UNIVERSITY OF VIRGINIA MEDICAL CENTER

AUDITED FINANCIAL REPORT

FOR THE YEAR ENDED

JUNE 30, 2010

-T A B L E O F C O N T E N T S-

MANAGEMENT'S DISCUSSION AND ANALYSIS
(unaudited)

The following discussion and analysis provides an overview of the financial position and activities of the University of Virginia's Medical Center (Medical Center) for the year ended June 30, 2010, with comparative information for the year ended June 30, 2009. This discussion has been prepared by management and should be read in conjunction with the financial statements, and the notes thereto, which follow this section.

The Medical Center is one of the three operating divisions of the University of Virginia. The Vice President and Chief Executive Officer of the Medical Center provides overall leadership and management of the Medical Center. The Medical Center is an integrated network of primary and specialty care services ranging from wellness programs and routine checkups to the most technologically advanced care. The hub of the Medical Center is a 589-bed hospital with a state designated Level 1 trauma center located on the Charlottesville campus. In addition, primary and specialty care are provided at clinic locations throughout central Virginia communities.

Financial Highlights

Operating Results

	2010	2009
Operating revenues	$1,059.2	$1,007.5
Operating income	$86.6	$47.7
Net non-operating revenue	7.7	(90.3)
Capital Appropriations	62.1	-
Transfers to the University/Commonwealth	(43.3)	(0.1)
Increase in net assets	$113.1	($42.7)
Cash and investments	$762.4	$686.3
Other assets	782.6	653.6
Liabilities	(592.3)	(500.3)
Net assets	$952.7	$839.6

* in millions

At the end of fiscal year 2010, the operating income was $86.6 million, compared to fiscal year 2009 operating income of $47.7 million. Total operating revenues for fiscal year 2010 were $1,059.2 million, or $51.7 million above the prior year. The increase in the current fiscal year performance resulted from improved performance by management and staff in controlling labor and supply expense in alignment with flex volumes. The Medical Center also experienced a higher case mix index (CMI) which impacts our reimbursement. The Case Mix Index is a measure of resource intensity for inpatient acute care cases. One of the primary reasons that we experienced a higher case mix index in fiscal year 2010 was the implementation of a clinical documentation improvement program to better educate and train physicians on clinical documentation requirements. The net result was a $38.9 million increase in operating revenue for fiscal year

2010. The University of Virginia Imaging Center, Outpatient Surgery Center, and Outpatient Dialysis Services continued to outperform the growth rate of the organization.

Net non-operating revenue increased by $98.0 million from fiscal year 2009 to fiscal year 2010. Several positive factors contributed to the increase. The higher fair market value of investments resulted in a $109.5 million increase during fiscal year 2010, as financial markets improved significantly in comparison to the prior year. In addition, the Medical Center also recorded a $14.2 million loss on the disposal of fixed assets in fiscal year 2009, primarily due to discontinuation of an electronic medical record system that was not fully operational as part of the Medical Center's clinical information system infrastructure. These favorable effects were partially offset by a $21.0 million gain sharing payment made to the University of Virginia School of Medicine in fiscal year 2010 and a $4.1 million decrease in investment income during fiscal year 2010.

Capital appropriations and transfers received from the State increased $62.1 million compared to the prior fiscal year. During fiscal year 2010, the Commonwealth reinstated the $22.1 million appropriation balance for construction of the Emily Couric Clinical Cancer Center. The Medical Center also received $40.0 million in reimbursement for various capital projects, as part of a cash for debt transaction further described below.

Transfers to the Commonwealth increased $43.2 million in fiscal year 2010. The Medical Center completed a cash for debt transaction with the Commonwealth during fiscal year 2010. The purpose of this cash for debt swap was for the State to acquire debt using $40.0 million of Medical Center cash, and then subsequently reimbursing the Medical Center for operating cash spent on capital. This resulted in a $40.0 million transfer from the Medical Center to the Commonwealth, which offset the $40.0 million increase in capital appropriations received from the State as mentioned above. The remaining amount represents a $3.4 million transfer to the Commonwealth required by the Caboose Bill.

Financial Statements

The Medical Center's financial report includes three financial statements: the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows. These financial statements are prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*; GASB Statement 35, *Basic Financial Statements and Management's Discussion and Analysis of Public Colleges and Universities* and with the Financial Accounting Standards Board requirements for Health Care Organizations.

The Statement of Net Assets presents the financial position of the Medical Center at the end of the fiscal year, including all assets and liabilities of the Medical Center. Net assets are the difference between total assets and total liabilities and are one of the indicators used to evaluate the current financial condition of the Medical Center. In contrast, the change in net assets indicates whether the overall financial condition improved or worsened during the year. Shown below is a summary of the Medical Center's Statements of Net Assets.

Statement of Net Assets
As of June 30, 2010 and 2009

	2010	2009	Increase(Decrease) Amount	Increase(Decrease) Percent
Assets:				
Current assets	$ 278.9	$ 125.0	$ 153.9	123.1%
Capital Assets	546.2	473.8	72.4	15.3%
Other non-current assets	719.9	741.1	(21.2)	(2.9)%
Total Assets	1,545.0	1,339.9	205.1	15.3%
Liabilities:				
Current Liabilities	215.3	192.5	22.8	11.8%
Non-current liabilities	377.1	307.8	69.3	22.5%
Total Liabilities	592.4	500.3	92.1	18.4%
Net Assets				
Invested in capital assets, net of related debt	316.1	305.5	10.6	3.5%
Restricted for				
Nonexpendable	53.1	53.1	-	0.0%
Expendable	54.2	55.1	(0.9)	(1.6)%
Unrestricted	529.3	425.9	103.4	24.3%
Total net assets	$ 952.7	$ 839.6	$ 113.1	13.5%

* in millions

During fiscal year 2010, the Medical Center's financial position remained stable. Net assets increased $113.1 million, or 13.5 percent, primarily due to higher operating income and the increase in the fair market value of the Medical Center's investments. Also during fiscal year 2010, the Commonwealth restored access to the $22.1 million remaining balance of the Emily Couric Cancer Center appropriation.

The value of capital assets net of depreciation increased $72.4 million from the prior fiscal year. The Medical Center entered into internal loan agreements with the University totaling $76.1 million during fiscal year 2010 to finance major capital projects, which included construction of a new surgical pathology lab and operating rooms ($6.8 million), the Lee Street connective element ($26.0 million), a new elevator bank ($8.3 million), construction funds for the Emily Couric Cancer Center ($20.4 million).

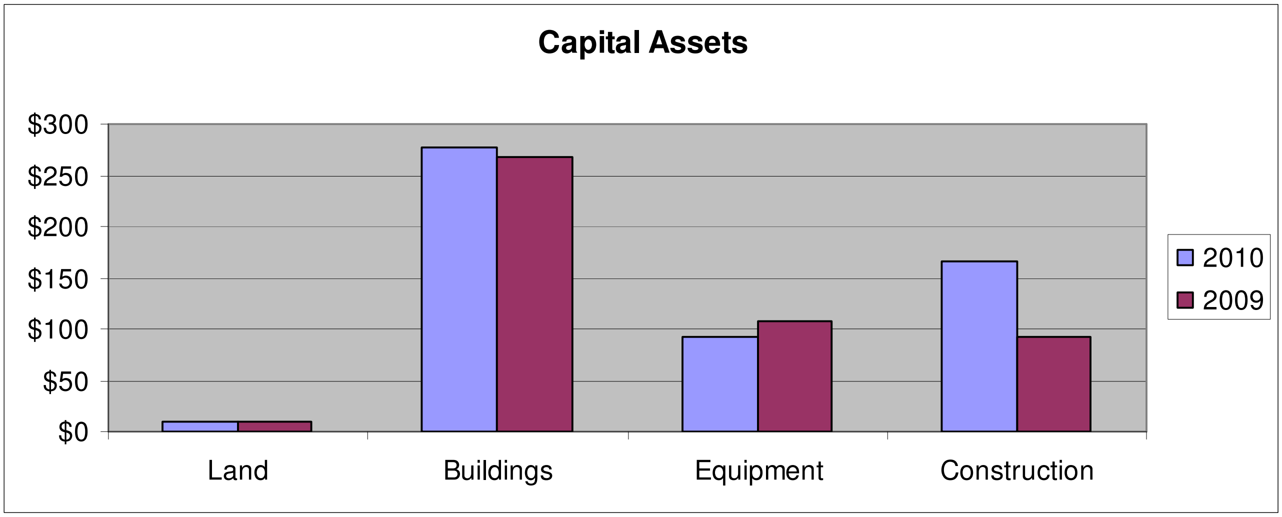
In addition to the debt financed projects listed above, in fiscal year 2009, the Medical Center embarked on two multi-year projects to be funded from operating cash. These projects are the installation of a new electronic medical record system and a project to refurbish all routine patient care units. Phase one of the new electronic medical record system is on schedule to be completed in fiscal year 2011. The refurbishment of the routine patient care units were completed in fiscal year 2010.

