

Children's Hospital

Notes to Financial Statements (continued)

I. Accounting Policies (continued)

Receivables

The notes receivable represents a bequest granted to the Hospital. The receivable was collected in full by the Hospital in 1993.

Property, Plant and Equipment

The Hospital records all property, plant and equipment acquisitions at cost, except for assets donated to the Hospital. Donated assets are recorded at the fair market value at the date of donation.

The Hospital provides for depreciation of its plant and equipment using the straight-line method in amounts sufficient to amortize the cost of its assets over their estimated useful lives.

Self-Insured Medical Insurance

The Hospital accrues medical claims expense based upon actual employee claims reported combined with an estimate of claims incurred but not reported based upon past experience. Claims expense is reduced by amounts recoverable through stop loss insurance purchased by the Hospital.

II. Fair Values of Financial Instruments

The following methods and assumptions were used by the Hospital in estimating its fair value disclosures for financial instruments:

Cash, cash equivalents and long-term debt: The historical cost for cash, cash equivalents and long-term debt approximates its fair value.

Short-term investments and assets whose fair value is limited: The fair (or market) values for money market accounts and marketable debt and equity securities are based on quoted market prices.

Children's Hospital

Patient Service Charges—Inpatient and Outpatient

| | Year ended December 31, 1995 | | |
|---|------------------------------|-----------------|------------------|
| | Inpatient | Outpatient | Total |
| | (In Thousands) | | |
| Daily patient services: | | | |
| Acute-care units | \$ 9,148 | \$ — | \$ 9,148 |
| Rehabilitation unit | 1,536 | — | 1,536 |
| Special-care units | 7,729 | — | 7,729 |
| | <u>18,187</u> | <u>—</u> | <u>18,187</u> |
| Auxiliary service revenue: | | | |
| Anesthesiology | 1,150 | 876 | 2,026 |
| Blood bank | 1,465 | 697 | 2,162 |
| Cardiology | 1,126 | 1,264 | 2,390 |
| Critical services | 4,445 | 620 | 5,065 |
| Clinic | 1,846 | 1,890 | 3,736 |
| Kidney transplant | 537 | 3,444 | 3,971 |
| Infectious disease | 79 | — | 79 |
| Laboratory | 9,608 | 4,547 | 14,155 |
| Muscle and recreational therapy | 264 | 2 | 266 |
| Nutrition support | 448 | 32 | 480 |
| Occupational therapy | 253 | 438 | 731 |
| Operating and recovery room | 4,785 | 2,972 | 7,757 |
| Other diagnostic service | 68 | 139 | 207 |
| Pharmacy | 11,189 | 1,981 | 13,190 |
| Physical therapy | 346 | 376 | 722 |
| Psychology | 231 | 175 | 406 |
| Radiology | 1,453 | 4,273 | 5,726 |
| Respiratory therapy | 12,691 | 924 | 13,615 |
| Speech and hearing therapy | 855 | 463 | 618 |
| WACP case management | — | 624 | 624 |
| | <u>58,419</u> | <u>24,768</u> | <u>83,179</u> |
| | <u>\$77,608</u> | <u>\$24,768</u> | <u>\$102,366</u> |
| Medical and HCP contractual allowances | | | (10,999) |
| Changes in prior year estimated medical allowances | | | — |
| Charity care | | | (1,068) |
| Other allowances | | | (4,321) |
| Net patient service revenue | | | <u>\$ 86,017</u> |

**Report of Independent Auditors
on Other Financial Information**

The Board of Trustees
Children's Hospital

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The following other financial information, as listed on the contents page, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Ernst & Young LLP

January 31, 1996

Children's Hospital

Notes to Financial Statements (continued)

10. Change in Method of Accounting for Investments (continued)

In addition, the accounting change increased net income for the year ended December 31, 1983 by \$28,603,000 and decreased net income for the year ended December 31, 1984 by \$10,005,000.

11. Functional Expenses

The Hospital provided inpatient and outpatient health care services to patients in the Child South region. Expenses related to providing these services were as follows:

| | |
|---------------------------|-------------------|
| Health care services | \$ 89,170 |
| Administrative and fiscal | <u>15,800</u> |
| | <u>\$ 104,970</u> |

Children's Hospital

Notes to Financial Statements (continued)

8. Community Benefits (continued)

In excess of government payments for services provided to Medicaid beneficiaries which approximated \$36,859,000 and \$3,778,000 for the years ended December 31, 1995 and 1994, respectively.

