



UNIVERSITY OF
KENTUCKY[®]

Central Kentucky Management Services, Inc.
2009 Financial Statements

**Central Kentucky Management
Services, Inc.**
A Component Unit of the University of Kentucky

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Independent Accountants' Report on Financial Statements and Supplementary Information

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

We have audited the accompanying basic financial statements of Central Kentucky Management Services, Inc. (CKMS), a not-for-profit corporation affiliated with and a component unit of the University of Kentucky, as of and for the years ended June 30, 2009 and 2008, as listed in the table of contents. These financial statements are the responsibility of CKMS's management. 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CKMS as of June 30, 2009 and 2008, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the supplementary information and express no opinion on it.

BKD, LLP

October 1, 2009

Management's Discussion and Analysis

Central Kentucky Management Services, Inc.'s (CKMS) Management Discussion and Analysis (MD&A) provides an overview of the financial position and activity of CKMS for the years ended June 30, 2009 and 2008. 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

- The financial statements for FY 2008-2009 report a strong financial condition at June 30, 2009. Revenues for the year were in accordance with revenue expectations and approved budget plan.
- Total assets decreased \$17,000 or 1.8%. The most significant components of this change were the decrease of \$35,000, net, in capital assets (equipment) and an increase of \$17,000 in cash and cash equivalents.
- Total liabilities increased \$18,000 or 3.5%. This change was primarily due to an increase of \$38,000 in accrued liabilities offset by a decrease in the escrow account payable to the UK HealthCare Hospital System of \$20,000.
- Total net assets decreased \$35,000 to \$375,000.
- Operating revenues increased \$693,000 to \$6.1 million.
- Operating expenditures increased \$642,000 to \$6.1 million.

Using the Annual Report

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

One of the most important questions asked about CKMS's finances is whether CKMS is better off as a result of the year's activities. One key to answering this question is the financial statements of CKMS. The Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; 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 assets (the difference between assets and liabilities) are one sign of CKMS's financial health. Over time, increases or decreases in net assets indicate the improvement or erosion of CKMS's financial health.

The Statement of Net Assets includes all assets and liabilities. 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 Assets presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or non-operating. GASB 35 requires investment income to be classified as non-operating revenues. 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, financing and investing activities.

Reporting Entity

Central Kentucky Management Services, Inc. provides collection services for the health care receivables of the University of Kentucky (the University) and its affiliated corporations. Commission revenues are received from these entities and the excess of revenues over expenditures is distributed back to these entities.

CKMS is considered to be an affiliate and component unit of the University of Kentucky 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 Assets

| | 2009 | 2008 | 2007 |
|--|-------------------|-------------------|-------------------|
| ASSETS | | | |
| Current assets | \$ 529,815 | \$ 512,103 | \$ 629,087 |
| Noncurrent assets | 374,941 | 409,578 | 474,897 |
| Total Assets | <u>904,756</u> | <u>921,681</u> | <u>1,103,984</u> |
| LIABILITIES | | | |
| Current liabilities | 529,815 | 512,103 | 629,087 |
| Total Liabilities | <u>529,815</u> | <u>512,103</u> | <u>629,087</u> |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | <u>\$ 374,941</u> | <u>\$ 409,578</u> | <u>\$ 474,897</u> |

Assets. As of June 30, 2009, CKMS's total assets amounted to \$905,000. Cash and cash equivalents, totaling \$516,000 or 57.1% of total assets, represented CKMS's largest asset. Investment in capital assets, net of depreciation, represented CKMS's second largest asset, totaling \$375,000 or 41.4% of total assets.

Total assets decreased \$17,000 during the year ended June 30, 2009. This decrease was driven by a decrease in the investment in capital assets, net of depreciation, of \$35,000, and an increase in cash and cash equivalents of \$17,000.

Liabilities. At June 30, 2009, CKMS's liabilities increased 3.5%, to a total of \$530,000. An escrow account payable to the UK HealthCare Hospital System was CKMS's largest liability (approximately \$339,000 or 64.0%). The remaining liabilities, totaling \$191,000 or 36.0%, were for accrued wages, expenses and payroll withholdings.

Net Assets. Net assets at June 30, 2009 totaled \$375,000, or 41.4% of total assets, all of which were net assets invested in capital, net of related debt.

2008 versus 2007. Total assets decreased \$182,000 or 16.5% during the year ended June 30, 2008, primarily due to decrease in cash and cash equivalents of \$118,000. Capital assets, net of depreciation, also decreased as a result of depreciation. Total liabilities decreased \$117,000 or 18.6% due to a decrease in the escrow payable as well as accrued liabilities. Total net assets decreased \$65,000, or 13.8%, in 2008 from 2007.

