



**COMBINED FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT CERTIFIED
PUBLIC ACCOUNTANTS**

**UNIVERSITY HEALTH CARE, INC.
AND AFFILIATES**

December 31, 2000 and 1999

**REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**

Board of Directors
University Health Care, Inc. and Affiliates

We have audited the accompanying combined statements of financial position of University Health Care, Inc. and Affiliates as of December 31, 2000 and 1999, and the related combined 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 combined financial position of University Health Care, Inc. and Affiliates as of December 31, 2000 and 1999, and the combined results of their activities and their combined 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 27, 2001

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UNIVERSITY HEALTH CARE, INC. AND AFFILIATES
COMBINED STATEMENTS OF FINANCIAL POSITION
Year ended December 31,

ASSETS	2000	1999
CURRENT ASSETS		
Cash and cash equivalents	\$ 5,054,161	\$ 3,605,181
Accounts receivable		
Trade, less allowance for doubtful accounts of \$1,083,000 in 2000 and \$1,056,000 in 1999	1,201,561	1,236,212
Other	262,603	279,947
	1,464,164	1,516,159
Current portion of risk pool reimbursement receivable	7,703,392	6,833,261
Prepaid expenses	223,754	212,647
	14,445,471	12,167,248
INVESTMENTS IN AFFILIATES	446,327	487,964
PROPERTY AND EQUIPMENT - AT COST		
Buildings and improvements	3,580,839	3,401,548
Leasehold improvements	139,699	130,232
Furniture and equipment	1,934,928	1,797,152
Medical equipment	383,223	342,595
	6,038,689	5,671,527
Less accumulated depreciation and amortization	2,399,652	1,967,654
	3,639,037	3,703,873
Land	926,643	896,643
	4,565,680	4,600,516
OTHER ASSETS		
Risk pool reimbursement receivable, less current portion	1,628,000	2,960,000
Other long-term receivables	286,702	348,416
Investment in leased assets	376,275	677,295
Business interest costs, less accumulated amortization of \$54,385 in 2000 and \$45,711 in 1999	75,730	84,404
	2,366,707	4,070,115
Total assets	\$ 21,824,185	\$ 21,325,843

The accompanying notes are an integral part of these statements.

LIABILITIES AND DEFICIT IN NET ASSETS	2000	1999
CURRENT LIABILITIES		
Note payable	\$ -	\$ 100,000
Current maturities of long-term debt	1,251,125	1,823,732
Current portion of deferred revenue	40,833	66,609
Trade accounts payable	1,017,288	1,373,473
Risk pool payable	10,899,418	10,082,303
Accrued liabilities		
Salaries, wages and payroll withholdings	234,764	262,234
Vacation and sick pay	156,471	129,150
Pension plans	559,745	549,431
Other	73,277	41,250
	1,024,257	982,065
Total current liabilities	14,232,921	14,428,182
 OTHER LIABILITIES		
Long-term debt, less current maturities	6,375,292	7,237,030
Deferred revenue, less current portion	5,672	46,218
	6,380,964	7,283,248
 COMMITMENTS AND CONTINGENCIES	-	-
 MINORITY INTEREST IN SUBSIDIARY	1,500,000	1,500,000
 DEFICIT IN UNRESTRICTED NET ASSETS	(289,700)	(1,885,587)
Total liabilities and net assets	\$ 21,824,185	\$ 21,325,843

UNIVERSITY HEALTH CARE, INC. AND AFFILIATES
COMBINED STATEMENTS OF ACTIVITIES
Year ended December 31,

	2000	1999
Operating revenues and other support		
Capitation fees	\$ 70,129,804	\$ 110,403,549
Net patient service revenue	6,849,088	5,850,314
Program and other support		
University of Wisconsin Hospital and Clinics	4,200,569	4,263,024
University of Wisconsin Medical Foundation	1,958,846	2,025,724
University of Wisconsin Medical Foundation - Ophthalmology	50,003	47,919
	<u>6,209,418</u>	<u>6,336,667</u>
 Total operating revenues and other support	 83,188,310	 122,590,530
Operating expenses		
Capitation costs	68,236,674	114,010,405
Staff salaries and wages	4,050,685	4,198,722
Staff benefits	1,075,938	1,088,910
Physician and mid-level compensation and benefits	4,731,022	4,625,651
Malpractice insurance	147,731	220,438
Purchased services and office expenses	1,519,728	1,577,631
Building rent and utilities	1,183,273	1,214,774
Medical and ancillary supplies	1,242,267	1,001,590
Advertising and promotion	229,886	176,623
Equipment expense	463,361	540,291
Start-up expenses	9,851	19,384
Loss on asset impairment	51,084	-
	<u>82,941,500</u>	<u>128,674,419</u>
 Total operating expenses	 82,941,500	 128,674,419
 Increase (decrease) in unrestricted net assets from operations	 246,810	 (6,083,889)
Other income (expense)		
Risk pool reimbursement	1,062,557	6,421,813
Investment income (loss)		
Interest and dividends	308,443	309,831
Unity Joint Venture	669,666	(673,580)
CHS, LLC	(15,495)	(265,322)
Agnesian - UW Health Ventures, LLC	(276,142)	(523,609)
	<u>686,472</u>	<u>(1,152,680)</u>
Interest expense	(754,575)	(718,807)
Expenses of closed clinic facilities, including loss of \$330,371 on disposal of property and equipment in 1999	(250,071)	(744,879)
Loss on sale of property and equipment and other assets	-	(14,318)
Miscellaneous income	604,694	469,716
	<u>1,349,077</u>	<u>4,260,845</u>
 Total other income	 1,349,077	 4,260,845
 INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	 1,595,887	 (1,823,044)
 Deficit in unrestricted net assets at beginning of year	 (1,885,587)	 (62,543)
 Deficit in unrestricted net assets at end of year	 <u>\$ (289,700)</u>	 <u>\$ (1,885,587)</u>