In addition, the Hospital sponsors or participates in numerous activities to benefit the community. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable. The Hospital also supports the advancement of medical knowledge through research and emphasizes the importance of teaching students and health professionals through its cooperative graduate medical education program.

9. Assets Held in Trust

The Hospital has been named the income beneficiary of a separate trust. Because the assets of the trust are not controlled by the Hospital, they are not included in the Hospital's financial statements. The assets had a market value of approximately \$3,081,000 as December 31, 1995. Distributions of income are made at the discretion of the trustee. In 1995 and 1994, the Hospital recorded contributions income of approximately \$38,000 and \$103,000, respectively, received from the trust.

10. Change in Method of Accounting for Investments

The Hospital has elected to adopt early the provisions of Statement of Financial Accounting Standards No. 134, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Accordingly, the Hospital records all investments held as of December 31, 1995 at their fair value, whereas in prior years investments were recorded at lower of cost or market for marketable equity securities and at cost for marketable debt securities. The financial statements for the previous years have been restated to apply the new method retroactively. The following reflects the impact of adopting the statement on the Hospital's net assets (previously reported as fund balance):

| | Year ended December 31 | |
|--|------------------------|-----------|
| | 1995 | 1994 |
| Net assets, beginning of year, as previously reported | \$508,896 | \$273,661 |
| Adjustment for the cumulative effect on prior years of applying retroactively the new method of accounting for investments | (2,948) | 1,567 |
| Balance at beginning of year, as adjusted | \$505,948 | \$275,228 |

Children's Hospital

Notes to Financial Statements (continued)

6. Retirement Plan

The Hospital sponsors a defined contribution savings plan which covers substantially all employees who meet age and length of service requirements. The plan allows for participating employees to make contributions ranging from 1% to 7% of their before tax annual compensation and provides for retirement and death benefits. The Hospital contributes 5% of the participant's annual compensation. In addition, the Hospital makes matching contributions equal to 50% of the participating employee's annual contributions. The Hospital elected to contribute an additional 5% during 1993 and 1994 of the participant's annual compensation to the plan. A participating employee becomes 100% vested in the Hospital's contributions after five full years of continuous service. Contributions by the Hospital to this plan during the years ended December 31, 1993 and 1994 were approximately \$2,995,000 and \$2,884,000, respectively.

7. Malpractice Insurance

The Hospital is insured for malpractice claims on a claims-made basis up to \$100,000 by an insurance carrier. For malpractice claims in excess of \$100,000, the Hospital participates in the State of Louisiana Patients' Compensation Fund. As a participant, the Hospital receives malpractice coverage on a claims-made basis for claims up to \$200,000, the maximum statutory exposure which currently exists under Louisiana law, plus interest and future medical costs.

The Hospital has purchased additional coverage on a claims-made basis up to \$10,000,000 from an insurance carrier. Hospital management believes all asserted claims are covered and will be settled within the limits of the Hospital's coverage. Hospital management intends to renew its existing malpractice insurance policies upon expiration and has no reason to believe that it will not be able to do so. No accrual has been made for possible losses attributable to incidents that may have occurred but that have not been identified under the Hospital's incident reporting system because the amount is not reasonably estimable.

8. Community Benefits

The Hospital provides health care services to patients who are uninsured or economically disadvantaged and medically underserved. These benefits include free care provided without charge or at amounts less than established rates to patients who meet certain criteria under the Hospital's free care policy. Free care provided by the Hospital, at established charges, was approximately \$1,668,000 and \$2,056,000 for the years ended December 31, 1993 and 1994, respectively. Benefits to the largest also include charges

Children's Hospital

Notes to Financial Statements (continued)

3. Medical Program Reimbursement (continued)

The medical cost report settlements for the years 1992 through 1994 have not been audited by the medical fiscal intermediary. Management regularly evaluates the adequacy of the recorded settlements and does not anticipate significant adverse adjustments to the 1992 through 1994 recorded settlements. Any changes in the estimated settlements are reported as adjustments to net patient service revenues in the year the final settlements are determined.

Due to federal regulations which place limits on the amount of disproportionate share payments to qualifying hospitals and the State of Louisiana's budgetary constraints, the State reduced the allocation of disproportionate share payments to the Hospital in 1995 and it is expected that disproportionate share payments will be further reduced or eliminated in 1996.

4. Construction in Progress

In January 1995, the Hospital's board of trustees revised the master facility plan to expand and continue the renovations of the existing Hospital facility. The current plan is expected to be completed over the next three years at an estimated additional cost of \$38 million.

