

# 2012 Financial Statements

*Central Kentucky  
Management Services, Inc.*

**UK**<sup>®</sup>  
UNIVERSITY OF  
KENTUCKY<sup>®</sup>



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

CONTENTS	PAGE
Independent Accountants' Report	1
Management's Discussion and Analysis	3
Financial Statements	
Statements of Net Assets	8
Statements of Revenues, Expenses and Changes in Net Assets	9
Statements of Cash Flows	10
Notes to Financial Statements	11
Board of Directors	

## 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, 2012 and 2011, 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 audit 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, 2012 and 2011, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Board of Directors  
Central Kentucky Management Services, Inc.  
Page 2

Our audit was performed for the purpose of forming an opinion on the basic financial statements as a whole. The board of directors listing as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

*BKD, LLP*

September 28, 2012

# Management's Discussion and Analysis

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 for the years ended June 30, 2012 and 2011. 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 2011-2012 report a solid financial condition at June 30, 2012, however, revenues for the year were slightly below budgeted expectations.
- Total assets decreased \$3,357 or 0.4%. The most significant components of this change were the decrease of \$51,548, net, in capital assets (equipment) and an increase of \$47,563 in cash and cash equivalents.
- Total liabilities increased \$48,191 or 9.3%. This change was due to an increase of \$53,747 in the escrow account payable to the UK HealthCare Hospital System and decrease of \$5,556 in accrued liabilities.
- Total net assets decreased \$51,548 to \$223,616.
- Operating revenues decreased \$192,410 to \$6,966,772.
- Operating expenditures decreased \$165,693 to \$7,019,164.

## 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 nonoperating. GASB 35 requires investment income to be classified as nonoperating 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

	2012	2011	2010
<b>ASSETS</b>			
Current assets	\$ 567,241	\$ 519,050	\$ 443,739
Noncurrent assets	223,616	275,164	299,757
Total Assets	<u>790,857</u>	<u>794,214</u>	<u>743,496</u>
<b>LIABILITIES</b>			
Current liabilities	567,241	519,050	443,739
Total Liabilities	<u>567,241</u>	<u>519,050</u>	<u>443,739</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	<u>\$ 223,616</u>	<u>\$ 275,164</u>	<u>\$ 299,757</u>

**Assets.** As of June 30, 2012, CKMS's total assets amounted to \$790,857. Cash and cash equivalents totaled \$554,871 or 70.2% of total assets, represented CKMS's largest asset. Investment in capital assets, net of depreciation, represented CKMS's second largest asset, totaling \$223,616 or 28.3% of total assets.

Total assets decreased \$3,357 during the year ended June 30, 2012, driven primarily by an increase of \$47,563 in cash and cash equivalents offset by a decrease of investment of capital assets, net of depreciation, of \$51,548.

**Liabilities.** At June 30, 2012, CKMS's liabilities increased 9.3%, to a total of \$567,241. An escrow account payable to the UK HealthCare System, representing net operating revenue in excess of expenses, is CKMS's largest liability (\$364,745 or 64.3%). The remaining liabilities, totaling 202,496 or 35.7%, were for accrued wages, expenses and payroll withholdings.

**Net Assets.** Net assets at June 30, 2012 totaled \$223,616 or 28.3% of total assets, all of which were net assets invested in capital, net of related debt.

**2011 versus 2010.** Total assets increased \$50,718 during the year ended June 30, 2011, primarily due to an increase in cash and cash equivalents of \$77,228 offset by a decrease of \$24,593 in capital assets, net of depreciation, as a result of capital additions and depreciation expense. Total liabilities increased \$75,311 or 17.0% due to increases of \$46,023 in the escrow payable to the UK HealthCare Hospital System and \$29,288 in accrued liabilities. Total net assets decreased \$24,593, or 8.2%, in 2011 from 2010.

