UNIVERSITY OF WISCONSIN HOSPITALS AND CLINICS AUTHORITY

Basic Financial Statements and
Required Supplementary Information

June 30, 2011 and 2010

(With Independent Auditors' Report Thereon)

UNIVERSITY OF WISCONSIN HOSPITALS AND CLINICS AUTHORITY

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Independent Auditors' Report

The Board of Directors
University of Wisconsin Hospitals
and Clinics Authority:

We have audited the accompanying basic financial statements of the University of Wisconsin Hospitals and Clinics Authority (the Hospital), a component unit of the State of Wisconsin, as of and for the year ended June 30, 2011, as listed in the table of contents. 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 audit. The accompanying financial statements of the Hospital as of June 30, 2010, and for the year ended June 30, 2010 were audited by other auditors whose report thereon dated October 19, 2010, expressed an unqualified opinion on those statements.

We conducted our audit 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 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 Hospital'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 audit provides a reasonable basis for our opinion.

In our opinion, the 2011 financial statements referred to above present fairly, in all material respects, the financial position of the University of Wisconsin Hospitals and Clinics Authority as of June 30, 2011, and changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis on pages 2 – 16 and schedule of plan funding progress on page 52 are not a required part of the basic financial statements, but is supplementary information required by U.S. generally accepted accounting principles. 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 the information and we do not express an opinion on it.

KPMG LLP

November 9, 2011

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, 2011 and 2010, 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 2011

- The Hospital's net assets increased by approximately $94.9 million.
- Net patient service revenues increased by $57.3 million, or 5.7%. Total operating revenues increased by $61.4 million, or 6.0%, and total operating expenses increased by $54.1 million, or 5.7%.
- Operating income for the year was $72.5 million.
- Total nonoperating revenue (expense) increased by $16.2 million or 710.2%. The majority of this increase is due to net increase in the fair value of investments, net increase in the fair value of interest rate swap agreements and an increase in investment income.
- The excess of revenues over expenses before capital grants, gifts, and donations, additions to permanent endowments, and change in method of accounting for derivative instruments increased $23.6 million or 35.0%.

Financial Highlights – Fiscal Year 2010

- The Hospital's net assets increased by approximately $68.6 million.
- Net patient service revenues increased by $60.4 million, or 6.4%. Total operating revenues increased by $61.1 million, or 6.4%, and total operating expenses increased by $37.9 million, or 4.1%.

- Operating income for the year was $65.1 million.
- The Hospital has historically reported the fair value of the swap investments in the footnotes. The Hospital began reporting fair value of swap investments on the balance sheet in fiscal 2010 with the changes in fair value of the interest rate swaps reported in the statement of revenues, expenses and changes in net assets. As a result, the increase in nonoperating expense for fiscal 2010, directly related to the change, was $3.9 million.
- Total nonoperating revenue (expense) increased by $7.5 million or 143.4%. The majority of this increase is due to net increase in the fair value of investments and a decrease in interest expense, offset by fair value of interest rate swap agreements, and decrease in investment income.
- The excess of revenues over expenses before capital grants, gifts, and donations, additions to permanent endowments, special items and change in method of accounting for derivatives increased $30.7 million or 83.7%.

Hospital Highlights – Fiscal Year 2011

- Opened an Angiosuite in Surgical Services which combines state-of-the-art imaging technology with cutting edge minimally invasive surgical procedures.
- Installed Intraoperative Magnetic Resonance Imaging equipment (iMRI) which will allow neurosurgeons the ability to take real time images during surgery.
- Received CMS/Medicare Meaningful Use Incentive funds for achieving required measures in the electronic health record implementation.
- The Hospital refunded two outstanding debt issues in May 2011, converting from direct pay letter of credit backed variable rate bonds to direct bond purchase agreements with a commercial bank. The Hospital issued approximately $56.7 million in Variable Rate Revenue Refunding Bonds Series 2011A. The Series 2011A bond proceeds and the Series 2009A Interest fund were used to refund $57.1 million of Hospital Revenue Bonds consisting of Variable Rate Demand Revenue Refunding Bonds, Series 2009A. This transaction resulted in the recognition of a deferred loss of $488,000 for other unamortized financing costs. Also in May 2011, the Hospital issued $61.0 million of Variable Rate Revenue Refunding Bonds, Series 2011B. The bond proceeds were used to refund $61.0 million of Variable Rate Demand Revenue Refunding Bonds, Series 2008B. This transaction resulted in the recognition of a deferred loss of $474,000 for other unamortized financing costs.
- The Hospital is the top ranked hospital in the Madison area, is among the top 50 hospitals in seven medical specialties, and ranked as high-performing in five additional specialty areas in the U.S. News and World Report, "America's Best Hospitals 2011".
- American Family Children's Hospital was ranked among the top 50 children's hospitals in the U.S. News and World Report, "2011-2012 Best Children's Hospitals Guide".
- The Hospital was named as one of only twelve organizations in the country on the list of "Best Companies for Hourly Workers" by Working Mother magazine in 2011. The Hospital has also been named to Working Mother's "100 Best Companies for Working Mothers" since 2007.

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- Capital contributions to the University of Wisconsin School of Medicine and Public Health (UWSMPH) included $2.5 million as the second installment of a $7.5 million commitment to be paid over three years to acquire space in the Clinical Science Center vacated by occupants of the UWSMPH's Medical Foundation Centennial Building.

Hospital Highlights – Fiscal Year 2010

- The Hospital completed implementation of the EPIC-based patient management system at an estimated project cost to the Hospital of $52.2 million. This system, named UW Health Link, intertwines 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 peri-operative modules, hospital billing and the electronic health record in numerous ambulatory clinics in 2010.
- The Hospital purchased the third parcel of land in the American Center business and office park, located on Madison's east side, for $2.6 million in 2010. The first two parcels of land were purchased in 2006 and 2007 for $3.4 million and $2.8 million, respectively. These land acquisitions are intended to address the expansion of hospital services at an undetermined future date.
- The Hospital completed the third phase of the Radiation Oncology relocation and expansion.
- Payments to the University of Wisconsin School of Medicine and Public Health (UWSMPH) included $2.5 million as the first installment of a $7.5 million commitment to be paid over three years to acquire space in the Clinical Science Center vacated by occupants of the UWSMPH's Medical Foundation Centennial Building.
- The Hospital ranked in the top three percent of U.S. hospitals in seven medical specialties in the U.S. News and World Report, "America's Best Hospitals 2010".
- The Hospital was recognized by Health Information Management Society (HIMSS) as one of 38 hospitals nationwide to have attained Stage 7 (of 0-7) for electronic health record implementation.

Financial Analysis and Results of Operations

At June 30, 2011, the Hospital's assets exceeded liabilities by $668.8 million, which is an increase in total net assets of $94.9 million, or 16.5%, from the prior fiscal year-end.

At June 30, 2010, the Hospital's assets exceeded liabilities by $573.9 million, which is an increase in total net assets of $60.3 million, or 11.7%, from the prior fiscal year-end, after restatement of the 2010 beginning net assets.

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

Table 1
Net Assets

		June 30, 2011	June 30, 2010	Dollar change	Percentage change
Current and other assets	$	734,226	626,530	107,696	17.2%
Capital assets		385,490	392,004	(6,514)	(1.7)
Total assets	$	1,119,716	1,018,534	101,182	9.9
Long-term debt	$	234,721	243,158	(8,437)	(3.5)
Other liabilities		216,174	201,453	14,721	7.3
Total liabilities		450,895	444,611	6,284	1.4
Net assets:					
Invested in capital assets, net of related debt		151,853	150,496	1,357	0.9
Restricted		10,847	8,415	2,432	28.9
Unrestricted		506,121	415,012	91,109	22.0
Total net assets		668,821	573,923	94,898	16.5
Total liabilities and net assets	$	1,119,716	1,018,534	101,182	9.9

(Continued)

Table 1
Net Assets

	June 30		Dollar	Percentage
	2010	2009	change	change
Current and other assets	$ 626,530	519,977	106,553	20.5%
Capital assets	392,004	410,395	(18,391)	(4.5)
Total assets	$ 1,018,534	930,372	88,162	9.5
Long-term debt	$ 243,158	249,834	(6,676)	(2.7)
Other liabilities	201,453	166,879	34,574	20.7
Total liabilities	444,611	416,713	27,898	6.7
Net assets:				
Invested in capital assets, net of related debt	150,496	163,574	(13,078)	(8.0)
Restricted	8,415	8,535	(120)	(1.4)
Unrestricted	415,012	341,550	73,462	21.5
Total net assets	573,923	513,659	60,264	11.7
Total liabilities and net assets	$ 1,018,534	930,372	88,162	9.5

At June 30, 2011, the Hospital's cash and investments increased $101.2 million or 23.8% compared to June 30, 2010. The majority of the increase in fiscal 2011 cash and investments is attributable to increases from operating activities, offset by purchases of property, plant, and equipment, repayments of long-term debt and interest paid.

