UNIVERSITY OF VIRGINIA MEDICAL CENTER

AUDITED FINANCIAL REPORT

FOR THE YEAR ENDED

JUNE 30, 2011

- 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, 2011, with comparative information for the year ended June 30, 2010. 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 provide 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 619 licensed bed hospital with a state designated Level 1 trauma center located on the Charlottesville campus. The Medical Center also has a 40 licensed bed Transitional Care Hospital located west of the Charlottesville campus. In addition, primary and specialty care are provided at clinic locations throughout central Virginia communities.

Financial Highlights

Operating Results

	2011	2010
Operating revenues	$1,095.2	$1,059.2
Operating income	$95.6	$86.6
Net non-operating revenue	65.9	26.4
Net Income	$161.5	$113.0

At the end of fiscal year 2011, the operating income was $95.6 million, compared to fiscal year 2010 operating income of $86.6 million. The increase in the current fiscal year performance resulted from improved performance by management and staff in controlling labor and supply expense. 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. Additional contributing factors to the growth in operating income were the following: 4.2 percent decreased length of stay with the addition of the Transitional Care Hospital, 1.3 percent increase in discharges, 1.4 percent increase in surgeries, and 0.9 percent increase in outpatient visits. Increased discharges can be attributed to the following departments: Orthopedics, Neurology, Medicine, Pediatrics, and Surgery.

In 2010, the IRS made an administrative determination to accept the position that medical residents are exempt from FICA taxes based on the student exception for tax periods ending before April 1, 2005. The IRS subsequently established a process for medical residents and institutions to file claims. In fiscal year 2011, the Medical Center filed for a refund of $11 million. The Medical Center's claim has been perfected by the IRS. The Medical Center has reduced fringe benefit expense by this amount.

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 $39.4M million from fiscal year 2010 to fiscal year 2011, net of transfers to UVA or the Commonwealth. Several positive factors contributed to the increase. The higher fair market value of investments resulted in a $38.4 million increase during fiscal year 2011, as financial markets continued to improve, as well as a $12.6 million increase in gift income. This favorable outcome was partially offset by a $18.0 million gain sharing accrual made to the University of Virginia School of Medicine in fiscal year 2011, as compared to a $20.9 million payment made to the University of Virginia School of Medicine in fiscal year 2010.

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, 2011 and 2010

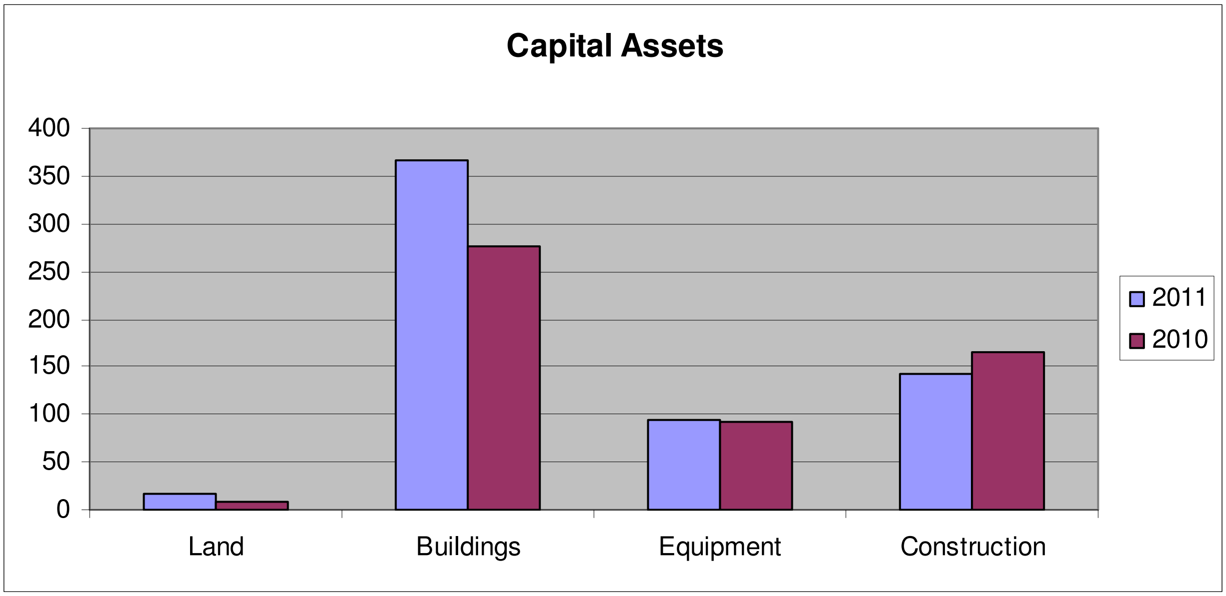
	2011	2010	Increase(Decrease) Amount	Percent
Assets:				
Current assets	$ 284.8	$ 278.9	$ 5.9	2.1%
Capital Assets	667.5	546.2	121.3	22.2%
Other non-current assets	748.9	719.9	29.0	4.0%
Total Assets	1,701.2	1,545.0	156.2	10.1%
Liabilities:				
Current Liabilities	213.6	215.3	(1.7)	-0.8%
Non-current liabilities	373.5	377.1	(3.6)	-1.0%
Total Liabilities	587.1	592.4	(5.3)	-0.9%
Net Assets				
Invested in capital assets, net of related debt	402.6	316.1	86.5	27.4%
Restricted for				
Nonexpendable	53.1	53.1	-	0.0%
Expendable	62.9	54.2	8.7	16.1%
Unrestricted	595.5	529.3	66.2	12.5%
Total net assets	$ 1,114.1	$ 952.7	$ 161.5	17.0%

* in millions

During fiscal year 2011, the Medical Center's financial position remained positive. Net assets increased $161.5 million, or 17.0 percent, primarily due to higher operating income and the increase in the fair market value of the Medical Center's investments.

