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City of West Allis
Matter Summary

7525 W. Greenfield Ave.
West Allis, WI 53214

File Number	Title	Status
2003-0425	Report	In Committee

West Allis Memorial Hospital, Inc.'s financial statements for December 31, 2002 and 2001.

Introduced: 06/17/2003

Controlling Body: Administration & Finance Committee

COMMITTEE RECOMMENDATION POF

MOVER: Lajsic AYES 5 NOES 0

SECONDER: Reinke EXCUSED

COMMITTEE ACTION DATE 6-17-03

SIGNATURES OF COMMITTEE MEMBERS

Chair

Vice-Chair

COMMON COUNCIL ACTION place on file

FINAL ACTION DATE 6-17-03

MOVER:
Czaplewski

SECONDER:
Reinke

	AYE	NO
1. Barczak	✓	
2. Czaplewski	✓	
3. Kopplin	✓	
4. Lajsic	✓	
[redacted]		
6. Narlock	exc	
7. Reinke	✓	
8. Sengstock	✓	
9. Trudell	exc	
10. Vitale	exc	
Weigel		
TOTAL	7	—

WEST ALLIS MEMORIAL HOSPITAL, INC.

Financial Statements

December 31, 2002 and 2001

(With Independent Auditors' Report Thereon)

WEST ALLIS MEMORIAL HOSPITAL, INC.

Table of Contents

777 East Wisconsin Avenue
Milwaukee, WI 53202

Independent Auditors' Report

Board of Directors
West Allis Memorial Hospital, Inc.:

We have audited the accompanying balance sheets of West Allis Memorial Hospital, Inc. (the Hospital), as of December 31, 2002 and 2001, and the related statements of operations and 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 audits 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 the Hospital as of December 31, 2002 and 2001, and the results of its operations and changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

February 13, 2003

WEST ALLIS MEMORIAL HOSPITAL, INC.

Balance Sheets

December 31, 2002 and 2001

(In thousands)

Assets		2002	2001
Current assets:			
Cash and cash equivalents	$	237	4
Inventories and other current assets		847	808
Advances to and amounts due from affiliates		35,185	28,213
Total current assets		36,269	29,025
Assets whose use is limited		3,086	3,032
Advances to affiliate		4,016	14,654
Property, plant and equipment, net		134,296	123,272
Other assets, including interest in net assets of unconsolidated foundation		2,166	1,941
Total assets	$	179,833	171,924
Liabilities and Net Assets			
Current liabilities:			
Current installments of long-term debt	$	2,380	2,316
Accounts payable		4,936	10,234
Estimated third-party payor settlements		4,225	4,477
Accrued expenses		4,658	4,074
Total current liabilities		16,199	21,101
Long-term debt, less current installments		46,498	48,797
Total liabilities		62,697	69,898
Net assets:			
Unrestricted		116,717	101,801
Temporarily restricted		419	225
Total net assets		117,136	102,026
Total liabilities and unrestricted net assets	$	179,833	171,924

See accompanying notes to financial statements.

WEST ALLIS MEMORIAL HOSPITAL, INC.

Statements of Operations and Changes in Net Assets

Years ended December 31, 2002 and 2001

(In thousands)

		2002	2001
Net patient service revenue	$	144,785	117,497
Other revenue		5,631	5,542
Total revenues		150,416	123,039
Expenses:			
Salaries		42,441	36,188
Fringe benefits		10,176	8,285
Professional fees		2,769	644
Supplies		20,578	18,173
Depreciation		7,838	6,370
Interest		2,180	1,228
Provision for bad debts		4,374	3,542
Other		44,479	37,828
Total expenses		134,835	112,258
Operating income		15,581	10,781
Nonoperating loss, net		(64)	(24)
Revenues in excess of expenses	$	15,517	10,757

See accompanying notes to financial statements.

(Continued)

WEST ALLIS MEMORIAL HOSPITAL, INC.

Statements of Operations and Changes in Net Assets, Continued

Years ended December 31, 2002 and 2001

(In thousands)

		2002	2001
Unrestricted net assets:			
Revenues in excess of expenses	$	15,517	10,757
Net transfers of assets and liabilities to affiliates		(601)	(2)
Change in unrestricted net assets		14,916	10,755
Unrestricted net assets at beginning of year		101,801	91,046
Unrestricted net assets at end of year		116,717	101,801
Temporarily restricted net assets:			
Change in interest in unconsolidated foundation		194	73
Temporarily restricted net assets at beginning of year		225	152
Temporarily restricted net assets at end of year		419	225
Change in net assets		15,110	10,828
Net assets at beginning of year		102,026	91,198
Net assets at end of year	$	117,136	102,026

See accompanying notes to financial statements.

