



**UNIVERSITY OF WISCONSIN
HOSPITALS AND CLINICS AUTHORITY**

Financial Statements

June 30, 2000 and 1999

(With Independent Auditors' Report Thereon)

**UNIVERSITY OF WISCONSIN
HOSPITALS AND CLINICS AUTHORITY**

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777 East Wisconsin Avenue
Milwaukee, WI 53202

Independent Auditors' Report

The Board of Directors
University of Wisconsin Hospitals and Clinics Authority:

We have audited the accompanying balance sheets of University of Wisconsin Hospitals and Clinics Authority (Hospital) as of June 30, 2000 and 1999, and the related statements of operations, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital'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. Those 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 University of Wisconsin Hospitals and Clinics Authority at June 30, 2000 and 1999, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

August 11, 2000



KPMG LLP, KPMG LLP, a U.S. limited liability partnership, is
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**UNIVERSITY OF WISCONSIN
HOSPITALS AND CLINICS AUTHORITY**

Balance Sheets

June 30, 2000 and 1999

Assets	<u>2000</u>	<u>1999</u>
Current assets:		
Cash and cash equivalents	\$ 16,682,074	30,046,928
Patient accounts receivable, net of estimated uncollectible accounts of \$14,490,000 in 2000 and \$12,800,000 in 1999	73,744,716	62,709,996
Other receivables	7,328,998	3,925,425
Inventories of supplies	7,922,964	2,412,173
Prepaid expenses	<u>2,340,222</u>	<u>2,955,267</u>
Total current assets	<u>108,018,974</u>	<u>102,049,789</u>
Assets whose use is limited or restricted	137,466,203	95,800,766
Investments	44,151,685	35,174,903
Net property, plant and equipment	140,993,949	131,890,007
Investment in affiliate	841,904	1,327,663
Other assets	<u>3,317,915</u>	<u>1,286,030</u>
Total assets	<u>\$ 434,790,630</u>	<u>367,529,158</u>
Liabilities and Net Assets		
Current liabilities:		
Current installments of long-term debt	\$ 2,735,467	2,682,419
Accounts payable	14,802,523	11,773,271
Accrued expenses	35,878,380	36,809,783
Estimated payables to Medicare and Medicaid	<u>269,000</u>	<u>2,723,000</u>
Total current liabilities	<u>53,685,370</u>	<u>53,988,473</u>
Long-term debt, less current installments	<u>135,097,299</u>	<u>81,298,776</u>
Total liabilities	<u>188,782,669</u>	<u>135,287,249</u>
Net assets:		
Unrestricted	243,446,243	230,404,465
Temporarily restricted	1,847,800	1,545,892
Permanently restricted	<u>713,918</u>	<u>291,552</u>
Total net assets	<u>246,007,961</u>	<u>232,241,909</u>
Total liabilities and net assets	<u>\$ 434,790,630</u>	<u>367,529,158</u>

See accompanying notes to financial statements.

**UNIVERSITY OF WISCONSIN
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Statements of Operations

Years ended June 30, 2000 and 1999

	2000	1999
Net patient service revenue	\$ 384,257,945	347,717,433
Other operating revenue	8,534,354	8,173,049
Total revenue	392,792,299	355,890,482
Expenses:		
Salaries and wages	153,286,466	140,100,565
Employee benefits	50,818,188	46,352,849
Other expenses	29,859,568	27,868,694
Purchased services	49,524,922	43,191,607
Medical materials and supplies	79,970,615	69,425,513
Provision for bad debts	9,901,675	5,496,622
Depreciation and amortization	17,949,985	17,002,013
Interest	3,655,395	2,503,396
Total expenses	394,966,814	351,941,259
Income (loss) from operations	(2,174,515)	3,949,223
Nonoperating gains (losses):		
Investment income	7,032,009	6,658,915
Equity interest in gain of affiliate	514,242	819,828
Loss on disposal of property, plant, and equipment	(409,688)	(148,407)
Other, net	27,637	(78,861)
Nonoperating gains, net	7,164,200	7,251,475
Revenue and gains in excess of expenses	4,989,685	11,200,698
Other changes in unrestricted net assets:		
Transfers to unrestricted net assets for purchases of property, plant and equipment	—	4,051
Contributions of property, plant and equipment	219,710	24,150
Transfer to University of Wisconsin Medical School for capital expenditure support	(2,400,000)	(2,400,000)
Net change in unrealized gains and losses on other than trading securities	6,406,025	2,630,751
Cumulative effect of a change in accounting principle to capitalize surgical supply inventory (note 1(e))	3,825,548	—
Other	810	63,472
Increase in unrestricted net assets	\$ 13,041,778	11,523,122

See accompanying notes to financial statements.

