University of Wisconsin Hospitals and Clinics Authority

Basic Financial Statements as of and
for the Years Ended June 30, 2009 and 2008,
Required Supplementary Information
as of June 30, 2009 and 2008, and
Independent Auditors' Report

UNIVERSITY OF WISCONSIN HOSPITALS AND CLINICS AUTHORITY

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UNIVERSITY OF WISCONSIN HOSPITALS AND CLINICS AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

The University of Wisconsin Hospitals and Clinics Authority (the "Hospital") implemented Governmental Accounting Standards Board's (GASB) Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments*, for the annual financial report year ended June 30, 2003. This section of the Hospital's annual financial report presents management's analysis of the Hospital's performance during the fiscal years that ended on June 30, 2008 and 2009, and is designed to focus on the current fiscal year activity, resulting changes, and currently known facts; therefore, please read it in conjunction with the Hospital's financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Hospital's financial statements, and the notes to the financial statements.

The balance sheets and the statements of revenues, expenses, and changes in net assets, and cash flows, reported on the accrual basis, provide an indication of the Hospital's financial health. The balance sheets include all of the Hospital's assets and liabilities, as well as an indication about which assets can be utilized for general purposes and which are restricted by external donors or for other purposes. The statements of revenues, expenses, and changes in net assets report all of the revenue and expenses during the period indicated. The statements of cash flows report the cash provided and used by operating activities, as well as other cash sources such as investment income and other cash uses, such as repayment of bonds and capital additions. The notes to financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

FINANCIAL HIGHLIGHTS — FISCAL YEAR 2009

- The Hospital's net assets increased by approximately $35.3 million.
- Net patient service revenues increased by $103.7 million, or 12.4%. Total operating revenues increased by $104.7 million, or 12.3%, and total operating expenses increased by $81.7 million, or 9.8%.
- Operating income for the year was $42.0 million.
- Total nonoperating revenue (expense) decreased by $12.7 million or 171.1%. The majority of this decrease is due to net decrease in the fair value of investments, a decrease in investment income and other.
- The excess of revenues over expenses before capital grants, gifts, and donations, additions to permanent endowments, other payments, and special items increased $10.3 million or 39.2%.

FINANCIAL HIGHLIGHTS — FISCAL YEAR 2008

- The Hospital's net assets increased by approximately $30.1 million.
- Net patient service revenues increased by $52.5 million, or 6.7%. Total operating revenues increased by $53.9 million, or 6.7%, and total operating expenses increased by $75.7 million, or 10.0%.
- Operating income for the year was $19.0 million.
- The Hospital implemented Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions (GASB 45)* in fiscal 2008. The Hospital has historically expensed benefits as paid and did not accrue for postretirement benefits expected to be provided in the future for current employees. GASB Statement

No. 45 now requires this accrual. As a result, the incremental increase in expense for fiscal 2008, directly related to the implementation, was $4.1 million.

- Total nonoperating revenue (expense) decreased by $10.4 million or 58.3%. The majority of this decrease is due to net decrease in the fair value of investments, a decrease in investment income, and increase in interest expense, offset by the equity interest in gains of joint ventures and other. The net income of Unity Health Insurance Corporation ("Unity") continued to improve in 2008 and the Hospital records 60% of that joint venture's gain or loss. In addition, the Hospital recorded the equity interests in Madison United Healthcare Linen, Ltd. (formerly known as the Madison United Hospital Laundry) (the Hospital's membership interest is 44.5%) and Madison Environmental Resourcing, Inc. (formerly known as Madison Energy Recovery) (the Hospital's membership interest is 40.9%) and both entities had very positive financial results.
- The excess of revenues over expenses before capital grants, gifts, and donations, additions to permanent endowments, other payments, and special items decreased $32.1 million or 54.9%.
- Capital grants, gifts, and donations, primarily for the capital campaign for the construction of the American Family Children's Hospital, including net present value of new pledges, were approximately $7.7 million in 2008.
- Capital contributions to the University of Wisconsin School of Medicine and Public Health (UWSMPH) for capital expenditure support included $2.0 million in 2008 toward the construction of the Wisconsin Institutes for Medical Research (formerly known as the Interdisciplinary Research Complex). This contribution fulfills the Hospital's commitment of $6.0 million to UWSMPH for this project.

HOSPITAL HIGHLIGHTS — FISCAL YEAR 2009

- The Hospital continued to proceed with a fully integrated implementation of the EPIC-based patient management system at an estimated project cost to the Hospital of $47.7 million. This system, named UW Health Link, will intertwine the clinical components of an electronic health record for clinical documentation, medication management, computerized provider order entry, health information management, and peri-operative modules with business applications such as registration, appointment scheduling, and billing. The Hospital had successful go-lives for the clinical documentation, computerized provider order entry, oncology applications and the electronic health record in numerous ambulatory clinics in 2009.
- In September 2008, the Hospital opened the operating room suites in the American Family Children's Hospital.
- In September 2008, the Hospital entered into an equipment financing agreement for $9.3 million to finance the American Family Children's Hospital operating room equipment.
- On February, 2009, the State of Wisconsin established a tax assessment program on acute care hospitals with the intent to improve Medicaid reimbursement for Wisconsin hospitals. This assessment has been approved by the Centers of Medicare and Medicaid Services and was retroactive to July 1, 2008. The net benefit to the Hospital from this Program was approximately $9.9 million for the year ended June 30, 2009. Due to the tax assessment provisions, implementation of the Program impacted both operating revenues and expenses in the Hospital's statements of revenues, expenses and changes in net assets. For the year ended June 30, 2009, net patient service revenue was increased by approximately $32 million due to increased Medicaid reimbursement on fee-for-service claims and HMO payments. The tax assessment of approximately $22.1 million is included in other operating expenses.
- In response to the continued volatility in the bond insurance industry, the Hospital refunded two outstanding debt issues in March 2009. The Hospital issued approximately $57.1 million in Variable Rate Demand Revenue Refunding Bonds Series 2009A. The Series 2009A bond proceeds were used to refund $55.6 million of Hospital Revenue Bonds consisting of Short-Term Adjustable Rate Securities, Series 2002A and pay certain costs incurred in connection with the issuance and refunding of the bonds. This transaction resulted in a write-off of the unamortized bond insurance premium of the Series

2002A Bonds in the amount of $1,652,000 which is reported as a special item and recognition of a deferred loss of $638,000 for other unamortized financing costs. Also in March 2009, the Hospital issued approximately $59.3 million of Variable Rate Demand Revenue Refunding Bonds, Series 2009B. The bond proceeds were used to refund $58.1 million of Variable Rate Demand Revenue Refunding Bonds, Series 2005 and pay certain costs incurred in connection with the issuance and refunding of the bonds. This transaction resulted in a write-off of the unamortized bond insurance premium of the Series 2005 Bonds in the amount of $889,000 which is reported as a special item and recognition of a deferred loss of $421,000 for other unamortized financing costs.

- The Hospital purchased an off-campus facility for administrative services. This purchase and the planned renovation of the building was financed with Series 2009C bonds in the amount of $5.3 million in June 2009.
- The Hospital has essentially met its capital campaign goal of raising $41.0 million, which began in 2003. The Hospital has approximately $2.0 million of pledges outstanding as of June 30, 2009.
- The Hospital received a total of $1.2 million of capital grants, gifts and donations, which includes approximately $629,000 of cash collected for the American Family Children's Hospital building fund and approximately $534,000 of donated equipment for other areas of the hospital.
- The Hospital received the Magnet designation by the American Nurses Credentialing Center in 2009.
- The Hospital ranked among the top 50 of the nation's hospitals in five medical specialties in the U.S. News and World Report, "America's Best Hospitals 2009".
- The Hospital was recognized by Health Information Management Society (HIMSS) as one of 42 hospitals nationwide to have attained Stage 6 (of 0-7) for electronic health record implementation.

HOSPITAL HIGHLIGHTS — FISCAL YEAR 2008

- In August 2007 the Hospital's new American Family Children's Hospital opened as a 61-bed pediatric unit (part of the licensed bed compliment within the Hospital), with new pediatric specialty clinic space and other amenities for pediatric patients and families.
- In response to the volatility in the auction rate bond market and bond insurance industry, the Hospital refunded certain outstanding debt issues during 2008. In May 2008, the Hospital issued approximately $50.4 million in Fixed Rate Series 2008A bonds through a private placement. The 2008A bond proceeds were used to refund $50 million of Variable Rate Demand Series 1997 bonds and pay certain costs incurred in connection with the Series 2008A bonds. This transaction resulted in a write-off of the unamortized bond insurance premium of the Series 1997 bonds in the amount of $422,000 which is reported as a loss and recognition of a deferred loss of $270,000 for other unamortized financing costs. In June 2008, the Hospital issued $61 million in Variable Rate Demand Revenue Refunding Bonds Series 2008B bonds. The 2008B bond proceeds were used to refund $60 million of Short-term Adjustable Rate Securities Series 2004 bonds and pay certain costs incurred in connection with the Series 2008B bonds. This transaction resulted in a write-off of the unamortized bond insurance premium of the Series 2004 bonds in the amount of $1,536,000 which is reported as a loss and recognition of a deferred loss of $464,000 for other unamortized financing costs.
- The Hospital exercised the option and purchased a parcel of land in the Old Sauk Trails business and office park, located on Madison's west side, for $3.0 million in 2008. The land acquisition is intended to address the relocation of hospital support services at an undetermined future date.
- The Hospital was ranked among the top 50 of the nation's hospitals in four medical specialties in the U.S. News and World Report, "America's Best Hospitals 2008."

FINANCIAL ANALYSIS AND RESULTS OF OPERATIONS

At June 30, 2009, the Hospital's assets exceeded liabilities by $513.7 million, which is an increase in total net assets of $35.3 million, or 7.4% from the prior fiscal year-end.

At June 30, 2008, the Hospital's assets exceeded liabilities by $478.3 million, which is an increase in total net assets of $30.1 million, or 6.7% from the prior fiscal year-end.

Table 1 summarizes assets, liabilities, and net assets at June 30 (in thousands):

TABLE 1
NET ASSETS

	June 30, 2009	June 30, 2008	Dollar Change	Percent Change
Current and other assets	$ 519,977	$ 487,381	$ 32,596	6.7 %
Capital assets	410,395	398,111	12,284	3.1
Total assets	$ 930,372	$ 885,492	$ 44,880	5.1 %
Long-term debt	$ 249,834	$ 239,414	$ 10,420	4.4 %
Other liabilities	166,879	167,763	(884)	(0.5)
Total liabilities	416,713	407,177	9,536	2.3
Net assets:				
Invested in capital assets, net of related debt	163,574	162,156	1,418	0.9
Restricted	8,535	10,445	(1,910)	(18.3)
Unrestricted	341,550	305,714	35,836	11.7
Total net assets	513,659	478,315	35,344	7.4
Total liabilities and net assets	$ 930,372	$ 885,492	$ 44,880	5.1 %

TABLE 1
NET ASSETS

	June 30, 2008	June 30, 2007	Dollar Change	Percent Change
Current and other assets	$ 487,381	$ 481,812	$ 5,569	1.2 %
Capital assets	398,111	369,991	28,120	7.6
Total assets	$ 885,492	$ 851,803	$ 33,689	4.0 %
Long-term debt	$ 239,414	$ 243,739	$ (4,325)	(1.8)%
Other liabilities	167,763	159,884	7,879	4.9
Total liabilities	407,177	403,623	3,554	0.9
Net assets:				
Invested in capital assets, net of related debt	162,156	131,486	30,670	23.3
Restricted	10,445	18,547	(8,102)	(43.7)
Unrestricted	305,714	298,147	7,567	2.5
Total net assets	478,315	448,180	30,135	6.7
Total liabilities and net assets	$ 885,492	$ 851,803	$ 33,689	4.0 %

At June 30, 2009, the Hospital's cash and investments increased $18.7 million or 5.9% compared to June 30, 2008. The majority of the increase in fiscal 2009 cash and investments is attributable to increases from operating activities, offset by purchases of property, plant, and equipment (offset by capital donations received and reimbursement from bond proceeds), repayments of long-term debt and interest paid.

