

THE QUALITY AND CHARITY CARE TRUST, INC.
FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED
JUNE 30, 2003 AND 2002 WITH
SUPPLEMENTAL SCHEDULE FOR THE YEAR ENDED
JUNE 30, 2003
AND INDEPENDENT AUDITORS' REPORT

THE QUALITY AND CHARITY CARE TRUST, INC.

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INDEPENDENT AUDITORS' REPORT

To The Board of Directors
The Quality and Charity Care Trust, Inc.
Louisville, Kentucky

We have audited the accompanying statements of assets and liabilities of The Quality and Charity Care Trust, Inc. (Trust) as of June 30, 2003 and 2002, and the related statements of changes in balance due to the University Medical Center, Inc. for the years then ended. These financial statements are the responsibility of the Trust'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, such financial statements present fairly, in all material respects, the assets and liabilities of the Trust as of June 30, 2003 and 2002, and the changes in balance due to the University Medical Center, Inc. for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD&A) on pages 2 through 5 is not a required part of the basic financial statements, but is supplementary information required by the Government Accounting Standards Board. This supplementary information is the responsibility of the Trust's management. 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 such information and we do not express an opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of indigent patient charges funded by the Trust is presented for the purpose of additional analysis and is not a required part of the 2003 basic financial statements. This supplemental schedule is the responsibility of the Trust's management. Such schedule has been subjected to the auditing procedures applied in our audit of the 2003 basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the 2003 basic financial statements taken as a whole.

Deloitte & Touche LLP

December 5, 2003

THE QUALITY AND CHARITY CARE TRUST, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

INTRODUCTION

The following discussion provides an overview of the financial position and activities of The Quality and Charity Care Trust, Inc. (Trust) for the years ended June 30, 2003 and 2002. This discussion has been prepared by management and should be read in conjunction with the financial statements and related notes, which follow this section.

ORGANIZATION AND ACTIVITIES OF THE QUALITY AND CHARITY CARE TRUST

The Trust is a Kentucky non-stock, not-for-profit corporation organized in April 1983 in connection with a trust agreement originally entered into in January 1983. Parties to the trust agreement, last amended in February 1996, include the City of Louisville, Kentucky; Jefferson County, Kentucky; the Commonwealth of Kentucky (Commonwealth); the University of Louisville (the University); and University Medical Center, Inc. (UMC). The purpose of the Trust is to manage government funds received and to disburse such funds to UMC for providing hospital care services to economically disadvantaged patients through the University of Louisville Hospital. The Trust may also invest cash held temporarily in tax-exempt securities.

The business and affairs of the Trust are under the supervision, management and control of the Board of Directors. The nine member Board of Directors consists of six members appointed by the Board of Trustees of the University of Louisville or members of the University staff serving at the pleasure of the Board plus three other Directors. These three Directors are elected by the University of Louisville Board of Trustees, one each from a list of three nominees submitted by the Mayor of Louisville, Jefferson County Judge Executive and the Louisville and Jefferson County Board of Health. Each Director is elected for a one-year term.

USING THE FINANCIAL STATEMENTS

The Trust financial report includes two financial statements: the Statement of Assets and Liabilities and the Statement of Changes in Balance Due to University Medical Center, Inc. These financial statements are prepared in accordance with Government Accounting Standards Board (GASB) principles as prescribed by GASB Statement No. 34, *Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 37.

These new reporting standards were effective on July 1, 2001 for all governmental entities and related component governments. This includes the University of Louisville and its related entities. The Trust is considered a fiduciary fund that serves in a custodial capacity for the primary purpose of receiving and disbursing funds in accordance with the Trust agreement. The Trust financial statements are reported separately as an agency fund and are not part of the consolidated financial statements of the University of Louisville, the City of Louisville, Jefferson County, the Commonwealth of Kentucky or UMC.

In May 2002, the GASB issued Statement No. 39 *Determining Whether Certain Organizations Are Component Units*. This Statement provides additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government. Generally, it requires reporting, as a component unit, an organization that raises and holds economic resources for the direct benefit of a governmental unit. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2003. The Trust's management has not yet determined if the Trust will be presented as a component unit of the UMC.

In March 2003, GASB issued Statement No. 40 *Deposit and Investment Risk Disclosures*. This statement requires certain disclosures of investments that have fair values that are highly sensitive to the changes in interest rate risk. The provisions of the statement are effective for financial statements for periods beginning after June 15, 2004. The Trust does not expect the adoption of this statement to have a material effect on its financial statements.

