

**UNIVERSITY OF VIRGINIA
BOARD OF VISITORS
MEETING OF THE
MEDICAL CENTER
OPERATING BOARD
May 11, 2006**

UNIVERSITY OF VIRGINIA
MEDICAL CENTER OPERATING BOARD

Thursday, May 11, 2006
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

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IV. 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. The meeting of the Medical Center Operating Board is further privileged under Section 8.01-581.17 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, including capacity planning and potential strategic joint ventures or other competitive efforts regarding a long term patient care facility and an off-site outpatient care facility, and linkage to the long-range strategic goals of the Medical Center and Health System Decade Plan and the mission of patient care, education, and research, all where public discussion would adversely affect the Medical Center's bargaining position;
 - Confidential information and data related to the adequacy and quality of professional services, patient safety in clinical care, and patient grievances for the purpose of improving patient care at 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), 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: May 11, 2006

COMMITTEE: Medical Center Operating Board

AGENDA ITEM: I.A. Fiscal Year 2007 Medical Center
Operating and Capital Budget

BACKGROUND: The Medical Center's operating and capital budgets are consolidated with the University's overall budget. At its June meeting, the Board of Visitors acts on the proposed budget based on a recommendation for approval from the Medical Center Operating Board.

DISCUSSION: The Medical Center's 2006-2007 fiscal plan has been developed to include aspects of the Decade Plan developed by the Medical Center and School of Medicine while considering the challenges of providing patient care, teaching, and research services in an increasingly changing health care industry. The cost associated with providing quality patient care will continue to have upward pressure because of increases in medical supply, pharmaceutical, and medical device expenses, as well as a shortage of healthcare workers. In addition, in Fiscal Year 2007, the Medical Center expects to continue its growth in surgery cases and to care for patients with high acuity illnesses.

The Medical Center budget development process continues to be highly participatory and clinically focused. Patient care service management, support function management, and physicians have significant roles in the budget development cycle. The budget process begins with senior management developing basic budget assumptions such as admissions, length of stay, standard for the number of employees, and inflation. It continues with a budget forum, which includes most Medical Center managers, and ends with each operating unit providing a cumulative operating and capital budget that contains service demand forecasts, required full-time equivalent personnel, and non-labor expenses.

The Medical Center continues to modernize and integrate information technology services through the Integrated Health Information Management System project. The capital budget for Information Services is \$12.7 million.

Previous increases in capital investment for hospital expansion and all other capital activity will result in

additional depreciation expense of \$5.1 million for Fiscal Year 2007. The budget maintains operating room capacity at 23 rooms, which may grow to 26 rooms by the end of Fiscal Year 2007. The Medical Center's 2006-2007 fiscal plan accounts for these additional expenses while preserving its goal of providing high quality and cost effective health care, education, and research services to patients and their families, students, employers, state and federal governments, referring physicians, referring agencies, and affiliated networks.

BUDGET AND OPERATING ASSUMPTIONS

Market Conditions: For Fiscal Year 2007, admissions are budgeted at the same number as the 2006 budgeted level, but are projected to grow 3.8 percent from Fiscal Year 2006 projected levels. The growth will result from increased operating room capacity and additional bed capacity. Outpatient service demand is projected to grow 3.0 percent from Fiscal Year 2006 projected levels. The following table includes historical and projected patient volumes:

	Budget	Projected	Budget
	2005-2006	YTD 2005-2006	2006-2007
Discharges	30,405	29,288	30,405
Adjusted Discharges	52,694	49,856	52,122
Average length of stay	5.6	5.8	5.8
Patient days	171,147	169,894	176,349
Clinic & ER visits	654,359	658,906	678,673

Revenues: The Medical Center's Fiscal Year 2007 budgeted payer mix remains consistent with that of 2006. One of the Medical Center's largest challenges is the unwillingness of payers, especially government payers, to increase their payments commensurate with the increases in medical delivery costs. Growth in revenues may also result from the impact of the new operating rooms, added beds, and emerging new diagnostic and testing procedures.

Rate changes: The Medical Center proposes a rate increase of 8.0 percent to 9.9 percent, which is commensurate with rate increases we believe will be implemented generally in the hospital industry.

