

**UNIVERSITY OF LOUISVILLE MEDICAL
SCHOOL FUND, INC.**

**Auditor's Report and Financial Statements
June 30, 2016 and 2015**

UNIVERSITY OF LOUISVILLE MEDICAL SCHOOL FUND, INC.

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
University of Louisville Medical School Fund, Inc.
Louisville, Kentucky

Report on the Financial Statements

We have audited the accompanying modified cash-basis financial statements of the University of Louisville Medical School Fund, Inc. (Medical School Fund) as of June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Medical School Fund'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 modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 modified cash-basis financial position of the Medical School Fund, as of June 30, 2016 and 2015, and the changes in balance due to the Dean's Fund for the years then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Information

Our audit was conducted for the purpose of forming an opinion on the Medical School Fund basic financial statements. The Management's Discussion and Analysis is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Management's Discussion and Analysis 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.

Crowe Horwath LLP

Crowe Horwath LLP

Louisville, Kentucky
December 8, 2016

UNIVERSITY OF LOUISVILLE MEDICAL SCHOOL FUND, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

INTRODUCTION

The following discussion provides an overview of the assets, liabilities, and changes in balance due to the Dean's Fund of the University Of Louisville Medical School Fund, Inc. (the Medical School Fund) 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 MEDICAL SCHOOL FUND

The Medical School Fund is a Kentucky not-for-profit corporation organized exclusively to benefit the academic endeavors of the University Of Louisville School Of Medicine (School of Medicine). The Medical School Fund provides financial support to the School of Medicine through the collection of a percentage of professional practice income from the full-time clinical and basic sciences faculty employed by the School of Medicine.

The purpose and duties of the Medical School Fund are to:

- monitor and account for the Dean's Fund collections,
- remit all collections to the Dean's Fund of the University of Louisville Research Foundation, Inc. within thirty days of receipt,
- provide a forum for discussing academic practice-related issues and the continued equity of the professional practice plan, and
- Provide an annual report of its activities to the Board of Directors of the Medical School Fund and the Board of Trustees of the University of Louisville (University).

The Medical School Fund organization is governed by its Board of Directors consisting of the Dean of the School of Medicine, clinical department chairs, and other School of Medicine faculty members. The members of the Medical School Fund are the Board of Trustees of the University. All full-time faculty members of the School of Medicine are required to participate in the University Of Louisville School Of Medicine Practice Plan (Practice Plan). The original Practice Plan was instituted in June of 1975 in order to maintain a faculty of excellence in teaching, research, and patient care, and to provide appropriate monitoring of faculty professional time in order to assure fulfillment of academic responsibilities.

During April 2011, the Board of Trustees of the University approved a plan to consolidate a majority of the multiple practice groups into a single practice group for each Clinical Department in the School of Medicine. These new groups will function as subsidiaries of University of Louisville Physicians (ULP). The goal of this consolidation is to create efficiencies including central strategic

management and business operations, such as billing. The current Practice Plan has been in effect since January 1, 2012.

The Medical School Fund receives a calculated share of income from the various practice groups as remitted through departmental entities associated with the School of Medicine. Departmental entities are not-for-profit corporations established within the School of Medicine to coordinate the collection of financial support from the faculty practice groups in accordance with the Practice Plan.

USING THE FINANCIAL STATEMENTS

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

The Medical School Fund is considered a fiduciary fund that serves in a custodial capacity for the primary purpose of receiving and disbursing funds to benefit the School of Medicine. The Medical School Fund's financial statements are reported separately as an agency fund and are not part of the financial statements of the University.

The Medical School Fund's financial statements are reported on the modified cash basis of accounting. Total receipts consist of contributions to the Medical School Fund from the Practice Plan and the interest earned from the temporary deposit of these contributions.

All contributions plus investment earnings are disbursed to the Dean's Fund of the University of Louisville Research Foundation, Inc. Since the Medical School Fund disburses all collections and interest in its custodial capacity, any undistributed collections are classified as liabilities of the Medical School Fund.

FINANCIAL HIGHLIGHTS

STATEMENTS OF ASSETS AND LIABILITIES (MODIFIED CASH BASIS)

The Medical School Fund's Statement of Assets and Liabilities as of June 30, 2016, 2015, and 2014 is as follows:

	Statements of Assets and Liabilities (Modified Cash Basis) June 30, 2016, 2015, and 2014 (In Thousands)				
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2016 - 2015 Change</u>	<u>2015 - 2014 Change</u>
ASSETS:					
Cash	\$ 27	\$ 1	\$ 6	\$ 26	\$ (5)
LIABILITIES:					
Due to the Dean's Fund	\$ 27	\$ 1	\$ 6	\$ 26	\$ (5)

As of June 30, 2016, the Medical School Fund held \$27 thousand of cash on deposit compared to \$1 thousand and \$6 thousand as of June 30, 2015 and 2014, respectively. The change in balance is due to the timing of cash received from the Practice Plan and related distributions to the Dean's Fund.