WEST ALLIS MEMORIAL HOSPITAL, INC.

Statements of Cash Flows

Years ended December 31, 2002 and 2001

(In thousands)

		2002	2001
Cash flows from operating activities:			
Change in net assets	$	15,110	10,828
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Interest income on advances to affiliates		(1,154)	(1,706)
Depreciation		7,838	6,370
Provision for bad debts		4,374	3,542
Net transfers of assets and liabilities to affiliates		601	2
Change in interest in unconsolidated foundation		(194)	(73)
(Increase) decrease in accounts receivable		(6,334)	2,349
(Decrease)/ increase in estimated third-party payor settlements		(252)	827
Other, net		(4,703)	4,635
Net cash provided by operating activities		15,286	26,774
Cash flows from investing activities:			
Capital expenditures		(18,862)	(39,410)
Increase in assets whose use is limited, net		(54)	(123)
Advances and transfers from (to) affiliates, net		6,179	(1,893)
Net cash used in investing activities		(12,737)	(41,426)
Cash flows from financing activities:			
Proceeds from long-term debt		—	17,397
Repayments of long-term debt		(2,316)	(2,753)
Net cash (used in) provided by financing activities		(2,316)	14,644
Net increase (decrease) in cash and cash equivalents		233	(8)
Cash and cash equivalents:			
Beginning of year		4	12
End of year	$	237	4

See accompanying notes to financial statements.

(1) Description of Organization and Summary of Significant Accounting Policies

West Allis Memorial Hospital, Inc. (the Hospital), is a nonstock, not-for-profit corporation and is an affiliate of Aurora Health Care, Inc. The Hospital operates an acute-care hospital with 204 available beds and serves primarily the greater Milwaukee area, providing inpatient, outpatient, and emergency care services.

Aurora Health Care, Inc. (Aurora) is a Wisconsin nonstock, not-for-profit corporation which operates to provide and deliver a variety of health care services and activities in Eastern Wisconsin and the surrounding areas, and to carry on such educational, philanthropic, and medical research activities as may be part of an integrated health care delivery system. The Aurora system comprises 11 acute-care hospital campuses with 1,902 available beds, one psychiatric hospital, a residential care retirement community, 123 townhouses for independent senior living, a network of 89 physician clinic facilities, home health services, 127 retail pharmacies, two skilled nursing facilities, and other health care entities. Aurora is the sole corporate member of the Hospital.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Except as otherwise disclosed, the carrying value of all financial instruments of the Hospital approximates their fair value.

Management and administrative expenses comprised 16.7% and 14.8% of total expenses during 2002 and 2001, respectively. The remaining expenses were primarily related to the provision of health care related services.

Significant accounting policies of the Hospital are as follows:

(a) Net Asset Accounting

Unrestricted net assets arise as a result of the operations of the Hospital. Restricted net assets, which consist of temporarily and permanently restricted amounts, are used to differentiate resources whose use is limited by donors or grantors. Temporarily restricted net assets are used to account for assets whose use has been limited by donors to later periods of time or to specific purposes. Permanently restricted net assets are used to account for the principal amount of gifts received with donor stipulations that the principal remain intact in perpetuity and that only the income from investment of the principal be expended.

At December 31, 2002, temporarily restricted net assets comprise assets held by an unconsolidated foundation for the benefit of the Hospital. The Hospital has no permanently restricted net assets.

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(b) *Revenues and Accounts Receivable*

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

A summary of the payment arrangements with major third-party payors follows:

- *Medicare* – Inpatient acute care, skilled nursing care, certain hospital outpatient services, and beginning January 1, 2002, inpatient rehabilitation services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. Certain inpatient nonacute services, defined capital costs, medical education costs, and certain drugs, biologicals, and outpatient services and devices related to Medicare beneficiaries are paid based on cost reimbursement methodologies. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.
- *Medicaid* – Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed primarily based upon prospectively determined rates. Medicaid payment methodologies and rates are subject to change based on the amount of funding available to the State of Wisconsin Medicaid Program.
- *Other third-party payors* – Services rendered to patients insured by other third-party payors are primarily reimbursed based on a discount from customary charges. Other payment arrangements include prospectively determined rates per discharge, reimbursed costs, per diems, and to a lesser extent, capitated payments.

