

Telephone Conference Call Meeting of the Executive Committee,
Board of Trustees, University of Kentucky, Friday, June 30, 1978

At 10:45 a.m. (EDT) on Friday, June 30, 1978, a telephone conference call was held with members of the Executive Committee of the Board of Trustees for the purpose of approving the General Fund Operating Budget for the College of Medicine for 1978-79 and approving "in principle" a draft copy of a contract between the University of Kentucky Board of Trustees and the Kentucky Medical Services Foundation, Inc. The following members answered the roll call: Mr. William B. Sturgill, Chairman, Mr. Albert G. Clay, Mr. William R. Black, and Mr. George W. Griffin. Professor Sears, ex officio secretary, participated in the call as did Vice Presidents Clapp and Bosomworth, and Mr. John Darsie, Legal Counsel.

In the absence of President Singletary, Vice President Clapp explained that the telephone conference call was necessary since it was proposed that operation of the new "geographic full-time plan" begin at midnight on June 30. Therefore, approval was needed prior to the final approval at the July 7, 1978 called meeting of the Executive Committee. Copies of the two documents had been received by all members of the Executive Committee, with the exception of Mr. Black, prior to the call.

Dr. Clapp gave a detailed analysis of the changes in the proposed budget for the College of Medicine resulting from the establishment of the outside corporation known as the Kentucky Medical Services Foundation, Inc. which was approved by the Board of Trustees at its meeting on Tuesday, June 20, 1978. Several questions were raised and answered by Dr. Clapp. Mr. Clay then moved that, based on the information provided by Dr. Clapp and his explanation of the changes, the General Operating Fund Budget for the College of Medicine for 1978-79 be approved subject to ratification at the July 7, 1978 special meeting of the Executive Committee. The motion was seconded by Mr. Griffin and passed without dissent. (See Attachment 1 at the end of the Minutes)

Dr. Clapp prefaced his remarks about the contract by saying that while there had been no fundamental disagreement with the approach in the draft document, there may be certain language changes and technical changes which will be necessary prior to finalizing the contract for approval on July 7, 1978. He emphasized that the contract had not yet been approved by the Kentucky Medical Services Foundation, Inc. and that it was possible, but not probable, that it might not be approved as presented.

Dr. Clapp read the changes which were proposed to be made in the contract as shown in the attached copy. In answer to a question by Mr. Clay, Dr. Clapp assured him that the contract is for one year only. Mr. Sturgill asked if the University would continue to collect accounts receivable for the University as under the old procedure. Dr. Clapp replied that any services rendered prior to midnight, June 30, will

create assets for the FUND; any services after midnight by faculty who have elected Plan "B" will create receivables due and payable to Kentucky Medical Services Foundation, Inc. The University will, however, continue to bill and collect for about five months into the new fiscal year to assure the protection of cash and assets which accrued prior to July 1. After the five months, the Foundation will provide for its own collections. The University will have rights to inspection and audit after December 1 but the management will be the Foundation's responsibility. Before December 1, arrangements will have to be worked out to protect the University's interests in the period beginning December 1.

In closing his presentation Dr. Clapp said that it was hoped that the final draft of the contract might be placed in the mail on Monday, July 3, for action on July 7. In the meantime, he requested that approval be given "in principle" to the proposed contract with the changes he had indicated so that the University could operate until final action is taken on July 7.

Mr. Griffin moved approval "in principle" of the draft copy of the contract between the University of Kentucky Board of Trustees and the Kentucky Medical Services Foundation, Inc. with the changes as made and with the understanding that the final contract would be presented on July 7. His motion was seconded by Mr. Black and passed with all participants voting aye. (See Attachment 2 at the end of the Minutes)

It was suggested that the meeting on July 7 be changed from 2:00 o'clock (EDT) to 3:00 o'clock with the luncheon at 1:00 o'clock rather than 12:00 o'clock. There being no objections, the secretary was asked to send out notices indicating the change in time.

There being nothing further to be discussed, the conference call meeting was declared adjourned at 11:24 a.m.

