

**MANAGEMENT RESPONSIBILITY**

November 10, 2003


TO THE PRESIDENT AND BOARD OF VISITORS OF THE UNIVERSITY OF VIRGINIA:

We are pleased to submit the annual Financial Report of the University of Virginia for the year ended June 30, 2003. Management is responsible for the objectivity and integrity of the accompanying financial statements, which have been prepared in conformance with the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, and Statement No. 35, *Basic Financial Statements—and Management’s Discussion and Analysis—for Public Colleges and Universities*. The financial statements, of necessity, included management’s estimates and judgments relating to matters not concluded by year-end. Financial information contained elsewhere in the annual Financial Report is consistent with that included in the financial statements.


Management is responsible for maintaining the University’s system of internal control that includes careful selection and development of employees, proper division of duties, and written accounting and operating policies and procedures augmented by a continuing internal audit program. Although there are inherent limitations to the effectiveness of any system of accounting controls, management believes that the University’s system provides reasonable, but not absolute, assurance that assets are safeguarded from unauthorized use or disposition and that the accounting records are sufficiently reliable to permit the preparation of financial statements that conform in all material respects with generally accepted accounting principles.

The Auditor of Public Accounts for the Commonwealth of Virginia, independent certified public accountants, provides an independent opinion regarding the fair presentation in the financial statements of the University’s financial position. Their examination was made in accordance with generally accepted government auditing standards and included a review of the system of internal accounting controls to the extent they considered necessary to determine the audit procedures required to support their opinion. The Audit Committee of the Board of Visitors meets periodically and privately with the independent auditors, the internal auditors, and the financial officers of the University to review matters relating to the quality of the University’s financial reporting, the internal accounting controls, and the scope and results of audit examinations. The committee also reviews the scope and quality of the internal auditing program.

Respectfully submitted,



STEPHEN A. KIMATA  
Assistant Vice President for Finance  
and University Comptroller



YOKE SAN L. REYNOLDS  
Vice President for Finance

**AUDITOR’S OPINION**

November 10, 2003

THE HONORABLE MARK R. WARNER  
Governor of Virginia

THE HONORABLE KEVIN G. MILLER  
Chairman, Joint Legislative Audit and Review Commission

THE BOARD OF VISITORS, University of Virginia

**INDEPENDENT AUDITOR’S REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying statement of net assets; statement of revenues, expenses, and changes in net assets; and the statement of cash flows of the University of Virginia, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2003, which collectively comprise the University’s basic financial statements. These financial statements are the responsibility of the University’s management. Our responsibility is to express an opinion on these basic financial statements based on our audit.


We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Virginia as of June 30, 2003, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2003, on our consideration of the University’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management’s discussion and analysis presented on pages 37 through 44 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the University’s basic financial statements referred to above. Other information in this President’s Report is presented for the purpose of additional analysis and is not a required part of the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on this other information.



WALTER J. KUCHARSKI  
Auditor of Public Accounts

FINANCIAL REPORT

<b>UNIVERSITY OF VIRGINIA</b> <b>STATEMENT OF NET ASSETS</b> As of June 30, 2003 and 2002 (in thousands)	<b>2003</b>	<b>2002</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents (NOTE 1)	\$ 188,056	\$ 216,776
Short-term investments (NOTE 1)	378,143	205,888
Accounts receivable, net (NOTE 2A)	153,871	163,237
Prepaid expenses	8,286	6,906
Inventories	14,136	13,246
Notes receivable, net	6,892	4,712
Other	13	3
<b>TOTAL CURRENT ASSETS</b>	<b>749,397</b>	<b>610,768</b>
<b>NON-CURRENT ASSETS</b>		
Restricted cash and cash equivalents (NOTE 1)	94,034	30,171
Endowment investments (NOTE 1)	1,962,217	1,801,065
Other long-term investments (NOTE 1)	281,398	216,996
Deposit with bond trustee	80,232	8,881
Notes receivable, net (NOTE 2B)	16,999	22,264
Pledges receivable, net (NOTE 2C)	27,393	30,529
Capital assets, net (NOTE 2E)	1,285,009	1,200,948
Goodwill (NOTE 2F)	1,472	1,983
Other	-	428
<b>TOTAL NON-CURRENT ASSETS</b>	<b>3,748,754</b>	<b>3,313,265</b>
<b>TOTAL ASSETS</b>	<b>\$4,498,151</b>	<b>\$3,924,033</b>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities (NOTE 2G)	\$ 142,606	\$ 121,625
Deferred revenue (NOTE 2H)	56,995	57,745
Obligations under securities lending (NOTE 1)	160,078	3,853
Deposits held in custody for others	14,959	12,472
Long-term liabilities—current portion (NOTE 3)	48,837	53,151
Advance from Treasurer of Virginia	261	261
<b>TOTAL CURRENT LIABILITIES</b>	<b>423,736</b>	<b>249,107</b>
<b>NON-CURRENT LIABILITIES (NOTE 3)</b>		
Long-term debt	425,453	318,555
Other non-current liabilities	199,523	128,538
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>624,976</b>	<b>447,093</b>
<b>TOTAL LIABILITIES</b>	<b>\$1,048,712</b>	<b>\$ 696,200</b>
<b>NET ASSETS</b>		
<b>INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT</b>	<b>\$ 917,924</b>	<b>\$ 871,844</b>
<b>RESTRICTED:</b>		
Non-expendable	311,779	282,719
Expendable	1,275,452	1,215,091
<b>UNRESTRICTED</b>	<b>944,284</b>	<b>858,179</b>
<b>TOTAL NET ASSETS</b>	<b>\$3,449,439</b>	<b>\$3,227,833</b>

Certain 2002 amounts have been restated to conform to 2003 classifications.  
The accompanying Notes to Financial Statements are an integral part of this statement.