At June 30, 2010, the Hospital's cash and investments increased $88.5 million or 26.3% compared to June 30, 2009. The majority of the increase in fiscal 2010 cash and investments is attributable to increases from operating activities and estimated cost report settlements received, offset by purchases of property, plant, and equipment, repayments of long-term debt and interest paid.

As of June 30, 2011, the Hospital reports the net present value of pledges receivable totaling $1.7 million for the American Family Children's Hospital in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. The net present value of pledges as of June 30, 2010, was $1.1 million.

Other liabilities include $55.2 million and $59.6 million at June 30, 2011 and 2010, respectively, of unfunded prior service pension liabilities which are recorded for the unfunded liabilities of participants in the Wisconsin Retirement System, $16.2 million and $12.2 million at June 30, 2011 and 2010, respectively, of the net OPEB obligation for retiree health insurance and $10.3 million and $12.2 million at June 30, 2011 and 2010, respectively, of the fair market value of the derivative instruments.

Table 2 compares 2011 revenues and expenses to 2010 and 2010 revenues and expenses to 2009, and shows the increase in net assets (in thousands).

Table 2
Condensed Schedule of Revenues, Expenses, and Changes in Net Assets

	June 30 2011	June 30 2010	Dollar change	Percentage change
Operating revenues:				
Net patient service revenues	$ 1,059,550	1,002,272	57,278	5.7%
Other operating revenue	20,472	16,346	4,126	25.2
Total operating revenues – net	1,080,022	1,018,618	61,404	6.0
Operating expenses:				
Salaries and benefits	534,736	513,335	21,401	4.2
Medical materials and supplies	209,948	198,652	11,296	5.7
Purchased services and agency costs	120,339	103,122	17,217	16.7
Depreciation and amortization	45,839	48,874	(3,035)	(6.2)
Other	96,697	89,512	7,185	8.0
Total operating expenses	1,007,559	953,495	54,064	5.7
Operating income	72,463	65,123	7,340	11.3
Nonoperating revenues (expenses):				
Nonoperating revenues	23,500	8,151	15,349	188.3
Nonoperating expenses	(7,915)	(8,258)	343	(4.2)

(Continued)

Table 2
Condensed Schedule of Revenues, Expenses, and Changes in Net Assets

	June 30 2011	June 30 2010	Dollar change	Percentage change
Payments to the UWSMPH for capital expenditure support	(2,500)	(2,640)	140	(5.3)%
Other	5,420	5,031	389	7.7
Total nonoperating revenues (expenses) – net	18,505	2,284	16,221	710.2
Excess of revenues over expenses before capital grants, gift and donations, additions to permanent endowments, and change in method of accounting for derivative instruments	90,968	67,407	23,561	35.0
Capital grants, gifts and donations	3,286	1,091	2,195	201.2
Additions to permanent endowments	644	111	533	480.2
Change in accounting for derivative instruments	—	(8,345)	8,345	100.0
Increase in net assets	94,898	60,264	34,634	57.5
Net assets beginning of year	573,923	513,659	60,264	11.7
Net assets end of year	$ 668,821	573,923	94,898	16.5

(Continued)

**Table 2
Condensed Schedule of Revenues, Expenses, and Changes in Net Assets**

	June 30 2010	June 30 2009	Dollar change	Percentage change
Operating revenues:				
Net patient service revenues	$ 1,002,272	941,856	60,416	6.4%
Other operating revenue	16,346	15,679	667	4.3
Total operating revenues – net	1,018,618	957,535	61,083	6.4
Operating expenses:				
Salaries and benefits	513,335	491,328	22,007	4.5
Medical materials and supplies	198,652	189,271	9,381	5.0
Purchased services and agency costs	103,122	102,652	470	0.5
Depreciation and amortization	48,874	44,209	4,665	10.6
Other	89,512	88,114	1,398	1.6
Total operating expenses	953,495	915,574	37,921	4.1
Operating income	65,123	41,961	23,162	55.2
Nonoperating revenues (expenses):				
Nonoperating revenues	8,151	(3,256)	11,407	350.3
Nonoperating expenses	(8,258)	(10,011)	1,753	17.5

(Continued)

Table 2
Condensed Schedule of Revenues, Expenses, and Changes in Net Assets

	June 30 2010	June 30 2009	Dollar change	Percentage change
Payments to the UWSMPH for capital expenditure support	(2,640)	—	(2,640)	(100.0)%
Other	5,031	8,006	(2,975)	(37.2)
Total nonoperating revenues (expenses) – net	2,284	(5,261)	7,545	143.4
Excess of revenues over expenses before capital grants, gift and donations, additions to permanent endowments, special items, and change in method of accounting for derivative instruments	67,407	36,700	30,707	83.7
Special items, net loss on unamortized bond insurance premium	—	(2,541)	2,541	100.0
Capital grants, gifts and donations	1,091	1,163	(72)	(6.2)
Additions to permanent endowments	111	22	89	404.5
Change in accounting principal for derivative instruments	(8,345)	—	(8,345)	(100.0)
Increase in net assets	60,264	35,344	24,920	70.5
Net assets beginning of year	513,659	478,315	35,344	7.4
Net assets end of year	$ 573,923	513,659	60,264	11.7

Net Patient Service Revenue

Net patient service revenue in 2011 increased $57.3 million, or 5.7% 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 3.6% during the year and a decrease in the provision for charity care and bad debt. Inpatient volume, measured by admissions, increased approximately 900, or 3.5%, and outpatient volume, measured by visits, increased by approximately 2600 visits, or 0.5%. Patient days increased approximately 1900 or 1.4%. The Hospital's case mix index (CMI), which is a measure of patient acuity, calculated on an MS-DRG basis was 1.88 in 2011 and 2010, respectively.

Sources of net patient service revenue by payor category for fiscal years 2011 and 2010 are depicted below:

Table 3
Payor Mix

	Fiscal year 2011	Fiscal year 2010	Percent change
Medicare	24.9%	26.2%	(5.0)%
Medicaid	7.9	7.8	1.3
Indemnity	3.7	4.4	(15.9)
Managed care – capitated	4.7	4.7	—
Managed care – noncapitated	49.4	48.1	2.7
Private pay and other	9.4	8.8	6.8
	100.0%	100.0%	

Net patient service revenue in 2010 increased $60.4 million, or 6.4% 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 5.0% 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 1.8%, and outpatient volume, measured by visits, increased by approximately 11,300 visits, or 2.0%. Patient days increased approximately 40 or 0.0%. The Hospital's case mix index (CMI), which is a measure of patient acuity, calculated on an MS-DRG basis in 2010 and recalculated for 2009, was 1.88 in 2010 compared to 1.85 in 2009.

Sources of net patient service revenue by payor category for fiscal years 2010 and 2009 are depicted below:

Table 3
Payor Mix

	Fiscal year 2010	Fiscal year 2009	Percent change
Medicare	26.2%	24.7%	6.1%
Medicaid	7.8	8.4	(7.1)
Indemnity	4.4	4.9	(10.2)
Managed care – capitated	4.7	4.9	(4.1)
Managed care – noncapitated	48.1	48.2	(0.2)
Private pay and other	8.8	8.9	(1.1)
	100.0%	100.0%	

Other operating revenue, which includes nonpatient revenue such as cafeteria sales and other auxiliary services, increased nearly $4.1 million to $20.5 million in 2011, or 25.2%, and $0.7 million to $16.3 million in 2010, or 4.3% over prior year.