Respectfully submitted,

Paul G. Sears, Secretary
Board of Trustees

(Attachments 1 and 2 which follow are official parts of the Minutes)

College of Medicine

- a. Instruction - The College of Medicine offers a professional degree program which will serve 436 FTE students during 1978-79. In this program instructional emphasis is placed on producing a well rounded high quality physician. Training in the areas of primary care, both locally and at sites remote from the Medical Center, is a significant part of this comprehensive educational program.
- The masters programs offered by the College of Medicine are designed to train research and teaching personnel in various basic science fields. The masters programs in Anatomy, Pharmacology, and Physiology and Biophysics are expected to serve 65 FTE students during 1978-79. The doctoral programs in Anatomy, Biochemistry, Pharmacology, and Physiology and Biophysics, are expected to serve 30 FTE students in 1978-79.
- Post-doctoral activities in the College of Medicine will serve 18 FTE students during 1978-79 in the various basic science areas of research specialization.
- College of Medicine courses will also be taken by approximately 80 FTE undergraduate students in other colleges.
- The House Staff program provides training for residents in various medical specialty areas in order to increase their competence for practice in their selected fields. During 1978-79 the program will provide training for 310 medical residents in the following areas of post-professional specialization: Anesthesiology, Diagnostic Radiology, Emergency Medicine, Family Medicine, Internal Medicine and its subspecialties, Neurology, Obstetrics and Gynecology, Ophthalmology, Pathology, Pediatrics, Psychiatry, Child Psychiatry, Radiation Medicine, General Surgery, Cardiothoracic Surgery, Neurosurgery, Orthopedic Surgery, Plastic Surgery, and Urology. The areas of Family Practice, Emergency Medicine, Internal Medicine, Obstetrics-Gynecology, and Pediatrics also provide training of residents for primary care.

College of Medicine

a. Instruction

The College of Medicine provides community education activities through which the most recent information on medical care advances and techniques is disseminated to medical practitioners. The College is expected to serve 6,000 individuals through the community education activities during 1978-79.

b. Research - The College of Medicine conducts research in the clinical, biological, and health sciences. Increased emphasis is being placed on research in aging, cardiovascular-pulmonary disease, cancer, drug abuse, and alcoholism. Additionally, research aimed at achieving more effective means of training qualified teaching and health personnel is being conducted, utilizing such concepts as programmed education and teaching aids. Interdisciplinary research is also being conducted, seeking alternative methods and systems of health care delivery.

General Fund

1978-79

Personal Services	\$12,490,200
Current Expenses	995,000
Equipment	20,000
Recharges	(2,459,800)
Total Expenditures	<u>\$11,045,400</u>

Restricted Funds

1978-79

Other Personal Services	\$ 821,900
Current Expenses	307,100
Equipment	156,000
Total Expenditures	<u>1,285,000</u>

1977-78

Other Personal Services	\$591,000
Current Expenses	192,100
Equipment	209,300
Total Expenditures	<u>992,400</u>

REVENUE SOURCES
COLLEGE OF MEDICINE
GENERAL FUND OPERATING BUDGET

	<u>1977-78</u>	<u>1978-79</u>	<u>Difference</u>
State Appropriation	\$7,221,000	\$9,083,900	\$1,862,900
Student Fees			
Registration Fees	500,000	500,000	-0-
Rational Behavioral Therapy	165,000	180,000	15,000
Continuing Education	350,000	450,000	100,000
Gifts and Grants:			
The Fund for the Advancement of Education and Research in the UK Medical Center Kentucky Medical Services, Inc.	208,200** -0-	208,200 103,100	-0- 103,100
Sales and Services	460,300	520,200	59,900
Departmental Sales and Services			
Total Revenue	\$8,904,500***	\$11,045,400	\$2,140,900

**This figure represents the grant for departments and individuals remaining under the existing physicians service plan. An additional \$4,328,600 which was budgeted in the general fund in 1977-78 will be managed, during 1978-79, under the provision of the new geographic full term plan approved by the Board on June 20, 1978.

***Total general fund budget of \$13,284,200 for 1977-78 included an additional \$4,328,600 from professional service fees.