Statements of Revenues, Expenses and Changes in Net Assets

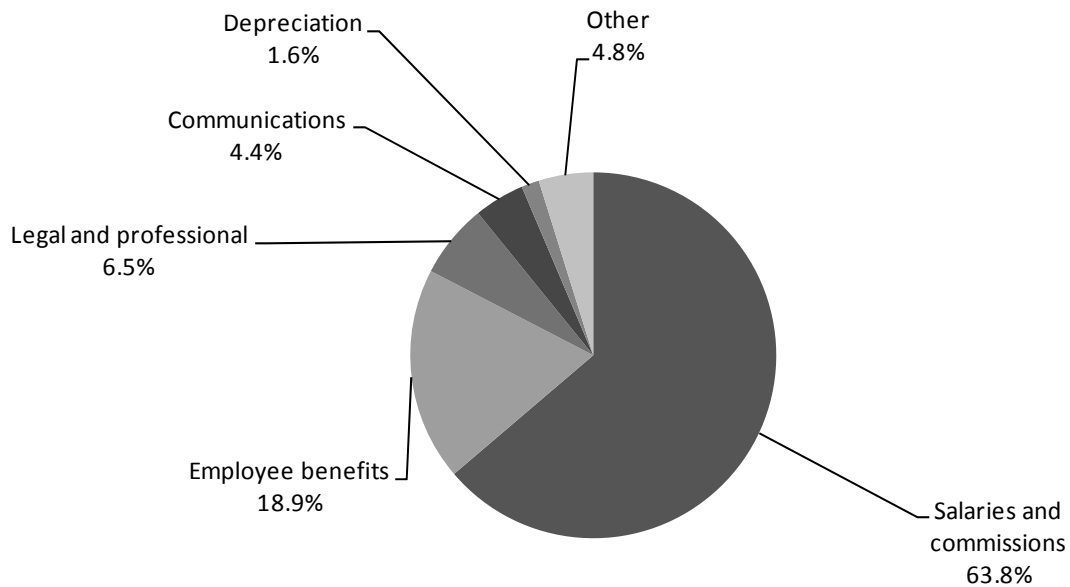
| | <u>2009</u> | <u>2008</u> | <u>2007</u> |
|---|----------------------|----------------------|----------------------|
| OPERATING REVENUES | | | |
| Collections | \$ 295,188,722 | \$ 252,679,168 | \$ 211,606,631 |
| Remittance to the University of Kentucky and its affiliated corporations | <u>(289,136,430)</u> | <u>(247,320,185)</u> | <u>(206,099,337)</u> |
| Total operating revenues | <u>6,052,292</u> | <u>5,358,983</u> | <u>5,507,294</u> |
| OPERATING EXPENSES | | | |
| Salaries and commissions | 3,884,218 | 3,379,170 | 2,994,748 |
| Employee benefits | 1,148,471 | 927,858 | 854,678 |
| Legal and professional | 399,029 | 513,191 | 906,291 |
| Communications | 271,354 | 311,489 | 211,048 |
| Depreciation | 95,592 | 97,703 | 58,498 |
| Other expenses | 293,596 | 220,797 | 194,358 |
| Total operating expenses | <u>6,092,260</u> | <u>5,450,207</u> | <u>5,219,621</u> |
| OPERATING INCOME (LOSS) | <u>(39,968)</u> | <u>(91,224)</u> | <u>287,673</u> |
| NONOPERATING REVENUES (EXPENSES) | | | |
| Investment income | 5,331 | 25,905 | 36,070 |
| (Loss) on disposal of fixed assets | - | - | (49,684) |
| Total nonoperating revenues (expenses) | <u>5,331</u> | <u>25,905</u> | <u>(13,614)</u> |
| Total increase (decrease) in net assets | (34,637) | (65,319) | 274,059 |
| Net assets, beginning of year | <u>409,578</u> | <u>474,897</u> | <u>200,838</u> |
| Net assets, end of year | <u>\$ 374,941</u> | <u>\$ 409,578</u> | <u>\$ 474,897</u> |

2009. Operating revenues increased to \$6.1 million for the year ended June 30, 2009 as a result of additional Kentucky Medical Services Foundation (KMSF) and UK HealthCare Hospital System bad debt collections. The only source of operating revenue for CKMS was collections for health care receivables for the University and its affiliated corporations.

