

Consolidated financial statements and report of independent certified public accountants

University Health Care, Inc. and Subsidiary

December 31, 2003 and 2002

## CONTENTS

	Page
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS	3
FINANCIAL STATEMENTS	
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION	4
CONSOLIDATED STATEMENTS OF ACTIVITIES	6
CONSOLIDATED STATEMENTS OF CASH FLOWS	7
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	9
SUPPLEMENTARY INFORMATION	
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON SUPPLEMENTARY INFORMATION	19
CONSOLIDATING STATEMENT OF FINANCIAL POSITION - DECEMBER 31, 2003	20
CONSOLIDATING STATEMENT OF FINANCIAL POSITION - DECEMBER 31, 2002	22
CONSOLIDATING STATEMENT OF ACTIVITIES - YEAR ENDED DECEMBER 31, 2003	26
CONSOLIDATING STATEMENT OF ACTIVITIES - YEAR ENDED DECEMBER 31, 2002	30

**REPORT OF INDEPENDENT  
CERTIFIED PUBLIC ACCOUNTANTS**

Board of Directors  
University Health Care, Inc. and Subsidiary

We have audited the accompanying consolidated statements of financial position of University Health Care, Inc. and Subsidiary as of December 31, 2003 and 2002, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the company'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 consolidated financial position of University Health Care, Inc. and Subsidiary as of December 31, 2003 and 2002, and the consolidated results of their activities and their consolidated cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

*Grant Thornton LLP*

Madison, Wisconsin  
March 5, 2004 (except for note K  
as to which the date is April 30, 2004)

This page intentionally left blank.

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
December 31,

ASSETS	2003	2002
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,053,478	\$ 1,573,208
Accounts receivable		
Trade, less allowance for doubtful accounts of \$1,827,000 in 2002	-	1,715,758
Other	119,044	139,406
	119,044	1,855,164
Risk pool reimbursement receivable	3,345,093	2,465,622
Prepaid expenses	21,638	201,078
	4,539,253	6,095,072
Total current assets		
	434,632	231,006
<b>INVESTMENTS IN AFFILIATES</b>		
<b>PROPERTY AND EQUIPMENT - AT COST</b>		
Buildings and improvements	3,750,671	3,750,671
Leasehold improvements	20,224	105,727
Furniture and equipment	458,798	1,626,800
Medical equipment	-	346,598
	4,229,693	5,829,796
Less accumulated depreciation and amortization	1,376,786	2,466,481
	2,852,907	3,363,315
Land	926,643	926,643
	3,779,550	4,289,958
<b>OTHER LONG-TERM RECEIVABLES</b>		
	-	27,168
	8,753,435	10,643,204
Total assets	\$ 8,753,435	\$ 10,643,204

The accompanying notes are an integral part of these statements.

LIABILITIES AND DEFICIT IN NET ASSETS	<u>2003</u>	<u>2002</u>
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term debt	\$ 143,548	\$ 1,653,805
Trade accounts payable	552,335	821,613
Risk pool payable	3,345,093	2,465,622
Accrued liabilities		
Salaries, wages and payroll withholdings	-	394,989
Vacation and sick pay	14,085	125,614
Pension plans	-	698,572
Other	19,667	23,750
	<u>33,752</u>	<u>1,242,925</u>
 Total current liabilities	 4,074,728	 6,183,965
 LONG-TERM DEBT, less current maturities	 5,070,642	 3,701,903
 COMMITMENTS AND CONTINGENCIES	 -	 -
 MINORITY INTEREST IN SUBSIDIARY	 1,500,000	 1,500,000
 DEFICIT IN UNRESTRICTED NET ASSETS	 <u>(1,891,935)</u>	 <u>(742,664)</u>
 Total liabilities and deficit in net assets	 <u>\$ 8,753,435</u>	 <u>\$ 10,643,204</u>

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF ACTIVITIES**  
Year ended December 31,

