

**KENTUCKY MEDICAL  
SERVICES FOUNDATION, INC.**  
**Financial Statements**

*Years Ended June 30, 2010 and 2009  
with Independent Auditors' Report Thereon*

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DEAN || DORTON || FORD  
PSC

## Independent Auditors' Report

To the Board of Directors of  
Kentucky Medical Services Foundation, Inc.  
Lexington, Kentucky

We have audited the accompanying balance sheets of Kentucky Medical Services Foundation, Inc. (KMSF) as of June 30, 2010 and 2009, and the related statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of KMSF'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. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kentucky Medical Services Foundation, Inc. as of June 30, 2010 and 2009, and the results of its operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



September 27, 2010  
Lexington, Kentucky

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KENTUCKY MEDICAL SERVICES FOUNDATION, INC.

Balance Sheet

June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>Assets</b>		
Current assets:		
Investments and interest bearing deposits, current	\$ 6,403,909	\$ 3,867,658
Patient accounts receivable, less allowance for uncollectibles of \$3,311,285 and \$3,082,229 and allowances for contractual adjustments of \$24,909,201 and \$21,100,898 in 2010 and 2009, respectively	22,160,113	24,903,832
Other receivables, current portion	5,658,647	811,775
Other current assets	<u>47,165</u>	<u>40,944</u>
Total current assets	34,269,834	29,624,209
Assets limited as to use:		
Dean's academic enrichment funds - limited by agreement	2,864,708	492,831
Investments and interest bearing deposits, noncurrent	28,168,767	31,926,853
Other receivables, less current portion	631,434	624,534
Property and equipment:		
Land and improvements	4,379,038	4,311,903
Buildings	38,086,017	39,759,791
Furniture and equipment	4,440,872	6,632,993
Equipment under capital lease obligations	<u>4,040,453</u>	<u>3,489,244</u>
	50,946,380	54,193,931
Less accumulated depreciation	<u>10,423,889</u>	<u>9,924,390</u>
Net property and equipment	40,522,491	44,269,541
Intangibles, net	<u>510,857</u>	<u>596,000</u>
Total assets	<u>\$ 106,968,091</u>	<u>\$ 107,533,968</u>

	<u>2010</u>	<u>2009</u>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 4,867,306	\$ 4,440,660
Long-term debt, current portion	4,983,821	5,543,703
Patient refunds	557,358	523,611
Due to the University of Kentucky	7,147,633	9,457,427
Due to the University of Kentucky - malpractice fund	15,081,650	13,338,688
Due to the College of Medicine departments under departmental plan agreements	<u>32,911,054</u>	<u>27,474,552</u>
Total current liabilities	65,548,822	60,778,641
Long-term debt, net of current portion	<u>22,029,239</u>	<u>22,711,979</u>
Total liabilities	87,578,061	83,490,620
Unrestricted net assets:		
Board designated - property (net of debt), equipment and goodwill	19,390,030	24,064,462
Board designated - other	<u>-</u>	<u>(21,114)</u>
Total net assets	<u>19,390,030</u>	<u>24,043,348</u>
Total liabilities and net assets	<u>\$ 106,968,091</u>	<u>\$ 107,533,968</u>

See accompanying notes.

KENTUCKY MEDICAL SERVICES FOUNDATION, INC.

Statement of Operations and Changes in Net Assets

Years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Net professional clinical service fee revenue	\$ 196,753,704	\$ 195,385,098
Other operating revenues and gains:		
Lease income	3,989,155	1,359,813
Investment income, net	145,702	480,779
Other income and gains	<u>2,515,629</u>	<u>1,519,423</u>
Total other operating revenues and gains	<u>6,650,486</u>	<u>3,360,015</u>
Total revenues and gains	203,404,190	198,745,113
Expenses:		
Departmental expenses	149,772,197	137,191,984
Provision for bad debts	18,363,014	18,680,132
Operating expenses - business office	18,733,572	19,102,466
UKHMO capitation expenses	6,513,295	6,794,107
Reimbursement to the University of Kentucky for malpractice insurance and expenses attendant to the production of clinical income	6,528,904	4,845,445
Kentucky Clinic central expenses	2,831,842	2,658,680
Dean's academic enrichment funds	2,418,368	2,366,205
Physicians' fringe benefits	2,123,476	2,426,146
Dean's Fund scholarships	<u>687,697</u>	<u>659,208</u>
Total expenses	207,972,365	194,724,373
Impairment loss	<u>(85,143)</u>	<u>-</u>
(Decrease) increase in net assets	(4,653,318)	4,020,740
Net assets, beginning of year	<u>24,043,348</u>	<u>20,022,608</u>
Net assets, end of year	<u>\$ 19,390,030</u>	<u>\$ 24,043,348</u>

See accompanying notes.