The value of capital assets net of depreciation increased $121.3 million from the prior fiscal year. The Medical Center implemented an electronic medical record system for clinical documentation, totaling $55 million during fiscal year 2011. In addition, during fiscal year 2011, the Medical Center capitalized the transitional care hospital for $25.4 million.

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



*in millions

Total liabilities decreased $5.3 million. During fiscal year 2011, the Medical Center acquired debt for the Helicopter Pad, $6.8 million. In fiscal year 2011 principal payments, $18.8 million, were paid on debt. The remainder of the change is a result of operating activities and changes in working capital. Medical Center building capital costs were $89 million during fiscal year 2011. Contributing factors were the following buildings: the construction of the Emily Couric Clinical Cancer Center building totaling $60.5 million and the Transitional Care Hospital totaling $25.4 million.

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, 2011 and 2010 is as follows:

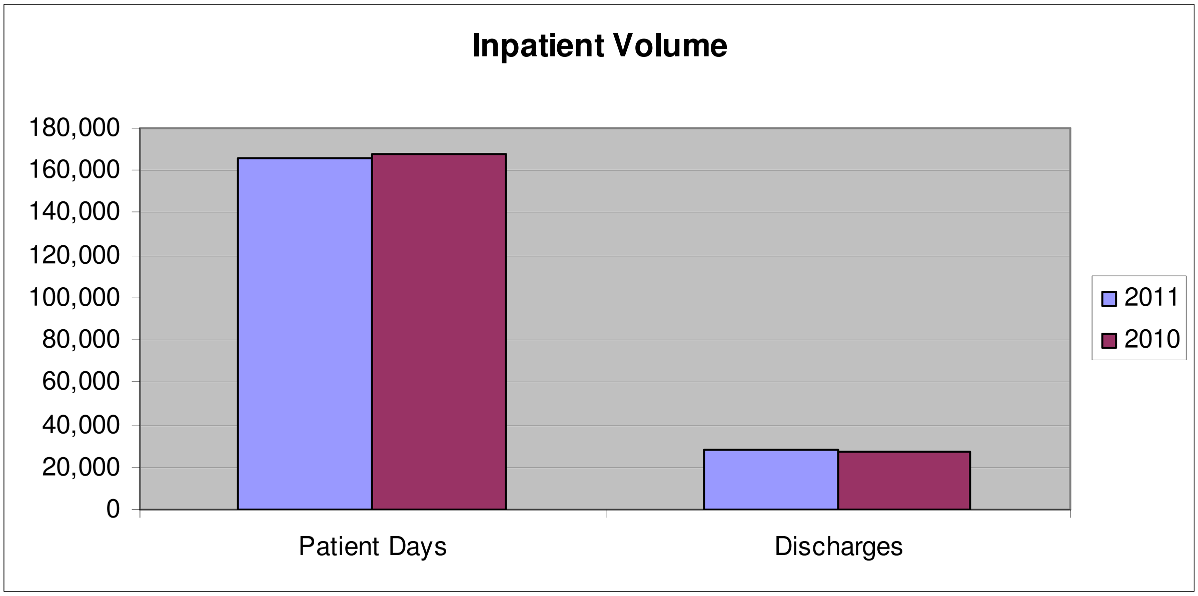
Statement of Revenues, Expenses and Changes in Net Assets
For the years ended June 30, 2011 and 2010

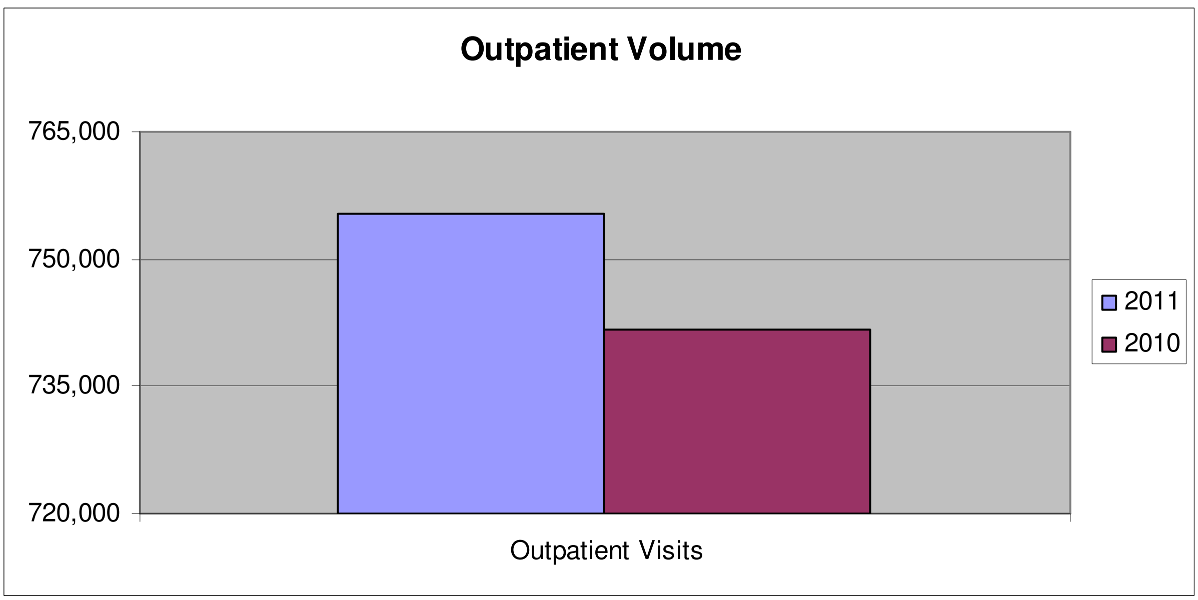
	2011	2010	Increase(Decrease) Amount	Increase(Decrease) Percent
Net patient service revenue	$ 1,042.1	$ 1,008.9	$ 33.2	3.3%
University allocations	23.3	20.2	3.1	15.3%
Other	29.8	30.1	(0.3)	-1.0%
Total operating revenue	1,095.2	1,059.2	36.0	3.4%
Salaries and Benefits	432.2	425.8	6.4	1.5%
Other operating expenses	567.4	546.8	20.6	3.8%
Total operating expenses	999.6	972.6	27.0	2.8%
Operating income	95.6	86.6	9.0	10.4%
Non-operating revenue	64.6	7.7	56.9	739.0%
Capital Appropriations	-	62.1	(62.1)	-100.0%
Income before other revenue and transfers	160.2	156.4	3.8	2.4%
Transfers to UVA/Commonwealth	1.3	(43.4)	44.7	-103.0%
Increase in net assets	161.5	113.0	48.5	42.9%
Net assets-beginning of year	952.6	839.6	113.0	13.5%
Net assets-end of year	$ 1,114.1	$ 952.6	$ 161.5	17.0%