In December 2000, the Hospital entered into an agreement to sell all of its receivables to Aurora, in connection with a system-wide, revolving period securitization transaction (note 8).

(c) *Charity Care*

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

(d) *Investments and Investment Income*

Investments in equity securities with readily determinable fair market values and all investments in debt securities are measured at fair market value in the balance sheets. Investment income or loss (including realized gains and losses, other than temporary declines in fair value, interest income, and dividends) is included in revenues in excess of expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from revenues in excess of expenses unless such investments are classified as trading securities. The Hospital considers all of its investments to be other than trading securities.

Investment income, including investment income on advances to affiliates (see note 8), is generally reported as other revenue. Investment income reported as other revenue totaled $1,231,000 and $1,867,000 in 2002 and 2001, respectively. Investment income on temporarily restricted net assets and permanently restricted net assets is recorded in the applicable category of restricted net assets, if such income is also donor restricted. Investment income comprises primarily interest income.

(e) ***Inventories***

Inventories of supplies are stated at the lower of cost (primarily first-in, first-out) or market.

(f) ***Property, Plant, and Equipment***

Property, plant, and equipment acquisitions are recorded at cost. Donated property, plant, and equipment is recorded at fair market value at date of donation, which then is treated as cost. The assets are depreciated on the straight-line method over their estimated useful lives. Plant and equipment subject to the lease agreement between the Hospital and the City of West Allis or capitalized under capital leases are amortized on the straight-line method over the shorter of the related lease term or the estimated useful life of the asset. Amortization of leased plant and equipment is included in the financial statements with depreciation expense.

The Hospital periodically assesses the recoverability of long-lived assets (including property, plant, and equipment, and intangibles) when indications of potential impairment exist, based on estimated undiscounted future cash flows. Management considers such factors as current results, trends, and future prospects, in addition to other economic factors, in determining the impairment of an asset.

(g) ***Capitalized Interest***

Interest expense incurred during the period of construction is capitalized as a component of the cost of the asset. In situations involving the acquisition of qualifying assets financed with the proceeds of tax-exempt borrowings that are externally restricted to finance the specified assets or to service the related debt, interest earned on the unexpended proceeds of such borrowings is offset against the capitalized interest cost. In such instances, interest cost, net of interest earned, is capitalized from the date of borrowing until the assets are ready for their intended use. In all other instances, the amount capitalized is determined by applying an interest rate to the average amount of accumulated expenditures for the assets during the period until the assets are ready for their intended use.

(h) ***Pension Plan***

The Hospital participates in the Aurora Health Care, Inc. Pension Plan (the Pension Plan). The Pension Plan is a noncontributory defined benefit pension plan which is sponsored and administered by Aurora. The Pension Plan covers substantially all employees of Aurora and its participating affiliates. Periodic pension expense and the related liability for the Pension Plan are reported in Aurora's financial statements. Pension expense reported by the Hospital represents a portion of the total periodic pension costs and is allocated to the Hospital based on guidelines established by the

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Plan Administrator. During 2002 and 2001, the Hospital's expense for the Pension Plan was $1,417,000 and $1,299,000, respectively.

(i) ***Incentive Savings Plan***

The Hospital participates in the Aurora Health Care, Inc. Incentive Savings Plan (the Savings Plan). The Savings Plan is a contributory defined contribution plan which is sponsored and administered by Aurora. The Savings Plan covers regular full or part-time employees of Aurora and its participating affiliates. Employee contributions of up to 4% of compensation are matched 50% by the Hospital. During 2002 and 2001, the Hospital's expense for the Savings Plan was $486,000 and $411,000, respectively.

(j) ***Deferred Financing Costs and Bond Discount***

Long-term debt discount and issuance costs are deferred and amortized over the term of the debt using various methods, which approximate the interest yield method.

(k) ***Cash and Cash Equivalents***

Cash and cash equivalents include highly liquid investments, if any, purchased with an original maturity of three months or less.

(l) ***Income Taxes***

The Hospital is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and has been recognized as tax exempt pursuant to Section 501(a) of the Code.