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Operating Expenses

Operating expenses increased by $54.1 million in 2011 or 5.7% 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. Salaries, wages, and benefits expense increased 4.2% from 2010 due to wage and fringe benefit rate increases. The increase in medical materials and supplies compared to the prior year was primarily in pharmaceuticals, stents and medical/surgical supplies. The increase in purchased services is due to additional commitments to the UWSMPH and UWMF pursuant to an affiliation agreement with the UWSMPH and UWMF, data processing fees for the buyout of the Siemens billing system and organ acquisition costs.

Operating expenses increased by $37.9 million in 2010 or 4.1% 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 depreciation and amortization. Salaries, wages, and benefits expense increased 4.5% from 2009 due to wage and fringe benefit rate increases. The increase in medical materials and supplies compared to the prior year was primarily in pharmaceuticals, surgical appliances and medical/surgical supplies.

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 and payments to UWSMPH. Investment income, including the change in fair value of investments, increased to $21.6 million in 2011, increased to $12.1 million in 2010 from $(3.3) million in 2009. The increase in 2011 is due to the increase in investment income, and the fair value of investments.

The Hospital's investment income and net changes in fair value of investments for 2011, 2010, and 2009, are summarized in Table 4 (in thousands):

Table 4
Investment Earnings by Asset Category

		2011	2010	2009
Interest and dividend income:				
Equity investments	$	4,291	3,165	2,837
Fixed income investments		6,872	4,447	6,592
Total investment income		11,163	7,612	9,429
Net (decrease) increase in fair value of investments		10,390	4,442	(12,685)
Total	$	21,553	12,054	(3,256)

The decrease in equity interest in gain/loss of joint ventures from a $6.1 million gain in 2010 to a gain of $5.4 million in 2011 is due to the decrease in Unity's net income in 2011 in comparison to 2010, of which the Hospital records 60% of the joint venture's gain or loss. The loss on disposal of capital assets was $50,000 in 2011 and $100,000 in 2010 and the gain was $125,000 in 2009. These balances are included in nonoperating revenue (expenses). The fair value of the interest rate swap agreements resulted in $1.9 million nonoperating income in 2011 and $3.9 million nonoperating loss in 2010.

Interest expense in 2011 was $7.9 million, as included in nonoperating expenses. The decrease in interest expense from $8.3 million in 2010 and $10.0 million in 2009 is due to the decrease in variable bond interest rates in 2010 and principal payments on outstanding debt.

Capital Assets

At June 30, 2011, the Hospital had $385.5 million, net of accumulated depreciation and amortization, invested in capital assets. This amount represents a net decrease, including additions and disposals, of $6.5 million, or 1.7% from 2010. The decrease is due to depreciation expense exceeding the purchase of new capital assets in 2011.

At June 30, 2010, the Hospital had $392.0 million, net of accumulated depreciation and amortization, invested in capital assets. This amount represents a net decrease, including additions and disposals, of $18.4 million, or 4.5% from 2009. The decrease is due to depreciation expense exceeding the purchase of new capital assets in 2010.

Table 5 shows a summary of capital assets, net of accumulated depreciation and amortization, at June 30, 2011, 2010, and 2009 and major additions by year for the years ended June 30, 2011, 2010, and 2009 (in thousands).

Table 5
Capital Assets at Year-End (Net of Accumulated Depreciation and Amortization)

		2011	2010	2009
Land	$	14,785	14,385	11,780
Buildings and land improvements		291,256	297,894	299,081
Equipment		71,271	74,937	86,283
Construction in progress		8,178	4,788	13,251
Total	$	385,490	392,004	410,395

Major Additions by Year

		2011	2010	2009
Land acquisition	$	—	2,605	—
Buildings and improvements:				
Inpatient unit remodeling		3,198	3,246	—
Remodeled Cancer clinic		1,932	—	—
Angiosuite in surgical services		883	—	—
Purchase off-campus facility		—	991	4,008
Radiation Oncology relocation and expansion to the Wisconsin Institutes for Medical Research Building		—	6,510	10,789
Data center improvements		—	552	1,938
Improvements to new leased facility		—	1,087	—
Outpatient pharmacy		—	—	570
American Family Children's Hospital OR Suites		—	—	11,209
Equipment:				
Robotic Angiography Imaging in surgical services		1,720	—	—
Interventional Radiology Angiography system		1,600	—	—
Intraoperative MRI		2,648	—	—
Cardiac Catheterization Lab X-Ray system		1,247	—	—
Implementation costs for patient management system		—	3,539	8,215

Construction in progress at June 30, 2011, consists principally of costs incurred for inpatient unit and clinic remodeling.

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 2012 is $77.9 million compared to the 2011 capital budget of $50.7 million.

Long-Term Debt

At June 30, 2011, the Hospital had $226.9 in long-term debt, excluding current installments, compared to $235.7 million at June 30, 2010 – a decrease of 3.7% due to principal payments on the State of Wisconsin general obligation and refunding bonds, Series 2002B, Series 2008A, Series 2009B, Series 2009C and the GE Loan. In 2011, the Hospital refunded Series 2008B and Series 2009A from direct pay letter of credit backed variable rate bonds to direct bond purchase agreements, with a commercial bank at approximately the same outstanding principle amounts. Long-term debt, excluding current installments, at June 30, 2009, was $242.8 million. The decrease from 2009 to 2010 resulted from the principal payments on the State of Wisconsin general obligation and refunding bonds, Series 2000, Series 2002B, Series 2008A, Series 2009B, Series 2009C bonds and the GE Loan.

Table 6 below provides the detail of outstanding long-term debt, excluding current installments, as of June 30, 2011, 2010, and 2009 (in thousands):

Table 6
Outstanding Long-Term Debt – at Year-End

		2011	2010	2009
State of Wisconsin general obligation and refunding bonds	$	2,516	4,157	5,868
Authority Fixed Rate Revenue Bonds, Series 2002B		1,505	3,405	5,205
Authority Fixed Rate Revenue Bonds, Series 2008A		48,815	49,545	50,060
Authority Variable Rate Demand Revenue Bonds, Series 2008B		—	61,000	61,000
Authority Variable Rate Demand Revenue Bonds, Series 2009A		—	57,070	57,070
Authority Variable Rate Demand Revenue Bonds, Series 2009B		54,825	56,830	58,790
Authority Fixed Rate Adjustable Revenue Bonds, Series 2009C		4,668	4,931	5,180
Authority Fixed Rate Adjustable Revenue Bonds, Series 2011A		56,745	—	—
Authority Fixed Rate Adjustable Revenue Bonds, Series 2011B		61,000	—	—
Equipment Loan		4,787	6,090	7,335
Premium on Series 2002B Bonds		113	176	241
Deferred Loss on Refunding of Series 1997 Bonds		(228)	(242)	(256)
Deferred Loss on Refunding of Series 2004 Bonds		(411)	(429)	(446)
Deferred Loss on Refunding of Series 2000 Bonds		(5,544)	(5,856)	(6,168)
Deferred Loss on Refunding of Series 2002A Bonds		(578)	(605)	(632)
Deferred Loss on Refunding of Series 2005 Bonds		(374)	(395)	(416)
Deferred Loss on Refunding of Series 2008B Bonds		(472)	—	—
Deferred Loss on Refunding of Series 2009A Bonds		(486)	—	—
Total	$	226,881	235,677	242,831

Prior to the refunding in 2011, Series 2008B, Series 2009A and Series 2009B bonds were secured by an irrevocable transferable direct pay letter of credit agreements issued by US Bank. Series 2009B bonds continue to be secured by an irrevocable transferable direct pay letter of credit agreements issued by US Bank and these bonds carry an underlying Al rating from Moody's and an A+ rating from Standard & Poor's. They also carry a long term rating of AAA rating from Moody's and Standard and Poor's based on the joint criteria with the letter of credit provider. Series 2011A bonds and Series 2011B bonds were refunded as direct bank purchase agreements with a commercial bank and, as such, are not rated.

