

**UNIVERSITY OF VIRGINIA
BOARD OF VISITORS
MEETING OF THE
MEDICAL CENTER
OPERATING BOARD
December 15, 2005**

UNIVERSITY OF VIRGINIA
MEDICAL CENTER OPERATING BOARD

Thursday, December 15, 2005
12:15 - 3:15 p.m.
Medical Center Board Room

Committee Members:

E. Darracott Vaughan, Jr. M.D., Chair	
Thomas F. Farrell, II	Randy J. Koporc
Eugene V. Fife	Vincent J. Mastracco, Jr.
W. Heywood Fralin	Lewis F. Payne
Sam D. Graham, Jr., M.D.	Randl L. Shure
	Edward J. Stemmler, M.D.

Ex Officio Members:

Arthur Garson, Jr., M.D.
John B. Hanks, M.D.
R. Edward Howell
Leonard W. Sandridge

AGENDA

	<u>PAGE</u>
I. REPORTS BY THE VICE PRESIDENT AND CHIEF EXECUTIVE OFFICER OF THE MEDICAL CENTER (Mr. Howell)	
A. Vice President's Remarks	1
B. Finance, Write-offs and Operations (Mr. Howell to introduce Mr. Larry L. Fitzgerald and Ms. Margaret M. Van Bree, Mr. Fitzgerald to report on Finance and Write-offs; Ms. Van Bree to report on Operations)	2
C. Capital Projects	15
D. Buchanan Endowment Report - Advancement of Clinical Trials for Improving Outcomes in Neuro-Oncology (Mr. Howell to introduce Dr. David Schiff; Dr. Schiff to report)	18
E. Reports Required for Joint Commission on Accreditation of Health Care Organizations	20
F. Integrated Healthcare Information Management System	25
G. Health System Development	27
II. REPORT BY THE PRESIDENT OF THE CLINICAL STAFF OF THE MEDICAL CENTER (Dr. Hanks)	30

III. EXECUTIVE SESSION

- ACTION ITEMS - To consider proposed personnel actions regarding the appointment, reappointment, resignation, assignment, performance, and credentialing of specific medical staff and health care professionals, as provided for in Section 2.2-3711(A)(1) of the Code of Virginia.
- Discussion of proprietary, business-related information pertaining to the operations of the Medical Center, where disclosure at this time would adversely affect the competitive position of the Medical Center, specifically:
 - Strategic financial, market and resource considerations and efforts regarding the Medical Center, necessary to assess and discuss the comparative standing of the Medical Center in a competitive health care marketplace, and which impact the long-range strategic goals of the Medical Center and its mission of patient care, education, and research;
 - Confidential information and data related to patient safety in clinical care, for the purpose of improving patient care at the Medical Center;
 - Discussion of performance issues regarding a contract, in consultation with legal counsel, where disclosure would adversely affect the negotiating strategy of the Medical Center; and
 - Consultation with legal counsel regarding the Medical Center's compliance with relevant federal reimbursement regulations, licensure and accreditation standards, which will also involve proprietary business information of the Medical Center and evaluation of the performance of specific Medical Center personnel.

The relevant exemptions to the Virginia Freedom of Information Act authorizing the discussion and consultation described above are provided for in Section 2.2-3711 (A) (1), (6), (7), (8), and (23) of the Code of Virginia. The meeting of the Medical Center Operating Board is further privileged under Section 8.01-581.17 of the Code of Virginia.

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: December 15, 2005

COMMITTEE: Medical Center Operating Board

AGENDA ITEM: I.A. Vice President's Remarks

ACTION REQUIRED: None

DISCUSSION: The Vice President and Chief Executive Officer of the Medical Center will inform the Medical Center Operating Board of recent events that do not require formal action, but of which it should be made aware.

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: December 15, 2005

COMMITTEE: Medical Center Operating Board

AGENDA ITEM: I.B. Finance, Write-offs and Operations

ACTION REQUIRED: None

BACKGROUND: The Medical Center prepares a periodic financial report, including write-offs of bad debt and indigent care, and reviews it with the Executive Vice President and Chief Operating Officer of the University before submitting the report to the Medical Center Operating Board. In addition, the Medical Center provides an update of significant operations of the Medical Center occurring since the last Medical Center Operating Board meeting.

DISCUSSION:

FINANCE REPORT

The first quarter of Fiscal Year 2006 ended with an operating margin of 5.8 percent, which was above the budget of 5.6 percent. Historically the Medical Center has experienced its highest operating margin in the first quarter. The operating margin budgeted for all of Fiscal Year 2006 is 4.8%. Total operating revenue and operating expenses were below budget but above the prior year.

For the first three months of Fiscal Year 2006, inpatient admissions were 2.6 percent below budget but 5.2 percent above prior year. For the same time period, observation patients were 2.3 percent below budget and 8.7 percent below prior year. Taken together, combined admissions and observation patients are 2.6 percent below budget and 2.1 percent above Fiscal Year 2005.

Patient days were only 0.8 percent below budget, which can be explained by an average length of stay of 5.80 days, compared to the 5.63 days budgeted length of stay. The Medicare case mix index of 1.96 is above both budget and prior year, and is contributing to the higher than expected length of stay. The case mix index of 1.96 is above the 75th percentile in a recent survey by the Council of Teaching Hospitals and Health Systems.

Increases in surgical cases are also contributing to an overall increased length of stay. Thoracic cardiovascular surgery and general surgery admissions are above the first quarter of last year by 15.3 percent and 10.3 percent, respectively. At the same time, medical admissions are 3.8 percent above the first quarter of Fiscal Year 2005. Finally, obstetric volumes continue to increase, with total obstetric cases 28.4 percent above prior year and births 35.8 percent above prior year.

Net patient service revenue for the first three months of Fiscal Year 2006 was 1.4 percent below budget and 10.9 percent above prior year.

