KENTUCKY MEDICAL SERVICES FOUNDATION, INC.

Financial Statements

Years Ended June 30, 2013 and 2012
with Report of Independent Auditors

CONTENTS

DEAN || DORTON || ALLEN || FORD PLLC

Report of Independent Auditors

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

Report on the Financial Statements

We have audited the accompanying financial statements of Kentucky Medical Services Foundation, Inc. (KMSF) which comprise the balance sheets as of June 30, 2013 and 2012, and the related statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

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.

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To the Board of Directors of
Kentucky Medical Services Foundation, Inc.
Report of Independent Auditors, continued

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, 2013 and 2012, and the results of its changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Dean Dotton Allen Ford, PLLC

September 20, 2013
Lexington, Kentucky

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KENTUCKY MEDICAL SERVICES FOUNDATION, INC.

Balance Sheets

June 30, 2013 and 2012

	2013	2012
Assets		
Current assets:		
Investments and interest bearing deposits, current	$ 6,943,720	$ 8,056,928
Patient accounts receivable, less allowance for uncollectibles of $5,676,295 and $5,131,357 and allowances for contractual adjustments of $33,350,010 and $31,874,245 in 2013 and 2012, respectively	22,600,956	23,595,681
Other receivables, current portion	3,756,210	3,515,882
Other current assets	65,440	55,987
Total current assets	33,366,326	35,224,478
Assets limited as to use:		
Dean's academic enrichment funds - limited by agreement	1,488,485	1,483,415
Investments and interest bearing deposits, noncurrent	41,197,572	43,363,092
Other receivables, less current portion	839,233	892,434
Property and equipment:		
Land and improvements	2,322,552	2,308,952
Buildings	39,066,100	38,699,374
Furniture and equipment	10,185,780	9,584,286
Equipment under capital lease obligations	1,009,022	914,027
	52,583,454	51,506,639
Less accumulated depreciation	16,107,440	14,160,187
Net property and equipment	36,476,014	37,346,452
Intangibles, net	-	170,285
Total assets	$ 113,367,630	$ 118,480,156

	2013	2012
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	$ **3,510,138**	$ 3,805,118
Long-term debt, current portion	**1,265,332**	2,104,851
Settlement due to third party payor	**2,346,718**	3,075,757
Patient refunds	**169,646**	326,965
Due to the University of Kentucky	**12,462,528**	9,164,564
Due to the University of Kentucky - malpractice fund	**14,325,432**	15,930,079
Due to the College of Medicine departments under departmental plan agreements	**42,360,616**	46,470,619
Total current liabilities	**76,440,410**	80,877,953
Long-term debt, net of current portion	**20,963,770**	21,085,287
Total liabilities	**97,404,180**	101,963,240
Unrestricted net assets:		
Board designated - property (net of debt), equipment and goodwill	**15,963,450**	16,516,916
Total net assets	**15,963,450**	16,516,916
Total liabilities and net assets	$ **113,367,630**	$ 118,480,156

See accompanying notes.

KENTUCKY MEDICAL SERVICES FOUNDATION, INC.

Statements of Operations and Changes in Net Assets

Years ended June 30, 2013 and 2012

	2013	2012
Revenues and gains:		
Net professional clinical service fee revenue	$ 226,014,210	$ 223,688,135
Provision for bad debts	(25,500,758)	(25,220,713)
Net professional clinical service fee revenue less provision for bad debts	200,513,452	198,467,422
Lease income	3,643,993	2,960,831
Investment income, net	118,961	100,072
Other (loss) income, net	2,822,858	1,612,552
Total revenues and gains	207,099,264	203,140,877
Expenses:		
Departmental expenses	167,296,080	165,326,445
Operating expenses - business office	21,030,886	19,672,364
UKHMO capitation expenses	6,232,012	5,839,974
Reimbursement to the University of Kentucky for malpractice insurance and expenses attendant to the production of clinical income	1,278,101	1,649,460
Kentucky Clinic central expenses	1,568,890	2,164,935
Dean's academic enrichment funds	6,872,846	5,451,488
Physicians' fringe benefits	2,295,941	2,307,208
Dean's Fund scholarships	907,689	868,992
Total expenses	207,482,445	203,280,866
Impairment loss	(170,285)	(170,286)
Decrease in net assets	(553,466)	(310,275)
Net assets, beginning of year	16,516,916	16,827,191
Net assets, end of year	$ 15,963,450	$ 16,516,916

See accompanying notes.