(m) ***New Accounting Guidance***

Effective January 1, 2002, the Hospital adopted Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* (SFAS No. 144). SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount exceeds the fair value of the asset. SFAS No. 144 requires companies to separately report discontinued operations and extends that reporting to a component of an entity that either has been disposed of (by sale, abandonment, or in a distribution to owners) or is classified as held-for-sale. Assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell. Adoption of this standard did not have a significant effect on the Hospital's financial position or results of operations.

In April 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 145, *Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections,* which amends existing guidance on reporting gains and losses on the extinguishment of debt to prohibit the classification of the gain or loss as extraordinary, as the use of such extinguishments have become part of the risk management strategy of many companies. It also amends existing guidance to require sale-leaseback accounting for certain lease modifications that have economic effects similar to sale-leaseback transactions. The adoption of this Statement did not have a material effect on the Hospital's financial statements.

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In June 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, which addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity*. The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The adoption of this Statement is not expected to have a material effect on the Hospital's financial statements.

(n) Reclassifications

Certain items in the 2001 financial statements have been reclassified to conform with classifications used in 2002.

(2) Assets Whose Use Is Limited

The following is a summary of assets whose use is limited or restricted at December 31, 2002 and 2001. Investments and assets whose use is limited or restricted are stated at fair market value.

		2002	2001
		(In thousands)	
Certificate of deposit	$	46	44
State of Wisconsin Investment Board - Local Government Investment Pool		3,040	2,988
Total assets whose use is limited	$	3,086	3,032

Included in assets whose use is limited are $3,040,000 and $2,988,000 of funds held by trustees under bond indentures and $46,000 and $44,000 of funds designated for continuing education for the board of directors. Investments in the pooled investment fund on deposit with the State of Wisconsin comprise primarily U. S. Government securities, certificates of deposit, and commercial paper.

Assets whose use is limited are classified in the balance sheet as current assets to the extent they are expected to be used to discharge current liabilities.

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(3) Property, Plant, and Equipment

A summary of the components of property, plant, and equipment at December 31, 2002 and 2001 follows:

		2002	2001
		(In thousands)	
Land and improvements	$	1,646	1,494
Buildings and fixed equipment		168,772	109,117
Movable equipment		40,632	34,053
Construction in progress		3,526	52,754
		214,576	197,418
Less accumulated depreciation		(80,280)	(74,146)
Property, plant, and equipment, net	$	134,296	123,272

Construction in progress at December 31, 2001 consisted principally of costs related to the construction of a new women's health pavilion and additional medical offices. The pavilion was opened in the second quarter of 2002. At December 31, 2002, construction in progress consisted of various improvement projects.

Capitalized interest expense totaled $487,000 and $1,059,000 in 2002 and 2001, respectively.

(4) Long-term Debt and Lease Commitments

Long-term debt at December 31, 2002 and 2001 is summarized as follows:

		2002	2001
		(In thousands)	
Wisconsin Health and Educational Facilities Authority bonds, net of unamortized discount	$	26,093	26,093
City general obligation bonds and promissory notes, net of unamortized discount (note 9(c))		22,785	24,989
Capital leases		—	31
		48,878	51,113
Less current installments		(2,380)	(2,316)
Long-term debt, less current installments	$	46,498	48,797

In 1999, Aurora issued $250,000,000 (par value) Series 1999 bonds through the Wisconsin Health and Educational Facilities Authority (WHEFA). All outstanding debt under Aurora's Master Trust Indenture is the general, unsecured, joint, and several obligation of the members of an Obligated Group comprising various affiliates of the Aurora system. The Hospital is not a member of the Obligated Group. However, it is the intent of Aurora and the Hospital that each system affiliate with allocated WHEFA debt will be responsible for its respective share of principal and interest as reflected in its financial statements.

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During 2001, Aurora transferred $17,397,000 of unexpended proceeds from the Series 1999 WHEFA bonds, together with the related debt, to the Hospital to finance various capital improvement projects.

WHEFA bonds consist of $20,874,000 of fixed rate bonds and $5,219,000 of variable rate demand bonds and are due annually in various amounts commencing in 2012 and extending through 2029. Interest rates on the fixed rate bonds range from 5.38% to 5.60%, and the effective interest rate on the variable rate demand bonds was 1.42% and 2.49% in 2002 and 2001. Certain fixed rate WHEFA bonds are collateralized by bond insurance. Other fixed rate WHEFA bonds are unsecured and rated annually by various nationally recognized securities rating agencies. The variable rate WHEFA bonds are collateralized by an irrevocable standby letter-of-credit issued by a commercial bank, which expires in June 2004. At December 31, 2002, no bonds have been called and no draws have been made under the letter-of-credit.