Operating expenses, including \$96,000 of depreciation, totaled \$6.1 million. Of this amount, \$3.9 million or 63.8% was used for salaries and commissions. Operating expenses increased \$642,000 or 11.8% from the prior year. The 2009 increase was primarily due to an increase of staff from 93 in 2008 to 105 in 2009 for collecting the additional UK HealthCare Hospital System and Kentucky Medical Services Foundation (KMSF) volume of bad debt, offset by the decrease in use of consulting services.

2008 versus 2007. During the year ended June 30, 2008, operating revenues decreased by \$148,000 or 2.7% due primarily to increased collections of 19.4%, offset by the increase in the remittance to the University of Kentucky and affiliated corporations. Operating expenses increased approximately \$231,000 or 4.4% due primarily to an increase in employees to handle the additional hospital and Kentucky Medical Service Foundation volume, and the new UK HealthCare Good Samaritan accounts.

TOTAL OPERATING EXPENSE



Statements of Cash Flows

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.

| | <u>2009</u> | <u>2008</u> | <u>2007</u> |
|--|--------------------------|--------------------------|--------------------------|
| CASH PROVIDED (USED) BY: | | | |
| Operating activities | \$ 73,123 | \$(111,395) | \$ 400,590 |
| Capital financing activities | (60,955) | (32,384) | (382,240) |
| Investing activities | <u>5,331</u> | <u>25,905</u> | <u>36,070</u> |
| Net increase (decrease) in cash and cash equivalents | 17,499 | (117,874) | 54,420 |
| Cash and cash equivalents, beginning of year | <u>498,943</u> | <u>616,817</u> | <u>562,397</u> |
| Cash and cash equivalents, end of year | <u><u>\$ 516,442</u></u> | <u><u>\$ 498,943</u></u> | <u><u>\$ 616,817</u></u> |

2009. The major source of funds in operating activities was collection of revenues, net of remittances to the University and other clients of \$6.0 million. The largest cash payments for operating activities were made to employees for salaries, commissions and benefits of approximately \$5.0 million. Cash used by capital financing activities was expended on the acquisition of capital assets.

2008 versus 2007. The net decrease in cash was \$118,000 due primarily to increases in cash used by operating activities and offset by decreases in cash used by capital financing activities.

Capital Asset and Debt Administration

Capital Assets. Capital assets, net of accumulated depreciation, totaled \$375,000 at June 30, 2009, a net decrease of approximately \$35,000 from the prior year. Capital assets represent purchases of equipment. There was approximately \$61,000 expended on additions to equipment during fiscal year 2008-2009 and net accumulated depreciation increased \$96,000.

Debt. CKMS does not have any debt outstanding as of June 30, 2009.

Factors Impacting Future Periods

The quantity and quality of health care receivables of the University and its related corporations could affect future financial results.

CENTRAL KENTUCKY MANAGEMENT SERVICES, INC.
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY
STATEMENTS OF NET ASSETS
JUNE 30, 2009 AND 2008

| | <u>2009</u> | <u>2008</u> |
|---|-------------------|-------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 516,442 | \$ 498,943 |
| Other current assets | <u>13,373</u> | <u>13,160</u> |
| Total current assets | <u>529,815</u> | <u>512,103</u> |
| Noncurrent Assets | | |
| Capital assets, net | <u>374,941</u> | <u>409,578</u> |
| Total noncurrent assets | <u>374,941</u> | <u>409,578</u> |
| Total assets | <u>904,756</u> | <u>921,681</u> |
| LIABILITIES | | |
| Current Liabilities | | |
| Escrow account - payable to UK HealthCare Hospital System | 339,114 | 358,784 |
| Accounts payable and accrued liabilities | <u>190,701</u> | <u>153,319</u> |
| Total current liabilities | <u>529,815</u> | <u>512,103</u> |
| Total liabilities | <u>529,815</u> | <u>512,103</u> |
| NET ASSETS | | |
| Invested in capital assets, net of related debt | <u>\$ 374,941</u> | <u>\$ 409,578</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 ASSETS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