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 2012 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 2012 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 2012 budget in an effort to manage our costs within the revenue stream. The 2012 budget, as approved by the Hospital's board of directors, projects income from operations of $54.8 million, resulting in an operating margin of 5.0%. Net income is budgeted at $67.7 million representing a margin of 6.2%. Achieving a 6.2% margin is accomplished through increased volumes, average payment increases of 3.4% across all payor categories and by decreasing the cost per unit of service. The 2012 budget calls for volume increases of 2.4% for inpatient admissions, 2.4% for inpatient days, and 5.8% 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.

UNIVERSITY OF WISCONSIN HOSPITALS
AND CLINICS AUTHORITY

Balance Sheets

June 30, 2011 and 2010

(In thousands)

Assets		2011	2010
Current assets:			
Cash and cash equivalents	$	52,804	48,823
Patient accounts receivable, net of estimated uncollectible accounts of $38,000 in 2011 and $42,000 in 2010		125,693	123,873
Other receivables		11,740	8,098
Inventories of supplies		8,483	8,645
Prepaid expenses		5,215	6,561
Total current assets		203,935	196,000
Noncurrent cash and investments:			
Designated by board for capital replacement and debt retirement		156,369	155,966
Held by trustee for professional liability and other purposes		1,085	1,650
Restricted by donors		7,214	6,039
Principal of permanent endowments		1,923	1,280
Other long-term investments		306,219	210,669
Total noncurrent cash and investments		472,810	375,604
Capital assets:			
Nondepreciable		25,220	21,134
Depreciable, net		360,270	370,870
Total capital assets, net		385,490	392,004
Investments in joint ventures		50,507	47,900
Pledges receivable		1,692	1,065
Other assets		5,282	5,961
Total assets	$	1,119,716	1,018,534

See accompanying notes to financial statements.

Liabilities and Net Assets	2011	2010
Current liabilities:		
Current installments of long-term debt	$ 7,840	7,481
Accounts payable	27,614	22,388
Accrued expenses	87,761	84,003
Estimated payables to Medicare and Medicaid	19,117	10,991
Total current liabilities	142,332	124,863
Long-term debt, less current installments	226,881	235,677
Other long-term liabilities	10,301	12,249
Net OPEB obligation	16,221	12,195
Pension-related liabilities	55,160	59,627
Total liabilities	450,895	444,611
Net assets:		
Invested in capital assets, net of related debt	151,853	150,496
Restricted-expendable for donor specified purposes	8,924	7,135
Restricted-nonexpendable	1,923	1,280
Unrestricted	506,121	415,012
Total net assets	668,821	573,923
Total liabilities and net assets	$ 1,119,716	1,018,534

UNIVERSITY OF WISCONSIN HOSPITALS AND CLINICS AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2011 and 2010

(In thousands)

	2011	2010
Operating revenues:		
Net patient service revenue (net of provision for bad debts of $18,372 in 2011 and $20,911 in 2010)	$ 1,059,550	1,002,272
Other operating revenue	20,472	16,346
Total operating revenues, net	1,080,022	1,018,618
Operating expenses:		
Salaries and wages	374,598	362,189
Employee benefits	160,138	151,146
Other expenses	70,527	64,356
Repairs, maintenance, and utilities	26,170	25,156
Purchased services and agency costs	120,339	103,122
Medical materials and supplies	209,948	198,652
Depreciation and amortization	45,839	48,874
Total operating expenses	1,007,559	953,495
Operating income	72,463	65,123
Nonoperating revenues (expenses):		
Investment income	11,163	7,612
Net increase in fair value of investments	10,390	4,442
Interest expense	(7,915)	(8,258)
Equity interest in income/loss of joint ventures	5,420	6,108
Net increase (decrease) in fair value of swaps	1,947	(3,903)
Other, net	—	(1,077)
Payment to University of Wisconsin School of Medicine and Public Health for capital expenditure support	(2,500)	(2,640)
Total nonoperating revenues, net	18,505	2,284
Excess of revenues over expenses before capital grants, gifts, and donations, additions to permanent endowments and change in method of accounting for derivative installments	90,968	67,407
Capital grants, gifts, and donations	3,286	1,091
Additions to permanent endowments	644	111
Change in method of accounting for derivative instruments	—	(8,345)
Increase in net assets	94,898	60,264
Net assets – beginning of the year	573,923	513,659
Net assets – end of the year	$ 668,821	573,923

See accompanying notes to financial statements.

UNIVERSITY OF WISCONSIN HOSPITALS
AND CLINICS AUTHORITY

Statements of Cash Flows

Years ended June 30, 2011 and 2010

(In thousands)

		2011	2010
Cash flows from operating activities:			
Cash received from and on behalf of patients	$	1,057,730	986,595
Payments to suppliers		(399,089)	(360,510)
Payments to employees		(523,812)	(495,137)
Net cash provided by operating activities		134,829	130,948
Cash flows from noncapital financing activities:			
Noncapital grants, contributions and other adjustments		(44)	538
Payments for pension-related liabilities		(7,692)	(7,015)
Additions to permanent endowment		644	111
Payment to University of Wisconsin School of Medicine and Public Health for capital expenditure support		(2,500)	(2,640)
Net cash used in noncapital financing activities		(9,592)	(9,006)
Cash flows from capital and related financing activities:			
Capital grants, gifts, and donations received		2,629	1,839
Proceeds from long-term debt		117,745	—
Repayment of principal on long-term debt		(125,552)	(7,003)
Interest paid on long-term debt		(7,606)	(8,139)
Deferred financing costs		(162)	(20)
Purchases of capital assets		(35,519)	(31,942)
Proceeds from sale of capital assets		188	43
Net cash used by capital and related financing activities		(48,277)	(45,222)
Cash flows from investing activities:			
Proceeds from sales of investments		3,492	64,381
Purchases of investments		(60,985)	(136,898)
Investment income received		11,172	7,640
Increase in investment in joint venture		2,814	2,451
Other, net		92	(2,496)
Net cash used in investing activities		(43,415)	(64,922)
Net (decrease) increase in cash and cash equivalents		33,545	11,798
Cash and cash equivalents:			
Beginning of year		102,173	90,375
End of year	$	135,718	102,173

(Continued)

UNIVERSITY OF WISCONSIN HOSPITALS AND CLINICS AUTHORITY

Statements of Cash Flows

Years ended June 30, 2011 and 2010

(In thousands)

		2011	2010
Reconciliation of cash and cash equivalents to balance sheet:			
Cash and cash equivalents in current assets	$	52,804	48,823
Cash equivalents in noncurrent cash and investments		82,914	53,350
Total cash and cash equivalents	$	135,718	102,173
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	72,463	65,123
Adjustments to reconcile operating income to cash provided by operating activities:			
Provision for bad debts		18,372	20,911
Depreciation and amortization		45,839	48,874
Amortization of bond premium and deferred loss of bond refinancing		334	327
Change in net OPEB obligation		4,026	4,541
Adjustment to pension-related liabilities		3,480	6,329
Changes in assets and liabilities:			
Patient accounts receivable		(19,777)	(37,003)
Other receivables		(4,049)	(320)
Inventories of supplies		162	(108)
Prepaid expenses		1,346	(699)
Other assets		(240)	(183)
Accounts payable		1,329	1,853
Accrued expenses		3,418	7,328
Estimated payables to Medicare and Medicaid		8,126	13,975
Total adjustments		62,366	65,825
Net cash provided by operating activities	$	134,829	130,948

Noncash investing, capital and financing activities:

The Hospital held investments at June 30, 2011 and 2010 with fair values of $388,896 and $322,254, respectively. During 2011 and 2010 the net increase in the fair value of these investments was $10,390 and $4,442, respectively.

The Hospital has recorded pledges of $1,692 in 2011 and $1,065 in 2010 related to the American Family Children's Hospital Campaign.

See accompanying notes to financial statements.

(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 500 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:

(a) 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.