**UNIVERSITY OF WISCONSIN
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Statements of Changes in Net Assets

Years ended June 30, 2000 and 1999

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balances at June 30, 1998	\$ 218,881,343	1,348,961	254,014	220,484,318
Increase (decrease) in net assets:				
Revenue and gains in excess of expenses	11,200,698	—	—	11,200,698
Investment income	—	68,816	—	68,816
Grants, gifts and donations	63,472	353,096	37,538	454,106
Net assets released from restrictions used for operations	—	(293,159)	—	(293,159)
Transfers to unrestricted net assets for purchases of property, plant and equipment	4,051	(4,051)	—	—
Contributions of property, plant and equipment	24,150	—	—	24,150
Transfer to University of Wisconsin Medical School for capital expenditure support	(2,400,000)	—	—	(2,400,000)
Net change in unrealized gains and losses on other than trading securities	2,630,751	72,229	—	2,702,980
Increase in net assets	<u>11,523,122</u>	<u>196,931</u>	<u>37,538</u>	<u>11,757,591</u>
Balances at June 30, 1999	230,404,465	1,545,892	291,552	232,241,909
Increase (decrease) in net assets:				
Revenue and gains in excess of expenses	4,989,685	—	—	4,989,685
Investment income	—	89,135	—	89,135
Grants, gifts and donations	810	330,835	422,366	754,011
Net assets released from restrictions used for operations	—	(310,184)	—	(310,184)
Transfers to unrestricted net assets for purchases of property, plant and equipment	—	—	—	—
Contributions of property, plant and equipment	219,710	—	—	219,710
Transfer to University of Wisconsin Medical School for capital expenditure support	(2,400,000)	—	—	(2,400,000)
Net change in unrealized gains and losses on other than trading securities	6,406,025	192,122	—	6,598,147
Cumulative effect of a change in accounting principle to capitalize surgical supply inventory	3,825,548	—	—	3,825,548
Increase in net assets	<u>13,041,778</u>	<u>301,908</u>	<u>422,366</u>	<u>13,766,052</u>
Balances at June 30, 2000	<u>\$ 243,446,243</u>	<u>1,847,800</u>	<u>713,918</u>	<u>246,007,961</u>

See accompanying notes to financial statements.

**UNIVERSITY OF WISCONSIN
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Statements of Cash Flows

Years ended June 30, 2000 and 1999

	2000	1999
Cash flows from operating activities:		
Increase in net assets	\$ 13,766,052	11,757,591
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Cumulative effect of a change in accounting principle to capitalize surgical supply inventory	(3,825,548)	—
Net change in unrealized gains and losses on other than trading securities	(6,598,147)	(2,702,980)
Transfer to University of Wisconsin Medical School for capital expenditure support	2,400,000	2,400,000
Depreciation and amortization	17,949,985	17,002,013
Provision for bad debts	9,901,675	5,496,622
Loss on disposal of property, plant, and equipment	409,688	148,407
Increase in net patient accounts receivable	(20,936,395)	(9,798,397)
Decrease in estimated payables to Medicare and Medicaid	(2,454,000)	(1,117,000)
Equity interest in gain of affiliate	(514,242)	(819,828)
Decrease (increase) in accrued expenses	(931,403)	297,608
Contributions of property, plant, and equipment	(219,710)	—
Net change in other assets and liabilities and other adjustments	(1,398,422)	4,149,502
Net cash provided by operating activities	7,549,533	26,813,538
Cash flows from investing activities:		
Expenditures for property, plant and equipment	(27,205,395)	(40,437,660)
Increase (decrease) in assets whose use is limited or restricted	(41,665,437)	19,153,126
Increase in investments	(2,387,627)	(1,531,580)
Equity distributions from affiliate	1,000,000	175,000
Proceeds from the sale of assets	22,175	47,759
Net cash used in investing activities	(70,236,284)	(22,593,355)
Cash flows from financing activities:		
Proceeds from long-term debt	56,500,000	—
Repayment and refunding of long-term debt	(2,648,429)	(2,670,247)
Deferred financing costs	(2,129,674)	—
Transfer to University of Wisconsin Medical School for capital expenditure support	(2,400,000)	(2,400,000)
Net cash provided by (used in) financing activities	49,321,897	(5,070,247)
Net decrease in cash and cash equivalents	(13,364,854)	(850,064)
Cash and cash equivalents at beginning of year	30,046,928	30,896,992
Cash and cash equivalents at end of year	\$ 16,682,074	30,046,928
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 3,489,905	3,270,681