Expenses: Expenses from operations are projected to increase by \$59.6 million. Expenses per adjusted discharge and acuity are projected to increase 2.7 percent from \$8,887 to \$9,129. We anticipate that the expense per adjusted discharge included

in the budget will be approximately equal to the academic medical center median expense as shown in the University Health System Consortium Operational Data Base.

Staffing: The Medical Center's Fiscal Year 2007 budget includes 6,092 full-time equivalent employees, an increase of 63 over the current Fiscal Year 2006 projection of 6,029 and 140 greater than Fiscal Year 2005. On an all payer, Case Mix Index weighted adjusted discharges basis, full-time equivalent employees will drop from 24.25 in Fiscal Year 2006 to 23.44 in Fiscal Year 2007, reflecting fewer required to treat the volume growth.

Operating Plan: The rapidly changing health care environment will require continuous examination of budget assumptions. Management will monitor budget versus actual performance on a monthly basis and, where appropriate, make changes to operations. Also, management will continue to identify and implement process improvement strategies that will allow for operational streamlining and cost efficiencies.

The major strategic initiatives that impact next year's fiscal plan include:

- Salary adjustments for employees and residents, employee market adjustments, and internal alignment adjustments.
- Increasing surgical case volume which is accommodated by the operating rooms opened in November 2005.
- Medical supply and drug cost management.
- Expansion of bed capacity.
- Contract discussions with Anthem.

The major risk factors that impact the ability to accomplish the fiscal plan include:

- A nationwide shortage of healthcare workers that could negatively impact our ability to staff for expanded capacity, especially considering that our biggest need is for operating room personnel, who are among the more difficult to recruit.
- Maintaining an adequate number of physicians in specialty areas experiencing a national shortage, such as Radiology, Anesthesiology, and Hematology/Oncology.
- New Centers for Medicare and Medicaid Services and other regulatory reimbursement changes.
- Advances in medical technology that could impact expenses and/or revenues very quickly.

- Inflation in the cost of medical devices and pharmaceutical goods in excess of budget assumptions.
- Enhanced scrutiny by Federal regulators in areas such as medical records, billing, coding and contractual agreements.

A summary of historical and projected financial operating results are provided as follows:

(in millions)	Actual 2004-2005	Projected 2005-2006	Budgeted 2006-2007
Total operating revenue	\$799.6	\$847.0	\$909.6
Operating expense	\$757.0	\$806.4	\$866.0
Operating income	\$42.6	\$40.6	\$43.6
Non-operating gain/(loss)	\$20.8	\$24.7	\$16.8
Total margin	\$63.5	\$65.3	\$60.4
Operating income	5.3%	4.8%	4.8%

Capital Plan: Funds available to meet capital requirements are derived from operating cash flows, funded depreciation reserves and interest income. The Medical Center faces many challenges regarding capital funding as continued pressures on the operating margin affect cash flow, while demand for capital increases significantly as the result of space requirements, technological advances and aging of existing equipment. Subject to funds availability, Medical Center management recommends that \$73.8 million, including \$12.1 million for contingencies, be authorized for capital requirements.

ACTION REQUIRED: Approval by the Medical Center Operating Board, to be forwarded to the Finance Committee for further consideration. The Finance Committee will make the final recommendation to the full Board of Visitors.

RECOMMENDATION REGARDING FISCAL YEAR 2007 MEDICAL CENTER OPERATING AND CAPITAL BUDGETS

WHEREAS, the Medical Center Operating Board has reviewed the Fiscal Year 2007 Medical Center operating and capital budgets;

RESOLVED that the Medical Center Operating Board approves and recommends to the Finance Committee and to the Board of Visitors approval of the Fiscal Year 2007 Medical Center Operating and Capital Budgets.