The accompanying notes are an integral part of these statements.

UNIVERSITY HEALTH CARE, INC. AND AFFILIATES
COMBINED STATEMENTS OF CASH FLOWS
Year ended December 31,

	2000	1999
Cash flows from operating activities		
Increase (decrease) in unrestricted net assets for the year	\$ 1,595,887	\$ (1,823,044)
Adjustments to reconcile increase (decrease) in unrestricted net assets to net cash provided by operating activities		
Depreciation and amortization	440,671	508,402
Loss on impairment of assets	51,084	-
Share in net loss of CHS, LLC	15,495	265,322
Share in net loss of Agnesian - UW Health Ventures, LLC	276,142	523,609
Loss on sale of property and equipment and other assets	-	344,689
Changes in operating assets and liabilities:		
Accounts receivable	51,995	1,275,104
Risk pool reimbursement receivable	1,278,984	4,050,991
Prepaid expenses	(11,107)	(112,890)
Trade accounts payable	(356,185)	(341,059)
Risk pool payable	-	(199,235)
Accrued liabilities	42,192	(621,162)
Deferred revenue	(66,322)	(90,349)
	3,318,836	3,780,378
Net cash provided by operating activities		
Cash flows from investing activities		
Purchase of property and equipment	(448,245)	(100,387)
Proceeds from sale of property and equipment and other assets	-	59,679
Distributions from CHS, LLC	-	60,088
Investment in Agnesian - UW Health Ventures, LLC	(250,000)	(300,000)
Payments received on other long-term receivables	328,680	301,020
Decrease in other long-term receivables	34,054	4,662
	(335,511)	25,062
Net cash provided by (used in) investing activities		
Cash flows from financing activities		
Net decrease in note payable	(100,000)	(150,000)
Proceeds from debt financing	681,800	-
Payments of long-term debt	(2,116,145)	(334,910)
	(1,534,345)	(484,910)
Net cash used in financing activities		
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,448,980	3,320,530
Cash and cash equivalents at beginning of year	3,605,181	284,651
Cash and cash equivalents at end of year	\$ 5,054,161	\$ 3,605,181

UNIVERSITY HEALTH CARE, INC. AND AFFILIATES
COMBINED STATEMENTS OF CASH FLOWS - CONTINUED
Year ended December 31,

	<u>2000</u>	<u>1999</u>
Supplemental disclosure of cash flow information		
Interest paid	<u>\$ 899,313</u>	<u>\$ 718,489</u>

Supplemental schedule of noncash operating, investing and financing activities:

University Health Care, Inc. (UHC) recognized a risk pool payable of \$817,115 and \$5,947,172 in 2000 and 1999, respectively, and an offsetting risk pool reimbursement receivable from the University of Wisconsin Medical School and the University of Wisconsin Hospital and Clinics in connection with the loss incurred under the Unity/University Plus risk pool.

During 2000 and 1999, University Community Clinics, Inc. (UCC) increased other long-term receivables and decreased investment in leased assets by \$301,020.

During 1999, UCC acquired a vehicle under a capitalized lease obligation totaling \$21,000.

The accompanying notes are an integral part of these statements.

UNIVERSITY HEALTH CARE, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2000 and 1999

NOTE A - SUMMARY OF ACCOUNTING POLICIES

University Health Care, Inc. (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.

The bylaws of University Community Clinics, Inc. (UCC) designate UHC as the sole member of the corporation. UCC is a Wisconsin non-stock, not-for-profit, taxable corporation which develops, owns and operates 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.

UCC owns all of the common stock of Health Professionals of Wisconsin, Inc. (HPW) and has a controlling interest (90%) in HPW. 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.

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

1. Principles of Combination and Consolidation

The accounts of UCC have 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 is under common management. All significant intercompany balances and transactions have been eliminated.

2. Use of Estimates

In preparing combined 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.

UNIVERSITY HEALTH CARE, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
December 31, 2000 and 1999

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

3. Cash and Cash Equivalents

For purposes of the combined 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 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. 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

Improvements to leased property are amortized over the lesser of the life of the lease or life of the improvement.