5. Long-Term Debt

The Hospital's long-term debt balance as of December 31, 1995 consisted of a mortgage note, which represents the balance of a previous note to an insurance company, assigned to the Louisiana Public Facilities Authority (the Authority) in connection with insurance by the Authority in 1979 of tax-exempt special obligation bonds on behalf of the Hospital. The note, which matures in May 1999, bears interest at 6.25%. The note is guaranteed by the Department of Health and Human Services, which also subsidizes 9% of the stated insurer costs. The Hospital is obligated under the loan agreement to make all payments of principal and interest on these bonds. The note is collateralized by a first mortgage on substantially all land, buildings, and equipment and by an assignment of all accounts receivable and gross receipts of the Hospital. As of December 31, 1995, the required principal payments on long-term debt for the remaining four years were \$329,000 in 1996, \$320,000 in 1997, \$312,000 in 1998, and \$158,000 in 1999.

Children's Hospital

Notes to Financial Statements (continued)

3. Medical Program Reimbursement

The Hospital participates in the Medicaid program as a provider of medical services to program beneficiaries. During the years ended December 31, 1995 and 1994, approximately 58% of the Hospital's gross patient service charges were derived from program beneficiaries. Effective July 1, 1994, inpatient services rendered to Medicaid patients are paid based on a prospective per diem system. Inpatient services rendered prior to this date and all outpatient services rendered to Medicaid patients are reimbursed under a cost reimbursement methodology subject to certain limitations. The Hospital was reimbursed at a tentative rate for services rendered prior to July 1, 1994 with final settlement determined after submission of annual cost reports by the Hospital and audit thereof performed by the Medicaid fiscal intermediary.

Since July 1, 1988, the Hospital has qualified as a disproportionate share provider in accordance with the State of Louisiana's Medicaid regulations, and as such is entitled to additional payments. The Medicaid disproportionate share regulations are established by the Louisiana Department of Health and Hospitals (DHHS) and are subject to review and approval by the Health Care Financing Administration (HCFA). The Hospital has included the following amounts for Medicaid disproportionate share revenue in net patient service revenue for the years ended December 31, 1995 and 1994:

| | 1995 | 1994 |
|-----------------------------------|----------------|----------|
| | (\$ Thousands) | |
| Current year reimbursement | \$ 5,581 | \$19,717 |
| Revision to prior years' estimate | | - 29,272 |
| | \$ 5,581 | \$49,089 |

Due to the completion of the 1988 through 1993 cost report audits, final approval by HCFA of the formula used to calculate disproportionate share revenue, and additional information becoming available regarding the methodology to be used to determine certain Medicaid costs, the Hospital revised prior year estimated settlements and increased net patient service revenue by \$30,695,000 in 1994. Of the \$30,695,000 change, \$24,372,000 related to increases in disproportionate share revenue for the periods 1988 through 1993.

Children's Hospital

Notes to Financial Statements (continued)

3. Fair Values of Financial Instruments (continued)

The cost and fair values of investments at December 31, 1995 and 1994 were as follows:

| | 1995 | | 1994 | |
|--|-------------------|-------------------|-------------------|-------------------|
| | Cost | Fair Value | Cost | Fair Value |
| | (In Thousands) | | | |
| Short-term investments: | | | | |
| U. S. Government securities | \$ 38,480 | \$ 39,798 | \$ 13,687 | \$ 13,593 |
| Total short-term investments | 38,480 | 39,798 | 13,687 | 13,593 |
| Investments whose use is limited or restricted: | | | | |
| Money market accounts | 6,164 | 6,164 | 7,993 | 7,993 |
| U. S. Government securities | 131,270 | 136,877 | 190,538 | 144,942 |
| Corporate bonds | 42,528 | 45,664 | 22,728 | 21,184 |
| Marketable equity securities | 88,888 | 995,627 | 67,595 | 72,008 |
| Municipal bonds | 489 | 689 | 1,910 | 1,701 |
| Options purchased | 7 | 39 | 183 | 110 |
| Options sold | - | - | (1,095) | (344) |
| Total investments whose use is limited or restricted | 269,146 | 291,861 | 390,642 | 347,798 |
| | <u>\$ 307,626</u> | <u>\$ 331,659</u> | <u>\$ 524,329</u> | <u>\$ 561,391</u> |

For the marketable equity securities held at December 31, 1995, gross unrealized gains were \$21,421,000 and gross unrealized losses were \$1,351,000.