BUDGETED EXPENDITURE DETAIL -- MEDICAL CENTER

1978-79

COLLEGE OF MEDICINE	
Dean's Office	\$ 390,190
Anatomy	462,944
Behavioral Science	325,705
Behavioral Therapy	172,487
Biochemistry	426,925
Microbiology and Immunology	241,896
Pharmacology	369,631
Physiology and Biophysics	543,423
Anesthesiology	313,687
Emergency Medicine	125,695
Community Medicine	410,125
Diagnostic Radiology	260,073
Medicine	837,782
Family Practice	408,326
Obstetrics and Gynecology	282,663
Orthopedic Surgery	100,311
Pathology	578,538
Pediatrics	638,790
Primary Care	900,000
Psychiatry	632,046
Radiation Medicine	236,488
Surgery	459,865
Neurology	221,575
Neurosurgery	136,535
Ophthalmology	150,000
Urology	98,215
Center on Aging	109,000
Continuing Education	441,400
House Staff	669,550
Salary Reimbursement	(150,000)
Student Services	251,529
Total College of Medicine	<u>11,045,394*</u>

*The counterpart for the total College of Medicine budget for 1977-78 is \$8,904,500.

ATTACHMENT 2

DRAFT COPY

THIS AGREEMENT made and entered into this _____ day of _____, 1978, by and between the BOARD OF TRUSTEES OF THE UNIVERSITY OF KENTUCKY, a statutory body corporate existing pursuant to Section 164.100 et seq of the Kentucky Revised Statutes (hereinafter referred to as the University) and KENTUCKY MEDICAL SERVICES FOUNDATION, INC., a non-stock, non-profit corporation formed pursuant to Chapter 273 of the Kentucky Revised Statutes (hereinafter referred to as the Foundation).

WITNESSETH:

Section 1. RECITALS

A. Foundation is organized for the purposes stated in its Articles of Incorporation as a non-stock, non-profit corporation and will use and apply the whole or any part of its income and principal exclusively for charitable, scientific, or educational purposes at or for the benefit of, the University of Kentucky Medical Center.

B. A substantial number of University's faculty in its College of Medicine have heretofore executed agreements with Foundation, known as "Practice Agreements and Assignments" whereby said faculty have assigned to Foundation their professionally generated clinical income.

C. The recruitment and retention of the members of the medical faculty of the University will be improved by permitting the said members to supplement, by income from the practice of medicine, the salaries provided by the University.

D. The University recognizes that the medical practice activities of its faculty members can be conducted in a more efficient and economical manner if those faculty members who

produce income are permitted, through the medium of the Foundation, to exercise a larger voice in the expenditure of the funds so produced.

E. The University has heretofore established, in addition to its previously adopted Physicians Service Plan, a "geographic full-time medical service plan", the said geographic full-time plan having been adopted on June 20, 1978; said action is hereby incorporated by reference as if set out in full herein.

F. The aforementioned action of University's Board of Trustees authorized the University's President to negotiate and execute a contract, subject to the approval of said Board, with an appropriately qualified entity for carrying out necessary functions and assuming the responsibilities involved in the administration of income for professional services under the plan.

NOW THEREFORE, the parties hereto agree as follows:

Section 2. DEFINITIONS

A. "The Plan" means the geographic full-time medical service plan for the University of Kentucky College of Medicine established by action of the Board of Trustees of said University dated June 20, 1978.

B. "Clinical income" means (i) all payments for professional services rendered to or with respect to patients whether denominated as diagnosis, treatment, evaluation, or consultation and whether said payments be characterized as fees, retainers, or otherwise, whether direct or in kind, (excluding actual travel costs), and (ii) all payments, for oversight or administration of, or consultation with, facilities, programs, or other operations providing care, services or evaluation relating to patients, and (iii) witness fees or other payments relating to depositions or other evaluations in the capacity of an expert witness. Provided, however, that nothing contained herein shall be deemed to include in the term "clinical income" any item excluded therefrom by paragraph II, B of the plan.

C. "Practice agreements" means those documents, denominated Practice Agreements and Assignments heretofore executed by certain members of University's faculty, the University, The Fund for Advancement of Education in the University of Kentucky Medical Center and the Foundation.

