

# West Allis Memorial Hospital, Inc.

Financial Statements as of and for the  
Years Ended December 31, 2013 and 2012,  
and Independent Auditors' Report

# WEST ALLIS MEMORIAL HOSPITAL, INC.

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Aurora Health Care, Inc.:

We have audited the accompanying financial statements of West Allis Memorial Hospital, Inc. (the Hospital), an affiliate of Aurora Health Care, Inc. (Aurora), which comprise the balance sheets as of December 31, 2013 and 2012, and the related statements of operations and changes in net assets, and of cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Hospital's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of West Allis Memorial Hospital, Inc. as of December 31, 2013 and 2012, and the results of its operations, changes in its net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Emphasis of Matter

As discussed in Note 1 to the financial statements, the financial statements present the financial position, results of operations, and cash flows of the Hospital and are not necessarily indicative of what the financial position, results of operations, and cash flows would have been if the Hospital had been operated as an unaffiliated corporation during the periods presented. Certain expenses represent allocations from Aurora. Our opinion is not modified with respect to this matter.

*Deloitte & Touche LLP*

May 7, 2014

# WEST ALLIS MEMORIAL HOSPITAL, INC.

## BALANCE SHEETS AS OF DECEMBER 31, 2013 AND 2012 (In thousands)

	2013	2012
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 77	\$ 84
Accounts receivable — net of allowance for doubtful accounts of \$17,430 and \$17,923, respectively	27,736	33,932
Investment in centralized cash management arrangement	307,288	256,463
Other receivables	808	628
Inventory	2,818	3,036
Prepays and other current assets	<u>429</u>	<u>589</u>
Total current assets	<u>339,156</u>	<u>294,732</u>
PROPERTY, PLANT, AND EQUIPMENT — Net	<u>90,813</u>	<u>92,692</u>
OTHER ASSETS:		
Investment in centralized cash management arrangement	97,502	85,725
Investments in unconsolidated entities	1,617	1,616
Other	<u>3,626</u>	<u>3,254</u>
Total other assets	<u>102,745</u>	<u>90,595</u>
<b>TOTAL</b>	<u>\$ 532,714</u>	<u>\$ 478,019</u>
<b>LIABILITIES AND NET ASSETS</b>		
CURRENT LIABILITIES:		
Current installments of long-term debt	\$ 525	\$ 1,029
Accounts payable	8,797	10,502
Accrued salaries and wages	8,377	7,832
Other accrued expenses	1,258	1,189
Estimated third-party payor settlements	<u>475</u>	<u>3,002</u>
Total current liabilities	19,432	23,554
LONG-TERM DEBT — Less current installments	24,905	25,432
OTHER LONG-TERM LIABILITIES	<u>2,271</u>	<u>1,907</u>
Total liabilities	<u>46,608</u>	<u>50,893</u>
NET ASSETS:		
Unrestricted	484,976	426,049
Temporarily restricted	<u>1,130</u>	<u>1,077</u>
Total net assets	<u>486,106</u>	<u>427,126</u>
<b>TOTAL</b>	<u>\$ 532,714</u>	<u>\$ 478,019</u>

See notes to financial statements.

# WEST ALLIS MEMORIAL HOSPITAL, INC.

## STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012 (In thousands)

	2013	2012
REVENUE:		
Patient service revenue (net of contractual allowances and discounts)	\$262,053	\$252,745
Less provision for bad debts	<u>16,140</u>	<u>16,216</u>
Net patient service revenue less provision for bad debts	245,913	236,529
Other revenue	<u>6,503</u>	<u>6,320</u>
Total revenue	<u>252,416</u>	<u>242,849</u>
EXPENSES:		
Salaries and wages	59,602	61,353
Fringe benefits	21,341	22,201
Professional fees	2,569	2,580
Supplies	31,567	32,223
Depreciation and amortization	10,506	9,344
Interest	1,591	1,615
Maintenance and service contracts	1,540	1,708
Building and equipment rental	1,147	1,893
Hospital tax assessment	8,945	9,392
Utilities	3,100	3,157
Purchased services	3,337	3,504
Management services	40,003	31,725
Other	<u>8,734</u>	<u>11,571</u>
Total expenses	<u>193,982</u>	<u>192,266</u>
OPERATING INCOME	58,434	50,583
NONOPERATING INCOME (LOSS) — Net	<u>2</u>	<u>(31)</u>
EXCESS OF REVENUE OVER EXPENSES	58,436	50,552
TRANSFERS FROM AFFILIATES — Net	489	169
OTHER	<u>2</u>	<u>26</u>
INCREASE IN UNRESTRICTED NET ASSETS	<u>58,927</u>	<u>50,747</u>
CHANGE IN BENEFICIAL INTEREST IN NET ASSETS OF FOUNDATION	53	92
OTHER	<u>-</u>	<u>(26)</u>
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	<u>53</u>	<u>66</u>
Total increase in net assets	58,980	50,813
NET ASSETS:		
Beginning of year	<u>427,126</u>	<u>376,313</u>
End of year	<u>\$486,106</u>	<u>\$427,126</u>

See notes to financial statements.

# WEST ALLIS MEMORIAL HOSPITAL, INC.

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012 (In thousands)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 58,980	\$ 50,813
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	10,506	9,344
Provision for bad debts	16,140	16,216
Change in beneficial interest in net assets of foundation	(53)	(92)
Increase in accounts receivable	(9,944)	(19,875)
(Decrease) increase in accounts payable and accrued expenses	(1,787)	4,336
Decrease in estimated third-party payor settlements	(2,527)	(933)
Other changes in assets and liabilities — net	242	689
Net cash provided by operating activities	<u>71,557</u>	<u>60,498</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(7,931)	(4,379)
Change in investments	-	4
Change in investment in centralized cash management arrangement	<u>(62,602)</u>	<u>(55,075)</u>
Net cash used in investing activities	<u>(70,533)</u>	<u>(59,450)</u>
CASH USED IN FINANCING ACTIVITIES — Repayment of long-term debt		
	<u>(1,031)</u>	<u>(1,071)</u>
NET DECREASE INCREASE IN CASH AND CASH EQUIVALENTS	(7)	(23)
CASH AND CASH EQUIVALENTS:		
Beginning of year	<u>84</u>	<u>107</u>
End of year	<u>\$ 77</u>	<u>\$ 84</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION — Cash paid for interest		
	<u>\$ 19</u>	<u>\$ 1,605</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH INFORMATION:		
Capital expenditures funded through accounts payable	<u>\$ 696</u>	<u>\$ 99</u>

See notes to financial statements.