Business interest costs are measured by the excess of the purchase price of physician practices over the tangible assets acquired and are being amortized on a straight-line basis over a 15-year period.

5. Recognition of Revenues and Other Support

Patient service revenue is recognized at the time services are rendered and is reported at the estimated net realizable amounts from patients, third-party payors 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 AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
December 31, 2000 and 1999

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

6. Capitation Fees and Costs

Capitation fees consist of amounts received from Unity Health Plans Insurance Corporation (Unity), Group Health Cooperative (GHC) and Touchpoint Health Plan, Inc. (Touchpoint) 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, GHC and Touchpoint 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 - RELATED PARTIES

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 a loss of \$15,495 and \$265,332 for the years ended December 31, 2000 and 1999, respectively.

UNIVERSITY HEALTH CARE, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
December 31, 2000 and 1999

NOTE B - RELATED PARTIES - Continued

Agnesian-UW Health Ventures, LLC is a joint venture owned by UHC and Agnesian Health Care, Inc. (AHC). The joint venture employs 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 has entered into an agreement with AHC to provide all necessary facilities, equipment and administrative services.

UHC's 50% ownership interest in Agnesian-UW Health Ventures, LLC is accounted for on the equity method. Under this method, UHC recognizes its proportional share of the net earnings or loss of the joint venture, and dividends received are treated as a reduction of the investment. UHC recognized a loss of \$276,142 and \$523,609 for the years ended December 31, 2000 and 1999, respectively.

UHC has entered into a managed care joint venture, Unity Joint Venture (Unity), with BC/BS, United Wisconsin Services, Inc. (UWSI) and CHS. Prior to January 1, 2000, 20% of the net profit or loss as defined in the joint venture agreement was allocated to UHC for services performed in connection with expansion of its regional provider network and royalty payment for the use of U-Care's name. Effective January 1, 2000, this agreement was amended and restated and no longer contains an overall profit sharing component.

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 payable to BC/BS. The risk pool payable represents net losses for 2000 and prior years resulting from UHC's contractual obligation to BC/BS. The risk sharing agreement was amended effective January 1, 2000 to eliminate UHC's risk on non-Dane County members and limit its risk for specific services for Dane County members.

The risk pool reimbursement receivable represents amounts due from UWHC and UWMF for their contractual obligation to UHC for their share of the Unity/University Plus risk fund net losses for 1996, 1998, 1999 and 2000 resulting from UHC's contractual obligation to BC/BS. The long-term portion is due upon the dissolution of Unity.

UNIVERSITY HEALTH CARE, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
December 31, 2000 and 1999

NOTE C - NOTE PAYABLE

Note payable at December 31, 1999 consisted of borrowings outstanding under a \$500,000 revolving loan agreement with M&I Bank of Southern Wisconsin. The note was paid in full during 2000 and the revolving loan agreement was not renewed.

NOTE D - LONG-TERM DEBT

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

	2000	1999
Notes payable to M&I Bank of Southern Wisconsin, interest ranging from 7.5% to 9%, collateralized by assets of HPW, due in monthly installments of \$25,880 including interest, due at various dates through December 2003	\$ 2,554,223	\$ 2,424,870
Note payable to BC/BS, interest payable annually at the prime rate (effective rate of 9.5% at December 31, 2000), collateralized by a general business security agreement, principal due upon dissolution of Unity Joint Venture	4,628,000	3,000,000
Notes payable to Ford Motor Credit Company, interest at 9.4%, collateralized by vehicles, monthly installments totaling \$1,792 including interest, due July 2003	48,920	-
Note payable to BC/BS, this balance was rolled into the above note payable to BC/BS during 2000	-	2,960,000
Capital lease obligations, at varying rates of imputed interest of 5.7% to 9.1%, collateralized by leased equipment, monthly installments from \$447 to \$23,609 including interest, due at various dates through June 2002	395,274	675,892
	7,626,417	9,060,762
Less current maturities	1,251,125	1,823,732
	\$ 6,375,292	\$ 7,237,030

At December 31, 2000 and 1999, the company was in compliance with or has obtained an appropriate waiver for any noncompliance with any loan covenants.

UNIVERSITY HEALTH CARE, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
December 31, 2000 and 1999

NOTE D - LONG-TERM DEBT - Continued

Future principal maturities of long-term debt as of December 31, 2000 are as follows:

Year ending December 31,	
2001	\$ 1,251,125
2002	159,719
2003	1,587,573
Upon dissolution of Unity Joint Venture	<u>4,628,000</u>
	<u>\$ 7,626,417</u>

NOTE E - LEASES

1. Capital Leases

UCC leases equipment under a noncancelable lease expiring March 2002 and has entered into a sublease with Freeport Regional Health Care Services, Inc. (Freeport) for this equipment. UCC has recorded this equipment as an investment in leased assets. The company also leases medical equipment and vehicles under noncancelable leases expiring at various times through June 2002.