| | <u>2009</u> | <u>2008</u> |
|---|----------------------|----------------------|
| OPERATING REVENUES | | |
| Collections | \$ 295,188,722 | \$ 252,679,168 |
| Less: Remittance to the University of Kentucky and its affiliated corporations | <u>(289,136,430)</u> | <u>(247,320,185)</u> |
| Total operating revenues | <u>6,052,292</u> | <u>5,358,983</u> |
| OPERATING EXPENSES | | |
| Salaries and commissions | 3,884,218 | 3,379,168 |
| Employee benefits | 1,148,471 | 927,858 |
| Legal and professional | 399,029 | 513,191 |
| Communications | 271,354 | 311,489 |
| Depreciation | 95,592 | 97,703 |
| Other expenses | <u>293,596</u> | <u>220,798</u> |
| Total operating expenses | <u>6,092,260</u> | <u>5,450,207</u> |
| Net income (loss) from operations | <u>(39,968)</u> | <u>(91,224)</u> |
| NONOPERATING REVENUES (EXPENSES) | | |
| Investment income | <u>5,331</u> | <u>25,905</u> |
| Net nonoperating revenues (expenses) | <u>5,331</u> | <u>25,905</u> |
| Net income (loss) | <u>(34,637)</u> | <u>(65,319)</u> |
| Increase (decrease) in net assets | <u>(34,637)</u> | <u>(65,319)</u> |
| NET ASSETS, beginning of year | <u>409,578</u> | <u>474,897</u> |
| NET ASSETS, end of year | <u>\$ 374,941</u> | <u>\$ 409,578</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, 2009 AND 2008**

| | <u>2009</u> | <u>2008</u> |
|---|-------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Collections | \$ 295,188,722 | \$ 252,679,168 |
| Remittances to University of Kentucky and its affiliated corporations | (289,156,100) | (247,396,206) |
| Payments to vendors and contractors | (651,059) | (825,570) |
| Salaries, wages and benefits | (5,014,844) | (4,347,990) |
| Other receipts (payments) | (293,596) | (220,797) |
| Net cash provided (used) by operating activities | <u>73,123</u> | <u>(111,395)</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Purchases of capital assets | (60,955) | (32,384) |
| Net cash (used) by capital and related financing activities | <u>(60,955)</u> | <u>(32,384)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest on cash and cash equivalents | 5,331 | 25,905 |
| Net cash provided by investing activities | <u>5,331</u> | <u>25,905</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 17,499 | (117,874) |
| CASH AND CASH EQUIVALENTS, beginning of year | 498,943 | 616,817 |
| CASH AND CASH EQUIVALENTS, end of year | <u>\$ 516,442</u> | <u>\$ 498,943</u> |
| Reconciliation of net income (loss) from operations to net cash provided (used) by operating activities: | | |
| Operating income (loss) | \$ (39,968) | \$ (91,224) |
| Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities: | | |
| Depreciation expense | 95,592 | 97,703 |
| Change in assets and liabilities: | | |
| Other current assets | (213) | (890) |
| Escrow account | (19,670) | (76,021) |
| Accounts payable and accrued liabilities | 37,382 | (40,963) |
| Net cash provided (used) by operating activities | <u>\$ 73,123</u> | <u>\$ (111,395)</u> |

See notes to financial statements

NOTES TO FINANCIAL STATEMENTS

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 related corporations. All commission revenues are received from these entities and the excess of revenues over expenditures is distributed back to these entities. 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 assets categories:

- Invested in capital assets, net of related debt: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- Restricted:
Nonexpendable – Net assets subject to externally imposed stipulations that they be maintained permanently by CKMS.
Expendable – Net assets 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 assets whose use by CKMS is not subject to externally imposed stipulations. Unrestricted net assets 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 required by GASB Statement No. 35 is intended to provide a comprehensive, entity-wide perspective of CKMS's assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows.

Pursuant to GASB Statement No. 20, CKMS has elected to apply the provisions for all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, and do not conflict with or contradict GASB pronouncements.

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 investments with a maturity of three months or less.

Capital Assets. Capital assets are stated at cost at date of acquisition or, in the case of gifts, at fair market value at date of gift. Equipment with a unit cost of \$2,000 or more (\$1,000 for computers) and having an estimated useful life of greater than one year, is capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred.

Depreciation of capital assets is computed on a straight-line basis over the estimated useful lives of the respective assets, generally 3 – 20 years for equipment.

Operating Activities. CKMS defines operating activities, as reported on the Statement of Revenues, Expenses, and Changes in Net Assets, 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. Nearly all of CKMS's revenues and expenses are from exchange transactions.

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 and cost of deposits and investments, by type, at June 30, 2009 and 2008 are as follows:

| | <u>2009</u> | <u>2008</u> |
|---|------------------|------------------|
| Cash on deposit with the University of Kentucky | <u>\$516,442</u> | <u>\$498,943</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 on deposit with the University, which the University invests in deposits and repurchase agreements with local banks and the Commonwealth of Kentucky (the Commonwealth).