Schedule A
University of Virginia - Medical Center
Projected Fiscal Plan
2006-2007

	2004-2005 Actual	2005-2006 Forecast	2006-2007 Budget
Revenues			
Total Gross Charges	\$ 1,431,327,077	\$ 1,668,004,855	\$ 1,833,409,785
Less Deductions:			
Indigent Care Deduction	80,155,056	96,077,411	104,614,303
Contractual Deduction	570,974,928	745,308,264	837,811,056
Total Deductions	651,129,984	841,385,675	942,425,359
Net Patient Revenue	780,197,093	826,619,180	890,984,426
Miscellaneous Revenue	19,398,970	20,384,829	18,630,169
Total Revenue	799,596,063	847,004,009	909,614,595
Expenses			
Expenses from Operations			
Operating Expenses	682,739,415	722,612,763	769,912,363
Depreciation and Amortization	42,008,125	45,641,525	50,740,071
Interest Expense	4,815,973	4,735,658	6,676,273
Bad Debt	27,389,200	33,388,038	38,658,868
Total Expenses from Operations	756,952,713	806,377,984	865,987,575
Operating Income	42,643,350	40,626,025	43,627,020
Other Gains and Losses			
Investment Income	24,713,796	25,764,325	18,775,723
Net gain from Affiliates	2,445,331	1,173,774	766,049
Loss on Fixed Assets	(184,995)	(381,406)	(800,000)
Other	(6,140,784)	(1,863,521)	(1,939,837)
Total Other Gains and Losses	20,833,348	24,693,172	16,801,935
Revenues and Gains in Excess of Expenses	\$ 63,476,698	\$ 65,319,197	\$ 60,428,955
Statistics			
Admissions or Discharges	29,076	29,288	30,405
Patient Days of Care	166,904	169,894	176,349
Clinic and Emergency Room Visits (Excluding Acquired Practices)	654,742	658,906	678,673
Average Length of Stay	5.78	5.80	5.80

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: May 11, 2006

COMMITTEE: Medical Center Operating Board

AGENDA ITEM: II.B. Revised Concept and Schematic
Design for the Clinical Cancer Center

\$25,000,000 General Funds (pending Commonwealth approval)
\$20,000,000 Bonds
\$14,000,000 Gifts
\$59,000,000

BACKGROUND: This project constructs a 123,000 gross square foot facility at the corner of Jefferson Park Avenue and Lee Street on the site of the West Parking Garage. The project will allow the University to 1) relocate most of the Medical Center's cancer clinics to a site convenient to parking and the main hospital, 2) enhance the layout, appearance and amenities of the clinics, and 3) support the installation of new therapeutic equipment. The program goal is to improve patient care and make the cancer center facilities more convenient. The budget for design and construction is \$59 million. The concept, site and design guidelines were approved on October 1, 2004, based on a 153,000 gross square foot scope and \$70.7 million budget. At the time the project included a core laboratory facility, which has now been deleted and will be pursued as a separate project at a later date. The selection of the Zimmer-Gunsul-Frasca Partnership of Washington, D.C., as the project architects was also approved on October 1, 2004.

DISCUSSION: The architects, in conjunction with the Architect for the University and Facilities Management, are developing the schematic design for the Clinical Cancer Center. Mr. Neuman will review the current status of the design with the Medical Center Operating Board.

ACTION REQUIRED: Endorsement by the Medical Center Operating Board. Approval to occur at a future Buildings and Grounds Committee meeting.

ENDORSEMENT OF DEVELOPMENT OF SCHEMATIC DESIGN FOR THE
CLINICAL CANCER CENTER

RESOLVED, the Medical Center Operating Board, having seen the schematic design of the proposed Clinical Cancer Center, endorses the design as presented and forwards its endorsement to the Buildings and Grounds Committee of the Board of Visitors.

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: May 11, 2006

COMMITTEE: Medical Center Operating Board

AGENDA ITEM: II.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.

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: May 11, 2006

COMMITTEE: Medical Center Operating Board

AGENDA ITEM: II.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 eight months of Fiscal Year 2006 ended with an operating margin of 4.9 percent, which was slightly above the goal of 4.8 percent. Total operating revenue and total operating expenses were below budget.

For the first eight months of Fiscal Year 2006, inpatient admissions were 4.6 percent below budget, but 1.3 percent above prior year. For the same period, observation patients were 4.5 percent below budget and 6.6 percent below prior year. Taken together, combined admissions and observation patients were 4.6 percent below budget and 0.4 percent below Fiscal Year 2005. At the end of February the Medical Center had 571 staffed beds in operation, compared to 580 beds budgeted.