Total operating expenses through September of Fiscal Year 2006 were 1.5 percent below the \$204.6 million budget and 10.8 percent above prior year expenses. Salaries and wages were below budget but above prior year expenses. Supplies and contracts were slightly above budget and above prior year expenses. Purchased services were slightly above budget and above prior year.

The number of full-time equivalent employees (FTEs) on the payroll was 113 below budget and 147 above prior year. The Fiscal Year 2006 FTEs include 101 FTEs for Lynchburg and Amherst Dialysis. These FTEs are not included in the prior year since the acquisition occurred on November 1, 2004. FTEs and salary and wage cost per FTE were:

	<u>FY 2005</u>	<u>FY 2006</u>	<u>2006 Budget</u>
FTEs-Payroll	5,540	5,687	5,800
Annualized Salary and Wage Cost per FTE	\$46,817	\$48,250	\$48,344
Contract Labor FTEs	301	277	261
Total FTEs	5,841	5,964	6,060

Other Financial Issues

The provider agreement between the Medical Center and Anthem continues until December 31, 2009, with appropriate inflation adjustments each year. Since the current multi-year provider contract was signed on June 21, 2002, Anthem has been involved in the following transactions:

- July 31, 2002, Trigon Healthcare, Inc., was acquired by Anthem, Inc.
- November 30, 2004, Anthem, Inc., acquired WellPoint Health Networks, Inc.
- September 27, 2005, WellPoint, Inc., announced that it had entered into an agreement to acquire WellChoice, Inc.
- October 26, 2005, it was announced that Michael Stocker, M.D., a WellChoice executive, will become President and Chief Executive Officer of the East Region of WellPoint, which includes Virginia.

With each merger, changes in management and corporate culture occur which we are monitoring as closely as possible. We will begin negotiating a new provider agreement in January 2007, and we are hoping for a smooth and successful negotiation. Although, we are planning for a difficult and protracted negotiation. This negotiation will probably emerge as a recurring item for the Medical Center Operating Board over the next two years.

Every October the Center for Medicare and Medicaid Services makes changes to the payment rules for providers. Since we cannot fully determine in advance the changes the Center for Medicare and Medicaid will make, we use our best judgment to anticipate the impact of the changes on the annual budget. In spite of strong industry opposition, the Center expanded the post acute transfer policy by increasing the diagnostic related groupings affected from 30 to 182. This means the Center for Medicare and Medicaid Services will pay providers less for patients discharged from a hospital to a location other than their principal residence where they will receive additional treatment. This will lower annual Medicare payments to the Medical Center by an estimated \$4 million.

Write-Off of Bad Debts and Indigent Care

Indigent care charges totaling \$28.1 million for the period July 1, 2005, through September 30, 2005, have been written off. Recoveries during this period totaled \$7.5 million.

Bad debt charges totaling \$10.9 million for the first three months of the fiscal year have been written off. During this same period, \$3.7 million was recovered through suits, collection agencies, and Virginia refund set-off.

OPERATIONS REPORT

Center for Medicare and Medicaid Survey

The Center for Medicare and Medicaid conducted a validation survey of the Medical Center on October 11-14, 2005. In order for a health care organization to participate in and receive payment from Medicare or Medicaid programs, it must be certified as complying with the Conditions of Participation, or Standards, set forth in federal regulations. This certification is based on a survey conducted by the Virginia Department of Health on behalf of the Center for Medicare and Medicaid. During this visit, five surveyors visited inpatient care units, the operating rooms, laboratories, radiology and other patient care sites to confirm that the Medical Center was meeting the appropriate standards. In addition, the organization was surveyed to validate Life Safety compliance. The survey was completed in three and a half days, rather than the nine days originally scheduled, with no recommendations. The Medical Center is in full compliance with Medicare conditions of participation.

Joint Commission on Accreditation of Healthcare Visit

The Medical Center also completed a Joint Commission on Accreditation of Healthcare survey on November 14-18, 2005. The Joint Commission is a voluntary not-for-profit organization that evaluates the quality and safety of care delivered in over 17,000 health care organizations across the country. The Medical Center review was conducted by a team of surveyors including a physician, a nurse, an administrator, a pharmacist and a building life-safety expert. The methodology used during this visit traces a patient through an entire medical encounter and assesses the hospital's performance in areas that affect patient care. This was the Medical Center's

last survey with a scheduled review date. Beginning in January, all Joint Commission on Accreditation of Healthcare surveys will be unannounced in order to test the organization's ongoing compliance with patient care standards. We anticipate an unannounced Joint Commission on Accreditation of Healthcare Laboratory Point-of-Care survey prior to April 1, 2006.

Solucient Cardiovascular Services Study

For the third consecutive year, the University of Virginia's Cardiology and Heart Surgery Program has been chosen as one of the top 100 in the nation by the healthcare consulting company, Solucient, LLC. The Health System's program is one of only 30 programs in teaching hospitals with cardiovascular residencies to be honored by Solucient, and the only such program in the Southeast to be chosen. Teaching hospitals without cardiovascular residencies and community hospitals were also included in the study.

The Solucient study, *100 Top Hospitals: Cardiovascular Benchmarks for Success*, identifies hospitals setting benchmark levels of performance for cardiovascular services throughout the nation. The aim is to benefit all hospitals that provide cardiac care. Heart disease is the number one cause of death in the United States, and cardiology care is one of the most common and high profile hospital service lines.

Neonatal Intensive Care Unit Renovation

Donors and faculty were given a preview of the newly remodeled and expanded Neonatal Intensive Care Unit on November 28, 2005. The Neonatal Intensive Care Unit and the accompanying family support space are being occupied in phases. The first phase, which includes 25 intensive care bassinets, family overnight accommodations, and a family consultation room, opened on November 30, 2005. Renovations to the rest of the bassinet space, the new family education room, conference room, waiting room and reception area will be complete in April, 2006.