The total cash held on deposit is due and payable to the Dean's Fund within thirty days of receipt and is reported as a liability as of June 30, 2016, 2015 and 2014.

STATEMENTS OF CHANGES IN BALANCE DUE TO THE DEAN'S FUND (MODIFIED CASH BASIS)

The purpose of these statements is to provide a summary of activity affecting the liability due to the Dean's Fund for the fiscal years ended June 30, 2016 and 2015. The Medical School Fund's two sources of cash are the contributions from the Practice Plan and the interest received while the funds are temporarily on deposit.

As an agency fund, the Medical School Fund 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 Practice Plan for the Dean's Fund.

The Medical School Fund's Statements of Changes in Balance Due to the Dean's Fund for the years ended June 30, 2016, 2015, and 2014 is presented below:

Statements of Changes in Balance Due to the Dean's Fund
(Modified Cash Basis)
Years Ended June 30, 2016, 2015, and 2014
(In Thousands)

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2016 - 2015</u> <u>Change</u>	<u>2015 - 2014</u> <u>Change</u>
Balance due to the Dean's Fund - beginning of year	\$ 1	\$ 6	\$ 200	\$ (5)	\$ (194)
Receipts:					
Contributions collected from the Practice Plan	1,204	904	2,579	300	(1,675)
Total receipts	<u>1,204</u>	<u>904</u>	<u>2,579</u>	<u>300</u>	<u>(1,675)</u>
Disbursements:					
Distributions to the Dean's Fund of the University of Louisville Research Foundation, Inc.	(1,178)	(909)	(2,773)	(269)	1,864
Total disbursements	<u>(1,178)</u>	<u>(909)</u>	<u>(2,773)</u>	<u>(269)</u>	<u>1,864</u>
Balance due to the Dean's Fund - end of year	<u>\$ 27</u>	<u>\$ 1</u>	<u>\$ 6</u>	<u>\$ 26</u>	<u>\$ (5)</u>

RECEIPTS

For the fiscal year ended June 30, 2016, total collections received by the Medical School Fund from the Practice Plan amounted to \$1.2 million, \$0.3 million greater than the \$0.9 million reported for the year ended June 30, 2015.

The receipts for the year ended June 30, 2015 were \$1.9 million less than the \$2.8 million reported for the year ended June 30, 2014. The receipts have declined over the past three fiscal years due mainly as a result of decreased revenues at the Practice Plans.

INTEREST RECEIVED ON DEPOSIT OF FUNDS

Due to continued low interest rates over the past fiscal year, interest earnings received was comparable to the prior year. Interest reported for the years ended June 30, 2016, 2015, and 2014, was less than \$1 thousand.

DISBURSEMENTS TO THE DEAN'S FUND

For the fiscal year ended June 30, 2016, the Medical School Fund remitted \$1.2 million to the Dean's Fund as compared to \$0.9 million and \$2.8 million for the years ended June 30, 2015 and 2014, respectively. The reduced distributions are the result of continued declines in contributions collected from the Practice Plan.

CHANGE IN AMOUNTS DUE TO THE DEAN'S FUND

As of June 30, 2016, the net liability increase by \$26 thousand. Cash paid to the Dean's Fund during the year ended June 30, 2016, amounted to \$1.2 million. This included the \$1 thousand payable on June 30, 2015, plus \$1.1 million of current year collections and interest. The remaining \$26 thousand cash collected in fiscal year 2016 will be paid in fiscal year 2017.

THE DEAN'S FUND

In accordance with the Practice Plan provisions, the Dean of the School of Medicine must provide an annual report of the Dean's Fund expenditures used during the fiscal year and report on the proposed use of the Dean's Fund for the upcoming academic year.

For the year ended June 30, 2016, the Dean reported that 75% of the Dean's Fund was used to support the Dean's Office. The remaining 25% was used to support various departments, core labs, and other support units in the School of Medicine. For fiscal year 2017, the Dean proposes to use the funds in a similar manner as they were used in fiscal year 2016.

ECONOMIC FACTORS IMPACTING FUTURE PERIODS

A major factor affecting future contributions to the Medical School Fund is faculty participation in clinical practice and their annual revenues generated from clinical services. The various faculty practices have transferred into ULP with the final practice transferred as of July 1, 2014. As the transfers have occurred, there has been a drop in revenue. It is anticipated that clinical income will improve as physician productivity increases and revenue cycle management improves via a central billing office.