Patient days were 1.6 percent below budget, and the average length of stay was 5.80 days, compared to the 5.63 days budgeted length of stay. The Medicare case mix index of 1.97 is above both budget and prior year, and is contributing to the higher than expected length of stay.

Increases in surgical cases are also contributing to an overall increased length of stay. Thoracic cardiovascular surgery, general surgery, and orthopedic surgery admissions are above the first eight months of last year by 16.4 percent, 3.7 percent and 6.1 percent, respectively.

At the same time, medical admissions are 1.5 percent above the first eight months of Fiscal Year 2005. Obstetrics volumes are still well above the prior year, but have leveled off in the last few months. Total obstetrics cases are 11.7 percent above prior year, and births are 11.2 percent above prior year. Inpatient volumes for psychiatry and pediatrics are below prior year by 11.7 percent and 6.2 percent, respectively.

Net patient service revenue for the first eight months of Fiscal Year 2006 was 2.1 percent below budget and 8.0 percent above prior year. Other operating revenue was 17.9 percent above budget and 16.1 percent above prior year.

Total operating expenses through February of Fiscal Year 2006 were 1.7 percent below the \$543.9 million budget and 8.7 percent above prior year expenses. Salaries and wages were below budget but above prior year expenses. Supplies and contracts and purchased services were also below budget and above prior year expenses.

The number of full-time equivalent employees on the payroll was 59 below budget and 94 above the prior year. Salary and wage cost per full-time employees was:

	FY 2005	FY 2006	2006 Budget
FTEs-Payroll	5,638	5,735	5,791
Annualized Salary and Wage Cost per FTE	\$47,185	\$48,764	\$48,662
Contract Labor FTEs	295	280	261
Total FTEs	5,933	6,012	6,053

OTHER FINANCIAL ISSUES

The Centers for Medicare and Medicaid Services have proposed a major reconfiguration of their payment system for inpatient care to take effect by 2008 and possibly sooner. The Centers' proposal would replace the current 526 Diagnosis Related Group (DRGs) with a system of 861 consolidated severity-adjusted Diagnosis Related Groups. The changes are

designed to reflect more accurately the costs of services provided by hospitals and to prevent them from being rewarded for treating high numbers of low acuity patients. The details of the proposal are not yet available; however, we anticipate it would increase payments for high acuity hospitals such as the Medical Center.

The Medical Center and the University of Virginia Health Services Foundation are continuing to talk to Anthem about various issues that impact the organizations and our patients. Anthem is not working with us in a collaborative manner. It is showing almost no propensity to compromise on any issue. We plan to begin formal contract negotiations in January 2007, and we are anticipating a difficult and lengthy discussion.

WRITE-OFF OF BAD DEBTS AND INDIGENT CARE

Indigent care charges totaling \$79.0 million for the period July 1, 2005, through February 28, 2006, have been written off. Recoveries during this period totaled \$23.2 million.

Bad debt charges totaling \$30.3 million for the first eight months of the fiscal year have been written off. During this same period, \$10.2 million was recovered through suits, collection agencies, and Virginia refund set-off.

OPERATIONS REPORT

The University of Virginia Medical Center is one of only 15 major teaching hospitals to be ranked among the nation's top 100 hospitals, according to Solucient's "100 Top Hospitals: National Benchmarks for Success" study. In addition, the Medical Center is one of only two hospitals from the Commonwealth to be selected. This is the seventh year the Medical Center has received the honor. The award recognizes hospitals that have achieved excellence in quality of care, operational efficiency, financial performance and adaptation to the environment. The study measures organization-wide performance that touches every employee.

The Medical Center also received an award from the University Health System Consortium as one of the top ten institutions participating in its Supply Chain Optimization program.

In March the Medical Center submitted documentation for the prestigious Magnet Recognition for Excellence in Nursing Services. The vision is that the Medical Center's professional nursing staff will be recognized nationally as leaders in providing innovative, research-based nursing services in an environment that supports professional development and recognizes nursing excellence.