At June 30, 2008, the Hospital's cash and investments increased $3.5 million or 1.1% compared to June 30, 2007. The majority of the increase in fiscal 2008 cash is attributable to increases from operating activities, investment income, offset by purchases of property, plant, and equipment (offset by capital donations received and reimbursement from bond proceeds), repayments of long-term debt and interest paid.

As of June 30, 2009, the Hospital reports the net present value of pledges receivable totaling $1.9 million for the American Family Children's Hospital in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*. The net present value of pledges as of June 30, 2008, was $3.1 million.

Other liabilities include $63.2 million and $67.3 million at June 30, 2009 and 2008, respectively, of unfunded prior service pension liabilities which are recorded for the unfunded liabilities of participants in the Wisconsin Retirement System and $7.7 million and $4.1 million at June 30, 2009 and 2008, respectively, of the net OPEB obligation for retiree health insurance.

Table 2 compares 2009 revenues and expenses to 2008 and 2008 revenues and expenses to 2007, and shows the increase in net assets (in thousands).

TABLE 2
CONDENSED SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	June 30, 2009	June 30, 2008	Dollar Change	Percent Change
Operating revenues:				
Net patient service revenues	$ 941,856	$ 838,146	$ 103,710	12.4 %
Other operating revenue	15,679	14,725	954	6.5
Total operating revenues — net	957,535	852,871	104,664	12.3
Operating expenses:				
Salaries and benefits	491,328	461,435	29,893	6.5
Medical materials and supplies	189,271	177,598	11,673	6.6
Purchased services and agency costs	102,652	95,759	6,893	7.2
Depreciation and amortization	44,209	37,959	6,250	16.5
Other	88,114	61,161	26,953	44.1
Total operating expenses	915,574	833,912	81,662	9.8
Operating income	41,961	18,959	23,002	121.3
Nonoperating revenues (expenses):				
Nonoperating revenues	(3,256)	7,821	(11,077)	(141.6)
Nonoperating expenses	(10,011)	(10,820)	809	7.5
Other	8,006	10,398	(2,392)	23.0
Total nonoperating revenues (expenses) — net	(5,261)	7,399	(12,660)	(171.1)
Excess of revenues over expenses before capital grants, gifts and donations, additions to permanent endowments, other payments, and special items	36,700	26,358	10,342	39.2
Special items, net loss on unamortized bond insurance premium	(2,541)	(1,958)	(583)	(29.8)
Capital grants, gifts and donations	1,163	7,710	(6,547)	(84.9)
Payments to University of Wisconsin School of Medicine and Public Health (UWSMPH) for capital expenditure support		(2,042)	2,042	(100.0)
Additions to permanent endowments	22	67	(45)	(67.2)
Increase in net assets	35,344	30,135	5,209	17.3
Net assets beginning of year	478,315	448,180	30,135	6.7
Net assets end of year	$ 513,659	$ 478,315	$ 35,344	7.4 %

TABLE 2
CONDENSED SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	June 30, 2008	June 30, 2007	Dollar Change	Percent Change
Operating revenues:				
Net patient service revenues	$ 838,146	$ 785,597	$ 52,549	6.7 %
Other operating revenue	14,725	13,369	1,356	10.1
Total operating revenues — net	852,871	798,966	53,905	6.7
Operating expenses:				
Salaries and benefits	461,435	419,801	41,634	9.9
Medical materials and supplies	177,598	164,924	12,674	7.7
Purchased services and agency costs	95,759	85,520	10,239	12.0
Depreciation and amortization	37,959	33,146	4,813	14.5
Other	61,161	54,823	6,338	11.6
Total operating expenses	833,912	758,214	75,698	10.0
Operating income	18,959	40,752	(21,793)	(53.5)
Nonoperating revenues (expenses):				
Nonoperating revenues	7,821	21,760	(13,939)	(64.1)
Nonoperating expenses	(10,820)	(8,524)	(2,296)	(26.9)
Other	10,398	4,517	5,881	130.2
Total nonoperating revenues (expenses) — net	7,399	17,753	(10,354)	(58.3)
Excess of revenues over expenses before capital grants, gifts and donations, additions to permanent endowments, other payments, and special items	26,358	58,505	(32,147)	(54.9)
Special items, net loss on unamortized bond insurance premium	(1,958)	-	(1,958)	(100.0)
Capital grants, gifts and donations	7,710	3,614	4,096	113.3
Payments to University of Wisconsin School of Medicine and Public Health (UWSMPH) for capital expenditure support	(2,042)	(2,055)	13	0.6
Additions to permanent endowments	67	129	(62)	(48.1)
Increase in net assets	30,135	60,193	(30,058)	(49.9)
Net assets beginning of year	448,180	387,987	60,193	15.5
Net assets end of year	$ 478,315	$ 448,180	$ 30,135	6.7 %

Net Patient Service Revenue

Net patient revenue in 2009 increased $103.7 million, or 12.4% from the prior year. The primary reasons for the growth in revenue is the additional reimbursement from the Medicaid program as part of the Wisconsin hospital assessment program, increases in the number of patients cared for and third-party payor reimbursement increases which averaged 5.3% during the year, offset by an increase in the provision for charity care and bad debt. Inpatient volume, measured by admissions, increased approximately 500, or 2.1%, and outpatient volume, measured by visits, increased by approximately 12,100 visits, or 2.2%. Patient days increased approximately 4,500 or 3.4%. The Hospital's case mix index (CMI), which is a measure of patient acuity, was 1.79 in 2009 compared to 1.80 in 2008.

Sources of net patient service revenue by payor category for fiscal years 2009 and 2008 are depicted below:

TABLE 3
PAYOR MIX

	Fiscal Year		Percent
	2009	2008	Change
Medicare	25 %	25 %	-
Medicaid	8	4	100.0
Indemnity	5	6	(16.7)
Managed care — capitated	5	5	-
Managed care — noncapitated	48	50	(4.0)
Private pay and other	9	10	(10.0)
	100 %	100 %	

Net patient revenue in 2008 increased $52.5 million, or 6.7% from the prior year. The primary reasons for the growth in revenue are the increases in the number of patients cared for and third-party payor reimbursement increases which averaged 4.9% during the year, offset by an increase in charity care and bad debt. Inpatient volume, measured by admissions, increased approximately 1,700, or 7.2%, while outpatient volume, measured by visits, decreased by approximately 800 visits, or 0.1%. Patient days increased approximately 2,200 or 1.7%. The Hospital's case mix index (CMI), which is a measure of patient acuity, was 1.80 in 2008 compared to 1.84 in 2007.

Sources of net patient service revenue by payor category for fiscal years 2008 and 2007 are depicted below:

TABLE 3
PAYOR MIX

	Fiscal Year 2008	Fiscal Year 2007	Percent Change
Medicare	25 %	26 %	(3.8)
Medicaid	4	4	-
Indemnity	6	7	(14.3)
Managed care — capitated	5	5	-
Managed care — noncapitated	50	47	6.4
Private pay and other	10	11	(9.1)
	100 %	100 %	

Other operating revenue, which includes nonpatient revenue such as cafeteria sales and other auxiliary services, increased nearly $1.0 million to $15.7 million in 2009, or 6.5% over the prior year and $1.4 million to $14.7 million in 2008, or 10.1% over 2007.

Operating Expenses

Operating expenses increased by $81.7 million in 2009 or 9.8% over the prior year. The categories of expenses that caused the majority of the increases were salaries, wages and benefits, medical materials and supplies and other. Salaries, wages, and benefits expense increased 6.5% from 2008 with additional FTEs due to increases in patient volume and coverage for time spent in Health Link training and support during go-live implementations, as well as wage and fringe benefit rate increases. During 2009, the Hospital ratified labor contracts with two of the four labor unions. The increase in medical materials and supplies compared to the prior year was primarily in pharmaceuticals, surgical appliances and medical/surgical supplies. The increase in other expense is due to the $22.1 million Medicaid tax assessment to the Hospital that was effective July 1, 2008.

Operating expenses increased by $75.7 million in 2008 or 10.0% over the prior year. The categories of expenses that caused the majority of the increases were salaries, wages and benefits, medical materials and supplies, and purchased services and agency costs. Salaries, wages, and benefits expense increased 9.9% from 2007 due to additional FTEs due to increase in patient volume, support staff for American Family Children's Hospital and implementation of Health Link, and wage rate increases. The most pronounced growth in fringe benefits is related to the implementation of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions.* The effect was to change recognition of these expenses from a cash basis to an accrual basis for postretirement benefits expected to be provided in the future for current employees. The approximate effect on the fiscal 2008 operating results was an additional $4.1 million in expenses. The increase in medical materials and supplies compared to the prior year was primarily in pharmaceuticals. The increase in purchased services is due to additional commitments to the UWSMPH and UWMF pursuant to an affiliation agreement with the UWSMPH and the UWMF, consulting fees, and other costs associated with implementing Health Link (increased data processing software, purchased services for initial user training, and agency personnel for temporary staffing). Other cost increases associated with opening the American Family Children's Hospital include increased utility costs and additional depreciation expense.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of income from the Hospital's cash and long-term investments, loss on disposal of capital assets, and the equity interest in gain or loss from joint ventures. Investment income, including the change in fair value of investments, decreased to $(3.3) million in 2009, decreased to $7.8 million in 2008 from $21.8 million in 2007. The decrease in 2009 is due to the decline in short term interest rates and the decrease in the fair value of investments this year.

The Hospital's investment income and net changes in fair value of investments for 2009, 2008, and 2007 are summarized in Table 4 (in thousands):

TABLE 4
INVESTMENT EARNINGS BY ASSET CATEGORY

	2009	2008	2007
Interest and dividend income:			
Equity investments	$ 2,837	$ 2,616	$ 2,272
Fixed income investments	6,592	9,006	12,787
Total investment income	9,429	11,622	15,059
Net (decrease) increase in fair value of equity investments	(12,685)	(3,801)	6,701
Total	$ (3,256)	$ 7,821	$ 21,760

The decrease in equity interest in gain/loss of joint ventures from a $6.7 million gain in 2008 to a gain of $6.5 million in 2009 is due to the loss from e-Care of Wisconsin, LLC, of which the Hospital records 70% of the joint venture's gain or loss; offset by the continued improvement of Unity's net income in 2009, of which the Hospital records 60% of the joint venture's gain or loss. In 2007, the equity interest in gain of joint ventures was $3.4 million. The gain on disposal of capital assets was $125,000 in 2009 and the loss was $384,000 in 2008 and $198,000 in 2007. These balances are included in nonoperating revenue (expenses).

Interest expense in 2009 was $10.0 million, as included in nonoperating expenses. The decrease in interest expense from $10.8 million in 2008 and $8.5 million in 2007 is due to the decrease in variable bond interest rates in 2009.

Capital Assets

At June 30, 2009, the Hospital had $410.4 million, net of accumulated depreciation and amortization, invested in capital assets. This amount represents a net increase, including additions and disposals, of $12.3 million, or 3.1% from 2008. The majority of the increase is related to the completion of the American Family Children's Hospital Phase 2 Operating Room suites, an off-campus building acquisition to be occupied by Information Technology staff, and continuation of construction projects (primarily the Radiotherapy expansion in the Wisconsin Institutes for Medical Research building).