<b>UNIVERSITY OF VIRGINIA</b> <b>STATEMENT OF REVENUES, EXPENSES,</b> <b>AND CHANGES IN NET ASSETS</b> For the years ended June 30, 2003 and 2002 (in thousands)	<b>2003</b>	<b>2002</b>
<b>REVENUES</b>		
<b>OPERATING REVENUES</b>		
Student tuition and fees (net of scholarship allowances of \$37,670 and \$34,116)	\$ 204,092	\$ 177,913
Patient services (net of indigent care of \$355,948 and \$250,690)	606,683	568,372
Federal grants and contracts	246,244	210,591
State and local grants and contracts	7,489	7,632
Non-governmental grants and contracts	46,573	43,539
Sales and services of educational departments	19,905	19,773
Auxiliary enterprises revenue (net of scholarship allowances of \$4,933 and \$5,398)	81,672	77,070
Other operating revenues	13,192	10,365
<b>TOTAL OPERATING REVENUES</b>	<b>1,225,850</b>	<b>1,115,255</b>
<b>EXPENSES</b>		
<b>OPERATING EXPENSES (NOTE 7)</b>		
Compensation and benefits	822,201	831,980
Supplies and other services	448,985	411,139
Student aid	37,738	34,155
Utilities	58,718	56,204
Depreciation	99,915	98,628
Other	25,325	24,689
<b>TOTAL OPERATING EXPENSES</b>	<b>1,492,882</b>	<b>1,456,795</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(267,032)</b>	<b>(341,540)</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
State appropriations (NOTE 6)	140,826	176,053
Payments from Commonwealth for indigent care	31,208	21,195
Gifts	70,544	78,698
Investment income	189,702	19,527
Interest on capital asset-related debt	(11,467)	(12,038)
Losses on affiliated company sold	-	(12,113)
Other non-operating revenues (expenses)	(228)	3,700
<b>NET NON-OPERATING REVENUES</b>	<b>420,585</b>	<b>275,022</b>
<b>INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES</b>	<b>153,553</b>	<b>(66,518)</b>
Capital appropriations	16,667	16,595
Capital grants and gifts	21,216	11,509
Additions to permanent endowments	30,170	63,701
<b>TOTAL OTHER REVENUES</b>	<b>68,053</b>	<b>91,805</b>
<b>INCREASE IN NET ASSETS</b>	<b>221,606</b>	<b>25,287</b>
<b>NET ASSETS</b>		
Net assets—beginning of year	3,227,833	3,202,546
<b>NET ASSETS—END OF YEAR</b>	<b>\$3,449,439</b>	<b>\$3,227,833</b>

Certain 2002 amounts have been restated to conform to 2003 classifications.  
The accompanying Notes to Financial Statements are an integral part of this statement.

**UNIVERSITY OF VIRGINIA**  
**STATEMENT OF CASH FLOWS**  
For the years ended June 30, 2003 and 2002 (in thousands)

**2003**      **2002**

	2003	2002
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Tuition and fees	\$ 203,402	\$ 175,672
Grants and contracts	292,973	258,904
Receipts from patients and third parties	603,006	535,901
Sales and services of educational activities	20,200	19,705
Sales and services of auxiliary enterprises	81,530	76,546
Payments to employees and fringe benefits	(823,958)	(819,013)
Payments to vendors and suppliers	(490,650)	(440,938)
Payments for scholarships and fellowships	(37,730)	(34,155)
Perkins and other loans issued to students	(9,949)	(16,170)
Collection of Perkins and other loans to students	12,794	15,908
Other receipts (payments)	14,268	23,047
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b>(134,114)</b>	<b>(204,593)</b>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
State appropriations	135,292	203,802
Payments from Commonwealth for indigent care	31,208	21,195
Additions to true endowments	30,171	76,050
Direct lending receipts, including PLUS loans	48,405	52,441
Direct lending payments, including PLUS loans	(48,405)	(52,441)
Receipts on behalf of agencies	2,444	(50,634)
Payments on behalf of agencies	(3,873)	(15,757)
Non-capital gifts and grants and endowments received	75,204	60,499
Other	-	(733)
<b>NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES</b>	<b>270,446</b>	<b>294,422</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital appropriations	11,180	10,086
Capital gifts and grants received	16,416	15,200
Proceeds from capital debt	306,217	63,347
Proceeds from sale of capital assets	720	3,267
Acquisition and construction of capital assets	(192,629)	(188,184)
Principal paid on capital debt and leases	(97,834)	(23,302)
Interest paid on capital debt and leases	(11,912)	(12,038)
Deposit with trustee	(71,350)	26,803
<b>NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(39,192)</b>	<b>(104,821)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments	1,534,846	2,309,831
Interest on investments	49,610	55,315
Purchase of investments and related fees	(1,646,573)	(2,316,561)
Other investment activities	120	(2,911)
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<b>(61,997)</b>	<b>45,674</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		
Cash and cash equivalents, July 1	246,947	216,265
<b>CASH AND CASH EQUIVALENTS, JUNE 30</b>	<b>\$ 282,090</b>	<b>\$ 246,947</b>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating loss	\$ (267,032)	\$ (341,540)
<b>ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:</b>		
Depreciation expense	100,005	98,988
Provision for uncollectible loans and writeoffs	242	238
Miscellaneous non-operating income	305	3,232
<b>CHANGES IN ASSETS AND LIABILITIES:</b>		
Receivables, net	14,116	(12,279)
Inventories	(2,808)	(778)
Other assets	(445)	(654)
Prepaid expenses	536	(995)
Notes receivable, net	2,842	(259)
Accounts payable and accrued liabilities	24,830	18,797
Non-cash adjustment to supplies and services	(1,634)	21,866
Due to primary government	-	60
Deferred revenue	257	4,855
Accrued vacation leave—long term	(5,328)	3,876
<b>TOTAL ADJUSTMENTS</b>	<b>132,918</b>	<b>136,947</b>
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b>\$ (134,114)</b>	<b>\$ (204,593)</b>

Certain 2002 amounts have been restated to conform to 2003 classifications.  
The accompanying Notes to Financial Statements are an integral part of this statement.

**NOTES TO FINANCIAL STATEMENTS**

As of June 30, 2003

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****Organization and Purpose**

The University of Virginia is an agency of the Commonwealth of Virginia and is governed by the University's Board of Visitors. A separate report is prepared for the Commonwealth of Virginia that includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. The University is a component unit of the Commonwealth of Virginia and is included in the basic financial statements of the Commonwealth. The University consists of three divisions. The Academic Division and University of Virginia's College at Wise generate and disseminate knowledge in the humanities, arts, scientific, and professional disciplines through instruction, research, and public service. The Medical Center Division provides routine and ancillary patient services through a full-service hospital and clinics.

**Reporting Entity**

The financial statements and the accompanying notes of the University include all funds and organizations for which the Board of Visitors has oversight responsibility. There are currently twenty affiliated foundations created and operated in support of the interests of the University. Affiliated foundations are not-for-profit corporations controlled by separate boards of directors and are not included in the basic financial statements of the University.

