

COUNTY OF MILWAUKEE
Inter-Office Communication

Date: July 11, 2003

To: Lee Holloway, Chairman, 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 resolution called for an annual report from the Department of Administration and the Department of Audit on the status of FMLH lease payments to the County compared to what was projected in the financial model prepared as part of the original transaction.

Analysis

The 2002 payment received from FMLH was \$2,696,000. For 2003, budgeted revenues for this payment were \$1,355,000 according to projections made before the closing of Doyne in 1995. This is a positive budget variance of \$1,341,000.

We have reviewed the audited financial statements of FMLH as well as the auditor's report on the Schedule of Annual Land Lease Payment (Exhibit A). Actual detailed calculations differ from specific elements of the projection. We have determined that these variance are reasonable. The primary reasons for the decrease in payment from last year are a decrease in current assets, an increase in current liabilities and a decrease in net revenues.

The \$2,696,000 represents 5.25% of annual operating cash flow as calculated in accordance with the FMLH Lease Agreement. This payment for 2002 paid in 2003 is the second payment at 5.25% of annual operating cash flow. Previous years were at 9% of annual cash flow. Payments for all years are as follows:

	<u>Actual</u>	<u>Projected (1995 estimate)</u>
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	<u>2,035,000</u>	<u>1,953,000</u>
Total	\$ 21,192,000	\$ 13,821,850

Conclusion

The 2002 land lease payment from FMLH of \$2,696,000 is calculated in a manner consistent with the financial model developed as part of the original transaction. The payment is well above 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. Further, we recommend that the report be received by the Committee on Finance and Audit and placed on file.

Scott B. Manske
Controller

Jerome J. Heer
Director of Audits

SBM/JJH

Attachment

cc: Scott Walker, Milwaukee County Executive
Supervisor Richard D. Nyklewicz, Jr., Chairman, Committee on Finance and Audit
Jim Villa, Chief of Staff, County Executive Office
Terry Kocourek, Fiscal and Budget Administrator, Department of Administrative Services
Rob Henken, County Board Director of Research
Lauri J. Henning, Chief Committee Clerk, County Board
Blaine J. O'Connell, Chief Financial Officer, FMLH



777 East Wisconsin Avenue
Milwaukee, WI 53202

Independent Auditors' Report

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

Ladies and Gentlemen:

We have audited the accompanying Schedule of Annual Land Lease Payment for the year ended December 31, 2002 (Schedule) of Froedtert Memorial Lutheran Hospital, Inc. (Hospital). This schedule is the responsibility of the Hospital's management. Our responsibility is to express an opinion on this Schedule based on our audit.

We conducted our audit 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 Schedule is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Schedule of Annual Land Lease Payment referred to above, presents fairly the calculations of the annual land lease payment in accordance with Section 4 of the Lease Agreement.

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 for any other purpose.

KPMG LLP

March 7, 2003



FROEDTERT MEMORIAL LUTHERAN HOSPITAL, INC.

Schedule of Annual Land Lease Payment (1)

Year ended December 31, 2002

(In thousands)

Revenues in excess of expenses	\$	29,135
Land lease expenses included in operating expenses		2,347
Depreciation and amortization		17,177
Decrease in current liabilities, except current installments of long-term debt and current liabilities related to annual land lease accrual		8,970
Decrease in current assets except cash, short-term investments and current assets whose use is limited		(4,334)
Repayments of principal on debt existing at December 31, 1995		<u>(1,949)</u>
Annual operating cash flow		<u>51,346</u>
	x	<u>5.25%</u>
Annual land lease payment	\$	<u><u>2,696</u></u>

Notes: (1) All computations and amounts were determined pursuant to Section 4 of the Lease Agreement with Milwaukee County dated December 12, 1995.

(1) Amounts except the land lease payment, land lease accrual and percentage were derived from the audited financial statements of the Hospital for the year ended December 31, 2002.

See accompanying independent auditors' report.