	2003	2002
Operating revenues and other support		
Capitation fees	\$ 99,814,905	\$ 85,407,195
Net patient service revenue	4,632,069	8,625,128
Program and other support		
University of Wisconsin Hospital and Clinics Authority	3,047,303	3,351,336
University of Wisconsin Medical Foundation	1,526,802	1,679,281
University of Wisconsin Medical Foundation - Ophthalmology	58,632	53,221
	<u>4,632,737</u>	<u>5,083,838</u>
 Total operating revenues and other support	 109,079,711	 99,116,161
Operating expenses		
Capitation costs	103,521,671	85,689,773
Staff salaries and wages	2,475,000	4,784,275
Staff benefits	803,778	1,182,705
Physician and mid-level compensation and benefits	2,672,090	5,626,968
Malpractice insurance	293,217	135,134
Purchased services and office expenses	1,547,054	1,740,169
Building rent and utilities	985,561	1,203,891
Medical and ancillary supplies	573,980	1,756,393
Advertising and promotion	142,641	142,276
Equipment expense	209,540	442,779
Start-up expenses	-	28,483
	<u>113,224,532</u>	<u>102,732,846</u>
 Total operating expenses	 113,224,532	 102,732,846
 Decrease in unrestricted net assets from operations	 (4,144,821)	 (3,616,685)
Other income (expense)		
Risk pool reimbursement	4,371,376	3,386,091
Investment income (loss)		
Interest and dividends	12,999	19,852
CHS, LLC	3,626	8,408
Agnesian - UW Health Ventures, LLC	-	(487,241)
	<u>16,625</u>	<u>(458,981)</u>
 Interest expense	 (280,307)	 (345,270)
Expenses of closed clinic facilities	-	(14,211)
Loss on transfer of assets to the University of Wisconsin Medical Foundation	(1,827,817)	-
Loss on sale of property and equipment	(14,183)	(22,044)
Miscellaneous income	729,856	566,341
	<u>2,995,550</u>	<u>3,111,926</u>
 Total other income	 2,995,550	 3,111,926
 DECREASE IN UNRESTRICTED NET ASSETS	 (1,149,271)	 (504,759)
Deficit in unrestricted net assets at beginning of year	<u>(742,664)</u>	<u>(237,905)</u>
Deficit in unrestricted net assets at end of year	<u>\$ (1,891,935)</u>	<u>\$ (742,664)</u>

The accompanying notes are an integral part of these statements.

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
Year ended December 31,

	2003	2002
Cash flows from operating activities		
Decrease in unrestricted net assets for the year	\$ (1,149,271)	\$ (504,759)
Adjustments to reconcile decrease in unrestricted net assets to net cash provided by operating activities		
Depreciation and amortization	246,395	349,558
Loss on transfer of assets to the University of Wisconsin Medical Foundation, net of cash of \$375,690	1,452,127	-
Share in net gain of CHS, LLC	(3,626)	(8,408)
Share in net loss of Agnesian - UW Health Ventures, LLC	-	487,241
Loss on sale of property and equipment	14,183	22,044
Changes in operating assets and liabilities:		
Accounts receivable	241,202	8,214
Risk pool reimbursement receivable	(879,471)	757,553
Prepaid expenses	151,204	55,905
Trade accounts payable	(99,992)	332,716
Risk pool payable	879,471	(757,553)
Accrued liabilities	(813,780)	244,427
Deferred revenue	-	(4,136)
	38,442	982,802
Net cash provided by operating activities		
Cash flows from investing activities		
Purchase of property and equipment	(224,569)	(162,318)
Proceeds from sale of property and equipment	7,915	4,984
Investment in UW Cancer Center Johnson Creek, LLC	(200,000)	-
Investment in Agnesian - UW Health Ventures, LLC	-	(100,000)
Payments received on other long-term receivables	-	146,052
Decrease in other long-term receivables	-	15,168
	(416,654)	(96,114)
Net cash used in investing activities		
Cash flows from financing activities		
Payments of long-term debt	(141,518)	(221,221)
	(141,518)	(221,221)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(519,730)	665,467
Cash and cash equivalents at beginning of year	1,573,208	907,741
Cash and cash equivalents at end of year	\$ 1,053,478	\$ 1,573,208

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED**  
Year ended December 31,

	2003	2002
Supplemental disclosure of cash flow information		
Interest paid	\$ 284,390	\$ 367,757

Supplemental schedule of noncash operating, investing and financing activities:

University Health Care, Inc. (UHC) recognized a risk pool payable of \$3,345,093 and \$2,465,622 in 2003 and 2002, respectively, and an offsetting risk pool reimbursement receivable in each respective year from Blue Cross/Blue Shield of Wisconsin in connection with the gain incurred under the Unity/University Plus risk pool.

During 2002, University Community Clinics, Inc. (UCC) increased other long-term receivables and decreased investment in leased assets by \$75,255.

The accompanying notes are an integral part of these statements.

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2003 and 2002

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying financial statements include the accounts of University Health Care, Inc. (UHC), University Community Clinics, Inc. (UCC) until its dissolution effective July 1, 2003 and Health Professionals of Wisconsin, Inc. (HPW) (the company).

UHC is a non-stock, not-for-profit corporation organized under Chapter 181 of the Wisconsin Statutes to promote medical education, research and public service by the University of Wisconsin Medical School and its faculty, the University of Wisconsin Medical Foundation and the University of Wisconsin Hospital and Clinics Authority.

UCC was dissolved effective July 1, 2003 pursuant to a plan of complete liquidation and dissolution. The bylaws of UCC designated UHC as the sole member of the corporation. UCC was a Wisconsin non-stock, not-for-profit, taxable corporation which developed, owned and operated private health care practices in various communities surrounding Madison for the benefit of the University of Wisconsin - Madison, the University of Wisconsin Medical School and the University of Wisconsin Hospital and Clinics Authority.