KENTUCKY MEDICAL SERVICES FOUNDATION, INC.

Statement of Cash Flows

Years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>Cash flows from operating activities:</b>		
(Decrease) increase in net assets	\$ (4,653,318)	\$ 4,020,740
Adjustments to reconcile (decrease) increase in net assets to net cash provided by (used in) operating activities:		
Depreciation	2,201,317	2,182,905
Impairment loss	85,143	-
Loss on disposal of assets	145,347	101,482
Provision for bad debts	18,363,014	18,680,132
Increase (decrease) in cash due to changes in:		
Patient accounts receivable	(15,619,295)	(17,527,618)
Other receivables	(2,773,953)	(837,098)
Other current assets	(6,221)	(7,759)
Accounts payable and accrued liabilities	426,646	(1,087,074)
Patient refunds	33,747	204,062
Due to the University of Kentucky	(2,309,794)	1,067,046
Due to the University of Kentucky - malpractice fund	1,742,962	(2,684,357)
Due to the College of Medicine departments under departmental plan agreements	<u>5,436,502</u>	<u>(14,901,874)</u>
Net cash provided by (used in) operating activities	3,072,097	(10,789,413)
<b>Cash flows from investing activities:</b>		
Capital expenditures	(129,724)	(28,432,828)
Decrease in investments and interest-bearing deposits, net	1,221,835	13,262,046
(Increase) decrease in assets limited as to use, net	(2,371,877)	5,272,575
Proceeds on sale of property and equipment	<u>1,500</u>	<u>-</u>
Net cash used in investing activities	(1,278,266)	(9,898,207)
<b>Cash flows from financing activities:</b>		
Issuance of long-term debt	-	22,052,800
Repayments on long-term debt	<u>(1,793,831)</u>	<u>(1,365,180)</u>
Net cash (used in) provided by financing activities	<u>(1,793,831)</u>	<u>20,687,620</u>
Net change in cash	<u>\$ -</u>	<u>\$ -</u>

KENTUCKY MEDICAL SERVICES FOUNDATION, INC.

Statement of Cash Flows, continued

Years ended June 30, 2010 and 2009

Supplemental cash flow disclosures:	<u>2010</u>	<u>2009</u>
Cash paid for interest	\$ 1,500,558	\$ 1,389,878
Noncash investing and financing transactions:		
Other receivable for reimbursement of clinic property and equipment	\$ 2,079,819	\$ -
Capital lease obligation for purchase of equipment	551,209	113,459

*See accompanying notes.*



# KENTUCKY MEDICAL SERVICES FOUNDATION, INC.

## Notes to the Financial Statements

### 1. Description of the Organization

Kentucky Medical Services Foundation, Inc. (KMSF) is a non-profit, non-stock corporation. KMSF has been assigned the responsibility to bill, collect and administer all clinical income generated by the physicians of the University of Kentucky (UK) College of Medicine (the College) in accordance with an annual agreement (the Agreement) between KMSF and UK regarding the operation of KMSF. The Agreement was last renewed on July 1, 2010.

Although included in UK's audited financial statements according to *Governmental Accounting Standards*, KMSF is not considered to be an affiliate of UK by Kentucky Revised Statute.

### 2. Summary of Significant Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

In June 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 168, *The FASB Accounting Standards Codification (ASC) and the Hierarchy of Generally Accepted Accounting Principles* (SFAS No. 168). SFAS No. 168 establishes the FASB ASC as the only source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. KMSF adopted the provisions of SFAS No. 168 beginning with the year ended June 30, 2010, and the adoption did not have a material impact on the financial statement disclosures.

The following is a summary of the significant accounting policies consistently followed by KMSF in the preparation of its financial statements.

#### Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis. Under the terms of the various departmental plans and the Agreement with UK, all income from operations of KMSF, exclusive of changes in the net book value of property and equipment, debt acquired for purchase of property and equipment and changes in amounts designated by the Board of Directors for specific purposes, are payable to the participating departments. Accordingly, such amounts have been included as departmental expenses in the accompanying statements of operations and changes in net assets.