Section 3. NATURE OF THE AGREEMENT

A. Pursuant to paragraph III, A. of the aforementioned action of University's Board of Trustees dated June 20, 1978, University hereby recognizes Foundation as an "appropriately qualified organizational entity" as described therein for carrying out necessary functions and assuming the responsibilities involved in the administration of income for professional services under University's "geographic full-time medical services plan".

B. The parties recognize that amendments to this agreement may be necessitated in the first year of its operation due to the complexities of certain of the matters contained herein. Such amendments may be made from time to time by mutual consent.

Section 4. BILLING AND COLLECTION

A. Foundation agrees that it will accept, pursuant to practice agreements the assignment of all clinical income by participants in the plan and, in accordance with such assignment, agrees to bill the amount of duly established charges for professional services to parties determined to be responsible for payment of such charges, with the exception of the billing and collection of the professional component of combined charges for institutional (hospital and clinical) and professional services. University hereby agrees to bill and collect said professional component of combined charges in accordance with University policies and procedures and to remit monthly to Foundation the net amount collected which is attributable to the professional component of said combined charges. The determination of the net amount collected which is attributable to professional

components of such charges will be in accordance with the existing basis and method utilized by University for such determination.

B. University, in order to assure proper transition, safeguard University assets, and provide an appropriate period for the relocation of certain of its current personnel hereby agrees to perform the aforementioned billing and collection function for the period beginning July 1, 1978 and ending November 30, 1978 and to remit collections for professional services rendered on or after July 1, 1978 by faculty who have executed practice agreements to Foundation.

C. Provision for the performance of the billing and collection function, including billing and collection of charges for the professional services of faculty who have not executed practice agreements, including those covered by the current PSP and DSP will be the subject of an addendum hereto which will be executed by the parties prior to December 1, 1978.

D. Foundation agrees that it will, through appropriate contractual arrangements, provide for the collection of its delinquent accounts by Health Care Collection Service, Inc., a Kentucky non-profit corporation, under the same terms and conditions as that corporation now collects accounts for the University. Provided, however, that Foundation may require, as a condition precedent to said contractual arrangement, that said corporation amend its Articles of Incorporation and By-Laws to provide that a person designated by Foundation serve as a member of the Board of Directors of said corporation.

Section 5. REIMBURSEMENT OF UNIVERSITY

A. In accord with paragraph II, D. 2 of the plan, the parties recognize that Foundation must reimburse University for actual expenses incurred by it which are attendant to the production of clinical income.

~~B. University facilities provided for outpatient clinics.~~

~~equipment, supplies, certain personnel costs, services, professional liability insurance, and utilities are hereby recognized as University expenses attendant to the production of clinical income.~~

B. Foundation, in order to provide for reimbursement of University expenses hereunder, agrees that it will cause to be deposited, on a current basis, in a segregated account, an amount equal to sixteen and one-half (16.5%) percent of all monies collected by it which are attributable to clinical income, until said segregated account shall contain the sum of Nine Hundred Twenty-Eight Thousand (\$928,000.00) Dollars.

C. Foundation agrees to pay to University, from said account, as reimbursement for the provision of professional liability insurance, the sum of Two Hundred Twenty-Eight Thousand (\$228,000.00) Dollars in seven (7) equal monthly installments, the first said installment being due and payable on December 31, 1978 and monthly thereafter until June 30, 1979.

D. Foundation agrees to pay to University, from said account, as reimbursement for the remainder of the expenses identified in subsection B. hereinabove, University's actual annual costs, not to exceed the sum of Seven Hundred Thousand (\$700,000.00) Dollars. Payments hereunder shall be made in seven (7) monthly payments, the first six (6) of said payments, due and payable on December 31, 1978 and monthly thereafter until May 31, 1979 to be in the amount of One Hundred Thousand (\$100,000.00) Dollars and the last of said payments, due on June 30, 1979 to be in an amount, not to exceed One Hundred Thousand (\$100,000.00) Dollars, determined with reference to actual University expenses hereunder for the period beginning on July 1, 1978 and ending June 30, 1979.