At June 30, 2008, the Hospital had $398.1 million, net of accumulated depreciation and amortization, invested in capital assets. This amount represents a net increase, including additions and disposals, of $28.1 million, or 7.6% from 2007. The majority of the increase is related to a land acquisition, completion of the American Family Children's Hospital Phase 1, and continuation of construction projects (primarily construction of the American Family Children's Hospital Phase 2 Operating Room suites, which is scheduled to open in fiscal 2009, and the Radiotherapy expansion in the Wisconsin Institutes for Medical Research building).

Table 5 shows a summary of capital assets, net of accumulated depreciation and amortization, at June 30, 2009, 2008, and 2007 and major additions by year for the years ended June 30, 2009, 2008, and 2007 (in thousands).

TABLE 5
CAPITAL ASSETS AT YEAR END (NET OF ACCUMULATED DEPRECIATION AND AMORTIZATION)

	2009	2008	2007
Land	$ 11,780	$ 11,771	$ 8,790
Buildings and land improvements	299,081	280,697	211,785
Equipment	86,283	82,684	72,689
Construction in progress	13,251	22,959	76,727
Total	$ 410,395	$ 398,111	$ 369,991

MAJOR ADDITIONS BY YEAR

	June 30		
	2009	2008	2007
Land acquisition	$	$ 3,000	$ 2,900
Buildings and improvements:			
Purchase off-campus facility	4,008		
American Family Children's Hospital OR Suites	11,209		
Wisconsin Institutes for Medical Research Building Phase 1	10,789		
Data Center Improvements	1,938		
Outpatient Pharmacy	570		
American Family Children's Hospital		72,550	
American Family Children's Hospital Emergency Generator		1,700	
Super Elevator		2,300	
Inpatient Room Remodeling		4,700	2,300
Equipment:			
Implementation Costs for Patient Management System	8,215	9,400	8,200

Construction in progress at June 30, 2008, consists principally of costs incurred for the construction relocation and expansion of Radiation Oncology services to the Wisconsin Institutes for Medical Research building, remodeling for Clinic expansions at the main Hospital building and improvements to the off-campus facility.

For more information about the Hospital’s capital asset activity, please see Note 6 to the financial statements. Ongoing capital requirements will be funded primarily from operations. The Hospital’s total capital budget for 2010 is $32.9 million compared to the 2009 capital budget of $74.2 million.

Long-term Debt

At June 30, 2009, the Hospital had $242.8 in long-term debt, excluding current installments, compared to $234.1 million at June 30, 2008 — a increase of 3.7% due to issuance of the Series 2009A, Series 2009B, Series 2009C and an equipment financing agreement with GE Government Finance, Inc.; offset by refunding of Series 2002A and Series 2005 and principal payments on the State of Wisconsin general obligation and refunding bonds, Series 2000, Series 2002B, Series 2005 bonds and the GE Loan. Long-term debt, excluding current installments, at June 30, 2007, was $238.5 million. The decrease from 2007 to 2008 resulted from the principal payments on the State of Wisconsin general obligation and refunding bonds, Series 2000, Series 2002B, and Series 2005 bonds.

Table 6 below provides the detail of outstanding long-term debt, excluding current installments, as of June 30, 2009, 2008, and 2007 (in thousands):

TABLE 6
OUTSTANDING LONG-TERM DEBT — AT YEAR-END

	2009	2008	2007
State of Wisconsin general obligation and refunding bonds	$ 5,868	$ 7,671	$ 9,718
Authority Variable Rate Demand Revenue Bonds, Series 1997			50,000
Authority Fixed Rate Demand Revenue Bonds, Series 2000		1,315	2,515
Authority Short-term Adjustable Rate Revenue Bonds, Series 2002A		55,600	55,600
Authority Fixed Rate Revenue Bonds, Series 2002B	5,205	6,910	8,525
Authority Short-term Adjustable Rate Revenue Bonds, Series 2004			60,000
Authority Variable Rate Revenue Bonds, Series 2005		58,095	58,590
Authority Fixed Rate Revenue Bonds, Series 2008A	50,060	50,375	
Authority Variable Rate Demand Revenue Bonds, Series 2008B	61,000	61,000	
Authority Variable Rate Demand Revenue Bonds, Series 2009A	57,070		
Authority Variable Rate Demand Revenue Bonds, Series 2009B	58,790		
Authority Fixed Rate Adjustable Revenue Bonds, Series 2009C	5,180		
Equipment Loan	7,335		
Premium on Series 2002B Bonds	241	306	370
Deferred Loss on Refunding of Series 1997 Bonds	(256)	(270)	
Deferred Loss on Refunding of Series 2004 Bonds	(446)	(464)	
Deferred Loss on Refunding of Series 2000 Bonds	(6,168)	(6,481)	(6,793)
Deferred Loss on Refunding of Series 2002A Bonds	(632)		
Deferred Loss on Refunding of Series 2005 Bonds	(416)		
Total	$ 242,831	$ 234,057	$ 238,525

Prior to the refunding in 2009, Series 2002A Short-term Adjustable Rate bonds and Series 2005 Variable Rate Demand bonds were insured by Financial Security Assurance, Inc. Prior to the refunding in 2008, Series 1997 bonds were insured by MBIA Insurance Corp., and the Series 2004 Short-term Adjustable Rate bonds were insured by Ambac, Inc. Series 2008B, Series 2009A and Series 2009B bonds are secured by an irrevocable transferable direct pay letter of credit issued by US Bank. The Authority bonds carry an underlying A1 rating from Moody's and an A+ rating from Standard & Poor's. The insured bonds carry an AAA rating from Moody's and Standard and Poor's.

Current legislation requires the Hospital to obtain approval of additional bond issuance from its Board of Directors, maintain an unenhanced bond rating in the category of “A” or better from Standard and Poor’s Corporation and Moody’s Investor Service, Inc., and notify the State Joint Committee on Finance and the Department of Administration. For more information about the Hospital’s outstanding debt, please see Note 7 to the financial statements.

Economic Factors and Next Year’s Budgets and Rates

The Hospital’s senior leadership team considered many variables in developing the 2010 budget and rates. Key strategic goals of maintaining high quality, safety, and service standards, as well as achieving fiscal margins provide the primary objectives in preparing each year’s budget. Fiscal 2010 budget assumptions were particularly difficult due to economic conditions and uncertain government reimbursement, including health care reform. This required a very disciplined approach in preparing the 2010 budget in an effort to keep the work force count consistent with existing levels, improve efficiency and contain cost increases. The 2010 budget, as approved by the Hospital’s board of directors, projects income from operations of $38.9 million, resulting in an operating margin of 4.0%. Net income is budgeted at $51.9 million representing a margin of 5.3%. Achieving a 5.3% margin is accomplished through increased volumes and by limiting the increase in the cost per unit of service to 1.7% offset by average payment increases of 5.0% across all payor categories. The 2010 budget calls for volume increases of 0.8% for inpatient admissions, 0.8% for inpatient days, and 3.1% for outpatient clinic visits.

Requests for Information

This financial report is designed to provide a general overview of University of Wisconsin Hospitals and Clinics Authority’s financial results for all those with an interest in the Hospital’s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Chief Financial Officer, 600 Highland Avenue, Mail Drop # 8370, Madison, WI 53792.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
University of Wisconsin Hospitals
and Clinics Authority:

We have audited the accompanying balance sheets of the University of Wisconsin Hospitals and Clinics Authority (the "Hospital"), a component unit of the State of Wisconsin, as of June 30, 2009 and 2008, and the related statements of revenues, expenses, and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the University of Wisconsin Hospitals and Clinics Authority as of June 30, 2009 and 2008, and the results of its operations, its changes in net assets, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the Hospital adopted Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* during the year ended June 30, 2008.

Management's discussion and analysis on pages 1–13 and Schedule of Plan Funding Progress under GASB Statement No. 45 on page 44 are not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Hospital's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Deloitte & Touche LLP

September 2, 2009

UNIVERSITY OF WISCONSIN HOSPITALS AND CLINICS AUTHORITY

BALANCE SHEETS
AS OF JUNE 30, 2009 AND 2008
(In thousands)

	2009	2008
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 47,051	$ 29,110
Patient accounts receivable — net of estimated uncollectible accounts of $35,000 in 2009 and $23,700 in 2008	108,196	99,419
Other receivables	7,416	9,485
Estimated receivable from Medicare and Medicaid	2,984	
Inventories of supplies	8,537	7,525
Prepaid expenses	5,862	4,551
Total current assets	180,046	150,090
NONCURRENT CASH AND INVESTMENTS:		
Designated by board for capital replacement, debt retirement, and other long-term investments	279,269	277,328
Held by trustee for capital projects and other purposes	3,013	3,460
Restricted by donors	5,450	6,163
Principal of permanent endowments	1,169	1,147
Total noncurrent cash and investments	288,901	288,098
CAPITAL ASSETS:		
Nondepreciable	26,746	36,389
Depreciable — net	383,649	361,722
Capital assets — net	410,395	398,111
INVESTMENTS IN JOINT VENTURES	44,242	40,614
PLEDGES RECEIVABLE	1,888	3,105
OTHER ASSETS	4,900	5,474
TOTAL	$ 930,372	$ 885,492

See notes to financial statements.

LIABILITIES AND NET ASSETS	2009	2008
CURRENT LIABILITIES:		
Current installments of long-term debt	$ 7,003	$ 5,357
Accounts payable	22,068	32,068
Accrued expenses	73,978	64,045
Estimated payables to Medicare and Medicaid		232
Total current liabilities	103,049	101,702
LONG-TERM DEBT — Less current installments	242,831	234,057
OPEB-RELATED LIABILITIES	7,654	4,148
PENSION-RELATED LIABILITIES	63,179	67,270
Total liabilities	416,713	407,177
NET ASSETS:		
Invested in capital assets — net of related debt	163,574	162,156
Restricted — expendable for donor-specified purposes	7,366	9,298
Restricted — nonexpendable	1,169	1,147
Unrestricted	341,550	305,714
Total net assets	513,659	478,315
TOTAL	$ 930,372	$ 885,492

UNIVERSITY OF WISCONSIN HOSPITALS AND CLINICS AUTHORITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2009 AND 2008 (In thousands)

	2009	2008
OPERATING REVENUES:		
Net patient service revenue (net of provision for bad debts of $23,140 in 2009 and $9,674 in 2008)	$ 941,856	$ 838,146
Other operating revenue	15,679	14,725
Total operating revenues — net	957,535	852,871
OPERATING EXPENSES:		
Salaries and wages	350,091	330,640
Employee benefits	141,237	130,795
Other expenses	64,426	39,234
Repairs, maintenance, and utilities	23,688	21,927
Purchased services and agency costs	102,652	95,759
Medical materials and supplies	189,271	177,598
Depreciation and amortization	44,209	37,959
Total operating expenses	915,574	833,912
Operating income	41,961	18,959
NONOPERATING REVENUES (EXPENSES):		
Investment income	9,429	11,622
Net decrease in fair value of investments	(12,685)	(3,801)
Interest expense	(10,011)	(10,820)
Equity interest in gain of joint ventures	6,525	6,658
Gain (loss) on disposal of capital assets	125	(384)
Noncapital grants and contributions	1,320	1,781
Other — net	36	2,343
Total nonoperating (expenses) revenues — net	(5,261)	7,399
Excess of revenues over expenses before capital grants, gifts and donations, additions to permanent endowments, other payments, and special items	36,700	26,358
SPECIAL ITEMS — Net loss on unamortized bond insurance premium	(2,541)	(1,958)
CAPITAL GRANTS, GIFTS, AND DONATIONS	1,163	7,710
ADDITIONS TO PERMANENT ENDOWMENTS	22	67
PAYMENT TO UNIVERSITY OF WISCONSIN SCHOOL OF MEDICINE AND PUBLIC HEALTH AND THE SCHOOL OF NURSING FOR CAPITAL EXPENDITURE SUPPORT		(2,042)
INCREASE IN NET ASSETS	35,344	30,135
NET ASSETS — Beginning of year	478,315	448,180
NET ASSETS — End of year	$ 513,659	$ 478,315

See notes to financial statements.