Major capital additions including expenditures for projects that are still in process made during the past two fiscal years are shown below.

Summary of Major Capital Additions
As of June 30, 2010 and 2009

	2010	2009
Radiology and imaging systems	$ 6.8	$ 6.1
Information systems and related hardware	18.7	12.4
Off campus dialysis	-	0.6
Other health system renovations	22.6	21.6
Primary Care building renovation	1.8	1.7
Transitional Care Hospital	1.3	2.5
Kirtley Property	1.7	2.1
South Chiller	-	2.2
Children's Hospital	5.2	5.4
Fontaine Clinics Fitout	4.6	1.3
Blake Center Purchase	-	4.2
Patton Mansion Purchase	-	3.2
Emily Couric Clinical Cancer Center	27.1	9.4
Hospital Bed Expansion	27.5	11.2
Hospital Bed Remodeling	2.5	4.2
Interoperative MRI	1.0	-
Surgical Pathology Lab and OR's	1.6	-
Heart Procedural Suite	3.7	-
Lee Street Connective Element	3.3	-
	$ 129.4	$ 88.1

Components of the Medical Center's capital assets are shown below:



*in millions

Total liabilities increased $92.1 million. In addition to the $76.1 million of debt financed projects described above there was an additional increase of $26.7 million of liabilities recorded for a pending lawsuit and a payroll overtime issue. In fiscal year 2010 there was $14.4 million principle payments on debt. The remainder of the change is a result of operating activities and changes in working capital.

Statement of Revenues, Expenses and Changes in Net Assets

Changes in total net assets as presented in the Statements of Net Assets are based on activity shown in the Statements of Revenues, Expenses, and Changes in Net Assets. The purpose of these statements is to present the Medical Center's operating and non-operating revenues and expenses and any other revenues, expenses, gains, and losses. A summarized comparison of revenues, expenses and other changes in net assets for the years ended June 30, 2010 and 2009 is as follows:

Statement of Revenues, Expenses and Changes in Net Assets
For the years ended June 30, 2010 and
2009

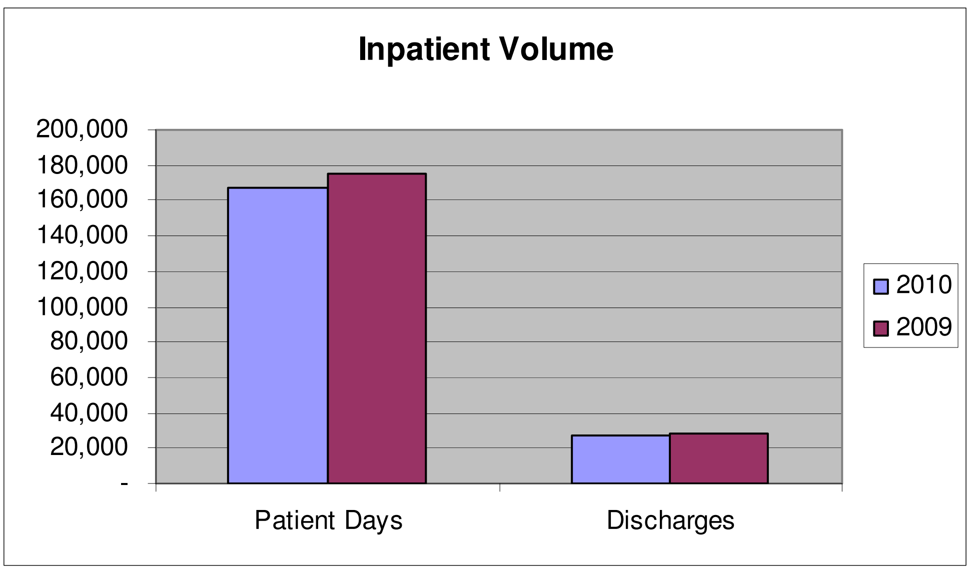
	2010	2009	Increase(Decrease) Amount	Increase(Decrease) Percent
Net patient service revenue	$ 1,008.9	$ 964.3	$ 44.6	4.6%
University allocations	20.2	15.4	4.8	31.2%
Other	30.1	27.8	2.3	8.3%
Total operating revenue	1,059.2	1,007.5	51.7	5.1%
Salaries and Benefits	425.8	421.2	4.6	1.1%
Other operating expenses	546.8	538.6	8.2	1.5%
Total operating expenses	972.6	959.8	12.8	1.3%
Operating income	86.6	47.7	38.9	81.6%
Non-operating revenue	7.7	(90.3)	98.0	>100%
Capital Appropriations/Transfers to the Commonwealth	62.1	-	62.1	>100%
Income before other revenue and transfers	156.4	(42.6)	199.0	>100%
Transfers to UVA/Commonwealth	(43.3)	(0.1)	(43.2)	>100%
Increase in net assets	113.1	(42.7)	155.8	>100%
Net assets-beginning of year	839.6	882.3	(42.7)	(4.8)%
Net assets-end of year	$ 952.7	$ 839.6	$ 113.1	13.5%

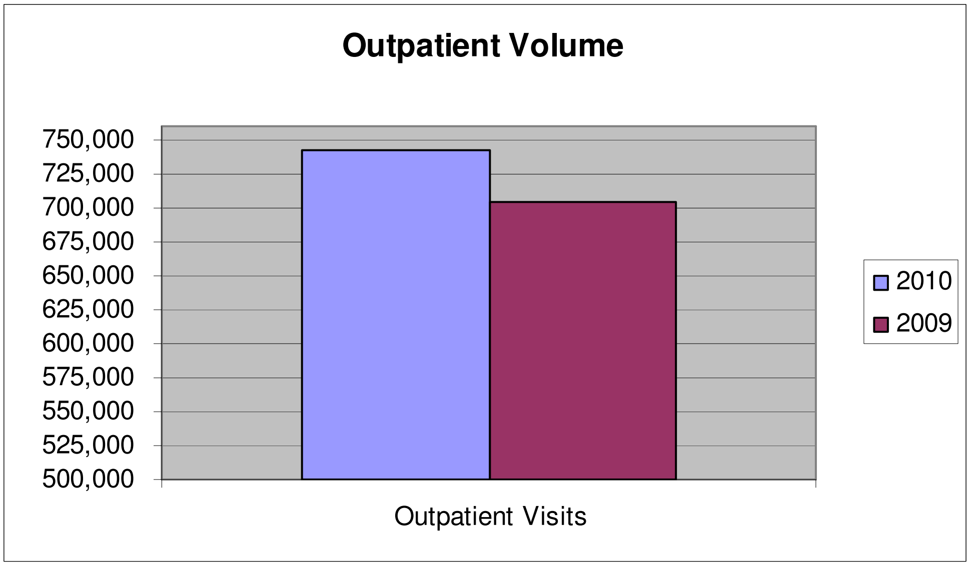
*millions

Operating Revenue

The Medical Center continued to experience the trends that began in fiscal year 2009 with declining inpatient admissions, 5.3 percent below prior year, increasing observation and post procedure patients, 13.4% above prior year, an increased average length of stay from 6.14 to 6.19, and an increasing case mix index from 1.81 to 1.88. Services experiencing a decline in admissions include General Medicine, Neurology, Psychiatry, and Neurosurgery. Both internal and external factors continue to keep inpatient admissions below expectations. A few services including Hematology Oncology and Neonatal Intensive Care Unit saw growth in inpatient volumes. Inpatient days were 4.4 percent below prior year, reflecting the decrease in patient admissions. The trend of decreasing admissions combined with higher acuity was not unique to the Medical Center as this trend was present through out the Commonwealth and Nation. Nationally, a recent Moody's Report attributed this trend to increased utilization of observation services, higher copayments or deductibles, leading patients to defer elective procedures, and an increase in unemployment.

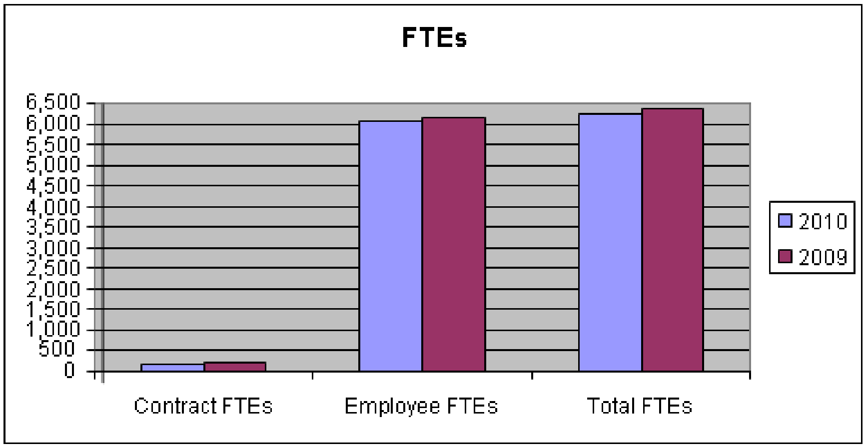
Net patient service revenue for fiscal year 2010 was 4.6 percent above prior year. A 4.3 percent increase in outpatient visit volume during the current fiscal year contributed to the increase in net patient service revenue. Also contributing was the increase of the case mix index and negotiated rate increases with managed care payers.