Emergency Preparedness

The destruction and suffering in the wake of hurricanes Katrina and Rita were of great concern to the Health System. An administrative team monitored events daily, and the Office of Emergency Preparedness was charged with coordinating response for the Health System and School of Medicine. A

database was created to collect the names of those interested in volunteering for relief efforts. Over 700 individuals responded University-wide, ready to volunteer expertise, goods, and housing for those displaced. At the request of the state, a multidisciplinary team of physicians, nurses, pharmacists, paramedics and Telemedicine staff set up an acute care clinic for potential evacuees at Fort Pickett in Blackstone, Virginia. The clinic was set up and staffed within 24 hours. While ready to accept evacuees, none were received, and after being on 48-hour notice for activation for more than four weeks, the camp was officially closed. We continue to communicate with state and federal agencies in relief efforts.

Individuals throughout the Health System have volunteered through the Red Cross, faith-based organizations and Remote Area Medical operations. Official requests for assistance to the Gulf coast areas have been limited to Disaster Medical Assistance Teams. As a National Disaster Medical System hospital, the Medical Center has reported bed availability and stood ready to receive patients or to send small teams to the area upon appropriate request.

Last year the Medical Center created an Ad Hoc Committee of the Emergency Preparedness Committee to plan for potential scenarios related to the avian flu. The Ad Hoc Committee is monitoring the situation and working with local and state health departments to ensure that supplies and pharmaceuticals are available to assist in a response.

United Way Day of Caring

The University of Virginia Health System was a significant participant in the United Way Day of Caring held on September 21, 2005. Over two hundred and sixty-six Health System volunteers, representing twenty-five teams, took time off from work to participate in twenty-nine projects in the community. The projects ranged from reading to middle school students, to constructing an outdoor classroom at Monticello High School that will provide generations of students with the opportunity to study ecology and earth sciences in the natural surroundings of their campus.

University of Virginia Medical Center
Income Statement
(Dollars in Millions)

Description	Most Recent Three Fiscal Years			Budget/Target
	Sept 2004	Sept 2005	Sept 2006	Sept 2006
Net patient revenue	\$171.5	\$188.4	\$209.1	\$212.1
Other revenue	<u>2.9</u>	<u>4.6</u>	<u>4.7</u>	<u>4.7</u>
Total operating revenue	<u>\$174.4</u>	<u>\$193.0</u>	<u>\$213.8</u>	<u>\$216.8</u>
Operating expenses	153.5	170.5	188.7	190.2
Depreciation	9.1	10.2	11.5	12.7
Interest expense	<u>1.1</u>	<u>1.2</u>	<u>1.3</u>	<u>1.7</u>
Total operating expenses	<u>\$163.7</u>	<u>\$181.9</u>	<u>\$201.5</u>	<u>\$204.6</u>
Operating income (loss)	<u>\$10.7</u>	<u>\$11.1</u>	<u>\$12.3</u>	<u>\$12.2</u>
Non-operating income (loss)	<u>\$4.7</u>	<u>\$4.4</u>	<u>\$6.7</u>	<u>\$4.5</u>
Net income (loss)	<u>\$15.4</u>	<u>\$15.5</u>	<u>\$19.0</u>	<u>\$16.7</u>
Principal payment	\$1.6	\$2.2	\$2.1	\$2.0

University of Virginia Medical Center
Balance Sheet
(Dollars in Millions)

Description	Most Recent Three Fiscal Years		
	Sep-04	Sep-05	Sep-06
Assets			
Operating cash and investments	\$104.4	\$116.5	\$104.5
Patient accounts receivables	138.3	108.1	108.2
Property, plant and equipment	255.7	301.6	331.5
Depreciation reserve and other investments	237.7	223.1	220.1
Endowment Funds	96.3	103.4	116.1
Other assets	<u>50.2</u>	<u>65.5</u>	<u>81.7</u>
Total Assets	<u>\$882.6</u>	<u>\$918.2</u>	<u>\$962.1</u>
Liabilities			
Current portion long-term debt	\$6.4	\$13.4	\$14.2
Accounts payable & other liab	158.6	129.6	108.7
Long-term debt	118.9	128.0	125.6
Accrued leave and other LT liab	<u>24.4</u>	<u>26.5</u>	<u>26.0</u>
Total Liabilities	<u>\$308.3</u>	<u>\$297.5</u>	<u>\$274.5</u>
Fund Balance	<u>\$574.3</u>	<u>\$620.7</u>	<u>\$687.6</u>
Total Liabilities & Fund Balance	<u>\$882.6</u>	<u>\$918.2</u>	<u>\$962.1</u>

University of Virginia Medical Center
Financial Ratios

Description	Most Recent Three Fiscal Years			Budget/Target
	Sept 2004	Sept 2005	Sept 2006	Sept 2006
Operating margin (%)	6.1%	5.8%	5.8%	5.6%
Total margin (%)	8.6%	7.9%	8.6%	7.5%
Current ratio (x)	1.5	1.6	1.7	2.0
Days cash on hand (days)	188.0	175.4	154.3	190.0
Gross accounts receivable (days)	68.0	53.4	47.4	60.0
Average payment period (days)	98.2	76.6	59.5	60.4
Annual debt service coverage (x)	9.5	7.9	9.5	8.4
Debt-to-capitalization (%)	19.9%	19.8%	18.0%	20.0%
Capital expense (%)	6.2%	6.3%	6.4%	7.0%