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

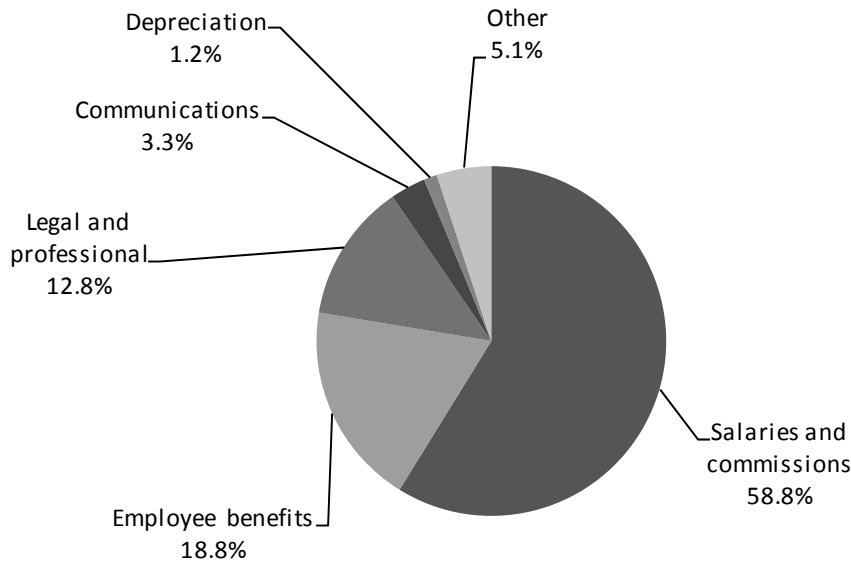
	<u>2012</u>	<u>2011</u>	<u>2010</u>
<b>OPERATING REVENUES</b>			
Collections	\$ 376,674,998	\$ 329,812,114	\$ 312,760,341
Remittance to the University of Kentucky and its affiliated corporations	(369,790,268)	(322,726,132)	(306,157,203)
Other revenue	82,042	73,200	69,503
Total operating revenues	<u>6,966,772</u>	<u>7,159,182</u>	<u>6,672,641</u>
<b>OPERATING EXPENSES</b>			
Salaries and commissions	4,128,055	4,136,557	4,210,218
Employee benefits	1,318,920	1,307,277	1,296,707
Legal and professional	901,312	1,142,306	615,332
Communications	230,433	216,227	275,940
Depreciation	85,936	81,839	79,834
Other	354,508	300,651	271,195
Total operating expenses	<u>7,019,164</u>	<u>7,184,857</u>	<u>6,749,226</u>
<b>OPERATING LOSS</b>	<u>(52,392)</u>	<u>(25,675)</u>	<u>(76,585)</u>
<b>NONOPERATING REVENUES</b>			
Investment income	844	1,082	1,401
Total nonoperating revenues	<u>844</u>	<u>1,082</u>	<u>1,401</u>
Total decrease in net assets	(51,548)	(24,593)	(75,184)
<b>Net assets, beginning of year</b>	<u>275,164</u>	<u>299,757</u>	<u>374,941</u>
<b>Net assets, end of year</b>	<u>\$ 223,616</u>	<u>\$ 275,164</u>	<u>\$ 299,757</u>

**2012.** Operating revenues decreased \$192,410 or 2.7% to \$6,966,772 for the year ended June 30, 2012. The source of operating revenue for CKMS is collections for health care receivables for the University of Kentucky and its affiliated corporations.

Operating expenses, including \$85,936 of depreciation, totaled \$7,019,164. Of this amount, \$4,128,055 or 58.8% was used for salaries and commissions. Operating expenses decreased \$165,693 or 2.3% from the prior year. The decrease is primarily due to decreases in legal and professional expenses.

**2011 versus 2010.** During the year ended June 30, 2011, operating revenues increased \$486,541 or 7.3% due primarily to increased collections of 5.5%, offset by the increase in the remittance to the University of Kentucky and affiliated corporations. Operating expenses increased \$435,631 or 6.5% due primarily to increases in legal and professional expenses.

### 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>2012</u>	<u>2011</u>	<u>2010</u>
<b>CASH PROVIDED (USED) BY:</b>			
Operating activities	\$ 81,106	\$ 133,392	\$ (83,113)
Capital financing activities	(34,387)	(57,246)	(4,650)
Investing activities	<u>844</u>	<u>1,082</u>	<u>1,401</u>
Net increase (decrease) in cash and cash equivalents	47,563	77,228	(86,362)
<b>Cash and cash equivalents, beginning of year</b>	<u>507,308</u>	<u>430,080</u>	<u>516,442</u>
<b>Cash and cash equivalents, end of year</b>	<u><u>\$ 554,871</u></u>	<u><u>\$ 507,308</u></u>	<u><u>\$ 430,080</u></u>

**2012.** Cash receipts for operating activities of \$6,938,477 relate to the collection of revenues, net of remittances to the University and other clients. Cash payments for operating activities were primarily made to employees for salaries, commissions and benefits of \$5,448,331. Cash used by capital financing activities is expended on the acquisition of capital assets.