UNIVERSITY OF WISCONSIN HOSPITALS AND CLINICS AUTHORITY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008
(In thousands)

	2009	2008
OPERATING ACTIVITIES:		
Cash received from and on behalf of patients	$ 933,079	$ 841,002
Payments to suppliers	(374,007)	(314,701)
Payments to employees	(475,519)	(453,948)
Net cash provided by operating activities	83,553	72,353
NONCAPITAL FINANCING ACTIVITIES:		
Noncapital grants and contributions	1,320	1,781
Decrease in pension-related liabilities	(6,578)	(1,205)
Additions to permanent endowments	22	67
Payment to University of Wisconsin School of Medicine and Public Health for capital expenditure support		(2,042)
Net cash used in noncapital financing activities	(5,236)	(1,399)
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital grants, gifts, and donations received	1,846	8,694
Proceeds from long-term debt refunding	130,998	111,375
Deferred financing costs	(1,619)	(770)
Repayment/refunding of principal on long-term debt	(119,809)	(115,214)
Interest paid on long-term debt	(9,300)	(10,805)
Purchases of capital assets	(59,097)	(71,716)
Proceeds from sale of capital assets	154	69
Net cash used in capital and related financing activities	(56,827)	(78,367)
INVESTING ACTIVITIES:		
Proceeds from sales of investments	6,551	48,434
Purchases of investments	(25,078)	(40,454)
Investment income received	9,471	11,800
Increase in investment in joint venture	2,897	2,875
Other — net	(1,964)	46
Net cash (used in) provided by investing activities	(8,123)	22,701
NET INCREASE IN CASH AND CASH EQUIVALENTS	13,367	15,288
CASH AND CASH EQUIVALENTS:		
Beginning of year	77,008	61,720
End of year	$ 90,375	$ 77,008

(Continued)

UNIVERSITY OF WISCONSIN HOSPITALS AND CLINICS AUTHORITY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008
(In thousands)

	2009	2008
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO BALANCE SHEET:		
Cash and cash equivalents in current assets	$ 47,051	$ 29,110
Cash equivalents in noncurrent cash and investments	43,324	47,898
TOTAL CASH AND CASH EQUIVALENTS	$ 90,375	$ 77,008
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 41,961	$ 18,959
Adjustments to reconcile operating income to cash provided by operating activities:		
Provision for bad debts	23,140	9,674
Depreciation and amortization	44,209	37,959
Amortization of bond premium and deferred loss on bond refinancing	295	250
Other post-employment benefits	3,506	4,148
Changes in assets and liabilities:		
Patient accounts receivable	(31,917)	(6,818)
Other receivables	1,898	(1,292)
Inventories of supplies	(1,012)	(320)
Prepaid expenses	(1,311)	(1,074)
Estimated receivable from Medicare and Medicaid	(3,216)	2,040
Other assets	383	242
Accounts payable	(6,686)	5,246
Accrued expenses	12,303	3,339
Total adjustments	41,592	53,394
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 83,553	$ 72,353

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

The Hospital held investments at June 30, 2009 and 2008, with fair values of $245,577 and $240,200, respectively. During 2009 and 2008, the net decrease/increase in the fair value of these investments was $(12,685) and $(3,801), respectively.

The Hospital has pledges receivable of $1,888 in 2009 and $3,105 in 2008 related to the American Family Children's Hospital Campaign.

See notes to financial statements. (Concluded)

1. SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The University of Wisconsin Hospitals and Clinics Authority (the "Hospital") is an academic medical center operating an acute care hospital with 470 available beds, numerous specialty clinics, and four ambulatory facilities providing comprehensive health care to patients, education programs, research, and community service primarily to residents of southern Wisconsin.

Prior to fiscal year 1997, the Hospital was a unit of the University of Wisconsin — Madison (the "University"). Beginning in fiscal year 1997, in accordance with legislation passed by the Wisconsin State Legislature, the Hospital restructured as a Public Authority, a public body corporate and politic created by Wisconsin Statutes. This legislation provided, among other things, for the Board of Regents of the University of Wisconsin System ("Board of Regents") to execute various agreements with the Hospital. The state of Wisconsin (the "State") appoints the majority of the board of directors of the Hospital. Based on statutorily mandated relationships with State governmental units, the Hospital is included as a discretely presented component unit in the State's basic financial statements.

Under the terms of a Lease Agreement, the Hospital leases the facilities that were occupied by the Hospital as of June 29, 1996, for a nominal annual amount for an initial term of 30 years to be renewed annually with automatic extensions of one additional year on each July 1 until action is taken to stop the extensions. In addition, the Hospital is required to repay the State's outstanding debt obligations on the leased facilities. The leased facilities are included with the Hospital's capital assets (see Note 6), and the debt obligations on the leased facilities are included with the Hospital's long-term debt (see Note 7).

An Affiliation Agreement (the "Agreement") requires the Hospital to continue to support the educational, research, and clinical activities of the University, including the University of Wisconsin School of Medicine and Public Health (UWSMPH) and the University of Wisconsin Schools of Nursing and Pharmacy (see Note 4). Subject to a Contractual Services Agreement and Operating and Service Agreement between the Board of Regents and the Hospital, the two parties have entered into contracts with each other for the continuation of the provision of services in support of programs and operations.

The significant accounting policies of the Hospital are as follows:

Basis of Accounting — The accounting policies of the Hospital conform to accounting principles generally accepted in the United States of America as applicable to governmental entities. The accounts of the Hospital, which are reported similar to an enterprise fund, are used to account for the Hospital's activities that are financed and operated in a manner similar to a private business enterprise. Accordingly, the Hospital maintains its records on the accrual basis of accounting. Revenues from operations, investments, and other sources are recorded when earned. Expenses, including depreciation and amortization, are recorded when incurred.

Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Hospital has elected not to apply Financial Accounting Standards Board (FASB) or Accounting Principles Board Opinions (APB), issued on or after November 30, 1989, to the Hospital's financial statements.

Nonexchange transactions, in which the Hospital receives value without directly giving equal value in return, include grants and contributions. Revenues from grants and contributions are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year the resources are required to be used or the fiscal year in which use is first permitted, and expenditure requirements, in cases where the resources are provided to the Hospital on a reimbursement basis.

Cash and Cash Equivalents — Cash and cash equivalents are defined as highly liquid investments purchased with an original maturity of three months or less.

Inventories of Supplies — The inventories of supplies are valued at the lower of cost (first-in, first-out) or market.

Investments and Investment Income — Investments in equity securities with readily determinable fair values, all investments in debt securities, and pooled investment funds on deposit with the University of Wisconsin Foundation — Endowment Fund, with the exception of alternative investments, are recorded at fair value based upon quoted market prices. The estimated fair value of alternative investments is determined by management based upon information provided by the University of Wisconsin Foundation and is not solely based upon quoted market prices. The pooled investment funds on deposit with the University of Wisconsin Foundation — Expendable Fund are recorded at cost, plus accrued earnings to date, which approximates fair value. The University of Wisconsin Foundation assumes the market risk for the Hospital's investment in the University of Wisconsin Foundation — Expendable Fund. Interest, dividends, and changes in the fair value of investments are included in nonoperating revenue.

Investments in joint ventures, in which the Hospital has the ability to exercise significant influence over the ventures' operating and financial policies, are recorded using the equity method of accounting.

Capital Assets — Capital assets are stated at cost. Capital assets under capital leases are stated at the present value of minimum lease payments. Donated capital assets are recorded at fair market value at the date of donation, which then becomes the asset's historical cost. Depreciation or amortization on capital assets is calculated on the straight-line method over the shorter of the estimated useful life or the period of the lease term. Gains (losses) on sales of capital assets are recorded as nonoperating revenues (expenses). Costs of repairs and maintenance are expensed as incurred. The estimated useful life of capital assets is as follows:

Buildings and improvements	20–30 years
Equipment	5–10 years

Net interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the costs of acquiring those assets.

Costs of Borrowing — Costs incurred in connection with the issuance of long-term debt have been deferred and are being amortized on the straight-line basis over the term of the bonds.

Retiree Health Insurance — During fiscal year 2008, the Hospital adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 45 requires employers to report other postemployment healthcare benefits as a liability as part of the compensation for current employees' services. The liability is calculated based on an actuarial valuation. The provisions of this statement were adopted prospectively by the Hospital for the year ended June 30, 2008.

Contributions — From time to time, the Hospital receives contributions from individuals and private organizations. Revenues from contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted for a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported as capital grants, gifts, and donations.

Endowments are provided to the Hospital on a voluntary basis by individuals and private organizations. Permanent endowments require that the principal or corpus of the endowment be retained in perpetuity. If a donor has not provided specific instructions, the net appreciation of the investments of endowment funds are recorded with investment income in nonoperating revenue.

Net Assets — Net assets of the Hospital are classified in four components:

Invested in Capital Assets — Net of Related Debt — which consists of capital assets, net of accumulated depreciation and amortization, and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets.

Restricted, Expendable — which are noncapital net assets that must be used for a particular purpose, as specified by creditors or contributors external to the Hospital.

Restricted, Nonexpendable — which equal the principal portion of permanent endowments.

Unrestricted Net Assets — which are remaining net assets that do not meet the definitions of invested in capital assets, net of related debt, or restricted net assets.

When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use the restricted resources before the unrestricted resources.

Operating Revenues and Expenses — The Hospital's statements of revenues, expenses, and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services — the Hospital's principal activity. Nonexchange revenues, including contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than interest expense.

Net Patient Service Revenue — Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. Reimbursable amounts from third-party payors are estimated in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Net patient service revenue includes revenue derived from agreements with various managed care organizations to provide medical services to subscribing participants. Under certain of these agreements, the Hospital receives fixed monthly capitation payments (generally adjusted annually) based on the number of each managed care organizations' participants, regardless of services actually performed by the Hospital. The Hospital recognizes, in the year of contractual commitment, any losses on these contracts when it is probable that expected medical and maintenance expense under a group of existing contracts would exceed anticipated premiums and recoveries on these contracts. In other agreements, the managed care organizations make fee for service payments to the Hospital for certain covered services based primarily upon discounted fee schedules.

Charity Care — The Hospital has a policy of providing health care services, without charge or at amounts less than established rates, to those unable to pay all or a portion of their charges and who meet certain eligibility criteria established in the Hospital's charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as patient service revenue.

Risk Management — The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. The primary commercial insurance for professional liability is a full deductible policy. Settled claims have not exceeded this commercial coverage in any of the three preceding years. The Hospital is self-insured for workers' compensation (see Note 14). The estimated provision for self-insured workers' compensation includes the ultimate cost for both reported losses and losses incurred but not reported as of the respective balance sheet dates.

Compensated Absences — The Hospital's employees earn vacation days at varying rates depending on years of service. Employees may accumulate vacation time up to a specified maximum. Employees are paid for accumulated vacation time if they terminate employment. Consistent with the compensated absences reporting standards of GASB Statement No. 16, *Accounting for Compensated Absences*, an accrual for certain salary-related payments associated with compensated absences is included in the accrued expenses at June 30, 2009 and 2008.

Income Taxes — The Hospital qualifies as a Section 501(c)(3) not-for-profit institution of the Internal Revenue Code (the "Code") and, therefore, is exempt from federal income taxes pursuant to Section 501(a) of the Code. The Hospital is, however, subject to federal income taxes on any unrelated business income under the provisions of Section 511 of the Code. The Hospital is exempt from state income taxes under Section 71.26(b)(e) of Wisconsin Statutes.