E. Foundation and University agree ^{to jointly conduct a} ~~that they will co-~~ cost study during the term of this contract to determine the actual ~~operate in the conduct of continuing studies to determine the~~ cost to University attendant to the production of clinical income. ~~actual cost to University of providing the items for which reim-~~

~~Reimbursement is made hereunder.~~

G. In addition to the above, Foundation agrees that it will reimburse University for all "plan income", as that term is defined in paragraph II, C., 2 of the plan, paid to faculty by University.

Section 6. ACADEMIC ENRICHMENT FUND

A. Consonant with Section II, D. 3 of the "geographic full-time plan" adopted by University's Board of Trustees on June 20, 1978, Foundation agrees that it will pay to University, in recognition of any unreimbursed costs of University not specifically provided for in Section 5 hereof, and for the purpose of providing an academic enrichment fund for the College of Medicine to be used by the Dean of said College in support of the programs thereof and for related purposes, an amount equal to nine (9%) percent of the clinical income collected by said Foundation. Amounts due hereunder will be computed by Foundation on a monthly basis as income is received and remitted to University with ten (10) days after the close of each monthly accounting period.

B. Foundation further agrees that it will deposit, in a restricted account maintained by Foundation, on the same basis as provided in subsection A. hereinabove, an additional amount equal to one (1%) percent of the clinical income collected by said Foundation, said restricted account to be used by the Dean of the College of Medicine for the enrichment of the programs of the College and for related purposes in his sole discretion.

Section 7. PARTICULAR COVENANTS OF THE FOUNDATION

A. Foundation's Articles of Incorporation, as filed with the Secretary of State of the Commonwealth of Kentucky on _____, 19____, have been inspected by the University as a condition precedent to University's entry into this agreement. Foundation covenants that it will not, absent the written

agreement of the University, amend or otherwise alter said Articles or adopt any by-law or other operating practice which would effectively alter the character of said Foundation.

B. Foundation covenants that it will not engage in the practice of medicine, nor will it solicit, administer, receive, perform or accept any gift, grant, devise, bequest, contract or other arrangement with or from any governmental unit, entity, or subdivision or any person, corporation, partnership, association or other entity whatsoever except as specifically permitted herein.*

C. Foundation covenants that it will not merge with any other corporation or convey any substantial portion of its assets to any other corporation, partnership, or other entity except as specifically provided herein and that, in the event of its dissolution its Board of Directors shall cause its assets to be applied and distributed as follows: (a) all liabilities and obligations of the corporation shall be paid, satisfied and discharged, or adequate provisions shall be made therefor; (b) assets held by the corporation upon a condition which occurs by reason of the dissolution, shall be returned, transferred or conveyed in accordance with such requirements; and (c) all of the remaining assets of the corporation shall be transferred or conveyed to the Board of Trustees of the University of Kentucky, or its successor, to be used for medical education and research, if said University or its successor, shall qualify as a public corporation and an instrumentality of the State of Kentucky or as an exempt organization under Section 501(c)(3) of the Internal Revenue Code of 1954, as amended; and if said University or its successor shall not so qualify, then to some other organization or organizations organized and operated exclusively for charitable, educational, or scientific purposes in the field of medicine as shall at the time qualify as an exempt organization or organizations under Section 501(c)(3) of the Internal Revenue Code of 1954,

*Last sentence of B above: Provided, however, that nothing contained herein shall be construed to prohibit the Foundation (subject to the approval of the Dean of the College of Medicine) from negotiating and executing contracts providing exclusively for professional services by faculty who have executed practice agreements.

as amended.

Section 8. MEMBERSHIP AND BENEFITS

A. University agrees that it will assist the Foundation to enforce the terms of the practice agreements heretofore entered into by members of University's clinical departments of its College of Medicine by requiring adherence to said agreements as a condition of continued employment as a member of University's faculty.

B. University agrees that it will require, as a condition of employment as a member of University's faculty in a clinical department in which a majority of the faculty members have executed practice agreements, that new members of its faculty execute said practice agreement in form identical to said agreements heretofore executed or as the form of same may be modified by mutual agreement of the parties hereto from time to time.