Condensed financial statements for the following foundations, whose boards include officers of the University, are disclosed in Note 5:

**University of Virginia Health Services Foundation**, an educational, scientific, and charitable organization established to assist the University in providing hospital and medical care services, medical education programs, medical research, and programs of public charity at the University.

**University of Virginia Foundation and Subsidiaries**, which includes the University of Virginia Real Estate Foundation, established to promote, support, and aid the University in matters pertaining to real estate, as well as to use and administer gifts, grants, and bequests for the benefit of the University.

The University allows its affiliated foundations to participate in the University's endowment, such that the University invests funds on behalf of the foundations. As such, these funds are liabilities of the University to the foundations, and are reported on the Statement of Net Assets as non-current liabilities. At June 30, 2003, and June 30, 2002, these liabilities amounted to \$173.7 million and \$106.7 million of the \$625.0 million and \$447.1 million total, respectively, of non-current liabilities.

**Reporting Basis**

The accompanying financial statements are presented in accordance with generally accepted accounting principles applicable to governmental colleges and universities as promulgated by the Governmental Accounting Standards Board (GASB) and, for pronouncements issued prior to November 30, 1989, the Financial Accounting Standards Board (FASB). It is the University's policy not to follow FASB standards issued after that date.

In accordance with GASB Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, as amended by GASB Statement Nos. 37 and 38, the University has elected to report as an entity engaged in business-type activities. Entities engaged in business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

GASB Statement No. 35 establishes standards for external financial reporting for public colleges and universities and requires that resources be classified for accounting and reporting purposes into the following net asset categories:

**Invested in Capital Assets, Net of Related Debt:**

Capital assets, net of accumulated depreciation and long-term debt attributable to the acquisition, construction, or improvement of these assets.

**Restricted:** Net assets, either expendable or non-expendable, subject to donor-imposed restrictions stipulating how the resources may be used. Expendable net assets are those that can be satisfied by actions of the University. Non-expendable net assets, consisting of endowments, must be maintained in perpetuity.

**Unrestricted:** Net assets are those net assets that are not classified either as capital assets, net of related debt or restricted net assets. Unrestricted net assets may be designated for specific purposes by management or may otherwise be limited by contractual agreements with outside parties.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the University's policy is first to apply the expense toward restricted resources, and then toward unrestricted. Restricted funds remain classified as such until restrictions have been satisfied.

**Basis of Accounting**

The financial statements have been prepared on the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when incurred and measurable, regardless of when the related cash flows take place. Non-exchange transactions, in which the University receives value without directly giving equal value in exchange, include grants, state appropriations, and private donations. On an accrual basis, revenues from these transactions are recognized in the fiscal year in which all eligibility requirements (resource provider conditions) have been satisfied, if measurable and probable of collection. The University does not capitalize works of art or historical treasures that are held for exhibition, education, research, and public service. These collections are neither disposed of for financial gain nor encumbered in any means. Accordingly, such collections are not recognized or capitalized for financial statement purposes.

**Cash and Cash Equivalents**

In addition to cash on deposit with private bank accounts, petty cash, and undeposited receipts, this classification includes cash on deposit with fiscal agents and short-term investments with the State Treasurer's Cash and Investment Pool (a governmental external investment pool). All other short-term investments are reported as investments.

**Inventories**

Inventories are valued at the lower of cost (generally determined on the weighted average method) or market value.

**Investments**

Investments in corporate stocks and marketable bonds are recorded at market value. Certain less marketable investments, principally real estate and private equity investments, are generally carried at estimated values as determined by management. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. Mortgages held for investment by the endowment fund are recorded at book value representing principal amounts due.

**Endowment**

The major portion of the University's endowment is maintained in a single investment pool named the University Pooled Endowment Fund. The Pooled Endowment Fund is pooled using a market value basis, with each individual fund subscribing to or disposing of units (permanent shares) on the basis of the market value per unit at the beginning of the calendar month within which the transaction takes place.

**Fixed Assets and Depreciation**

Fixed Assets are stated at cost at date of acquisition or fair mar-

ket value at date of donation in the case of gifts. In the case of buildings, the University capitalizes fixed assets that have a value or cost in excess of \$250,000 at the date of acquisition and an expected useful life of one or more years. Both the Academic and Medical Center Divisions capitalize moveable equipment at a value or cost of \$2,000 or greater and an expected useful life of one or more years. Effective July 1, 2003, the Academic Division increased its moveable equipment capitalization threshold to a value or cost of \$5,000 or greater. Maintenance or renovation expenditures of \$250,000 or more are capitalized only to the extent that such expenditures prolong the life of the asset or otherwise enhance its capacity to render service.

Depreciation of buildings, of improvements other than buildings, and of infrastructure is provided on a straight-line basis over estimated useful lives ranging from ten to fifty years.

Depreciation of equipment and capitalized software is provided on a straight-line basis over estimated useful lives ranging from three to twenty years.

Depreciation of library books is calculated on a straight-line basis over ten years.

Fixed assets financed with debt proceeds are reported when expenditures are incurred. Projects that have not been completed as of the date of the statement of net assets are classified as Construction in Process. Construction period interest cost in excess of earnings associated with the debt proceeds is capitalized as a component of the fixed asset.

Fixed assets, such as roads, parking lots, sidewalks, and other non-building structures and improvements are capitalized as infrastructure and depreciated accordingly.

In accordance with AICPA Statement of Position 98-1, the University capitalizes computer software developed or obtained for internal use. Capitalization begins at the application development stage, which consists of the design, coding, installation, and testing of the software and interfaces.

### Deferred Revenue

Deferred revenue represents revenues collected but not earned as of June 30. This is primarily composed of revenue for student tuition accrued in advance of the semester, and advance payments on grants and contracts.

### Interest Capitalization

Interest expense incurred during the construction of capital assets is capitalized, if material, net of interest income earned on resources set aside for this purpose. The University incurred net interest expense of \$3,008,975 and \$2,033,694 for the fiscal years ended June 30, 2003, and 2002, respectively. Interest capitalized for the fiscal years ended June 30, 2003, and 2002, totaled \$444,846 and \$2,033,694, respectively.

### Accrued Compensated Absences

The amount of leave earned but not taken by non-faculty salaried employees is recorded as a liability on the Statement of Net Assets. The amount reflects, as of June 30, 2003, all unused vacation leave, sabbatical leave, and the amount payable upon termination under the Commonwealth of Virginia's sick leave payout policy. The applicable share of employer-related taxes payable on the eventual termination payments is also included.

