

THE QUALITY AND CHARITY CARE TRUST, INC.
Auditor's Report and Financial Statements
June 30, 2016 and 2015
And
Supplemental Schedule for the Year Ended June 30, 2016

THE QUALITY AND CHARITY CARE TRUST, INC.

June 30, 2016

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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 financial statements of The Quality and Charity Care Trust (the "Trust"), as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Trust's basic 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 entity'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 entity'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 that 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, 2016 and 2015, and the changes in balance due for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplemental schedule of Indigent Patient Charges Funded by the Trust is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2016 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 2016 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 2016 basic financial statements or to the 2016 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 supplemental schedule of Indigent Patient Charges Funded by the Trust is fairly stated, in all material respects, in relation to the 2016 basic financial statements as a whole.

Crowe Horwath LLP

Crowe Horwath LLP

Louisville, Kentucky
January 10, 2017

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, 2016, 2015, and 2014. 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 2014 (Revised Trust Agreement). Parties to the Revised Trust Agreement include the Louisville/Jefferson County Metro Government, (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, 2015, the Revised Trust Agreement changed the method of reimbursement from a fixed advance payment to a reimbursement basis requiring submission of patient records to the Commonwealth prior to distribution of the funds to the Trust.

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. 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 a fiduciary fund that serves in a custodial capacity for the primary purpose of receiving and disbursing funds in accordance with the Revised Trust 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 maximum annual funding of \$12.0 million and \$16.0 million is available to be provided from government sources as specified by the Revised Trust Agreement for the years ended June 30, 2016, and 2015, respectively.

STATEMENT OF ASSETS AND LIABILITIES

As of June 30, 2016, the Trust's total assets were \$4.0 million compared to \$2.8 million as of June 30, 2015, and to \$0.02 million as of June 30, 2014. The increase is directly related to the increased reimbursements due to UMC for the last six months of indigent care authorized by the Commonwealth and to be remitted to the trust by governmental sources.

STATEMENT OF CHANGES IN BALANCE DUE

The purpose of this statement is to provide a summary of activity affecting the liability due to UMC and the University for the fiscal years ended June 30, 2016 and 2015.

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 Revised Trust Agreement.

RECEIPTS

For the fiscal year ended June 30, 2016, combined receipts from the Commonwealth, University and the Louisville Metro Government received by the Trust were \$7.0 million, \$2.5 million more than the \$4.5 million reported for the year ended June 30, 2015, and \$25.3 million less than the \$29.8 million reported for the year ended June 30, 2014.

The increase in governmental receipts resulted from additional expenses not covered by Medicaid being reimbursed from the parties to the Revised Trust Agreement.

INTEREST RECEIVED FROM INVESTMENT OF FUNDS

No interest was reported for the year ended June 30, 2016 and June 30, 2015 compared to \$0.01 million earned in the years ended June 30, 2014. The change to the reimbursement process prescribed by the Revised Trust Agreement resulted in no cash available for investments during the years ending in June 30, 2016 and 2015.

DISBURSEMENTS TO UNIVERSITY MEDICAL CENTER, INC.

For the fiscal year ended June 30, 2016, receipts from government funds to be disbursed were \$7.0 million, \$2.5 million more than the \$4.5 million reported for the year ended June 30, 2015, and \$25.3 million less than the \$29.8 million reported for the year ended June 30, 2014. Of the

receipts, the Trust remitted \$5.7 million to UMC for the year ending June 30, 2016 as compared to \$1.7 million for the year ended June 30, 2015, and to \$29.8 million for the year ended June 30, 2014. The increase in amounts remitted for fiscal year ended June 30, 2016 is a result of additional reimbursements from the parties to the Revised Trust Agreement and timing of receipt of the funds from the governmental agencies. The decrease in amounts remitted for fiscal year ending June 30, 2015 is due to changing funding from advance payment to reimbursement basis and changes in funding by the Revised Trust Agreement.

