

**THE QUALITY AND CHARITY CARE TRUST, INC.**  
**Auditor's Report and Financial Statements**  
**June 30, 2014 and 2013**  
**and**  
**Supplemental Schedule for the Year Ended June 30, 2014**

THE QUALITY AND CHARITY CARE TRUST, INC.

June 30, 2014

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## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying basic financial statements of The Quality and Charity Care Trust, Inc. (Trust), which are comprised of a statement of assets and liabilities as of June 30, 2014 and 2013, and the related statements of changes in balance due to the University Medical Center, Inc. (UMC) for the years then ended and the related notes to the financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Trust's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Trust as of June 30, 2014 and 2013, and its changes in balance due to UMC for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Required Supplementary Information***

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.

***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Trust's basic financial statements. The accompanying supplemental schedule of indigent patient charges funded by the Trust, 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

***BKD, LLP***

Louisville, Kentucky  
November 7, 2014

## **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) as of and for the years ended June 30, 2014, 2013, and 2012. 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, and last amended in November 2012 (Agreement). Parties to the trust agreement include the Louisville/ Jefferson County Metro Government, formerly the City of Louisville, Kentucky and Jefferson County, Kentucky, (Louisville Metro Government), the Commonwealth of Kentucky (Commonwealth), the University of Louisville (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 (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 three members appointed by the Board of Trustees of the University or members of the University staff serving at the pleasure of the Board, three Directors appointed by the Governor of the Commonwealth, two Directors appointed by the Mayor of Louisville Metro Government, and one Director appointed by the Louisville Metro Board of Health. Each Director is elected for a one-year term.

Beginning with the fiscal year ended June 30, 2013, the revised trust agreement changed the amounts eligible to be charged to the Trust from an amount using a fixed percentage to using the Hospital's Medicare cost-to-charge ratio to determine the Cost of Care.

#### **USING THE FINANCIAL STATEMENTS**

The Trust financial report includes two financial statements: the statements of assets and liabilities and the statements of changes in balance due to UMC. 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.

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 Agreement. The Trust financial

statements are reported separately as an agency fund and are not part of the financial statements of the University, the Louisville Metro Government, the Commonwealth or UMC.

### **FINANCIAL HIGHLIGHTS**

Total annual funding provided from government sources as specified by the Agreement amounted to \$29.8 million for the year ended June 30, 2014.

### **STATEMENT OF ASSETS AND LIABILITIES**

As of June 30, 2014, the Trust's total assets were \$17 thousand compared to \$20 thousand as of June 30, 2013, and to \$35 thousand as of June 30, 2012.

### **STATEMENT OF CHANGES IN BALANCE DUE TO THE 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 30, 2014 and 2013.

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

### **RECEIPTS**

For the fiscal year ended June 30, 2014, combined receipts from the Commonwealth and the Louisville Metro Government received by the Trust were \$29.8 million, \$0.2 million more than the \$29.6 million reported for the year ended June 30, 2013, and \$4.1 million less than the \$33.9 million reported for the year ended June 30, 2012.

### **INTEREST RECEIVED FROM INVESTMENT OF FUNDS**

Interest reported for the year ended June 30, 2014 and 2013, amounted to \$6 thousand compared to \$29 thousand earned in the year ended June 30, 2012.

### **DISBURSEMENTS TO UNIVERSITY MEDICAL CENTER, INC.**

For the fiscal year ended June 30, 2014, the Trust remitted \$29.8 million to UMC as compared to \$29.6 million for the year ended June 30, 2013, and to \$33.9 million for the year ended June 30, 2012. The higher amount in the fiscal year ended June 30, 2014, is a result of a change in funding provided to the Trust as determined annually by the formula set forth in the Agreement, adjusted by state statutes.

### **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, 2014, the total

hospital charges for indigent patients at 100% of billing rates established by UMC for hospital care were \$308.4 million, a decrease of 27% when compared to last year's total of \$420.3 million and a decrease of 29% compared to the total of \$427.5 million for the fiscal year ended June 30, 2012. According to the Agreement, for the years ended June 30, 2014 and 2013, only \$64.3 million, and \$93.7 million, of these billed charges are eligible for reimbursement, respectively. Funding from the Trust amounted to \$29.8 million for the year, leaving \$34.5 million in eligible patient billing needs that were not reimbursed.