Use of Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

New Accounting Pronouncements — In June 2008, the GASB issued GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments.* This statement establishes standards for the measurement, recognition, and disclosure of derivative instruments. The statement is effective for the Hospital for the year ending June 30, 2010. As of June 30, 2009, the value of the interest rate swaps held by the Hospital are not recorded on the balance sheet and are required to be disclosed in the footnotes to the financial statements (see Note 7).

2. RESTRICTED NET ASSETS AND ENDOWMENTS

Restricted expendable net assets as of June 30, 2009 and 2008, are available for the following purposes (in thousands):

	2009	2008
Capital purposes	$ 2,353	$ 3,719
Research and general	5,013	5,579
Total expendable restricted net assets	$ 7,366	$ 9,298

Restricted nonexpendable net assets as of June 30, 2009 and 2008, represent the principal amounts of permanent endowments restricted to investment in perpetuity. Investment earnings for the Hospital's permanent endowments are expendable for purposes restricted by the donors primarily for patient assistance purposes.

3. DESIGNATED ASSETS

Of the $341,550,000 and $305,714,000 of unrestricted net assets reported as of June 30, 2009 and 2008, respectively, $155,568,000 and $185,688,000 as of June 30, 2009 and 2008, respectively, has been designated by the Hospital's board of directors for capital replacement and debt retirement. Designated funds remain under the control of the board of directors, which may, at its discretion, later use the funds for other purposes.

4. TRANSACTIONS WITH RELATED PARTIES

The Hospital receives certain administrative and other general services from the University and provides direct support for the educational, research, and clinical activities of the University through the Affiliation Agreement. Direct costs associated with these services and support approximated $49,701,000 and $44,623,000 in 2009 and 2008, respectively. The Hospital committed to support certain UWSMPH and University of Wisconsin School of Nursing capital expenditures as incurred, up to a maximum of $18,267,000, of which $7,947,000 was paid through June 30, 2009, with the remaining $10,320,000 to be paid as the capital projects commence in agreed-upon installments. At June 30, 2009 and 2008, the Hospital had $2,115,000 and $1,497,000 in receivables, respectively, and $6,475,000 and $4,398,000 in payables, respectively, with the University.

University Health Care, Inc. (UHC) is a Wisconsin nonstock, not-for-profit corporation. UHC primarily is engaged in furthering the teaching, research, and service functions of the Hospital, UWSMPH, and the University of Wisconsin Medical Foundation (UWMF), each of which are members of UHC. UHC acquired 100% of the equity interest of Unity Health Plans effective January 1, 2005. This acquisition was funded 60% by the Hospital and 40% by UWMF. By resolution of UHC and agreement by its members, the Hospital and UWMF shall indirectly hold 60% and 40%, respectively, of the equity and ownership rights of Unity Health Plans. The UWSMPH shall have no ownership rights or funding obligations in and to Unity Health Plans. The super majority rights for governance of Unity Health Plans do not grant control to either the Hospital or UWMF. As such, the Hospital's investment in Unity Health Plans through UHC is accounted for by the equity method. At June 30, 2009 and 2008, the Hospital had $328,000 and $668,000 in receivables, respectively, with Unity Health Plans and UHC. The Hospital received payments of $42,915,000 and $40,126,000 for the years ended June 30, 2009 and 2008, from UHC under a capitation agreement with Unity Health Plans.

e-Care of Wisconsin, LLC, was formed in May 2008 as a limited liability company; UHC is the sole member of the LLC. The Board of Managers of e-Care of Wisconsin, LLC consists of three appointees from the Hospital and two appointees each from UWMF and UHC; as such the Hospital's investment is accounted for on the equity basis. Capital contributions to the LLC are funded 70% by the Hospital and 30% by UWMF as per resolution of the Board of Directors of UHC. The Hospital has made a capital contribution of $2,450,000 to e-Care of Wisconsin, LLC.

UHC was audited as of December 31, 2008 and 2007, and for the years then ended. A summary of certain financial data for UHC as of and for the years ended December 31, 2008 and 2007, is as follows (in thousands):

	2008	2007
Total assets	$ 105,023	$ 94,241
Unrestricted net assets	45,744	42,456
Total revenue	316,246	269,219
Expenses of revenues over expenses	3,627	4,084

Wisconsin Therapies, Inc., a not-for-profit corporation controlled by the Hospital, was organized for the purpose of forming a limited liability company with Chartwell Midwest. Wisconsin Therapies, Inc. is a holding company that has no assets, liabilities, or operations. The limited liability company is called Chartwell Wisconsin Enterprises, LLC, and is the sole member in Chartwell Midwest Wisconsin, LLC, and a single-member limited liability company providing tertiary home care, infusion therapy and other home health services to acutely and chronically ill patients primarily in Wisconsin. The Hospital's investment in the company is adjusted for equity in undistributed earnings of Chartwell Wisconsin Enterprises, LLC.

Wisconsin Dialysis, Inc., is a not-for-profit corporation which is owned 45%, 45%, and 10% among the Hospital, Meriter Hospital Inc., and UWMF, respectively. The Hospital's investment is adjusted for equity in undistributed earnings of Wisconsin Dialysis, Inc. At June 30, 2009 and 2008, the Hospital had $204,000 and $670,000 in receivables, respectively, from Wisconsin Dialysis, Inc.

On September 30, 2005, the Hospital purchased a 1/3 membership interest in Madison Surgery Center Inc., a nonstock, not-for-profit corporation for $5,000,000. The other 1/3 members include Meriter Hospital, Inc. and UWMF. The Hospital's investment in the company is adjusted for equity in undistributed earnings and capital distributions of Madison Surgery Center, Inc.

Sleep Equipment of Wisconsin, LLC, was organized in September 2007 as a Wisconsin limited liability company whose members are Meriter Hospital, Inc. and the Hospital. In December 2007, each member made capital contributions of $175,000. The Hospital's investment is adjusted for equity in the undistributed earnings/loss of Sleep Equipment of Wisconsin, LLC. Because of proposed regulatory changes regarding durable medical equipment billing, as well as other issues related to the planned business model, the joint venture partners of Sleep Equipment of Wisconsin, LLC, agreed to dissolve the organization with final dissolution in June 2009.

Madison United Healthcare Linen, Ltd., (formerly Madison United Hospital Laundry) was established in 1966 to provide laundry services to hospitals, long-term care facilities and clinics. The Hospital is a 44.5% member, along with three other hospitals. The Hospital recorded the investment in 2008, adjusted for equity in the undistributed earnings of Madison United Healthcare Linen, Ltd.

Madison Environmental Resourcing, Inc., (formerly Madison Energy Recovery), was established in 1986 to provide waste treatment and disposal of solid waste material for member organizations operating in the healthcare industry. The Hospital is a 40.9% member, together with Meriter Hospital, Inc. and St. Mary's Hospital. The Hospital recorded the investment in 2008, adjusted for equity in the undistributed earnings of Madison Environmental Resourcing, Inc.

Investments in joint ventures as of June 30, 2009 and 2008, is comprised of the following (in thousands):

	2009	2008
University Health Care, Inc.	$ 28,186	$ 25,721
e-Care of Wisconsin, LLC	1,473	350
Wisconsin Therapies, Inc.	1,440	1,342
Wisconsin Dialysis, Inc.	1,717	1,766
Madison Surgery Center, Inc.	7,034	7,110
Sleep Equipment of Wisconsin, LLC		113
Madison United Healthcare Linen, Ltd.	3,790	3,623
Madison Environmental Resourcing, Inc.	602	589
Total	$ 44,242	$ 40,614

5. DEPOSITS AND INVESTMENTS

The Hospital's deposits and investments at June 30, 2009 and 2008, are categorized to give an indication of the level of custodial credit risk assumed by the Hospital (in thousands):

Bank Deposits —

	2009	2008
FDIC — Insured	$ 141	$ 146
Uninsured, collateralized, or collateralized by securities held by the pledging institution or by its trust department or agent in other than the Hospital's name	61,993	38,082
Petty cash	77	70
Total bank balances	$ 62,211	$ 38,298
Carrying amount	$ 49,317	$ 32,056

Investments — The board of directors has authorized management to invest in debt and equity securities through an investment in the University of Wisconsin Foundation — Restricted Fund, the University of Wisconsin Foundation — Endowment Fund, and Intermediate Term Bond Fund managed by an investment advisor (in thousands):

	2009	2008
Uninsured and unregistered — cash equivalents and investment in an intermediate term bond fund:		
Cash equivalents	$ 7,692	$ 7,910
Investments	62,271	22,242
	69,963	30,152
Interest in cash equivalents and investments with the University of Wisconsin Foundation, which are uncategorized:		
Cash equivalents	35,632	39,988
Investments	181,040	215,012
	216,672	255,000
Total	$ 286,635	$ 285,152
Carrying amount	$ 286,635	$ 285,152

Cash and investments with the University of Wisconsin Foundation are uncategorized as ownership does not depend on control of individual securities. The carrying amounts of deposits and investments shown above are included in the Hospital's balance sheets at June 30, 2009 and 2008, as follows (in thousands):

	2009	2008
Deposits	$ 49,317	$ 32,056
Investments	286,635	285,152
Total	$ 335,952	$ 317,208

The amounts of deposits and investments are included at June 30, 2009 and 2008, in the following balance sheet captions (in thousands):

	2009	2008
Cash and cash equivalents	$ 47,051	$ 29,110
Noncurrent cash and investments	288,901	288,098
Total cash, cash equivalents, and investments	$ 335,952	$ 317,208

Noncurrent cash and investments are invested at June 30, 2009 and 2008, as follows (in thousands):

	2009	2008
Pooled investment funds on deposit with the University of Wisconsin Foundation:		
Pooled Restricted Fund	$ 159,114	$ 189,214
Pooled Endowment Fund	56,774	65,236
Funds held with trustee money market fund	3,013	3,460
Intermediate term bond fund	69,963	30,152
Other	37	36
Total	$ 288,901	$ 288,098

At June 30, 2009 and 2008, the Bond Series funds held with the trustee were invested in short-term money market funds.

6. CAPITAL ASSETS

Capital asset additions, retirements, and balances for the year ended June 30, 2009, were as follows (in thousands):

	Balance June 30, 2008	Additions and Transfers	Retirements	Balance June 30, 2009
Capital assets not being depreciated:				
Land	$ 11,771	$ 9	$ -	$ 11,780
Land improvements	1,659	56		1,715
Construction in progress	22,959	(9,708)		13,251
Total	36,389	(9,643)	-	26,746
Capital assets being depreciated:				
Buildings and improvements	445,679	35,988	(190)	481,477
Equipment	208,426	30,464	(10,062)	228,828
Total	654,105	66,452	(10,252)	710,305
Less accumulated depreciation and amortization for:				
Buildings and improvements	166,641	17,660	(190)	184,111
Equipment	125,742	26,344	(9,541)	142,545
Total	292,383	44,004	(9,731)	326,656
Total capital assets being depreciated — net	361,722	22,448	(521)	383,649
Total capital assets	$ 398,111	$ 12,805	$ (521)	$ 410,395

Construction in progress at June 30, 2009, consisted principally of costs incurred for the expansion of radiotherapy into the Wisconsin Institutes for Medical Research building, remodeling for Clinic expansions at the main hospital building, and improvements to the off-campus facility. The construction projects are being financed with cash from operations and Series 2009C bonds for the off-campus facility renovation.

