UNIVERSITY OF VIRGINIA MEDICAL CENTER

AUDITED FINANCIAL REPORT
FOR THE YEAR ENDED
JUNE 30, 2009

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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, 2009 (fiscal year 2009), with comparative information for the year ended June 30, 2008. 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 577-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

	2009	2008
Operating revenues	$1,007.5	$970.9
Operating income	$47.6	$47.4
Net non-operating revenue	(90.2)	20.2
Capital Appropriations	0.0	(22.1)
Transfers to the University	(0.1)	(0.1)
Increase in net assets	(42.7)	45.4
Cash and investments	$686.2	$736.2
Other assets	653.7	556.8
Liabilities	(500.3)	(410.7)
Net assets	$839.6	$882.3

* in millions

At the end of fiscal year 2009, operating income was $47.6 million, which was comparable to fiscal year 2008 operating income of $47.4 million. Total operating revenues for fiscal year 2009 were $1,007.5 million, $36.6 million above the prior year. While the Medical Center's inpatient/outpatient areas experienced modest growth, the University of Virginia's Imaging Center and Outpatient Surgery Center experienced double digit growth year-to-year.

Net non-operating revenue decreased by $110.4 million from fiscal year 2008 to fiscal year 2009. Due to significant weakness in macro financial and credit markets during fiscal year 2009, both realized and unrealized, investments decreased $96.0 million. The Medical Center also recorded a $13.4 million loss on the disposal of fixed assets due to a integrated health information management system that was not fully operational as part of the Medical Center's clinical information system infrastructure.

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.

Statement of Net Assets

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. 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, 2009 and 2008

			Increase/(Decrease)	
	2009	2008	Amount	Percent
Assets:				
Current assets	$125.0	$137.4	($12.4)	(9.0)%
Capital Assets	473.8	424.1	49.7	11.7%
Other non-current assets	741.1	731.5	9.6	1.3%
Total Assets	1339.9	1293.0	46.9	3.6%
Liabilities:				
Current Liabilities	192.5	173.3	19.2	11.0%
Non-current liabilities	307.8	237.4	70.4	29.7%
Total Liabilities	500.3	410.7	89.6	21.8%
Net Assets				
Invested in capital assets, net of related debt	305.5	271.9	33.6	12.4%
Restricted for				
Nonexpendable	53.1	53.1	0.0	0.0%
Expendable	55.1	53.8	1.3	2.4%
Unrestricted	425.9	503.5	(77.6)	(15.4)%
Total net assets	$ 839.6	$ 882.3	$ (42.7)	(4.8)%

* in millions

During fiscal year 2009, the Medical Center's financial position remained stable. Net assets decreased primarily due to the loss in the fair market value of the Medical Center's investments. During fiscal year 2008, the Commonwealth suspended access to the $22.1 million remaining balance of the Clinical Cancer Center appropriation. Construction of the facility continued during fiscal year 2009, resulting in a decrease in current assets. As of the end of fiscal year 2009, the appropriation balance had not been restored.

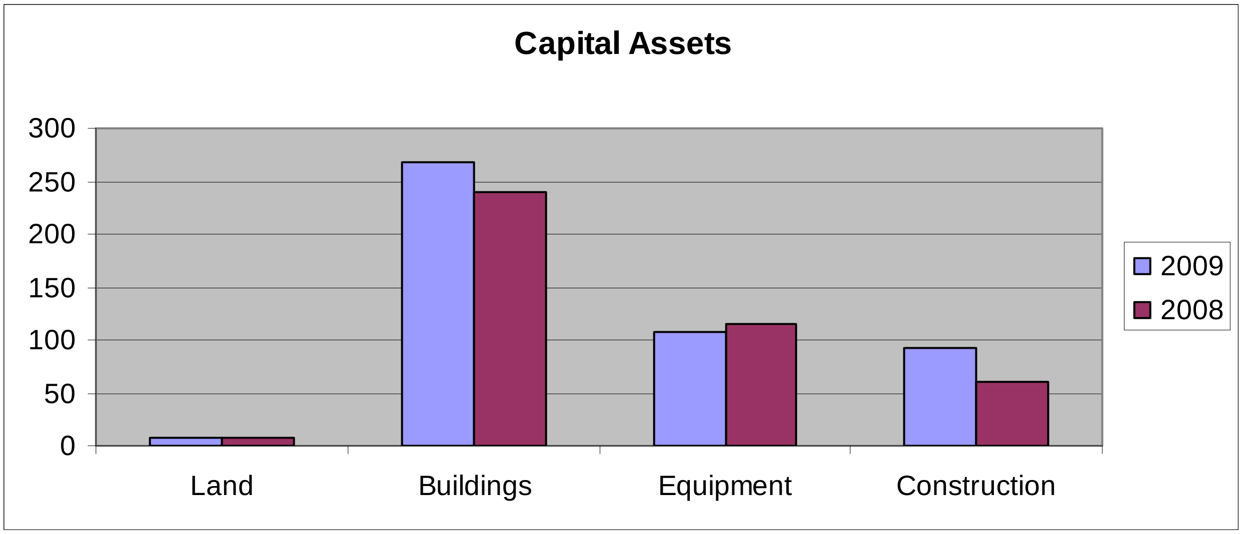
The value of capital assets net of depreciation increased $49.7 million from the prior fiscal year. New debt issuances totaling $53.3 million occurred during fiscal year 2009 to finance major capital projects, which include bed remodeling ($20.6 million), an interoperative operating room ($14.2 million), renovations on the second floor of the hospital ($14.5 million), and the fit out of the third floor of the Fontaine clinic building ($4.0 million). In addition to the debt financed projects listed above, 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 patient care units. Major capital additions made during the past two fiscal years are shown below.