*millions

Operating Revenue

Net patient service revenue for fiscal year 2011 was 3.3 percent above prior year. Net patient service revenue increased as a result of an overall increase in discharges of 1.3 percent and an overall increase of 1.7 percent in outpatient visit volume during the current fiscal year. These increases are a reversal of the trend the Medical Center had been experiencing in prior years. Also contributing was the increase of the case mix index and negotiated rate increases with managed care payers.

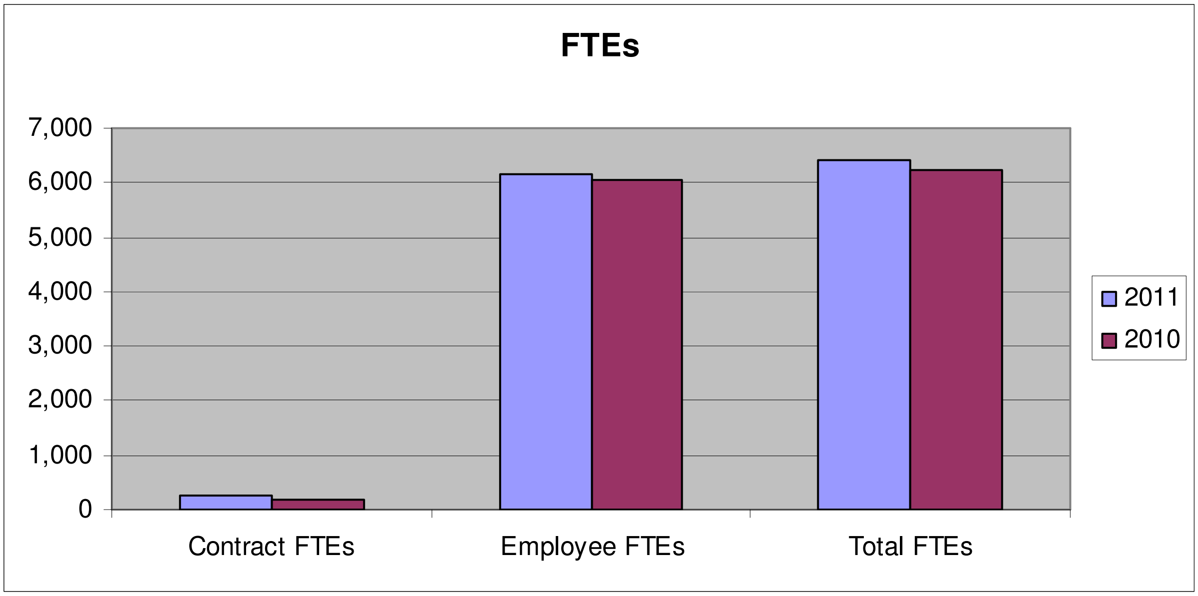


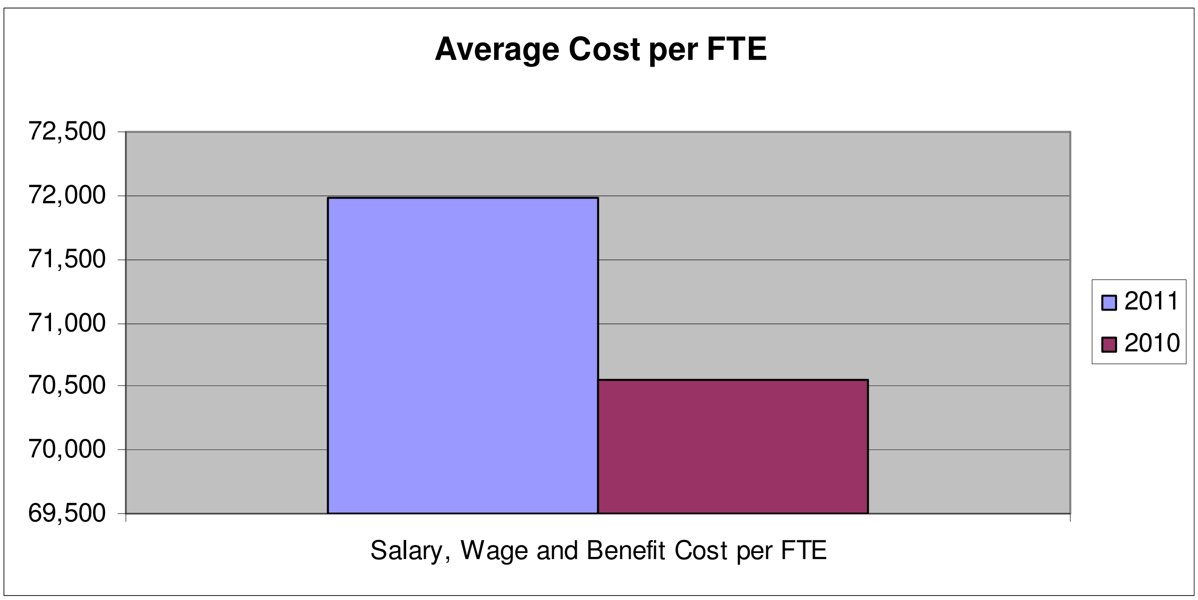


Operating Expenses

Total operating expenses for fiscal year 2011 were 2.8 percent above the prior year. Total labor expenses (including salaries and wages, fringe benefits and contract labor) grew 1.5 percent from the prior year. Employee and contract labor FTEs increased compared to fiscal year 2010, from 6,035 to 6,159 and from184 to 243, respectively. Total FTEs increased from 6,219 in fiscal 2010, to 6,402 in fiscal 2011, as a result of increased volume. The average salary, wage and benefit cost per FTE increased from $70,554 in the prior fiscal year, to $71,986 in fiscal year 2010, a 2.0 percent increase.

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



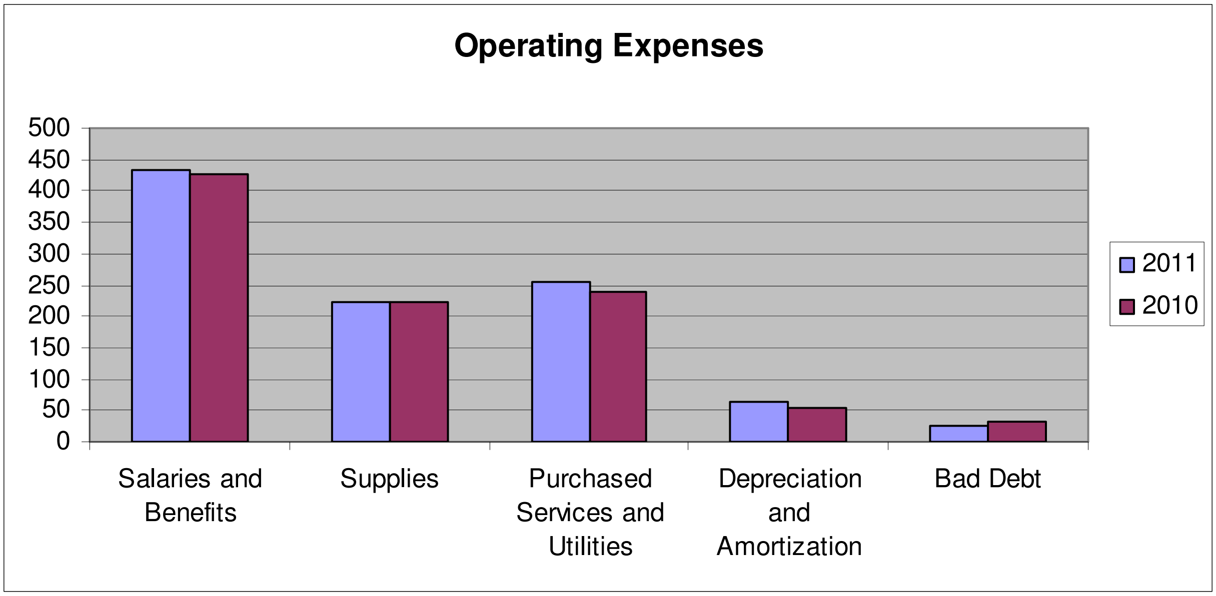


*the Average Cost per FTE does NOT include the $11 million reduction in FICA expense resulting from the Graduate Medical Student issue.

Other operating expenses rose 3.8 percent from the prior year, primarily due to an increase in purchased services, depreciation and utilities. In addition, overall inflation contributed to the increase in other operating expense.