C. Foundation agrees that it will not absent the written consent of University, bill for, collect or administer any item of income for any person or entity not eligible for membership in the "plan", nor will it permit persons not eligible for such membership to serve on its Board of Directors, nor will it provide any benefit or other thing of value to any person or entity not eligible for such membership except for (i) termination benefits to formerly eligible members as provided by action of Foundation's Board of Directors or (ii) incidental benefits indirectly accruing to employees of the Medical Center by virtue of Foundation's activities.

D. Foundation agrees that it will strictly enforce the terms of its practice agreements, report promptly to University in the event any individual fails or refuses to abide thereby and join with University in any appropriate action, in law or equity, necessary to secure compliance therewith.

Section 9. PERSONNEL

The parties recognize that Foundation must employ various individuals to carry out its functions hereunder; however, the parties also recognize, and hereby declare their intention to adhere to, those provisions of the "geographic full-time plan" adopted by University's Board of Trustees on June 20, 1978, particularly those portions which provide that University must retain responsibility and authority for the appointment of faculty and house staff, the determination of institutional staffing patterns and the maintenance of balance among programs and their component activities. **

Accordingly, with respect to employment of personnel by Foundation, the parties agree as follows:

A. Foundation staff

The Foundation may employ an executive director and such assistants, including secretarial and clerical personnel as may be determined by its Board of Directors to be necessary to permit said Foundation to bill and collect professional fee income and to administer its funds in accord with the terms of the geographic full-time plan. Such personnel are not expected to occupy offices at the University Medical Center.

B. Other personnel

During the initial term of this contract Foundation agrees that it will not employ persons to perform services in University's patient care or college programs. Provided, however, that this provision shall not be construed to prohibit specific agreements between the parties whereby University will employ personnel for such service and/or research duties with reimbursement of salary, fringe benefits and other direct costs by Foundation. Where such personnel are employed for service in a specific department or unit, employment will not occur unless (i) the department or unit where service is to be performed has consented

**Last sentence in Section 9, first paragraph: In recognition of University's interest in maintaining the stability of personnel in the various programs in the College of Medicine, the University may retain certain non-faculty personnel on its payroll until a permanent decision is reached concerning personnel to be engaged by Foundation. The costs associated with said personnel shall be borne solely by University.

in writing to said appointment, (ii) the Dean of the College of Medicine has approved the employment and the job description related thereto and (iii) funds for the salary, fringe benefits, and other costs related to said employee are either on hand or reasonably anticipated in the departmental or unit budget.

C. Equal opportunity-affirmative action

Foundation agrees that it will not discriminate against any employee or applicant for employment because of race, color, religion, sex, national origin, age or handicap. The Foundation agrees that it will take affirmative action to ensure that applicants are employed and employees are treated during employment, without regard to their race, color, religion, sex, national origin, age or handicap. Such action shall include, but not be limited to the following: employment, upgrading, demotion or transfer, recruitment or recruitment advertising; lay-off or termination; rates of pay or other compensation; and selection for training. The Foundation agrees that it will, in all solicitations or advertisements for employees, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, sex, national origin, age or handicap. The Foundation agrees that it will indemnify and save harmless the University, the Board of Trustees of the University, including the individual members thereof, officers, agents and employees of the University by reason of any action at law or equity or by reason of any administrative proceeding initiated by any person arising out of any such employment action or practice of Foundation, including the payment of attorney fees and other costs of such action or proceeding.

Section 10. USE OF UNIVERSITY FACILITIES

The parties recognize that paragraphs III, B. 4, b, d, g, and i of the "geographic full-time plan" adopted by University's Board of Trustees on June 20, 1978 requires that institutional

control be maintained with respect to direction and supervision of institutional activities and programs, assignment and use of space in institutional facilities, determination of goals, objectives and priorities and the maintenance of balance among programs and their component activities.

Accordingly, Foundation and University agree that University will provide Ambulatory Floors 2, 3, 4 and 5 of University Hospital, together with the Ophthalmology Clinic (exclusive of faculty offices and classroom space contained therein) for the conduct of the patient care operation.