University of Virginia Medical Center
Operating Statistics

Description	Most Recent Three Fiscal Years			Budget/Target
	Sept 2004	Sept 2005	Sept 2006	Sept 2006
Admissions	7,360	7,140	7,511	7,713
Patient days	41,451	41,904	43,049	43,416
SS/PP Patients	1,578	2,066	1,887	1,931
Average length of stay	5.65	5.86	5.80	5.63
Clinic visits	136,322	145,370	146,664	149,451
ER visits	15,111	14,255	14,928	14,449
Medicare case mix index	1.7880	1.9245	1.9638	1.9300
Net Revenue by Payor				
Medicare %	34.3%	35.6%	35.4%	34.2%
Medicaid %	16.8%	14.4%	12.9%	14.1%
Managed care %	7.3%	8.2%	7.8%	8.7%
Commercial %	12.3%	9.4%	9.8%	9.3%
Other	<u>29.3%</u>	<u>32.4%</u>	<u>34.1%</u>	<u>33.7%</u>
Total	100.0%	100.0%	100.0%	100%
FTE's (including contract labor)	5,460	5,841	5,964	6,060

University of Virginia Medical Center
SUMMARY OF OPERATING STATISTICS AND FINANCIAL PERFORMANCE MEASURES
 Fiscal Year to Date with Comparative Figures for Prior Year to Date - September 2005

OPERATING STATISTICAL MEASURES - September 2005								
ADMISSIONS and CASE MIX - Year to Date				OTHER INSTITUTIONAL MEASURES - Year to Date				
	FY 05	FY 06	% Change		FY 05	FY 06	% Change	
<u>ADMISSIONS:</u>				<u>ACUTE INPATIENTS:</u>				
Surgical	2,748	2,930	6.6%	Inpatient Days	41,904	43,049	2.7%	
Medical	2,906	3,017	3.8%	Average Length of Stay	5.86	5.80	(1.0%)	
Transplant	51	52	2.0%	Average Daily Census	455	468	2.9%	
Obstetrics	395	507	28.4%	Births	352	478	35.8%	
Pediatrics	655	590	(9.9%)	<u>OUTPATIENTS:</u>				
Psychiatric	385	415	7.8%	Clinic Visits	145,370	146,664	0.9%	
Subtotal Acute	7,140	7,511	5.2%	Average Daily Visits	2,494	2,525	1.2%	
Short Stay	2,066	1,887	(8.7%)	Emergency Room Visits	14,255	14,928	4.7%	
Total Admissions	9,206	9,398	2.1%	<u>SURGICAL CASES - MAIN OR</u>				
<u>CASE MIX INDEX:</u>				Inpatient	3,552	3,665	3.2%	
All Acute Inpatients	1.7546	1.8125	3.3%	Outpatient	872	954	9.4%	
Medicare Inpatients	1.9245	1.9638	2.0%	Total	4,424	4,619	4.4%	
OPERATING FINANCIAL MEASURES - September 2005								
REVENUES and EXPENSES - Year to Date				OTHER INSTITUTIONAL MEASURES - Year to Date				
	FY 05	FY 06	% Change		FY 05	FY 06	% Change	
<u>NET REVENUES:</u>				<u>NET REVENUE BY PAYOR:</u>				
Paying Patient Revenue	176,301,179	194,694,774	10.4%	Medicare	62,798,209	68,974,551	9.8%	
Appropriations	12,145,978	14,344,072	18.1%	Medicaid	25,481,612	25,164,106	(1.2%)	
Net Patient Service Re	188,447,157	209,038,846	10.9%	Managed Care	14,476,775	15,111,824	4.4%	
Other Operating Revenue	4,605,589	4,744,551	3.0%	Commercial Insurance	16,601,961	19,156,105	15.4%	
Total	193,052,745	213,783,397	10.7%	Anthem	31,445,683	37,028,966	17.8%	
<u>EXPENSES:</u>				Southern Health	9,124,380	10,364,330	13.6%	
Salaries and Wages	81,158,582	87,114,358	7.3%	Tricare CHAMPUS	1,137,750	1,735,615	52.5%	
Supplies and Contracts	53,228,886	61,014,820	14.6%	Other	15,234,809	17,159,277	12.6%	
Purchased Services	30,886,870	32,303,473	4.6%	Total Paying Patient Revenue	176,301,179	194,694,774	10.4%	
Bad Debts	5,219,123	8,286,357	58.8%	Managed Care	14,476,775	15,111,824	4.4%	
Depreciation	10,189,514	11,483,044	12.7%	Non-Managed Care	161,824,404	179,582,950	11.0%	
Interest Expense	1,234,799	1,278,011	3.5%	Total Paying Patient Revenue	176,301,179	194,694,774	10.4%	
Total	181,917,774	201,480,063	10.8%	<u>OTHER:</u>				
Operating Margin	11,134,971	12,303,334	10.5%	Collection % of Gross Billings	55.70%	49.81%	(10.6%)	
Operating Margin %	5.77%	5.76%	(0.2%)	Days of Revenue in Receivables (Gross)	53.4	47.4	(11.2%)	
Non-Operating Revenue	4,389,095	6,705,693	52.8%	Cost per CMI & OP-Adj Discharge	7,712	7,747	0.5%	
Net Income	15,524,067	19,009,027	22.4%	Cost per CMI & OP-Adj Day	1,314	1,352	2.9%	
				Cost per Outpatient Visit	66.08	73.08	10.6%	
				Total F.T.E.'s (including Contract Labor)	5,841	5,964	2.1%	
				F.T.E.'s Per Adjusted Occupied Bed	7.69	7.54	(2.0%)	

Assumptions - Operating Statistical Measures

Admissions and Case Mix Assumptions

Admissions include all admissions except normal newborns
Pediatric surgery cases are included in Pediatrics admissions
Obstetrics surgery cases are included in Obstetrics admissions
Transplant surgery cases are included in Transplant admissions
Transplants include all solid organ transplants, bone marrow transplants and islet transplants
All other surgery cases are counted as Surgical admissions
Surgical cases are defined by DRG
Short Stay Admissions include both short stay and post procedure patients
Case Mix Index for All Acute Inpatients is All Payor Case Mix Index from Stat Report