Earning Magnet status would be an affirmation of the research-based care that our nurses provide every day and of the importance the Medical Center places on involving our registered nurses in governing their practice and participating as leaders of change. A decade of research shows that nurses practicing in Magnet facilities report high levels of job satisfaction, control over their practice, and ability to provide high quality care. Magnet institutions report strong recruitment and retention.

Magnet status, the Magnet Recognition for Excellence in Nursing Services, is highly sought after among health care institutions. To date, just 199 institutions out of 6,000 nationwide have earned this highest level of recognition from the American Nurses Credentialing Center, a subsidiary of the American Nurses Association.

On March 8, the Medical Center announced changes in compensation affecting a significant number of employees. The Medical Center's compensation philosophy is both performance-based and market-based. A recent market survey indicated that some adjustments to compensation were necessary to bring the Medical Center into line with other medical centers in the region.

Effective March 12, 2006, shift differential pay was increased between 35 cents and \$1 per hour for some evening, night and weekend shift positions. In addition, the current system of 31 different on-call pay rates was simplified by creating two rates - \$4 per hour and \$2.50 per hour. All nurses who work in inpatient units and procedure areas and who are Clinician I through Clinician IV on the clinical ladder received an increase of 35 cents per hour. Some of these nurses received an additional, market-based increase based on a review of their clinical experience. Thirteen other market sensitive positions, including MRI technologist, CT technologist, licensed practical nurse, endoscopy technician and infection control practitioner, received pay increases to bring them in line with current market conditions.

Like the University, the Medical Center increased the minimum rate of pay from \$8.88 per hour to \$9.37 per hour, a change that affected a variety of positions including drivers, supply specialists, patient care assistants, hospitality workers, and clinical assistants.

All these compensation adjustments are in addition to the pay for performance raises that employees received in January.

The Medical Center has embarked on an intensive program of leadership development for all Medical Center directors and managers. Over 150 leaders are participating in a 48 hour program that seeks to help managers understand how they are perceived in the work setting and develop knowledge and skills that will enhance their departmental leadership.

The Medical Center successfully completed a recent Laboratory Accreditation survey focusing on point-of-care testing (testing done outside of the main Clinical Laboratory) and conducted by the Joint Commission on Accreditation of Healthcare Organizations. Beginning in 2006, all surveys are unannounced. The two-day survey resulted in five findings related to 231 performance standards focused primarily on the competence of persons performing the tests as well as mechanisms for assessing accuracy and reliability of tests performed outside of the Clinical Laboratory.

The Medical Center continues to invest in new and renovated facilities to improve the patient care environment and facilitate patient flow. In April, the Allergy and Asthma Clinic consolidated its services from two sites to a single clinic located at Northridge. Northridge Pediatrics expanded in its current location to accommodate a growing clinic population. In May, the non-invasive Vascular Center and Cardiac Clinics will be occupying new space on the second floor of University Hospital and the Primary Care Center as part of the consolidation and expansion of the Heart Center. Also during May, the Blood Bank will relocate to a new space on the second floor of University Hospital, and a new patient registration and phlebotomy hub will open on the first floor of the Primary Care Center.

In July, the new and expanded Same Day Admission Suite and Post Anesthesia Care Unit will open as part of the hospital expansion project, two additional inpatient beds will be opened in the Thoracic Cardiovascular Post Operative unit, and the final phase of the Neonatal Intensive Care Unit renovation project will be completed.

Finally, the Nuclear Cardiology program will expand into new space as part of the Heart Center on the second floor of University Hospital.

The Medical Center is planning celebrations in honor of the Week of the Nurse (May 6-12) and Hospital Week (May 13-19). Photographs of nurses and other hospital employees will be featured throughout the Medical Center along with other educational and recognition activities.