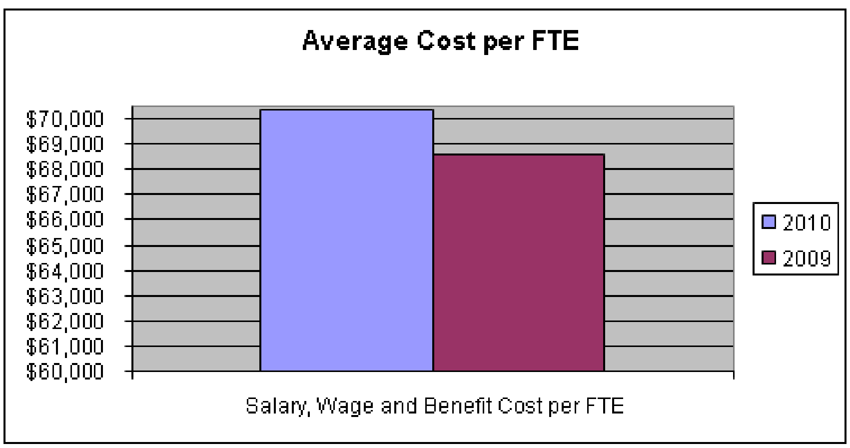



Outpatient Volume
750,000
725,000
700,000
675,000
650,000
625,000
600,000
575,000
550,000
525,000
500,000
2010
2009
Outpatient Visits

Operating Expenses

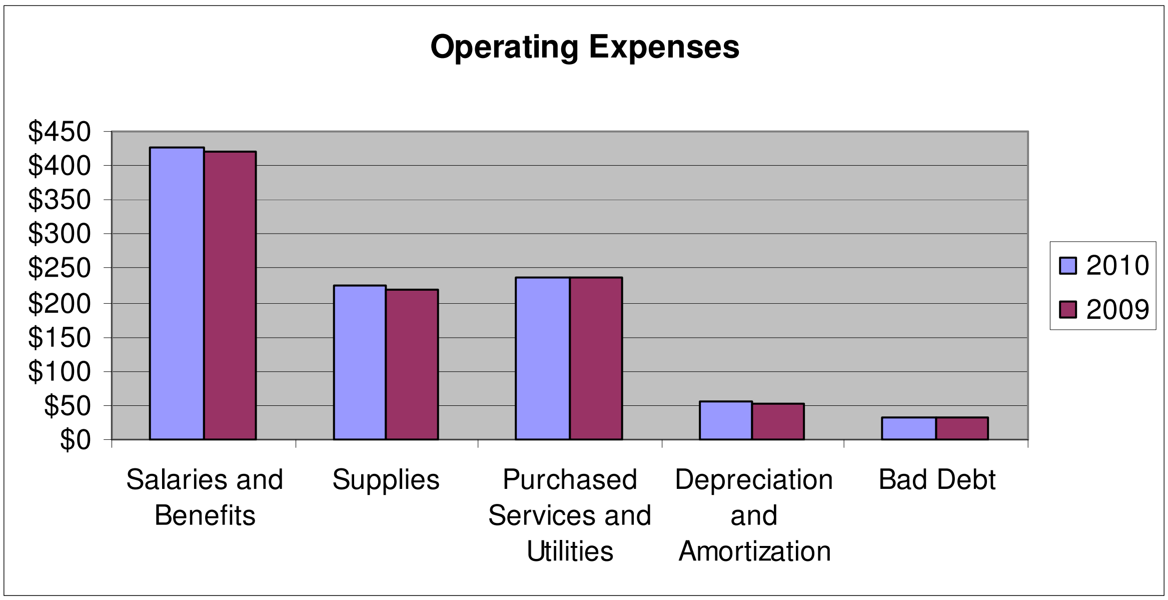
Total operating expenses for fiscal year 2010 were 1.3 percent above the prior year. Total labor expenses (including salaries and wages, fringe benefits and contract labor) grew 1.1 percent from the prior year. Employee and contract labor FTEs decreased compared to fiscal year 2009, from 224 to 184 and from 6,139 to 6,049, respectively. Total FTEs declined from 6,363 in fiscal 2009, to 6,233 in fiscal 2010. The average salary, wage and benefit cost per FTE increased from $68,606 in the prior fiscal year, to $70,391 in fiscal year 2010. Total paid employees, including contracted employees, are summarized below:





Other operating expenses rose a modest 1.5 percent from the prior year.

It has been widely reported that due to the current high unemployment indigent care has been increasing across the nation. For fiscal year 2010 indigent care has totaled $172.9 million which is 6.6 percent of gross revenue. The comparable prior year amount for indigent care was $152.6 million and 6.5 percent of gross revenue. Unlike most other hospitals, we receive cost based payments from a combination of State and Federal dollars to pay the Medical Center and its Faculty. However, the trend in indigent care and issues with the State budget and healthcare reform are reasons for concern as we look to future years.



* in millions

Non-Operating Revenue

Non-operating revenue increased $98.0 million dollars from fiscal year 2009 primarily due to a $109.5 million gain recorded for the increase in investments. In addition, the Medical Center also recorded a $14.2 million loss on the disposal of fixed assets in fiscal year 2009, as discussed above. These favorable effects were partially offset by a $21.0 million gain sharing payment to the University of Virginia School of Medicine in fiscal year 2010 and a $4.1 million decrease in investment income during fiscal year 2010.

Capital Appropriations/Transfers to and From the Commonwealth

During fiscal year 2010, the Medical Center received $62.1 million in capital appropriations and transfers from the Commonwealth, which represented reinstatement of the $22.1 million appropriation for construction of the Emily Couric Clinical Cancer Center and $40.0 million in reimbursement for various capital projects as part of a cash for debt swap transaction. In exchange for the $40.0 million reimbursement to operating cash, the Medical Center transferred $40.0 million to the Commonwealth to be issued as debt. An additional $3.4 million was transferred to the Commonwealth as required by the Caboose Bill.

Statement of Cash Flows

The Statement of Cash Flows provides additional information about the Medical Center's financial results by reporting the major sources and uses of cash. A comparative summary of the statement of cash flows for the years ended June 30, 2010 and 2009 is as follows:

Statements of Cash Flows
For the years ended June 30, 2010 and 2009

			Increase(Decrease)	
	2010	2009	Amount	Percent
Cash flows from operating activities	$119.1	$96.3	22.8	23.7%
Cash flows from non-capital financing activities	(45.3)	2.0	(47.3)	>100%
Cash flows from capital and related financing activities	(33.5)	(73.7)	40.2	54.6%
Cash flows from investing activities	(9.6)	38.9	(48.5)	>100%
Net increase(decrease) in cash and cash equivalents	30.7	63.5	(32.8)	(51.7)%
Cash and cash equivalents-beginning of the year	137.4	73.9	63.5	85.9%
Cash and cash equivalents-end of the year	168.1	$137.4	$30.7	22.3%

* in millions

The cash generated from operating activities increased by 23.7% from fiscal year 2009 to fiscal year 2010 primarily because of increased receipts from patients, third parties, and other miscellaneous sources. Total payments to suppliers and employees were slightly lower than those made in fiscal year 2009, reflecting conscientious efforts to manage expenses throughout fiscal 2010.

Cash flows from non-capital financing activities decreased $47.3 million from fiscal year 2009. During fiscal year 2010, the Medical Center transferred $43.4 million to the Commonwealth, of which $40.0 million was for the cash for debt swap transaction. This decrease in cash provided by non-capital financing activities is offset by a $40.0 million increase in cash used by capital and related financing activities, as discussed below. An additional $3.4 million was also transferred to the Commonwealth in fiscal year 2010 to fulfill obligations imposed by the Caboose Bill.

Cash flows from capital and related financing activities increased 54.6 percent or $40.2 million in fiscal 2010. The increase is due to a $40.0 million increase for the cash for debt transaction with the Commonwealth and a $76.1 million increase in proceeds from new bond issuances. These increases were offset by $130.0 million increase in the purchase of capital assets, and $22.7 million paid for principal and related interest on capital debt.

Cash provided from investing activities decreased $48.5 million from fiscal year 2009. As a result of the purchase and sale of investments during fiscal year 2010, cash decreased by $73.9 million. Cash also decreased because of the $4.0 million initial payment to Culpeper Regional Hospital and $6.3 million reduction in interest earned on investments. A $37.0 million reduction in the amount transferred to the endowment during fiscal year 2010 partially offset these decreases to net cash used by investing activities.