The following is a schedule by years of future minimum lease payments together with the present value of the net minimum lease payments as of December 31, 2000:

Year ending December 31,	
2001	\$ 331,056
2002	<u>91,100</u>
Total minimum lease payments	422,156
Less amount representing interest	<u>26,882</u>
Present value of net minimum lease payments	<u>\$ 395,274</u>

The difference between the investment in leased assets and the related capital lease obligations under the lease expiring March 2002 approximates the amount of deferred revenue which is recognized over the term of the lease by the interest method.

UNIVERSITY HEALTH CARE, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
December 31, 2000 and 1999

NOTE E - LEASES - Continued

1. Capital Leases (continued)

Monthly sublease payments vary with an implicit interest rate of 10.06%. Total future minimum lease payments to be received from Freeport as of December 31, 2000 are as follows:

Year ending December 31,	
2001	\$ 426,445
2002	<u>150,510</u>
	<u>\$ 576,955</u>

2. Operating Leases

The company leases office space, equipment and facilities under noncancelable operating leases and subleased a portion of its Madison office space through May 1999. Total future minimum rental payments required under operating leases as of December 31, 2000 are as follows:

Year ending December 31,	
2001	\$ 757,000
2002	538,000
2003	336,000
2004	261,000
2005	<u>179,000</u>
	<u>\$ 2,071,000</u>

Net rent expense for the years ended December 31, 2000 and 1999 was \$1,072,220 and \$1,127,000, respectively.

NOTE F - COMMITMENTS

Letters of Credit

As required for the Wisconsin Unemployment Reserve Fund, UHC has available a letter of credit for \$30,929 at M & I Bank of Southern Wisconsin expiring on December 31, 2004.

UHC also has a letter of credit for \$12,184 at M&I Bank of Southern Wisconsin to secure one month's rent for office space. This letter of credit expires on May 10, 2001.

UNIVERSITY HEALTH CARE, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
December 31, 2000 and 1999

NOTE F - COMMITMENTS - Continued

Pension Plans

UHC and UCC maintain a money purchase pension plan covering substantially all employees. They contribute 5.7% of eligible employees' compensation plus 4.3% of the amount of each employee's compensation in excess of \$30,000 to the plan.

UHC maintains a 403(b) salary reduction plan for all of its eligible employees. The company makes a matching contribution for all eligible employees, which varies for each employee based upon employee compensation and level of salary reduction participation.

UCC maintains a 401(k) salary reduction plan, which is a contributory defined contribution retirement plan. Under the provisions of this plan, UCC makes a matching contribution equal to 50% of each participant's contribution with a maximum company contribution of 3% of each employee's compensation.

Pension expense under all plans was \$605,000 for 2000 and \$573,000 for 1999.

Contracts

UCC employs physicians and other individuals for their services. Certain contracts specify a minimum amount of annual compensation to be paid and provide for additional payments based on the provider's professional services, as defined in the contracts. Most of these contracts are automatically renewable for additional terms. Future minimum payments under these contracts as of December 31, 2000 are as follows:

Year ending December 31,	
2001	\$ 1,260,000
2002	587,000
2003	<u>92,000</u>
	<u>\$ 1,939,000</u>

UCC and HPW have entered into a revolving credit agreement with BC/BS in the amount of \$15,000,000. The purpose of this agreement is to provide support for the expansion and operation of the regional provider network. Any amounts outstanding are collateralized by the assets of UCC and a second mortgage on the land and buildings owned by HPW which will be subordinated to the M&I Bank of Southern Wisconsin notes presently outstanding on these properties. A note payable to BC/BS totaling \$4,628,000 and \$3,000,000 was outstanding as of December 31, 2000 and 1999, respectively.

UNIVERSITY HEALTH CARE, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
December 31, 2000 and 1999

NOTE G - CONTINGENCIES

The company is involved in several negotiations, many of which normally occur 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:

	<u>2000</u>	<u>1999</u>
Program services	\$ 69,654,805	\$ 115,267,076
Clinic operations	11,328,581	11,284,466
General and administrative	1,958,114	2,122,877
	<u>\$ 82,941,500</u>	<u>\$ 128,674,419</u>

NOTE I - INCOME TAXES

UHC 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.

UCC is a taxable, nonprofit organization.

HPW is a taxable organization.

UNIVERSITY HEALTH CARE, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
December 31, 2000 and 1999

NOTE I - INCOME TAXES - Continued

The statements of financial condition do not reflect any net deferred income tax assets because they have been fully reduced by a valuation allowance as follows as of December 31:

	2000	1999
Deferred income tax assets (See note A7)	\$ 13,340,000	\$ 12,400,000
Less valuation allowance	(13,340,000)	(12,400,000)
	\$ -	\$ -

The valuation allowance increased by \$940,000 and \$2,000,000 in 2000 and 1999, respectively.

Net operating loss carryforwards available to offset future taxable income expire as follows:

Date of expiration	Amount
2005	\$ 53,000
2006	642,000
2007	1,354,000
2008	1,857,000
2009	1,941,000
2010	2,113,000
2011	3,992,000
2012	6,682,000
2018	5,924,000
2019	4,741,000
2020	2,400,000
	\$ 31,699,000

NOTE J - ASSET IMPAIRMENT LOSS

During 2000, the company recognized a loss of \$51,084 related to the write-down of certain real estate to its fair market value. The real estate was sold in January 2001.