Major Capital Additions

	2009	2008
UVA Outpatient Surgery Center	$ -	$ 0.9
Radiology and imaging systems	6.1	7.5
Information systems and related hardware	12.4	9.3
Off campus dialysis	0.6	-
Other health system renovations	21.6	26.0
Primary Care building renovation	1.7	0.8
Long Term Acute Care Hospital	2.5	-
Kirtley Property	2.1	-
South Chiller	2.2	-
Children's Hospital	5.4	-
Fontaine Clinics Fitout	1.3	-
Blake Center Purchase	4.2	-
Patton Mansion Purchase	3.2	-
Emily Couric Clinical Cancer Center	9.4	7.9
Hospital Bed Expansion	11.2	4.1
Hospital Bed Remodeling	4.2	-
South Chiller	-	11.8
Total	$ 88.1	$ 68.3

* in millions

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



*in millions

Two significant items increased total liabilities from $410.7M in FY08 to $500.3M in FY2009. In December 2008, the Medical Center entered into a partnership with Culpeper Regional Hospital, which gave the Medical Center approximately 49 percent of the voting board seats and super majority voting rights applicable to approval for strategic decisions for Culpeper Regional Hospital. Routine operating decisions requiring board approval can be made with a simple majority vote. This resulted in a $38 million increase to liabilities during fiscal year 2009. The remaining increase in non-current liabilities resulted from the issuance of an additional $53.3 million of debt to finance major capital projects as described above

<u>Statement of Revenues, Expenses and Changes in Net Assets</u>

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, 2009 and 2008 is as follows:

Statements of Revenue, Expenses, and Changes in Net Assets
For years ended June 30, 2009 and 2008

	2009	2008	Increase(Decrease) Amount	Increase(Decrease) Percent
Net patient service revenue	$964.3	$934.9	$29.4	3.1%
University allocations	15.4	10.8	4.6	42.6%
Other	27.8	25.2	2.6	10.3%
Total operating revenue	1,007.5	970.9	36.6	3.8%
Salaries and Benefits	421.2	407.5	13.7	3.4%
Other operating expenses	538.7	516.0	22.7	4.4%
Total operating expenses	959.9	923.5	36.4	3.9%
Operating income	47.6	47.4	0.2	0.4%
Non-operating revenue	(90.2)	20.2	(110.4)	>100%
Income before other revenue and transfers	(42.6)	67.6	(110.2)	>100%
Transfers to UVA	(0.1)	(0.1)	0.0	0.0%
Capital Appropriation	0.0	(22.1)	22.1	100.0%
Increase in net assets	(42.7)	45.4	(88.1)	>100%
Net assets-beginning of year	882.3	836.9	45.4	5.4%
Net assets-end of year	$839.6	$882.3	($42.7)	(4.8)%