Economic Factors Affecting the Future

Increased capacity for inpatient care will result from a planned expansion, which will add 72 beds to the existing inpatient facility. The expansion is expected to cost $80.2 million. The entire project is bond financed through the Pooled Bond Program with the University of Virginia.

The Transitional Care Hospital accepted its first patient on August 4, 2010. It will complete its demonstration period in 2011 where the average length of stay for Medicare patients should average 25 or more days.

Since 1996, Medicare has implemented several initiatives to prevent improper payments to health care providers. The latest such initiative is Recovery Audit Contractors. The overall goal is to reduce payments due to billing errors. Recovery Audit Contractors are private companies with whom Medicare has contracted to perform audits. The program has an effective date of April 1, 2011, or later. To prepare for the Recovery Audit initiative a multidisciplinary team consisting of Audit, Compliance, Medical Records, Revenue Cycle and Finance leaders in the Medical Center have built tools and workflows to support this process.

The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 were signed into law in March 2010. The two Acts provide for a number of changes that will affect the health care industry over the next decade. The regulations to implement the Acts have not been written and the substantive portions of the Acts are deferred until 2014. The impact on the Medical Center cannot be know at this time but rather will emerge over the next four years.

FINANCIAL STATEMENTS

UNIVERSITY OF VIRGINIA MEDICAL CENTER
STATEMENT OF NET ASSETS
As of June 30, 2010
With Comparative Amounts as of June 30, 2009

	2010	2009
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	135,493,682	16,927,916
Accounts receivable, net of estimated uncollectibles of $237,343,835 at June 30, 2010 and $231,749,462 at June 30, 2009	116,628,841	79,218,797
Due from University of Virginia	327,121	3,490,931
Inventories and prepaid expenses	26,434,281	25,391,944
Notes receivable	15,126	12,519
Total current assets	278,899,051	125,042,107
Noncurrent assets:		
Cash and cash equivalents restricted (Note 2)	29,123,892	30,060,040
Due from the University of Virginia - non current	23,406,296	4,277,622
Investments in pooled endowment funds (Note2)	333,603,383	250,004,898
Goodwill (Note 3)	12,431,421	12,859,927
Investments (Note 2)	145,926,525	145,348,171
Investments in affiliated companies (Note 4)	53,019,628	51,493,898
Land (Note 5)	9,298,287	9,298,287
Contruction in Progress (Note 5)	165,418,909	91,543,084
Depreciable land improvements, buildings, and equipment, less accumulated depreciation of $553,251,782 at June 30, 2010 and $511,237,229 at June 30, 2009 (Note 5)	371,526,528	373,000,903
Deferred bond discount and issue costs, net of amortization of $222,364 at June 30, 2010	4,104,761	3,062,776
Assets whose use is limited:		
Cash and cash equivalents (Note 2)	1,397,288	90,386,028
Investments (Note 2)	116,842,831	153,573,956
Total noncurrent assets	1,266,099,749	1,214,909,590
Total assets	1,544,998,800	1,339,951,697

The accompanying notes to financial statements are an integral part of this statement.

UNIVERSITY OF VIRGINIA MEDICAL CENTER
STATEMENT OF NET ASSETS
As of June 30, 2010
With Comparative Amounts as of June 30, 2009

	2010	2009
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses (Note 7)	130,438,284	108,107,736
Deferred Revenue	16,896,543	18,732,736
Due to third-party payors	22,817,236	28,839,742
Current installments of long-term debt (Note 8)	18,861,618	15,654,042
Grants payable - current portion	4,168,560	7,155,610
Due to Culpeper Regional Hospital-current (Note 4)	22,000,000	14,000,000
Bond premium - current amortization	110,750	35,847
Total current liabilities	215,292,991	192,525,713
Long-term liabilities:		
Long-term debt (Note 8)	335,822,421	276,897,017
Grants payable - noncurrent portion	6,666,668	6,166,666
Other long term liabilities	17,900,000	
Due to Culpeper Regional Hospital-noncurrent	15,692,174	23,696,985
Bond Premium ,net of amortization of $110,750 at June 30, 2010	208,559	394,213
Noncontrolling Interest in Subsidiary	760,839	640,884
Total long-term liabilities	377,050,661	307,795,764
Total liabilities	592,343,652	500,321,477
NET ASSETS		
Invested in capital assets, net of related debt	316,058,764	305,486,891
Restricted for:		
Nonexpendable	53,099,192	53,099,192
Expendable	54,178,174	55,114,323
Unrestricted	529,319,017	425,929,812
Total net assets	952,655,147	839,630,220
Total liabilities and net assets	1,544,998,800	1,339,951,697

The accompanying notes to financial statements are an integral part of this statement.

UNIVERSITY OF VIRGINIA MEDICAL CENTER
STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN NET ASSETS
As of June 30, 2010
With Comparative Amounts as of June 30, 2009

	2010	2009
Operating revenue:		
Net patient service revenue (Note 10)	$1,008,857,929	$964,346,188
University allocations (Note 11)	20,206,122	15,367,169
Other	30,132,509	27,802,322
Total operating revenue	1,059,196,560	1,007,515,679
Operating Expenses:		
Salaries and wages	338,827,496	334,807,054
Fringe benefits	86,963,052	86,362,286
Supplies	223,740,430	220,243,101
Purchased services and other expenses	218,438,489	217,153,582
Utilities	19,109,488	18,170,485
Provision for depreciation and amortization	54,528,061	52,312,974
Provision for bad debts	30,947,700	30,810,757
Total operating expenses	972,554,716	959,860,240
Income from operations	86,641,844	47,655,439
Nonoperating revenue (expenses):		
Gifts	645,471	765,949
Investment income	(391,339)	3,680,218
Net increase/(decrease) in the fair value of investments	41,822,694	(67,690,067)
Net gain/(loss) from investments in affiliated companies (Note 4)	1,761,281	923,637
Noncontrolling Interest in Subsidiary Income	(2,429,499)	(2,438,465)
State Appropriation	62,123,000	-
Interest expense	(7,307,357)	(7,677,340)
Loss on disposal of fixed assets	(705,865)	(14,160,762)
Gain Sharing School of Medicine (Note 12)	(20,998,759)	-
Other	(4,702,937)	(3,612,618)
Net nonoperating revenues	69,816,690	(90,209,448)
Income before other revenues, expenses, gains or losses	156,458,534	(42,554,009)
Transfers to the Commonwealth (Note 18)	(43,433,605)	(126,810)
Increase/(decrease) in net assets	113,024,929	(42,680,819)
NET ASSETS		
Net assets - beginning of year	839,630,218	882,311,037
Net assets - end of year	952,655,147	839,630,218

The accompanying notes to financial statements are an integral part of this statement.

UNIVERSITY OF VIRGINIA MEDICAL CENTER
STATEMENT OF CASH FLOWS
As of June 30 2010
With Comparative Amounts as of June 30 2009

	2,010	2,009
Cash flows from operating activities:		
Receipts from patients and third-parties	943,922,867	913,620,051
Receipts from other revenue	24,592,268	35,077,390
Payments to employees	(429,356,576)	(411,955,762)
Payments to suppliers	(399,087,459)	(420,772,589)
Payment for utilities	(20,945,680)	(19,690,523)
Net cash provided by operating activities	119,125,420	96,278,568
Cash flows from non-capital financing activities:		
Payments on grants	(2,487,048)	1,322,661
Gifts	645,471	765,949
Transfers to the Commonwealth	(43,433,606)	(126,810)
Unearned Gift		
Net cash provided (used) by non-capital financing activities	(45,275,183)	1,961,799
Cash flows from capital and related financing activities:		
State appropriation for construction	40,000,000	0
Purchase of capital assets	(127,196,237)	(115,989,713)
Principal paid on capital debt	(15,427,316)	(13,306,834)
Interest paid on capital debt	(7,310,875)	(7,621,371)
Proceeds from incurring loan from the University	76,086,531	63,079,699
Proceeds from sale of capital assets	310,398	104,400
Net cash used by capital and related financing activities	(33,537,499)	(73,733,819)
Cash flows from investing activities:		
Interest on investments	6,858,161	13,133,658
Purchase of investments	(8,414,496)	(82,358,651)
Proceeds from sale of investments	44,372,964	205,161,962
Transfer to endowment	(50,000,000)	(87,000,000)
Other	(2,619,227)	(3,612,618)
Purchase of affiliate entities	0	(4,000,000)
Transfer to affiliate	(1,889,121)	1,310,355
Payment to affiliate	2,119,862	(3,716,780)
Net cash provided by investing activities	(9,571,858)	38,917,925
Net increase in cash and cash equivalents	30,740,879	63,424,474
Cash and cash equivalents - beginning of the year	137,374,147	73,949,673
Cash and cash equivalents - end of the year	$ 168,115,026	$ 137,374,147
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	86,641,844	47,655,438
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	54,528,061	52,312,975
Change in assets and liabilities		
Accounts receivables	(40,271,346)	(14,830,483)
Inventories and prepaid expenses	(20,171,014)	(5,487,883)
Accounts payable and accrued expenses	38,397,875	16,628,522
Net cash provided by operating activities	$ 119,125,420	$ 96,278,568

The accompanying Notes to Financial Statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Mission

The Medical Center is a division of the University of Virginia. The Medical Center's mission is to enrich the quality of human life by improvement of health, advancement of medical and scientific knowledge, and by creation of an environment for professional preparation of individuals dedicated to healthcare service. Only those activities directly associated with the furtherance of this mission are considered to be operating activities. Other activities that result in gains or losses unrelated to the Medical Center's primary mission are considered to be non-operating.