(b) Cash and Cash Equivalents

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

(c) Inventories of Supplies

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

(d) Investments and Investment Income

Investments in equity securities with readily determinable fair values and all investments in debt securities are recorded at fair value 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. The University of Wisconsin Foundation assumes the market risk for the Hospital's investment in the University of Wisconsin Foundation – Expendable Fund. The pooled investment funds on deposit with the University of Wisconsin Foundation – Endowment Fund are recorded using net asset value as a practical expedient in estimating fair value, based on information provided by the University of Wisconsin Foundation. The estimated values are reviewed and evaluated by the Hospital. 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 but not a controlling influence over the ventures' operating and financial policies, are recorded using the equity method of accounting.

(e) 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. Individual capital expenditures greater than $3,000 are capitalized. 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). Additions, replacements,

(Continued)

major repairs, and renovations are capitalized. 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

(f) 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, which approximates the interest yield method.

(g) 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.

(h) 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.

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

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.

(i) Operating Revenues and Expenses

The Hospital's statements of revenues, expenses, and changes in net assets distinguish 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 support payments to related organizations, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than interest expense.

(j) 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.

(k) 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.

(l) 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. The Hospital is self-insured for workers' compensation (see note 13). 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. Commercial insurance coverage is purchased for other claims arising from such matters. The primary commercial insurance for professional liability is a full deductible policy (see note 12). Settled claims have not exceeded this commercial coverage in any of the three preceding years.

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(m) 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, 2011 and 2010.

(n) 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.

(o) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(p) Derivative Instruments

The Hospital's derivative instruments represent interest rate swaps that are used as part of its risk management strategy to manage exposure to fluctuations in interest rates and to manage the overall cost of its debt. Interest rate swaps are used to hedge identified and approved exposures and are not used for speculative purposes.

Effective July 1, 2009, the Hospital records derivative instruments on the balance sheet as either an asset or liability measured at their fair market value with changes in fair market value being included in the statements of revenues, expenses and changes in net assets.

(q) Reclassification

Payments to University of Wisconsin School of Medicine and Public Health for capital expenditures support of $2,640,000 were reclassified to nonoperating expenses in the 2010 statement of revenues, expenses and changes in net assets to conform to the current year presentation.

Certain other prior year financial statement amounts have also been reclassified to conform to the current year presentation.

(Continued)

(2) Restricted Net Assets and Endowments

Restricted expendable net assets as of June 30, 2011 and 2010, are available for the following purposes (in thousands):

		2011	2010
Capital purposes	$	4,407	1,938
Research and general		4,517	5,197
Total expendable restricted net assets	$	8,924	7,135

Restricted nonexpendable net assets as of June 30, 2011 and 2010, 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

Included in the $506,121,000 and $415,012,000 of unrestricted net assets reported as of June 30, 2011 and 2010, respectively, are $156,369,000 and $155,966,000, respectively, that have 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 designate 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 Agreement. Direct costs associated with these services and support approximated $56,875,000 and $52,006,000 in 2011 and 2010, respectively. The Hospital committed to support certain UWSMPH and University of Wisconsin School of Nursing capital expenditures as incurred, with the remaining $6,155,000 as of June 30, 2011, of the commitment to be paid as the capital projects commence in agreed-upon installments. At June 30, 2011 and 2010, the Hospital had $3,586,000 and $2,402,000 in receivables, respectively, and $5,900,000 and $5,622,000 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, 2011 and 2010, the Hospital had $1,139,000 and $504,000 in receivables, respectively, with Unity Health Plans and UHC. The Hospital received payments of $46,834,000 and $44,595,000 for the years ended June 30, 2011 and 2010, respectively, from UHC under a capitation agreement with Unity Health Plans. Unity Health Plans assumes the risk in the event of hospital utilization in excess of capitation payments.

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.

UHC was audited by other auditors as of December 31, 2010 and 2009, and for the years then ended. A summary of certain financial data for UHC as of and for the years ended December 31, 2010 and 2009, is as follows (in thousands):

		2010	2009
Total assets	$	134,024	117,429
Unrestricted net assets		56,271	51,816
Total revenue		382,390	353,957
Excess of revenues over expenses		4,354	8,213

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 investment is being accounted for by the equity method. At June 30, 2011 and 2010, the Hospital had $269,000 and $215,000 in receivables, respectively, from Wisconsin Dialysis, Inc.

The Hospital has a one-third membership interest in Madison Surgery Center Inc. The other members include Meriter Hospital, Inc. and UWMF. The investment is being accounted for by the equity method.

Madison United Healthcare Linen, Ltd., provides laundry services to hospitals, long-term care facilities and clinics. The Hospital is a 46.1% member, along with two other hospitals. The investment is being accounted for by the equity method.

Madison Environmental Resourcing, Inc., 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 investment is being accounted for by the equity method.

Generations Fertility Care, Inc. opened in September 2010. The Hospital is a one-third member, along with UWMF and Meriter Hospital, Inc. The investment is being accounted for by the equity method.

Investments in joint ventures as of June 30, 2011 and 2010, is comprised of the following (in thousands):

		2011	2010
University Health Care, Inc.	$	34,556	32,390
e-Care of Wisconsin, LLC		790	895
Wisconsin Therapies, Inc.		1,451	1,348
Wisconsin Dialysis, Inc.		2,135	1,788
Madison Surgery Center, Inc.		6,928	6,934
Madison United Healthcare Linen, Ltd.		3,952	3,933
Madison Environmental Resourcing, Inc.		641	612
Generations Fertility Care, Inc.		54	—
Total	$	50,507	47,900

(5) Deposits and Investments

Deposits

Custodial credit risk for deposits is the risk that in the event of a financial institution failure, the Hospital's deposits will not be returned. Deposits included in current cash and cash equivalents as of June 30, 2011 and 2010, are presented in the table below (in thousands):

		2011	2010
Bank balances:			
FDIC – Insured	$	141	141
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		60,965	44,451
Petty cash		75	78
Total bank balances	$	61,181	44,670
Carrying amount	$	52,804	48,823

Additional amounts on deposit with the Hospital's investment advisor for investment in fixed income securities included in noncurrent cash and investments are $81,780,000 and $51,664,000 as of June 30, 2011 and 2010, respectively. These amounts are uninsured and uncollateralized. Other restricted deposits held with a trustee and included in noncurrent cash and investments are $1,134,000 and $1,686,000 as of June 30, 2011 and 2010, respectively.

Investments

The board of directors has authorized management to invest in debt and equity securities through the following:

Fixed income securities – investments in U.S. Treasury bonds and notes, corporate bonds and other government bonds managed by an investment advisor. Amounts are recorded at fair value based on quoted market prices.

University of Wisconsin Foundation – Expendable Fund – pooled investments recorded at cost, plus accrued earnings to date. The Foundation assumes the market risk for investments in this fund.

University of Wisconsin Foundation – Endowment Fund - pooled investments recorded using net asset value as a practical expedient in estimating fair value.

Noncurrent cash and investments are comprised at June 30, 2011 and 2010, as follows (in thousands):

		2011	2010
Cash equivalents:			
Money market-investment advisor	$	81,780	51,664
Funds held with trustee money market fund		1,085	1,650
Other		49	36
Fixed income securities		124,884	74,481
Pooled investment funds on deposit with the University of Wisconsin Foundation:			
Pooled Expendable Fund		161,689	159,786
Pooled Endowment Fund		103,323	87,987
Total	$	472,810	375,604

Investments held in the pooled endowment at the Foundation are comprised of the following as of June 30, 2011:

Cash	2%
Fixed income	11%
Hedge funds	17%
Equity	43%
Private equity	18%
Real estate assets	9%
	100%

The Hospital may redeem its investments held with the Foundation with a 30 day notice, subject to certain fund availability restrictions.

Investment Risk Factors

There are many factors that can affect the value of investments. Some, such as custodial risk, concentration of credit risk, and foreign currency risk may affect both equity and fixed income securities. Equity securities respond to factors such as economic conditions, individual company earnings performance, and market liquidity, while fixed income securities are particularly sensitive to credit risks and changes in interest rates.