With respect to any other facilities which University may from time to time provide to Foundation, Foundation shall be deemed a licensee without any property right whatsoever in said premises or facilities and shall, upon demand of University, vacate same.

Section 11. MEDICAL RECORDS

The parties agree that all medical records relating to the care of patients in University facilities or as a part of University programs, are and shall remain the property of University and that Foundation has no right or property interest therein. Provided, however, that nothing herein shall be construed to limit access to said records by members of University's faculty, staff, and students pursuant to existing University procedures. Provided, further, that University agrees to provide or make available to Foundation such information and data from patient records and program data maintained by University as may be necessary for Foundation to perform its billing and collection functions herein provided, including such information and data as may be necessary to meet the requirements of third-party or other payors as the basis for payment for services.

Section 12. INSPECTION AND AUDIT

Foundation agrees that, in accord with paragraph III,

B., 1. of the action of University's Board of Trustees dated June 20, 1978, its books, record and accounts are open at all reasonable times to inspection and audit by appropriately designated University representatives.

The parties agree that the University's Internal Auditors will conduct an audit of Foundation's operations and accounts for the six months ending December 31, 1978, and such other audits including audits to determine compliance with this agreement, the terms of the action of University's Board of Trustees on June 20, 1978, and the terms of the departmental agreements referred to in Section 17 hereof, as may be specified by University of Kentucky Vice President for Business Affairs and Treasurer, and that Foundation agents and employees will cooperate to the fullest extent possible with University's auditors designated to conduct same. Further, the parties agree that ^a ~~the~~ firm of Certified Public Accountants ^{mutually agreeable to the parties will} ~~employed to perform the University's independent audit for the year ended June 30, 1979, will also~~ be employed by the Foundation to perform an independent audit of the Foundation's books, records and accounts for the year ended June 30, 1979.

Foundation agrees that it will furnish to University the following reports:

Annually

Audited Financial Statements, to include:

- . Opinion of independent Certified Public Accountants
- . Balance Sheet
- . Statement of Changes in Fund Balances
- . Statement of Current Revenues and Expenditures
- . Supplementary Schedules

Monthly

Financial Statements, to include:

- . Balance Sheet
- . Statement of Operations
- . Gross Billings
- . Collections
- . Financial Allowances
- . Bad Debts

Aging Trial Balance of Accounts Receivable, by:

. Patient liability
. Third party payor

- Reports of Delinquent Account Activity, to include:

. Referrals
. Collections
. Close and returns

Section 13. DEFAULT

A. In the event of any failure of Foundation to pay any sum due to University hereunder within thirty (30) days after written notice of such default shall have been mailed to Foundation, or any failure to perform any other of the terms, conditions or covenants of this agreement to be observed or performed by Foundation for more than thirty (30) days after written notice of such default shall have been mailed to Foundation, or if Foundation shall become bankrupt or insolvent, or file any debtor proceedings, or take or have taken against Foundation in any court pursuant to any statute either of the United States or of any State a petition in bankruptcy or insolvency or for reorganization or for the appointment of a receiver or trustee of all or a portion of Foundation's property, or if Foundation makes an assignment for the benefit of creditors, or petitions for or enters into an arrangement therewith, then University may terminate this agreement.

B. University may at its election terminate this agreement with respect to any department without termination of the entire agreement for the same reasons and in the same manner as provided hereinabove.

Section 14. PROFESSIONAL LIABILITY

Nothing contained herein shall be construed to provide that any member of University's clinical faculty, house staff or student is acting as an agent of Foundation when providing care to patients in University facilities or as a part of an approved

University program. University agrees that, when so acting, said faculty, house staff and students shall be considered agents of said University and that payment of claims or judgments may be made on their behalf from the fund provided pursuant to KRS 164.941, or other University funds or funds provided through any policy or policies of insurance maintained for said purpose.