Management has elected to exclude the following disclosure required by GAAP: the identification of the investments' fair values by the levels of observable inputs are not disclosed in accordance with ASC 820, *Fair Value Measurements and Disclosures*. Management has examined the impact of this disclosure on the financial statements and believes the omittance of this disclosure does not have a material effect on a user's decisions regarding the financial statements.

KENTUCKY MEDICAL SERVICES FOUNDATION, INC.

Notes to the Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Assets Limited as to Use

Assets limited as to use include cash and investments set aside by the Board of Directors for specific purposes over which the Board retains control and may, at its discretion, subsequently use for other purposes and cash and investments set aside in accordance with the Agreement between KMSF and UK.

Property and Equipment

KMSF capitalizes all expenditures in excess of \$2,000 for property and equipment. Property and equipment purchased are recorded at cost at the date of acquisition. Depreciation is computed using the straight-line method over the estimated useful life of the depreciable assets which range from three to forty years. Donated property and equipment, if any, are recorded at estimated fair value at the date of donation.

Intangibles

Goodwill resulted from a 2006 acquisition of certain assets. The acquisition was recorded using the purchase method of accounting.

ASC 350 requires intangible assets to be valued at cost. Per ASC 350, intangible assets that have indefinite useful lives, including goodwill, are not to be amortized but rather are to be tested at least annually for impairment. Any decrease in value of the asset would be recognized as impairment loss in the current year. If no legal, regulatory, contractual, competitive, economic, or other factors limit the useful life of an intangible asset to the reporting entity, the useful life of the asset shall be considered to be indefinite. Intangible assets that have finite useful lives should be amortized over their useful lives.

KMSF periodically reviews the carrying value of its goodwill to determine whether an impairment exists. KMSF considers relevant cash flow and profitability information for the related assets acquired under the aforementioned purchase acquisition. In 2010, KMSF determined an impairment of goodwill was necessary based on certain factors known about the underlying assets. The impairment loss is an estimate made by management based on the future years of positive cash flow expected. The changes in the carrying amount of goodwill and accumulated impairment loss for the year ended June 30, 2010 follow:

	<u>Carrying Amount</u>	<u>Accumulated Impairment Loss</u>
Balance as of June 30, 2009	\$ 596,000	\$ -
Impairment loss	<u>(85,143)</u>	<u>85,143</u>
Balance as of June 30, 2010	<u>\$ 510,857</u>	<u>\$ 85,143</u>

## KENTUCKY MEDICAL SERVICES FOUNDATION, INC.

### Notes to the Financial Statements, continued

#### 2. Summary of Significant Accounting Policies, continued

##### Income Tax Exemption

KMSF is a non-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from federal income taxes on related income pursuant to Section 509(a) of the Code.

KMSF adopted the provisions of FASB ASC 740-10 relating to uncertainty in income taxes on July 1, 2009. The implementation included evaluating the tax positions taken on all income tax returns that remain open to examination by the respective taxing authorities. KMSF does not believe that there are any uncertain tax positions on those returns that meet the requirements of FASB ASC 740-10 and therefore should be reflected in the financial statements.

##### Net Professional Clinical Service Fees

Net professional clinical service fees are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including retroactive adjustments, if any, from third-party payors.

##### Charity Care

UK provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because UK does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charity care totaled \$4,094,197 and \$3,374,450 in 2010 and 2009, respectively.

##### Investments and Investment Income

KMSF has investments in certificates of deposit and other interest bearing deposits, government securities, guaranteed investment contracts and mutual funds as permitted by the Agreement with UK. These investments are stated at fair value or carrying amounts that approximates fair value.

Investment income (including realized gains and losses on investments, interest and dividends) is considered by management to be essential to the ongoing operations of KMSF and is reported as other operating revenue. Unrealized gains and losses on investments, if any, are excluded from the excess of revenues over expenses.

#### 3. Other Receivables

During 2006, KMSF began making loans to physicians who they anticipate will become employees of UK. A portion of these loans will be forgiven each year, up to the maximum amount of the loan, if certain conditions, such as serving as a full-time physician and faculty member of UK, are met by the borrower. If the conditions for forgiveness are not met, the entire principal balance is payable by the borrower, including accrued interest at the rate of 1% above prime. The total amount outstanding on such loans was \$1,047,867 and \$941,381 as of June 30, 2010 and 2009, respectively.