Credit Risk

Credit risk is the risk that the Hospital will not recover its investments due to the failure of the counterparty to fulfill its obligation. The Hospital does not have an investment policy over credit risk. Investments in fixed income securities are subject to credit risk as of June 30, 2011 as determined through a nationally recognized rating agency, Moody's, are presented in the table below (in thousands):

Aaa	$	62,028
Aa1		1,805
Aa2		4,193
Aa3		2,186
A1		5,331
A2		4,921
A3		6,847
Baa1		9,374
Baa2		15,119
Baa3		5,662
Ba1		1,577
Not rated		5,841
Total	$	124,884

Investments in the pooled expendable fund and the pooled endowment fund are not subject to credit risk as the Foundation is not rated.

Interest Rate Risk

Interest rate risk is the risk that the fair value of the Hospital's investments will decrease as a result of an increase in interest rates. Concentration of credit risk is the risk of loss attributed to the magnitude of the Hospital's investment in a single issuer or investment. The Hospital does not have an investment policy over interest rate risk. Maturities related to the Hospital's fixed income investments as of June 30, 2011 are presented in the table below (in thousands):

		Total	< 1 year	2-5 years	> 5 years
U.S. Treasury Bonds and Notes	$	53,498	—	31,385	22,113
Corporate Bonds		66,456	5,963	38,292	22,201
Other Government Bonds		4,930	402	486	4,042
Total	$	124,884	6,365	70,163	48,356

(6) Capital Assets

Capital asset additions, retirements, and balances for the year ended June 30, 2011, are as follows (in thousands):

		Balance June 30, 2010	Additions and transfers	Retirements	Balance June 30, 2011
Capital assets not being depreciated:					
Land	$	14,385	400	—	14,785
Land improvements		1,961	296	—	2,257
Construction in progress		4,788	3,390	—	8,178
Total		21,134	4,086	—	25,220
Capital assets being depreciated:					
Buildings and improvements		498,511	12,151	(246)	510,416
Equipment		240,544	23,441	(9,771)	254,214
Total		739,055	35,592	(10,017)	764,630
Less accumulated depreciation and amortization for:					
Buildings and improvements		202,579	19,071	(232)	221,418
Equipment		165,606	26,637	(9,301)	182,942
Total		368,185	45,708	(9,533)	404,360
Total capital assets being depreciated – net		370,870	(10,116)	(484)	360,270
Total capital assets	$	392,004	(6,030)	(484)	385,490

Construction in progress at June 30, 2011 consists principally of costs incurred for the inpatient unit and clinic remodeling. The construction projects are being financed with cash from operations.

Capital asset additions, retirements, and balances for the year ended June 30, 2010, were as follows (in thousands):

		Balance June 30, 2009	Additions and transfers	Retirements	Balance June 30, 2010
Capital assets not being depreciated:					
Land	$	11,780	2,605	—	14,385
Land improvements		1,715	246	—	1,961
Construction in progress		13,251	(8,463)	—	4,788
Total		26,746	(5,612)	—	21,134
Capital assets being depreciated:					
Buildings and improvements		481,477	17,094	(60)	498,511
Equipment		228,828	19,197	(7,481)	240,544
Total		710,305	36,291	(7,541)	739,055
Less accumulated depreciation and amortization for:					
Buildings and improvements		184,111	18,528	(60)	202,579
Equipment		142,545	30,204	(7,143)	165,606
Total		326,656	48,732	(7,203)	368,185
Total capital assets being depreciated – net		383,649	(12,441)	(338)	370,870
Total capital assets	$	410,395	(18,053)	(338)	392,004

Construction in progress at June 30, 2010 consists principally of costs incurred for the inpatient unit remodeling and a utility expansion project at the main hospital building. The construction projects are being financed with cash from operations.

Total remaining commitments on capital asset purchases and the renovation and construction projects approximated $1.2 million at June 30, 2011.

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, 2011 and 2010, $38.0 million and $37.5 million, respectively, has been received and $1.7 million and $1.1 million, respectively, of net present value pledges receivable have been recorded in the financial statements as capital donations.

(Continued)

(7) Long-Term Debt

Changes in long-term debt for the years ended June 30, 2011 and 2010, are as follows (in thousands):

	Balance June 30, 2010	Additions	Payments and amortization	Balance June 30, 2011	Amounts due within one year
Amounts payable to the state under capital lease agreements for:					
General Obligation Bonds	$ 275	—	6	269	7
Refunding Bonds	5,593	—	1,705	3,888	1,634
Total payable to the state	5,868	—	1,711	4,157	1,641
Hospital Revenue Bonds:					
Series 2002B	5,205	—	1,800	3,405	1,900
Series 2008A	50,060	—	515	49,545	730
Series 2008B	61,000	—	61,000	—	—
Series 2009A	57,070	—	57,070	—	—
Series 2009B	58,790	—	1,960	56,830	2,005
Series 2009C	5,180	—	250	4,930	262
Series 2011A	—	56,745	—	56,745	—
Series 2011B	—	61,000	—	61,000	—
Hospital Equipment Loan	7,335	—	1,246	6,089	1,302
Total long-term debt	250,508	117,745	125,552	242,701	7,840
Series 2000 Refunding deferred loss	(5,856)	—	(312)	(5,544)	—
Series 1997 Refunding deferred loss	(242)	—	(14)	(228)	—
Series 2004 Refunding deferred loss	(429)	—	(18)	(411)	—
Series 2002A Refunding deferred loss	(605)	—	(27)	(578)	—
Series 2005 Refunding deferred loss	(395)	—	(21)	(374)	—
Series 2009A Refunding deferred loss	—	(475)	(3)	(472)	—
Series 2008B Refunding deferred loss	—	(490)	(4)	(486)	—
Premium on long-term debt	177	—	64	113	—
Long-term debt including premium	$ 243,158	116,780	125,217	234,721	7,840

(Continued)

	Balance June 30, 2009	Additions	Payments and amortization	Balance June 30, 2010	Amounts due within one year
Amounts payable to the state under capital lease agreements for:					
General Obligation Bonds	$ 281	—	6	275	6
Refunding Bonds	7,390	—	1,797	5,593	1,705
Total payable to the state	7,671	—	1,803	5,868	1,711
Hospital Revenue Bonds:					
Series 2000	1,315	—	1,315	—	—
Series 2002B	6,910	—	1,705	5,205	1,800
Series 2008A	50,375	—	315	50,060	515
Series 2008B	61,000	—	—	61,000	—
Series 2009A	57,070	—	—	57,070	—
Series 2009B	59,345	—	555	58,790	1,960
Series 2009C	5,300	—	120	5,180	249
Hospital Equipment Loan	8,525	—	1,190	7,335	1,246
Total long-term debt	257,511	—	7,003	250,508	7,481
Series 2000 Refunding Deferred Loss	(6,168)	—	(312)	(5,856)	—
Series 1997 Refunding Deferred Loss	(256)	—	(14)	(242)	—
Series 2004 Refunding Deferred Loss	(446)	—	(17)	(429)	—
Series 2002A Refunding Deferred Loss	(632)	—	(27)	(605)	—
Series 2005 Refunding Deferred Loss	(416)	—	(21)	(395)	—
Premium on long-term debt	241	—	64	177	—
Long-term debt including premium	$ 249,834	—	6,676	243,158	7,481

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 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 were paid in full in April 2010. The effective annual interest rate was 5.50% in 2010.

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 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 deferred loss of $641,000. Principal payments on the remaining Series 2002B Bonds range from $1,505,000 to $1,900,000 due annually commencing April 2011 through April 2013. Interest rates for the Series 2002B Bonds range from 5.25% to 5.50% and payable semiannually on April 1 and October 1 of each year. The effective annual interest rate of the Series 2002B Bonds was 6.10% in 2011 and 5.90% in 2010.

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 then outstanding Series 2000 Bonds. As a result of advanced refunding, the Hospital recognized a deferred loss of $7,339,000 which is being amortized to interest expense over the term of the debt. There are no amounts outstanding on the defeased bonds at June 30, 2011 and 2010. 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 deferred loss of $423,000.