A separate report is prepared for the Commonwealth that includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. The University is a component unit of the Commonwealth and is included in the basic financial statements of the Commonwealth.

B. Basis of Accounting

The Medical Center has adopted the accrual basis of accounting in accordance with Generally Accepted Accounting Principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB) for providers of healthcare services.

Pursuant to GASB Statement 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,* the Medical Center has elected to apply the provisions of all relevant pronouncements of FASB, including those issued after November 30, 1989.

The financial statements have been prepared in accordance with GASB Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and GASB Statement 35, *Basic Financial Statements and Management's Discussion and Analysis of Public College and Universities.*

C. 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 reported amounts of assets and liabilities and 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.

D. Subsidiary and Affiliated Companies

The consolidated financial statements include the accounts of controlled subsidiary companies where ownership is greater than 50 percent. Investments in affiliates in which the Medical Center has a substantial interest (approximately 20 to 50 percent) or for which the Medical Center exercises significant influence, but not control, over policy decisions are accounted for by the equity method.

E. Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered. Net patient service revenue also includes funds from the Commonwealth's Department of Medical Assistance Services for disproportionate share and indirect medical education payments and funds from third-party payers for estimated retroactive adjustments under reimbursement agreements. 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.

F. Indigent Care

The Medical Center accepts all patients regardless of their ability to pay. A patient is classified as indigent by reference to established Commonwealth policies. The criteria for identifying indigent patients are based on asset and income guidelines that are updated annually in accordance with the federal poverty income guidelines as provided by the federal Office of Management and Budget. Because the Medical Center does not pursue collection of amounts determined to qualify as indigent care, they are not reported as revenue.

G. Receivables From Third Parties and Contractual Adjustments

A significant portion of the Medical Center's services is rendered to patients covered by Medicare, Medicaid, or other third-party payers. The Medical Center entered into contractual agreements with these third parties to accept payment for services in amounts less than scheduled charges.

Certain annual settlements of amounts due for patient services covered by third parties are determined through cost reports that are subject to audit and retroactive adjustment by the third parties. Provisions for possible adjustments of cost reports have been estimated and reflected in the accompanying financial statements. Since the determination of cost reimbursement settlements of amounts earned in prior years has been based on reasonable estimation, the difference in any year between the originally estimated amount and the final determination is reported in the year of determination.

H. Cash, Cash Equivalents, and Investments

Cash and cash equivalents include cash and all highly liquid investments with maturity of three months or less when purchased.

Donated investments are reported at the fair market value at the date of receipt. The major portion of the investments of the Medical Center's endowment funds is pooled under the University of Virginia Growth and Income Fund, the general endowment pool for the University. Annually, endowment earnings on the consolidated endowment pool are distributed to the participating funds based on the participating share of each fund in the pool.

Investments are carried at fair value as determined by quoted market prices. Unrealized appreciation or depreciation of investments is included in the current period net earnings. All investment income, including changes in the fair value of investments (unrealized gains and losses), is reported as non-operating revenue in the Statement of Revenues, Expenses, and Changes in Net Assets.

Investments in affiliated companies are reported using the equity method of accounting.

I. Inventories

Inventories are valued at the lower of cost, generally determined on the weighted average method, or market and consist primarily of expendable supplies held for consumption.

J. Property, Plant, and Equipment

Property, plant, and equipment are stated at cost, or if donated, at fair market value at the date of donation. The Medical Center capitalizes expenditures for equipment costing $2,000 or more and having a useful life of two years or greater in accordance with the *Medicare Reimbursement Manual*.

Depreciation on property, plant, and equipment, excluding land and construction-in-progress, is computed over the estimated useful lives of the assets using the straight-line method. The general range of estimated useful lives is 10 to 40 years for buildings and fixtures and 3 to 20 years for equipment.

The Medical Center utilizes the half-year convention for recognizing depreciation expense related to equipment, both fixed and moveable. A half-year of depreciation is recognized on all equipment in the fiscal year of acquisition. Likewise, a half-year of depreciation is recognized in the fiscal year at the end of the equipment's useful life. Depreciation on buildings is recognized from the date that the asset is placed in service to the date on which it is retired.

K. Deferred Bond Issue Costs

Deferred bond issue costs are amortized over the remaining life of the bonds.

L. Accrued Leave

The amount of leave earned, but not taken by salaried employees is recorded as a liability on the Statement of Net Assets. The amount reflects, as of June 30, all earned leave not taken and the amount payable under the catastrophic leave pay-out policy upon termination, which is the lesser of 25 percent of sick leave not taken or $5,000 per employee with five or more years of service. The liability is based on the probability that an employee with less than five years of service will eventually become vested and has a right to receive payment for sick leave benefits. The applicable share of employer-related taxes payable on the eventual termination payments is also included.

M. Comparative Data

The Medical Center presents its financial information on a comparative basis. The basic financial statements include certain prior year summarized comparative information, in total, but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, the prior year information should be read in conjunction with the Medical Center's financial statements for the year ended June 30, 2009, from which the summarized information is derived.

N. Reclassifications

Certain amounts from prior year statements have been reclassified to conform to current year presentation.

2. CREDIT RISK UNDERLYING CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash, Cash Equivalents and Investments:

The following risk disclosures are required by GASB Statement Number 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreement), and Reverse Repurchase Agreements* as amended by GASB Statement 40, *Deposit and Investment Risk Disclosures*:

Custodial Credit Risk (Category 3 deposits and investments) - The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Medical Center has no category 3 deposits or investments for 2010.

Credit risk - The risk that an issuer or other counterparty to an investment will not fulfill its obligations. GASB Statement 40 requires the disclosure of the credit quality rating on any investments subject to credit risk.

Concentration of credit risk - The risk of loss attributed to the magnitude of a governments investment in a single issuer. GASB Statement 40 requires disclosure of any issuer with more than five percent of the Medical Center investments are in FNMA and the University of Virginia Growth and Income Fund. These investments represent 2 percent, and 98 percent, respectively, of total investments.

Interest rate risk - The risk that changes in interest rates will adversely affect the fair value of an investment. GASB Statement 40 requires disclosure of maturities for any investments subject to interest rate risk. The Medical Center does not have an interest rate risk policy.

Foreign currency risk - The risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Medical Center has no foreign investments or deposits for 2010.

The following information is provided with respect to the risks associated with the Medical Center's cash, cash equivalents, and investments at June 30, 2010.

Cash and Cash Equivalents

Pursuant to Section 2.2-1800, et seq., Code of Virginia, all state funds of the Medical Center are maintained by the Treasurer of Virginia who is responsible for the collection, disbursement, custody, and investment of state funds. Cash deposits held by the Medical Center are maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400, et seq., Code of Virginia. The Virginia Security for Public Deposits Act eliminates any custodial credit risk for Medical Center's deposits. Cash and Cash Equivalents represent cash with the treasurer, cash on hand, certificates of deposit, and temporary investments with original maturities of 90 days or less, and cash equivalents with the Virginia State Non-Arbitrage Program (SNAP). SNAP is an open-end management investment company registered with the Securities and Exchange Commission (SEC). Cash and Cash Equivalents reporting requirements are defined by GASB Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting*.

Additional disclosures required for cash equivalents under GASB Statement Number 40 are presented with the investments in the following tables.

Investments

The investment policy of the Medical Center is established by the Board of Visitors and monitored by the Board's Finance and Audit Committee. Authorized investments are set forth in the "Investment of Public Funds Act", Sections 2.2-4500 through 2.2-4516, Code of Virginia. Authorized investments include U.S. Treasury and agency securities; corporate debt securities of domestic corporations, asset-backed securities, mortgage-backed securities, AAA rated obligations of foreign governments, bankers' acceptances and bank notes, negotiable certificates of deposit, repurchase agreements, and money market funds.

Investments fall into two groups: short and long-term. Short-term investments have an original maturity of over 90 days but less than or equal to one year. Long-term investments have an original maturity greater than one year.

