

Unaudited
**UNIVERSITY OF WISCONSIN
HOSPITALS AND CLINICS AUTHORITY**

Balance Sheets

June 30, 2004, 2003, and 2002

(In thousands)

| Assets | 2004 | 2003 | 2002 |
|--|-------------------|----------------|----------------|
| Current assets: | | | |
| Cash and cash equivalents | \$ 19,302 | 12,839 | 4,343 |
| Patient accounts receivable, net of estimated uncollectible accounts of \$13,060 in 2004, \$13,000 in 2003, and \$12,200 in 2002 | 85,494 | 73,465 | 66,143 |
| Other receivables | 12,334 | 8,604 | 11,261 |
| Inventories of supplies | 6,079 | 6,485 | 7,524 |
| Prepaid expenses | 2,103 | 2,333 | 2,753 |
| Total current assets | 125,312 | 103,726 | 92,024 |
| Noncurrent cash and investments: | | | |
| Designated by board for capital replacement and debt retirement | 136,794 | 136,221 | 124,522 |
| Held by trustee for capital projects | 39,221 | 54,543 | 11,236 |
| Restricted by donors | 10,464 | 3,704 | 3,190 |
| Principal of permanent endowments | 815 | 815 | 795 |
| Other long-term investments | 39,511 | 32,660 | 34,118 |
| Total noncurrent cash and investments | 226,805 | 227,943 | 173,861 |
| Capital assets | | | |
| Nondepreciable | 8,427 | 23,943 | 32,535 |
| Depreciable, net | 234,511 | 205,300 | 167,287 |
| Total capital assets, net | 242,938 | 229,243 | 199,822 |
| Investments in joint ventures | 4,329 | 1,861 | 878 |
| Other assets | 6,124 | 5,842 | 3,347 |
| Total assets | \$ 605,508 | 568,615 | 469,932 |

Unaudited

| Liabilities and Net Assets | 2004 | 2003 | 2002 |
|--|-------------------|----------------|----------------|
| Current liabilities: | | | |
| Current installments of long-term debt | \$ 2,053 | 2,967 | 2,845 |
| Accounts payable | 15,646 | 23,561 | 19,359 |
| Accrued expenses | 42,374 | 36,780 | 33,599 |
| Estimated payables to Medicare and Medicaid | 2,590 | 1,556 | 1,544 |
| Total current liabilities | 62,663 | 64,864 | 57,347 |
| Long-term debt, less current installments | 193,732 | 195,588 | 129,427 |
| Pension-related liabilities | 60,771 | | |
| Total liabilities | 317,166 | 260,452 | 186,774 |
| Net assets: | | | |
| Invested in capital assets, net of related debt | 86,374 | 85,005 | 78,786 |
| Restricted expendable for donor specified purposes | 10,464 | 3,704 | 3,168 |
| Restricted nonexpendable | 815 | 815 | 795 |
| Unrestricted | 190,689 | 218,639 | 200,409 |
| Total net assets | 288,342 | 308,163 | 283,158 |
| | | | |
| Total liabilities and net assets | \$ 605,508 | 568,615 | 469,932 |

Unaudited

UNIVERSITY OF WISCONSIN HOSPITALS AND CLINICS AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2004, 2003, and 2002

(In thousands)

| | 2004 | 2003 | 2002 |
|--|-------------------|----------------|----------------|
| Operating revenues: | | | |
| Net patient service revenue (net of provision for bad debts of \$12,427 in 2004, \$11,994 in 2003, and 13,429 in 2002) | \$ 595,358 | 536,985 | 477,040 |
| Other operating revenue | 11,518 | 10,329 | 9,359 |
| Total operating revenues, net | 606,876 | 547,314 | 486,399 |
| Operating expenses: | | | |
| Salaries and wages | 228,848 | 206,455 | 183,772 |
| Employee benefits | 87,237 | 75,653 | 64,160 |
| Other expenses | 31,179 | 29,457 | 25,552 |
| Repairs, maintenance, and utilities | 14,775 | 12,497 | 10,950 |
| Purchased services and agency costs | 68,101 | 68,661 | 60,951 |
| Medical materials and supplies | 124,532 | 111,879 | 100,683 |
| Depreciation and amortization | 25,262 | 22,613 | 19,049 |
| Total operating expenses | 579,934 | 527,215 | 465,117 |
| Operating income | 26,942 | 20,099 | 21,282 |
| Nonoperating revenues (expenses): | | | |
| Investment income | 8,027 | 9,158 | 9,056 |
| Net increase (decrease) in fair value of investments | 5,298 | (3,592) | (8,555) |
| Gain on cancellation of swap | — | 4,035 | — |
| Interest expense | (5,814) | (5,443) | (2,669) |
| Equity interest in income/loss of joint ventures | (45) | 478 | 296 |
| Loss on disposal of capital assets | (764) | (306) | (843) |
| Noncapital grants and contributions | 1,006 | 449 | 344 |
| Other, net | 94 | (49) | 70 |
| Total nonoperating revenues (expenses) | 7,802 | 4,730 | (2,301) |
| Excess of revenues over expenses before capital grants, gifts, and donations, additions to permanent endowments, and other payments | 34,744 | 24,829 | 18,981 |
| Capital grants, gifts, and donations | 6,028 | 656 | 1,968 |
| Additions to permanent endowments | — | 20 | 31 |
| Payment to University of Wisconsin Medical School for capital expenditure support | (725) | (500) | (275) |
| Cumulative effect of change in accounting principal for pension liability | (59,868) | — | — |
| Increase in net assets | (19,821) | 25,005 | 20,705 |
| Net assets beginning of the year, as restated | 308,163 | 283,158 | 262,453 |
| Net assets end of the year | \$ 288,342 | 308,163 | 283,158 |