SUPPLEMENTARY INFORMATION

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

Board of Directors
University Health Care, Inc. and Affiliates

Our audits were conducted for the purpose of forming an opinion on the basic combined financial statements taken as a whole of University Health Care, Inc. and Affiliates as of and for the years ended December 31, 2000 and 1999, which are presented in the preceding section of this report. The supplementary information presented hereinafter is presented for purposes of additional analysis of the combined financial statements rather than to present the financial position and activities of the individual companies and is not a required part of the basic combined financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic combined financial statements taken as a whole.

Grant Thornton LLP

Madison, Wisconsin
March 27, 2001

UNIVERSITY HEALTH CARE, INC. AND AFFILIATES
COMBINING STATEMENT OF FINANCIAL POSITION
December 31, 2000

ASSETS	University Community Clinics, Inc.	Health Professionals of Wisconsin, Inc.
CURRENT ASSETS		
Cash and cash equivalents	\$ 528,609	\$ 86,736
Accounts receivable		
Trade, less allowance for doubtful accounts of \$1,083,000	1,201,561	-
Other	66,241	69,365
	1,267,802	69,365
Current portion of risk pool reimbursement receivable	-	-
Prepaid expenses	210,695	3,008
Advances to UHC	1,616,114	-
Advances to UCC	-	835,524
	3,623,220	994,633
Total current assets		
	3,623,220	994,633
INVESTMENTS IN AFFILIATES		
	-	-
PROPERTY AND EQUIPMENT - AT COST		
Buildings and improvements	-	3,580,839
Leasehold improvements	75,074	-
Furniture and equipment	1,117,135	69,632
Medical equipment	383,223	-
	1,575,432	3,650,471
Less accumulated depreciation and amortization	1,014,260	741,888
	561,172	2,908,583
Land	-	926,643
	561,172	3,835,226
OTHER ASSETS		
Risk pool reimbursement receivable, less current portion	-	-
Other long-term receivables	286,702	-
Investment in HPW	698,432	-
Investment in leased assets	376,275	-
Business interest costs, less accumulated amortization of \$54,385	75,730	-
	1,437,139	-
Total assets		
	\$ 5,621,531	\$ 4,829,859

Eliminations	Consolidated total	University Health Care, Inc.	Eliminations	Combined total
\$ -	\$ 615,345	\$ 4,438,816	\$ -	\$ 5,054,161
-	1,201,561	-	-	1,201,561
-	135,606	126,997	-	262,603
-	1,337,167	126,997	-	1,464,164
-	-	7,703,392	-	7,703,392
-	213,703	10,051	-	223,754
-	1,616,114	-	(1,616,114)	-
(835,524)	-	-	-	-
(835,524)	3,782,329	12,279,256	(1,616,114)	14,445,471
-	-	446,327	-	446,327
-	3,580,839	-	-	3,580,839
-	75,074	64,625	-	139,699
-	1,186,767	748,161	-	1,934,928
-	383,223	-	-	383,223
-	5,225,903	812,786	-	6,038,689
-	1,756,148	643,504	-	2,399,652
-	3,469,755	169,282	-	3,639,037
-	926,643	-	-	926,643
-	4,396,398	169,282	-	4,565,680
-	-	1,628,000	-	1,628,000
-	286,702	-	-	286,702
(698,432)	-	-	-	-
-	376,275	-	-	376,275
-	75,730	-	-	75,730
(698,432)	738,707	1,628,000	-	2,366,707
\$ (1,533,956)	\$ 8,917,434	\$ 14,522,865	\$ (1,616,114)	\$ 21,824,185

UNIVERSITY HEALTH CARE, INC. AND AFFILIATES
COMBINING STATEMENT OF FINANCIAL POSITION - CONTINUED
December 31, 2000

LIABILITIES AND NET ASSETS	University Community Clinics, Inc.	Health Professionals of Wisconsin, Inc.
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 305,420	\$ 928,055
Current portion of deferred revenue	38,833	-
Trade accounts payable	232,408	77,203
Risk pool payable	-	-
Accrued liabilities		
Salaries, wages and payroll withholdings	205,718	-
Vacation and sick pay	111,545	-
Pension plans	467,909	-
Other	73,277	-
	858,449	-
Advances from UCC	-	-
Advances from HPW	835,524	-
	2,270,634	1,005,258
OTHER LIABILITIES		
Long-term debt, less current maturities	4,717,853	1,626,169
Deferred revenue, less current portion	5,672	-
	4,723,525	1,626,169
COMMITMENTS AND CONTINGENCIES	-	-
MINORITY INTEREST IN SUBSIDIARY	-	1,500,000
COMMON STOCK	-	669,715
UNRESTRICTED NET ASSETS (DEFICIT)	(1,372,628)	28,717
Total liabilities and net assets	\$ 5,621,531	\$ 4,829,859