Capital asset additions, retirements, and balances for the year ended June 30, 2008, were as follows (in thousands):

	Balance June 30, 2007	Additions and Transfers	Retirements	Balance June 30, 2008
Capital assets not being depreciated:				
Land	$ 8,790	$ 2,981	$ -	$ 11,771
Land improvements	1,510	149		1,659
Construction in progress	76,727	(53,768)		22,959
Total	87,027	(50,638)	-	36,389
Capital assets being depreciated:				
Buildings and improvements	360,337	85,356	(14)	445,679
Equipment	184,598	32,576	(8,748)	208,426
Total	544,935	117,932	(8,762)	654,105
Less accumulated depreciation and amortization for:				
Buildings and improvements	150,062	16,593	(14)	166,641
Equipment	111,909	21,916	(8,083)	125,742
Total	261,971	38,509	(8,097)	292,383
Total capital assets being depreciated — net	282,964	79,423	(665)	361,722
Total capital assets	$ 369,991	$ 28,785	$ (665)	$ 398,111

Construction in progress at June 30, 2008, consisted principally of costs incurred for the buildout of the third floor of American Family Children's Hospital to create new operating rooms and procedure rooms and the expansion of radiotherapy into the Wisconsin Institutes for Medical Research building. The construction projects are being financed with cash from operations. During 2008, interest expense of approximately $240,000, net of interest income of approximately $15,000, was capitalized.

Total remaining commitments on capital asset purchases and the renovation and construction projects approximated $5,151,000 at June 30, 2009.

The creation of the American Family Children's Hospital represented the Hospital's first major facility funded in partnership with private donors. Building on a $10 million founding gift from American Family Insurance Corp., a $41 million campaign for the construction of the new Children's Hospital began in 2003. As of June 30, 2009 and 2008, $37.1 million and $35.9 million, respectively, has been received and $1.9 million and $3.1 million, respectively, of net present value pledges receivable has been recorded in the financial statements as a capital donation in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

7. LONG-TERM DEBT

Changes in long-term debt for the years ended June 30, 2009 and 2008, were as follows (in thousands):

	Balance June 30, 2008	Additions	Payments and Amortization	Balance June 30, 2009	Amounts Due Within One Year
Amounts payable to the State under capital lease agreements for:					
General Obligation Bonds	$ 286	$ -	$ 5	$ 281	$ 6
Refunding Bonds	9,432		2,042	7,390	1,797
Total payable to the State	9,718	-	2,047	7,671	1,803
Hospital Revenue Bonds:					
Series 2000	2,515		1,200	1,315	1,315
Series 2002A	55,600		55,600	-	
Series 2002B	8,525		1,615	6,910	1,705
Series 2005	58,590		58,590	-	
Series 2008A	50,375			50,375	315
Series 2008B	61,000			61,000	
Series 2009A		57,070		57,070	
Series 2009B		59,345		59,345	555
Series 2009C		5,300		5,300	120
Hospital Equipment Loan		9,283	758	8,525	1,190
Total long-term debt	246,323	130,998	119,810	257,511	7,003
Series 2000 Refunding Deferred Loss	(6,481)		(313)	(6,168)	
Series 1997 Refunding Deferred Loss	(270)		(14)	(256)	
Series 2004 Refunding Deferred Loss	(464)		(18)	(446)	
Series 2002A Refunding Deferred Loss		(641)	(9)	(632)	
Series 2005 Refunding Deferred Loss		(423)	(7)	(416)	
Premium on long-term debt	306		65	241	
Long-term debt including premium	$239,414	$129,934	$119,514	$249,834	$7,003

	Balance June 30, 2007	Additions	Payments and Amortization	Balance June 30, 2008	Amounts Due Within One Year
Amounts payable to the State under capital lease agreements for:					
General Obligation Bonds	$ 291	$ -	$ 5	$ 286	$ 5
Refunding Bonds	11,681		2,249	9,432	2,042
Total payable to the State	11,972	-	2,254	9,718	2,047
Hospital Revenue Bonds:					
Series 1997	50,000		50,000	-	
Series 2000	3,460		945	2,515	1,200
Series 2002A	55,600			55,600	
Series 2002B	10,060		1,535	8,525	1,615
Series 2004	60,000		60,000	-	
Series 2005	59,070		480	58,590	495
Series 2008A		50,375		50,375	
Series 2008B		61,000		61,000	
Total long-term debt	250,162	111,375	115,214	246,323	5,357
Series 2000 Refunding Deferred Loss	(6,793)		(312)	(6,481)	
Series 1997 Refunding Deferred Loss		(270)		(270)	
Series 2004 Refunding Deferred Loss		(464)		(464)	
Premium on long-term debt	370		64	306	
Long-term debt including premium	$243,739	$110,641	$114,966	$239,414	$5,357

The amounts payable to the State under capital lease agreements represent portions of the respective obligations for which repayment has been assigned to the Hospital in connection with the financing of the Hospital's facilities and equipment (see Note 1).

In April 1997, the Hospital issued $50,000,000 of Variable Rate Demand Hospital Revenue Bonds, Series 1997 ("Series 1997 Bonds"). The Series 1997 Bonds had bore interest at weekly rates determined by a remarketing agent. Interest was payable monthly. The effective annual interest rate was 4.30% in 2008. In May 2008, the Hospital refunded $50,000,000 of the outstanding Series 1997 Bonds with Fixed Rate Hospital Revenue Refunding Bonds, Series 2008A. The refunding of the Series 1997 Bonds resulted in the recognition of a loss of $422,000 due to the unamortized insurance premium and recognition of a deferred loss of $270,000 for other unamortized deferred costs of the Series 1997 Bonds.

In March 2000, the Hospital issued $56,500,000 of Hospital Revenue Bonds, Series 2000 ("Series 2000 Bonds"). In September 2005, the Hospital refunded $52,460,000 of the outstanding bonds with Variable Rate Demand Hospital Revenue Bonds, Series 2005. Principal payments on the remaining Series 2000 Bonds are due semiannually in April 2009 through April 2010. Interest rates range from 5.35% to 5.50% and interest is payable semiannually on April 1 and October 1 of each year. The effective annual interest rate was 5.70% and 6.30% in 2009 and 2008, respectively.

In October 2002, the Hospital issued $68,500,000 of Hospital Revenue Bonds, Series 2002 ("Series 2002 Bonds") consisting of $55,600,000 Series 2002A Short-term Adjustable Securities and $12,900,000 Series 2002B Fixed Interest Rate Bonds. The bond proceeds were designated to finance-qualified capital projects. In July 2008, The Hospital exercised its option to convert the interest rate on the Series 2002A Bonds from auction rates to a weekly variable rate mode, secured by a commercial bank Standby Bond Purchase Agreement. Interest on the Bond Issue Series 2002A was payable at the end of each Rate Period. In March 2009, the Hospital refunded $55,600,000 of the outstanding Series 2002A bonds with Variable Rate Demand Revenue Bonds, Series 2009A. The refunding of the Series 2002A bonds resulted in the recognition of a loss of $1,652,000 due to the unamortized insurance premium and recognition of a deferred loss of $641,000 for other unamortized deferred costs of the Series 2002A. Principal payments on the remaining Series 2002B Bonds range from $1,615,000 to $1,900,000 due annually in April 2010 through April 2013. Interest rates for the Series 2002B Bonds range from 5.25% to 5.50% and interest is payable semiannually on April 1 and October 1 of each year beginning. The effective annual interest rate of the Series 2002A Bonds was 2.50% in 2009 and 3.60% in 2008. The effective annual interest rate of the Series 2002B Bonds was 5.50% in 2009 and 6.0% in 2008.

In October 2002, the Hospital entered into an interest rate swap in order to convert a portion of the Series 2002A Short-term Adjustable Rate Securities to fixed rates. The notional amount of this swap agreement was $21,350,000 at June 30, 2009 and 2008, respectively, which matures on April 1, 2022. This swap has been applied to the Series 2009A with the refunding of the Series 2002A bonds. The terms of the swap agreement are for the Hospital to pay the counterparty a fixed rate of 3.85% per annum, payable semiannually, and the Hospital to receive a floating rate of 70% of one-month London InterBank Offered Rate (LIBOR) per annum, payable monthly. In 2009 and 2008, the effective interest rate received by the Hospital was 1.00% and 3.00%, respectively. The Hospital will be exposed to variable rates if the counterparty to the swap defaults or if the swap is terminated. The Hospital does not intend to terminate this agreement. The fair value of the swap of $(2,132,882) and $(1,172,672) at June 30, 2009 and 2008, respectively, is not reflected in the financial statements.

In November 2004, the Hospital issued $60,000,000 of Hospital Revenue Bonds, Series 2004 consisting of Short-term Adjustable Rate Securities, Series 2004 (“Series 2004 Bonds”). The bond proceeds were designated to finance qualified capital projects. The interest rates and the interest payment date for the Series 2004 Bonds varied depending on if the bonds were in auction mode, daily mode, weekly mode, or in flexible mode. The effective annual interest rate of the Series 2004 Bonds was 4.60% in 2008. In June 2008, the Hospital refunded $60,000,000 of the outstanding Series 2004 Bonds with Variable Rate Demand Revenue Refunding Bonds, Series 2008B (“Series 2008B Bonds”). The refunding of the Series 2004 Bonds resulted in the recognition of a loss of $1,536,000 due to the unamortized insurance premium and recognition of a deferred loss of $464,000 for other unamortized deferred costs of the Series 2004 Bonds.

In November 2004, the Hospital entered into an interest rate swap in order to convert a portion of the Series 1997 Variable Rate Demand Bonds to fixed rates. This swap has been applied to the 2008B bonds with the refunding of Series 1997 bonds. The notional amount of this swap agreement was $26,750,000 at June 30, 2009 and 2008, respectively, which matures on April 1, 2021. The terms of the swap agreement are for the Hospital to pay the counterparty a fixed rate of 3.45% per annum, payable semiannually, and the Hospital to receive a floating rate of 70% of one-month LIBOR per annum, payable monthly. In 2009 and 2008, the effective interest rate received by the Hospital was 1.00% and 2.90%, respectively. The Hospital will be exposed to variable rates if the counterparty to the swap defaults or if the swap is terminated. The Hospital does not intend to terminate this agreement. The fair value of the swap of $(1,863,602) and $(694,138) at June 30, 2009 and 2008, respectively, is not reflected in the financial statements.

In September 2005, the Hospital issued $59,770,000 of Variable Rate Demand Hospital Revenue Bonds, Series 2005 (“Series 2005 Bonds”). The bond proceeds were designated to refund a portion of the Series 2000 Bonds. Principal payments on the Series 2005 Bonds, ranging from $495,000 to $8,110,000, were due annually in April 2009 through April 2029. Series 2005 Bonds bore interest at a weekly rate determined by a remarketing agent. Interest was payable monthly. In 2009 and 2008, the effective interest rate was 3.10% and 2.90%, respectively. In March 2009, the Hospital refunded $58,095,000 of the outstanding Series 2005 bonds with Variable Rate Demand Hospital Revenue Bonds, Series 2009B and transferred the April 2009 principal payment of $495,000 into escrow. The refunding of the Series 2005 Bonds resulted in the recognition of a loss of $889,000 due to the unamortized insurance premium and recognition of a deferred loss of $423,000 for other unamortized deferred costs of the Series 2005 Bonds.

In September 2005, the Hospital entered into an interest rate swap in order to convert the Series 2005 Variable Rate Demand Hospital Revenue Bonds to fixed rates. This swap has been applied to the Series 2009B with the refunding of the Series 2005 Bonds. The notional amount of the swap agreement was $58,095,000 at June 30, 2009, and $58,590,000 at June 30, 2008, which matures on April 1, 2029. The terms of the swap agreement are for the Hospital to pay the counterparty a fixed rate of 3.31% per annum, payable monthly, and the Hospital will receive a floating rate of 58.3% of one-month LIBOR per annum plus 0.36%, payable monthly. In 2009 and 2008, the effective interest rate received by the Hospital was 1.20% and 2.80%, respectively. The Hospital will be exposed to variable rates if the counterparty to the swap defaults or if the swap is terminated. The Hospital does not intend to terminate this agreement. The fair value of the swap of $(4,349,009) and $(1,325,944) at June 30, 2009 and 2008, respectively, is not reflected in the financial statements.