Prior to UCC's dissolution, it owned all of the common stock of HPW and had a controlling interest (90%) in HPW. Upon dissolution, UCC distributed 100% of the common stock of HPW to UHC. The minority stockholder, Blue Cross/Blue Shield United of Wisconsin (BC/BS), owns all of HPW's outstanding preferred stock of \$1,500,000. HPW is a taxable shareholder corporation formed to hold the real property used by UCC in pursuit of UCC's mission of medical practice development through June 30, 2003. Effective July 1, 2003, the real property is leased to the University of Wisconsin Medical Foundation.

A summary of the company's significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements follows.

**1. Principles of Combination and Consolidation**

Prior to its dissolution, the accounts of UCC had been consolidated with its majority-owned subsidiary, HPW, and the accounts of the consolidated entity have been combined with UHC in the accompanying financial statements since ultimate control was under common management. Upon UCC's dissolution and the assignment of HPW's common stock to UHC effective July 1, 2003, the accounts of UHC have been consolidated with HPW. All significant intercompany balances and transactions have been eliminated.

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**  
December 31, 2003 and 2002

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

2. Use of Estimates

In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, the company considers all highly liquid debt instruments purchased with original maturities of three months or less to be cash equivalents.

4. Depreciation and Amortization

Depreciation and amortization of property and equipment are provided in amounts sufficient to relate the cost of property and equipment to operations over their estimated service lives using both straight-line and accelerated methods. Improvements to leased property are amortized over the lesser of the life of the lease or life of the improvement. A summary of estimated useful lives follows:

	<u>Estimated useful life</u>
Buildings and improvements	7 to 39 years
Leasehold improvements	5 to 39 years
Furniture and equipment	3 to 7 years
Medical equipment	5 to 7 years

5. Recognition of Revenues and Other Support

Prior to the dissolution of UCC on July 1, 2003, patient service revenue was recognized at the time services were rendered and was reported at the estimated net realizable amounts from patients, third-party payors under reimbursement agreements and others for services rendered.

Receipts designated for programs and other support by an outside party are deemed to be earned and reported as revenue as related expenses are incurred.

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**  
December 31, 2003 and 2002

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

6. Capitation Fees and Costs

Capitation fees consist of amounts received from Unity Health Plans Insurance Corporation (Unity) and Group Health Cooperative (GHC) for the company's portion of the risk pools. Capitation costs consist of cash payments to University of Wisconsin Hospital and Clinics Authority (UWHC), University of Wisconsin Medical Foundation (UWMF) and other non-University of Wisconsin providers. Most of these providers have contractual agreements which define the responsibility they have assumed for providing medical services to enrollees of Unity and GHC in exchange for monthly capitation payments.

7. Deferred Income Taxes

Deferred income taxes are provided on a liability method whereby deferred tax assets are recognized for the temporary differences in reporting the allowance for doubtful receivables and accounting for certain accrued liabilities and for net operating loss carryforwards. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Deferred tax balances are adjusted to reflect tax rates, based on currently enacted tax laws, that will be in effect in the years in which the temporary differences are expected to reverse.

NOTE B - ACCOUNTS RECEIVABLE

The majority of the company's accounts receivable at December 31, 2002 were due from third-party payors under reimbursement agreements and patients for services provided. Trade accounts receivable were due upon receipt of invoice. Trade accounts receivable were stated net of any allowance for doubtful accounts and contractual adjustments. The company determined its allowance for doubtful accounts by considering number of days past due, collection history and the general economy and industry as a whole. Contractual adjustments were based on expected payment rates in accordance with third-party payor agreements. The company wrote-off trade accounts receivable when they became uncollectible, and payments subsequently received were credited to the allowance for doubtful accounts.

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**  
December 31, 2003 and 2002

**NOTE C - RELATED PARTIES**

In 2003 and 2002, UHC owns 20.89% of Community Health Systems, LLC (CHS). CHS represents the rural interests connected with Unity Joint Venture. This investment is accounted for on the equity method. Under this method, UHC recognizes its proportionate share of the net earnings or loss of CHS, and dividends received are treated as a reduction of the investment. UHC recognized income of \$3,626 and \$8,408 for the years ended December 31, 2003 and 2002, respectively (see note K).

In 2003, UHC acquired a 33.33% interest in UW Cancer Center Johnson Creek, LLC. This investment will be accounted for on the equity method. There were no earnings or losses recognized related to this investment in 2003. UW Cancer Center Johnson Creek, LLC is owned by UHC, Fort Atkinson Memorial Health Services and Watertown Memorial Hospital, Inc., each having a one-third membership interest. Its purpose is to acquire, hold, own and lease assets to be used by healthcare providers for their provision of cancer care services.

Agnesian-UW Health Ventures, LLC was a joint venture owned by UHC and Agnesian Health Care, Inc. (AHC). UHC's 50% ownership interest in Agnesian-UW Health Ventures, LLC was accounted for on the equity method. UHC recognized a loss of \$170,932 for the year ended December 31, 2002, for its share of the loss of the joint venture. Effective December 31, 2002, the joint venture ceased operations and the carrying value of the investment of \$316,309 was written-off. The joint venture employed physicians and other personnel as necessary to support the practice of the medical clinic and further the achievement of the charitable, educational and scientific purposes of UHC and AHC. The joint venture entered into an agreement with AHC to provide all necessary facilities, equipment and administrative services.