Eliminations	Consolidated total	University Health Care, Inc.	Eliminations	Combined total
\$ -	\$ 1,233,475	\$ 17,650	\$ -	\$ 1,251,125
-	38,833	2,000	-	40,833
-	309,611	707,677	-	1,017,288
-	-	10,899,418	-	10,899,418
-	205,718	29,046	-	234,764
-	111,545	44,926	-	156,471
-	467,909	91,836	-	559,745
-	73,277	-	-	73,277
-	858,449	165,808	-	1,024,257
-	-	1,616,114	(1,616,114)	-
(835,524)	-	-	-	-
(835,524)	2,440,368	13,408,667	(1,616,114)	14,232,921
-	6,344,022	31,270	-	6,375,292
-	5,672	-	-	5,672
-	6,349,694	31,270	-	6,380,964
-	-	-	-	-
-	1,500,000	-	-	1,500,000
(669,715)	-	-	-	-
(28,717)	(1,372,628)	1,082,928	-	(289,700)
<u>\$ (1,533,956)</u>	<u>\$ 8,917,434</u>	<u>\$ 14,522,865</u>	<u>\$ (1,616,114)</u>	<u>\$ 21,824,185</u>

UNIVERSITY HEALTH CARE, INC. AND AFFILIATES
COMBINING STATEMENT OF FINANCIAL POSITION
December 31, 1999

ASSETS	University Community Clinics, Inc.	Health Professionals of Wisconsin, Inc.
CURRENT ASSETS		
Cash and cash equivalents	\$ 104,180	\$ 12,468
Accounts receivable		
Trade, less allowance for doubtful accounts of \$1,056,000	1,236,212	-
Other	115,295	76,839
	<u>1,351,507</u>	<u>76,839</u>
Current portion of risk pool reimbursement receivable	-	-
Prepaid expenses	172,316	2,746
Advances to UCC	-	863,001
	<u>1,628,003</u>	<u>955,054</u>
INVESTMENTS IN AFFILIATES	-	-
PROPERTY AND EQUIPMENT - AT COST		
Buildings and improvements	-	3,401,548
Leasehold improvements	65,608	-
Furniture and equipment	1,063,137	69,632
Medical equipment	342,595	-
	<u>1,471,340</u>	<u>3,471,180</u>
Less accumulated depreciation and amortization	784,499	613,906
	<u>686,841</u>	<u>2,857,274</u>
Land	-	896,643
	<u>686,841</u>	<u>3,753,917</u>
OTHER ASSETS		
Risk pool reimbursement receivable, less current portion	-	-
Other long-term receivables	348,416	-
Investment in HPW	715,032	-
Investment in leased assets	677,295	-
Business interest costs, less accumulated amortization of \$45,711	84,404	-
	<u>1,825,147</u>	<u>-</u>
Total assets	<u>\$ 4,139,991</u>	<u>\$ 4,708,971</u>

Eliminations	Consolidated total	University Health Care, Inc.	Eliminations	Combined total
\$ -	\$ 116,648	\$ 3,488,533	\$ -	\$ 3,605,181
-	1,236,212	-	-	1,236,212
-	192,134	87,813	-	279,947
-	1,428,346	87,813	-	1,516,159
-	-	6,833,261	-	6,833,261
-	175,062	37,585	-	212,647
(863,001)	-	149,352	(149,352)	-
(863,001)	1,720,056	10,596,544	(149,352)	12,167,248
-	-	487,964	-	487,964
-	3,401,548	-	-	3,401,548
-	65,608	64,624	-	130,232
-	1,132,769	664,383	-	1,797,152
-	342,595	-	-	342,595
-	4,942,520	729,007	-	5,671,527
-	1,398,405	569,249	-	1,967,654
-	3,544,115	159,758	-	3,703,873
-	896,643	-	-	896,643
-	4,440,758	159,758	-	4,600,516
-	-	2,960,000	-	2,960,000
-	348,416	-	-	348,416
(715,032)	-	-	-	-
-	677,295	-	-	677,295
-	84,404	-	-	84,404
(715,032)	1,110,115	2,960,000	-	4,070,115
\$ (1,578,033)	\$ 7,270,929	\$ 14,204,266	\$ (149,352)	\$ 21,325,843

UNIVERSITY HEALTH CARE, INC. AND AFFILIATES
COMBINING STATEMENT OF FINANCIAL POSITION - CONTINUED
December 31, 1999

LIABILITIES AND NET ASSETS	University Community Clinics, Inc.	Health Professionals of Wisconsin, Inc.
CURRENT LIABILITIES		
Note payable	\$ 100,000	\$ -
Current maturities of long-term debt	280,618	1,543,114
Current portion of deferred revenue	62,223	-
Trade accounts payable	735,184	69,068
Risk pool payable	-	-
Accrued liabilities		
Salaries, wages and payroll withholdings	234,199	-
Vacation and sick pay	89,969	-
Pension plans	455,227	-
Other	41,250	-
	820,645	-
Advances from UHC	149,352	-
Advances from HPW	863,001	-
	3,011,023	1,612,182
OTHER LIABILITIES		
Long-term debt, less current maturities	3,395,273	881,757
Deferred revenue, less current portion	46,218	-
	3,441,491	881,757
COMMITMENTS AND CONTINGENCIES		
	-	-
MINORITY INTEREST IN SUBSIDIARY		
	-	1,500,000
COMMON STOCK		
	-	669,715
UNRESTRICTED NET ASSETS (DEFICIT)		
	(2,312,523)	45,317
Total liabilities and net assets	\$ 4,139,991	\$ 4,708,971