The City general obligation bonds and promissory notes represent obligations for which repayment has been assigned to the Hospital for the financing of Hospital facilities and equipment. The bonds and notes are due in varying installments through 2013. The unamortized discount at December 31, 2002 and 2001 was $130,000 and $151,000, respectively. Interest rates are fixed and ranged from 2.5% to 4.6% at December 31, 2002 (see note 9(c)).

Certain borrowing agreements require deposits to or the establishment and maintenance of sinking or other special funds under the control of trustees (see note 2). Additionally, certain borrowing agreements contain various covenants regarding maintenance of existence, creation of additional liens, and maintenance of certain financial ratios. To the extent such funds or covenants are required under current WHEFA borrowing agreements, these are being maintained and monitored by Aurora. To the extent such funds or covenants are required under current City borrowing agreements, they are being maintained and monitored by the Hospital.

Scheduled maturities on all long-term debt (excluding amortization of bond discounts of $130,000) at December 31, 2002 are as follows:

		Long-term debt (In thousands)
2003	$	2,380
2004		2,525
2005		2,620
2006		2,745
2007		2,050
Thereafter		36,688
	$	49,008

Total rent expense on operating leases for real property and equipment approximated $1,827,000 and $1,264,000 in 2002 and 2001, respectively.

The estimated fair market value of long-term debt, based on discounted cash flows at estimated current borrowing rates, approximated $48,824,000 and $49,741,000 at December 31, 2002 and 2001, respectively.

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Cash payments for interest, net of amounts capitalized (see note 4), totaled $2,150,000 and $1,216,000 in 2002 and 2001, respectively.

(5) Revenue

Revenue in excess of expenses for 2002 and 2001 includes certain amounts which relate to differences between original estimates and subsequent revisions of certain accruals (including final settlements with third-party payors). Adjustments for 2002 include a net increase in net patient service revenues of approximately $638,000 related to the final settlement of certain cost reports and revisions of various other years' third party payor settlement estimates and other accruals.

Adjustments for 2001 include a net reduction in net patient service revenues of approximately $1,652,000 related to the final settlement and reopening of certain cost reports and revisions of various other years' third party payor settlement estimates and other accruals.

(6) Charity 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. Charges relating to charity care provided were $3,016,000 and $2,136,000 in 2002 and 2001, respectively.

(7) Health and Dental Insurance

Substantially all of the Hospital's employees and their eligible dependents participate in a self-funded health and dental insurance plan sponsored and administered by Aurora. The Hospital's allocated costs under the plan, which totaled $3,314,000 and $2,842,000 in 2002 and 2001, respectively, are based upon actual claims paid, administration fees, and provisions for unpaid and unreported claims at year end. Such costs are included with fringe benefits in the accompanying financial statements.

(8) Advances to and Transactions with Affiliates

In December 2000, Aurora entered into a series of agreements under which it sold and will continue to sell certain eligible patient accounts receivable to a qualifying special purpose entity, in a revolving period securitization transaction expected to span a long-term period. In connection with this system-wide securitization, the Hospital became party to an arrangement whereby it sells, without recourse and on an ongoing basis, its net patient accounts receivable to Aurora. As consideration for such sales, the Hospital receives an intercompany credit equal to the aggregate net book value of the receivables sold, which totaled $15,723,000 and $13,764,000 at December 31, 2002 and 2001, respectively. The intercompany credit received as consideration for such sales is included in current advances to affiliate in the accompanying financial statements.

Aurora has a centralized cash depository and disbursement arrangement, as a means of improving investment returns and facilitating the settlement of intercompany balances. System foundation deposits are segregated to ensure that donor related funds are expended in accordance with donor restrictions. Transactions of system providers, including cash receipts, vendor and payroll payments, corporate service and operational support charges, and working capital advances are recorded to a concentration account held by Aurora. Aurora maintains sub-accounts representing each provider's net interest in such concentration account. Providers and other system affiliates which, on a net basis, have advanced funds to the system earn interest on such advances. Similarly, providers and other system affiliates which, on a net basis, have borrowed funds from the system incur interest expense on those borrowings. Interest rates credited or charged approximate those earned by Aurora on its centralized depository accounts. At December 31, 2002 and 2001, the Hospital's interest in Aurora's cash concentration accounts totaled $23,478,000 and $29,103,000, respectively, classified as advances to affiliates. Such interest is classified as current to the extent of the Hospital's pro-rata share of cash and cash equivalents and current investments held by Aurora at December 31, 2002 and 2001.