KENTUCKY MEDICAL SERVICES FOUNDATION, INC.

Statements of Cash Flows

Years ended June 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Decrease in net assets	$ (553,466)	$ (310,275)
Adjustments to reconcile decrease in net assets to net cash (used in) provided by operating activities:		
Depreciation	1,994,830	1,816,649
Impairment loss	170,285	170,286
Loss (gain) on disposal of assets	7,641	(114,358)
Provision for bad debts	25,500,758	25,220,713
Increase (decrease) in cash due to changes in:		
Patient accounts receivable	(24,506,033)	(29,755,315)
Other receivables	(187,127)	(781,552)
Other current assets	(9,453)	(4,190)
Accounts payable and accrued liabilities	(294,980)	193,632
Settlement due to third party payor	(729,039)	3,075,757
Patient refunds	(157,319)	(59,405)
Due to the University of Kentucky	3,297,964	7,444,568
Due to the University of Kentucky - malpractice fund	(1,604,647)	19,802
Due to the College of Medicine departments under departmental plan agreements	(4,110,003)	(1,131,371)
Net cash (used in) provided by operating activities	(1,180,589)	5,784,941
Cash flows from investing activities:		
Capital expenditures	(944,999)	(1,658,399)
Decrease (increase) in investments and interest-bearing deposits, net	3,278,728	(5,074,653)
(Increase) decrease in assets limited as to use, net	(5,070)	1,607,856
Proceeds on sale of property and equipment	-	514,000
Net cash provided by (used in) investing activities	2,328,659	(4,611,196)
Cash flows from financing activities:		
Repayments on long-term debt	(1,148,070)	(1,173,745)
Net cash used in financing activities	(1,148,070)	(1,173,745)
Net change in cash	$ -	$ -

KENTUCKY MEDICAL SERVICES FOUNDATION, INC.

Statements of Cash Flows, continued

Years ended June 30, 2013 and 2012

Supplemental cash flow disclosures:		2013		2012
Cash paid for interest	$	**949,833**	$	1,205,186
Noncash investing and financing transactions:				
Capital lease obligation for purchase of equipment		**94,995**		38,616
Note payable for purchase of equipment		**92,039**		12,150

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, 2013.

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 financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) which required management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates. The Financial Accounting Standards Board (FASB) promulgates its Accounts Standards Codification (ASC) as the only source of authoritative accounting principles recognized by the FASB to be applied to nongovernmental entities in the preparation of financial statements in conformity with GAAP. 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. 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.

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, if any, and cash and investments set aside in accordance with the Agreement between KMSF and UK.

2. Summary of Significant Accounting Policies, continued

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.

GAAP requires intangible assets to be valued at cost. Per GAAP, 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 2013 and 2012, 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, 2013 follow:

	Carrying Amount	Accumulated Impairment Loss
Balance as of June 30, 2012	$ 170,285	$ 425,715
Impairment loss	(170,285)	170,285
Balance as of June 30, 2013	$ -	$ 596,000

2. Summary of Significant Accounting Policies, continued

Intangibles, continued

In September 2011, an accounting amendment was issued that permits an entity to make a qualitative assessment as to whether it is more likely than not that a reporting unit's fair value is less than it's carrying value amount before applying the two-step goodwill impairment test. If an entity concludes that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, it does not need to perform the two-step impairment test. Management evaluated the accounting amendment and determined that a qualitative assessment would not have changed the impairment loss recorded.

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.

KMSF has evaluated 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 positions on those returns that require recognition or disclosure in the financial statements (generally 2012 - 2010).

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.

Medicaid has contracted with three managed care organizations (MCOs) that are to create networks of providers around Kentucky to provide Medicaid services to approximately 560,000 Kentuckians. The MCOs provide Medicaid covered benefits for Medicaid recipients for a fixed per member, per month premium via rates based on age, gender, disability, etc. One of the MCO's, Kentucky Spirit, terminated their contract with the Commonwealth on July 5, 2013. Kentucky Spirit recipients were reassigned to one of the two remaining MCO's, CoventryCares or WellCare.

Under the Medicaid Expansion Program, the Commonwealth opened the bidding process to contract with other MCO's. The Commonwealth estimates that another 300,000 Kentuckians will be eligible for coverage under this program.

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 $23,289,042 and $21,599,278 in 2013 and 2012, respectively. Management has estimated its cost incurred to provide charity care to be approximately $7,590,000 and $7,110,000 as of June 30, 2013 and 2012, respectively.