Other Institutional Measures Assumptions

Patient Days, ALOS and ADC figures include all patients except normal newborns
Surgical Cases are the number of patients/cases, regardless of the number of procedures performed on that patient
Split of surgical cases into inpatient and outpatient based on discharges from the Surgical Admission Suite
Inpatient surgical cases include both inpatients and short stay/post procedure patients
Outpatient surgical cases do not include those performed at UVa Outpatient Surgical Center

Assumptions - Operating Financial Measures

Revenues and Expenses Assumptions:

Medicaid out of state is included in Medicaid
Medicaid HMOs are included in Medicaid
Physician portion of DSH is included in Other
Non-recurring revenue is included

Other Institutional Measures Assumptions

Collection % of Gross Billings includes appropriations
Days of Revenue in Receivables (Gross) is the BOV definition
Cost per CMI & OP-Adj Discharge and Day uses Medicare CMI to adjust, and excludes bad debt
Costs for Cost per Outpatient Visit come from clinic income statement, and exclude bad debt
OP visits used in calculation of Cost per Outpatient Visit are provider based clinic visits only

MEDICAL CENTER
ACCOUNTS COMMITTEE REPORT
(Includes All Business Units)
(Dollars in Thousands)

	Year to Date September <u>2005-06</u>	<u>Annual Activity</u>	
		<u>2004-05</u>	<u>2003-04</u>
<u>INDIGENT CARE (IC)</u>			
Net Charge Write-Off	<u>24,617</u>	<u>80,155</u>	<u>79,386</u>
Percentage of Net Write-Offs to Revenue	5.87%	5.60%	6.96%
 Total Indigent Care Cost	 <u>11,504</u>	 <u>36,900</u>	 <u>44,461</u>
State and Federal Funding	11,504	36,900	44,461
Total Indigent Care Cost Funding As a Percent of Total Indigent Care Cost	100%	100%	100%
Unfunded Indigent Cost	<u>(0)</u>	<u>0</u>	<u>0</u>
	September <u>2005-06</u>	<u>Annual Activity</u>	
		<u>2004-05</u>	<u>2003-04</u>
<u>BAD DEBT</u>			
Net Charge Write-Offs	<u>8,286</u>	<u>27,389</u>	<u>21,376</u>
Percentage of Net Write-Offs to Revenue	1.97%	1.91%	1.87%

Note:

Provisions for bad debt write-offs and indigent care write-offs are recorded for financial statement purposes based on the overall collectibility of the patient accounts receivable. These provisions differ from the actual write-offs of bad debts and indigent care which occur at the time an individual account is written off.

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: December 15, 2005

COMMITTEE: Medical Center Operating Board

AGENDA ITEM: I.C. Capital Projects

ACTION REQUIRED: None

BACKGROUND: The Medical Center is constantly improving and renovating its facilities. We will provide a status report of these capital projects at each Medical Center Operating Board meeting.

DISCUSSION: The current Medical Center capital projects report is set forth in the following table.

**The University of Virginia Medical Center
Capital Projects Report**

Scope	Budget	Funding Source	BOV Approval Date	Projected Completion Date
PRE-CONSTRUCTION				
<u>Clinical Office Building</u> -Fontaine Ave. Planning and Design for 3rd floor fitout awaiting final decision on specific tenant	\$16.75M (total building budget)	Bonds	Jan 2003	Floors 1 & 2 occupied; Floor 3 TBD (occupants not determined)
<u>New Cancer Center</u> - Facility space programming underway for consolidated and comprehensive Cancer Center on site of present West Parking Deck; Architect/Engineer selection completed.	\$55 M	Bonds and Outside Fundraising	Apr 2004	2009
<u>New Children's Hospital</u> - Facility space programming complete. Awaiting completion of fundraising efforts before proceeding with detailed design work	\$48 M	Bonds and Outside Fundraising	Apr 2004	TBD
<u>University Hospital Bed Expansion</u> - Planning underway to increase inpatient bed capacity in University Hospital	\$75.6 M	TBD	TBD	TBD

Scope	Budget	Funding Source	BOV Approval Date	Projected Completion Date
UNDER CONSTRUCTION				
<u>Primary Care Center 1st Floor renovations</u> (2 phases) to create new central registration hub; improve phlebotomy; improve patient care services at main entrance; and relocate Medical Center Executive Offices	\$3.0 M	Medical Center Annual Capital Budget	Not Required	Phase 1 - Spring 2006
<u>Hospital Expansion Project</u> -horizontal expansion of University Hospital and renovation of entire second floor to accommodate complete rebuilding and expansion of the Perioperative Services and Heart Center. Additional renovations and expansion for Interventional Radiology and Clinical Laboratory. Scope change (3/03) to include additional floor for Heart Center faculty offices. 14 new ORs completed; relocated Central Sterile Supply (CSS).	\$58.0 M (\$62.7 M revised)	Bonds @ \$54 M (\$58.7 M revised) + Hospital Operating Revenues @ \$4 M	Mar 1999	Sept 2005 (Fall 2006 revised)
<u>NICU Expansion</u> - Construction underway for major renovation of Univ Hosp 7th floor to accommodate an expanded Newborn Intensive Care Unit.	\$3.8 M (\$5.05 M revised, incl. equip & furn)	Medical Center Annual Capital Budget and Outside Fundraising	Jan 2003	Apr 2006

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: December 15, 2005

COMMITTEE: Medical Center Operating Board

AGENDA ITEM: I.D. Buchanan Endowment Report -
Advancement of Clinical Trials for
Improving Outcomes in Neuro-Oncology

ACTION REQUIRED: None

BACKGROUND: Mr. Ward Buchanan, a 1914 graduate of the University's Law School, left a \$52.6 million bequest to create an unrestricted endowment fund for the University of Virginia Medical Center. The Medical Center is using the interest earnings from the Ward Buchanan Fund to provide seed funding of unique, "clinically differentiating," programs at the Medical Center. The annual interest earnings are approximately \$2.3 million, and the Medical Center is using matching funds to utilize this money for new clinical programs with a total funding of up to \$5 million. Funding will be provided for a maximum of three years for each new clinical program.