Investment income (loss) was comprised of the following:

| | December 31 | |
|-------------------------------|------------------|-------------------|
| | 1995 | 1994 |
| | (In Thousands) | |
| Dividends and interest income | \$ 14,807 | \$ 13,283 |
| Net gains and losses: | | |
| Realized gains and losses | 11,799 | (7,731) |
| Unrealized gains and losses | 28,895 | (10,035) |
| | <u>40,791</u> | <u>(17,766)</u> |
| Total | <u>\$ 55,599</u> | <u>\$ (4,483)</u> |

Children's Hospital

Notes to Financial Statements (continued)

I. Accounting Policies (continued)

Contributions and Pledges

The Hospital adopted the provisions of Statement of Financial Accounting Standards No. 116, *Accounting for Contributions Received and Contributions Made*. The adoption of the Standards had an immaterial effect on the Hospital's 1995 and 1994 financial statements.

Contributions and pledges are accounted for in accordance with the restrictions of the respective donors as follows:

- Unrestricted contributions and pledges are recorded as revenue. Investment income subsequently derived from such gifts is recorded as revenue.
- Donor-restricted contributions and pledges are segregated in accordance with purposes designated as follows:

Permanently restricted contributions and pledges — are additions to the permanently restricted net assets and represent funds contributed to the Hospital which may be used only to generate investment income. The principal (corpus) must remain inviolate and cannot be distributed. The income earned on the principal is included in investment income on the statements of income.

Temporarily restricted contributions and pledges — are additions to the temporarily restricted net assets and include resources restricted by donors for a restricted purpose such as capital additions and/or operating purposes. When the restricted purpose is satisfied, the related funds are recorded as unrestricted revenue on the statements of income.

Investment income derived from donor-restricted funds may be either restricted or unrestricted by the respective donor. The income, if restricted, is used for the restricted purpose.

Inventories

Inventories, included in prepaid and other assets on the balance sheet, are valued at the lower invoice price which approximates the lower of cost (first-in, first-out method) or market.

Children's Hospital

Notes to Financial Statements

December 31, 1995

I. Accounting Policies

Organization

Children's Hospital (the Hospital) is a 177-bed medical center which serves the entire Gulf South region, caring for infants, children and adolescents from birth to 21 years old. The Hospital provides inpatient services in all pediatric, medical and surgical subspecialties with a staff of more than 370 physicians. Outpatient services are provided in over 30 subspecialties.

In addition, Children's Hospital provides a large array of community education programs, wellness programs, research activities and special programs for the handicapped and medically underserved.

Children's Hospital is organized as a not-for-profit Louisiana corporation on a nonprofit basis and is exempt from income taxes under Internal Revenue Code Section 501(c)(3) as an organization described in Internal Revenue Code Section 501(c)(3). All corporate powers are vested in the board of trustees.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results inevitably will differ from these estimates and such differences may be material to the financial statements.

Basis of Presentation

The Hospital adopted the provisions of Statement of Financial Accounting Standards No. 117, *Financial Statements of Not-for-Profit Organizations*. This statement establishes broad standards for general-purpose external financial statements of not-for-profit organizations. The 1994 financial statements have been prepared in the format consistent with the presentation of the 1995 financial statements. The adoption of the Statement had an immaterial effect on the Hospital's 1995 and 1994 financial position and net income.

Certain amounts on the 1994 financial statements have been reclassified to conform to the presentation of the 1995 financial statements.

5843

RECEIVED
LEGISLATIVE AUDITOR
JAN 25 AM 9:03

OFFICIAL
FILE COPY

DO NOT SEND OUT

Please remove
copies from this
copy and PLACE
into in file

**Financial Statements and
Other Financial Information**

Children's Hospital

*For the period December 31, 1965 and 1966
with Report of Independent Auditors*

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the auditor, or reviewer, entity and other appropriate public officials. This report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date JAN 08 1967

Children's Hospital

Notes to Financial Statements (continued)

2. Fair Values of Financial Instruments (continued)

The Hospital purchases or sells interest rate options to enhance the overall return on its investment portfolio. Interest rate options grant the purchaser, for a premium payment, the right to either purchase or sell to the writer a specified financial instrument under agreed terms. The premium compensates the seller for bearing the risk of unfavorable interest rate changes. The Hospital's options on Eurodollar futures, U. S. Treasury bond futures and U. S. Treasury notes settle in cash and generally expire within one year of inception.