In March 2009, insurance on the 2005 swap agreement was removed and the collateral posting provisions of the swap agreement became effective. The collateral amount required is determined based on the fair value of the swap, less the applicable threshold of $7,000,000 at the Hospital's current rating. Collateral valuations are performed daily, based on the official market closing curve. While the counterparty holds the collateral, the funds will earn the overnight Federal Funds interest rate, payable monthly.

In May 2008, the Hospital issued $50,375,000 of Fixed Rate Bonds, Series 2008A ("Series 2008A Bonds") through a private placement. The bond proceeds were used to refund $50,000,000 of Variable Rate Demand Hospital Revenue Bonds, Series 1997. Principal payments on the Series 2008A Bonds, ranging from $315,000 to $5,245,000, are due annually in April 2010 through April 2026. Interest is payable semi-annually. In 2009 and 2008, the effective interest rate was 5.30% and 5.28%, respectively.

In June 2008, the Hospital issued $61,000,000 of Series 2008B Bonds. The bonds proceeds were used to refund $60,000,000 of Hospital Revenue Bonds consisting of Short-term Adjustable Rate Securities, Series 2004. Principal payments on the Series 2008B Bonds, ranging from $9,950,000 to $15,275,000, are due annually in April 2030 through April 2034. Series 2008B Bonds bear interest at a daily rate determined by a remarketing agent. Interest is payable monthly. In 2009 and 2008, the effective interest rate was 1.10% and 1.80%, respectively.

In September 2008, the Hospital entered into an equipment financing agreement with GE Government Finance, Inc., in the amount of $9,283,434. Principal and interest payments are made monthly commencing on November 1, 2008, for seven years. In 2009, the effective interest rate was 4.60%.

In March 2009, the Hospital issued $57,070,000 of Variable Rate Demand Revenue Refunding Bonds, Series 2009A ("Series 2009A Bonds"), secured by an irrevocable transferable direct-pay letter of credit issued by a commercial bank. The bond proceeds were used to refund $55,600,000 of Hospital Revenue Bonds consisting of Short-Term Adjustable Rate Securities, Series 2002A. Principal payments on the Series 2009A Bonds, ranging from $500,000 to $4,035,000, are due annually in April 2013 through April 2032. Series 2009A Bonds bear interest at a weekly rate determined by a remarketing agent. Interest is payable monthly. In 2009, the effective interest rate was 0.40%.

In March 2009, the Hospital issued $59,345,000 of Variable Rate Demand Revenue Refunding Bonds, Series 2009B ("Series 2009B Bonds"). The bond proceeds were used to refund $58,095,000 of Variable Rate Demand Revenue Refunding Bonds, Series 2005. Principal payments on the Series 2009B Bonds, ranging from $55,000 to $8,195,000, are due annually in April 2010 through April 2029. Series 2009B Bonds bear interest at a weekly rate determined by a remarketing agent. Interest is payable monthly. In 2009, the effective interest rate was 0.40%.

In June 2009, the Hospital issued $5,300,000 of Fixed Rate Hospital Revenue Bonds, Series 2009C ("Series 2009C Bonds") through a private placement. The bond proceeds were designated to finance qualified capital projects. Principal payments on the Series 2009C Bonds, ranging from $120,000 to $248,000, are due bi-annually beginning in April 2010 through October 2024. Series 2009C Bonds bear interest from June 30, 2009 through October 1, 2012, at the initial fixed rate of 5.07% per annum. The interest rate will be reset every three years and is payable bi-annually.

The Series 2000 Bonds, Series 2002 Bonds, Series 2008A Bonds, Series 2008B, Series 2009A Bonds, and Series 2009B Bonds are collateralized by a security interest in substantially all of the Hospital's revenue. The borrowing agreements contain various covenants and restrictions, including compliance with the terms and conditions of a Lease Agreement (see Note 1) and provisions limiting the amount of additional indebtedness that may be incurred. The borrowing agreements also require the establishment and maintenance of certain funds under the control of a trustee (see Note 5). UWHCA is in compliance with all debt covenants at June 30, 2009 and 2008.

The Series 2005 Revenue Bonds with variable interest rates are subject to remarketing provisions that require the Hospital to repurchase the bonds if they cannot be sold to a third party. The Hospital has entered into a standby bond purchase agreement (the "Agreement") with a commercial bank, which expires in 2010, to provide the funding for such repurchases as necessary. In the absence of the Agreement, the Hospital would be required to replace them with similar credit arrangements, convert the related debt from variable to fixed-rate debt, or fund required repurchases from available funds. As of and for the year ended June 30, 2009, there was no borrowing under the Agreement.

The Series 2008B, Series 2009A Bonds, and Series 2009B Bonds with variable interest rates are secured by irrevocable transferable direct-pay letters of credit issued by a commercial bank. The initial letter of credit agreements have stated expiration dates of five (5) years. The letter of credit securing the 2008B bonds requires draws to be repaid on the earliest of the following dates to occur: (A) the date the bond is remarketed; (B) the date sixty (60) months from the date of the draw; or (C) the stated expiration date of the letter of credit. The letters of credit securing the 2009A and 2009B bonds do not require any principal payments within the first year of the draw; interest payments are due monthly. Outstanding principal payments under the letters of credit would revert to a Term Out Loan after the first year. Any obligations under the Term Out Loans are repayable in equal quarterly installments based on a four year straight-line amortization commencing on the 367th day after the draw with final payments of the outstanding balances on the earliest to occur of: (A) the date on which the letter of credit is replaced or substituted; (B) five (5) years following the date of the draw preceding such Term Out Loan; (C) the date the bonds are successfully remarketed; or (D) the date on which all amounts due have been accelerated pursuant to the letters of credit. At June 30, 2009 and 2008, there were no amounts outstanding under the letters of credit.

Legislation (see Note 1) which had limited the Hospital's total borrowings, exclusive of amounts payable to the State, to $235,000,000, with limited exceptions, was amended in April 2008. The statute now requires the Hospital to obtain approval of additional bond issuance from its Board of Directors, maintain an unenhanced bond rating in the category of "A" or better from Standard and Poor's Corporation and Moody's Investor Service, Inc., and notify the State Joint Committee on Finance.

Scheduled principal and interest repayments on long-term debt, including the effect of the swaps based on the effective interest rate at June 30, 2009, are as follows (in thousands):

Years Ending June 30	Principal	Interest	Interest Rate Swap — Net	Total
2010	$ 7,003	$ 4,472	$ 1,788	$ 13,263
2011	7,481	4,213	1,754	13,448
2012	7,840	3,923	1,716	13,479
2013	8,190	3,633	1,672	13,495
2014	8,562	3,350	1,611	13,523
2015–2019	41,958	13,724	6,225	61,907
2020–2024	48,274	8,384	2,911	59,569
2025–2029	55,503	2,256	1,110	58,869
2030-2034	72,700	599		73,299
Deferred loss on refunding of Series 2000 Bonds	(6,168)			(6,168)
Deferred loss on refunding of Series 1997 Bonds	(256)			(256)
Deferred loss on refunding of Series 2004 Bonds	(446)			(446)
Deferred loss on refunding of Series 2002A Bonds	(632)			(632)
Deferred loss on refunding of Series 2005 Bonds	(416)			(416)
Premium on 2002B bonds	241			241
	$ 249,834	$ 44,554	$ 18,787	$ 313,175

8. DEFEASANCE OF DEBT

On September 20, 2005, the Hospital issued $59,770,000 in Variable Rate Demand Revenue Refunding Bonds, Series 2005 with an initial interest rate of 2.69% per annum at the time of issuance to advance refund $52,460,000 of outstanding Bond Issue Series 2000 with an interest rate range of 5.6% to 5.85%. The net proceeds of $58,180,000 (after payment of $1,590,000 in issuance costs) were used to purchase state and local government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded portion of the Fixed Rate Serial and Term Hospital Revenue Bonds, Series 2000 with maturity dates on or after April 1, 2011. As a result, the refunded portion of the Bond Issue Series 2000 are considered to be defeased and the liability for those bonds has been removed from the balance sheet. The amount outstanding related to the defeased portion of the 2000 Series Bond is $52,460,000 at June 30, 2009.

Although the advance refunding resulted in the recognition of a deferred loss of $7,339,000, the Hospital in effect reduced its aggregate debt service payments over the next 24 years by over $14,000,000 and obtained an economic gain (difference between the present values of the debt service payments on the old and the new debt) of approximately $9,000,000. The Hospital is amortizing the deferred loss to interest expense over the term of the debt using the straight-line method.

9. NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for reimbursement at amounts different from the Hospital's established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursements with major third-party payors is as follows:

Medicare — Inpatient acute care services rendered to Medicare beneficiaries and defined capital costs are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services are reimbursed based on prospectively determined rates with separate payment classifications established for each distinct service rendered within the encounter. Inpatient nonacute services, medical education, and certain organ acquisition costs related to Medicare beneficiaries are paid based upon cost reimbursement methods, established fee screens, or a combination thereof. The Hospital is reimbursed for cost reimbursement items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2004. The estimated receivables and payables to Medicare included in the financial statements include those cost reports that have not been audited by the Medicare fiscal intermediary.

Net patient service revenue for the years ended June 30, 2009 and 2008, included approximately $4,022,000 and $(88,000), respectively, of retrospectively determined settlements from (to) third-party payors and changes in estimates.

Medicaid — Inpatient services rendered to Medicaid beneficiaries are reimbursed similar to the method for Medicare inpatient acute care services. Differences from the Medicare method pertain to reimbursements for organ transplants, capital costs, and medical education costs. Medicaid outpatient services are paid on a predetermined rate per visit.

In February 2009, the State of Wisconsin established a tax assessment program on acute care hospitals with the intent to improve Medicaid reimbursement for Wisconsin hospitals. This assessment program has been approved by the Centers for Medicare and Medicaid Services and was retroactive to July 1, 2008. The net benefit to the Hospital from this Program was approximately $9,943,000 for the year ended June 30, 2009. Due to the tax assessment provisions, implementation of the Program impacted both operating revenues and expenses in the Hospital's statement of revenues, expenses, and changes in net assets. For the year ended June 30, 2009, net patient service revenue was increased by approximately $31,968,000 due to increased Medicaid payments on fee-for-service claims and HMO payments. The tax assessment of $22,025,000 is included in other expenses.

The percentage of net patient service revenue applicable to services provided to Medicare and Medicaid patients was approximately 33% in 2009 and 29% in 2008.

Laws and regulations governing Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The impact of any change in estimates is recorded in the year the change is determined. In management's opinion, the ultimate disposition of these uncertainties will not have a material adverse effect on the financial position of the Hospital or results of operations.

Other — The Hospital has also entered into reimbursement agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for reimbursements under these agreements includes capitation, prospectively determined rates per discharge, discounts from established rates, and prospectively determined per diem rates.

Capitation revenue with third-party payors comprised approximately 5% of net patient service revenue for each of the years ended June 30, 2009 and 2008.

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of net receivables from patients and third-party payors at June 30, 2009 and 2008, is summarized as follows:

	2009	2008
Medicare	23 %	21 %
Medicaid	9	9
Managed care	43	40
Indemnity	7	8
Other	18	22
Total	100 %	100 %

10. CHARITY CARE

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. The approximate level of charity care provided (based on charges) during the years ended June 30, 2009 and 2008, was $40,306,000 and $48,901,000, respectively.