#### **ECONOMIC FACTORS IMPACTING FUTURE PERIODS**

The annual Trust funding required from the Louisville Metro Government and the Commonwealth was established by the Agreement as last revised in November 2013. However, in the biennial budget passed by the Commonwealth, the amount of distributions to the Trust was limited and the funding process was changed. During the fiscal year ended June 30, 2015, the Commonwealth will provide up to \$6.0 million as reimbursement for care provided by the Hospital. Louisville Metro Government and the University will each provide up to \$5.0 million as well. Reimbursements from the three sources will be allocated according to the percentage of maximum contribution during the year.

**The Quality and Charity Care Trust, Inc.**

**Statements of Assets and Liabilities**

**June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 17,367	\$ 19,513
Total assets	<u>\$ 17,367</u>	<u>\$ 19,513</u>
<b>LIABILITIES</b>		
Due to University Medical Center, Inc.	17,367	\$ 19,513
Total liabilities	<u>\$ 17,367</u>	<u>\$ 19,513</u>

See notes to financial statements



**The Quality and Charity Care Trust, Inc.**

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

**Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Balance due to the University Medical Center, Inc. - beginning of year	\$ 19,513	\$ 34,588
Receipts:		
Government funding	29,788,168	29,588,427
Interest income	5,834	5,772
Total receipts	<u>29,794,002</u>	<u>29,594,199</u>
Disbursements:		
Distributions to University Medical Center, Inc. - indigent care	29,777,561	29,588,427
Administrative expenses	18,587	20,847
Total disbursements	<u>29,796,148</u>	<u>29,609,274</u>
Balance due to the University Medical Center, Inc. - end of year	<u>\$ 17,367</u>	<u>\$ 19,513</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, 2014 and 2013**

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 Louisville/Jefferson County Metro Government, formerly the City of Louisville, Kentucky and Jefferson County, Kentucky (Louisville Metro Government), 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), revised on February 6, 1996, and then on November 1, 2012 (Revised Quality and Charity Care Trust Agreement) between the Louisville Metro Government, 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 (Hospital).

The revision 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. In November 2012, the University entered into an academic affiliation agreement with KentuckyOne Health, Inc. (KentuckyOne), UMC, and the Commonwealth; and UMC entered into a joint operating agreement with KentuckyOne, which replaced the previous academic affiliation agreement that had begun in February 1996. Under the joint operating agreement, KentuckyOne agreed to manage the Hospital in a manner consistent with the Revised Quality and Charity Care Trust Agreement.

b. Terms and Funding

The Revised Quality and Charity Care Trust Agreement provides for an initial term from July 1, 2012, through June 30, 2013, and such term shall continue for subsequent Trust Years thereafter, subject to the availability of government funding. Trust Years shall mean any consecutive twelve-month period beginning on the first day of July and ending the last day of June.

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

In November 2012, the University and the Commonwealth amended and restated the lease agreement with UMC, which replaced the previous lease agreement that had begun in February 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 based on initially-prescribed amounts by the Louisville Metro Government and the Commonwealth. One-twelfth of the total funds available are disbursed to UMC monthly.
- 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 Louisville Metro Government may be used to provide Hospital Care for persons who are not residents of Jefferson County.
- After 10% of the total funds provided by the Commonwealth and Louisville Metro Government have 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 non-residents of Jefferson County.

b. Payment/Billing Provisions

- UMC is obligated to provide medically necessary Hospital Services, 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 of 21.3% and 21.8% of standard billed charges, respectively, for the years ended June 30, 2014 and 2013, as established by the most recent Medicare cost-to-charge ratio report.

- UMC provides the Trust with a summary billing statement identifying each Indigent or Medically Needy individual and related charges within 30 days of the Trust 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, such balance shall remain in the Trust for use in the next succeeding Trust Year in accordance with the terms of any future agreement.