DISCUSSION: In addition to being "clinically differentiating," in order to receive Buchanan funding a program must demonstrate the ability to achieve an 11% return on investment and a 7% net operating margin in the third and final year of funding. After the third year the program must be financially self-sustaining in order to continue. The program must be clearly unique and set the University of Virginia Medical Center apart from other academic medical centers and hospitals. The Advancement of Clinical Trials for Improving Outcomes in Neuro-Oncology ("ACTION") project met these criteria and was one of the four projects selected to receive funding beginning in Fiscal Year 2004.

The ACTION program is in its third year of funding. It is a collaborative effort involving the Departments of Neurology, Neurosurgery, Radiation Oncology, Pathology, Health Evaluation Sciences, and Psychology. The program's goal is to enhance and promote the availability of clinical trials for patients with cancers of the central nervous system by marrying institutional strengths in cancer signal transduction to the Neuro-Oncology clinical laboratory research program. A strong clinical trials program is needed for the University of Virginia Cancer Center in order for it to make the transition

from its National Cancer Institute Clinical Cancer Center designation to becoming a Comprehensive Cancer Center.

With Buchanan support the Neuro-Oncology Center is on track with programmatic goals, primarily in the outpatient arena. In Fiscal Year 2005, outpatient clinic visits increased by fifteen percent. Further, clinical trial activity is strong. Necessary personnel, including a Ph.D. web-based patient educator, have been recruited for the program. The Center has developed a secure, web-based system that allows patients in clinical trials to report symptoms that the patients think would not warrant a telephone call. This system facilitates longitudinal recording of symptoms and also triggers alerts to clinicians when a symptom may be more serious than the patient or family recognizes and before the problem would be detected in routine clinical care.

The most recent financial review of ACTION indicates a 13.2 percent operating margin of \$1.7 million.

David Schiff, M.D., Associate Professor of Neurology, Neurosurgery, and Internal Medicine (Hematology/Oncology), is the principal investigator for the ACTION program and will provide a status report.

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: December 15, 2005

COMMITTEE: Medical Center Operating Board

AGENDA ITEM: I.E. Reports Required for Joint Commission
on Accreditation of Health Care
Organizations

ACTION REQUIRED: None

BACKGROUND: The Joint Commission on Accreditation of Healthcare Organizations accredits the University of Virginia Medical Center, as well as over 19,000 other health care organizations. It requires that an annual report be presented to the governing body of the Medical Center describing major performance improvement activities in key areas.

DISCUSSION:

STAFFING EFFECTIVENESS

The Joint Commission on Accreditation of Healthcare Organizations requires the Medical Center to evaluate, measure and assess staffing effectiveness and its impact on patient health outcomes. The Medical Center uses clinical service screening indicators in combination with human resource screening indicators for the assessment. The clinical indicators selected for study are patient falls, medication errors, blood stream infections, urinary tract infections, pneumonias, and restraint use. The Medical Center selected total Registered Nurse and Unlicensed Assistive Personnel hours worked and overtime hours as the human resource indicators.

Data was compiled from Quality Reports, Infection Control reports, the Human Resources PeopleSoft System and the Finance Hyperion Analyzer system, and merged into a single file that was sorted by hospital unit, month, and year.

For 2005, regression analysis was employed for data from July 2004, through June 2005, to help examine potential relationships between clinical and human resources variables. Regression analysis has an advantage over the previous method of computing simple correlations between variables because it allows for the simultaneous comparison of multiple variables. Four potential indicators (overtime hours, percent Registered Nurse vs. unlicensed personnel hours, adult vs. pediatric

unit, and acute unit vs. intensive care unit) were used to try to predict each clinical outcome of interest (for example, rate of blood stream infections). These models performed well from a statistical standpoint, but with some limitations. There was a relatively small number of data points, a small number of variables to put in the model, and some variables that might have been related to each other in such a way that the true relationships could be masked.

DATA ANALYSIS AND RESULTS

The most significant findings of this analysis are:

- Higher urinary tract infection rates are statistically associated with adult units and with increased nursing worked hours per patient day.
- Higher blood stream infection rates are associated with intensive care units and a higher percentage of overtime hours.
- Higher falls rates are associated with increased overtime hours.
- Lower falls rates are associated with higher nursing worked hours.
- Intensive care units submit significantly more Quality Reports (total Quality Reports, patient identification Quality Reports, and medication error Quality Reports) than acute units.
- The analysis suggests that higher nursing hours are associated with lower restraint order rates.

Preliminary analysis indicates that overtime hours should be limited wherever possible. Additional analysis will be needed to determine the relationships between the use of overtime and the volume and acuity of patients. Overall, this approach shows promise and should be pursued in the future as more data become available.

CONTINUUM HOME HEALTH CARE

Continuum Home Health Care, a department of the Medical Center, is engaged in two primary lines of business, home health and home infusion services. Continuum is Joint Commission on Accreditation of Health Care Organizations accredited and Medicare and Medicaid certified. Continuum Home Health Care celebrated its 10th birthday in February, 2005.

Services Provided

Home health services include the provision of skilled nursing care, physical, occupational and speech therapies, home health aides and medical social work to patients residing in Albemarle, Greene, Madison, Orange, Louisa, Fluvanna, Buckingham, Nelson, Amherst, Augusta and Rockingham counties. Additionally, Continuum offers specialty care through its Psychiatric Service, Pediatric Service and Wound Care Team.

Home infusion provides pharmaceutical services statewide and out of state as needed to patients residing in Maryland, North Carolina and West Virginia. For home infusion patients residing outside of Continuum's direct service area, Continuum works with another Medicare certified home health agency to provide the direct services required.