2. Summary of Significant Accounting Policies, continued

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.

Subsequent Events

Management has evaluated subsequent events for accounting and disclosure requirements through September 20, 2013, the date that the financial statements were available to be issued.

Reclassifications

Certain reclassifications have been made to the 2012 financial statement presentation to correspond to the current year's format. Net assets and changes in net assets are unchanged due to these reclassifications.

New Accounting Pronouncements

Accounting Standards Update (ASU) No. 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities,* requires that certain health care entities change the presentation in their statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts). Additionally, those health care entities are required to provide enhanced disclosure about their policies for recognizing revenue and assessing bad debts. The amendments also require disclosures of patient service revenue (net of contractual allowances and discounts) as well as qualitative and quantitative information about changes in the allowance for doubtful accounts. For KMSF, the effective date for this ASU is the year ending June 30, 2013. KMSF implemented this ASU during the current year.

3. Patient Accounts Receivable

Patient accounts receivable consist of amounts due from government programs (e.g., Medicare and Medicaid) and non-government payors (e.g., self-pay and commercial payors). Management believes there are minimal credit risks associated with the receivables from government programs. Non-government receivables are from various payors that are subject to differing economic conditions. Management continually monitors and adjusts the allowance for uncollectible accounts associated with credit risk of patient accounts receivable.

3. Patient Accounts Receivable

KMSF has recorded an allowance for uncollectible patient accounts receivable equal to 8.69% and 7.95% of patient accounts receivable as of June 30, 2013 and 2012, respectively. A summary of the changes in the allowance for uncollectible patient accounts receivable is as follows:

Year ended June 30,	2013	2012
Balance, beginning of year	$ 5,131,357	$ 3,498,887
Provision for bad debts	25,500,758	25,220,713
Receivables charged off	(24,955,820)	(23,588,243)
Balance, end of year	$ 5,676,295	$ 5,131,357

4. 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 $1,440,645 and $1,502,472 as of June 30, 2013 and 2012, respectively.

5. Academic Enrichment Funds

In accordance with the Agreement with UK effective July 1, 2012, KMSF began reimbursing UK for actual expenses incurred by UK which are attendant to the production of clinical income, as defined. In 2013, the amount reimbursed was $6,872,846. In the prior year, the Agreement with UK effective July 1, 2011, KMSF was required to pay UK 4% of the clinical income collected by KMSF, as defined. In 2012, the amount paid was $5,451,488. Payments are made to UK 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 these Agreements, 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 8% in 2013 and 2012. 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 2013 and 2012, $6,643,480 and $6,027,212, 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). These funds were being repaid to the Dean's Fund on a monthly basis over a 5 year term and bore no interest. Because this is an intercompany transaction, the payable and receivable have been eliminated as of June 30, 2013 and 2012, respectively. The balance due to the Dean's Fund from KMSF was repaid in 2013. The balance due was $766,328 as of June 30, 2012. The balance in the Dean's Fund's investments was $1,488,485 and $1,483,415 as of June 30, 2013 and 2012, respectively.

5. Academic Enrichment Funds, continued

During 2013 and 2012, pursuant to a joint development agreement and in furtherance of its charitable mission, KMSF spent $422,981 and $2,294,020, respectively, of the academic enrichment funds to assist in funding the construction of a child development center for UK. These funds are not required to be repaid to the Dean's Fund.

6. Investments and Interest Bearing Deposits

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

	2013	2012
Interest bearing deposits and government securities	$ 33,973,634	$ 35,876,677
Mutual funds primarily based in fixed income securities	1,590,190	2,293,387
Equity securities and equity security mutual funds	12,432,908	12,964,893
Guaranteed investment contracts	144,560	285,063
Total investment and interest bearing deposits	$ 48,141,292	$ 51,420,020

The components of investment income from investments and interest bearing deposits for 2013 and 2012 consist of $118,961 and $100,072, 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:

	2013	2012
Current investments	$ 6,943,720	$ 8,056,928
Non-current investments	41,197,572	43,363,092
Total investment and interest bearing deposits	$ 48,141,292	$ 51,420,020

7. Settlement Due to Third Party Payor

During 2012, KMSF received a demand letter from the Department for Medicaid Services (DMS) for approximately $4,100,000. Subsequent to June 30, 2012, KMSF and DMS reached an agreement whereby KMSF settled this liability for $1,500,000. This amount is attributed to disputed claims received from Medicaid from August 2008 through July 2011. A provision was made in the financial statements as of June 30, 2012, and was subsequently paid in November 2012.