**KENTUCKY MEDICAL SERVICES FOUNDATION, INC.**

Notes to the Financial Statements, continued

**4. Academic Enrichment Funds**

For 2010 and 2009, in accordance with the Agreement with UK, KMSF paid UK 2% (\$2,418,368 and \$2,366,205 in 2010 and 2009, respectively) of the clinical income collected by KMSF, as defined, for the purpose of providing a fund (the Dean's Fund) for academic enrichment for the College. The Dean of the College may expend these funds to support the College or any related purpose. Also in accordance with the Agreement, KMSF is required to maintain a cash amount, which represents a specified percentage of cumulative clinical income collected, less cumulative disbursements by the Dean of the College. The percentage of collections added to this account was 6% in 2010 and 2009, respectively. The funds in the account are for the use of the Dean and are included as part of the liability payable under the Departmental Plan Agreements. In 2010 and 2009, \$3,725,486 and \$7,539,568, respectively, of such funds were expended and are included in departmental expenses.

In 2009, KMSF borrowed \$4,362,928 from the Dean's Fund to help fund the down payment on the purchase of three buildings and two vacant lots (collectively, the Alumni Park Plaza properties). See also Note 6. These funds are being repaid to the Dean's Fund on a monthly basis over a 5 year term and bear no interest. Because this is an intercompany transaction, the payable and receivable have been eliminated as of June 30, 2010 and 2009, respectively. The balance due to the Dean's Fund from KMSF was \$2,522,012 and \$3,394,598 as of June 30, 2010 and 2009, respectively. The balance in the Dean's Fund was \$2,864,708 and \$492,831 as of June 30, 2010 and 2009, respectively.

**5. Investments and Interest Bearing Deposits**

Investments and interest bearing deposits, including accrued interest, are as follows as of June 30:

	<u>2010</u>	<u>2009</u>
Interest bearing deposits and government securities	\$ 19,617,969	\$ 21,213,913
Mutual funds primarily based in fixed income securities	3,448,681	3,199,137
Equity securities and equity security mutual funds	10,996,546	9,600,815
Guaranteed investment contracts	<u>509,480</u>	<u>1,780,646</u>
 Total investment and interest bearing deposits	 \$ <u>34,572,676</u>	 \$ <u>35,794,511</u>

The components of investment income from investments and interest bearing deposits for 2010 and 2009 consist of \$145,702 and \$480,779, respectively, of dividends and interest.

Management has elected to follow Accounting Research Bulletin 43 in the presentation of current and non-current investments as follows:

	<u>2010</u>	<u>2009</u>
Current investments	\$ 6,403,909	\$ 3,867,658
Non-current investments	<u>28,168,767</u>	<u>31,926,853</u>
 Total investment and interest bearing deposits	 \$ <u>34,572,676</u>	 \$ <u>35,794,511</u>

KENTUCKY MEDICAL SERVICES FOUNDATION, INC.

Notes to the Financial Statements, continued

6. Long-Term Debt

As of June 30, 2010 and 2009, notes payable and capital lease obligations consisted of the following:

	<u>2010</u>	<u>2009</u>
Bank note payable, maturing June 2011 bearing interest at 1.97%, collateralized by a certificate of deposit, principal and interest payments of \$41,308 due monthly.	\$ 2,176,394	\$ 2,623,712
Bank note payable, maturing December 2010 bearing interest at 4%, collateralized by a certificate of deposit, principal and interest payments of \$12,696 due monthly.	1,777,101	1,868,166
Note payable, maturing July 2009 bearing interest at 5%, principal and interest payments of \$4,046 due monthly.	-	4,029
Note payable to an individual, maturing August 2009, imputed interest of 3.86%, principal payments of \$100,000 due annually.	-	100,000
Note payable to an individual, maturing August 2016, bearing interest at 5.7%, collateralized by an annuity security, principal and interest payments of \$4,168 due monthly.	259,481	293,635
Bank note payable, maturing September 2013, bearing interest at 6.5%, collateralized by property, principal and interest payments of \$140,700 due monthly.	21,643,318	21,899,750
Capital lease obligations at varying rates of interest from 4.0% to 6.7%, collateralized by leased equipment with net book values of \$2,588,223 at June 30, 2010.	<u>1,156,766</u>	<u>1,466,390</u>
Total long-term debt	27,013,060	28,255,682
Less current portion	<u>4,983,821</u>	<u>5,543,703</u>
Long-term debt, net of current portion	<u>\$ 22,029,239</u>	<u>\$ 22,711,979</u>

On September 30, 2008, KMSF purchased the Alumni Park Plaza properties for \$27,566,000. As a support service organization of UK, the purchase was based on an overall long-term expansion plan determined by KMSF and UK whose intention is to house KMSF and UK tenants in the buildings exclusively as current tenants' leases expire.