Eliminations	Consolidated total	University Health Care, Inc.	Eliminations	Combined total
\$ -	\$ 100,000	\$ -	\$ -	\$ 100,000
-	1,823,732	-	-	1,823,732
-	62,223	4,386	-	66,609
-	804,252	569,221	-	1,373,473
-	-	10,082,303	-	10,082,303
-	234,199	28,035	-	262,234
-	89,969	39,181	-	129,150
-	455,227	94,204	-	549,431
-	41,250	-	-	41,250
-	820,645	161,420	-	982,065
-	149,352	-	(149,352)	-
(863,001)	-	-	-	-
(863,001)	3,760,204	10,817,330	(149,352)	14,428,182
-	4,277,030	2,960,000	-	7,237,030
-	46,218	-	-	46,218
-	4,323,248	2,960,000	-	7,283,248
-	-	-	-	-
-	1,500,000	-	-	1,500,000
(669,715)	-	-	-	-
(45,317)	(2,312,523)	426,936	-	(1,885,587)
\$ (1,578,033)	\$ 7,270,929	\$ 14,204,266	\$ (149,352)	\$ 21,325,843

UNIVERSITY HEALTH CARE, INC. AND AFFILIATES
COMBINING STATEMENT OF ACTIVITIES
Year ended December 31, 2000

	University Community Clinics, Inc.	Health Professionals of Wisconsin, Inc.
Operating revenues and other support		
Capitation fees	\$ 2,955,687	\$ -
Net patient service revenue	6,849,088	-
Program and other support		
University of Wisconsin Hospital and Clinics	-	-
University of Wisconsin Medical Foundation	-	-
University of Wisconsin Medical Foundation - Ophthalmology	-	-
	<hr/>	<hr/>
	-	-
Total operating revenues and other support	9,804,775	-
Operating expenses		
Capitation costs	-	-
Staff salaries and wages	2,957,208	-
Staff benefits	782,851	-
Physician and mid-level compensation and benefits	4,731,022	-
Malpractice insurance	147,731	-
Purchased services and office expenses	985,620	49,551
Building rent and utilities	912,140	122,288
Medical and ancillary supplies	1,242,267	-
Advertising and promotion	118,245	-
Equipment expense	360,044	13,249
Start-up expenses	9,851	-
Loss on asset impairment	-	51,084
	<hr/>	<hr/>
Total operating expenses	12,246,979	236,172
Increase (decrease) in unrestricted net assets from operations	(2,442,204)	(236,172)
Other income (expense)		
Risk pool reimbursement	-	-
Investment income (loss)		
Interest and dividends	29,660	37,732
Unity Joint Venture	334,833	-
CHS, LLC	-	-
Agnesian - UW Health Ventures, LLC	-	-
HPW	(16,600)	-
	<hr/>	<hr/>
	347,893	37,732
Interest expense	(371,589)	(193,362)
Expenses of closed clinic facilities	(250,071)	-
Miscellaneous income	146,113	375,202
	<hr/>	<hr/>
Total other income (expense)	(127,654)	219,572
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	(2,569,858)	(16,600)
Transfer from UHC to UCC	3,509,753	-
Unrestricted net assets (deficit) at January 1, 2000	(2,312,523)	45,317
Unrestricted net assets (deficit) at December 31, 2000	<u>\$ (1,372,628)</u>	<u>\$ 28,717</u>

Eliminations	Consolidated total	University Health Care, Inc.	Eliminations	Combined total
\$ -	\$ 2,955,687	\$ 69,317,677	\$ (2,143,560)	\$ 70,129,804
-	6,849,088	-	-	6,849,088
-	-	4,200,569	-	4,200,569
-	-	1,958,846	-	1,958,846
-	-	50,003	-	50,003
-	-	6,209,418	-	6,209,418
-	9,804,775	75,527,095	(2,143,560)	83,188,310
-	-	70,380,234	(2,143,560)	68,236,674
-	2,957,208	1,093,477	-	4,050,685
-	782,851	293,087	-	1,075,938
-	4,731,022	-	-	4,731,022
-	147,731	-	-	147,731
(40,000)	995,171	524,557	-	1,519,728
(78,120)	956,308	226,965	-	1,183,273
-	1,242,267	-	-	1,242,267
-	118,245	111,641	-	229,886
-	373,293	90,068	-	463,361
-	9,851	-	-	9,851
-	51,084	-	-	51,084
(118,120)	12,365,031	72,720,029	(2,143,560)	82,941,500
118,120	(2,560,256)	2,807,066	-	246,810
-	-	1,062,557	-	1,062,557
(37,732)	29,660	278,783	-	308,443
-	334,833	334,833	-	669,666
-	-	(15,495)	-	(15,495)
-	-	(276,142)	-	(276,142)
16,600	-	-	-	-
(21,132)	364,493	321,979	-	686,472
37,732	(527,219)	(227,356)	-	(754,575)
-	(250,071)	-	-	(250,071)
(118,120)	403,195	201,499	-	604,694
(101,520)	(9,602)	1,358,679	-	1,349,077
16,600	(2,569,858)	4,165,745	-	1,595,887
-	3,509,753	(3,509,753)	-	-
(45,317)	(2,312,523)	426,936	-	(1,885,587)
\$ (28,717)	\$ (1,372,628)	\$ 1,082,928	\$ -	\$ (289,700)