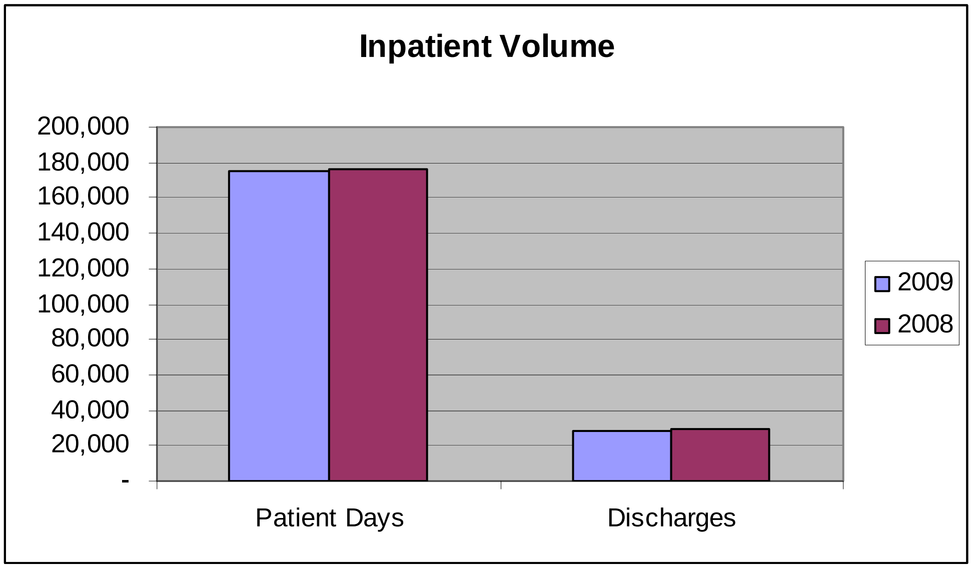
*millions

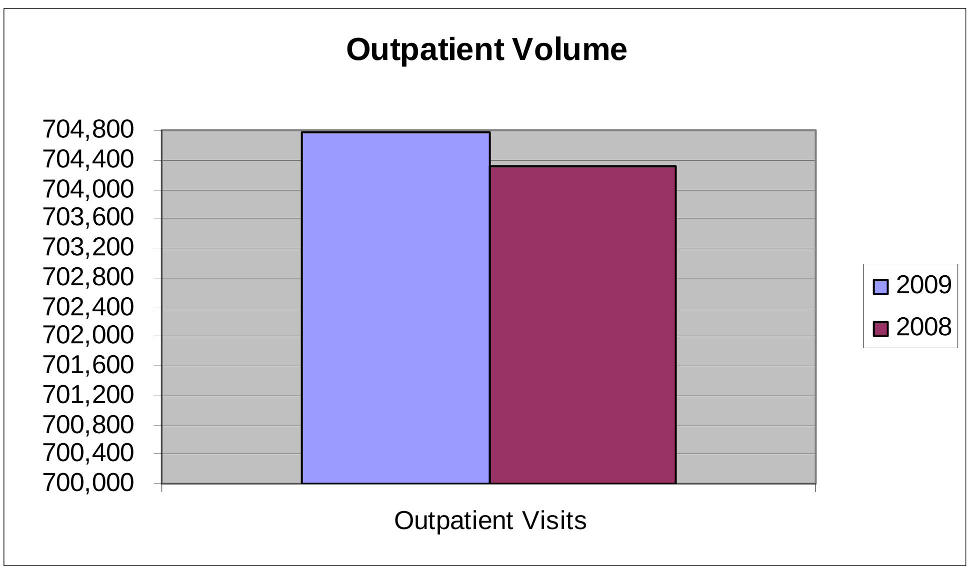
Operating Revenue

Inpatient admissions were below prior year, but the occupancy rate was relatively high as the number of observation patients exceeded prior year, average length of stay was higher than expected, and available beds were limited by the inpatient unit refurbishment project. On June 30, 2009, the Medical Center had 577 staffed inpatient beds in operation, compared to 589 beds in operation at the same time last year.

Inpatient admissions for fiscal year 2009 through June 30, 2009 were 4.7 percent below prior year. While most services have experienced a decline in admissions, Cardiology has experienced the largest decline. Both internal and external factors continue to keep inpatient admissions below expectations.

Although admissions decreased by 4.7 percent, inpatient days were 0.6 percent above prior year. This was due to a length of stay of 6.14 days compared to the 5.89 days in the prior year. Net patient service revenue for fiscal year 2009 was 3.1 percent below prior year, primarily because of the admissions shortfall.