KENTUCKY MEDICAL SERVICES FOUNDATION, INC.

Notes to the Financial Statements, continued

6. Long-term Debt, continued

The purchase of the Alumni Park Plaza properties was funded through a \$5,513,200 cash down payment and a long-term note with Central Bank for the balance of \$22,052,800. The down payment was obtained from KMSF cash reserves (\$1,150,272) and the Dean's Fund (\$4,362,928). See Note 4 for discussion of the Dean's Fund. The balance outstanding on the debt to Central Bank was \$21,643,318 as of June 30, 2010.

Scheduled principal repayments on long-term debt and payments on capital lease obligations are as follows:

Year ending June 30,	Long-Term <u>Debt</u>	Capital Lease <u>Obligations</u>
2011	\$ 4,282,037	\$ 745,404
2012	350,238	244,478
2013	344,799	120,868
2014	20,777,533	103,725
2015	45,379	37,361
Thereafter	<u>56,308</u>	<u>-</u>
	<u>\$ 25,856,294</u>	1,251,836
Less amount representing interest under capital lease obligations		<u>95,070</u>
		<u>\$ 1,156,766</u>

Interest expense was \$1,500,558 and \$1,389,878 for the years ended June 30, 2010 and 2009, respectively.

7. Unrestricted Net Assets: Board Designated - Other

The Board of Directors has designated certain net assets to be used for the following purposes:

	<u>2010</u>	<u>2009</u>
Scholarship Fund	\$ -	\$ (1,322)
University of Kentucky Medical Doctors' Consumer Line	<u>-</u>	<u>(19,792)</u>
Total unrestricted net assets: Board designated - other	<u>\$ -</u>	<u>\$ (21,114)</u>

8. Net Professional Clinical Service Fees

UK and KMSF have agreements with third-party payors that provide for payments at amounts different from their established rates. Contractual adjustments represent the difference between billing at established rates and amounts reimbursed by third-party payors.

**KENTUCKY MEDICAL SERVICES FOUNDATION, INC.**

Notes to the Financial Statements, continued

**8. Net Professional Clinical Service Fees, continued**

A summary of gross and net professional clinical service fee revenue for the years ended June 30, 2010 and 2009 follows:

	<u>2010</u>	<u>2009</u>
Gross professional clinical service fee revenue	\$ 425,129,827	\$ 406,573,311
Less provision for contractual adjustments under third-party reimbursement programs and other adjustments	<u>(228,376,123)</u>	<u>(211,188,213)</u>
Net professional clinical service fee revenue	<u>\$ 196,753,704</u>	<u>\$ 195,385,098</u>

**9. Leasing Activities**

KMSF leases office space to UK as well as other non-related entities. The lease contracts with UK is currently month-to-month until a contract can be executed between KMSF and UK. The lease contracts with the non-related entities vary with remaining terms ranging from less than one year to less than two years. KMSF received \$2,906,256 and \$1,104,470 in lease income from UK and \$1,082,899 and \$221,135 from other non-related entities in 2010 and 2009, respectively.

The following is a schedule by years of future minimum rentals, excluding UK, under the noncancellable leases at June 30, 2010:

Year ending June 30,	
2011	\$ 225,821
2012	<u>17,114</u>
	<u>\$ 242,935</u>

**10. Benefit Plan**

KMSF provides a defined contribution plan covering substantially all full-time employees. The plan provides that KMSF make monthly contributions of 10% of the employee's earnings. Contributions were \$732,680 and \$803,826 for 2010 and 2009, respectively.

**11. Medical Malpractice Insurance**

KMSF is self-insured, along with UK, for malpractice claims. On an annual basis, the malpractice liability is actuarially determined at a consolidated basis using claims data from UK and KMSF. UK informs KMSF of their portion of the overall liability as well as their funding requirements to maintain appropriate funding levels. KMSF maintains their portion of the malpractice fund investments. Management believes the malpractice self-insurance fund is adequate to cover any losses.

KENTUCKY MEDICAL SERVICES FOUNDATION, INC.