**2011 versus 2010.** The net increase in cash was \$77,228 due primarily to cash provided by operating activities offset by capital financing activities.



### **Capital Asset and Debt Administration**

**Capital Assets.** Capital assets, net of accumulated depreciation, totaled \$223,616 at June 30, 2012, a net decrease of \$51,548 from the prior year. Capital assets represent purchases of equipment. There was \$34,388 expended on additions to equipment during fiscal year 2011-2012 and net accumulated depreciation increased \$85,936.

**Debt.** CKMS does not have any debt outstanding as of June 30, 2012.

### **Factors Impacting Future Periods**

The quantity and quality of health care receivables of the University and its related corporations could affect future financial results. Healthcare reform will initiate significant reforms to 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 ASSETS**  
**JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 554,871	\$ 507,308
Other current assets	12,370	11,742
Total current assets	<u>567,241</u>	<u>519,050</u>
<b>Noncurrent Assets</b>		
Capital assets, net	<u>223,616</u>	<u>275,164</u>
Total noncurrent assets	<u>223,616</u>	<u>275,164</u>
Total assets	<u>790,857</u>	<u>794,214</u>
 <b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Escrow account - University of Kentucky Hospital and affiliates	364,745	310,998
Accounts payable and accrued liabilities	202,496	208,052
Total current liabilities	<u>567,241</u>	<u>519,050</u>
Total liabilities	<u>567,241</u>	<u>519,050</u>
 <b>NET ASSETS</b>		
Invested in capital assets, net of related debt	<u>\$ 223,616</u>	<u>\$ 275,164</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, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
<b>OPERATING REVENUES</b>		
Collections	\$ 376,674,998	\$ 329,812,114
Less: Remittance to the University of Kentucky and its affiliated corporations	(369,790,268)	(322,726,132)
Other revenue	82,042	73,200
Total operating revenues	<u>6,966,772</u>	<u>7,159,182</u>
<b>OPERATING EXPENSES</b>		
Salaries and commissions	4,128,055	4,136,557
Employee benefits	1,318,920	1,307,277
Legal and professional	901,312	1,142,306
Communications	230,433	216,227
Depreciation	85,936	81,839
Other expenses	354,508	300,651
Total operating expenses	<u>7,019,164</u>	<u>7,184,857</u>
Net income (loss) from operations	<u>(52,392)</u>	<u>(25,675)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Investment income	844	1,082
Net nonoperating revenues (expenses)	<u>844</u>	<u>1,082</u>
Net income (loss)	<u>(51,548)</u>	<u>(24,593)</u>
Increase (decrease) in net assets	<u>(51,548)</u>	<u>(24,593)</u>
<b>NET ASSETS, beginning of year</b>	<u>275,164</u>	<u>299,757</u>
<b>NET ASSETS, end of year</b>	<u>\$ 223,616</u>	<u>\$ 275,164</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, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Collections	\$ 376,674,998	\$ 329,812,114
Remittances to University of Kentucky and its affiliated corporations	(369,736,521)	(322,680,109)
Payments to vendors and contractors	(1,136,574)	(1,354,591)
Salaries, wages and benefits	(5,448,331)	(5,416,571)
Other receipts (payments)	(272,466)	(227,451)
Net cash provided (used) by operating activities	<u>81,106</u>	<u>133,392</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchases of capital assets	(34,387)	(57,246)
Net cash (used) by capital and related financing activities	<u>(34,387)</u>	<u>(57,246)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on cash and cash equivalents	844	1,082
Net cash provided (used) by investing activities	<u>844</u>	<u>1,082</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	47,563	77,228
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	507,308	430,080
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>\$ 554,871</u>	<u>\$ 507,308</u>
<b>Reconciliation of net income (loss) from operations to net cash provided (used) by operating activities:</b>		
Operating income (loss)	\$ (52,392)	\$ (25,675)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	85,936	81,839
Change in assets and liabilities:		
Other current assets	(628)	1,917
Escrow account	53,747	46,023
Accounts payable and accrued liabilities	(5,557)	29,288
<b>Net cash provided (used) by operating activities</b>	<u>\$ 81,106</u>	<u>\$ 133,392</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.