Unaudited

UNIVERSITY OF WISCONSIN HOSPITALS AND CLINICS AUTHORITY

Statements of Cash Flows

Years ended June 30, 2004, 2003, and 2002

(In thousands)

| | 2004 | 2003 | 2002 |
|---|------------------|-----------------|-----------------|
| Cash flows from operating activities: | | | |
| Cash received from and on behalf of patients | \$ 583,329 | 529,663 | 470,354 |
| Payments to suppliers | (237,526) | (203,852) | (189,156) |
| Payments to employees | (310,527) | (278,630) | (248,639) |
| Net cash provided by operating activities | 35,276 | 47,181 | 32,559 |
| Cash flows from noncapital financing activities: | | | |
| Noncapital grants and contributions | 1,006 | 449 | 344 |
| Additions to permanent endowment | — | 20 | 31 |
| Increase/(decrease) in unfunded pension liability | 903 | — | — |
| Payment to University of Wisconsin Medical School for capital expenditure support | (725) | (500) | (275) |
| Net cash (used) provided by noncapital financing activities | 1,184 | (31) | 100 |
| Cash flows from capital and related financing activities: | | | |
| Capital grants, gifts, and donations | 6,028 | 656 | 1,968 |
| Proceeds from long-term debt | — | 69,170 | 336 |
| Repayment of principal on long-term debt | (2,903) | (2,845) | (3,161) |
| Interest paid on long-term debt | (5,842) | (5,782) | (2,888) |
| Deferred financing costs | 261 | (2,634) | (18) |
| Purchases of capital assets | (40,618) | (52,324) | (61,391) |
| Proceeds from sale of capital assets | 1,097 | 140 | 271 |
| Net cash provided (used) by capital and related financing activities | (41,977) | 6,381 | (64,883) |
| Cash flows from investing activities: | | | |
| Proceeds from sales of investments | 20,322 | 25,906 | 28,291 |
| Purchases of investments | (16,869) | (81,436) | (19,315) |
| Receipt on termination of swap | — | 4,035 | — |
| Investment income | 8,027 | 9,158 | 9,056 |
| (Increase) decrease in investment in joint venture | (2,513) | (505) | 273 |
| Other, net | 29 | (49) | 70 |
| Net cash (used) provided by investing activities | 8,996 | (42,891) | 18,375 |
| Net increase (decrease) in cash and cash equivalents | 3,479 | 10,640 | (13,849) |
| Cash and cash equivalents at beginning of year | 17,553 | 6,913 | 20,762 |
| Cash and cash equivalents at end of year | <u>\$ 21,032</u> | <u>17,553</u> | <u>6,913</u> |

(Continued)

Unaudited

UNIVERSITY OF WISCONSIN
HOSPITALS AND CLINICS AUTHORITY

Statements of Cash Flows

Years ended June 30, 2004, 2003, and 2002

(In thousands)

| | <u>2004</u> | <u>2003</u> | <u>2002</u> |
|---|------------------|---------------|---------------|
| Reconciliation of cash and cash equivalents to balance sheet: | | | |
| Cash and cash equivalents in current assets | \$ 19,302 | 12,839 | 4,343 |
| Cash equivalents in noncurrent cash and investments | 1,730 | 4,714 | 2,570 |
| Total cash and cash equivalents | \$ 21,032 | 17,553 | 6,913 |
| Reconciliation of operating income to net cash provided by operating activities: | | | |
| Operating income | \$ 26,942 | 20,099 | 21,282 |
| Adjustments to reconcile operating income to cash provided by operating activities: | | | |
| Provision for bad debts | 12,427 | 11,994 | 13,429 |
| Depreciation and amortization | 25,262 | 22,613 | 19,049 |
| Changes in assets and liabilities: | | | |
| Patient accounts receivable | (24,456) | (19,316) | (20,115) |
| Other receivables | (3,730) | 2,657 | (3,850) |
| Inventories of supplies | 406 | 1,039 | (413) |
| Prepaid expenses | 230 | 420 | (415) |
| Other assets | (482) | (17) | (418) |
| Accounts payable | (7,915) | 4,202 | 4,385 |
| Accrued expenses | 5,558 | 3,478 | (707) |
| Estimated payables to Medicare and Medicaid | 1,034 | 12 | 332 |
| Total adjustments | 8,334 | 27,082 | 11,277 |
| Net cash provided by operating activities | \$ 35,276 | 47,181 | 32,559 |

Noncash investing, capital and financing activities:

The Hospital held investments at June 30, 2004, 2003, and 2002 with a fair value of \$226,805, \$227,943, and \$173,861, respectively. During 2004, 2003, and 2002 the net increase (decrease) in the fair value of these investments was \$5,298, \$(3,592), and \$(8,555), respectively.