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

Description	Most Recent Three Fiscal Years			Budget/Target
	Feb-04	Feb-05	Feb-06	Feb-06
Net patient revenue	\$456.7	\$506.7	\$547.5	\$559.2
Other revenue	<u>7.7</u>	<u>12.6</u>	<u>14.6</u>	<u>12.4</u>
Total operating revenue	<u>\$464.4</u>	<u>\$519.3</u>	<u>\$562.1</u>	<u>\$571.6</u>
Operating expenses	414.0	461.3	500.8	505.4
Depreciation	24.5	27.2	30.6	34.0
Interest expense	<u>2.8</u>	<u>3.2</u>	<u>3.2</u>	<u>4.5</u>
Total operating expenses	<u>\$441.3</u>	<u>\$491.7</u>	<u>\$534.6</u>	<u>\$543.9</u>
Operating income (loss)	<u>\$23.1</u>	<u>\$27.6</u>	<u>\$27.5</u>	<u>\$27.7</u>
Non-operating income (loss)	— <u>\$16.5</u>	— <u>\$17.7</u>	— <u>\$20.1</u>	— <u>\$12.0</u>
Net income (loss)	<u>\$39.6</u>	<u>\$45.3</u>	<u>\$47.6</u>	<u>\$39.7</u>
Principal payment	\$4.3	\$5.9	\$5.5	\$5.3

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

Description	Most Recent Three Fiscal Years		
	Feb-04	Feb-05	Feb-06
Assets			
Operating cash and investments	\$66.8	\$99.4	\$111.1
Patient accounts receivables	120.2	137.5	78.6
Property, plant and equipment	271.3	314.4	344.8
Depreciation reserve and other investments	242.4	224.4	257.8
Endowment Funds	102.8	111.0	123.6
Other assets	<u>49.5</u>	<u>66.0</u>	<u>77.2</u>
Total Assets	<u>\$853.0</u>	<u>\$952.7</u>	<u>\$993.1</u>
Liabilities			
Current portion long-term debt	\$5.6	\$10.4	\$11.5
Accounts payable & other liabilities	102.6	135.6	78.7
Long-term debt	119.4	129.2	158.4
Accrued leave and other LT liabilities	<u>26.6</u>	<u>27.2</u>	<u>28.4</u>
Total Liabilities	<u>\$254.2</u>	<u>\$302.4</u>	<u>\$277.0</u>
Fund Balance	<u>\$598.8</u>	<u>\$650.3</u>	<u>\$716.1</u>
Total Liabilities & Fund Balance	<u>\$853.0</u>	<u>\$952.7</u>	<u>\$993.1</u>

University of Virginia Medical Center
Financial Ratios

Description	Most Recent Three Fiscal Years			Budget/Target
	Feb-04	Feb-05	Feb-06	Feb-06
Operating margin (%)	5.0%	5.3%	4.9%	4.8%
Total margin (%)	8.2%	8.4%	8.2%	6.8%
Current ratio (x)	1.7	1.6	2.1	2.0
Days cash on hand (days)	168.7	165.6	164.5	190.0
Gross accounts receivable (days)	66.3	51.1	44.6	60.0
Average payment period (days)	44.4	49.8	35.5	60.4
Annual debt service coverage (x)	9.5	8.3	9.4	8.0
Debt-to-capitalization (%)	19.4%	19.3%	21.1%	20.0%
Capital expense (%)	6.2%	6.2%	6.3%	7.1%

University of Virginia Medical Center
Operating Statistics

Description	Most Recent Three Fiscal Years			Budget/Target
	Feb-04	Feb-05	Feb-06	Feb-06
Admissions	19,410	19,120	19,372	20,316
Patient days	110,712	111,152	112,525	114,357
SS/PP Patients	4,319	5,214	4,871	5,101
Average length of stay	5.68	5.81	5.80	5.63
Clinic visits	367,419	388,869	400,867	395,433
ER visits	39,507	37,552	38,414	38,209
Medicare case mix index	1.8149	1.9288	1.9681	1.9300
Net Revenue by Payor				
Medicare %	34.9%	35.5%	38.2%	38.4%
Medicaid %	14.2%	14.3%	13.2%	13.5%
Managed care %	0.0%	0.0%	0.0%	0.0%
Commercial %	42.4%	42.0%	43.0%	42.0%
Other	<u>8.4%</u>	<u>8.1%</u>	<u>5.5%</u>	<u>6.1%</u>
Total	100.0%	100.0%	100.0%	100.0%
FTE's (including contract labor)	5,566	5,933	6,012	6,053