UHC entered into a managed care joint venture, Unity Joint Venture (Unity), with BC/BS, United Wisconsin Services, Inc. (UWSI) and CHS. Under the managed care joint venture agreement, UHC has agreed to provide or to arrange to provide medical services for Unity members who select a contracted UHC physician as their primary care physician. UHC is at risk for providing medical services to these members and receives monthly capitation payments. A calculation is performed at year-end to determine the risk pool reimbursement receivable from or payable to BC/BS. The risk pool reimbursement receivable at December 31, 2003 and 2002 represents net gains for 2003 and 2002, respectively, resulting from BC/BS's contractual obligation to UHC.

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**  
December 31, 2003 and 2002

**NOTE C - RELATED PARTIES - Continued**

The risk pool payable at December 31, 2003 and 2002 represents amounts due to UWHC and UWMF for UHC's contractual obligation to them for their share of the Unity/University Plus risk fund gain for 2003 and 2002, respectively, resulting from BC/BS's contractual obligation to UHC.

Effective January 1, 2003, the company entered into employee services agreements with UWHC and UWMF. Under the terms of the agreements, UHC pays UWHC and UWMF for the use of their respective personnel for services performed as stated in the agreements. The amount paid by UHC is equal to that of the salary and benefits of the personnel multiplied by the percentage of their time devoted to UHC during the applicable period. The amounts paid to UWHC and UWMF under the terms of these agreements are recorded in staff salaries and wages, staff benefits and physician and mid-level compensation and benefits in the 2003 statement of activities.

**NOTE D - LONG-TERM DEBT**

Long-term debt consists of the following obligations as of December 31:

	2003	2002
Notes payable to M&I Bank of Southern Wisconsin, interest ranging from 5.75% to 7.4%, collateralized by assets of HPW, due in monthly installments of \$23,583 including interest, due at various dates from August 2006 through May 2008	\$ 2,214,190	\$ 2,343,831
Note payable to BC/BS, unsecured, interest payable annually at the prime rate (effective rate of 4% at December 31, 2003), no stated maturity.	3,000,000	3,000,000
Notes payable to Ford Motor Credit Company, paid in full during 2003	-	11,877
	5,214,190	5,355,708
Less current maturities	143,548	1,653,805
	\$ 5,070,642	\$ 3,701,903

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**  
December 31, 2003 and 2002

NOTE D - LONG-TERM DEBT - Continued

At December 31, 2003 and 2002, the company was in compliance with or obtained waivers for all loan covenants.

Future principal maturities of long-term debt as of December 31, 2003 are as follows:

Year ending December 31,		
2004	\$	143,548
2005		153,961
2006		635,533
2007		86,786
2008		1,194,362
No stated maturity		<u>3,000,000</u>
	\$	<u>5,214,190</u>

NOTE E - OPERATING LEASES

The company leases office space and equipment under noncancelable operating leases. Total future minimum rental payments required under operating leases as of December 31, 2003 are as follows:

Year ending December 31,		
2004	\$	94,000
2005		84,000
2006		76,000
2007		72,000
2008		73,000
Later years		<u>232,000</u>
	\$	<u>631,000</u>

Rent expense for the years ended December 31, 2003 and 2002 was \$659,000 and \$989,000, respectively.

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**  
December 31, 2003 and 2002

**NOTE F - RETIREMENT PLANS**

Effective June 30, 2003, the money purchase pension plan covering substantially all employees of UHC and UCC was terminated. In addition, the 401(k) plan maintained by UCC and the 403(b) plan maintained by UHC were also terminated effective June 30, 2003.

Pension expense was \$310,000 for 2003 and \$806,000 for 2002.

**NOTE G - CONTINGENCIES**

The company is involved in several negotiations, many of which occur normally in the health care business. No provision has been made for any liability as a result of these proceedings since such liability is not readily estimable and management does not expect the outcomes to materially affect the company's financial position.

**NOTE H - FUNCTIONAL EXPENSES**

Following is a summary of operating expenses reported on a functional basis as of December 31:

	2003	2002
Program services	\$ 105,190,971	\$ 87,325,015
Clinic operations	4,901,018	13,565,109
General and administrative	3,132,543	1,842,722
	\$ 113,224,532	\$ 102,732,846

**NOTE I - INCOME TAXES**

The company consists of three separate entities for income tax reporting purposes:

UHC has received a determination letter from the Internal Revenue Service dated October 23, 1984 stating that it is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**  
December 31, 2003 and 2002

NOTE I - INCOME TAXES - Continued

UCC was a taxable, nonprofit organization.

HPW is a taxable organization.