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 $515,000 to $5,245,000, are due annually commencing in April 2011 through April 2026. Interest is payable semi-annually. In 2011 and 2010, the effective interest rate was 5.30%.

In June 2008, the Hospital issued $61,000,000 of Variable Rate Demand Revenue Refunding Bonds, Series 2008B Bonds, secured by an irrevocable transferable direct pay letter of credit issued by a commercial bank. The bonds proceeds were used to refund $60,000,000 of Hospital Revenue Bonds consisting of Short-term Adjustable Rate Securities, Series 2004. In 2011 and 2010, the effective interest rate was 0.20%. In May, 2011, the Hospital refunded $61,000,000 of the outstanding Series 2008B bonds with Revenue Refunding Bonds, Series 2011B. The refunding of the Series 2008B bonds resulted in the recognition of a deferred loss of $474,198.

In September 2008, the Hospital entered into an equipment financing agreement with GE Government Finance, Inc in the amount of $9,283,424. Principal and interest payments are made monthly commencing on November 1, 2008, for seven years. In 2011 and 2010, the effective interest rate was 4.50%.

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 the outstanding Hospital Revenue Bonds consisting of Short-Term Adjustable Rate Securities, Series 2002A. In 2011 and 2010, the effective interest rate was 0.20%. In May, 2011, the Hospital refunded the outstanding $57,070,000 of the Series 2009A bonds with Revenue Refunding Bonds, Series 2011A and the balance of the Series 2009A Interest Fund. The refunding of the Series 2009A bonds resulted in the recognition of a deferred loss of $487,933.

In March 2009, the Hospital also 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 $1,960,000 to $8,195,000, are due annually commencing in April 2011 through April 2029. Series 2009B Bonds bear interest at a weekly rate determined by a remarketing agent. Interest is payable monthly. In 2011 and 2010, the effective interest rate was 0.20%.

The Series 2009B Bonds are secured by an irrevocable transferable direct-pay letter of credit issued by a commercial bank. The initial letter of credit agreement has a stated expiration date of five years. It does not require any principal payments within the first year of the draw; interest payments are due monthly. Outstanding principal payments under the letter 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. The letter of credit agreements include a material adverse effect clause. The agreements provide specific details as to what constitutes a material adverse effect and that a material adverse effect could constitute an event of default under the letter of credit. At June 30, 2011 and 2010, there were no amounts outstanding under the letter of credit.

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 $248,000 to $478,000, are due bi-annually beginning in April 2011 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. In 2011, the effective interest rate was 5.10%.

In May 2011, the Hospital issued $56,745,000 of Revenue Refunding Bonds, Series 2011A to a commercial bank in the form of a direct bond purchase agreement. The bond proceeds were used to refund $57,070,000 of Variable Rate Demand Revenue Bonds, Series 2009A. Principal payments on the Series 2011A Bonds, ranging from $500,000 to $3,900,000, are due annually in April 2013 through April 2032. Series 2011A bonds bear interest at 74% of LIBOR, plus 1.04%, payable monthly. In 2011, the effective interest rate was 1.20%.

In May 2011, the Hospital also issued $61,000,000 of Revenue Refunding Bonds, Series 2011B to a commercial bank in the form of a direct bond purchase agreement. The bond proceeds were used to refund $61,000,000 of Variable Rate Demand Revenue Bonds, Series 2008B. Principal payments on the Series 2011B Bonds, ranging from $9,950,000 to $15,275,000, are due annually in April 2030 through April 2034. Series 2011B bonds bear interest at 74% of LIBOR, plus 1.04%, payable monthly. In 2011, the effective interest rate was 1.10%. The 2011B bond documents include a material adverse effect clause. The bond documents provide specific details as to what constitutes a material adverse effect and that a material adverse effect could constitute an event of default.

The Series 2002 Bonds, Series 2008A Bonds, Series 2009B Bonds, Series 2011A Bonds and Series 2011B 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. Management believes that the Hospital is in compliance with all debt covenants and has not incurred a material adverse effect as defined at June 30, 2011 and 2010.

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 (S&P) and Moody's Investor Service, Inc. (Moody's), and notify the State Joint Committee on Finance. The Hospital's current rating from S&P and Moody's was A+ and A1, respectively.

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, 2011 and 2010, and matures on April 1, 2022. This swap had been applied to the Series 2009A with the refunding of the Series 2002A bonds and is now applied to the Series 2011A bonds with the refunding of the Series 2009A 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 2011 and 2010, the effective interest rate received by the Hospital was 0.20%. The fair value of the swap agreement was $(2,624,539) and $(2,965,250) at June 30, 2011 and 2010, respectively.

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 had been applied to the 2008B bonds with the refunding of Series 1997 bonds and is now applied to the Series 2011B bonds with the refunding of Series 2008B bonds. The notional amount of this swap agreement was $25,950,000 and $26,450,000 at June 30, 2011 and 2010, respectively, and 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 2011 and 2010, the effective interest rate received by the Hospital was 0.20%. The fair value of the swap agreement was $(2,500,265) and $(2,843,861) at June 30, 2011 and 2010, respectively.

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 rate. 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 $56,830,000 at June 30, 2011 and $58,790,000 at June 30, 2010, and 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 to receive a floating rate of 58.3% of one-month LIBOR per annum plus 0.36%, payable monthly. In 2011 and 2010, the effective interest rate received by the Hospital was 0.50%. The fair value of the swap agreement was $(5,176,455) and $(6,439,493) at June 30, 2011 and 2010, respectively.

The fair values of the swap agreements were estimated considering the projected cash flows associated with the swaps, and the fair values are reflected in other long-term liabilities on the financial statements. The swap agreements are accounted for as investment derivatives and changes in fair value of the swap agreements are reflected in nonoperating income or expense on 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. No collateral is required as of June 30, 2011.

The Hospital will be exposed to variable rates if the counterparty to the swap defaults or if the swaps are terminated. The swap agreements include bilateral additional termination event provisions. Under the provisions, either party has the option, but not the obligation, to terminate the swap transaction if the other party gets downgraded below certain thresholds. The Hospital nor the counterparties have been downgraded below these thresholds at June 30, 2011 and 2010. The Hospital does not intend to terminate these agreements. The swaps expose the Hospital to basis risk should the relationship between LIBOR and variable rate converge, changing the synthetic rate on the bonds. As of June 30, 2011 and 2010, the Hospital was not exposed to credit risk because each of the swaps had a negative fair value. However, should interest rates change and any one of the fair value of the swaps become positive, the Hospital would be exposed to credit risk in the amount of the swap's fair value.

Aggregate scheduled principal and interest repayments on long-term debt as stated under the actual debt terms, including the effect of the swaps based on the effective interest rate at June 30, 2011, are as follows (in thousands):

Year ending June 30		Principal	Interest	Interest rate swap – net	Total
2012	$	7,840	4,904	3,181	15,925
2013		8,190	4,617	3,098	15,905
2014		8,562	4,333	2,981	15,876
2015		8,931	4,106	2,777	15,814
2016		8,158	3,872	2,553	14,583
2017 – 2021		43,082	16,220	8,964	68,266
2022 – 2026		51,268	9,673	3,905	64,846
2027 – 2031		62,210	4,384	625	67,219
2032 – 2034		44,460	1,059	—	45,519
Subtotal		242,701	53,168	28,084	323,953
Deferred loss on refunding of Series 2000 Bonds		(5,544)	—	—	(5,544)
Deferred loss on refunding of Series 1997 Bonds		(228)	—	—	(228)
Deferred loss on refunding of Series 2004 Bonds		(411)	—	—	(411)
Deferred loss on refunding of Series 2002A Bonds		(578)	—	—	(578)
Deferred loss on refunding of Series 2005 Bonds		(374)	—	—	(374)
Deferred loss on refunding of Series 2008B Bonds		(472)	—	—	(472)
Deferred loss on refunding of Series 2009A Bonds		(486)	—	—	(486)
Premium on 2002B bonds		113	—	—	113
Total	$	234,721	53,168	28,084	315,973

(Continued)

Aggregate scheduled principal payments on long-term debt based on the 2009B Bonds being put back to the Hospital and a corresponding draw being made on letters of credit (in thousands).