Credit and Concentration of Credit Risks

Type of Investment	Fair Value	Credit Rating	Concentration Risk
CASH EQUIVALENTS:			
U.S. Government Securities:			
STIF	1,397,450.81	Aaa	
Virginia College Building Authority-1999A Pooled Bond Fund(SNAP)	(163.13)		
Total Cash Equivalents	1,397,287.68		
INVESTMENTS:			
U.S. Government Securities:			
FNMA	7,006,562.50	Aaa	2%
University of Virginia Long Term Pool	333,603,383.00		98%
Total Investments	340,609,945.50		
Total Cash Equivalents and Investments	342,007,233.18		

Interest Rate Risk – Maturities

Type of Investment	<1 year	1-5 years	6-10 years	Total
U.S. Government Securities:				
FNMA	7,006,562.50			7,006,562.50
University of Virginia Long Term Pool	333,603,383.00			333,603,383.00
Total Investments	340,609,945.50	0.00		340,609,945.50

Securities Lending Transactions

Investments and cash equivalents held by the Treasurer of Virginia represent the Medical Center's allocated share of cash collateral received and reinvested and securities received for the State Treasury's securities lending program. Information related to the credit risk of these investments and the State Treasury's securities lending program is available on a statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report (CAFR). Per notification from the Department of Accounts the Medical Center did not have any securities lending transactions for FY2010.

3. GOODWILL

In May 2000, the Medical Center acquired from Augusta Health Care, Inc., the kidney dialysis assets in a transaction accounted for as a purchase. An additional $800,000 was recorded as goodwill for a non-competition agreement and is being amortized over its ten-year life and ended in April 2010.

In July 2004, the Medical Center purchased Virginia Ambulatory Surgery Center, (VASI), now known as Virginia Outpatient Surgery Center. As a result of the purchase, the Medical Center recorded $6,980,198 of goodwill to be amortized over a period of 40 years.

In November 2004, the Medical Center purchased Amherst and Lynchburg renal facilities. As a result of the purchase, the Medical Center recorded goodwill of $3,476,068 and $4,017,321, respectively, for the Amherst and Lynchburg facilities. The goodwill is to be amortized over a period of 40 years.

4. AFFILIATED COMPANIES

Culpeper Regional Hospital

On December 31, 2008, the University of Virginia Medical Center and Culpeper Regional Hospital entered into a partnership agreement, whereby the Medical Center obtained a 49 percent interest in Culpeper Regional Hospital, with a $41.2M investment. The Medical Center uses the equity method of consolidation in order to reflect the Medical Center's investment in Culpeper Regional Hospital.

University of Virginia Imaging, LLC

On March 26, 2002, the Medical Center entered into an agreement with Outpatient Imaging Affiliates of Virginia, LLC to establish University of Virginia Imaging, LLC (UVI). The limited liability corporation was formed to operate an outpatient diagnostic imaging center to help respond to the need for radiology services in the Charlottesville area.

The Medical Center currently operates an outpatient imaging department offering MRI, plain film radiography, fluoroscopy, and ultrasound in office space at the Fontaine Research Park. Although available to all Medical Center physicians, the site principally serves orthopedic physicians located at the Fontaine Research Park. UVI also provides services to outpatients from the Medical Center's primary and secondary service areas.

Since the Medical Center owns 80 percent of UVI, its financial activity is presented under the consolidation method.

Community Medicine, LLC

On November 14, 2000, the University established the Community Medicine University of Virginia, LLC (Community Medicine). Community Medicine was established as a limited liability corporation (LLC) under the laws of the Commonwealth to house physician practices. This model gives physicians an organizational structure that allows them the opportunity to practice independently in a virtual private practice environment with all the risks and gains associated with an independent model. As an LLC, which is a wholly owned subsidiary of the University, Community Medicine is considered a disregarded entity for tax purposes and its financial activity is accounted for under the consolidation method.

Community Medicine commenced operations on July 1, 2001 and as of July 1, 2003; the Medical Center's investment totaled $1,560,000. During fiscal year 2004, the Medical Center made an additional investment of $250,000, bringing the total investment to $1,810,000.

Central Virginia Health Network, Inc.

In May 1995, the Medical Center joined the Central Virginia Health Network, Inc. (CVHN), a partnership of eight Richmond area hospitals. CVHN was formed to provide an efficient and coordinated continuum of care, with services ranging from acute hospital treatment to primary physician care and home health services.

The Medical Center originally paid $100 for 10,000 shares of common stock and $109,900 as additional paid-in capital. In addition, the Medical Center is obligated for monthly dues to CVHN of $15,913. Complete financial statements can be obtained from the registered agent: Steven D. Gravely, Esq., Mezzullo and McCandlish, Post Office Box 796, Richmond, Virginia 23206.

University of Virginia / HEALTHSOUTH, LLC

The Medical Center entered into a joint venture with HEALTHSOUTH Corporation to establish an acute rehabilitation facility located at the Fontaine Research Park to provide patient services to the region. The Medical Center made a capital contribution of $2,230,000 to the joint venture in May 1996, which represents a 50 percent interest. Complete financial statements can be obtained from the managing member: HEALTHSOUTH Corporation, 7700 East Parham Road, Richmond, Virginia 23294.

Valiance Health, LLC

In November 1997, the Medical Center became a participant with Rockingham Memorial Hospital and Augusta Health Care, Inc., in Valiance Health, LLC (Valiance), a joint venture integrating and coordinating the delivery of healthcare services in central and western Virginia. The Medical Center contributed $100,000 in initial capital, which entitles it to a pro-rata distribution of any profits and losses of Valiance. In October 2003, the Medical Center contributed an additional $400,000 in capital to Valiance, bringing the Medical Center's total investment to $500,000.

University Health System Consortium (UHC)

In December 1986, the Medical Center became a member of the University Health System Consortium (UHC). Founded in 1984, UHC is an alliance of the clinical enterprises of academic health centers. While focusing on the clinical mission, UHC is mindful of and supports the research and education missions. The mission of the UHC is to advance knowledge, foster collaboration, and promote change to help members compete in their respective healthcare markets. In keeping with this mission, UHC helps members pool resources, create economies of scale, improve clinical and operating efficiencies, and influence the direction and delivery of healthcare. Accordingly, UHC is organized and operated on a cooperative basis for the benefit of its member health systems as patrons.

UHC is a not-for-profit organization. It is incorporated as a nonstock corporation and designated as a nonexempt cooperative, which is taxable under Subchapter T, section 1382-1388, of the Internal Revenue Code. As such, UHC's bylaws provide for distributions of patronage dividends to its patrons. This allocation is based on the value of business done with or for each patron by UHC. The Medical Center records the portion of the patronage dividends that were held by UHC as patronage equity.

As of June 30, 2010

	Common Stock and Equity Contribution	Share of accumulated income (loss)	Net investment
UVA Imaging, LLC	687,019	2,065,919	2,752,937
Community Medicine, LLC	1,810,000	(4,252,687)	(2,442,687)
Central Virginia Health Network, Inc.	232,500	(41,026)	191,474
Healthsouth, LLC	26,795	8,040,637	8,067,432
Valiance, LLC	0	1,276,392	1,276,392
University HealthSystem Consortium		646,899	646,899
Culpeper Regional Hospital	41,248,100	1,590,123	42,838,223

HealthCare Partners, Inc.

In May 1995, HealthCare Partners, Inc., a non-stock, non-profit corporation, was established to support networking, external business relationships with neighboring hospitals and physicians groups, and expansion of primary care activities. The Medical Center and the Health Services Foundation are the primary contributors to the funding of the corporation. The corporation is governed by a board of directors composed of Health Sciences Center staff, community members, and University Board of Visitors appointees.

5. PROPERTY, PLANT, AND EQUIPMENT

A summary of the property, plant, and equipment accounts and the related accumulated depreciation as of June 30, 2010, is presented as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Land	9,298,287	0	0	9,298,287
Construction in Progress	91,543,084	131,522,247	57,646,422	165,418,909
Depreciable Capital Assets				
Land improvements	8,724,021	115,835	0	8,839,856
Buildings	538,259,487	31,523,242	6,194	569,776,535
Equipment-Fixed	22,585,879	575,849	106,799	23,054,929
Equipment-Movable	314,668,744	18,384,177	11,214,131	321,838,790
Total depreciable capital assets	884,238,131	50,599,103	11,327,124	923,510,110
Less accumulated depreciation				
Land improvements	7,197,208	194,601	0	7,391,809
Buildings	273,674,415	20,522,325	3,716	294,193,024
Equipment-fixed	17,547,825	671,656	106,471	18,113,010
Equipment-movable	212,817,781	32,244,651	11,508,493	233,553,939
Total accumulated depreciation	511,237,229	53,633,233	11,618,680	553,251,782
Depreciable land improvements, buildings and equipment, net	373,000,902	(3,034,130)	(291,556)	370,258,328
Depreciable Intangible Assets	0	1,519,873	0	1,519,873
Less accumulated amortization:				
Intangible Assets	0	251,673	0	251,673
Depreciable intangible assets	0	1,268,200	0	1,268,200
Total depreciable capital and intangible assets (net)	373,000,902	(1,765,930)	(291,556)	371,526,528