See accompanying notes to financial statements.

**UNIVERSITY OF WISCONSIN
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Notes to Financial Statements

June 30, 2000 and 1999

(1) Summary of Organization and Significant Accounting Policies

The University of Wisconsin Hospitals and Clinics Authority (Hospital) is a not-for-profit academic medical center. The Hospital operates an acute-care hospital with approximately 470 available beds, numerous specialty clinics, and four ambulatory facilities providing comprehensive health care, education programs, research and community service primarily to residents of southern Wisconsin.

Prior to fiscal year 1997, the Hospital was a unit of the University of Wisconsin – Madison. Beginning in fiscal year 1997, in accordance with legislation enacted by the Wisconsin State Legislature, the Hospital restructured as a Public Authority, a public body corporate and politic created by Wisconsin statutes. This legislation provided, among other things, for the Board of Regents of the University of Wisconsin System (Board of Regents) to execute various agreements with the Hospital.

Under the terms of a Lease Agreement, the Hospital leases the facilities which were occupied by the Hospital as of June 29, 1996 for a nominal annual amount for an initial term of 30 years to be renewed annually with automatic extensions of one additional year on each July 1 until action is taken to stop the extensions. In addition, the Hospital is required to repay to the State of Wisconsin outstanding debt obligations on the leased facilities. The leased facilities are included with the Hospital's property, plant and equipment (note 4) and the debt obligations on the leased facilities are included with the Hospital's long-term debt (note 5).

An Affiliation Agreement requires the Hospital to continue to support the educational, research and clinical activities of the University of Wisconsin – Madison (University), including the University of Wisconsin Medical School (Medical School), which are administered by the Hospital. The Hospital will make an annual distribution of at least \$9.78 million, which shall be adjusted annually, for services and supplies provided by the Medical School and the University of Wisconsin Schools of Nursing and Pharmacy and to the Medical School to support salaries of specific physicians on the medical staff, primarily for administering post-graduate education programs (note 3).

Subject to a Contractual Services Agreement and Operating and Service Agreement between the Board of Regents and the Hospital, the two parties have entered into contracts with each other for the continuation of the provision of services in support of programs and operations.

The preparation of financial statements in conformity with generally accepted accounting principles 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. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

The financial statements have been presented in conformity with generally accepted accounting principles as required in the Audit and Accounting Guide, Audits of Providers of Health Care Services, published by the American Institute of Certified Public Accountants.

**UNIVERSITY OF WISCONSIN
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Notes to Financial Statements

June 30, 2000 and 1999

The significant accounting policies of the Hospital are as follows:

(a) Net Asset Accounting

Restricted net assets are used to differentiate net assets whose use is limited by outside parties from unrestricted net assets on which outside parties place no restrictions or which arise as a result of the operations of the Hospital for its stated purposes. The restricted net assets are restricted for various operating purposes. The permanently restricted net assets have been restricted by donors and are to be maintained by the Hospital in perpetuity.

Temporarily restricted contributions received for specific operating purposes are recorded as additions to temporarily restricted net assets. To the extent that the donor restrictions have been met within the period, the net assets are reported as net assets released from restrictions and are recorded in other revenue.

Temporarily restricted contributions received for property, plant and equipment are reported as additions to temporarily restricted net assets. To the extent that the donor restrictions have been met within the period, the net assets are reported as net assets released from restrictions and are recorded as additions to unrestricted net assets.