11. PENSION PLAN

Virtually all Hospital employees participate in the Wisconsin Retirement System (WRS), a cost sharing, multiple employer, defined-benefit public employee retirement system governed by Chapter 40 of the Wisconsin Statutes. All permanent employees expected to work over 600 hours per year are eligible to participate in the WRS. The Hospital employees participating in WRS are categorized as either Hospital Board or Hospital Authority employees. Covered general employees are required by statute to contribute 5% of their salary to the plan; however, the Hospital funds these contributions to the plan on behalf of the employees. The Hospital is required to contribute the remaining amounts necessary to pay the projected cost of defined future benefits.

The payroll for employees covered by WRS for the year ended June 30, 2009, was $338,393,000; the employer's total payroll was $350,091,000. The total required contributions, paid entirely by the employer, for the year ended June 30, 2009, were $42,947,000.

The payroll for employees covered by WRS for the year ended June 30, 2008, was $320,162,000; the employer's total payroll was $330,640,000. The total required contributions, paid entirely by the employer, for the year ended June 30, 2008, were $41,809,000.

Employees who retire at or after age 65 are entitled to receive a retirement benefit. Employees may retire at age 55 and receive reduced benefits. Retirement benefits are calculated as 1.6% of final average earnings for each year of creditable service. Final average earnings is the average of the employee's three highest year's earnings. Employees terminating covered employment before becoming eligible for a retirement benefit may withdraw their contributions and, by doing so, forfeit all rights to any subsequent benefit. For employees beginning participation on or after January 1, 1990, and no longer actively employed on or after April 24, 1998, creditable service in each of five years is required for eligibility for a retirement annuity. Participants employed prior to 1990 and on or after April 24, 1998, are immediately vested.

Each participating employer (including the Hospital) is required to make periodic payments to the WRS in respect of that employer's share of the unfunded prior service liability and sick leave conversion credit of the WRS. The statutorily required payments are based upon a percentage of covered wages. This percentage was designed to amortize the unfunded liability over 40 years, with 22 years remaining as of fiscal 2009. Each employer's total obligation is increased each year by an amount of interest, currently equal to 7.8% of the amount of the unfunded liability.

In December 2003, the State issued general obligation bonds and used the proceeds to retire the State's portion (including the Hospital Board employees) of the unfunded pension liability with WRS. The Hospital is required to reimburse the State for the Hospital's pro-rata share of the liability. The Hospital has recognized a liability of $32,648,000 as of June 30, 2009, of which $1,940,000 is payable in 2010 and is recorded in accrued expenses and $30,709,000 is recorded in pension-related liabilities, payable in annual principal and interest payments to the State over approximately 22 years. The Hospital has recognized a liability of $37,074,000 as of June 30, 2008, of which $4,426,000 is payable in 2009 and is recorded in accrued expenses and $32,648,000 is recorded in pension-related liabilities, payable in annual principal and interest payments to the State over approximately 23 years. Amounts payable to the State for the years 2011 through 2014 range from approximately $2,700,000 to $3,100,000.

The pension related liabilities for the Hospital as of June 30, 2009 and 2008, were $65,118,000 and $71,696,000, respectively, including current portion. The liability is made up of the Hospital Board portion, payable to the State as discussed above, and the Hospital Authority portion of $32,470,000, and $34,622,000, payable to WRS, as of June 30, 2009 and 2008, respectively.

Copies of the separately issued WRS financial report, that includes financial statements and required supplementary information, may be obtained by writing to:

Department of Employee Trust Funds
801 West Badger Road
P.O. Box 7931
Madison, WI 53707-7931

12. RETIREE HEALTH INSURANCE PLAN

In addition to providing pension benefits, the Hospital, through its participation in the Wisconsin Retirement System, provides health care benefits for approximately 300 eligible retired employees. The Hospital implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions* ("GASB Statement No. 45"), in fiscal year 2008. GASB Statement No. 45 addresses how state and local governments should account for their costs and obligations related to post-employment health care and other non-pension benefits (collectively referred to as "other post-employment benefits" or "OPEB"). GASB Statement No. 45 requires the Hospital to account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB cost will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they become due. The provisions of GASB Statement No. 45 may be applied prospectively and do not require the Hospital to fund its OPEB plan.

The effect was to change recognition of health care benefit expenses from a cash basis as claims are paid to an accrual basis. The estimated effect on the financial statement for the years ended June 30, 2009 and 2008, was an additional expense of $3.5 million and $4.1 million, respectively.

Plan Description — The Hospital is a part of the State's Health Insurance Program, which is an employer-sponsored program offering group medical coverage to eligible employees and retirees of the State and participating local government employers. Created under Chapter 40, of the Wisconsin State Statutes, the State Department of Employee Trust Funds and the Group Insurance Board have program administration and oversight responsibilities under Wis. Stat. Sections 15.165(2) and 40.03(6).

Under this plan, retired employees of the Hospital are allowed to pay the same healthcare premium as active employees, creating an implicit rate subsidy for retirees. This implicit rate subsidy, which is calculated to cover pre-age 65 retirees (since at age 65, retirees are required to enroll in Medicare when eligible), is treated as an other postemployment benefit (OPEB). Retirees over age 65 may purchase Medicare supplemental and prescription benefit coverage through the plan.

The Department of Employee Trust funds issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to Department of Employee Trust Funds, 801 West Badger Road, PO Box 7931, Madison, WI 53707-7931.

Funding Policy — The health insurance plan is currently on as a "pay-as-you-go-basis." GASB Statement No. 45 does not require funding of the OPEB expense and the Hospital does not intend to fund the net OPEB obligation. Retirees pay premiums directly to the plan either out-of-pocket or with their accumulated sick leave conversion credits. For fiscal year 2009, the Hospital contributed $2.7 million to the plan for current assessments of the sick leave conversion credit benefit available to retirees for health insurance and approximately $2.9 million of the payments due for the Hospital's pension-related liabilities (as described in footnote 11) apply to sick leave conversion credits.

Annual OPEB Cost — The Hospital's annual OPEB cost (expense), dollar amount of contributions, and components of the annual OPEB cost was as follows (in thousands):

	Hospital Authority	Hospital Board
Annual Required Contribution (ARC)	$ 3,370	$ 1,853
Interest on the Net OPEB Obligation	178	88
ARC Adjustment with Interest	(229)	(113)
Annual OPEB Cost	3,319	1,828
Employer Contribution	(975)	(666)
Change in the Net OPEB Obligation	2,344	1,162
Net OPEB Obligation Beginning Balance	2,778	1,370
Net OPEB Obligation Ending Balance	$ 5,122	$ 2,532

The Hospital's annual OPEB cost, percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2009 was as follows:

	Fiscal Year Ended	Annual OPEB Cost	Percent of Annual OPEB Contributed	Net OPEB Obligation
Hospital Authority	6/30/2009	$ 3,319	29.4 %	$ 5,122
Hospital Authority	6/30/2008	3,472	20.0	2,778
Hospital Board	6/30/2009	1,828	36.4	2,532
Hospital Board	6/30/2008	1,887	27.4	1,370

Funded Status and Funding Progress — The funded status of the plan as of July 1, 2007, was as follows:

	Hospital Authority	Hospital Board
Actuarial accrued liability (AAL)	$ 19,761	$ 10,747
Actuarial value of plan assets	-	-
Unfunded actuarial accrued liability (UAAL)	$ 19,761	$ 10,747
Funded ratio (actuarial value of plan assets/AAL)	- %	- %
Covered payroll (active plan members)	$ 223,332	$ 96,830

The actuarial accrued liability calculation considers the retiree drug subsidy (RDS) provisions of Medicare Part D as a separate transaction. Therefore, the actuarial accrued liability, the annual required contribution of the employer (ARC), and the annual OPEB costs are determined without reduction of RDS payments. At June 30, 2009, the Medicare Part D portion included in the actuarial accrued liability is $5.2 million.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents the transition year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions — Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of the valuation and the historical pattern of sharing the benefit costs between employer and plan members to that point. In the actuarial valuation for fiscal year 2008-2009, the projected unit credit method was used. The actuarial assumptions included a 6.42% discount rate and an annual healthcare cost trend rate of 7.20% initially, reduced by decrements to an ultimate rate of 5.00% after 18 years. The unfunded actuarial accrued liability is being amortized as a 30-year level percentage of pay amortization periods on a closed basis for the initial UAAL. The remaining amortization period was 28 years at June 30, 2009.

13. MALPRACTICE INSURANCE

The Hospital has occurrence-based coverage for July 1, 2002 through June 30, 2003, and has claims-made or tail coverage under various policies for claims made before and after that period. Losses in excess of the professional liability insurance are fully covered through the Hospital's mandatory participation in the Injured Patient and Families Compensation Fund of the State of Wisconsin. The Injured Patient and Families Compensation Fund pays that portion of a medical malpractice claim which is in excess of the legal primary insurance limit prescribed under law, or the maximum liability limit for which the health provider is insured, whichever limit is greater. Most qualified health care providers permanently practicing or operating in the State of Wisconsin are required to pay Injured Patient and Families Compensation Fund operating fees. Risk of loss is retained by the fund. Noneconomic damages are capped in the State of Wisconsin. The Hospital has recorded in the financial statements its best estimate for the ultimate cost discounted at 4% of professional liability claims, including incurred but not reported claims.

14. LIABILITIES FOR WORKERS' COMPENSATION CLAIMS

A reconciliation of changes in the aggregate liabilities for workers' compensation claims for the years ended June 30, 2009 and 2008, is as follows (in thousands):

	Amount of Claims Liabilities Beginning of Year	Incurred Claims and Changes in Estimates	Payments on Claims	Amount of Claims Liabilities End of Year
2009	$ 5,134	$ 2,939	$ (2,142)	$ 5,931
2008	4,570	2,198	(1,634)	5,134

Workers' compensation claim expense is included with employee benefits expense in the statements of revenues, expenses, and changes in net assets and accrued expenses in the balance sheets.

15. COMMITMENTS AND CONTINGENCIES

Leases — The Hospital leases buildings, equipment, and helicopter transport services under operating leases. Rental expense for cancelable and noncancelable operating leases was approximately $18,407,000 and $15,751,000 for 2009 and 2008, respectively, and is included in other expenses.

Future minimum payments for the next five years under operating leases that have initial or remaining noncancelable lease terms in excess of one year and under license agreements that have remaining noncancelable terms in excess of one year as of June 30, 2009, are as follows (in thousands):

2010	$ 13,072
2011	6,980
2012	3,436
2013	1,407
2014	530
2015–2019	826
Total	$ 26,251

Regulatory Investigations — The U.S. Department of Justice and other federal agencies are increasing resources dedicated to regulatory investigation and compliance audits of health care providers. The Hospital is subject to these regulatory efforts. Management is currently unaware of any regulatory matters which will have a material adverse effect on the Hospital's financial position or results of operations.

Other — The Hospital is subject to various legal proceedings and claims which are incidental to its normal business activities. In the opinion of management, the amount of ultimate liability with respect to these actions will not have a material adverse effect on the Hospital's financial position or results of operations.

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REQUIRED SUPPLEMENTARY INFORMATION

UNIVERSITY OF WISCONSIN HOSPITALS AND CLINICS AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PLAN FUNDING PROGRESS UNDER GASB STATEMENT NO. 45
AS OF JULY 1, 2007 (DATE OF ADOPTION) THROUGH JUNE 30, 2009
(In thousands)

	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll
Hospital Authority	7/1/2007	$ -	$ 19,761	$ 19,761	- %	$223,332	8.8 %
Hospital Board	7/1/2007		10,747	10,747		96,830	11.1