During the year ended June 30, 2012, CKMS adopted Statement of Governmental Accounting Standards Board (GASB) No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which supersedes GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of that statement for business-type activities to apply post-November 30, 1989, FASB statements and interpretations that do not conflict with or contradict GASB pronouncements. GASB No. 62 has been applied retrospectively and had no impact on CKMS's net assets, changes in net assets or financial reporting disclosures.

#### 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, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Cash on deposit with the University of Kentucky	<u>\$ 554,871</u>	<u>\$ 507,308</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 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 for balances exceeding amounts covered by the Federal Deposit Insurance Corporation. On November 9, 2010, the FDIC Board of Directors issued a final rule to implement Section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act that provides temporary unlimited deposit insurance coverage for noninterest-bearing transaction accounts at all FDIC-insured

depository institutions (the “Dodd-Frank Provision”). The separate coverage for noninterest-bearing transaction accounts became effective on December 31, 2010 and terminates on December 31, 2012. CKMS’s deposits are noninterest-bearing and are fully insured by FDIC coverage. Credit risk on repurchase agreements 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 held in the University’s name, and in deposits and repurchase agreements with the Commonwealth that 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 deposited or invested in one issuer. However, all such deposits 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, 2012, 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 overnight 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, 2012 and 2011 are summarized as follows:

	2012			
	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	\$ 1,183,108	\$ 34,388		\$ 1,217,496
Accumulated depreciation	907,944	85,936		993,880
Capital assets, net	<u>\$ 275,164</u>	<u>\$ (51,548)</u>	<u>\$ -</u>	<u>\$ 223,616</u>

	2011			
	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	\$ 1,125,862	\$ 57,246		\$ 1,183,108
Accumulated depreciation	826,105	81,839		907,944
Capital assets, net	<u>\$ 299,757</u>	<u>\$ (24,593)</u>	<u>\$ -</u>	<u>\$ 275,164</u>

#### 4. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Accounts payable	\$ 457	\$ 5,027
Accrued wages, expenses and payroll taxes	<u>202,039</u>	<u>203,025</u>
Total	<u>\$ 202,496</u>	<u>\$ 208,052</u>

#### 5. PENSION PLAN

Eligible staff members of CKMS are participants in the University of Kentucky Retirement Plan. Under this plan, CKMS and plan participants make contributions to provide retirement benefits for employees. All payments were vested immediately for employees hired before January 1, 2010. For employees hired after that date, employee contributions are vested after five years. CKMS contributes 10% of eligible compensation and employees contribute 5% of eligible compensation. CKMS's share of the costs of these benefits was \$374,397 and \$385,867 in 2012 and 2011, 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 \$348,537 for both 2012 and 2011. CKMS does not record the fair rental value of the UK HealthCare Hospital System's support in its 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 2012 to 2011. 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, 2012.

## **9. CURRENT ECONOMIC CONDITIONS**

The current economic situation, including the rising unemployment rate, has made it difficult for certain patients to pay for services rendered. As employers make adjustments to health insurance plans, particularly in response to healthcare reform, 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.

BOARD OF DIRECTORS

Michael Karpf, President and Chair  
Harry Dadds, Secretary  
Sergio Melgar, Treasurer  
Angie Martin, Assistant Treasurer



# UK<sup>®</sup>

UNIVERSITY OF  
KENTUCKY<sup>®</sup>

The University of Kentucky is committed to a policy of providing opportunities to people regardless of economic or social status and will not discriminate on the basis of race, color, ethnic origin, creed, religion, political belief, sex, sexual orientation, marital status, age veteran status, or physical or mental disability.

The University of Kentucky is an Equal Opportunity University. Questions concerning compliance with regulations may be directed to the Equal Opportunity Office, 13 Main Building, University of Kentucky, Lexington, KY 40506-0032. (859) 257-8927 or at [www.uky.edu/evpfa/eo](http://www.uky.edu/evpfa/eo)

[www.uky.edu](http://www.uky.edu)

UK<sup>®</sup>  
UNIVERSITY OF  
KENTUCKY<sup>®</sup>

**Fulfilling the  
Kentucky Promise**

New Central Residence Hall  
Groundbreaking April 17, 2012