(b) Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. Reimbursable amounts from third-party payors are estimated in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Net patient service revenue includes revenue derived from agreements with various managed care organizations to provide medical services to subscribing participants. Under certain of these agreements, the Hospital receives fixed monthly capitation payments (generally adjusted annually) based on the number of each managed care organizations' participants, regardless of services actually performed by the Hospital. The Hospital recognizes, in the year of contractual commitment, any losses on these contracts when it is probable that expected future medical and maintenance expense under a group of existing contracts will exceed anticipated future premiums and recoveries on these contracts. In other agreements, the managed care organizations make fee-for-service payments to the Hospital for certain covered services based upon discounted fee schedules.

(c) Charity Care

The Hospital has a policy of providing health care services, without charge or at amounts less than established rates, to those unable to pay all or a portion of their charges and who meet certain eligibility criteria established in the Hospital's charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as patient service revenue.

**UNIVERSITY OF WISCONSIN
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Notes to Financial Statements

June 30, 2000 and 1999

(d) *Investments and Investment Income*

Investments in equity securities with readily determinable fair values, all investments in debt securities, and pooled investment funds on deposit with the University of Wisconsin Foundation – Endowment Fund are recorded at fair value at June 30, 2000 and 1999. The pooled investment funds on deposit with the University of Wisconsin Foundation – Restricted Fund and the guaranteed investment contract are recorded at cost plus accrued earnings to date, which approximate fair value.

Investment income or loss (including interest, dividends and realized gains and losses on investments) is included in revenue and gains in excess of expenses unless the income or loss is restricted by donor or law, in which case it is added directly to restricted net assets. Unrealized gains and losses on investments are excluded from revenue and gains in excess of expenses unless the investments are trading securities. The Hospital has no investments designated as trading securities at June 30, 2000 and 1999.

(e) *Inventories of Supplies*

The inventories of supplies are stated at cost (first-in, first-out) which is not in excess of market. Beginning in fiscal year 2000, the Hospital capitalized the cost of surgical supplies inventory, resulting in a cumulative effect of change in accounting principle of \$3,825,548.

(f) *Property, Plant and Equipment*

Property, plant and equipment is stated at cost. Donated property, plant and equipment is recorded at fair market value at the date of donation, which then is treated as cost. The cost of these assets is depreciated on the straight-line method over their estimated useful lives. Gains (losses) on sales of property, plant and equipment are recorded as nonoperating gains (losses).

(g) *Long-Lived Assets*

The Hospital periodically assesses the recoverability of long-lived assets (including property, plant and equipment and intangibles) when indications of potential impairment, based on estimated, undiscounted future cash flows, exist. Management considers such factors as current results, trends and future prospects, in addition to other economic factors in determining the impairment of the asset. Management believes the Hospital's long-lived assets and intangibles are not impaired at June 30, 2000 and 1999.

(h) *Leases*

Leases that meet the criteria of capital leases are capitalized and assets and liabilities are recorded at amounts equal to the lesser of the present value of the minimum lease payments or the fair value of the leased properties at the beginning of the respective lease terms. Such assets are amortized on the straight-line method over the shorter of the related lease terms or their estimated useful lives. Amortization of the leased building and equipment is included in the financial statements with depreciation and amortization expense.

**UNIVERSITY OF WISCONSIN
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Notes to Financial Statements

June 30, 2000 and 1999

(i) Costs of Borrowing

Costs incurred in connection with the issuance of long-term debt have been deferred and are being amortized over the term of the bonds.

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the costs of acquiring those assets.

(j) Cash Equivalents

Cash equivalents are defined as highly liquid investments purchased with an original maturity of three months or less, excluding amounts reported as assets whose use is limited or restricted.

(k) Income Taxes

The Hospital qualifies as a Section 501(c)(3) not-for-profit institution of the Internal Revenue Code (Code) and therefore is exempt from Federal and state income taxes pursuant to Section 501(a) of the Code. The Hospital is, however, subject to Federal income taxes on any unrelated business income under the provisions of Section 511 of the Code.

(l) Reclassifications

Certain items in the 1999 financial statements have been reclassified to conform with classifications used in 2000.