<u>Operating Expenses</u>

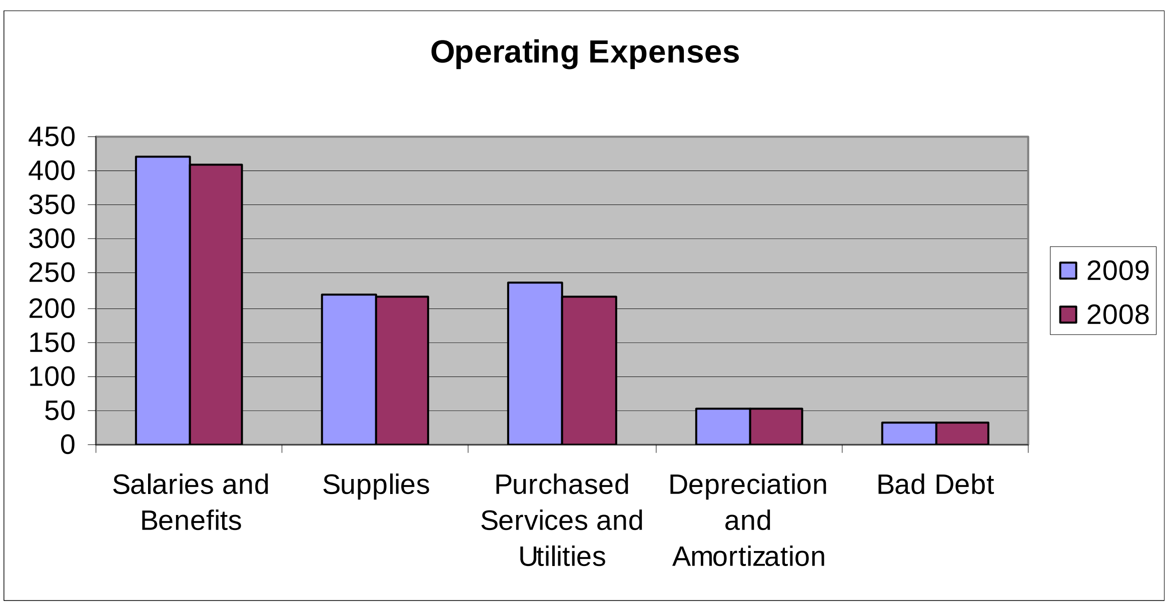
Total operating expenses for fiscal year 2009 were 3.9 percent above the prior year. Total labor expenses (including salaries and wages, fringe benefits and contract labor) grew 3.4 percent from the prior year.

Total paid employees, including contracted employees, are summarized below.

	FY 2009	FY 2008
Employee FTEs	6,139	6,094
Salary, Wage and Benefit Cost per FTE	$68,606	$66,873
Contract Labor FTEs	224	271
Total FTEs	6,363	6,365

Other operating expenses rose 4.4 percent from the prior year. The most significant increases were for purchased services and utilities during fiscal year 2009.

It has been widely reported that due to the current high unemployment indigent care has been increasing across the nation. For fiscal year 2009 indigent care has totaled $152.6 million which is 6.5 percent of gross revenue, while indigent care for the prior year was $133.3 million, 6.3 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 are reasons for concern as we look to future years.



* in millions

Non-Operating Revenue

Non-operating revenue decreased $110.4 million dollars from fiscal year 2008 primarily due to a $96.0 million loss recorded for the decrease in investments, both realized and unrealized, combined with a $13.4 million loss on the disposal of fixed assets, as discussed above.

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, 2009 and 2008 is as follows:

Statement of Cash Flows
For the years ended June 30, 2009 and 2008

			Increase(Decrease)	
	2009	2008	Amount	Percent
Cash flows from operating activities	$96.3	$81.8	$14.5	17.7%
Cash flows from non-capital financing activities	2.0	(23.3)	25.3	>100%
Cash flows from capital and related financing activities	(73.7)	(48.8)	(24.9)	(51.0)%
Cash flows from investing activities	38.9	(269.5)	308.4	>100%
Net increase(decrease) in cash and cash equivalents	63.5	(259.8)	323.3	>100%
Cash and cash equivalents-beginning of the year	73.9	333.7	(259.8)	(77.8)%
Cash and cash equivalents-end of the year	$137.4	$73.9	$63.5	85.9%

*-millions

The cash generated from operating activities increased by 17.7% from fiscal year 2008 to fiscal year 2009 primarily because of increased receipts from patients, third parties, and other miscellaneous sources. This increase was partially offset by higher payments to suppliers and employees, both of which reflect the impact of inflation in fiscal year 2009.

Cash flows from non-capital financing activities increased $25.3 million from fiscal year 2008. During the prior fiscal year, the Medical Center paid $25 million to the School of Medicine's "Fund for the Future."

Cash flows from capital and related financing activities decreased 51 percent or $24.9 million in fiscal 2009. The decrease is due to the following: a $22.1 million decrease in the State appropriation, a $28.6 million increase in the purchase of capital assets, a $4 million decrease in principal and interest payments, and a $22.2 million decrease in proceeds from debt.

Cash provided from investing activities increased $308.4 million from fiscal year 2008. As a result of the purchase and sale of investments during fiscal year 2009, investing cash increased by $189.6 million. Also, the Medical Center did not transfer cash and cash equivalents during fiscal year 2009 of $138.1 million. Offsetting this $327 million increase was a $4 million initial payment to Culpeper Regional Hospital and $14.1 million reduction in interest earned on investments.

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 Medical Center is constructing a Long Term Acute Care hospital at the Northridge property west of the main campus on U.S. highway 250. This new facility will provide for 40 long-term acute care beds for adults. Construction cost is expected to be $18.9 million and to be completed in 2010.