It has been widely reported that due to the current high unemployment indigent care has been increasing across the nation. For fiscal year 2011 indigent care has totaled $195.6 million which is 6.8 percent of gross revenue. The comparable prior year amount for indigent care was $172.6 million and 6.6 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 $56.9 million dollars from fiscal year 2010 primarily due to a $38.4 million gain recorded for the increase in investments. This favorable effect was partially offset by a $18.0 million gain sharing accrual to the University of Virginia School of Medicine in fiscal year 2011.

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, 2011 and 2010 is as follows:

Statements of Cash Flows
For the years ended June 30, 2011 and 2010

			Increase(Decrease)	
	2011	2010	Amount	Percent
Cash flows from operating activities	$139.7	$119.1	$20.6	17.3%
Cash flows from non-capital financing activities	14.1	(45.3)	59.4	131.1%
Cash flows from capital and related financing activities	(201.5)	(33.5)	(168.0)	500.9%
Cash flows from investing activities	34.8	(9.6)	44.4	463.4%
Net increase(decrease) in cash and cash equivalents	(12.9)	30.7	(43.7)	-142.1%
Cash and cash equivalents-beginning of the year	168.1	137.4	30.7	22.4%
Cash and cash equivalents-end of the year	$155.2	$168.1	(12.9)	-7.7%

*-millions

The cash generated from operating activities increased by 17.3 percent from fiscal year 2010 to fiscal year 2011 primarily because of increased receipts from patients, third parties, and other miscellaneous sources.