Notes to the Financial Statements, continued

12. Commitments and Contingencies

Alumni Association Bonds

In December 1994, KMSF became the guarantor on a \$41 million bond issue (the 1994 Bonds) for the construction of a new library on the UK campus. The UK Alumni Association (the Alumni Association) had the responsibility for construction of the library's building, and the bonds were issued by the Lexington-Fayette Urban County Government (LFUCG) on behalf of the Alumni Association. The UK Athletic Association (the Athletic Association) agreed to fund the debt service on the bonds issued by LFUCG. In June 1998, to take advantage of favorable interest rates, the 1994 Bonds were refunded by a \$43 million bond issue (the 1998 Bonds). The 1998 Bonds were also issued by LFUCG on behalf of the Alumni Association, and the Athletic Association again agreed to fund the debt service on the bonds. KMSF also agreed to guarantee the 1998 Bonds. The 1998 Bonds were defeased in March 2009. The liability for the new bond rests with UK. KMSF has no further responsibility under the bond indenture.

Litigation

KMSF is currently involved in litigation and/or regulatory investigations. KMSF's involvement typically arises either in the course of KMSF's business or in KMSF's role as a support organization for UK, and it is possible that the litigation and/or regulatory investigations could result in a material adverse effect on KMSF's future financial position or results from operations. Apart from matters where KMSF's involvement is part of such support role, management estimates these matters will be resolved without material adverse effect on KMSF's future financial position or results from operations.

Operating Leases

KMSF leases various equipment and facilities under operating leases that are set to expire at various dates. Total rental expense in 2010 and 2009 was \$1,718,993 and \$1,860,084, respectively.

The following is a schedule by year of future minimum lease payments under operating leases as of June 30, 2010, that have initial and remaining lease terms in excess of one year:

Year ending June 30,	
2011	\$ 1,610,023
2012	1,154,272
2013	993,006
2014	726,571
2015	726,638
Thereafter	<u>726,707</u>
	<u>\$ 5,937,217</u>



## KENTUCKY MEDICAL SERVICES FOUNDATION, INC.

### Notes to the Financial Statements, continued

#### 13. Concentrations of Credit Risk

KMSF, at times, may have a concentration of credit risk in that it maintains cash deposits in a single institution which may exceed federally insured limits and collateral agreements with the institutions. Effective May 20, 2009, the FDIC increased the limit from \$100,000 to \$250,000 per depositor through December 31, 2013. As of June 30, 2010 and 2009 KMSF had no cash deposits in excess of federally insured limits and collateral agreements.

UK and KMSF grant credit without collateral to their patients, most of whom are area residents and are insured under third-party payor arrangements. The mix of receivables from patients and third-party payors at June 30, 2010 and 2009, was as follows:

	<u>2010</u>	<u>2009</u>
Medicare	19 %	14 %
Medicaid	16	19
Blue Cross	10	10
Other third-party payors	30	34
Patients	<u>25</u>	<u>23</u>
	<u>100 %</u>	<u>100 %</u>

#### 14. Related Party Transaction

In 2004, KMSF purchased capital assets and paid start-up costs for a UK satellite clinic (ASC). In 2010, UK decided to close ASC and transfer the capital assets to other UK clinics. These assets were never reimbursed nor removed from KMSF's general ledger prior to 2010. As part of the transfer, UK agreed to reimburse KMSF for the costs related to ASC that were incurred in 2004. UK agreed to pay approximately \$3.1 million for these costs, of which \$2.6 million was for property and equipment. Accumulated depreciation of approximately \$526,000 had been recognized on these assets before the closure of ASC. Approximately \$1,083,000 of reimbursement exceeded the net book value of the assets and is included in other income and gains on the statement of operations and changes in net assets. The proceeds were not received from UK until July 1, 2010 and therefore a receivable of \$3.1 million is included in other receivables on the balance sheet as of June 30, 2010.

#### 15. Healthcare Reform

Healthcare reform will initiate significant reforms to the United States healthcare system, including potential material changes to the delivery of healthcare services and the reimbursement paid for such services by the government or other third party payors. Healthcare reform will impact KMSF's operations in some manner. Due to the substantial regulatory changes that will need to be implemented, and the numerous processes required to implement these reforms, KMSF cannot predict which healthcare initiatives will be implemented at the federal or state level, the timing of any such reforms, or the effect such reforms or any other future legislation or regulation will have on KMSF's business, financial position, results of operations and liquidity.

KENTUCKY MEDICAL SERVICES FOUNDATION, INC.

Notes to the Financial Statements, continued

**16. Subsequent Events**

Management has evaluated subsequent events for items requiring recognition or disclosure in the financial statements through September 27, 2010, the date that the financial statements were issued. There were no events occurring during the evaluation period that would require recognition or disclosure in the financial statements.