COUNTY OF MILWAUKEE
Inter-Office Communication

Date: November 22, 2011

To: Lee Holloway, Chairman, Milwaukee County Board of Supervisors

From: Scott B. Manske, Controller, Department of Administrative Services
Jerome J. Heer, Director of Audits

Subject: Froedtert Memorial Lutheran Hospital Lease Payment [File No. 94-801(a)(e)]

Background
On September 7, 1995, the County Board adopted a resolution [File No. 94-801(a)(e)] related to the sale and lease of John L. Doyne Hospital assets and land to Froedtert Memorial Lutheran Hospital (FMLH). The lease called for annual payments until 2016 based on "operating cash flow".

Analysis
The 2011 payment, received from FMLH, was $8,378,000. For 2011, budgeted revenues for this payment were $6,300,000. This is a positive budget variance of $2,078,000. We have reviewed the audited financial statements of FMLH as well as their auditor's report on the Schedule of Annual Land Lease Payment (Exhibit A). The $8,378,000 represents 5.25% of annual operating cash flow as calculated in accordance with the FMLH Lease Agreement. The major reasons for the increase in the 2011 lease payment were gains in both net patient service revenue and investments.

Payments for all years are as follows:

Year	Actual	Budgeted
2011	$8,378,000	$6,300,000
2010	6,125,756	3,900,000
2009	79,000	3,190,000
2008	7,922,721	2,919,000
2007	6,877,000	2,919,000
2006	2,919,000	3,796,000
2005	2,596,000	4,018,000
2004	4,018,000	3,434,000
2003	3,434,000	2,162,035
2002	2,696,000	1,355,000
2001	3,479,000	1,302,000
2000	1,302,000	2,030,850
1999	4,035,000	2,387,000
1998	3,107,000	2,421,000
1997	4,538,000	2,373,000
1996	2,035,000	1,953,000
1995*	4,100,000	4,100,000
Total	**$67,641,477**	**$50,559,855**

* Initial lump-sum payment.

Conclusion

The 2011 land lease payment from FMLH of $8,378,000 is calculated in a manner consistent with the financial model developed as part of the original transaction. The payment is above budget projections. It is important to note, however, that this payment does not necessarily indicate a similar payment level in future years.

Recommendation

This report is for information purposes.

Scott B. Manske
Controller

Jerome J. Heer
Director of Audits

SBM/JJH/cah

Attachment

cc: Chris Abele, Milwaukee County Executive
Supervisor Johnny Thomas, Chair, Committee on Finance and Audit
Patrick Farley, Director, Department of Administrative Services
Pamela Bryant, Fiscal & Budget Administrator, DAS
Jeffrey R. Van De Kreeke, Sr. Vice President, Finance & Chief Financial Officer, FMLH
Steve Cady, Fiscal & Budget Analyst, County Board Staff
Carol Mueller, Chief Committee Clerk, County Board Staff

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Independent Accountants' Report

The Board of Directors
Froedtert Memorial Lutheran Hospital, Inc.:

We have examined Froedtert Memorial Lutheran Hospital, Inc.'s (the Hospital) accompanying schedule of annual land lease payment (the Schedule) in accordance with section 4 of the amended and restated lease agreement dated December 21, 1995 between the Hospital and Milwaukee County as of June 30, 2011 and for the year then ended. Management is responsible for the Hospital's compliance with those calculations. Our responsibility is to express an opinion on the calculations based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included such procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination of the Hospital's compliance with the specified requirements of the computations contained in the accompanying Schedule.

In our opinion, the Schedule referred to above is presented, in all material respects, in conformity with Section 4 of the amended and restated lease agreement dated December 21, 1995 between Froedtert Memorial Lutheran Hospital, Inc. and Milwaukee County.

This report is intended solely for the information and use of the board of directors and management of the Hospital and Milwaukee County and should not be used by anyone other than these specified parties.

KPMG LLP

Milwaukee, Wisconsin
September 16, 2011

FROEDTERT MEMORIAL LUTHERAN HOSPITAL, INC.

Schedule of Annual Land Lease Payment[1]

Year ended June 30, 2011

(In thousands)

Revenues in excess of expenses	$	133,646
Land lease expenses included in operating expenses		8,607
Depreciation and amortization		31,312
Increase in current liabilities, except current installments of long-term debt and current liabilities related to annual land lease accrual		4,939
Increase in current assets except cash, short-term investments, and current assets whose use is limited		(18,907)
Repayments of principal on debt existing at December 31, 1995		(19)
Annual operating cash flows		159,578
		5.25%
Annual land lease payment	$	8,378

(1) All computations and amounts were determined pursuant to Section 4 of the amended and restated lease agreement dated December 21, 1995 between Froedtert Memorial Lutheran Hospital, Inc. and Milwaukee County.

See accompanying independent accountants' report.