ECONOMIC FACTORS IMPACTING FUTURE PERIODS

The annual Trust funding required from the Louisville Metro Government and the Commonwealth was established by the Revised Trust Agreement. 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, 2016, the Revised Trust Agreement calls for funding from the Commonwealth, Louisville Metro Government, and the University of up to \$4.0 million, \$3.0 million, and \$5.0 million, respectively. Reimbursements from the three sources will be allocated according to the percentage of maximum contribution during the year. The biennial budget passed by the Commonwealth for fiscal years ending June 30, 2017 and 2018 did not include funding for the Trust.

The Quality and Charity Care Trust, Inc.

Statements of Assets and Liabilities

June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ -	\$ -
Due from governmental funding	3,967,839	2,759,201
Total assets	<u>\$ 3,967,839</u>	<u>\$ 2,759,201</u>
LIABILITIES		
Due to University Medical Center, Inc.	\$ 3,956,909	\$ 2,757,305
Due to University of Louisville	10,930	1,896
Total liabilities	<u>\$ 3,967,839</u>	<u>\$ 2,759,201</u>

See notes to financial statements

The Quality and Charity Care Trust, Inc.

Statements of Changes in Balance Due

Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Balance due - beginning of year	\$ 2,759,201	\$ 17,367
Receipts:		
Government funding	6,955,869	4,459,970
Interest income	-	-
Total receipts	<u>6,955,869</u>	<u>4,459,970</u>
Disbursements:		
Distributions to University Medical Center, Inc. - indigent care	5,738,196	1,698,873
Administrative expenses	9,035	19,263
Total disbursements	<u>5,747,231</u>	<u>1,718,136</u>
Balance due - end of year	<u>\$ 3,967,839</u>	<u>\$ 2,759,201</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, 2016 and 2015

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, November 1, 2012 and then on November 18, 2014 (Revised 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 2012 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 Trust Agreement.

b. Terms and Funding

The Revised Trust Agreement provides for an initial term from July 1, 2014, through June 30, 2016, 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.

The funds available to the Trust from the government sources are set forth in the Revised Trust Agreement for the term. The governments' funding is paid to the Trust within thirty days of receipt and approval of the reports by the Commonwealth as required by the Revised Trust Agreement.

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. Revised Trust Agreement

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

a. Funding Provisions

- Funding of the Trust is provided within thirty days of receipt and approval by the Commonwealth of the quarterly Reimbursement Request Certification reports detailing the amount of expenditures approved for the Cost of Care for those eligible under the Revised Trust Agreement.
- 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 Trust Agreement restricts payments from the Trust to UMC for services rendered at a discount rate specific to the department providing services. For the years ending June 30, 2016 and 2015, the average discount rate was 23% and 22%, respectively.
- UMC submits quarterly the Reimbursement Request Certification with the Data Submission Requirements as provided in the Revised Trust Agreement to the Commonwealth, Louisville Metro, the University and the Board of Directors.

- To the extent there is a cash balance in the Trust at the end of any Trust Year, such balance shall remain in the Trust for use in the next succeeding Trust Year to pay for Hospital Care provided to Indigents and Medically Needy in accordance with the terms of any future Agreement.
- Any remaining balance in the Trust at the termination of the Trust shall be retained for a period of one year. 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.

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 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. 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.

c. Cash and Cash Equivalents

The Trust considers all cash and investments with an original maturity of three months or less to be cash equivalents. At June 30, 2016 and 2015, the Trust had no cash or cash equivalents.

d. Income Taxes

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

e. 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

	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
Year Ended June 30, 2016	\$35,611,871	\$6,955,869	\$12,000,000	(\$5,044,131)	\$5,738,196

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 cost-to-charge percentage, as limited by allowable reimbursement for individuals who are not residents of Jefferson County, as specified in the Revised Trust Agreement.

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

IV - Represents Column II minus Column III.

V - Represents the amount reimbursed by the Trust, net of Trust expenditures.