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 August 1, 2009, 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 has been building tools and workflows to support this process.

The healthcare industry continues to receive attention on both the state and federal levels of government. On the federal level, President Obama has made reforming healthcare a priority of his administration. On the State level, there are challenges to balance the State budget while maintaining payments to healthcare providers. At this time, we can not predict the outcome of any changes that may be forthcoming by either federal or state governmental agencies.

FINANCIAL STATEMENTS

UNIVERSITY OF VIRGINIA MEDICAL CENTER
STATEMENT OF NET ASSETS
As of June 30, 2009
With Comparative Amounts as of June 30, 2008

	2009	2008
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	$ 16,927,916	$ 32,215,918
Accounts receivable, net of estimated uncollectibles of $231,749,462 at June 30, 2009 and $208,819,972 at June 30, 2008	79,218,797	73,241,799
Due from University of Virginia	3,490,931	10,459,408
Inventories and prepaid expenses	25,391,944	21,424,097
Notes receivable	12,519	10,900
Total current assets	125,042,107	137,352,122
Noncurrent assets:		
Cash and cash equivalents restricted (Note 2)	30,060,040	28,813,426
Due from the University of Virginia - non current	4,277,622	2,757,584
Investments in pooled endowment funds (Note2)	250,004,898	240,148,381
Goodwill (Note 3)	12,859,927	13,301,767
Investments (Note 2)	145,348,171	145,073,350
Investments in affiliated companies (Note 4)	51,493,898	9,470,282
Land (Note 5)	9,298,287	8,190,246
Contruction in Progress (Note 5)	91,543,084	59,594,602
Depreciable land improvements, buildings, and equipment, less accumulated depreciation of $511,237,229 at June 30, 2009 and $472,456,719 at June 30, 2008 (Note 5)	373,000,903	356,278,157
Deferred bond discount and issue costs, net of amortization of $192,280 at June 30, 2009	3,062,776	2,111,873
Assets whose use is limited:		
Cash and cash equivalents (Note 2)	90,386,191	12,920,329
Investments (Note 2)	153,573,793	276,998,026
Total noncurrent assets	1,214,909,590	1,155,658,023
Total assets	$ 1,339,951,697	$ 1,293,010,145

UNIVERSITY OF VIRGINIA MEDICAL CENTER
STATEMENT OF NET ASSETS
As of June 30, 2009
With Comparative Amounts as of June 30, 2008

	2009	2008
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses (Note 7)	$ 108,107,736	$ 90,589,911
Deferred Revenue	18,732,736	18,732,735
Due to third-party payors	28,839,742	44,660,085
Current installments of long-term debt (Note 8)	15,654,042	13,582,701
Grants payable - current portion	7,155,610	5,832,949
Due to Culpeper Regional Hospital-current (Note 4)	14,000,000	-
Bond premium - current amortization	35,847	110,148
Total current liabilities	192,525,713	173,508,529
Long-term liabilities:		
Long-term debt (Note 8)	276,897,017	228,868,844
Grants payable - noncurrent portion	6,166,666	7,000,000
Due to Culpeper Regional Hospital-noncurrent (Note 4)	23,696,985	-
Bond Premium ,net of amortization	394,213	429,759
Noncontrolling Interest in Subsidiary	640,884	891,976
Total long-term liabilities	307,795,765	237,190,579
Total liabilities	500,321,478	410,699,108
NET ASSETS		
Invested in capital assets, net of related debt	305,486,891	271,860,301
Restricted for:		
Nonexpendable	53,099,192	53,099,192
Expendable	55,114,323	53,867,708
Unrestricted	425,929,812	503,483,836
Total net assets	839,630,218	882,311,037

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, 2009
With Comparative Amounts as of June 30, 2008