The 2002 statement of financial condition does not reflect any net deferred income tax assets arising from UCC's net operating loss carryforwards because they have been fully reduced by a valuation allowance as follows as of December 31, 2002:

Deferred income tax assets (see note A7)	\$ 15,350,000
Less valuation allowance	<u>(15,350,000)</u>
	<u>\$ -</u>

NOTE J - CORPORATE REORGANIZATION AND DISSOLUTION OF UNIVERSITY  
COMMUNITY CLINICS, INC.

In conjunction with the dissolution of UCC on July 1, 2003, all of the assets and liabilities of UCC were assigned to and assumed by UHC, HPW and UWMF.

UCC assigned 100% of its common stock of HPW to UHC. All other assets of UCC were assigned to UWMF.

UWMF assumed substantially all of the liabilities, except for the long-term debt due to BC/BS and a loan to HPW, which were assumed by HPW and UHC, respectively.

The assets assigned to and the liabilities assumed by UHC and HPW are as follows:

Investment in HPW	\$ 801,195
Long-term debt	(3,000,000)
Note payable	<u>(713,897)</u>
	<u>\$ (2,912,702)</u>

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**  
December 31, 2003 and 2002

**NOTE J - CORPORATE REORGANIZATION AND DISSOLUTION OF UNIVERSITY  
COMMUNITY CLINICS, INC. - Continued**

The assets assigned to and the liabilities assumed by UWMF are as follows:

Cash	\$ 375,690
Accounts receivable	1,522,086
Prepaid expenses	28,236
Property and equipment	466,484
Accounts payable	(169,286)
Accrued liabilities	<u>(395,393)</u>
	<u>\$ 1,827,817</u>

**NOTE K - SUBSEQUENT EVENT**

UHC entered into various membership interest purchase agreements and membership interest assignments as of April 13, 2004 and April 30, 2004, respectively, for membership interests in Community Health Systems, LLC. The total purchase price for these additional membership interests totaled \$2,951,000.

**SUPPLEMENTARY INFORMATION**

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS  
ON SUPPLEMENTARY INFORMATION**

Board of Directors  
University Health Care, Inc. and Subsidiary

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole of University Health Care, Inc. and Subsidiary as of and for the years ended December 31, 2003 and 2002, which are presented in the preceding section of this report. The supplementary information presented hereinafter is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and activities of the individual companies and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

*Ernst Thornton LLP*

Madison, Wisconsin  
March 5, 2004

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARY**  
**CONSOLIDATING STATEMENT OF FINANCIAL POSITION**  
December 31, 2003

ASSETS	University Community Clinics, Inc.	Health Professionals of Wisconsin, Inc.	University Health Care, Inc.	Eliminations	Consolidated total
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	\$ -	\$ 200,814	\$ 852,664	\$ -	\$ 1,053,478
Accounts receivable	-	15,573	103,471	-	119,044
Risk pool reimbursement receivable	-	-	3,345,093	-	3,345,093
Prepaid expenses	-	7,535	14,103	-	21,638
Advances to UHC	-	695,340	-	(695,340)	-
<b>Total current assets</b>	-	919,262	4,315,331	(695,340)	4,539,253
<b>INVESTMENTS IN AFFILIATES</b>	-	-	434,632	-	434,632
<b>PROPERTY AND EQUIPMENT - AT COST</b>					
Buildings and improvements	-	3,750,671	-	-	3,750,671
Leasehold improvements	-	-	20,224	-	20,224
Furniture and equipment	-	69,632	389,166	-	458,798
	-	3,820,303	409,390	-	4,229,693
Less accumulated depreciation and amortization	-	1,097,903	278,883	-	1,376,786
	-	2,722,400	130,507	-	2,852,907
Land	-	926,643	-	-	926,643
	-	3,649,043	130,507	-	3,779,550
<b>INVESTMENT IN HPW</b>	-	-	785,958	(785,958)	-
<b>Total assets</b>	<b>\$ -</b>	<b>\$ 4,568,305</b>	<b>\$ 5,666,428</b>	<b>\$ (1,481,298)</b>	<b>\$ 8,753,435</b>

LIABILITIES AND NET ASSETS	University Community Clinics, Inc.	Health Professionals of Wisconsin, Inc.	University Health Care, Inc.	Eliminations	Consolidated total
<b>CURRENT LIABILITIES</b>					
Current maturities of long-term debt	\$ -	\$ 143,548	\$ -	\$ -	\$ 143,548
Trade accounts payable	-	48,490	503,845	-	552,335
Risk pool payable	-	-	3,345,093	-	3,345,093
Accrued liabilities					
Vacation and sick pay	-	-	14,085	-	14,085
Other	-	19,667	-	-	19,667
	-	19,667	14,085	-	33,752
Advances from HPW	-	-	695,340	(695,340)	-
 Total current liabilities	 -	 211,705	 4,558,363	 (695,340)	 4,074,728
 LONG-TERM DEBT, less current maturities	 -	 5,070,642	 -	 -	 5,070,642
 COMMITMENTS AND CONTINGENCIES	 -	 -	 -	 -	 -
 MINORITY INTEREST IN SUBSIDIARY	 -	 1,500,000	 -	 -	 1,500,000
 COMMON STOCK	 -	 669,715	 -	 (669,715)	 -
 UNRESTRICTED NET ASSETS (DEFICIT)	 -	 (2,883,757)	 1,108,065	 (116,243)	 (1,891,935)
 Total liabilities and net assets	 \$ -	 \$ 4,568,305	 \$ 5,666,428	 \$ (1,481,298)	 \$ 8,753,435