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 - February 2006

OPERATING STATISTICAL MEASURES - February 2006							
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	7,436	7,662	3.0%	Inpatient Days	111,152	112,525	1.2%
Medical	7,679	7,797	1.5%	Average Length of Stay	5.81	5.80	(0.2%)
Transplant	153	157	2.6%	Average Daily Census	457	463	1.3%
Obstetrics	1,118	1,249	11.7%	Births	1,039	1,155	11.2%
Pediatrics	1,672	1,569	(6.2%)	<u>OUTPATIENTS:</u>			
Psychiatric	1,062	938	(11.7%)	Clinic Visits	388,869	400,867	3.1%
Subtotal Acute	19,120	19,372	1.3%	Average Daily Visits	2,553	2,646	3.6%
Short Stay	5,214	4,871	(6.6%)	Emergency Room Visits	37,552	38,414	2.3%
Total Admissions	24,334	24,243	(0.4%)	<u>SURGICAL CASES - MAIN OR</u>			
<u>CASE MIX INDEX:</u>				Inpatient	9,264	9,582	3.4%
All Acute Inpatients	1.7479	1.8275	4.6%	Outpatient	2,227	2,423	8.8%
Medicare Inpatients	1.9288	1.9681	2.0%	Total	11,491	12,005	4.5%

OPERATING FINANCIAL MEASURES - February 2006							
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	474,283,102	513,282,329	8.2%	Medicare	168,407,133	196,193,870	16.5%
Appropriations	32,389,270	34,170,211	5.5%	Medicaid	68,046,216	67,996,376	(0.1%)
Net Patient Service Revenue	506,672,372	547,452,540	8.0%	Commercial Insurance	87,307,657	78,712,419	(9.8%)
Other Operating Revenue	12,629,899	14,657,919	16.1%	Anthem	86,119,016	110,188,382	27.9%
Total	519,302,271	562,110,459	8.2%	Southern Health	25,971,813	31,897,703	22.8%
<u>EXPENSES:</u>				Other	38,431,267	28,293,579	(26.4%)
Salaries and Wages	220,706,705	234,833,094	6.4%	Total Paying Patient Revenue	474,283,102	513,282,329	8.2%
Supplies and Contracts	145,925,949	160,988,482	10.3%	<u>OTHER:</u>			
Purchased Services	76,619,581	82,255,268	7.4%	Collection % of Gross Billings	54.85%	49.76%	(9.3%)
Bad Debts	18,017,085	22,705,487	26.0%	Days of Revenue in Receivables			
Depreciation	27,238,305	30,649,894	12.5%	(Gross)	51.1	44.6	(12.7%)
Interest Expense	3,182,199	3,152,483	(0.9%)	Cost per CMI & OP-Adj Discharge	7,611	7,907	3.9%
Total	491,689,824	534,584,708	8.7%	Cost per CMI & OP-Adj Day	1,309	1,361	4.0%
Operating Margin	27,612,447	27,525,751	(0.3%)	Cost per Outpatient Visit	68.87	72.40	5.1%
Operating Margin %	5.32%	4.90%	(7.9%)	Total F.T.E.s (including Contract Labor)	5,933	6,012	1.3%
Non-Operating Revenue	17,695,301	20,113,271	13.7%	F.T.E.s Per Adjusted Occupied Bed	7.69	7.65	(0.5%)

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 - February 28, 2006

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	Annual Activity	
<u>INDIGENT CARE (IC)</u>	February <u>2005-06</u>	<u>2004-05</u>	<u>2003-04</u>
Net Charge Write-Off	62,821	80,155	79,386
Percentage of Net Write-Offs to Revenue	5.45%	5.60%	6.96%
Total Indigent Care Cost	28,388	36,900	44,461
State and Federal Funding	28,388	36,900	44,461
Total Indigent Care Cost Funding As a Percent of Total Indigent Care Cost	100%	100%	100%
Unfunded Indigent Cost	(0)	0	0
		Annual Activity	
<u>BAD DEBT</u>	February <u>2005-06</u>	<u>2004-05</u>	<u>2003-04</u>
Net Charge Write-Offs	22,705	27,389	21,376
Percentage of Net Write-Offs to Revenue	2.24%	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 when an individual account is written off.