(2) Assets Whose Use is Limited or Restricted and Investments

The following is a summary of assets whose use is limited or restricted at June 30, 2000 and 1999:

	2000	1999
Pooled investment funds on deposit with the University of Wisconsin Foundation – Restricted Fund	\$ 87,442,352	82,451,286
Funds held with trustee	49,970,973	13,302,842
Other	52,878	46,638
Total assets whose use is limited or restricted	\$ 137,466,203	95,800,766

The composition of the investments on deposit with the University of Wisconsin Foundation – Restricted Fund is as follows: domestic equities (30%) and (28%), fixed income debt securities (64%) and (68%), and international equities (6%) and (4%), at June 30, 2000 and 1999, respectively.

At June 30, 2000, the funds with trustee are invested in a repurchase agreement maintained with a financial institution in accordance with the provisions of the bond indenture agreement, mature on April 15, 2003 and provide a fixed rate of return of 6.635%.

At June 30, 1999, the funds held with trustee were invested in a guaranteed investment contract with a financial institution, maturing December 31, 2000, which provided a rate of return of 1.88% above the interest expense on the Series 1997 Bonds (note 5).

**UNIVERSITY OF WISCONSIN
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Notes to Financial Statements

June 30, 2000 and 1999

Assets whose use is limited or restricted are classified as follows:

	2000	1999
Limited by:		
Board for capital replacement and debt retirement	\$ 84,938,845	80,677,077
Trustee under bond indenture agreement (note 5)	49,970,973	13,302,842
Restricted by donors	2,556,385	1,820,847
Total assets whose use is limited or restricted	\$ 137,466,203	95,800,766

Investments primarily comprise pooled investment funds on deposit with the University of Wisconsin Foundation – Endowment Fund. The composition of the University of Wisconsin Foundation – Endowment Fund is as follows: domestic equities (50%) and (54%), fixed income debt securities (8%) and (15%), international equities (23%) and (21%) and other (19%) and (10%), at June 30, 2000 and 1999, respectively.

The composition of investment return on the Hospital's cash and cash equivalents, assets whose use is limited or restricted and investments for the years ended June 30, 2000 and 1999 is as follows:

	2000	1999
Interest and dividend income	\$ 7,343,237	7,075,770
Net change in unrealized gains and losses	6,598,147	2,702,980
Total investment return	\$ 13,941,384	9,778,750

Investment returns are included in the accompanying statements of operations and statements of changes in net assets for the years ended June 30, 2000 and 1999 as follows:

	2000	1999
Statements of Operations:		
Other operating revenue	\$ 222,093	348,039
Nonoperating gains – investment income	7,032,009	6,658,915
Other changes in unrestricted net assets – net change in unrealized gains and losses	6,406,025	2,630,751
Total investment return, unrestricted net assets	13,660,127	9,637,705
Statements of Changes in Net Assets:		
Investment income	89,135	68,816
Net change in unrealized gains and losses on other than trading securities	192,122	72,229
Total investment return, restricted net assets	281,257	141,045
Total investment return	\$ 13,941,384	9,778,750

**UNIVERSITY OF WISCONSIN
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Notes to Financial Statements

June 30, 2000 and 1999

(3) Transactions with Related Parties

The Hospital receives certain administrative and other general services from the University, including the Medical School. Direct costs associated with these services approximated \$30,478,000 and \$29,461,000 in 2000 and 1999, respectively. The Hospital has committed to support certain Medical School capital expenditures as incurred, up to a maximum of \$6,315,000, of which a total of \$2,400,000 was paid in both fiscal years 2000 and 1999.

Wisconsin Therapies, Inc., a not-for-profit corporation controlled by the Hospital, was organized for the purpose of entering into a general partnership with Chartwell Midwest. The partnership is called Chartwell Midwest Wisconsin. The investment in affiliate is adjusted for equity in undistributed earnings of Chartwell Midwest Wisconsin. During 2000 and 1999, the Hospital received cash distributions of \$1,000,000 and \$175,000, respectively, from the partnership.

(4) Property, Plant and Equipment

A summary of property, plant and equipment at June 30, 2000 and 1999 follows:

	2000	1999
Land and land improvements	\$ 3,934,031	3,934,031
Buildings and fixed equipment	169,652,466	152,164,661
Moveable equipment	128,824,537	125,246,995
Construction in progress	6,809,081	8,702,078
Total property, plant and equipment	309,220,115	290,047,765
Less accumulated depreciation and amortization	168,226,166	158,157,758
Net property, plant and equipment	\$ 140,993,949	131,890,007

Total property, plant and equipment approximating \$38,573,000 and \$43,211,000 is held under the Lease Agreement (note 1) at June 30, 2000 and 1999. In addition, approximately \$824,000 and \$1,060,000 of property, plant and equipment is held under other capital lease agreements at June 30, 2000 and 1999.