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARY**  
**CONSOLIDATING STATEMENT OF FINANCIAL POSITION**  
December 31, 2002

ASSETS	University Community Clinics, Inc.	Health Professionals of Wisconsin, Inc.	Eliminations	Consolidated total
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ 607,040	\$ 113,855	\$ -	\$ 720,895
Accounts receivable				
Trade, less allowance for doubtful accounts of \$1,827,000	1,715,758	-	-	1,715,758
Other	26,724	19,630	-	46,354
	<u>1,742,482</u>	<u>19,630</u>	<u>-</u>	<u>1,762,112</u>
Risk pool reimbursement receivable	-	-	-	-
Prepaid expenses	162,734	7,046	-	169,780
Advances to UHC	4,876	-	-	4,876
Advances to UCC	-	728,868	(728,868)	-
	<u>2,517,132</u>	<u>869,399</u>	<u>(728,868)</u>	<u>2,657,663</u>
Total current assets				
	-	-	-	-
<b>INVESTMENTS IN AFFILIATES</b>				
	-	-	-	-
<b>PROPERTY AND EQUIPMENT - AT COST</b>				
Buildings and improvements	-	3,750,671	-	3,750,671
Leasehold improvements	85,503	-	-	85,503
Furniture and equipment	726,138	69,632	-	795,770
Medical equipment	346,598	-	-	346,598
	<u>1,158,239</u>	<u>3,820,303</u>	<u>-</u>	<u>4,978,542</u>
Less accumulated depreciation and amortization	821,381	963,489	-	1,784,870
	<u>336,858</u>	<u>2,856,814</u>	<u>-</u>	<u>3,193,672</u>
Land	-	926,643	-	926,643
	<u>336,858</u>	<u>3,783,457</u>	<u>-</u>	<u>4,120,315</u>
<b>OTHER ASSETS</b>				
Other long-term receivables	27,168	-	-	27,168
Investment in HPW	773,603	-	(773,603)	-
	<u>800,771</u>	<u>-</u>	<u>(773,603)</u>	<u>27,168</u>
Total assets	<u>\$ 3,654,761</u>	<u>\$ 4,652,856</u>	<u>\$ (1,502,471)</u>	<u>\$ 6,805,146</u>

University Health Care, Inc.	Eliminations	Consolidated total
\$ 852,313	\$ -	\$ 1,573,208
-	-	1,715,758
93,052	-	139,406
93,052	-	1,855,164
2,465,622	-	2,465,622
31,298	-	201,078
-	(4,876)	-
-	-	-
3,442,285	(4,876)	6,095,072
231,006	-	231,006
-	-	3,750,671
20,224	-	105,727
831,030	-	1,626,800
-	-	346,598
851,254	-	5,829,796
681,611	-	2,466,481
169,643	-	3,363,315
-	-	926,643
169,643	-	4,289,958
-	-	27,168
-	-	-
-	-	27,168
<u>\$ 3,842,934</u>	<u>\$ (4,876)</u>	<u>\$ 10,643,204</u>

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARY**  
**CONSOLIDATING STATEMENT OF FINANCIAL POSITION - CONTINUED**  
December 31, 2002

LIABILITIES AND NET ASSETS	University Community Clinics, Inc.	Health Professionals of Wisconsin, Inc.-	Eliminations	Consolidated total
<b>CURRENT LIABILITIES</b>				
Current maturities of				
long-term debt	\$ -	\$ 1,641,928	\$ -	\$ 1,641,928
Trade accounts payable	550,486	35,422	-	585,908
Risk pool payable	-	-	-	-
Accrued liabilities				
Salaries, wages and				
payroll withholdings	355,357	-	-	355,357
Vacation and sick pay	107,612	-	-	107,612
Pension plans	620,910	-	-	620,910
Other	23,750	-	-	23,750
	<u>1,107,629</u>	-	-	<u>1,107,629</u>
Advances from UCC	-	-	-	-
Advances from HPW	728,868	-	(728,868)	-
Total current liabilities	2,386,983	1,677,350	(728,868)	3,335,465
LONG-TERM DEBT,				
less current maturities	3,000,000	701,903	-	3,701,903
COMMITMENTS AND				
CONTINGENCIES	-	-	-	-
MINORITY INTEREST				
IN SUBSIDIARY	-	1,500,000	-	1,500,000
COMMON STOCK	-	669,715	(669,715)	-
UNRESTRICTED NET ASSETS				
(DEFICIT)	(1,732,222)	103,888	(103,888)	(1,732,222)
Total liabilities and net assets	<u>\$ 3,654,761</u>	<u>\$ 4,652,856</u>	<u>\$ (1,502,471)</u>	<u>\$ 6,805,146</u>