### Revenue Recognition

Revenues, as reflected on the Statement of Revenues, Expenses, and Changes in Net Assets, include all exchange and non-exchange transactions earned and in which all eligibility requirements (resource provider conditions) have been satisfied, if measurable and probable of collection.

Student tuition and student auxiliary fees are presented net of scholarships and fellowships applied to student accounts.

Certain auxiliary operations provide goods and services to internal customers. These auxiliary operations include activities such as central stores, the print shop, and other auxiliaries with interdepartmental activities. The net effect of these internal transactions has been eliminated in the Statement of Revenues, Expenses, and Changes in Net Assets to avoid inflating revenues and expenses.

### Medical Center Sales and Services

A significant portion of the Medical Center services is rendered to patients covered by Medicare, Medicaid, or Blue Cross of Virginia. The Medical Center has entered into contractual agreements with these third parties to accept payment for services in amounts less than scheduled charges. In accordance with these agreements, the difference between the contractual payments due and the Medical Center scheduled billing rates results in contractual adjustments. Contractual adjustments are recorded as deductions from Medical Center revenues in the period in which the related services are rendered.

Certain annual settlements of amounts due for Medical Center services covered by third parties are determined through cost reports that are subject to audit and retroactive adjustment by the third parties. Provisions for possible adjustments of cost reports have been estimated and reflected in the accompanying basic financial statements. Since the determination of settlements in prior years has been based on reasonable estimation, the difference in any year between the originally estimated amount and the final determination is reported in the year of determination as an adjustment to Medical Center revenues.

### Operating Activities

The University's policy for defining operating activities is based primarily on an activity's character as an exchange event. Exchange events generally involve payments or receipts for providing or receiving goods and services. With the exception of interest expense, all expense transactions are classified as operating, while some revenue transactions (i.e., state appropriations, gifts, and investment income) are classified as non-operating in accordance with GASB Statement No. 35.

### Scholarship Allowance

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowance in the Statement of Revenues, Expenses, and Changes in Net Assets. Scholarship allowance is the difference between the stated charge for goods and services provided by the University and the amount paid by students and/or third parties making payments on the students' behalf. Financial aid to students is reported using the alternative method as prescribed by the National Association of College and University Business Officers (NACUBO). The alternative method is a simple proportionality algorithm that computes scholarship allowance on a university-wide basis by allocating the cash payments to students, excluding payments for services, on the ratio of total aid to the aid not considered to be third-party aid.

### Reclassifications

Certain amounts from the prior fiscal year have been reclassified to conform to current year presentation. The following adjustments have been made to the ending balance of fiscal year 2002 (in thousands):

<b>FUND BALANCES REPORTED AT JUNE 30, 2002</b>		<b>\$ 3,226,896</b>
Prior year expense reclassification	(19,678)	
Chart of accounts reclassification	14,041	
Foundation gift activity reclassification	13,474	
Investments written off	(9,776)	
Capital assets reclassification	2,876	
Beginning net assets (at July 1, 2002, as adjusted)		<b>\$ 3,227,833</b>

**NOTE 1: INVESTMENT RISK**

The relative risk associated with the University's financial assets is detailed below.

**Cash:** All cash of the University is maintained in accounts that are collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400, et seq., of the Code of Virginia.

**Investments:** The investment policy goals, objectives, and guidelines are established by the Finance Committee of the Board. The University's cash equivalents and investments are categorized by levels of credit risk as described below:

**Category 1**—Insured or registered securities or securities held by the University of Virginia or its agent in the University's name.

**Category 2**—Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the University of Virginia's name. None of the University's investments are classified as category 2 investments.

**Category 3**—Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the University of Virginia's name. None of the University's investments are classified as category 3 investments.

**CATEGORIZATION OF INVESTMENT RISK FOR ASSETS HELD AS OF JUNE 30, 2003** (in thousands)

	CATEGORY 1	NON-CATEGORIZED	FAIR VALUE	COST
U.S. Treasury and agency securities	\$ 488,695	\$ —	\$ 488,695	\$ 468,227
Common and preferred stocks	57,876	—	57,876	47,348
Mutual and money market funds	—	251,540	251,540	249,041
Real estate and other tangible property	—	28,571	28,571	28,571
Mortgages	—	34,716	34,716	34,843
Private placement investments	—	1,746,115	1,746,115	1,526,615
Asset-backed securities	9,484	—	9,484	9,410
Cash equivalents held as endowment assets	5,225	—	5,225	5,225
Guaranteed investment contract	—	79,020	79,020	79,020
Other intangible property	—	806	806	806
<b>TOTAL</b>	<b>\$ 561,280</b>	<b>\$2,140,768</b>	<b>\$2,702,048</b>	<b>\$2,449,106</b>

**CATEGORIZATION OF INVESTMENT RISK FOR ASSETS HELD AS OF JUNE 30, 2002** (in thousands)

	CATEGORY 1	NON-CATEGORIZED	FAIR VALUE	COST
U.S. Treasury and agency securities	\$ 581,038	\$ —	\$ 581,038	\$ 572,532
Corporate bonds	33,256	—	33,256	32,987
Common and preferred stocks	88,607	—	88,607	85,653
Municipal securities	225	—	225	25
Mutual and money market funds	—	105,003	105,003	112,373
Real estate and other tangible property	—	39,665	39,665	39,665
Mortgages	—	32,817	32,817	33,091
Private placement investments	—	1,268,270	1,268,270	1,194,554
Cash equivalents held as endowment assets	84,290	—	84,290	84,290
Other intangible property	—	2,374	2,374	2,374
<b>TOTAL</b>	<b>\$ 787,416</b>	<b>\$1,448,129</b>	<b>\$2,235,545</b>	<b>\$2,157,544</b>

**Security Lending:** Under authorization of the board of the University of Virginia Investment Management Company, the University of Virginia, through its agent, Mellon Bank, lends U.S. government and equity securities to various broker-dealers on a temporary basis for collateral. All security loan agreements are collateralized by readily marketable and liquid securities, loans, or other obligations secured by a lien or similar interest on an asset, thereof totaling at least 102 percent of the market value of the loaned securities. The University of Virginia retains the right to pledge or sell these securities held as collateral at their discretion. All security loans can be terminated on demand by either the University or the borrower, and the average term of the security loans as well as collateral held is less than one week. Under the University's security lending program, securities loaned as of June 30, 2003, have a carrying value of \$127,949,799 and a market value of \$153,068,581. Collateral received totals \$156,392,735. In addition, the University participates in the State Treasury's securities lending program. Collateral held for securities lending transactions of \$3,685,723 represents the University's allocated share of cash collateral received and reinvested and securities received for the State Treasury's securities lending program. Information related to the credit risk of these investments and the State Treasury's securities lending program is available on a statewide level in the Commonwealth of Virginia's *Comprehensive Annual Financial Report (CAFR)*.