Construction in progress at June 30, 2000 consists principally of costs incurred for the renovation of the pediatric intensive care unit and addition of new operating room suites. The construction project is being financed with debt proceeds (note 5). During 2000 and 1999 interest expense of approximately \$836,000 and \$778,000, reduced by interest income of approximately \$836,000 and \$607,000, was capitalized, respectively.

Total remaining commitments on property, plant and equipment purchases and the renovation and construction projects approximate \$22,621,000 at June 30, 2000.

**UNIVERSITY OF WISCONSIN
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Notes to Financial Statements

June 30, 2000 and 1999

(5) Long-term Debt

Long-term debt at June 30, 2000 and 1999 is summarized as follows:

	<u>2000</u>	<u>1999</u>
Amounts payable to the State of Wisconsin for:		
General Obligations Bonds	\$ 3,860,611	4,685,778
Refunding Bonds	<u>27,126,645</u>	<u>28,620,975</u>
Total amounts payable to the State of Wisconsin	30,987,256	33,306,753
Obligations under capital leases	345,510	674,442
Variable Rate Demand Hospital Revenue Bonds, Series 1997	50,000,000	50,000,000
Hospital Revenue Bonds, Series 2000	<u>56,500,000</u>	<u>—</u>
Total long-term debt	137,832,766	83,981,195
Less current installments	<u>2,735,467</u>	<u>2,682,419</u>
Long-term debt, less current installments	<u>\$ 135,097,299</u>	<u>81,298,776</u>

The amounts payable to the State of Wisconsin represent portions of the respective obligations for which repayment has been assigned to the Hospital in connection with the financing of Hospital facilities and equipment (note 1). Interest rates range from 3.9% to 7.8%, with final maturities due in April 2000 through April 2016. Annual principal and semiannual interest payments are required on all amounts payable to the State of Wisconsin.

At June 30, 2000, the outstanding balance of the Hospital's portion of all State of Wisconsin defeased bonds is \$26,872,000. Such bonds and related trustee-held funds are not included in the accompanying financial statements.

In April 1997, the Hospital issued \$50,000,000 of Variable Rate Demand Hospital Revenue Bonds, Series 1997 (Series 1997 Bonds). The bond proceeds are designated to finance qualified capital projects. Principal payments on the Series 1997 Bonds are due annually commencing in April 2010 through April 2026. Interest is payable monthly. The effective annual interest rate was 3.8% during fiscal year 2000 and 3.2% in 1999.

In March 2000, the Hospital issued \$56,500,000 of Hospital Revenue Bonds, Series 2000 (Series 2000 Bonds). The bond proceeds are designated to finance qualified capital projects. Principal payments on the Series 2000 Bonds are due annually commencing in April 2007 through April 2029. Interest rates range from 5.35% to 6.20% and interest is payable semiannually on April 1 and October 1 each year beginning October 1, 2000.

The Series 1997 Bonds and Series 2000 Bonds are collateralized by a security interest in substantially all of the Hospital's revenue. The borrowing agreements contain various covenants and restrictions including compliance with the terms and conditions of the Lease Agreement (note 1) and provisions limiting the amount of additional indebtedness which may be incurred. The borrowing agreements also require the establishment and maintenance of certain funds under the control of a trustee (note 2).

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Notes to Financial Statements

June 30, 2000 and 1999

Current legislation (note 1) limits the Hospital's total borrowings, exclusive of amounts payable to the State of Wisconsin, to \$106,500,000, with limited exceptions.

The estimated fair value of long-term debt, based on discounted cash flows at management's estimated current borrowing rates, approximates cost at June 30, 2000 and 1999.