Interest credited to the Hospital on its interest in Aurora's cash concentration accounts totaled $1,154,000 in 2002 and $1,706,000 in 2001 and is included in other revenue.

Amounts advanced to Aurora have been primarily used to fund advances to or investments in operating members of the Aurora system. Management of Aurora asserts it has the ability and intent to repay these advances. Should some or all of these advances not be repaid by Aurora, the Hospital's net assets would be reduced and its debt to equity ratio would be increased. The fair value of the Hospital's advances to affiliates is estimated to approximate their carrying value and is based upon an interest rate approximating that of other types of unsecured short-term debt instruments of relatively similar risk.

Transactions with affiliates are recorded at amounts which approximate cost and are allocated based upon volume, usage and budgeted financial operations. Aurora provides certain administrative and support services to the Hospital. Additionally, the Hospital provides operational support to certain system clinics closely associated with the Hospital. Included in other expenses is $29,444,000 and $26,040,000 in 2002 and 2001, respectively, for such activities. At December 31, 2002 and 2001, the Hospital owed $351,000 and $554,000, respectively, to affiliated organizations for reimbursable expenditures incurred on behalf of the Hospital. Such amounts due to affiliates are included with accrued expenses in the accompanying financial statements.

The Hospital, along with certain other Aurora affiliates, participates in the Aurora Consolidated Laboratories Co-Tenancy (the Co-Tenancy). The primary purpose of the Co-Tenancy is to operate an integrated, full service diagnostic laboratory. Other expenses included $4,900,000 and $4,067,000 in 2002 and 2001, respectively, related to laboratory services provided by the Co-Tenancy to the Hospital.

Permanent transfers of assets and liabilities to and from affiliates for other than goods and services are reported as changes in unrestricted net assets, consistent with industry practice. In 2002, transfers of medical equipment amounting to $601,000 were made to affiliated organizations. In 2001, transfers to affiliated organizations were not significant.

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At December 31, 2002 and 2001, the Aurora Foundation, Inc. (the Foundation) holds unrestricted assets of $418,000 and $225,000, respectively, which are expected to be used for the benefit and support of the Hospital and its activities and are included in other assets in the accompanying balance sheets. Amounts received from the Foundation for educational and operating purposes were not significant in 2002 or 2001.

(9) Commitments and Contingencies

(a) Litigation

The Hospital is subject to various legal proceedings and claims which are incidental to its normal business activities. In the opinion of management of the Hospital, the amount of ultimate liability with respect to these actions will not materially affect the operations or net assets of the Hospital.

(b) Insurance Coverage

The Hospital is commercially insured for excess malpractice and general liability; workers' compensation; property, boiler, and machinery; directors and officers liability; and certain employee health insurance claims. There are no assurances that the Hospital will be able to renew existing policies or procure coverage on similar terms in the future as a result of current environmental factors affecting the industry.

(c) Lease Agreement

Under the terms of a noncancelable lease agreement between the Hospital and the City of West Allis (the City) for the right to operate the hospital, the City has title to all assets and any subsequent additions, with the exception of certain equipment used by the Hospital for laboratory services. The Hospital has exclusive right to the use of the assets and the obligation to maintain and replace them over the term of the lease agreement. The historical cost of the leased facilities is included with the Hospital's property, plant and equipment (see note 3) and the debt obligations on the leased facilities are included with the Hospital's long-term debt (see note 4). The lease agreement does not provide for lease payments; however, a determination is made annually as to the amount of Hospital funds which can, consistent with sound financial management, be turned over to the City. The Hospital paid $100,000 to the City in 2002 and 2001. The lease agreement expires in 2038.

(10) Malpractice Insurance

The Hospital has professional liability insurance with limits of $1,000,000 per claim and $3,000,000 in aggregate for claims incurred during a policy year, regardless of when the claim is reported ("occurrence" coverage). Losses in excess of these amounts are fully covered through the Hospital's mandatory participation in the Patients' Compensation Fund of the State of Wisconsin.