Cash flows from non-capital financing activities increased $59.4 million from fiscal year 2010. During fiscal year 2010, the Medical Center transferred $43.4 million to the Commonwealth, of which $40.0 million was for a 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. An additional $3.4 million was also transferred to the Commonwealth in fiscal year 2010 to fulfill obligations imposed by the Caboose Bill. During fiscal year 2011, the Medical Center did not have any transfers to or from the Commonwealth. During fiscal year 2011, the Medical Center received $13.2 million in gift funds for the Emily Couric Clinical Cancer Center.

Cash flows from capital and related financing activities increased 500% percent or $168 million in fiscal 2011. The primary reason for the increase is $183 million for the purchase of capital assets , which was offset by $8.4 million in bond proceeds during fiscal year 2011.

Cash provided from investing activities increased $44.4 million from fiscal year 2010. Cash increased as a result of the purchase and sale of investments and interest earnings during fiscal year 2011.

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.

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.

As part of the act increasing the Federal debt ceiling passed by Congress and signed by President Obama. A Joint Select Committee on Deficit Reduction will be formed. By November 24, 2011, the twelve member Committee must report recommendations for $1.5 trillion in debt reduction over ten years. If the committee members do not reach consensus, or if Congress does not agree on a debt plan, the current law has a trigger mechanism that will automatically guarantee the $1.5 trillion savings beginning in 2013 through cuts in federal spending Included in these cuts would be a reduction in Medicare payments to hospitals and other providers.

FINANCIAL STATEMENTS

UNIVERSITY OF VIRGINIA MEDICAL CENTER
STATEMENT OF NET ASSETS
As of June 30, 2011
With Comparative Amounts as of June 30, 2010

	2011	2010
A S S E T S		
Current assets:		
Cash and cash equivalents (Note 2)	117,339,923	135,493,682
Accounts receivable, net of estimated uncollectibles of $267,422,561 at June 30, 2011 and $237,343,835 at June 30, 2010	142,279,029	116,628,841
Due from University of Virginia	109,830	327,121
Inventories and prepaid expenses	25,051,167	26,434,282
Notes receivable	8,320	15,126
Total current assets	284,788,269	278,899,051
Noncurrent assets:		
Cash and cash equivalents restricted (Note 2)	37,814,352	29,123,892
Due from the University of Virginia - non current	22,725,140	23,406,296
Investments in pooled endowment funds (Note2)	404,834,685	333,603,383
Goodwill (Note 3)	11,938,447	12,431,421
Investments (Note 2)	138,524,567	145,926,525
Investments in affiliated companies (Note 4)	55,785,864	53,019,628
Land (Note 5)	17,392,967	9,298,287
Contruction in Progress (Note 5)	143,160,458	165,418,909
Depreciable land improvements, buildings, and equipment, less accumulated depreciation of $597,939,566 at June 30, 2011 and $553,251,782 at June 30, 2010 (Note 5)	506,986,293	371,526,528
Deferred bond discount and issue costs, net of amortization of $93,154 at June 30, 2011	4,011,607	4,104,761
Assets whose use is limited:		
Cash and cash equivalents (Note 2)	-	-
Investments (Note 2)	73,270,113	118,240,119
Total noncurrent assets	1,416,444,492	1,266,099,748
Total assets	1,701,232,761	1,544,998,800

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

UNIVERSITY OF VIRGINIA MEDICAL CENTER - All Business Units
STATEMENT OF NET ASSETS
As of June 30, 2011
With Comparative Amounts as of June 30, 2010

	2011	2010
L I A B I L I T I E S A N D N E T A S S E T S		
Current liabilities:		
Accounts payable and accrued expenses (Note 7)	129,569,988	130,438,284
Deferred Revenue	16,935,937	16,896,543
Due to third-party payors	8,090,679	22,817,236
Current installments of long-term debt (Note 8)	22,840,591	18,861,617
Grants payable - current portion	6,057,316	4,168,560
Due to Culpeper Regional Hospital-current (Note 8)	30,000,000	22,000,000
Bond premium - current amortization	109,847	110,750
Total current liabilities	213,604,357	215,292,991
Long-term liabilities:		
Long-term debt (Note 8)	341,912,494	335,822,421
Grants payable - noncurrent portion	5,625,001	6,666,668
Other Long-term liabilities	17,900,000	17,900,000
Due to Culpeper Regional Hospital-noncurrent	7,693,344	15,692,174
Bond Premium ,net of amortization of $109,847 at at June 30, 2011	99,615	208,559
Noncontrolling Interest in Subsidiary	260,300	760,839
Total long-term liabilities	373,490,754	377,050,661
Total liabilities	587,095,112	592,343,652
NET ASSETS		
Invested in capital assets, net of related debt	402,643,692	316,058,764
Restricted for:		
Nonexpendable	53,099,192	53,099,192
Expendable	62,868,634	54,178,174
Unrestricted	595,526,131	529,319,017
Total net assets	1,114,137,650	952,655,148
Total liabilities and net assets	1,701,232,761	1,544,998,800

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

UNIVERSITY OF VIRGINIA MEDICAL CENTER - All Business Units
STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN NET ASSETS
As of June 30, 2011
With Comparative Amounts as of June 30, 2010