FINANCIAL HIGHLIGHTS

Total annual funding provided from the three government sources as specified by the trust agreement amounted to \$30.6 million for the year ended June 30, 2003.

STATEMENTS OF ASSETS AND LIABILITIES

For the fiscal year ended June 30, 2003, the Trust's total assets were \$203 thousand compared to \$1.5 million for the year ended June 30, 2002. Decrease resulted from the receipt during the year ended June 30, 2003 of the \$1.4 million government funding receivable from Jefferson County.

STATEMENTS OF CHANGES IN BALANCE DUE TO UNIVERSITY MEDICAL CENTER, INC.

The purpose of this statement is to provide a summary of activity affecting the liability due to UMC for the fiscal years ended June 2003 and 2002.

As an agency fund, the Trust does not earn profits or own assets that would result in an accumulation of net assets as defined by financial reporting standards. Its sole purpose is to collect and disburse funds as specified by the Trust agreement.

RECEIPTS

For the fiscal year ended June 30, 2003, combined receipts from the Commonwealth of Kentucky, City of Louisville and Jefferson County governments received by the Trust were \$30.6 million, \$408 thousand more than the \$30.1 million reported for the year ended June 30 2002.

INTEREST RECEIVED FROM INVESTMENT OF FUNDS

Due to significant reductions in interest rates paid for cash invested over the past fiscal year, interest earnings dropped during the year. Interest reported for the year ended June 30, 2003 amounted to \$35 thousand compared to \$57 thousand earned in the preceding year.

DISBURSEMENTS TO UNIVERSITY MEDICAL CENTER, INC.

For the fiscal year ended June 30, 2003, the Trust remitted \$31.9 million to the UMC as compared to \$28.8 million for the year ended June 30, 2002.

BALANCE DUE TO UMC

The \$1.5 million liability due to UMC at June 30, 2002 relates primarily to the \$1.4 million in uncollected funding due from Jefferson County for the year ended June 30, 2002.

SUPPLEMENTAL SCHEDULE OF INDIGENT PATIENT CHARGES FUNDED BY THE TRUST

This schedule identifies the total hospital charges billed for indigent and/or medically needy patients, the amount of charges eligible for reimbursement through the trust and the amounts actually reimbursed with funding from the Trust. For the year ended June 30, 2003, the total hospital charges for indigent patients at 100% of billing rates, established by UMC for hospital care were \$149.2 million, an increase of 27% over last year's total of \$117.2 million. According to the Trust Agreement, only 58% or \$86.5 million of these billed charges are eligible for reimbursement. Funding from the trust amounted to \$30.6 million for the year, leaving \$55.9 million in eligible patient billing needs that were not reimbursed.

ECONOMIC FACTORS IMPACTING FUTURE PERIODS

The major factors that would affect funds remitted to the Trust are changes in the consumer price index, collection of tax revenues by the contributing governments, and amendments to the Trust agreement.

The annual Trust funding required from the City of Louisville, Jefferson County and the Commonwealth of Kentucky was established by the agreement, last revised in February 1996.

Any funding increase is determined by a formula that takes into consideration the lesser of the annual increase in the consumer price index or each government's rate of increase in tax revenues.

For the year ending June 30, 2004, the Trust will receive total combined funding from the three governments amounting to \$30.7 million.

On January 1, 2003, the City of Louisville and Jefferson County governments were merged into one government entity. Total funding as previously specified for each of the governments is expected to continue at the same level from the merged government. There is no expectation that the City and County merger will negatively alter the total funding provided to the Trust.

The Quality and Charity Care Trust, Inc.

Statements of Assets and Liabilities

As of June 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
ASSETS		
Cash	\$ 1,076	\$ 87
Investments-U.S. Government agencies	199,839	184,764
Government funding receivable from Jefferson County	-	1,360,400
Other assets	2,429	2,008
Total assets	<u>\$ 203,344</u>	<u>\$ 1,547,259</u>
LIABILITIES		
Accrued administrative expenses	\$ 14,558	\$ 10,300
Due to University Medical Center, Inc.	188,786	1,536,959
Total liabilities	<u>\$ 203,344</u>	<u>\$ 1,547,259</u>

See notes to financial statements

The Quality and Charity Care Trust, Inc.

Statements of Changes in Balance Due to University Medical Center, Inc.