Section 15. APPLICATION OF INCOME

University agrees that it will not, during the operation of this contract, cause charges for services rendered after July 1, 1978 by members of the faculty who have executed Practice Agreements and Assignments to be deposited in the accounts of the Fund for Advancement of Education and Research in the University of Kentucky pursuant to the provisions of University of Kentucky Administrative Regulation AR II-4.0-1; deposits of such charges attributable to faculty who have not executed said Practice Agreements and Assignments shall continue pursuant to said regulation.

Section 16. MANAGEMENT AND INVESTMENT POLICIES

The parties recognize and agree that the reimbursement of University costs incurred attendant to the production of professional income and the provision of a sum equal to ten (10%) percent of Foundation's gross income for the purpose of providing an academic enrichment fund for University's College of Medicine constitute the second and third charges, respectively, upon Foundation's gross income, the first charge being Foundation's ordinary and necessary expenses incurred in billing and collecting said income and providing for the central administration of Foundation.

Accordingly, Foundation agrees that it will deposit the funds necessary to meet its obligations for reimbursement of the University and the provision of the aforementioned academic enrichment fund in a separate account on a daily basis as received and that the funds in said account shall be invested only in the following: (1) direct obligations of the United States Treasury;

(2) other appropriate securities issued by federal agencies (including the Federal National Mortgage Association, the Export Import Bank, Federal Intermediate Credit Bank, Federal Home Loan Banks, Federal Land Banks); and (3) certificates of deposit collateralized by direct obligations of the federal government, federal agency obligations which qualify for direct investment under this recommendation, general obligations of the Commonwealth of Kentucky or obligations of the University of Kentucky.

Section 17. ADMINISTRATION OF DEPARTMENTAL FUNDS

A. Foundation agrees that it will, after making provision for: (i) the costs of its administration and costs relating to billing and collection, (ii) reimbursement of University expenses pursuant to Section 5 hereof and (iii) the College of Medicine Academic Enrichment Fund pursuant to Section 6 hereof, maintain its accounts and the funds held by it in such a manner that income attributable to the professional clinical activities of each of the following departments or divisions shall not be commingled with any other fund or funds held by said Foundation:

Anesthesiology
Diagnostic Radiology
Emergency Medicine
Family Practice
Medicine
Neurology
OB-GYN
Ophthalmology
Pathology
Pediatrics
Radiation Medicine
Surgery

B. Thereafter, Foundation agrees that it will expend the funds maintained by it in the aforementioned separate accounts only in accord with the departmental or divisional agreement relating to each department or division. ~~copies of which are attached hereto, marked Exhibits through and hereby incorporated by reference. Provided, however, that Said departmental or divisional agreements may be amended from time to time,~~ Said departmental agreements are recognized as a material portion of this agreement. Therefore, the parties agree that the University shall retain custody of all funds accruing to the account of departments for which an approved departmental agreement has not been executed. Said departmental or divisional agreements may be amended from time to time

as provided in said agreements, with the approval of the Dean of the College of Medicine.

Section 18. NOTICES

All notices, demands and requests hereunder shall be in writing and shall be given by United States Registered or Certified Mail or by messenger delivery, in the case of University to:

Dean, College of Medicine
MN 140 - University Hospital
University Medical Center
800 Rose Street
Lexington, Kentucky 40506

In the case of Foundation to:

Harbison, Kessinger, Lisle & Bush
400 Bank of Lexington Building
101 East Vine Street
Lexington, Kentucky 40507

Each party may from time to time change its address for purposes of notice by giving to the other party notice of such change of address. Any notice, demand or request given by United States Registered or Certified Mail, as provided herein, shall be deemed served on the date it is deposited in the United States mails properly addressed and with postage fully prepaid.

Section 19. TERM

The term of this agreement shall begin on July 1, 1978 and end on June 30, 1979.

IN WITNESS WHEREOF, the parties hereto have executed this agreement, pursuant to proper authorization of their respective governing boards, as of the day and year first above written.

BOARD OF TRUSTEES OF
THE UNIVERSITY OF KENTUCKY

By: _____
President
University of Kentucky

Attest: _____
Secretary

KENTUCKY MEDICAL SERVICES
FOUNDATION, INC.

By: _____

Attest: _____
Secretary