Operating and Financial Achievements

Home health experienced significant periodic peaks in admission volumes throughout the year, straining internal resource capabilities; yet overall growth remained flat for Fiscal Year 2005 with Continuum Home Health Care admitting 3,124 new patients. The daily census continued to average between 560 and 600 patients. Home infusion continued to experience steady growth, with a 16 percent increase in new patients resulting in an overall increase of three percent in therapy days for Fiscal Year 2005.

Significant differences in payor mix exist between the home health and home infusion business lines, adding to the complexity of intake and pre-authorization requirements.

Home health and home infusion continue to make significant contributions to the Medical Center's bottom line, and provide services critical to the institutional priority of timely and effective patient discharge. Continuum's case weight (case mix), reflective of the acuity level of admitted patients for Fiscal Year 2005, was 1.411, as compared to 1.301 nationally and 1.238 regionally. The staff's skill level allows Continuum to support the discharge to home of hospitalized patients that many home health agencies cannot or will not service.

Most significant in Fiscal Year 2005 was the purchase and implementation of a new clinical point of care and back office/billing system that went live April 1, 2005. The new system, InSync from Patient Care Technology, Inc., supports clinical point of care documentation and communication directly from the site of care delivery, the helping to eliminate duplicative documentation while facilitating interdisciplinary communication and helping Continuum move toward the ultimate goal of maintaining a largely paper free medical record.

For all four quarters of Fiscal Year 2005, patient satisfaction, as measured through use of the Press Ganey survey system, remained at a level consistent with Fiscal Year 2004, with Continuum Home Health Care receiving an overall mean score of 88.9 on all standard questions.

Home Health Collaborative

Continuum Home Health Care was one of 22 home health agencies selected by the Virginia Health Quality Center to participate in a collaborative focused on identifying opportunities to reduce rehospitalization and the use of emergent care by home health patients. This collaborative ran from fall 2004 to May 2005. When Continuum Home Health Care began work with the collaborative, its re-hospitalization rate was 28%, which was in line with both State and national rates since the advent of the Centers for Medicare and Medicaid home health patient outcomes system in 2000. By May 2005, through its work with the collaborative, Continuum Home Health Care had reduced its rate of rehospitalization to 26%, a dramatic decline given Continuum Home Health Care's relatively high level of patient acuity. While the strategies implemented have not appreciably reduced the incidence of emergent care use, which continues to exceed the national rate, the collaborative experience confirmed that the Continuum Home Health Care staff are effectively utilizing urgently scheduled physician visits and Emergency Department resources when appropriate to help prevent rehospitalization, a more critical issue to the Medical Center given its bed capacity issues.

Home Health Medicare Report Card

Although Medicare requires certified home health agencies to track about 100 different patient outcome data elements at four different points during the process of care, it only uses 11 of these outcomes to generate its quarterly report cards. Continuum Home Health Care continues to perform well on

patient outcomes and is constantly monitoring its performance with targeted quality projects initiated when opportunities for potential improvements are identified.

<i>Home Health Published Quality Measures</i>	<i>CHHC</i>	<i>State Average</i>	<i>National Average</i>
Patients get better at walking or moving around	37%	37%	37%
Patients get better at getting in and out of bed	50%	51%	51%
Patients get better at getting to and from the toilet	67%	64%	63%
Patients have less pain when moving around	59%	58%	61%
Patients get better at bathing	60%	58%	61%
Patients get better at taking their medicines by mouth	40%	37%	39%
Patients get better at getting dressed	66%	66%	66%
Patients stay the same at bathing	90%	91%	92%
Patients are confused less often	48%	42%	44%
Patients had to be admitted to the hospital	26%	27%	28%
Patients need urgent, unplanned medical care	28%	22%	21%

Fiscal Year 2006 Goals

Continuum Home Health Care will be assessing how to more effectively manage travel for its home health staff. In addition, Continuum Home Health Care will explore the use of telemedicine in the home setting and assess its potential to improve patient outcomes while allowing the staff to effectively manage more patients with fewer visits, thus enhancing home health's financial performance. Continuum Home Health Care is participating in a second Virginia Health Quality Center home health collaborative, beginning the fourth quarter of 2005.

The Home Infusion staff is planning for the January, 2006, implementation of the Medicare Part D drug benefit, which will impact reimbursement and both operational and billing processes.

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: December 15, 2005

COMMITTEE: Medical Center Operating Board

AGENDA ITEM: I.F. Integrated Healthcare Information Management System

ACTION REQUIRED: None

BACKGROUND: The purpose of the Integrated Healthcare Information Management System project is to provide a central patient information system that is consistent across the continuum of care, inclusive of outpatient, emergency department, and inpatient care. IDX Systems, Inc., is the central vendor for this project. The Medical Center last reported on the Integrated Healthcare Information Management System to the Medical Center Operating Board in February, 2005.

DISCUSSION: The Integrated Healthcare Information Management System project is structured in phases and milestones in order to transform the existing information system, with the primary focus on the clinical information system known as "Carecast." The end-product will be an electronic patient record for inpatients and outpatients, with more efficient clinical care workflow processes for both direct care providers and their support staff. While the Medical Center was in the midst of preparing for implementation of the first phase software, IDX began a process of updating its programs. Many of the original milestone dates have been adjusted because of IDX's delays in delivering its updated programs. Even so, the project remains within budget.

As reported previously, the first significant milestone was the implementation of the clinical results repository in November, 2004. This clinical repository permits Health System staff to efficiently view on-line patients' laboratory, radiology, cardiology and other test results, and to access key patient documents, such as advance directives.

The second planned milestone was the implementation in three pilot clinics of an on-line order entry system in the outpatient setting. The original target date of December, 2004, was changed to July, 2005, because of IDX's delay in delivering its updated programs. The Digestive Health Center,

Family Medicine, and Surgery Clinics now utilize mobile, wireless tablets to enter laboratory, radiology, cardiology and prescription orders. Software for prescription orders was delayed further, and this function was implemented in the clinics in October, 2005. Even with the delay, implementing the system has been productive, and on-line out-patient orders will be implemented in the remaining clinics and care sites at the average rate of four clinics per month.