For the Years Ended June 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Balance due to University Medical Center, Inc. - beginning of year	<u>\$1,536,959</u>	<u>\$134,767</u>
Receipts:		
Government funding	30,556,836	30,148,455
Interest income	34,898	56,762
Total receipts	<u>30,591,734</u>	<u>30,205,217</u>
Disbursements:		
Distributions to University Medical Center, Inc. - indigent care	31,917,232	28,787,542
Administrative expenses	22,675	15,483
Total disbursements	<u>31,939,907</u>	<u>28,803,025</u>
Balance due to University Medical Center, Inc. - end of year	<u><u>\$188,786</u></u>	<u><u>\$1,536,959</u></u>

See notes to financial statements

The Quality and Charity Care Trust, Inc.

Notes to Financial Statements

As of and for the Years Ended June 30, 2003 and 2002

1. Organization and Purpose

a. Incorporation

The Quality and Charity Care Trust, Inc. (Trust) is a non-stock, not-for-profit corporation affiliated with the City of Louisville, Kentucky; Jefferson County, Kentucky; the Commonwealth of Kentucky (Commonwealth); the University of Louisville (University); and University Medical Center, Inc. (UMC). The Trust was incorporated in April 1983 in connection with a trust agreement entered into in January 1983, amended in January 1994 (the Trust Agreement) and revised on February 6, 1996 (Revised Quality and Charity Care Trust Agreement) between the City of Louisville, Kentucky; Jefferson County, Kentucky; the Commonwealth; the University; and UMC. The purpose of the Trust is to manage government funds received and to disburse such funds to UMC for providing hospital care services to economically disadvantaged patients through the University of Louisville Hospital.

b. Terms and Funding

The Revised Quality and Charity Care Trust Agreement provides for the following terms, as well as the option to extend these terms for two additional five-year periods.

1st term – February 1996 to June 1996

2nd term – July 1996 to June 2000

3rd term – July 2000 to June 2004

4th term – July 2004 to June 2008

5th term – July 2008 to June 2012

6th term – July 2012 to June 2016

As set forth in the Revised Quality and Charity Care Trust Agreement, the funds available to the Trust from government sources are determined annually, and the Trust disburses these funds to UMC monthly in the amount of one-twelfth of the total funds determined to be available.

c. Hospital Facilities

The establishment of the Trust was one in a series of events in which certain hospital facilities and operations were leased and assumed via a management contract. Concurrently therewith, certain affiliation and other agreements were entered into

between the University's School of Medicine and other parties involved in the use and operation of such facilities. On February 6, 1996, UMC entered into an affiliation agreement with the University, which replaced the previous management contract that had begun in May 1983, amended in January 1994 and cancelled February 6, 1996.

2. Trust Agreement

The principal provisions and the capitalized terms below as defined in the Revised Quality and Charity Care Trust Agreement are as follows:

a. Funding Provisions

- Funding of the Trust is provided monthly by the City of Louisville, Jefferson County and the Commonwealth based on initially prescribed amounts. One-twelfth of the total funds available are disbursed to UMC monthly.
- Any funding increase to the Trust is limited by the Trust Agreement to the lesser of each government's rate of increase in tax revenues or the Consumer Price Index.
- After the entire amount of funding available to the Trust has been exhausted, as discussed above, UMC is committed to continue to provide medically necessary Hospital Care, to the extent facilities are available, to all Indigent and Medically Needy individuals at its own expense.
- No portion of funding provided to the Trust by the City of Louisville or Jefferson County may be used to provide Hospital Care for persons who are not residents of Jefferson County.
- After 10% of total funding provided by the Commonwealth, City of Louisville or Jefferson County has been expended to provide medically necessary Hospital Care to Indigent and Medically Needy individuals who are not residents of Jefferson County, UMC is under no further obligation to provide Hospital Care to such non-residents of Jefferson County.

b. Payment/Billing Provisions

- UMC is obligated to provide medically necessary Hospital Care, to the extent facilities are available, to all Indigent and Medically Needy individuals. The Revised Quality and Charity Care Trust Agreement restricts payments from the Trust to UMC for services rendered at a rate no greater than 58% of standard billed charges, as established by UMC.
- UMC provides the Trust with a summary billing statement identifying each Indigent or Medically Needy individual and related charges within thirty days of year-end.