Futures contracts are sold or purchased to provide incremental value and to hedge or reduce market price risks. Interest rate futures contracts are commitments to either purchase or sell designated financial instruments at a future date for a specified price and may either be settled in cash or through delivery. Futures contracts have little credit risk due to daily cash settlement of the net change in value of open contracts. Futures on U. S. Treasury notes, U. S. Treasury bonds and Eurodollar deposits are used due to their liquidity and credit risk advantages. Investments held by the Hospital in the amount of \$1,000,000 are pledged as collateral to secure the initial margin on futures contracts purchased.

With respect to the derivative instruments held as December 31, 1995, the Hospital's exposure to credit-related losses in the event of nonperformance by counterparties is minimized because investment managers for the Hospital deal almost exclusively in exchange-traded futures and options. These securities are extremely liquid, subject to rigorous exchange and government regulation, involve no counterparty risk, have no hidden embedded risks and have daily available public prices.

All derivative instruments are subject to market risk which is the risk that future changes in market conditions may make an instrument less valuable or more onerous. Exposure to market risk is managed in accordance with risk limits set by the finance committee of the board of trustees, and by monitoring performance by investment managers in accordance with specified investment guidelines positions. The contract amount associated with instruments as of December 31, 1995 is not considered material.

Year ended December 31, 1994

| Employee Compensation and Benefits | Professional Fees | Supplies and Other Expenses | Total |
|--|----------------------|-----------------------------------|------------------|
| (In Thousands) | | | |
| \$ 7,130 | \$ 518 | \$ 454 | \$ 8,102 |
| 1,248 | 98 | 75 | 1,421 |
| 3,809 | 134 | 378 | 4,321 |
| 1,368 | 9 | 109 | 1,486 |
| -- | 1,624 | 3 | 1,627 |
| 13,615 | 2,383 | 1,017 | 17,215 |
| -- | 430 | 333 | 1,023 |
| 382 | 330 | 1,067 | 1,619 |
| 350 | 979 | 238 | 967 |
| 306 | -- | 1,095 | 1,309 |
| 1,094 | -- | 34 | 1,128 |
| 1,374 | 283 | 173 | 1,784 |
| -- | -- | -- | -- |
| 2,622 | 839 | 2,188 | 5,649 |
| 244 | -- | 14 | 258 |
| 114 | 134 | 20 | 268 |
| 382 | -- | 48 | 430 |
| 2,153 | -- | 2,064 | 4,217 |
| 668 | -- | 50 | 718 |
| 866 | -- | 3,225 | 4,091 |
| 691 | -- | 45 | 736 |
| 433 | 77 | 23 | 533 |
| 1,069 | 691 | 777 | 2,537 |
| 2,597 | 48 | 606 | 3,251 |
| 486 | -- | 43 | 449 |
| 337 | 3 | 14 | 354 |
| 13,722 | 3,392 | 12,177 | 30,291 |
| 190 | -- | 1,312 | 2,262 |
| 618 | -- | 361 | 979 |
| -- | -- | 340 | 340 |
| 719 | 1 | 1,382 | 2,102 |
| 262 | -- | 14 | 276 |
| 2,949 | 1 | 3,609 | 6,559 |
| 6,396 | 256 | 2,418 | 9,070 |
| 3,230 | 1,048 | 866 | 4,184 |
| 9,283 | -- | -- | 9,283 |
| -- | -- | 1,748 | 1,748 |
| 337 | -- | 347 | 684 |
| 18,496 | 1,484 | 5,374 | 25,354 |
| \$ 28,380 | \$ 3,140 | \$27,128 | \$66,648 |
| | | | 5,042 |
| | | | 1,697 |
| | | | <u>\$ 86,417</u> |

Report of Independent Auditors

The Board of Trustees
Children's Hospital

We have audited the accompanying balance sheets of Children's Hospital as of December 31, 1995 and 1994, and the related statements of income, 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 generally accepted auditing standards. These standards require that we plan and perform our 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Children's Hospital at December 31, 1995 and 1994, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

As discussed in Note 10 to the financial statements, in 1995 the Hospital changed its method of accounting for investments.