2012	$	7,840
2013		19,766
2014		20,113
2015		20,407
2016		19,665
2017 – 2021		31,822
2022 – 2026		40,163
2027 – 2031		38,465
2032 – 2034		44,460
Total	$	242,701

(8) 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:

(a) 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, 2006. 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, 2011 and 2010, included approximately $1,232,000 and $1,870,000, respectively, of retrospectively determined settlements from third-party payors and changes in estimates.

(b) 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.

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.

(c) 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 5.0% of net patient service revenue for both years ended June 30, 2011 and 2010.

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 patient service revenue and net patient accounts receivable at June 30, 2011 and 2010, is summarized as follows:

	2011	**2010**
Net patient service revenue:		
Medicare	24.9%	26.2%
Medicaid	7.9	7.8
Managed care	54.1	52.8
Indemnity	3.7	4.4
Other	9.4	8.8
	100.0%	100.0%
Net patient accounts receivable:		
Medicare	28.4%	26.6%
Medicaid	11.3	13.7
Managed care	48.7	44.0
Indemnity	4.7	6.4
Other	6.9	9.3
	100.0%	100.0%

(9) 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, 2011 and 2010, was $45,674,000 and $47,041,000, respectively.

(10) 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 related to current service on a pay-as-you-go basis, as determined from the State of Wisconsin Department of Employee Trust Funds.

(Continued)

The payroll for employees covered by WRS and the total required contributions (paid entirely by the employer) were as follows:

The payroll for employees covered by WRS for the year ended June 30, 2011, was $373,955,000; the employer's total payroll was $374,598,000. The total required contributions, paid entirely by the employer, for the year ended June 30, 2011, were $50,746,000.

The payroll for employees covered by WRS for the year ended June 30, 2010, was $348,955,000; the employer's total payroll was $362,189,000. The total required contributions, paid entirely by the employer, for the year ended June 30, 2010, were $44,387,000.

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, 2010, were $42,947,000.

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.

Although projected benefits for current service are funded on a pay-as-you go basis, the Hospital has recorded liabilities related to the unfunded prior service costs and sick leave conversion credits for each the Hospital Authority and Hospital Board employees.

For Hospital Authority employees, 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 related to prior service costs. 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 21 years remaining as of fiscal 2011. 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. The Hospital's liability for unfunded prior service liability and sick leave conversion credit for Authority employees, payable to WRS, was $28,238,000 and $30,827,000, as of June 30, 2011 and 2010, respectively.

For Hospital Board employees, the Hospital's liability for unfunded prior service liability and sick leave credit is payable to the State. 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 $31,982,000 as of June 30, 2011, of which $5,060,000 is payable in 2012 and is recorded in accrued expenses and $26,922,000 is recorded in pension-related liabilities, payable in annual principal and interest payments to the State over approximately 20 years. The Hospital has recognized a liability of $33,605,000 as of June 30, 2010, of which $4,805,000 is payable in 2011 and is recorded in accrued expenses and $28,800,000 is recorded in pension-related liabilities, payable in annual principal and interest payments to the State over approximately 21 years. Amounts payable to the State for the years 2011 through 2016 range from approximately $2,800,000 to $3,400,000.

The total pension related liabilities for the Hospital as of June 30, 2011 and 2010, were $60,220,000 and $64,432,000, respectively, including current portion. The liability is made up of the Hospital Board portion, payable to the State, and the Hospital Authority portion, payable to WRS, as discussed above. 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

(11) Retiree Health Insurance Plan

(a) 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 agent multiple-employer 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.

(b) Funding Policy

The health insurance plan is currently on 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. Current employees are not required to contribute to the retiree healthcare plan. Retirees electing to participate in the plan pay 100% of premiums directly to the plan either out-of-pocket or with their accumulated sick leave conversion credits. For fiscal year 2011, the Hospital contributed $2.3 million to the plan for current assessments of the sick leave conversion credit benefit available to retirees for health insurance and approximately $4.3 million of the payments due for the Hospital's pension-related liabilities (as described in footnote 10) apply to sick leave conversion credits.

(c) 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)	$ 3,898	2,050
Interest on the net OPEB obligation	449	221
ARC adjustment with interest	(412)	(205)
Annual OPEB cost	3,935	2,066
Employer contribution implicit rate adjustment	(1,172)	(803)
Change in the net OPEB obligation	2,763	1,263
Net OPEB obligation beginning balance	8,169	4,026
Net OPEB obligation ending balance	$ 10,932	5,289

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

	Fiscal year ended	Annual OPEB cost	Percent of annual OPEB contributed	Net OPEB obligation
Hospital Authority	6/30/2011	$ 3,935	29.8%	$ 10,932
Hospital Authority	6/30/2010	3,971	23.3	8,169
Hospital Authority	6/30/2009	3,319	29.4	5,122
Hospital Board	6/30/2011	2,066	38.9	5,289
Hospital Board	6/30/2010	2,117	29.4	4,026
Hospital Board	6/30/2009	1,828	36.4	2,532

(Continued)

(d) Funded Status and Funding Progress

As permitted by GASB 45, the Hospital obtains biannual actuarial valuations of its plan.

The Hospital does not fund the plan, and consequently the funded status was zero as of July 1, 2009 (the most recent actuarial valuation).

		Hospital Authority	Hospital Board
Actuarial accrued liability (AAL)	$	26,203	13,043
Actuarial value of plan assets		—	—
Unfunded actuarial accrued liability (UAAL)	$	26,203	13,043
Funded ratio (actuarial value of plan assets/AAL)		—%	—%
Covered payroll (active plan members)	$	241,556	104,731

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, 2011, the Medicare Part D portion included in the actuarial accrued liability is $6.8 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.

(e) 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 2010-2011, the projected unit credit method was used. Actuarial calculations reflect a long-term perspective. The actuarial assumptions included a 5.5% discount rate and an annual healthcare cost trend rate of 7.0% initially, reduced by decrements to an ultimate rate of 5.5% after 15 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 VAAL. The remaining amortization period was 27 years at June 30, 2011.

(Continued)

(12) 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 has coverage limits of $1,000,000 per claim and $3,000,000 in aggregate per year and 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.

(13) Liabilities for Workers' Compensation Claims

A reconciliation of changes in the aggregate liabilities for workers' compensation claims for the years ended June 30, 2011 and 2010, 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
2011	$ 7,006	2,221	(2,091)	7,136
2010	5,931	2,562	(1,487)	7,006

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.

(14) Commitments and Contingencies

(a) Leases

The Hospital leases buildings, equipment, and helicopter transport services under operating leases. Rental expense for cancelable and noncancelable operating leases was approximately $16,233,000 and $18,383,000 for 2011 and 2010, 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, 2011, are as follows (in thousands):

2012	$	9,530
2013		4,758
2014		2,559
2015		1,446
2016		1,120
2017 – 2021		3,179
Total	$	22,592

(b) 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.

(c) 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.

(15) Noncurrent Liabilities

The activity in the Hospital's noncurrent liabilities for the years ended June 30, 2011 and 2010 is set forth below (amounts in thousands):

	Balance at June 30, 2010	Increases	Decreases	Balance at June 30, 2011
Long-term debt, less current installments	$ 235,677	$ 116,780	$ 125,576	$ 226,881
Net OPEB obligation	12,195	6,001	1,975	16,221
Pension-related liabilities	59,627	3,225	7,692	55,160
Other long-term liabilities (interest rate swaps)	12,249	—	1,948	10,301

REQUIRED SUPPLEMENTARY INFORMATION

UNIVERSITY OF WISCONSIN HOSPITALS
AND CLINICS AUTHORITY

Schedule of Plan Funding Progress under GASB Statement No. 45

June 30, 2011

(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 Authority	7/1/2009	—	26,203	26,203	—	241,556	10.8
Hospital Board	7/1/2007	—	10,747	10,747	—	96,830	11.1
Hospital Board	7/1/2009	—	13,043	13,043	—	104,731	12.5

See accompanying independent auditors' report.