- To the extent total Billed Charges (net of collections from other sources) exceeds the amount paid to UMC for any Trust year and to the extent the Trust has funds remaining, the Trust will pay such excess to UMC annually. If no funds are available, the Trust will pay such excess to UMC when additional funding is received in the next Trust year. To the extent total amounts paid (including reimbursement amounts from prior Trust years) to UMC exceed Billed Charges (net of collections from other sources) for any Trust year, such excess will be repaid to the Trust by UMC annually.
- UMC is required by the Revised Quality and Charity Care Trust Agreement to make every effort to collect for services rendered from either the patient or some available third party payer before collecting from the Trust. This is required to protect the integrity of the Trust and ensure funds will be available for the intended purpose.
- The Revised Quality and Charity Care Trust Agreement restricts the increase in UMC's standard billed charges to the percentage increase in the Consumer Price Index – Medical Care Component for all charges after July 1, 1996.

3. Technical Interpretations

To provide guidance for implementation of the original Trust Agreement, Humana Corporation, the original provider of hospital care, prepared a document dated August 30, 1984, commonly referred to as the Technical Interpretations. This document has not been formally incorporated into the Revised Quality and Charity Care Trust Agreement but was formally approved by the Board of Directors of the Trust.

The Technical Interpretations principally:

- Provide guidance on the mathematical methodology to be used for calculating Billed Charges (net of collections from other sources) for billing to the Trust.
- Provide that charges related to individuals suspected in the judgment of UMC to be Indigent or Medically Needy may be billed to the Trust on a tentative basis in the year in which service is provided. Charges related to patients who are ultimately determined not to be Indigent or Medically Needy are then credited back to the Trust in the year in which the determination is made. Conversely, charges related to patients who are initially believed not to qualify as Indigent or Medically Needy may, upon subsequent determination of qualification, be billed to the Trust in the year in which the determination is made.

4. Basis of Presentation and Summary of Significant Accounting Policies

In addition to the accounting methods described in the Revised Quality and Charity Care Trust agreement and the Technical Interpretations, the following are the significant accounting policies followed by the Trust.

a. Basis of Presentation

The financial statements of the Trust are prepared on the accrual basis of accounting. These financial statements are prepared in accordance with Government Accounting Standards Board (GASB) principles as prescribed by GASB Statement No. 34, *Basic Financial Statements – Management’s Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 37.

These new reporting standards were effective on July 1, 2001 for all governmental entities and related component governments. This includes the University of Louisville and its related entities. The Trust is considered a fiduciary fund that serves in a custodial capacity for the primary purpose of receiving and disbursing funds to benefit the University Medical Center. The Trust financial statements are reported separately as an agency fund and are not part of the consolidated financial statements of the University, the City of Louisville, Jefferson County, Kentucky, the Commonwealth or UMC.

b. Transaction Logs – Final Billed Basis

All transactions processed in a given Trust year are accumulated, by patient, in a log (Log) for that year. With the exception of year-end in-house patients and patients discharged but not yet final billed, as discussed below, transactions are generally recorded in the Log at the time of final billing and are categorized by the Trust year in which the patient is final billed.

c. Year-end In-House or Discharged Patients Not Final Billed

Transactions related to patients who are in-house at year-end or discharged but not final billed (with the exception of those classified under the Medicaid pending or Medicare payer codes) are summarized as of year-end and recorded in the Log in the year in which service was provided. These transactions are recorded in the Log regardless of whether the patients are believed to have adequate insurance or other means to satisfy their bills.

Upon final billing (in the following Trust year) the transactions pertaining to the year end in-house or discharged but not yet final billed patients are reversed in the following Trust year’s Log under the year of original recording. The transactions related to those patients then deemed to be Indigent or Medically Needy are recorded in the following Trust year’s Log.

d. House Bill No. 1

The Kentucky General Assembly signed into law House Bill No. 1 (HB1) on May 26, 1993. HB1 provides continued coverage of hospital charges in excess of the fourteen-day limit to Medicaid patients and additional funding to hospitals to improve access of medical care for low-income individuals and families by way of the Kentucky Hospital Care Program (KHCP). In response to HB1, UMC modified the procedure under which charges are billed to the Trust to exclude those charges associated with KHCP-applicable patients.

e. Cash

Cash on deposit is insured up to \$100 thousand. Amounts on deposit with banks in excess of \$100 thousand are not collateralized.

f. Investments

Investments are stated at cost, which approximates market value. The Trust's investments are uninsured and unregistered and are held by the dealer bank's depository in the Trust's name.

g. Income Taxes

The Trust is exempt from federal and state income taxes as a not-for-profit charitable corporation.

h. Annual Settlement

Annual settlements are made within forty-five days of each Trust year-end for the difference between calculated net charges and government funding received by UMC.