**Derivative Financial Instruments:** Derivative instruments are financial contracts whose values depend on the values of one or more underlying assets, reference rates, or financial indexes. A derivative instrument generally has one or more underlying investment, requires little or no initial net investment, and requires or permits a net settlement.

The University from time to time may use, through its investments and through investments in pooled funds, a variety of derivative securities including futures, options, and forward foreign currency contracts. These financial instruments are used to modify market risk exposure. Futures contracts and options on futures contracts are traded on organized exchanges and require collateral or margin in the form of cash or marketable securities. The net change in the futures contract value, if any, is settled with a cash transaction on a daily basis. Holders of futures contracts look to the exchange for performance under the contract and not the entity holding the offsetting futures position. Accordingly, the amount of risk due to non-performance of counterparties to the futures contracts is minimal. Foreign exchange contracts are used to protect the University's portfolio against fluctuations in the values of foreign currencies. The credit risk of forward currency contracts traded over-the-counter lies with the counterparty. Asset swap contracts are privately negotiated agreements between two participants to exchange the return stream derived from their assets to each other without exchanging underlying assets. The University uses asset swaps to gain exposure to certain market sectors in lieu of direct investment. The credit risk lies with the intermediary who arranges the asset swap. The University had no direct exposure to derivative instruments at June 30, 2003.

**NOTE 2: STATEMENT OF NET ASSET DETAILS**

**a. Accounts receivable:** Accounts receivable are summarized in the chart below (in thousands):

ACCOUNTS RECEIVABLE	2003	2002
Patient care	\$171,871	\$154,746
Estimated amounts due from third-party payors	(5,543)	13,815
Grants and contracts	34,688	27,110
Pledges	13,275	16,455
Related foundation	7,411	5,824
Other	9,655	22,277
Less allowance for doubtful accounts	(77,486)	(76,990)
<b>TOTAL</b>	<b>\$153,871</b>	<b>\$163,237</b>

**b. Notes receivable:** Notes receivable are reported net of the allowance for uncollectible student loans, which amounted to \$3.0 million and \$2.8 million, for the fiscal years ending June 30, 2003, and 2002, respectively.

**c. Pledges:** The composition of pledges receivable at June 30, 2003, and 2002 is summarized in the chart below (in thousands):

PLEDGES	2003	2002
<b>GIFT PLEDGES OUTSTANDING:</b>		
Operations	\$33,500	\$48,307
Capital	17,110	10,639
Total gift pledges outstanding	<b>50,610</b>	<b>58,946</b>
<b>LESS:</b>		
Allowance for doubtfully collectible pledges	3,945	5,038
Unamortized discount to present value	7,077	8,571
Total pledges receivables, net	<b>39,588</b>	<b>45,337</b>
Less current portion	12,195	14,808
<b>TOTAL</b>	<b>\$27,393</b>	<b>\$30,529</b>

**d. Advances to foundations:** The University advances funds to affiliated foundations to enable the foundations to acquire real property in areas near the University and to enhance foundation operations. Foundations are expected to make principal repayments as funds become available. The Board of Visitors has authorized up to \$48 million for advances to the University of Virginia Real Estate Foundation. At June 30, 2003, and 2002, advances to foundations totaled \$28.3 million and \$39.3 million, respectively.

**e. Capital assets:** Capital assets for the year ended June 30, 2003, are summarized in the chart below (in thousands):

INVESTMENT IN PLANT-CAPITAL ASSETS	BEGINNING BALANCE	ADDITIONS	RETIREMENTS	ENDING BALANCE
Land	\$ 34,576	\$ 1,805	\$ -	\$ 36,381
Improvements other than buildings	152,459	4,003	3,138	153,324
Infrastructure	149,722	2,101	-	151,823
Buildings	1,079,837	75,300	1,179	1,153,958
Equipment	502,564	59,985	41,147	521,402
Software capitalization	25,418	6,644	-	32,062
Library books	81,648	4,365	815	85,198
Construction in process	111,488	109,556	68,608	152,436
	<b>2,137,712</b>	<b>263,759</b>	<b>114,887</b>	<b>2,286,584</b>
Less accumulated depreciation	(936,764)	(90,724)	(25,913)	(1,001,575)
<b>TOTAL</b>	<b>\$1,200,948</b>	<b>\$173,035</b>	<b>\$ 88,974</b>	<b>\$1,285,009</b>

Construction in process additions, in the above chart, represent expenditures for new projects net of the amount of capital assets placed in service.

**f. Goodwill:** On May 12, 2000, the Medical Center acquired from Augusta Health Care, Inc., the Kidney Dialysis Assets in a transaction accounted for as a purchase. Accordingly, \$987,188 was recorded as goodwill for the purchase of the assets and is being amortized over five years. An additional \$800,000 was recorded as goodwill for a Non-Competition Agreement and is being amortized over its ten-year life.

On December 15, 2000, the Medical Center acquired from the University of Virginia Health Services Foundation (HSF) its interest in the Hyperbaric Oxygen Unit. In July 1994, the Medical Center and HSF entered into a Memorandum of Agreement for the purpose of joint purchase and operation of a Hyperbaric Oxygen Unit. The memorandum provided that HSF would own 67 percent interest and the Medical Center would own 33 percent. Accordingly, \$1,166,615 was recorded as goodwill for the purchase of the assets and is being amortized over five years.