6. ASSETS HELD BY TRUSTEES

Assets held by trustees consist of assets whose use is limited under indenture agreements. The Series 1998B, 1999A, 2003A, 2003B, 2006, 2008 and 2009 bond resolutions require that deposits be made in a specific order to various accounts and funds held by the University of Virginia Internal Loan Program as follows:

A. to the credit of the Interest Account on a monthly basis, the amount of interest due and payable on the first day of the succeeding month with respect to the bonds of each series then outstanding;

B. to the credit of the Principal Account on an annual basis, the amount sufficient to pay maturing principal of all bonds on the next principal payment date;

C. to the credit of the Sinking Fund Account, the amount sufficient to retire all bonds to be called by mandatory redemption on the next ensuing mandatory redemption date;

D. to the credit of the Reserve Fund, the amount necessary to fund the Reserve Account Requirement, as defined by the bond resolution;

E. to the credit of the Depreciation Reserve Fund, commencing on December 1, 1988, and each December 1 thereafter, 100 percent of the Depreciation Reserve Fund requirement as defined by the bond resolution; and

F. to the credit of any other fund or account created pursuant to an applicable Series Resolution.

Funds held by the Treasurer and restricted by bond agreements consist of the following as of June 30, 2010:

	FY10
Depreciation Reserve	8,551,261
Bond Sinking Fund-2008	46,119,880
Bond Sinking Fund-2009A	11,105,644
Bond Sinking Fund-2009B	10,037,567
Bond Sinking Fund-2009C	2,639,899
Bond Sinking Fund-2009D	13,125,111
Bond Sinking Fund-2010A	5,301,225
Bond Sinking Fund-2010B	21,889,122
Bond Sinking Fund-2010C	4,126,401
Bond Sinking Fund-2010D	2,500,000
Bond Sinking Fund-2010E	625,601
Bond Sinking Fund-2010F	125

*The Medical Center also participates in the Commonwealth's Public Higher Education Financing Program, Series 1999A ("Pooled Bond Program"). The indenture of the series specifies the Bank of New York as trustee and the Medical Center is required to make debt service payments to the trustee in the amount billed by the trustee semi-annually.

7. ACCOUNTS PAYABLE

As of June 30, 2010, the components of accounts payable and accrued expenses consist of the following:

Vendor Accounts Payable	$15,347,111
Due to the University	24,791,259
Accrued Leave	28,260,619
Accrued Allotments	14,840,496
Other Accounts Payable	23,257,213
Other Accrued Expenses	23,941,585
	$130,438,284

8. LONG-TERM DEBT

Description	Interest Rate	Maturity	Beginning Balance	Additions	Reductions	Refinance	Ending Balance	Current Portion
Bonds Payable:								
Series 1998B Refinance	4.5-6.00	2018	3,755		342		3,413	359
Series 1999A	4.5-5.25	2013	18,974		0		18,974	5995
Series 1999A Pooled	4.5-5.25	2019	205		205		0	0
Series 1999A Pooled Refinance	4.5-5.25		2,900		15		2,885	230
Series 2003A Pooled	4.5-6.00	2015	24,080		6555		17,525	210
Series 2003B Pooled	4.7-6.00	2023	28,914		1528	375	27,011	1558
UVA Pooled Debt	4.7-6.00	2024	13,918		836		13,082	875
Series 2006 Pooled	4.5-6.00	2027	34,508		1262		33,246	1322
Series 2007 Pooled	4.5-6.00	2014	9,428		1992		7,436	1,796
Series 2008 Pooled	4.5-6.00	2028	81,466		1136		80,330	1,972
Series 2009 Pooled (1)	4.75	2029	3,704		120		3,584	126
Series 2009 Pooled (2)	4.75	2029	3,697		613		3,084	643
Series 2009 Pooled (3)	4.75	2029	4,079		55		4,024	135
Series 2009 Pooled (4)	4.75	2029	22,344		0		22,344	414
Series 2009 Pooled (5)	4.75	2029	15,356		0		15,356	510
Series 2009 Pooled (6)	4.75	2029	15,052		0		15,052	256
Series 2010 Pooled (1)	4.75	2030		6,881			6,881	118
Series 2010 Pooled (2)	4.75	2030		25,996			25,996	
Series 2010 Pooled (3)	4.75	2030		4,314	63		4,251	157
Series 2010 Pooled (4)	4.75	2030		8,253			8,253	
Series 2010 Pooled (5)	4.75	2030		5,182			5,182	176
Series 2010 Pooled (6)	4.75	2030		20,738			20,738	334
Series 2010 Pooled (7)	4.75	2030		5,686	14		5,672	176
							0	
Total bonds payable			282,380	77,050	14,736	375	344,319	17,362
Notes Payable:								
UVA Imaging			2,557	1469	1009		3,017	1277
Total Notes Payable			2,557	1469	1009	0	3,017	1277
Capitalized Leases:			7,614		266		7,348	222
Total Long-term debt			292,551	78,519	16,011	375	354,684	18,861

*In thousands

Future Debt Requirements

Fiscal Year	Principal	Interest	Total
2011	18,861,980	12,319,491	31,181,471
2012	22,805,786	14,720,779	37,526,565
2013	22,786,907	14,251,064	37,037,971
2014	24,871,695	13,147,383	38,019,078
2015	23,472,169	11,982,637	35,454,806
2016-2020	82,473,929	47,052,415	129,526,344
2021-2025	92,502,891	26,457,732	118,960,623
2026-2030	63,604,852	6,270,660	69,875,513
2031-2035	769,675	1,745,054	2,514,729
2036-2040	707,495	2,207,766	2,915,261
2041-2045	650,338	2,729,248	3,379,586
2046-2047	1,176,322	6,281,713	7,458,035
	$354,684,039	$159,165,942	$513,849,981

9. FINANCING OF MAJOR CONSTRUCTION AND RENOVATION PROJECTS

The Clinical Office Building at Fontaine Research Park was purchased in April 2004. The Medical Center borrowed $17.6 million from the University's Pooled Bond Program to buy the building and complete its construction. In 2009, the University, through its Pooled Debt Loan Program, issued $4,078,517 to complete construction and fit-out of the 3rd floor of the Fontaine building. The purpose of this building is to expand the outpatient clinic services for the Medical Center.

The Medical Center began construction on the Emily Couric Clinical Cancer Center during fiscal year 2008. The Emily Couric Clinical Cancer Center is expected to cost $109.7M. This project was undertaken to expand and improve the facilities for the Cancer Center. Included in the project cost is the demolition of the West Parking Garage, the construction of the Parking Deck, construction and equipment cost. The Emily Couric Clinical Cancer Center project is funded using philanthropy, bonds, appropriations and operating funds. The Medical Center expects to complete the Emily Couric Clinical Center during FY2011.

In addition to the Emily Couric Clinical Cancer Center, the Medical Center began the Hospital Bed Expansion Project. The Medical Center will add 72 beds over a period of three years. The expected cost of the project is $80.2M funded using bonds issued under the University of Virginia Pooled Debt Program in May 2008. The Bed Expansion will include 6 12-bed units on floors 3 through 8 of the Hospital. The expected completion is FY2011. As part of the Bed Expansion Project, the Elevator Banks and Fire Alarm system are to be updated at an expected cost of $8.2M, using bonds issued under the University of Virginia Pooled Debt program.

Also, the Medical Center began a Bed Remodeling Project. The Bed Remodeling Project will cost $25.8M. Under the University of Virginia Pooled Debt Program, bonds were issued to the Medical Center for $20.5M in May 2009. The Bed Remodeling Project will involve the relocation and renovation of beds on the 3rd and 8th floors. Included in the Bed Remodeling Project are the renovation of the Medical Center's Short Stay unit, as well as adding additional beds to the 8th floor. The expected completion date for the Bed Remodeling Project is FY 2011.

The Medical Center started the Interoperative MRI and Heart Suite projects in May 2009. Bonds were issued for each project separately, $14.2M and $14.5M, respectively, through the University of Virginia Pooled Debt Program in May 2009. As part of the Interoperative MRI project, the Medical Center will add two additional operating rooms. The expected completion date is during FY 2011.

10. NET PATIENT SERVICE REVENUE

The Medical Center's patient service revenue is as follows for the year ended June 30, 2010:

Gross Patient Service Revenue:	
Inpatient	
Routine	$349,831,294
Ancillary	1,107,589,683
Outpatient Services	
Ancillary	1,155,691,025
Clinics	6,110,863
Total Gross Patient Revenue	2,619,222,866
Allowances for indigent care and contractual adjustments	(1,610,364,937)
Net Patient Service Revenue	$1,008,857,929

The Medical Center received $85,153,020 in fiscal year 2010 from the Commonwealth's Department of Medical Assistance Services. These payments are included in net patient service revenue as an adjustment to allowances for indigent care and contractual adjustments.