	2009	2008
Operating revenue:		
Net patient service revenue (Note 10)	$ 964,346,188	$ 934,967,323
University allocations (Note 11)	15,367,169	10,820,247
Other	27,802,322	25,161,119
Total operating revenue	1,007,515,679	970,948,689
Operating Expenses:		
Salaries and wages	334,807,054	324,611,514
Fringe benefits	86,362,286	82,911,048
Supplies	220,243,101	216,135,705
Purchased services and other expenses	217,153,582	201,444,418
Utilities	18,170,485	15,670,020
Provision for depreciation and amortization	52,312,975	51,272,980
Provision for bad debts	30,810,757	31,472,448
Total operating expenses	959,860,240	923,518,133
Income from operations	47,655,439	47,430,556
Nonoperating revenue (expenses):		
Gifts	765,949	858,136
Investment income	3,680,218	24,212,366
Net increase (decrease) in the fair value of investments	(67,690,067)	7,739,165
Net gain (loss) from investments in affiliated companies (Note 4)	923,637	1,485,566
Noncontrolling Interest in Subsidiary Income	(2,438,465)	(2,018,575)
State Appropriation	-	(22,123,000)
Interest expense	(7,677,340)	(8,214,045)
Loss on disposal of fixed assets	(14,160,762)	(1,064,959)
Other	(3,612,618)	(2,793,480)
Net nonoperating revenues (expenses)	(90,209,448)	(1,918,826)
Income before other revenues, expenses, gains or losses	(42,554,009)	45,511,730
Transfers to the University of Virginia	(126,810)	(150,000)
Increase (Decrease) in net assets	(42,680,819)	45,361,730
NET ASSETS		
Net assets - beginning of year	882,311,037	836,949,307
Net assets - end of year	$ 839,630,218	$ 882,311,037

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, 2009
With Comparative Amounts as of June 30, 2008

	2009	2008
Cash flows from operating activities:		
Receipts from patients and third-parties	$ 913,620,051	$ 884,944,878
Receipts from other revenue	35,077,390	19,868,135
Payments to employees	(411,955,762)	(405,404,488)
Payments to suppliers	(420,772,589)	(399,604,609)
Payment for utilities	(19,690,523)	(18,033,821)
Net cash provided by operating activities	96,278,567	81,770,095
Cash flows from non-capital financing activities:		
Payments on grants	1,322,661	961,478
Gifts	765,949	858,136
Transfer to the University of Virginia	(126,810)	(25,150,000)
Unearned Gift		
Net cash provided (used) by non-capital financing activities	1,961,800	(23,330,386)
Cash flows from capital and related financing activities:		
State appropriation for construction	-	(22,123,000)
Purchase of capital assets	(115,989,713)	(87,417,413)
Principal paid on capital debt	(13,306,834)	(16,766,829)
Interest paid on capital debt	(7,621,371)	(8,239,441)
Proceeds from incurring loan from the University	63,079,699	85,324,797
Proceeds from sale of capital assets	104,400	482,629
Net cash used by capital and related financing activities	(73,733,819)	(48,739,257)
Cash flows from investing activities:		
Interest on investments	13,133,658	27,285,153
Purchase of investments	(82,358,651)	(249,079,103)
Proceeds from sale of investments	205,161,962	182,280,476
Transfer to endowment	(87,000,000)	(87,000,000)
Transfer to investments		(138,162,712)
Other	(3,612,618)	(2,793,480)
Purchase of affiliate entities	(4,000,000)	-
Transfer to affiliate	1,310,355	(133,280)
Payment to affiliate	(3,716,780)	(1,894,269)
Net cash provided by investing activities	38,917,926	(269,497,215)
Net increase in cash and cash equivalents	63,424,474	(259,796,763)
Cash and cash equivalents - beginning of the year	73,949,673	333,746,436
Cash and cash equivalents - end of the year	$ 137,374,147	$ 73,949,673

UNIVERSITY OF VIRGINIA MEDICAL CENTER
STATEMENT OF CASH FLOWS
As of June 30, 2009
With Comparative Amounts as of June 30, 2008

	2009		2008	
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	$	47,655,439	$	47,430,556
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization		52,312,975		51,272,980
Change in assets and liabilities:				
Accounts receivables		(14,830,483)		(22,788,313)
Inventories and prepaid expenses		(5,487,886)		(2,587,528)
Accounts payable and accrued expenses		16,628,522		8,442,400
Net cash provided by operating activities	$	96,278,567	$	81,770,095

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

NOTES TO FINANCIAL STATEMENTS

UNIVERSITY OF VIRGINIA MEDICAL CENTER

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2009

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, 2008, 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 2009.

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 FHLB, FNMA, and the

University of Virginia Growth and Income Fund. These investments represent 3 percent, 12 percent, and 85 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 2009.

The following information is provided with respect to the risks associated with the Medical Center's cash, cash equivalents, and investments at June 30, 2009.

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	90,386,190.80	Aaa	
Virginia College Building Authority-1999A Pooled Bond Fund(SNAP)	(163.13)		
Total Cash Equivalents	90,386,027.67		
INVESTMENTS:			
U.S. Government Securities:			
FHLB-Federal Home Loan Bank DN	9,999,125.00	P-1	3%
FNMA-DN	34,999,191.67	P-1	12%
University of Virginia Long Term Pool	250,004,897.59		85%
Total Investments	295,003,214.26		
Total Cash Equivalents and Investments	385,389,241.93		

Interest Rate Risk – Maturities

Type of Investment	<1 year	1-5 years	6-10 years	Total
U.S. Government Securities:				
FHLB-Federal Home Loan Bank DN	9,999,125.00			9,999,125.00
FNMA-DN	34,999,191.67			34,999,191.67
University of Virginia Long Term Pool	250,004,897.59			250,004,897.59
Total Investments	295,003,214.26	0.00		295,003,214.26

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 FY2009.