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: May 11, 2006

COMMITTEE: Medical Center Operating Board

AGENDA ITEM: II.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 '03	Floor 3 TBD (occupants not determined)
<u>New Cancer Center</u> - Facility space programming and schematic design underway for consolidated and comprehensive Cancer Center on site of present West Parking Deck	\$59 M	Bonds and Outside Fundraising	Apr '04	2010
<u>New Children's Hospital</u> - Facility space programming complete. Currently awaiting completion of fundraising efforts before proceeding with detailed design work	\$48 M	Bonds and Outside Fundraising	Apr '04	TBD
<u>University Hospital Additional Beds</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</u> - 1st Floor renovations (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	TBD	1st phase - May '06
<u>Hospital Expansion Project-horizontal</u> 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); 5 renovated ORs completed	\$58.0 M (\$62.7 M-revised)	Bonds @ \$54 M (\$58.7 M revised) Hospital Operating Revenues @ \$4 M	Mar '99	Fall'06 (Revised - Spring '07) Program Revisions to OR Complement and Heart Center Under Review
<u>NICU Expansion</u> - Construction underway for major renovation of University Hospital 7th floor to accommodate an expanded Neonatal Intensive Care Unit	\$3.8 M (\$5.05 M revised, incl. equip & furn)	Medical Center Annual Capital Budget and Outside Fundraising	Jan '03	Feb '06 (Revised-July '06) Revised to Accommodate Added Scope

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: May 11, 2006

COMMITTEE: Medical Center Operating Board

AGENDA ITEM: II.D. 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:

SIGNIFICANT GIFTS

The Department of Neurosurgery and Dr. Ladislau Steiner received a \$1 million commitment of support from the Diane and David Heller Foundation.

The Mellon Prostate Cancer Institute received an additional gift of \$1 million from the Paul Mellon Foundation to assist with research.

Richard Poulson presented Dean Garson with the first \$1 million payment on the Smithfield-Luter Foundation's \$5 million pledge to the Cancer Center at a reception at the Garsons' home.

Other gift highlights include:

- A \$290,000 gift to the Dudley Rochester Professorship in Pulmonary Medicine.
- A \$115,000 gift to support the Kluge Children's Rehabilitation Center.
- A \$100,000 commitment to benefit medical education.
- A \$100,000 gift to support the neurogenetics research of Dr. Davis Parker.
- An \$89,000 commitment to scholarship support and the Medical Education Building.

OTHER DEVELOPMENT INITIATIVES

More than 180 participants attended the Annual Children's Ball on February 25th. The event raised \$80,000 towards annual funding for the UVA Children's Hospital.

On February 26th, the Cancer Center Board welcomed more than 70 people to their annual dinner at Hamilton's restaurant in downtown Charlottesville to raise awareness and funds for the Cancer Center. Proceeds from the event will benefit the new clinical cancer building.

Principal donors to the UVA Children's Hospital attended a sponsor dinner for the "Mac" MacDonald Golf Tournament held at the Aberdeen Barn.

Patients and Friends, a volunteer fundraising committee working in support of cancer research, met and organized for their next campaign. The group has adopted a goal of \$1.25 million. The first Patients and Friends reception will be held May 16th, at the home of Barbara & Peter Cover, and other activities are planned throughout next fall.

Through March 31th, Health System development officers made 2555 total contacts (64% of annual goal), including 1405 visits (70% of annual goal).

CAMPAIGN PROGRESS THROUGH MARCH 31, 2006

Through the end of March the Health System Campaign total is \$203,712,776*. This represents 40.74% of the Campaign goal, with 28.11% of the Campaign period elapsed. The following table shows the Fiscal Year 2006 totals for new commitments, including new gifts and new pledges.

	FY '06	FY '05
Total new commitments (excluding payments on previously booked pledges)	\$38,846,227	\$23,830,479
New gifts	\$21,611,920	\$19,103,643
New pledges	\$17,234,307	\$4,726,835

*This does not include the Ivy Foundation's \$45 million gift, which will be booked when the gift agreement is finalized.

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: May 11, 2006

COMMITTEE: Medical Center Operating Board

AGENDA ITEM: III. 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 made aware.