University Health Care, Inc.	Eliminations	Consolidated total
\$ 11,877	\$ -	\$ 1,653,805
235,705	-	821,613
2,465,622	-	2,465,622
39,632	-	394,989
18,002	-	125,614
77,662	-	698,572
-	-	23,750
135,296	-	1,242,925
4,876	(4,876)	-
-	-	-
2,853,376	(4,876)	6,183,965
-	-	3,701,903
-	-	-
-	-	1,500,000
-	-	-
989,558	-	(742,664)
<u>\$ 3,842,934</u>	<u>\$ (4,876)</u>	<u>\$ 10,643,204</u>

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARY**  
**CONSOLIDATING STATEMENT OF ACTIVITIES**  
Year ended December 31, 2003

	University Community Clinics, Inc.	Health Professionals of Wisconsin, Inc. January 1, 2003 through June 30, 2003	Eliminations	Consolidated total
Operating revenues and other support				
Capitation fees	\$ 664,591	\$ -	\$ -	\$ 664,591
Net patient service revenue	4,632,069	-	-	4,632,069
Program and other support				
University of Wisconsin Hospital and Clinics Authority	-	-	-	-
University of Wisconsin Medical Foundation	-	-	-	-
University of Wisconsin Medical Foundation - Ophthalmology	-	-	-	-
	-	-	-	-
Total operating revenues and other support	5,296,660	-	-	5,296,660
Operating expenses				
Capitation costs	-	-	-	-
Staff salaries and wages	1,381,901	-	-	1,381,901
Staff benefits	466,597	-	-	466,597
Physician and mid-level compensation and benefits	2,672,090	-	-	2,672,090
Malpractice insurance	293,217	-	-	293,217
Purchased services and office expenses	1,059,441	28,762	(24,931)	1,063,272
Building rent and utilities	612,171	98,983	(36,269)	674,885
Medical and ancillary supplies	573,980	-	-	573,980
Advertising and promotion	28,535	-	-	28,535
Equipment expense	105,713	6,624	-	112,337
Total operating expenses	7,193,645	134,369	(61,200)	7,266,814
Decrease in unrestricted net assets from operations	\$ (1,896,985)	\$ (134,369)	\$ 61,200	\$ (1,970,154)

University Health Care, Inc.	Health Professionals of Wisconsin, Inc. July 1, 2003 through December 31, 2003	Eliminations	Consolidated total	Eliminations	Consolidated total
\$ 99,850,634	\$ -	\$ -	\$ 99,850,634	\$ (700,320)	\$ 99,814,905
-	-	-	-	-	4,632,069
3,047,303	-	-	3,047,303	-	3,047,303
1,526,802	-	-	1,526,802	-	1,526,802
58,632	-	-	58,632	-	58,632
4,632,737	-	-	4,632,737	-	4,632,737
104,483,371	-	-	104,483,371	(700,320)	109,079,711
104,221,991	-	-	104,221,991	(700,320)	103,521,671
1,093,099	-	-	1,093,099	-	2,475,000
337,181	-	-	337,181	-	803,778
-	-	-	-	-	2,672,090
-	-	-	-	-	293,217
479,397	29,317	(24,932)	483,782	-	1,547,054
211,635	99,041	-	310,676	-	985,561
-	-	-	-	-	573,980
114,106	-	-	114,106	-	142,641
90,579	6,624	-	97,203	-	209,540
106,547,988	134,982	(24,932)	106,658,038	(700,320)	113,224,532
\$ (2,064,617)	\$ (134,982)	\$ 24,932	\$ (2,174,667)	\$ -	\$ (4,144,821)

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARY**  
**CONSOLIDATING STATEMENT OF ACTIVITIES - CONTINUED**  
Year ended December 31, 2003

	University Community Clinics, Inc.	Health Professionals of Wisconsin, Inc. January 1, 2003 through June 30, 2003	Eliminations	Consolidated total
Other income (expense)				
Risk pool reimbursement	\$ -	\$ -	\$ -	\$ -
Investment income (loss)				
Interest and dividends	2,998	9,961	(9,961)	2,998
CHS, LLC	-	-	-	-
HPW	27,592	-	(27,592)	-
	<u>30,590</u>	<u>9,961</u>	<u>(37,553)</u>	<u>2,998</u>
Interest expense	(74,065)	(89,236)	9,961	(153,340)
Loss on transfer of assets to University of Wisconsin Medical Foundation	(1,827,817)	-	-	(1,827,817)
Loss on sale of property and equipment	(7,258)	-	-	(7,258)
Miscellaneous income	71,376	241,236	(61,200)	251,412
	<u>(1,807,174)</u>	<u>161,961</u>	<u>(88,792)</u>	<u>(1,734,005)</u>
Total other income (expense)				
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	(3,704,159)	27,592	(27,592)	(3,704,159)
Transfer of operating funds from UHC to UCC through June 30, 2003	2,523,679	-	-	2,523,679
Reorganization transfers				
Note payable from UCC to UHC	713,897	-	-	713,897
Long-term debt from UCC to HPW	3,000,000	(3,000,000)	-	-
Ownership of HPW from UCC to UHC	(801,195)	-	-	(801,195)
Unrestricted net assets (deficit) at January 1, 2003	<u>(1,732,222)</u>	<u>103,888</u>	<u>(103,888)</u>	<u>(1,732,222)</u>
Unrestricted net assets (deficit) at December 31, 2003	<u>\$ -</u>	<u>\$ (2,868,520)</u>	<u>\$ (131,480)</u>	<u>\$ (3,000,000)</u>