	2011	2010
Operating revenue:		
Net patient service revenue (Note 10)	$1,042,100,331	$1,008,857,929
University allocations (Note 11)	23,316,240	20,206,122
Other	29,751,071	30,132,509
Total operating revenue	1,095,167,642	1,059,196,560
Operating Expenses:		
Salaries and wages	351,766,385	338,827,496
Fringe benefits	80,457,335	86,963,052
Supplies	222,608,003	223,740,430
Purchased services and other expenses	235,020,467	218,438,489
Utilities	20,494,465	19,109,488
Provision for depreciation and amortization	63,428,344	54,528,061
Provision for bad debts	25,837,665	30,947,700
Total operating expenses	999,612,663	972,554,716
Income from operations	95,554,979	86,641,844
Nonoperating revenue (expenses):		
Gifts	13,262,360	645,471
Investment income	(1,077,465)	(391,339)
Net increase (decrease) in the fair value of investments	80,250,258	41,822,694
Net gain (loss) from investments in affiliated companies (Note 4)	3,177,423	1,761,281
Noncontrolling Interest in Subsidiary Income	(1,894,045)	(2,429,499)
State Appropriation	-	62,123,000
Interest expense	(7,724,616)	(7,307,357)
Loss on disposal of fixed assets	717,386	(705,865)
Gain Sharing School of Medicine (Note 12)	(18,044,078)	(20,998,759)
Other	(4,078,405)	(4,702,937)
Net nonoperating revenues	64,588,818	69,816,690
Income before other revenues, expenses, gains or losses	160,143,797	156,458,535
Transfers to the Commonwealth/UVA	1,338,706	(43,433,606)
Increase (decrease) in net assets	161,482,503	113,024,929
NET ASSETS		
Net assets - beginning of year	952,655,147	839,630,218
Net assets - end of year	1,114,137,650	952,655,147

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 2011
With Comparative Amounts as of June 30 2010

	2,011	2,010
Cash flows from operating activities:		
Receipts from patients and third-parties	999,329,325	943,922,867
Receipts from other revenue	25,050,190	24,592,268
Payments to employees	(440,688,665)	(429,356,576)
Payments to suppliers	(423,560,434)	(399,087,459)
Payment for utilities	(20,455,071)	(20,945,680)
Net cash provided by operating activities	139,675,344	119,125,420
Cash flows from non-capital financing activities:		
Payments on grants	847,089	(2,487,048)
Gifts	13,262,360	645,471
Transfers to the Commonwealth	0	(43,433,606)
Net cash provided (used) by non-capital financing activities	14,109,449	(45,275,183)
Cash flows from capital and related financing activities:		
State appropriation for construction		40,000,000
Purchase of capital assets	(183,852,809)	(127,196,237)
Principal paid on capital debt	(18,638,680)	(15,427,316)
Interest paid on capital debt	(7,764,684)	(7,310,875)
Proceeds from incurring loan from the University	8,446,435	76,086,531
Proceeds from sale of capital assets	281,151	310,398
Net cash used by capital and related financing activities	(201,528,587)	(33,537,499)
Cash flows from investing activities:		
Interest on investments	7,941,491	6,858,161
Purchase of investments	41,910,266	(8,414,496)
Proceeds from sale of investments		44,372,964
Transfer to endowment	0	(50,000,000)
Other	(11,877,796)	(2,619,227)
Transfer to affiliate	(1,777,467)	(1,889,121)
Payment affiliate	(1,413,454)	2,119,862
Net cash provided by investing activities	34,783,040	(9,571,857)
Net increase in cash and cash equivalents	(12,960,754)	30,740,880
Cash and cash equivalents - beginning of the year	168,115,027	137,374,147
Cash and cash equivalents - end of the year	$ 155,154,274	$ 168,115,027

Reconciliation of operating income to net cash provided by operating activities:		
Operating income	95,554,979	86,641,844
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	63,428,344	54,528,061
Change in assets and liabilities		
Accounts receivables	(40,152,648)	(40,271,346)
Inventories and prepaid expenses	2,064,270.24	(20,171,014)
Accounts payable and accrued expenses	18,780,399	38,397,875
Net cash provided by operating activities	$ 139,675,344	$ 119,125,420

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 of 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, 2010, from which the summarized information is derived.

N. Reclassifications

Certain amounts from prior year financial statements needed to be 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 2011.

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. The Medical Center does not have any 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. The Medical Center investments are 100 percent invested in the University of Virginia Growth and Income Fund.

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 2011.

The following information is provided with respect to the risks associated with the Medical Center's cash, cash equivalents, and investments at June 30, 2011.

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	-		
Virginia College Building Authority-1999A Pooled Bond Fund(SNAP)	(168.98)		
Total Cash Equivalents	(168.98)		
INVESTMENTS:			
U.S. Government Securities:			
FNMA	-		0%
University of Virginia Long Term Pool	404,834,684.84		100%
Total Investments	404,834,684.84		
Total Cash Equivalents and Investments	404,834,515.86		

Interest Rate Risk – Maturities

Type of Investment	<1 year	1-5 years	6-10 years	Total
U.S. Government Securities:				
FNMA	-			-
University of Virginia Long Term Pool	404,834,684.84			404,834,684.84
Total Investments	404,834,684.84	0.00		404,834,684.84

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 fiscal year 2011.

3. GOODWILL

In July 2004, the Medical Center purchased Virginia Ambulatory Surgery Center, (VASI), now known as the University of 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 20 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 and at the Transistional Care Hospital. UVI 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 the Medical Center's investment totaled $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, 2011

	Common Stock and Equity Contribution	Share of accumulated income (loss)	Net investment
UVA Imaging, LLC	687,019	4,868,084	5,555,103
Community Medicine, LLC	1,810,000	(4,393,218)	(2,583,218)
Central Virginia Health Network, Inc.	232,500	(41,026)	191,474
Healthsouth, LLC	0	8,777,256	8,777,256
Valiance, LLC	0	1,694,631	1,694,631
University HealthSystem Consortium		551,839	551,839
Culpeper Regional Hospital	41,248,100	3,323,354	44,571,454