**g. Accounts payable:** Accounts payable are summarized in the chart below (in thousands).

**h. Deferred revenue:** Deferred revenues are summarized in the chart below (in thousands).

ACCOUNTS PAYABLE	2003	2002
Accounts payable	\$ 48,797	\$ 44,862
Accrued salaries and wages payable	59,867	56,225
Other payables	33,942	20,538
<b>TOTAL</b>	<b>\$142,606</b>	<b>\$121,625</b>

DEFERRED REVENUE	2003	2002
Grants and contacts	\$42,606	\$42,361
Student payments	10,538	10,672
Other deferred revenue	3,851	4,712
<b>TOTAL</b>	<b>\$56,995</b>	<b>\$57,745</b>



**NOTE 3: NON-CURRENT LIABILITIES**

**NON-CURRENT LIABILITY ACTIVITY AS OF JUNE 30, 2003, IS SUMMARIZED BELOW** (in thousands)

LONG-TERM DEBT	INTEREST RATES	MATURITY	BEGINNING BALANCE	ADDITIONS	REDUCTIONS	ENDING BALANCE	CURRENT PORTION
<b>REVENUE BONDS</b>							
Medical Center Series 1993A	4.1%-5.2%	2015	\$ 32,670	\$ —	\$ 32,670	\$ —	\$ —
Medical Center Series 1998B	3.5%-5.0%	2018	5,800	—	260	5,540	270
Medical Center Series 1999A	4.5%-5.3%	2013	44,730	—	3,870	40,860	4,040
University of Virginia Series 1995A	Variable	2020	3,640	—	280	3,360	—
University of Virginia Series 1998A	4.0%-5.1%	2024	68,100	—	2,025	66,075	2,105
University of Virginia Series 1993B	3.0%-5.4%	2020	47,850	—	47,850	—	—
University of Virginia Series 2003A	Variable	2034	—	82,010	—	82,010	—
University of Virginia Series 2003B	4.0%-5.0%	2033	—	117,990	—	117,990	525
U.Va.'s College at Wise 1973B	5.6%-5.9%	2011	240	—	20	220	25
Commonwealth of Virginia Bonds	3.8%-9.3%	2021	51,039	22,853	29,226	44,666	3,971
Notes payable to VCBA	3.8%-5.0%	2018	3,980	—	170	3,810	180
Notes payable to VCBA	4.5%-6.0%	2020	30,620	—	1,065	29,555	1,120
Notes payable to VCBA	4.3%-5.8%	2021	46,390	—	1,495	44,895	1,565
Higher education equipment trust fund leases payable	3.9%-5.0%	2003	1,430	—	1,430	—	—
Other	Various	2007	297	192	99	390	117
<b>TOTAL LONG-TERM DEBT</b>			<b>336,786</b>	<b>223,045</b>	<b>120,460</b>	<b>439,371</b>	<b>13,918</b>
<b>OTHER NON-CURRENT LIABILITIES</b>							
Investments held for related foundations			106,697	74,474	7,455	173,716	—
Accrual for compensated absences			42,332	32,549	38,410	36,471	32,772
Perkins loan program			13,212	—	1,312	11,900	—
Bond premium			1,199	6,343	179	7,363	—
Deferred loss on early retirement of debt			—	(2,025)	(35)	(1,990)	—
Other			18	6,965	1	6,982	2,147
<b>TOTAL OTHER NON-CURRENT LIABILITIES</b>			<b>163,458</b>	<b>118,306</b>	<b>47,322</b>	<b>234,442</b>	<b>34,919</b>
<b>TOTAL NON-CURRENT LIABILITIES</b>			<b>\$500,244</b>	<b>\$341,351</b>	<b>\$167,782</b>	<b>\$673,813</b>	<b>\$48,837</b>

Maturities and interest on notes and bonds payable for the next five years and in subsequent five-year periods are summarized in the chart to the right:

	PRINCIPAL	INTEREST	TOTAL
2004	\$ 13,918	\$ 20,377	\$ 34,295
2005	14,697	19,782	34,479
2006	15,616	19,085	34,701
2007	16,593	18,314	34,907
2008	16,974	17,463	34,437
2009-13	85,922	75,195	161,117
2014-18	70,581	53,316	123,897
2019-23	59,215	35,648	94,863
2024-28	29,615	25,053	54,668
2029-33	88,900	16,783	105,683
2034	27,340	819	28,159
<b>TOTAL</b>	<b>\$439,371</b>	<b>\$301,835</b>	<b>\$741,206</b>

The Commonwealth of Virginia, on behalf of the University of Virginia, issued bonds of \$22,852,826 to advance-refund \$23,267,798 in various series of bonds. The advance refunding reduced the aggregate debt service by \$1,264,430, representing a net present-value savings of \$1,214,287.

On March 19, 2003, the University of Virginia issued \$200,000,000 in General Revenue Pledge Bonds. The issue consisted of two series. Series A for \$82,010,000 was issued to advance-refund \$79,870,000 of outstanding Series 1993A, Series 1993B, and 1992B Bonds. The advance refunding reduced the aggregate debt service by \$9,986,322, representing a net present-value savings of \$6,953,781. Series B for \$117,990,000 was issued to fund new construction on the Grounds of the University of Virginia.

Also on March 19, 2003, the University of Virginia entered into a revolving credit agreement with a maximum principal amount of \$82,010,000 to provide liquidity for (i) the Series 2003A General Revenue Pledge Bonds and (ii) the Series 2003A Notes, which the University may issue from time to time under its commercial paper program. There were no advances outstanding under this credit agreement as of June 30, 2003.

9c and 9d Bonds are supported by all revenue of the University not otherwise pledged.

**NOTE 4: AFFILIATED COMPANIES****University of Virginia Imaging, L.L.C.**

On March 26, 2002, the Medical Center entered into an agreement with OIA of Virginia, L.L.C., to establish University of Virginia Imaging, L.L.C. The limited liability corporation was formed to operate an outpatient diagnostic imaging center to help respond to the need for radiology services in the Charlottesville, Virginia, area.

The Medical Center formerly operated an outpatient imaging department offering MRI, plain film radiography, fluoroscopy, and ultrasound in office space at the Fontaine Research Park in Charlottesville, Virginia. Although available to all U.Va. physicians, the site principally services the orthopedic physicians located at Fontaine. University of Virginia Imaging, L.L.C., will provide services to outpatients from the Medical Center's primary and secondary service areas. The existing operations at Fontaine merged with this new outpatient diagnostic center, also located at Fontaine. Operations started on October 1, 2002.

Since the Medical Center owns 80 percent of University of Virginia Imaging, L.L.C., its financial activity is presented under the consolidation method.

**Community Medicine, L.L.C.**

The University believed it was imperative to offer health care in the community that allowed the University primary care physician providers an alternative to the traditional model of healthcare delivery. This new model gives physicians an organizational structure that allows them the opportunity to practice independently in a virtual private-practice environment with all the risks and gains associated with an independent model.