University Health Care, Inc.	Health Professionals of Wisconsin, Inc. July 1, 2003 through December 31, 2003	Eliminations	Consolidated total	Eliminations	Consolidated total
\$ 4,371,376	\$ -	\$ -	\$ 4,371,376	\$ -	\$ 4,371,376
10,001	9,870	(9,870)	10,001	-	12,999
3,626	-	-	3,626	-	3,626
(15,237)	-	15,237	-	-	-
(1,610)	9,870	5,367	13,627	-	16,625
-	(136,837)	9,870	(126,967)	-	(280,307)
-	-	-	-	-	(1,827,817)
(6,925)	-	-	(6,925)	-	(14,183)
256,664	246,712	(24,932)	478,444	-	729,856
4,619,505	119,745	(9,695)	4,729,555	-	2,995,550
2,554,888	(15,237)	15,237	2,554,888	-	(1,149,271)
(2,523,679)	-	-	(2,523,679)	-	-
(713,897)	-	-	(713,897)	-	-
-	-	-	-	-	-
801,195	-	-	801,195	-	-
989,558	-	-	989,558	-	(742,664)
\$ 1,108,065	\$ (15,237)	\$ 15,237	\$ 1,108,065	\$ -	\$ (1,891,935)



Consolidated total	University Health Care, Inc.	Eliminations	Consolidated total
\$ 3,103,514	\$ 84,943,901	\$ (2,640,220)	\$ 85,407,195
8,625,128	-	-	8,625,128
-	3,351,336	-	3,351,336
-	1,679,281	-	1,679,281
-	53,221	-	53,221
-	5,083,838	-	5,083,838
11,728,642	90,027,739	(2,640,220)	99,116,161
-	88,329,993	(2,640,220)	85,689,773
3,573,604	1,210,671	-	4,784,275
906,250	276,455	-	1,182,705
5,626,968	-	-	5,626,968
135,134	-	-	135,134
1,155,260	584,909	-	1,740,169
968,969	234,922	-	1,203,891
1,756,393	-	-	1,756,393
78,133	64,143	-	142,276
327,027	115,752	-	442,779
28,483	-	-	28,483
14,556,221	90,816,845	(2,640,220)	102,732,846
(2,827,579)	(789,106)	-	(3,616,685)

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARY**  
**CONSOLIDATING STATEMENT OF ACTIVITIES - CONTINUED**  
Year ended December 31, 2002

	University Community Clinics, Inc.	Health Professionals of Wisconsin, Inc.	Eliminations
Other income (expense)			
Risk pool reimbursement	\$ -	\$ -	\$ -
Investment income (loss)			
Interest and dividends	6,093	28,977	(28,977)
CHS, LLC	-	-	-
Agnesian - UW Health Ventures, LLC	-	-	-
HPW	40,082	-	(40,082)
	46,175	28,977	(69,059)
Interest expense	(175,550)	(198,697)	28,977
Expenses of closed clinic facilities	(14,211)	-	-
Loss on sale of property and equipment	(21,482)	-	-
Miscellaneous income	86,069	399,641	(125,401)
	(78,999)	229,921	(165,483)
Total other income (expense)			
	(78,999)	229,921	(165,483)
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	(2,842,140)	40,082	(40,082)
Transfer of operating funds from UHC to UCC	2,524,716	-	-
Unrestricted net assets (deficit) at January 1, 2002	(1,414,798)	63,806	(63,806)
Unrestricted net assets (deficit) at December 31, 2002	\$ (1,732,222)	\$ 103,888	\$ (103,888)

Consolidated total	University Health Care, Inc.	Eliminations	Consolidated total
\$ -	\$ 3,386,091	\$ -	\$ 3,386,091
6,093	13,759	-	19,852
-	8,408	-	8,408
-	(487,241)	-	(487,241)
-	-	-	-
6,093	(465,074)	-	(458,981)
(345,270)	-	-	(345,270)
(14,211)	-	-	(14,211)
(21,482)	(562)	-	(22,044)
360,309	206,032	-	566,341
(14,561)	3,126,487	-	3,111,926
(2,842,140)	2,337,381	-	(504,759)
2,524,716	(2,524,716)	-	-
(1,414,798)	1,176,893	-	(237,905)
<u>\$ (1,732,222)</u>	<u>\$ 989,558</u>	<u>\$ -</u>	<u>\$ (742,664)</u>