January 31, 1996

Children's Hospital

Balance Sheets

(In Thousands)

| | December 31 | |
|---|------------------------------------|-------------------|
| | 1995 | 1994 |
| | <i>(As Restated — Note A1)</i> | |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 3,680 | \$ 1,297 |
| Short-term investments | 59,798 | 12,293 |
| Patients receivable, net of allowances for uncollectible accounts of \$2,218 in 1995 and \$1,940 in 1994 | 12,849 | 9,945 |
| Settlements due from unaffiliated | — | 17,801 |
| Prepaid expenses and other assets | 4,808 | 4,324 |
| Total current assets | 81,135 | 47,660 |
| Assets whose use is limited or restricted: | | |
| By board for capital improvements | 290,458 | 345,516 |
| Under bond indenture agreements | 1,283 | 1,536 |
| By donors | 1,178 | 1,087 |
| Total assets whose use is limited or restricted | 292,919 | 347,139 |
| Other assets: | | |
| Notes receivable | — | 1,619 |
| Property held for resale | 218 | 458 |
| Total other assets | 218 | 1,617 |
| Property, plant and equipment: | | |
| Land and improvements | 1,829 | 1,806 |
| Buildings | 38,948 | 39,805 |
| Equipment | 49,105 | 42,355 |
| | 79,912 | 63,966 |
| Less accumulated depreciation | (39,842) | (28,734) |
| | 40,070 | 35,232 |
| Construction in progress | 11,043 | 5,617 |
| Total property, plant and equipment | 51,113 | 40,849 |
| Total assets | \$ 401,476 | \$ 335,951 |

| | December 31 | |
|---|------------------------------------|----------------|
| | 1992 | 1991 |
| | <i>(As Restated — Note 10)</i> | |
| Liabilities and net assets | | |
| Current liabilities: | | |
| Current portions of long-term debt | \$ 329 | \$ 309 |
| Trade accounts payable | 6,900 | 4,127 |
| Accrued compensation | 2,288 | 2,038 |
| Settlements due to medical aid | 6,560 | — |
| Other accrued liabilities | 214 | 198 |
| Total current liabilities | 16,271 | 6,302 |
| Long-term debt, net of current portions | 890 | 1,191 |
| Total liabilities | 17,161 | 7,493 |
| Net assets: | | |
| Unvested | 364,349 | 326,089 |
| Temporarily restricted | 342 | 651 |
| Permanently restricted | 434 | 416 |
| Total net assets | 365,125 | 327,156 |

Total liabilities and net assets

\$ 482,476 \$ 334,649

See accompanying notes.

Children's Hospital

Statements of Income

(In Thousands)

| | Year ended December 31 | |
|--|----------------------------|------------------|
| | 1995 | 1994 |
| | (As Restated — Note 10) | |
| Revenues: | | |
| Net patient service revenue | | |
| Investment income (loss) | \$ 88,817 | \$128,762 |
| Contributions, grants and other support | 56,999 | (4,883) |
| | <u>5,818</u> | <u>5,869</u> |
| Total revenues | <u>141,135</u> | <u>131,148</u> |
| Expenses: | | |
| Salaries and wages | | |
| Employee benefits | 38,264 | 41,864 |
| Professional fees | 3,891 | 8,293 |
| | <u>7,819</u> | <u>7,143</u> |
| Supplies and other expenses | 16,587 | 17,171 |
| Purchased services | 8,339 | 5,089 |
| Provision for bad debts | 1,989 | 1,687 |
| Depreciation | <u>5,446</u> | <u>5,012</u> |
| Total expenses | <u>84,975</u> | <u>88,437</u> |
| Net income (increase in unrestricted net assets) | <u>\$ 57,040</u> | <u>\$ 44,711</u> |

See accompanying notes.

Children's Hospital
 Statements of Changes in Net Assets
 (In Thousands)

| | Year ended December 31 | |
|---|--------------------------------|------------------|
| | 1995 | 1994 |
| | <i>(As Restated — Year 10)</i> | |
| Unrestricted net assets: | | |
| Net income (Increase in unrestricted net assets) | \$ 57,168 | \$ 44,311 |
| Temporarily restricted net assets: | | |
| Contributions | 235 | 431 |
| Net assets released from restrictions | (344) | (326) |
| Increase in temporarily restricted net assets | <u>91</u> | <u>75</u> |
| Permanently restricted net assets: | | |
| Contributions (Increase in permanently restricted net assets) | <u>18</u> | <u>42</u> |
| Increase in net assets | 57,269 | 44,828 |
| Balance at beginning of year, as adjusted (Year 10) | 328,084 | 283,228 |
| Net assets, end of year | <u>\$385,323</u> | <u>\$328,056</u> |

See accompanying notes.