Of the payment received for disproportionate share, relating to the care provided to indigent patients, $14,758,524 was transferred to physician researchers for related physician services and is included in the purchased services expense.

The amounts written off for indigent care, net of the disproportionate share and indirect medical education payments, were $77,441,858 for the year ended June 30, 2010.

11. UNIVERSITY ALLOCATIONS

The School of Medicine faculty assists the Medical Center in its mission of providing healthcare and medical education. A survey is conducted annually to determine the value of this effort. An allocation is made on the Statement of Revenues, Expenses, and Changes in Net Assets to reflect the value of this effort as income. This allocation is offset in the operating expenses by an equal amount in purchased services. The amount of this allocation for the year ended June 30, 2010 was $16,835,300.

Likewise, the University provides the Medical Center with various general and administrative support services. An analysis is prepared annually to determine the cost of providing these services. The same type of allocation as above is made to the Statement of Revenues, Expenses, and Changes in Net Assets to reflect the difference between the direct charge to the Medical Center and the actual cost of these services. The amount of this allocation for the year ended June 30, 2010 was $3,370,821.

Although these allocations have no direct effect on operating income, they do affect the Medical Center's reimbursement from third-party payers by increasing allowable costs.

12. GAIN SHARING WITH THE SCHOOL OF MEDICINE

Beginning with fiscal year 2003, the Medical Center and the School of Medicine entered into a Memorandum of Understanding for gain sharing. The amount of gain sharing with the School of Medicine is a tiered arrangement based on the Medical Center's income in excess of minimum requirements established by the Board of Visitors. As a result of the Medical Center exceeding the minimum requirements established by the Board of Visitors, for fiscal year 2010, the gain sharing amount is $20,998,759.

13. COMMITMENTS

Future minimum lease payments by year and in the aggregate under operating leases are:

Year Ending June 30,	Operating Leases
2011	$7,644,873
2012	5,227,550
2013	3,150,406
2014	2,808,325
2015	2,294,424
2016-2020	1,960,834
2021-2025	823,200
2026-2030	823,200
2031-2035	823,200
2036-2040	823,200
2041-2045	823,200
2046-2050	658,560
	0
Total	$27,860,972

The total rental expense for operating leases for the year ended June 30, 2010, was $8,463,548.

The Medical Center was party to construction contracts and commitments for the year ended June 30, 2010 totaling $276,271,610.18 of which $208,288,921.97 was incurred as of June 30, 2010.

14. UNIVERSITY OF VIRGINIA HEALTH SERVICES FOUNDATION

The University of Virginia Health Services Foundation (HSF), a nonprofit educational, scientific, and charitable organization, began operating with the approval of the Board of Visitors as of June 30, 1980, to assist the University in providing hospital and medical care services, medical education programs, and programs of public charity at the University.

On August 1, 2000, management of 63 outpatient clinics operated by HSF since July 1, 1994, transferred to the Medical Center. At that time, the Medical Center filed for provider-based status with the federal government and became responsible for all costs associated with the operations of these provider-based clinics except for physicians' costs. As of the end of FY010, there were 69 outpatient clinics. On August 1, 2000, the Medical Center entered into leased employment agreements with HSF for limited personnel who remained HSF employees, but were performing Medical Center duties.

The Medical Center recorded $16,908,056 as expense payable to the Foundation for the provision of supervisory and administrative services, $18,529,769 for other services, and $645,150 for rental of space for the year ended June 30, 2010. In addition, the Medical Center recorded non-operating expenses of $4,671,274 payable to the Foundation. Prior to FY08 this expense had been recorded as supervisory and administrative services.

The Medical Center recorded income from the Foundation of $13,804,105 for clinic facility fees and other services, and $178,333 for the rental of space for clinics for the year ended June 30, 2010.

15. RISK MANAGEMENT AND SELF-INSURANCE

The Medical Center is a participant in the Commonwealth's self-insurance program administered by the Department of Treasury, Division of Risk Management. Participation in this program provides the Medical Center with medical malpractice insurance on an occurrence basis with no aggregate limitation and with such limits of coverage equal to the statutory malpractice recovery limits as specified in Section 8.01-581.15 of the Code of Virginia. In the opinion of management, such coverage is adequate to provide for the ultimate liability, if any, which might result from the settlement of claims currently asserted against the Medical Center, as well as the potential liability for medical incidents of which the Medical Center has knowledge, but for which claims have not yet been asserted against the Medical Center. Accordingly, no provision is included in the financial statements for such potential liabilities.

Sufficient information has not been developed by the Medical Center to provide a reasonable basis for estimation of the potential liability for incurred medical incidents, which have not been reported to the Medical Center; however, in the opinion of management, any potential liability for unreported medical incidents is not expected to have a material effect on the financial position of the Medical Center.

The University sponsors a self-funded, comprehensive program of health care benefits. The program covers all employees of the University and the Medical Center. Fringe benefit expenses include estimates for claims that have been incurred, but not reported. Additional information regarding the medical benefits program is available for the entire University only in the University's annual President's Report.

University employees are covered by a self-insured workers' compensation benefits program administered by the Commonwealth's Department of Human Resources. Information regarding this plan is available at the statewide level only in the Commonwealth's Comprehensive Annual Financial Report (CAFR).

Other risk management insurance plans are administered by the Commonwealth's Department of Treasury, Division of Risk Management. Risk management insurance includes property, boiler and machinery, crime, employee dishonesty bond, general (tort) liability, professional liability, aviation and watercraft, and automobile liability. Detailed information relating to this policy is available at the statewide level only in the CAFR

The University is self-insured for the first $100,000 of each property and boiler and machinery loss, and for the first $20,000 of each vehicle physical damage loss. The University also maintains excess crime/employee dishonesty insurance and insurance for vehicle physical damage insurance on vehicles valued in excess of $20,000.

16. RETIREMENT PLANS

Employees of the Medical Center are employees of the Commonwealth. Substantially all full-time classified salaried employees participate in a defined benefit pension plan administered by the Virginia Retirement System (VRS). Information relating to this plan is available at the statewide level only in the CAFR. The Commonwealth, not the Medical Center, has overall responsibility for contributions to this plan.

Substantially, all full-time faculty, including certain administrative staff and health care professionals, participate in Faculty Optional Retirement Plans. These are fixed-contribution plans where the retirement benefits received are based upon the employer and employee contributions (all of which are paid by the Medical Center), and the interest and dividends. Individual contracts issued under the plans for full-time faculty, including certain administrative staff, provide for full and immediate vesting of both the Medical Center's and the participant's contributions. Health Care Professional's employer contributions fully vest after one year of employment.

Total pension costs under the plans were $11,810,910 for the year ended June 30, 2010. Contributions to the Optional Retirement Plans were calculated using base salaries of $210,946,543 for the year ended June 30, 2010. The contribution percentage amounted to five percent for the year ended June 30, 2010.

17. POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

The Commonwealth participates in the VRS-administered statewide group life insurance program that provides post-employment life insurance benefits to eligible retired and terminated employees. The Medical Center also provides retiree life insurance to certain retirees.

The Commonwealth provides healthcare credits against the monthly health insurance premiums of its retirees who have at least 15 years of state service and participate in the state health plan. Additionally, some employees receive healthcare credits for participation in the University of Virginia Health Plan. Information related to these plans is available at the statewide level in the CAFR.

18. TRANSFERS TO THE COMMONWEALTH

The transfers to the Commonwealth consist of transfers for the cash for debt program and the Caboose Bill.

19. CONTINGENCIES

The Medical Center has two contingent liabilities as of the end of June 30, 2010 totaling $26,680,592.

Commonwealth of Virginia

Walter J. Kucharski, Auditor

Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218

October 29, 2010

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable Charles J. Colgan
Chairman, Joint Legislative Audit
and Review Commission

Board of Visitors
University of Virginia

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the **University of Virginia Medical Center,** a division of the University of Virginia, as of and for the year ended June 30, 2010, which collectively comprise the University of Virginia Medical Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University of Virginia Medical Center's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year comparative information has been derived from the University of Virginia Medical Center's financial statements, and in our report dated November 20, 2009, we expressed an unqualified opinion on the respective financial statements of the University of Virginia Medical Center.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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 audit provides a reasonable basis for our opinion.

The basic financial statements of the University of Virginia Medical Center are intended to present the financial position and the changes in financial position and cash flows of only that portion of the business-type activities of the University of Virginia that are attributable to the transactions of the University of Virginia Medical Center. They do not purport to, and do not, present fairly the University of Virginia's overall financial position as of June 30, 2010, and the respective changes in financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Virginia Medical Center as of June 30, 2010, and the changes in its financial position, and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated October 29, 2010, on our consideration of the University of Virginia's internal control over financial reporting, which also includes the University of Virginia Medical Center, and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

AUDITOR OF PUBLIC ACCOUNTS

UNIVERSITY OF VIRGINIA MEDICAL CENTER
Charlottesville, Virginia