On November 14, 2000, the University of Virginia established Community Medicine University of Virginia, L.L.C. (Community Medicine). Community Medicine was established as a limited liability corporation (L.L.C.) under the laws of the Commonwealth of Virginia to house physician practices. As an L.L.C., which is a wholly owned subsidiary of the University, Community Medicine is considered a disregarded entity for tax purposes. The financial activity of Community Medicine, as a wholly owned subsidiary, will be accounted for under the consolidation method.

An initial investment of \$750,000 was made to Community Medicine in May 2001. Community Medicine commenced operations on July 1, 2001. An additional investment of \$500,000 was made in July 2001, bringing the total equity contributions in Community Medicine to \$1,250,000. During fiscal year 2003, the Medical Center made additional investments of \$310,000, bringing the total investment to \$1,560,000. Community Medicine has recorded losses of \$712,340 and \$823,912 for the fiscal years ending June 30, 2003, and 2002, respectively, bringing the net investment to \$23,748.

**Central Virginia Health Network, Inc.**

In May 1995, the Medical Center joined the Central Virginia Health Network, Inc. (CVHN), a partnership of eight Richmond-area hospitals. Central Virginia Health Network was formed to provide an efficient and coordinated continuum of care, with services ranging from acute hospital treatment to primary physician care and home health services.

The Medical Center originally paid \$100 for 10,000 shares of common stock and \$109,900 as additional paid-in capital. In addition, the Medical Center is obligated for monthly dues to Central Virginia Health Network of \$15,913. The net investment in CVHN is summarized below. Complete financial statements can be obtained from the registered agent: Steven D. Gravely, Esq., Mezzullo and McCandlish, Post Office Box 796, Richmond, Virginia 23206.

**University of Virginia/HEALTHSOUTH L.L.C.**

The Medical Center entered into a joint venture with HEALTHSOUTH Corporation to establish an acute rehabilitation facility. The facility, located at the Fontaine Research Park in Charlottesville, Virginia, provides patient services to the region. The Medical Center made a capital contribution of \$2,230,000 to capitalize the joint venture in May 1996, which represents a 50 percent interest in the joint venture. The net investment in HEALTHSOUTH is summarized below. Complete financial statements can be obtained from the managing member: HEALTHSOUTH Corporation, 7700 East Parham Road, Richmond, Virginia 23294.

**Valiance Health, L.L.C.**

In November 1997, the Medical Center became a participant with Rockingham Memorial Hospital and Augusta Health Care, Inc., in Valiance Health, L.L.C. (Valiance), a joint venture engaging in the business of integrating and coordinating the delivery of healthcare services in Central and Western Virginia. The Medical Center contributed \$100,000 in initial capital, which entitles it to a pro-rata distribution of any profits and losses of Valiance.

**University HealthSystem Consortium (UHC)**

In December 1986, the Medical Center became a member of the University HealthSystem Consortium (UHC). Founded in 1984, UHC is an alliance of the clinical enterprises of academic health centers. While focusing on the clinical mission, UHC is mindful of and supports the research and education missions. The mission of the University HealthSystem Consortium is to advance knowledge, foster collaboration, and promote change to help members compete in their respective healthcare markets. In keeping with this mission, UHC helps members pool resources, create economies of scale, improve clinical and operating efficiencies, and influence the direction and delivery of health care. Accordingly, UHC is organized and operated on a cooperative basis for the benefit of its member health systems as patrons.

UHC is a not-for-profit organization. It is incorporated as a non-stock corporation and designated as a non-exempt cooperative that is taxable under Subchapter T (Section 1382-1388) of the Internal Revenue Code. As such, UHC's bylaws provide for distributions of patronage dividends to its patrons. This allocation is based on the value of business done with or for each patron by UHC. For fiscal year 2001, the Medical Center began recording the portion of the patronage dividends that were held by UHC as patronage equity.

**AFFILIATED COMPANIES AS OF JUNE 30, 2003** (in thousands)

	UNIVERSITY OF VIRGINIA IMAGING, LLC	COMMUNITY MEDICINE	CENTRAL VIRGINIA HEALTH NETWORK	HEALTHSOUTH	VALIANCE	UHC
Common stock and equity contributions	\$ 687	\$1,560	\$232	\$2,230	\$100	\$ -
Share of accumulated income (loss)	1,016	(1,536)	(31)	136	56	441
<b>NET INVESTMENT</b>	<b>\$1,703</b>	<b>\$ 24</b>	<b>\$201</b>	<b>\$2,366</b>	<b>\$156</b>	<b>\$441</b>

**AFFILIATED COMPANIES AS OF JUNE 30, 2002** (in thousands)

	COMMUNITY MEDICINE	CENTRAL VIRGINIA HEALTH NETWORK	HEALTHSOUTH	VALIANCE	UHC
Common stock and equity contributions	\$1,250	\$232	\$2,230	\$100	\$ -
Share of accumulated income (loss)	(824)	(23)	(1,437)	48	489
<b>NET INVESTMENT</b>	<b>\$ 426</b>	<b>\$209</b>	<b>\$ 793</b>	<b>\$148</b>	<b>\$489</b>

**HealthCare Partners, Inc.**

In May 1995, HealthCare Partners, Inc. (HealthCare Partners), a non-stock, non-profit corporation, was established to support networking, external business relationships with neighboring hospitals and physicians groups, and expansion of primary care activities. The Medical Center and the Health Services Foundation are the primary contributors to the funding of the corporation. The corporation is governed by a board of directors composed of Health Sciences Center staff, community members, and University Board of Visitors appointees.

**NOTE 5: AFFILIATED FOUNDATIONS**

The financial statements do not include the assets, liabilities, or net assets of the University of Virginia Health Services Foundation, the University of Virginia Foundation and Subsidiaries, nor any other foundation. These foundations are separately incorporated entities, and the related financial statements are examined by other auditors. The University received gifts from these and other foundations amounting to approximately \$58.0 million and \$45.5 million during 2003 and 2002, respectively. The condensed summary below is based solely upon the reports of other auditors.