Children's Hospital
 Statements of Cash Flows
 (In Thousands)

| | Year ended December 31 | |
|---|------------------------|-----------------------------------|
| | 1995 | 1994 |
| | | <i>(As Percent —Noted 1B)</i> |
| Operating activities | | |
| Increase in net assets | \$ 27,169 | \$ 44,828 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 8,446 | 5,042 |
| Unrealized gains and losses on investments | (28,992) | 16,815 |
| (Increase) decrease: | | |
| Patient receivables, net of provision | (2,104) | 709 |
| Prepaid expenses and other current assets | (485) | (451) |
| Other | 1,938 | (607) |
| Increase (decrease): | | |
| Trade accounts payable, accrued compensation and other accrued liabilities | 1,869 | (774) |
| Settlements due to residualist | 24,467 | (22,296) |
| Deferred revenue | — | (3,382) |
| Net cash provided by operating activities | <u>\$9,828</u> | <u>33,866</u> |
| Investing activities | | |
| (Increase) decrease in short-term investments | (26,791) | 45,524 |
| Cash invested in assets whose use is limited | (18,471) | (71,300) |
| Purchases of property, plant and equipment | (12,680) | (5,712) |
| Net cash used in investing activities | <u>(\$57,942)</u> | <u>(\$31,529)</u> |
| Financing activities | | |
| Payments of long-term debt | (291) | (291) |
| Net cash used in financing activities | <u>(291)</u> | <u>(291)</u> |
| Net increase in cash and cash equivalents | 3,283 | 246 |
| Cash and cash equivalents at beginning of year | 1,287 | 1,061 |
| Cash and cash equivalents at end of year | <u>\$ 4,570</u> | <u>\$ 1,307</u> |

See accompanying notes.

RECEIVED
LEGISLATIVE COUNCIL

93 JAN -6 AM 9:21

The Finance Committee
of the Board of Trustees
Children's Hospital

In planning and performing our audit of the financial statements of Children's Hospital for the year ended December 31, 1985, we considered its internal control structure to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the internal control structure and its operation that we considered to be material weaknesses as defined above.

This report is intended solely for the information and use of the finance committee, management, and others within the organization.

Ernst & Young LLP

January 31, 1986

Children's Hospital

Notes to Financial Statements (continued)

L. Accounting Policies (continued)

Investments

Investments, which consist of debt and marketable equity securities, interest rate futures and option contracts and money market accounts, are stated at fair value. (See Note 10.) Gains and losses, both realized and unrealized, are included in investment income in the statements of income. Realized gains and losses are computed based upon the average cost of securities sold.

Interest rate futures and option contracts are used by the Hospital on a limited basis to offset changes in market interest rates on its investment portfolio. If the options expire, the net premium paid or received is recorded as investment expense or income, respectively. If the options are exercised with the result that an investment instrument is bought or sold, the net premium paid or received attaches to the cost of that instrument.

Contributions of investments are recorded at the estimated fair value at the date of receipt of such contributions.

Net Patient Service Revenues and Related Receivables

Net patient service revenues and receivables are reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered including estimated retrospective adjustments under reimbursement agreements with third-party payors. The Hospital provides care to patients even though they are covered by contractual payment arrangements that do not pay full charges or lack adequate insurance coverage. The payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations are based on per diem rates or discounts from established charges. As a result, the Hospital is exposed to certain credit risks. The Hospital manages such risk by regularly reviewing its accounts and contracts and providing appropriate allowances.

Charity Care

The Hospital renders care to certain patients without charge or at amounts less than established rates. Charity care services are not reported as revenue since no payment is anticipated. (See Note 8.)

Year ended December 31, 1994

| Input/ret | Output/ret | Total |
|----------------|----------------|-------------------|
| (In Thousands) | | |
| \$ 9,785 | \$ - | \$ 9,785 |
| 1,500 | - | 1,500 |
| 9,188 | - | 9,188 |
| <u>20,393</u> | <u>-</u> | <u>20,393</u> |
| 1,282 | 855 | 2,137 |
| 1,481 | 573 | 2,054 |
| 1,214 | 1,387 | 2,521 |
| 4,809 | 371 | 5,480 |
| 573 | 817 | 1,190 |
| 524 | 1,305 | 1,829 |
| - | - | - |
| <u>11,046</u> | <u>4,312</u> | <u>15,358</u> |
| 285 | - | 285 |
| 415 | 35 | 441 |
| 371 | 338 | 700 |
| 5,215 | 2,784 | 7,919 |
| 87 | 90 | 177 |
| <u>17,813</u> | <u>1,881</u> | <u>19,794</u> |
| 389 | 359 | 748 |
| 313 | 142 | 455 |
| 1,830 | 4,300 | 6,130 |
| 14,495 | 782 | 15,238 |
| 666 | 338 | 904 |
| - | 338 | 338 |
| <u>64,363</u> | <u>22,847</u> | <u>87,214</u> |
| <u>384,762</u> | <u>122,847</u> | <u>507,789</u> |
| | | (3,736) |
| | | 38,895 |
| | | (2,856) |
| | | (2,810) |
| | | <u>\$ 129,762</u> |