The next major milestone is the implementation of the critical care system from PICIS, Inc., which is scheduled for February, 2006. Medical Center, PICIS, and IDX employees have already begun work in preparation for bringing PICIS on line. The PICIS system will collect "real time" patient information from various medical equipment monitors in the critical care patient units. The PICIS system will organize the information from the monitors to generate an online view of the patient's status and provide automated documentation of the patient's condition and care.

As was noted earlier, IDX has been delayed in delivering its updated programs. Although the IDX basic outpatient ordering system is now working, the more complex software required to support inpatient ordering and medication documentation has not been delivered. As a result, the replacement of the current inpatient system with IDX will be delayed from the planned date of September, 2006.

IDX recently requested that the Medical Center become a development partner (Alpha Site) based on the Medical Center's track record of effective implementation. Becoming a development partner would mean that the Medical Center could assist in defining system functionality and be involved in early testing of software programs to assure that they work correctly. It would also allow the Medical Center to continue to drive IDX to deliver programming on a more timely basis. Medical Center management has the IDX request under consideration.

In September, 2005, IDX announced its intention to merge with General Electric, possibly in early 2006. General Electric and IDX have not announced any specifics regarding their product plans post merger.

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: December 15, 2005

COMMITTEE: Medical Center Operating Board

AGENDA ITEM: I.G. Health System Development

ACTION REQUIRED: None

BACKGROUND: Health System Development will provide reports of recent activity to the Medical Center Operating Board from time to time.

DISCUSSION:
Volunteer Advisory Forum

The University of Virginia Health Foundation Board acted as host to a Health System Volunteer Advisory Forum on September 16th; the Forum provided an overview of the Health System Campaign. Over 200 Health System volunteers, high-level donors, and prospects participated. The Forum included presentations from Deans Lancaster and Garson, Messrs. Howell, and Morsberger, and Health Foundation trustees Sharp and Shure.

Before the Volunteer Advisory Forum, President Casteen and Dean Garson were hosts at a groundbreaking for the Carter-Harrison Medical Research Building, named in honor of the Beirne Carter Foundation and the Harrison Family Foundation, the primary benefactors of the project.

New campaign marketing materials were shown for the first time at the Volunteer Advisory Forum, including a set of interim case statements and a two-minute "flash" video. The print materials include a Health System case that highlights key priorities within the overall context of the campaign, as well as four "mini-cases" focusing on the Cancer Center, Children's Hospital, School of Medicine, and School of Nursing. These materials will be used over the next twelve months to build a strong foundation for our public campaign. The "flash" video features the people and programs behind the Health System and our plans for the future. After the Volunteer Advisory Forum, the video was distributed electronically to 10,000 volunteers, donors, and prospects, and to Health System faculty and staff. The video can be viewed online at www.healthsystem.virginia.edu/development.

Specific Gifts and Fundraising Activities

- Dean Garson and President Casteen presented a \$45 million proposal to the Ivy Charitable Foundation for support of the Cancer Center clinical building, the Children's Hospital building, and new space to support translational research efforts. The board members will consider the proposal at their meeting this month.
- The Smithfield-Luter Foundation committed \$5 million to Cancer Center research programs. This gift is in memory of F. Palmer Weber and honors Smithfield Foods Chief Executive Officer Joe Luter.
- Jim Manley, Chief Executive Officer of Atlantic-Pacific Capital, committed \$1 million to the Health System, \$500,000 to the Cancer Center clinical building and \$500,000 to the Medical Education building campaign. Mr. Manley also joined the UVa Health Foundation Board in September.
- Robert and Molly Hardie were hosts at an unveiling reception of the plans for the new Children's Hospital outpatient facility in September. Mr. Howell provided an overview of the building project, highlighting the medical services that the facility will offer patients and their families. The Hardies are considering a major gift to this capital project.
- Peggy Quayle was the hostess at a cultivation event in November for \$1 million prospects for the Children's Hospital building, featuring a presentation by architect Kimberly Stanley.
- The Commonwealth Foundation for Cancer Research made a \$1.25 million challenge pledge in support of Dr. Craig Slingluff's Human Immune Therapy Center. We are finalizing the 1.1 match required for this commitment.
- The Wallace Coulter Foundation committed \$2.5 million over five years to biomedical research at the University of Virginia through its Translational Research Program.
- Cancer Center Advisory Board member Carolyn Achenbach and her husband Bill pledged \$100,000 for the Clinical Cancer building.

- Katie Couric, honorary chair of the Cancer Center Campaign, donated another \$100,000 speaking fee for this initiative and indicated that she plans to make an additional gift this year.
- Through September 30, 2005, Health System development officers made 821 total contacts (21% of annual goal), including 457 visits (23% of annual goal).

Campaign Progress Report

Through the end of September, the Health System Campaign total is \$175,461,547. That represents 35% of the Campaign goal, with only 22% of the Campaign period elapsed. The following table shows the Fiscal Year 2006 totals for new gifts, commitments, and pledges.

	Fiscal Year 2006	Fiscal Year 2005
New Commitments (excludes payments on previously booked pledges)	\$9,964,874	\$7,906,591
New gifts	\$4,480,127	\$4,398,671
New pledges	\$5,484,747	\$3,507,920

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: December 15, 2005

COMMITTEE: Medical Center Operating Board

AGENDA ITEM: II. Report by the President of the
Clinical Staff

ACTION REQUIRED: None

DISCUSSION: The President of the Clinical Staff of the Medical Center will inform the Medical Center Operating Board of recent events regarding the Clinical Staff which do not require formal action, but of which the Medical Center Operating Board should be aware.