UNIVERSITY HEALTH CARE, INC. AND AFFILIATES
COMBINING STATEMENT OF ACTIVITIES
Year ended December 31, 1999

	University Community Clinics, Inc.	Health Professionals of Wisconsin, Inc.
Operating revenues and other support		
Capitation fees	\$ 2,814,957	\$ -
Net patient service revenue	5,850,314	-
Program and other support		
University of Wisconsin Hospital and Clinics	-	-
University of Wisconsin Medical Foundation	-	-
University of Wisconsin Medical Foundation - Ophthalmology	-	-
	-	-
Total operating revenues and other support	8,665,271	-
Operating expenses		
Capitation costs	-	-
Staff salaries and wages	3,072,148	-
Staff benefits	796,181	-
Physician and mid-level compensation and benefits	4,625,651	-
Malpractice insurance	220,438	-
Purchased services and office expenses	1,118,096	49,645
Building rent and utilities	994,280	128,273
Medical and ancillary supplies	1,001,590	-
Advertising and promotion	106,699	-
Equipment expense	404,467	7,269
Start-up expenses	19,384	-
	12,358,934	185,187
Total operating expenses	12,358,934	185,187
Decrease in unrestricted net assets from operations	(3,693,663)	(185,187)
Other income (expense)		
Risk pool reimbursement	-	-
Investment income (loss)		
Interest and dividends	20,777	42,284
Unity Joint Venture	(336,790)	-
CHS, LLC	-	-
Agnesian - UW Health Ventures, LLC	-	-
HPW	24,539	-
	(291,474)	42,284
Interest expense	(375,854)	(186,166)
Expenses of closed clinic facilities	(744,879)	-
Loss on sale of property and equipment and other assets	(12,044)	(2,274)
Miscellaneous income	215,368	355,882
	(1,208,883)	209,726
Total other income (expense)	(1,208,883)	209,726
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	(4,902,546)	24,539
Transfer from UHC to UCC	4,451,447	-
Unrestricted net assets (deficit) at January 1, 1999	(1,861,424)	20,778
Unrestricted net assets (deficit) at December 31, 1999	\$ (2,312,523)	\$ 45,317

Eliminations	Consolidated total	University Health Care, Inc.	Eliminations	Combined total
\$ -	\$ 2,814,957	\$ 109,967,363	\$ (2,378,771)	\$ 110,403,549
-	5,850,314	-	-	5,850,314
-	-	4,263,024	-	4,263,024
-	-	2,025,724	-	2,025,724
-	-	47,919	-	47,919
-	-	6,336,667	-	6,336,667
-	8,665,271	116,304,030	(2,378,771)	122,590,530
-	-	116,389,176	(2,378,771)	114,010,405
-	3,072,148	1,126,574	-	4,198,722
-	796,181	292,729	-	1,088,910
-	4,625,651	-	-	4,625,651
-	220,438	-	-	220,438
(40,000)	1,127,741	449,890	-	1,577,631
(161,788)	960,765	254,009	-	1,214,774
-	1,001,590	-	-	1,001,590
-	106,699	69,924	-	176,623
-	411,736	128,555	-	540,291
-	19,384	-	-	19,384
(201,788)	12,342,333	118,710,857	(2,378,771)	128,674,419
201,788	(3,677,062)	(2,406,827)	-	(6,083,889)
-	-	6,421,813	-	6,421,813
(42,284)	20,777	289,054	-	309,831
-	(336,790)	(336,790)	-	(673,580)
-	-	(265,322)	-	(265,322)
-	-	(523,609)	-	(523,609)
(24,539)	-	-	-	-
(66,823)	(316,013)	(836,667)	-	(1,152,680)
42,284	(519,736)	(199,071)	-	(718,807)
-	(744,879)	-	-	(744,879)
-	(14,318)	-	-	(14,318)
(201,788)	369,462	100,254	-	469,716
(226,327)	(1,225,484)	5,486,329	-	4,260,845
(24,539)	(4,902,546)	3,079,502	-	(1,823,044)
-	4,451,447	(4,451,447)	-	-
(20,778)	(1,861,424)	1,798,881	-	(62,543)
\$ (45,317)	\$ (2,312,523)	\$ 426,936	\$ -	\$ (1,885,587)