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, 2011, is presented as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Land	9,298,287	8,094,679	0	17,392,966
Construction in Progress	165,418,909	100,610,038	122,868,489	143,160,458
Depreciable Capital Assets				
Land improvements	8,839,856	99,213	3,593	8,935,476
Buildings	569,776,535	117,192,933	6,482,247	680,487,221
Equipment-Fixed	23,054,929	486,044	1,380,487	22,160,486
Equipment-Movable	321,838,790	28,599,280	45,546,648	304,891,422
Total depreciable capital assets	923,510,110	146,377,470	53,412,975	1,016,474,605
Less accumulated depreciation				
Land improvements	7,391,809	98,687	3,593	7,486,903
Buildings	294,193,024	25,678,942	3,849,006	316,022,960
Equipment-fixed	18,113,010	664,543	1,399,162	17,378,391
Equipment-movable	233,553,939	27,888,150	45,546,648	215,895,441
Total accumulated depreciation	553,251,782	54,330,322	50,798,409	556,783,695
Depreciable land improvements, buildings and equipment, net	370,258,328	92,047,148	2,614,566	459,690,910
Depreciable Intangible Assets	1,519,873	86,931,381	0	88,451,254
Less accumulated amortization: Intangible Assets	251,673	40,904,198	0	41,155,871
Depreciable intangible assets	1,268,200	46,027,183	0	47,295,383
Total depreciable capital and intangible assets (net)	371,526,528	138,074,331	2,614,566	506,986,293

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, 2009, 2010 and 2011 bond resolutions require 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, 2011:

	FY11
Depreciation Reserve	0
Bond Sinking Fund-2008	19,192,491
Bond Sinking Fund-2009A	9,722,576
Bond Sinking Fund-2009B	3,657,448
Bond Sinking Fund-2009C	2,291,666
Bond Sinking Fund-2009D	9,310,399
Bond Sinking Fund-2010A	2,627,493
Bond Sinking Fund-2010B	13,824,116
Bond Sinking Fund-2010C	4,126,401
Bond Sinking Fund-2010D	2,500,000
Bond Sinking Fund-2010E	174,075
Bond Sinking Fund-2010F	0
Bond Sinking Fund-2011A	5,843,635

*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, 2011, the components of accounts payable and accrued expenses consist of the following:

Vendor Accounts Payable	$22,041,297
Due to the University	21,119,525
Accrued Leave	29,288,982
Accrued Allotments	18,174,898
Other Accounts Payable	10,285,356
Other Accrued Expenses	28,659,930
	$129,569,988

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	3,413		359		3,054	376
Series 1999A	4.5-5.25	2013	18,974		5953		13,021	6310
Series 1999A Pooled	4.5-5.25	2019	0		0		0	0
Series 1999A Pooled Refinance	4.5-5.25		2,885		230		2,655	240
Series 2003A Pooled	4.5-6.00	2015	17,525		210		17,315	220
Series 2003B Pooled	4.7-6.00	2023	27,011		1448		25,563	1592
UVA Pooled Debt	4.7-6.00	2024	13,082		875		12,207	880
Series 2006 Pooled	4.5-6.00	2027	33,246		1322		31,924	1385
Series 2007 Pooled	4.5-6.00	2014	7,436		1796		5,640	1,881
Series 2008 Pooled	4.5-6.00	2028	80,330		1972		78,358	2,719
Series 2009 Pooled (1)	4.75	2029	3,584		126		3,458	132
Series 2009 Pooled (2)	4.75	2029	3,084		643		2,441	674
Series 2009 Pooled (3)	4.75	2029	4,024		135		3,889	142
Series 2009 Pooled (4)	4.75	2029	22,344		414		21,930	859
Series 2009 Pooled (5)	4.75	2029	15,356		510		14,846	582
Series 2009 Pooled (6)	4.75	2029	15,052		256		14,796	529
Series 2010 Pooled (1)	4.75	2030	6,881		118		6,763	244
Series 2010 Pooled (2)	4.75	2030	25,996				25,996	704
Series 2010 Pooled (3)	4.75	2030	4,251		157		4,094	164
Series 2010 Pooled (4)	4.75	2030	8,253				8,253	204
Series 2010 Pooled (5)	4.75	2030	5,182		176		5,006	184
Series 2010 Pooled (6)	4.75	2030	20,738		334		20,404	692
Series 2010 Pooled (7)	4.75	2030	5,672		176		5,496	184
Series 2011 Pooled	4.75	2031	0	7,007			7,007	19
							0	
Total bonds payable			344,319	7,007	17,210	0	334,116	20,916
Notes Payable:								
UVA Imaging			3,017	2,210	1,277		3,950	1321
Total Notes Payable			3,017	2,210	1,277	0	3,950	1321
Capitalized Leases:								
Kirtley			7,348		227		7,121	223
Transitional Care Hospital			0	20,000	431		19,569	380
Total Capitalized Leases:			7,348	20,000	658	0	26,690	603
Total Long-term debt			354,684	29,217	19,145	0	364,756	22,840

*In thousands

Future Debt Requirements

Fiscal Year	Principal	Interest	Total
2012	22,840,591	15,901,956	38,742,547
2013	23,614,974	15,705,861	39,320,835
2014	25,737,904	15,113,694	40,851,598
2015	24,378,271	13,359,409	37,737,680
2016	16,148,529	12,225,676	28,374,205
2017-2021	91,030,788	47,052,415	138,083,203
2022-2026	96,066,027	26,457,732	122,523,759
2027-2031	52,256,878	6,270,660	58,527,538
2032-2036	5,602,473	1,745,054	7,347,527
2037-2041	5,384,476	2,207,766	7,592,241
2042-2046	639,473	2,729,248	3,368,721
2047-2048	1,052,700	6,281,713	7,334,413
	$364,753,085	$165,051,183	$529,804,269

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 capital expenditure totalled $109.7 million. The purpose of this project was 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 11th Street 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 completed the Emily Couric Clinical Center during fiscal year 2011.