In February 2015, the University Board of Trustees approved revisions to the Practice Plan. These revisions include moving to a single tax rate of 4% applicable to all professional practice revenue generated by medical school faculty and ULP. The tax will be applied to all revenues from professional services of faculty and other clinicians who separately bill for clinical services in a department's practice and all funds received from non-research hospital contracts. This new tax will be phased in over a five-year period, beginning July 1, 2016.

University of Louisville Medical School Fund, Inc.

**Statements of Assets and Liabilities
(Modified Cash Basis)**

June 30, 2016 and 2015

(In Thousands)

	<u>2016</u>	<u>2015</u>
ASSETS:		
Cash	<u>\$ 27</u>	<u>\$ 1</u>
LIABILITIES:		
Due to the Dean's Fund	<u>\$ 27</u>	<u>\$ 1</u>

See notes to the financial statements

University of Louisville Medical School Fund, Inc.
Statements of Changes in Balance Due to the Dean's Fund
(Modified Cash Basis)

Years Ended June 30, 2016 and 2015

(In Thousands)

	2016	2015
Balance due to the Dean's Fund - beginning of year	<u>\$ 1</u>	<u>\$ 6</u>
Receipts:		
Contributions collected from the Practice Plan	<u>1,204</u>	<u>904</u>
Total receipts	<u>1,204</u>	<u>904</u>
Disbursements:		
Distributions to the Dean's Fund of the University of Louisville Research Foundation, Inc.	<u>(1,178)</u>	<u>(909)</u>
Balance due to the Dean's Fund - end of year	<u><u>\$ 27</u></u>	<u><u>\$ 1</u></u>

See notes to the financial statements

University of Louisville Medical School Fund, Inc.

Notes to Financial Statements

June 30, 2016 and 2015

1. Summary of Significant Accounting Policies

The University of Louisville Medical School Fund, Inc. (the Medical School Fund) is a non-stock, not-for-profit corporation affiliated with the University of Louisville (the University). The Medical School Fund was organized for the purpose of benefiting and furthering the academic endeavors of the University of Louisville School of Medicine (School of Medicine), including the provision of financial support. The significant accounting policies of the Medical School Fund are described below:

a. Basis of Presentation

The financial statements of the Medical School Fund are prepared on the modified cash basis of accounting. Therefore, certain receivables and payables, which may be material, are not reflected in the accompanying financial statements. The statement is not intended to present the statements of assets and liabilities and changes in balance due to the Dean's Fund in conformity with accounting principles generally accepted in the United States of America. These financial statements are prepared in accordance with Government Accounting Standards Board (GASB) principles as prescribed by GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 37.

The Medical School Fund is considered a fiduciary fund that serves in a custodial capacity for the primary purpose of receiving and disbursing funds to benefit the School of Medicine. The Medical School Fund financial statements are reported separately as an agency fund and are not part of the financial statements of the University.

b. University of Louisville School of Medicine Practice Plan (the Plan)

The Plan requires each clinical department of the School of Medicine to establish a departmental entity, which bears the financial obligation pursuant to the Plan. The departmental entity must receive contributions from the faculty practice groups and remit the contributions as specified in the Plan.

The faculty practice groups remit funds in two forms. The first portion, Academic Program Support, as defined in the Plan, is remitted directly to the University of Louisville Research Foundation, Inc. (Research Foundation) to support the academic programs in the clinical departments. The second portion, the Dean's Fund, as defined in the Plan, is collected by the Medical School Fund from the departmental entities and remitted, within thirty days following receipt, to the Research Foundation. This portion is used by the Dean to provide

additional support for the clinical, academic programs, and other activities of the School of Medicine.

Pursuant to the Plan, all faculty in clinical departments are required to practice through an approved faculty practice group which has a contractual obligation to the departmental entity for a portion of the Plan assessment. The faculty practice group must verify the gross practice income of its members. The Medical School Fund is authorized to audit or otherwise verify the amount received from the departmental entity.

c. Cash

The Medical School Fund's cash deposits with a commercial bank are federally insured up to \$250,000. At June 30, 2016, the Medical School Fund's interest bearing cash accounts were fully covered by the federally insured limits.

d. Use of 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 the Dean's Fund during the reporting period. Actual results could differ from those estimates.

2. Relationship with University of Louisville

The Medical School Fund is administered by the University at no cost to the Medical School Fund for the benefit of the School of Medicine.

3. Tax Status

The Medical School Fund has received a favorable determination letter from the Internal Revenue Service exempting it from federal income taxes under §501(c)(3) of the Internal Revenue Code and has been determined not to be a private foundation.