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.

Any remaining balance in the Trust at the termination of the Trust shall be retained for a period of four years. Thereafter, any remaining balance shall be returned to Louisville Metro Government and the Commonwealth in the same proportion that the Trust was funded for the final Trust Year prior to termination.

- UMC is required by the Revised Quality and Charity Care Trust Agreement that it make every effort to collect money for services rendered. The collection is to be made from either the patient or some available third-party payer prior to collecting funds from the Trust. This is required to protect the integrity of the Trust and ensure funds will be available for the intended purpose.

### 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.

The Trust is considered a fiduciary fund that serves in a custodial capacity for the primary purpose of receiving and disbursing funds to benefit UMC. The Trust’s financial statements are reported separately as an agency fund and are not part of the financial statements of the University, the Louisville Metro Government, the Commonwealth or UMC.

##### b. Deferred Outflows/Inflows of Resources

During 2014, the Trust adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65). GASB 65 establishes accounting and financial reporting standards that reclassify as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. GASB 65 also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term “deferred” in the financial statement presentations. The Trust has no items that qualify for reporting in these categories.

##### c. Transaction Logs – Final Billed Basis

All transactions processed in a given Trust year are accumulated, by patient, and entered into 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.

d. 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.

e. 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.

f. Cash and Cash Equivalents

The Federal Deposit Insurance Corporation's (FDIC) insurance limit is \$250,000. At June 30, 2014, the Trust's interest-bearing cash account was fully covered by FDIC limits.

g. Income Taxes

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

h. Annual Settlements

Annual settlements are made within 45 days of each Trust year-end for the difference between calculated net charges and government funding received by UMC.

i. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and

the reported amounts of receipts, disbursements and other changes in balance due to UMC during the reporting period. Actual results could differ from those estimates.

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, among others. No portion of administrative costs associated with such officers and employees is charged to the Trust.

University of Louisville Hospital  
The Quality and Charity Care Trust Inc  
Supplemental Schedule of Indigent Patient Charges Funded by the Trust  
Year Ended June 30, 2014

		I Indigent and/or Medically Needy Net Charges	II Net Charges Eligible for Trust Reimbursement	III Maximum Eligible for Trust Reimbursement	IV Amounts in Excess of Maximum Reimbursement	V Amounts Reimbursed to UMC from Trust
Applicable to Trust Fiscal Year Ended June 30:						
Sixth Term:						
	2013	\$ 2,574,991	\$ 561,348		\$ 561,348	
	2014	309,858,161	66,030,774	\$ 29,777,561	36,253,213	\$ 29,777,561
Total applicable to sixth term (2013-2016)		<u>312,433,152</u>	<u>66,592,122</u>	<u>29,777,561</u>	<u>36,814,561</u>	<u>29,777,561</u>
Fifth Term:						
	2009	\$ (339,729)	\$ (197,043)	\$ -	\$ (197,043)	\$ -
	2010	(92,812)	(53,831)	-	(53,831)	-
	2011	(2,488,128)	(1,443,114)	-	(1,443,114)	-
	2012	(1,066,301)	(618,455)	-	(618,455)	-
Total applicable to fifth term (2009-2012)		<u>(3,986,970)</u>	<u>(2,312,443)</u>	<u>-</u>	<u>(2,312,443)</u>	<u>-</u>
Total applicable to all periods		<u>\$ 308,446,182</u>	<u>\$ 64,279,679</u>	<u>\$ 29,777,561</u>	<u>\$ 34,502,118</u>	<u>\$ 29,777,561</u>

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 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 in effect from February 1996 to June 30, 2012, and by the cost-to-charge percentage specified in the Trust Agreement dated November 2012 for 2013 and 2014.

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

IV - Represents Column II minus Column III.

V - Represents the maximum allowable charges to be reimbursed by the Trust, as defined in the Trust Agreement in addition to amounts returned to UMC for the balance due at the end of the sixth term of the Trust Agreement - July 2013 to June 2016.