Children's Hospital

Departmental Operating Expenses

| | Year ended December 31, 1966 | | | Total |
|--|--|--|-----------------------------------|------------------|
| | Employee Compensation and Benefits | Professional Fees (In Thousands) | Supplies and Other Expenses | |
| Daily patient services: | | | | |
| Acute care units | \$ 5,416 | \$ 636 | \$ 389 | \$ 6,441 |
| Subsidiary units | 918 | 80 | 97 | 1,095 |
| Special care units | 2,067 | 184 | 228 | 2,479 |
| Nursing administration | 1,605 | 4 | 47 | 1,656 |
| Residents | - | 1,724 | 1 | 1,725 |
| | <u>11,006</u> | <u>2,628</u> | <u>732</u> | <u>14,366</u> |
| Auxiliary services: | | | | |
| Anesthesiology | - | 468 | 498 | 966 |
| Blood bank | 489 | 213 | 1,028 | 1,730 |
| Cardiology | 283 | 416 | 207 | 906 |
| Cental services | 208 | - | 1,811 | 2,019 |
| Chem | 1,488 | 5 | 180 | 1,673 |
| Clinic | 1,119 | 161 | 199 | 1,479 |
| Emergency room | 58 | 303 | 26 | 387 |
| Kidney transplant | 58 | - | - | 58 |
| Laboratory | 2,564 | 963 | 2,169 | 5,736 |
| Music and recreational therapy | 243 | - | 60 | 303 |
| Nutrition | 160 | 223 | 22 | 395 |
| Occupational therapy | 612 | - | 49 | 661 |
| Operating and recovery rooms | 2,128 | - | 1,926 | 4,054 |
| Other diagnostic services | 119 | - | 65 | 184 |
| Pharmacy | 909 | - | 5,171 | 6,080 |
| Physical therapy | 680 | - | 26 | 706 |
| Psychology | 470 | 65 | 18 | 553 |
| Radiology | 1,863 | 645 | 767 | 2,675 |
| Respiratory therapy | 2,321 | 58 | 538 | 2,917 |
| Speech and hearing therapy | 452 | - | 32 | 484 |
| VACT case management | 350 | 7 | 23 | 380 |
| | <u>15,237</u> | <u>3,526</u> | <u>12,093</u> | <u>31,156</u> |
| General services: | | | | |
| Dietary and cafeteria | 697 | - | 1,265 | 1,962 |
| Endoscopy | 686 | - | 402 | 1,088 |
| Laundry and linen | - | - | 205 | 205 |
| Plant operations | 693 | - | 1,311 | 2,004 |
| Security | 224 | - | 11 | 235 |
| | <u>2,290</u> | <u>-</u> | <u>2,294</u> | <u>4,584</u> |
| Administrative and fiscal services: | | | | |
| Administration | 6,906 | 471 | 2,664 | 9,841 |
| Fiscal services | 2,264 | 1,194 | 881 | 4,339 |
| Employee benefits | 9,992 | - | - | 9,992 |
| Insurance | - | - | 1,687 | 1,687 |
| Medical records | 324 | - | 258 | 582 |
| | <u>19,486</u> | <u>1,665</u> | <u>4,612</u> | <u>25,763</u> |
| | <u>\$ 48,174</u> | <u>\$ 7,829</u> | <u>\$ 21,624</u> | <u>77,627</u> |
| Depreciation | | | | 5,446 |
| Provision for bad debts | | | | 1,989 |
| | | | | <u>\$ 85,062</u> |

Children's Hospital
Financial Statements and
Other Financial Information

Years ended December 31, 1993 and 1994

Contents

| | |
|--|----|
| Report of Independent Auditors..... | 1 |
| Audited Financial Statements | |
| Balance Sheet..... | 2 |
| Statements of Income..... | 4 |
| Statements of Changes in Net Assets..... | 5 |
| Statements of Cash Flows..... | 6 |
| Notes to Financial Statements..... | 7 |
| Other Financial Information | |
| Report of Independent Auditors on Other Financial Information..... | 18 |
| Patient Service Charges—Inpatient and Outpatient..... | 19 |
| Departmental Operating Expenses..... | 21 |