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. Accordingly, $987,188 was recorded as goodwill for the purchase of the assets and is being amortized over five years. An additional $800,000 was recorded as goodwill for a non-competition agreement and is being amortized over its ten-year life.

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, 2009

	Common Stock and Equity Contribution	Share of accumulated income (loss)	Net investment
UVA Imaging, LLC	687,019	2,545,738	3,232,757
Community Medicine, LLC	1,810,000	(4,038,066)	(2,228,066)
Central Virginia Health Network, Inc.	232,500	(41,026)	191,474
Healthsouth, LLC	1,354,656	6,558,626	7,913,282
Valiance, LLC	0	1,276,392	1,276,392
University HealthSystem Consortium		646,899	646,899
Culpeper Regional Hospital	41,248,100	218,543	41,466,643

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, 2009, is presented as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Land	8,190,246	1,108,041	0	9,298,287
Construction in Progress	59,594,602	75,624,613	43,676,131	91,543,084
Depreciable Capital Assets				
Land Improvements	8,655,386	91,562	22,927	8,724,021
Buildings	495,103,134	45,450,295	2,293,944	538,259,485
Equipment-Fixed	22,478,077	420,710	312,907	22,585,880
Equipment-Movable	302,498,279	35,758,352	23,587,885	314,668,746
Total Depreciable Capital Assets	828,734,876	81,720,919	26,217,663	884,238,132
Less Accumulated Depreciation				
Land Improvements	7,021,332	198,804	22,927	7,197,209
Buildings	256,378,112	17,501,682	205,379	273,674,415
Equipment-Fixed	17,160,043	700,691	312,907	17,547,827
Equipment-Movable	191,897,232	32,400,113	11,479,567	212,817,778
Total Accumulated Depreciation	472,456,719	50,801,290	12,020,780	511,237,229
Depreciable Land Improvements, buildings, and equipment, net	$356,278,157	$30,919,629	$14,196,883	$373,000,903

6. ASSETS HELD BY TRUSTEES

Assets held by trustees consist of assets whose use is limited under indenture agreements. The Series 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, 2009:

Depreciation Reserve	134,759,164
Bond Sinking Fund-2006	539,307
Bond Sinking Fund-2008	66,821,957
Bond Sinking Fund-2009A	17,152,162
Bond Sinking Fund-2009B	13,636,670
Bond Sinking Fund-2009C	3,902,562
Bond Sinking Fund-2009D	14,157,245

*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, 2009, the components of accounts payable and accrued expenses consist of the following:

Vendor Accounts Payable	35,435,272
Due to the University	5,038,118
Accrued Leave	27,729,954
Accrued Allotments	6,911,714
Other Accounts Payable	11,477,316
Other Accrued Expenses	21,515,363
	108,107,737

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	4,080		325		3,755	342
Series 1999A	4.5-5.25	2013	18,935	39	0		18,974	0
Series 1999A Pooled	4.5-5.25	2019	400		195		205	205
Series 1999A Pooled Refinance	4.5-5.25		2,915		15		2,900	15
Series 2003A Pooled	4.5-6.00	2015	30,315		6235		24,080	6555
Series 2003B Pooled	4.7-6.00	2023	31,823		1453	1456	28,914	1564
UVA Pooled Debt	4.7-6.00	2024	14,758		840		13,918	836
Series 2006 Pooled	4.5-6.00	2027	35,713		1205		34,508	1262
Series 2007 Pooled	4.5-6.00	2014	11,064		1636		9,428	1,715
Series 2008 Pooled	4.5-6.00	2028	81,843		377		81,466	1,136
Series 2009 Pooled (1)	4.75			3,781	77		3,704	120
Series 2009 Pooled (2)	4.75			4,041	344		3,697	613
Series 2009 Pooled (3)	4.75			4,079			4,079	55
Series 2009 Pooled (4)	4.75			22,344			22,344	0
Series 2009 Pooled (5)	4.75			15,356			15,356	0
Series 2009 Pooled (6)	4.75			15,052			15,052	0
Total bonds payable			231,846	64,692	12,702	1,456	282,380	14,418
Notes Payable:								
UVA Imaging			2,760	850	1053		2,557	1009
Total Notes Payable			2,760	850	1053	0	2,557	1009
Capitalized Leases:			7,845		231		7,614	226
Total Long-term debt			242,451	65,542	13,986	1,456	292,551	15,653