In addition to the Emily Couric Clinical Cancer Center, the Medical Center began the Hospital Bed Expansion Project in fiscal year 2008. 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 2012. As part of the Bed Expansion Project, the Elevator Banks and Fire Alarm system are to be updated at an expected cost of $8.2 million, using bonds issued under the University of Virginia Pooled Debt program.

Also, the Medical Center began a Bed Remodeling Project in fiscal year 2007. 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 fiscal year 2012.

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. The expected completion date is during fiscal year 2012.

During fiscal year 2011, the Medical Center began construction of the new Helipad on the roof of the Medical Center. The projected cost of the Helipad project is $6.8 million funded through the University of Virginia Pooled Debt Program. The expected completion date is 2013.

At the end of fiscal year 2011, the Medical Center broke ground for the Battle Building. Once completed, the Battle Building will contain the University of Virginia Children's Hospital and to replace the current University of Virginia Outpatient Surgery Center. The project is expected to cost $147 million with expected completion in fiscal year 2014.

10. NET PATIENT SERVICE REVENUE

The Medical Center's patient service revenue is as follows for the year ended June 30, 2011:

Gross Patient Service Revenue:	
Inpatient	
Routine	$379,192,878
Ancillary	1,210,117,130
Outpatient Services	
Ancillary	1,245,250,354
Clinics	6,103,288
Total Gross Patient Revenue	2,840,663,649
Allowances for indigent care and contractual adjustments	(1,798,563,318)
Net Patient Service Revenue	$1,042,100,331

The Medical Center received $94,472,524 in fiscal year 2011 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, $17,000,000 was transferred to Health Services Foundation (currently known as the University Physicians Group) for related physician services and is included in the purchased services expense.

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 fiscal year 2011 was $19,775,662.

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 fiscal year 2011 was $,3,540,578.

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 2011, the gain sharing amount is $18,044,078.

13. COMMITMENTS

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

Year Ending June 30,	Operating Leases
2012	$6,783,196
2013	3,597,215
2014	3,071,528
2015	2,403,839
2016	1,938,703
2017-2021	1,531,625
2022-2026	823,200
2027-2031	823,200
2032-2036	823,200
2037-2041	823,200
2042-2046	823,200
2047-2050	493,920
	0
Total	$23,936,026

The total rental expense for operating leases for the year ended June 30, 2011, was $7,973,054.

The Medical Center was party to construction contracts and commitments for the year ended June 30, 2011 totaling $307,128,888 of which $270,231,991 was incurred as of June 30, 2011.

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. Effective August 1, 2011 HSF will be formally known as the University of Virginia Physicians Group (UPG).

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 fiscal year 2011, 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 $21,483,408 as expense payable to the Foundation for the provision of supervisory and administrative services, $20,106,720 for other services, and $3,479,731 or rental of space for the year ended June 30, 2011. In addition, the Medical Center recorded non-operating expenses of $4,071,650 payable to the Foundation. Prior to fiscal year 08 this expense had been recorded as supervisory and administrative services.

The Medical Center recorded income from the Foundation of $12,889,617 for clinic facility fees and other services, and $569,435 for the rental of space for clinics for the year ended June 30, 2011.

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. Approximately 10 percent of all full-time classified salaried employees participate in a defined benefit pension plan administered by the Virginia Retirement System (VRS) for the Medical Center. 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 $12,087,267 for the year ended June 30, 2011. Contributions to the Optional Retirement Plans were calculated using base salaries of $219,305,274 for the year ended June 30, 2011. The contribution percentage amounted to five percent for the year ended June 30, 2011.

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 Commonwealth's 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. CONTINGENCIES

The Medical Center has a contingent liability as of the end of June 30, 2011 totaling $17,900,000.

In October 2010, the Medical Center was informed that the federal government's Center for Medicare Services (CMS) issued notices to Virginia's Department of Medical Assistance Services (DMAS) disallowing $34,089,804 in Disproportionate Share Hospital adjustment payments to DMAS for fiscal years 2006 through 2009. Based on the receipt of final settlements in the years in question, the Medical Center's portion of the loss would be $17,921,094 for the federal portion and DMAS could elect to recoup the state portion of another $17,921,094. CMS contends that DMAS inappropriately applied payments against subsequent year allotments. DMAS has appealed this disallowance and any repayment is deferred, pending the appeals resolution. The appeal has not progressed sufficiently to determine whether DMAS will be required to return any payments to the federal program and, if so, whether DMAS will require any providers, including the Medical Center, to return any payments to DMAS. The financial impact of the final resolution of this case on the Medical Center is not known at this time; therefore, no liability has been recorded in the financial statements.

19. SUBSEQUENT EVENT

The Medical Center purchased an oncology practice, Hematology Oncology Patient Enterprises, Inc. on July 15, 2011. The purchase price was $15,000,000. HOPE, is wholly-owned by the Medical Center, and is comprised of the following clinics: Pantops, Farmville, Culpeper and Augusta.

Commonwealth of Virginia

Auditor of Public Accounts

Walter J. Kucharski
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

October 31, 2011

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, 2011, 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 summarized comparative information has been derived from the University of Virginia Medical Center's 2010 financial statements, and in our report dated October 29, 2010, 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, 2011, 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, 2011, 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 10 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 31, 2011, 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.

Walter J. Kucharski

AUDITOR OF PUBLIC ACCOUNTS

UNIVERSITY OF VIRGINIA MEDICAL CENTER
Charlottesville, Virginia