Cash on deposit with the University is managed based on the University's Overnight and Short-Term Investment Policy approved by the Investment Committee of the University's Board of Trustees.

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 on deposit with the University is governed by policy that minimizes risk in several ways. Deposits are governed by state law which requires full collateralization. Credit risk on repurchase agreements with local banks is mitigated by requiring the issuing financial institution's pledge of specific U.S. treasury or agency securities, held in the name of the University by the Federal Reserve Bank. Credit risk on repurchase agreements with the Commonwealth is mitigated by the Commonwealth's requirement that providers of overnight repurchase agreements collateralize these investments at 102% of face value with U.S. treasury or agency securities, pledged in the name of the Commonwealth.

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 on deposit with the University is invested in deposits and repurchase agreements with local banks, which are held in the University's name, and deposits and repurchase agreements with the Commonwealth, which are held in the Commonwealth'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 on deposit with the University is not limited as to the maximum amount that may be invested in one issuer. However, all such investments in excess of Federal Depository 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, 2009, CKMS had no underlying investments in any one issuer that represent more than 5% of total investments.

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

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

3. CAPITAL ASSETS, NET

Capital assets as of June 30, 2009 and 2008 are summarized as follows:

| | 2009 | | | |
|--------------------------|-------------------|--------------------|-----------|-------------------|
| | Beginning Balance | Additions | Deletions | Ending Balance |
| Equipment | \$ 1,133,259 | \$ 60,955 | \$ - | \$ 1,194,214 |
| Accumulated depreciation | 723,681 | 95,592 | - | 819,273 |
| Capital assets, net | <u>\$ 409,578</u> | <u>\$ (34,637)</u> | <u>-</u> | <u>\$ 374,941</u> |

| | 2008 | | | |
|--------------------------|-------------------|--------------------|-----------|-------------------|
| | Beginning Balance | Additions | Deletions | Ending Balance |
| Equipment | \$ 1,100,875 | \$ 32,384 | \$ - | \$ 1,133,259 |
| Accumulated depreciation | 625,978 | 97,703 | - | 723,681 |
| Capital assets, net | <u>\$ 474,897</u> | <u>\$ (65,319)</u> | <u>-</u> | <u>\$ 409,578</u> |

4. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2009 and 2008 are as follows:

| | 2009 | 2008 |
|---|-------------------|-------------------|
| Accounts payable | \$ 24,187 | \$ 4,924 |
| Accrued wages, expenses and payroll taxes | 166,514 | 148,395 |
| Total | <u>\$ 190,701</u> | <u>\$ 153,319</u> |

5. PENSION PLAN

Eligible staff members of CKMS are participants in the University of Kentucky Retirement Plan. Under this plan, CKMS and plan participants make contributions to provide fully vested retirement benefits for employees. CKMS contributes 10% of eligible compensation and employees contribute 5% of eligible compensation. CKMS's share of the costs of these benefits was \$368,000 and \$316,000 in 2009 and 2008, respectively.

6. LEASES

Office space is provided to CKMS by the UK HealthCare Hospital System. The fair rental values of the office space including utilities were \$290,000 and \$230,000 for 2009 and 2008, respectively. CKMS does not record the fair rental value of the UK HealthCare Hospital System's support in their financial statements.

7. RISK MANAGEMENT

CKMS is exposed to various risks of loss related to torts; theft of, damages to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance, extension of coverage by the University's participation in an insurance risk retention group or by self-insurance. There have been no significant reductions in insurance coverage from 2008 to 2009. Settlements have not exceeded insurance coverage during the past three years.

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

8. HEALTH INSURANCE BENEFITS FOR RETIREES

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

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

The University has established a trust fund to segregate plan assets, and currently plans to contribute amounts to the trust fund sufficient to fully fund the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45.

CKMS has recognized its share of the contribution in employee benefit costs and has no additional liability for this benefit at June 30, 2009.

9. RECLASSIFICATIONS

Certain reclassifications to fiscal 2008 comparative amounts have been made to conform to the 2009 financial statements classifications. Certain transactions previously reported as rent, utilities, computer software and support in the statements of Revenues, Expenses and Changes in Net Assets are now being reported as communications. Such reclassifications had no effect on the change in net assets.

10. CURRENT ECONOMIC CONDITIONS

Current economic conditions, including the rising unemployment rate, have made it difficult for certain patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact UK HealthCare's and Kentucky Medical Services Foundation's patient receivables, which could have an adverse impact on CKMS future operating results. The financial statements have been prepared using values and information currently available to CKMS.

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