*In thousands

Future Debt Requirements

Fiscal Year	Principal	Interest	Total
2010	15,652,740	8,876,750	24,529,490
2011	16,714,208	11,227,069	27,941,278
2012	18,875,686	11,953,630	30,829,316
2013	20,025,425	11,065,099	31,090,524
2014	21,976,143	10,095,487	32,071,631
2015-2019	71,478,712	38,147,978	109,626,690
2020-2024	71,540,008	22,268,974	93,808,982
2025-2029	52,721,100	6,533,611	59,254,711
2030-2034	884,089	1,659,134	2,543,222
2035-2039	719,515	2,110,835	2,830,350
2040-2044	661,388	2,619,764	3,281,151
2045-2047	1,302,044	6,872,445	8,174,489
	292,551,058	133,430,776	425,981,834

During the fiscal year ended June 30, 2009, the Commonwealth, on behalf of the University, issued bonds to the Medical Center for $4,041,120 for the equipment related to Hospital Expansion Project. The bonds repaid amounts previously borrowed from the University's Pooled Bond Program.

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 $109.7 million. 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 by April 2010.

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 $80.2 million 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 fiscal year 2010.

Also, the Medical Center began a Bed Remodeling Project. The Bed Remodeling Project will cost $25.8 million. Under the University of Virginia Pooled Debt Program, bonds were issued to the Medical Center for $20.5 million 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 June 2010.

The Medical Center started the Interoperative MRI and Heart Suite projects in May 2009. Bonds were issued for each project separately, $14.2 million and $14.5 million, 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.

10. NET PATIENT SERVICE REVENUE

The Medical Center's patient service revenue is as follows for the year ended June 30, 2009:

Gross Patient Service Revenue:	
Inpatient	
Routine	345,231,307
Ancillary	981,458,060
Outpatient	
Ancillary	1,005,807,374
Clinics	19,863,592
Total Gross Patient Revenue	2,352,360,333
Allowances for indigent care and contractual allowances	(1,388,014,145)
Net Patient Service Revenue	964,346,188

The Medical Center received $95,523,478 in fiscal year 2009 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, $20,824,656 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 $47,199,581 for the year ended June 30, 2009.

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, 2009 was $12,463,759.

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, 2009 was $2,903,410.

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 not exceeding the minimum requirements established by the Board of Visitors, for fiscal year 2009, no gain sharing amount is required.

13. COMMITMENTS

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

Year Ending June 30, 2009	Operating Leases
2010	6,944,863
2011	3,253,677
2012	1,579,431
2013	1,434,011
2014	1,241,359
2015-2019	1,548,404
2020-2024	823,200
2025-2029	823,200
2030-2034	823,200
2035-2039	823,200
2040-2044	823,200
2045-2049	823,200
2050	164,640
Total	21,105,585

The total rental expense for operating leases for the year ended June 30, 2009, was $7,945,972.

The Medical Center was party to construction contracts and commitments for the year ended June 30, 2009 totaling $299,929,302 of which $193,686,781 was incurred as of June 30, 2009.

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.

The Medical Center manages 63 outpatient clinics with HSF and is responsible for all costs associated with the operations of these provider-based clinics except for physicians' costs. The Medical Center has provider-based status with the federal government and has leased employment agreements with HSF for limited personnel who are HSF employees, but are performing Medical Center duties.

The Medical Center recorded $16,128,436 as expense payable to HSF for the provision of supervisory and administrative services, $17,433,710 for other services, and $938,746 for rental of space for the year ended June 30, 2009. In addition, the Medical Center recorded non-operating expenses of $1,289,891 payable to the Foundation. Prior to FY08, this expense had been recorded as supervisory and administrative services.

The Medical Center recorded income from HSF of $12,914,874 for clinic facility fees and other ervices, and $139,769 for the rental of space for clinics for the year ended June 30, 2009.

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 $11,423,707 for the year ended June 30, 2009. Contributions to the Optional Retirement Plans were calculated using base salaries of $201,217,184 for the year ended June 30, 2009. The contribution percentage amounted to seven percent for the year ended June 30, 2009.

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. CARECAST WRITE-OFF

Affecting total assets is a $13,359,760 write-off of an electronic medical record system that was not fully operational as part of the Medical Center's clinical information system infrastructure. The write off was necessary because the Medical Center decided not to proceed with complete installation of the system.

Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

November 20, 2009

The Honorable Timothy M. Kaine
Governor of Virginia

The Honorable M. Kirkland Cox
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, 2009, 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 October 30, 2008, we expressed an 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, 2009, 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, 2009, 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 on pages 1 through 9 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 November 20, 2009 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