www.uky.edu/ufs/financial-statements>