8. Long-Term Debt

As of June 30, 2013 and 2012, notes payable and capital lease obligations consisted of the following:

		2013		2012
Bank note payable, maturing June 2015 bearing interest at 1.707% collateralized by a certificate of deposit, principal and interest payments of $41,358 due monthly as of June 30, 2013.	$	**974,914**	$	1,393,095
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.		**144,560**		185,064
Bank note payable, maturing March 2017, bearing interest at 4.25%, collateralized by property, principal and interest payments of $115,224 due monthly.		**20,512,564**		20,999,821
Bank note payable, maturing May 2017, bearing interest at 3.90%, collateralized by equipment and interest payments of $223 due monthly.		**9,715**		11,966
Bank note payable, maturing August 2017, bearing interest at 3.13%, collateralized by equipment and interest payments of $1,655 due monthly.		**77,649**		-
Capital lease obligations at varying rates of interest from 1.55% to 6.96%, collateralized by leased equipment with net book values of $804,583 and $717,334 at June 30, 2013 and 2012, respectively.		**509,700**		600,192
Total long-term debt		**22,229,102**		23,190,138
Less current portion		**1,265,332**		2,104,851
Long-term debt, net of current portion	$	**20,963,770**	$	21,085,287

8. Long-term Debt, continued

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

Year ending June 30,	Long-Term Debt	Capital Lease Obligations
2014	$ 1,054,913	$ 227,502
2015	1,088,867	161,085
2016	621,561	105,939
2017	18,950,763	26,949
2018	3,298	15,744
	$ 21,719,402	$ 537,219
Less amount representing interest under capital lease obligations		27,519
		$ 509,700

Interest expense was $949,833 and $1,205,186 for the years ended June 30, 2013 and 2012, respectively.

9. 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.

A summary of gross and net professional clinical service fee revenue for the years ended June 30, 2013 and 2012 follows:

	2013	2012
Gross professional clinical service fee revenue	**$ 490,862,199**	$ 486,827,085
Less provision for contractual adjustments under third-party reimbursement programs and other adjustments	**(264,847,989)**	(263,138,950)
Net professional clinical service fee revenue	**$ 226,014,210**	$ 223,688,135

10. Leasing Activities

KMSF leases office space to UK as well as other non-related entities. The lease contract with UK is currently month-to-month. 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 $3,533,834 and $2,813,775 in lease income from UK and $110,159 and $147,056 from other non-related entities in 2013 and 2012, respectively.

11. Benefit Plan

KMSF provides a defined contribution plan covering substantially all full-time employees. The plan provides that KMSF make bi-weekly contributions of 10% of the employee's earnings. Contributions were $799,961 and $757,021 for 2013 and 2012, respectively.

12. 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.

13. Commitments and Contingencies

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 2013 and 2012 was $3,415,205 and $2,437,247, respectively.

The following is a schedule by year of future minimum lease payments under operating leases as of June 30, 2013, that have initial and remaining lease terms in excess of one year:

Year ending June 30,		
2014	$	3,062,774
2015		2,342,055
2016		2,190,425
2017		2,093,360
2018		1,925,735
Thereafter		8,406,342
	$	20,020,691

14. Concentrations of Credit Risk

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, 2013 and 2012, was as follows:

	2013	2012
Other third-party payors	**30 %**	30 %
Patients	**23**	23
Medicaid	**21**	21
Medicare	**17**	17
Blue Cross	**9**	9
	100 %	100 %

15. Healthcare Reform

The American Recovery and Reinvestment Act of 2009

On February 17, 2009, the American Recovery and Reinvestment Act of 2009 (the Recovery Act) was signed into law. A major component of the Recovery Act is its emphasis on improving health information technology (also known as HIT). The federal government believes the implementation of technology will ultimately increase the quality and reduce the cost of healthcare.

To accomplish the improvement of HIT, the Recovery Act includes payment incentives for qualifying professionals. Physicians and hospitals that are considered early adopters of electronic health records (EHR) can become eligible to receive a significant amount of money from Medicare or Medicaid.

During the year ended June 30, 2013 and 2012, KMSF applied for and received $1,905,417 and $701,250 in Medicaid HIT funds, respectively, and $124,049 and $0 in Medicare funds, respectively. KMSF intends to apply for additional funds in the coming years. Both the 2013 and 2012 funds and any funds from future applications are dependent on reaching certain metrics and various states of "meaningful use" as defined by the Recovery Act.