5. Related Party

The Trust is a corporation affiliated with the University. The Trust has its own Board of Directors but is administered by officers and employees of the University. No portion of administrative costs associated with such officers and employees is charged to the Trust.

6. Recent Accounting Pronouncements

In May 2002, the GASB issued Statement No. 39 *Determining Whether Certain Organizations Are Component Units*. This Statement provides additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based upon the nature and significance of their relationship with the primary government. Generally, it requires reporting, as a component unit, an organization that raises and holds economic resources for the direct benefit of a government unit. The provisions of this Statement are effective for financial

statements for periods beginning after June 15, 2003. The Trust's management has not yet determined if the Trust will be presented as a component unit of UMC.

In March 2003, GASB issued Statement No. 40 *Deposit and Investment Risk Disclosures*. This statement requires certain disclosures of investments that have fair values that are highly sensitive to the changes in interest rate risk. The provisions of the statement are effective for financial statements for periods beginning after June 15, 2004. The Trust does not expect the adoption of this statement to have a material effect on its financial statements.

THE QUALITY AND CHARITY CARE TRUST, INC.

**SUPPLEMENTAL SCHEDULE OF INDIGENT PATIENT CHARGES FUNDED BY THE TRUST
YEAR ENDED JUNE 30, 2003**

	I	II	III	IV	V
	Indigent and/or Medically Needy Net Transactions	Net Transactions Processed to the Trust	Maximum Eligible for Trust Reimbursement	Amounts in Excess of Maximum Reimbursement	Amounts Reimbursed to UMC from Trust
Applicable to Trust Fiscal Year Ended June 30					
Third Term:					
2003	\$ 157,157,010	\$ 91,151,066	\$ 30,556,836		
2002	(7,683,804)	(4,456,606)	0		
2001	(602,890)	(349,676)	0		
Total applicable to third term	148,870,316	86,344,784	30,556,836	\$ 55,787,948	\$ 30,556,836
Total Applicable to second term (1997-2000)	307,987	178,632	0	178,632	0
Total Applicable to initial term (2/6/96-6/30/96)	7,198	4,175	0	4,175	0
Total applicable to all periods	\$ 149,185,501	\$ 86,527,591	\$ 30,556,836	\$ 55,970,755	\$ 30,556,836

I - Represents the aggregate amount of each patient's charges at 100% of the billed charges established by UMC for the hospital care provided to the patient (which amounts equal the amounts reflected on detailed patient bills); less the aggregate total of amounts applied to each patient's bill from a variety of sources (excluding reimbursement from the Trust) including but not limited to cash receipts, contractual discounts, reversal of transactions previously processed for year end in-house or discharged but not yet final billed patients and corrections of errors.

II - Represents the mathematical result of multiplying Column I by the percentage factor (58%) specified in the Trust Agreement.

III - Represents the maximum allowable charges to be reimbursed by the Trust, as defined in the Trust Agreement.

The Quality and Charity Care Trust, Inc.

**Note to Supplemental Schedule of Indigent Patient Charges
Funded by the Trust**

For Year Ended June 30, 2003

1. First through Ninth Amendments to the Revised Quality and Charity Trust Agreement

The first through ninth amendments to the Revised Quality and Charity Care Trust Agreement, effective until June 30, 1999, suspended the portion of the Trust Agreement that provided for the transfer of available funding to the Trust and UMC for the fiscal years from June 30, 1996 through 1999. These amendments stipulated that such available funding was to be transferred to the Commonwealth of Kentucky Cabinet for Human Resources, Department of Medicaid Service (Department). The Commonwealth was obligated to reimburse both the City of Louisville and Jefferson County, Kentucky 100% of their contribution to the Trust for these periods. The remaining funding was used to enable the Department to receive Federal Medicaid matching payments. The payments, known as Type III Disproportionate Share Hospital (DSH) payments, are provided for in 907 KAR 1:013E. The amendments had the effect of nullifying all transactions related to the Trust for years 1996 through 1999 pursuant to the Revised Quality and Charity Care Trust Agreement.

As a result of the amendments, no transactions or reimbursements have been recognized related to the Trust in the Trust's Supplemental Schedule of Indigent Patient Charges Funded by the Trust from June 30, 1996 through 1999.