Aggregate scheduled principal maturities of long-term debt and payments on capital lease obligations during the next five fiscal years and thereafter are as follows:

<u>Year</u>		
2001	\$	2,752,881
2002		3,111,038
2003		2,841,267
2004		2,963,094
2005		2,787,641
Thereafter		<u>123,394,258</u>
Subtotal		137,850,179
Less amount representing interest on obligations under capital leases		<u>17,413</u>
Total	\$	<u><u>137,832,766</u></u>

(6) Net Patient Service Revenue and Third-Party Payors Reimbursement

A summary of gross and net patient service revenue for the years ended June 30, 2000 and 1999 follows:

	<u>2000</u>	<u>1999</u>
Gross patient service revenue:		
Inpatient:		
Routine services	\$ 79,339,003	74,616,986
Ancillary services	258,317,959	224,663,348
Outpatient	<u>203,858,540</u>	<u>164,113,191</u>
Total gross patient service revenue	<u>541,515,502</u>	<u>463,393,525</u>
Less provision for contractual adjustments under:		
Government programs	68,921,170	47,140,013
Managed care and other	<u>88,336,387</u>	<u>68,536,079</u>
Net patient service revenue	<u><u>\$ 384,257,945</u></u>	<u><u>347,717,433</u></u>

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The Hospital has agreements with third-party payors that provide for reimbursement at amounts different from the Hospital's established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursements with major third-party payors follows:

- **Medicare** – Inpatient acute care services rendered to Medicare program beneficiaries and defined capital costs are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient non-acute services, outpatient services, medical education and certain organ acquisition costs related to Medicare beneficiaries are paid based upon cost reimbursement methods, established fee screens or a combination thereof. The Hospital is reimbursed for cost reimbursement items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 1997.
- **Medicaid** – Inpatient services rendered to Medicaid program beneficiaries are reimbursed similar to the method for Medicare inpatient acute care services. Differences from the Medicare method pertain to reimbursements for organ transplants, capital costs and medical education costs. Medicaid outpatient services are paid on a pre-determined rate per visit.

The percentage of net patient service revenue applicable to services provided to Medicare and Medicaid patients was approximately 32% and 34% in 2000 and 1999, respectively.

- **Other** – The Hospital has also entered into reimbursement agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for reimbursements under these agreements includes capitation, prospectively determined rates per discharge, discounts from established rates, and prospectively determined per diem rates.

Capitated agreements with third-party payors comprise approximately 9% and 8% of net patient service revenue for each of the years ended June 30, 2000 and 1999, respectively.

The mix of gross receivables from patients and third-party payors as of June 30, 2000 and 1999 is summarized as follows:

	2000	1999
Medicare	24%	25
Medicaid	6	5
Managed care	35	29
Commercial insurance	24	28
Private pay	5	9
Other	6	4
Total	100%	100

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(7) Unreimbursed and Partially Reimbursed Care

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. The approximate level of charity care provided during the years ended June 30, 2000 and 1999 is as follows:

	<u>2000</u>	<u>1999</u>
Charges foregone, based on established rates	\$ <u>7,280,000</u>	<u>7,818,000</u>

(8) Pension Plan

Virtually all Hospital employees participate in the Wisconsin Retirement System (System), a cost-sharing multiple-employer public employee retirement system. All permanent employees expected to work over 600 hours a year are eligible to participate in the System. Covered employees are required by statute to contribute 6.2% of their salary to the plan. However, the Hospital makes these contributions to the plan on behalf of the employees. The Hospital is required to contribute the remaining amounts necessary to pay the projected cost of defined future benefits. Total contributions made by the Hospital for the years ended June 30, 2000 and 1999, approximating \$19,052,000 and \$18,350,000, respectively, are included in employee benefit expense.

(9) Malpractice Insurance

The Hospital has professional liability insurance for Hospital employees for claims reported during the policy year regardless of the date of the incident giving rise to the claim (claims-made coverage). Losses in excess of the professional liability insurance are fully covered through the Hospital's mandatory participation in the Patients' Compensation Fund of the State of Wisconsin.

(10) Commitments

The Hospital leases buildings, equipment and helicopter transport services under operating leases. Rental expense for cancelable and noncancelable operating leases was approximately \$5,002,000 and \$4,785,000 for 2000 and 1999, respectively, and is included in other expense. Future minimum lease payments for the next five years under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2000 follows:

<u>Year</u>		
2001	\$	3,210,729
2002		3,240,386
2003		3,018,460
2004		2,853,024
2005		2,836,544
Thereafter		<u>10,729,846</u>
Total	\$	<u>25,888,989</u>