**AFFILIATED FOUNDATIONS CONDENSED BALANCE SHEET** (in thousands)

	HEALTH SERVICES FOUNDATION AS OF JUNE 30		UNIVERSITY OF VIRGINIA FOUNDATION AS OF JUNE 30	
	2002	2001	2002	2001
<b>ASSETS:</b>				
Current assets due from the University	\$ 5,383	\$ 5,115	\$ 332	\$ -
Other current assets	53,297	53,464	6,780	4,254
Other assets	55,950	58,862	190,844	180,530
<b>TOTAL ASSETS</b>	<b>\$114,630</b>	<b>\$117,441</b>	<b>\$197,956</b>	<b>\$184,784</b>
<b>LIABILITIES AND NET ASSETS:</b>				
Current liabilities due to the University	\$ 10,753	\$ 7,295	\$ 9,077	\$ 8,212
Other current liabilities	26,993	30,517	22,483	7,523
Long-term debt due to the University	-	-	30,723	36,875
Other long-term debts	52,810	50,672	71,800	66,102
Obligations to the University under trust agreements	-	-	10,469	11,833
Net assets	24,074	28,957	53,404	54,239
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$114,630</b>	<b>\$117,441</b>	<b>\$197,956</b>	<b>\$184,784</b>

**AFFILIATED FOUNDATIONS CONDENSED STATEMENT OF REVENUES AND EXPENDITURES** (in thousands)

	HEALTH SERVICES FOUNDATION AS OF JUNE 30		UNIVERSITY OF VIRGINIA FOUNDATION AS OF JUNE 30	
	2002	2001	2002	2001
<b>REVENUES:</b>				
Professional and technical services provided by the University	\$ 21,500	\$ 19,900	\$29,670	\$28,608
Rental income from the University	-	-	2,766	2,025
Other	160,897	143,823	-	-
<b>TOTAL REVENUES</b>	<b>\$182,397</b>	<b>\$163,723</b>	<b>\$32,436</b>	<b>\$30,633</b>
<b>EXPENDITURES:</b>				
Office space and administrative services provided by the University	\$ 908	\$ 790	\$ -	\$ -
Clinical operations provided by the University	1	1	-	-
Gifts to the University	7,118	7,546	-	-
Other	177,292	161,085	30,823	29,921
<b>TOTAL EXPENDITURES</b>	<b>\$185,319</b>	<b>\$169,422</b>	<b>\$30,823</b>	<b>\$29,921</b>

**NOTE 6: APPROPRIATIONS**

The University receives state appropriations from the General Fund of the Commonwealth. The Appropriation Act specifies that such unexpended appropriations shall revert, as specifically provided by the General Assembly, at the end of the biennium. For years ending at the middle of a biennium, unexpended appropriations that have not been approved for reappropriation in the next year by the Governor become part of the General Fund of the Commonwealth and are, therefore, no longer available to the University for disbursements.

The chart to the right is a summary of state appropriations received by the University and the University's College at Wise, including all supplemental appropriations and reversions (in thousands):

	2003	2002
Original legislative appropriation per Chapter 1042, as amended	\$137,858	\$ -
Original legislative appropriation per Chapter 814	-	177,087
<b>ADJUSTMENTS:</b>		
Reappropriation 2001	\$ -	\$ 4,639
Matching funds for deferred compensation program	-	589
Bonus funding	5,974	-
E-procurement charge	(124)	-
Group life rate suspension	(797)	-
Retirees' health credit reduction	(151)	(670)
Health insurance premium increase	148	-
VRS rate reduction	(2,027)	(3,674)
VSDP rate increase	222	-
VSDP rate reduction	(112)	-
Miscellaneous appropriation	(23)	(67)
Reversions	(273)	(7,308)
Move funds to fishery (VGMSC)	(570)	-
Miscellaneous educational and general	701	5,457
<b>TOTAL</b>	<b>\$140,826</b>	<b>\$176,053</b>

**NOTE 7: NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS**

**OPERATING EXPENSES BY FUNCTIONAL CLASSIFICATION AS OF JUNE 30, 2003** (in thousands)

	COMPENSATION	SUPPLIES AND SERVICES	SCHOLARSHIPS	UTILITIES	DEPRECIATION	OTHER	TOTAL
Instruction	\$205,525	\$ 13,924	\$ 2,036	\$ 1,634	\$ -	\$ 1,255	\$ 224,374
Research	123,103	122,520	12,223	842	-	340	259,028
Public service	14,725	12,821	602	207	-	(57)	28,298
Academic support	61,562	18,431	318	926	-	(610)	80,627
Student services	14,593	5,320	162	169	-	220	20,464
Institutional support	48,537	(266)	7	1,539	-	1,409	51,226
Operation of plant	35,476	(32,392)	9	38,858	-	95	42,046
Student aid	534	3,101	22,185	-	-	266	26,086
Auxiliary	41,076	46,105	77	2,500	-	(453)	89,305
Depreciation	-	-	-	-	63,941	-	63,941
Patient services	277,331	260,658	-	11,515	35,974	22,860	608,338
Other	(261)	(1,237)	119	528	-	-	(851)
<b>TOTAL</b>	<b>\$822,201</b>	<b>\$448,985</b>	<b>\$37,738</b>	<b>\$58,718</b>	<b>\$99,915</b>	<b>\$25,325</b>	<b>\$1,492,882</b>

**OPERATING EXPENSES BY FUNCTIONAL CLASSIFICATION AS OF JUNE 30, 2002** (in thousands)

	COMPENSATION	SUPPLIES AND SERVICES	SCHOLARSHIPS	UTILITIES	DEPRECIATION	OTHER	TOTAL
Instruction	\$212,400	\$ 5,919	\$ 2,380	\$ 1,778	\$ -	\$ 1,564	\$ 224,041
Research	110,750	104,059	8,992	859	-	924	225,584
Public service	13,671	10,285	874	229	-	333	25,392
Academic support	62,628	30,320	548	586	-	(1,236)	92,846
Student services	14,309	4,994	115	248	-	583	20,249
Institutional support	48,195	2,235	24	2,299	-	4,223	56,976
Operation of plant	40,201	(21,159)	7	37,301	-	(46)	56,304
Student aid	420	2,764	20,801	-	-	102	24,087
Auxiliary	41,736	41,586	105	1,534	-	(4,284)	80,677
Depreciation	-	-	-	-	64,266	-	64,266
Patient services	285,617	236,286	-	11,020	34,362	22,521	589,806
Other	2,053	(6,150)	309	350	-	5	(3,433)
<b>TOTAL</b>	<b>\$831,980</b>	<b>\$411,139</b>	<b>\$34,155</b>	<b>\$56,204</b>	<b>\$98,628</b>	<b>\$24,689</b>	<b>\$1,456,795</b>

**NOTE 8: RETIREMENT PLANS**

Employees of the University are employees of the Commonwealth. Substantially all full-time classified salaried employees participate in a defined benefit pension plan administered by the Virginia Retirement System (VRS). Information relating to this plan is available at the statewide level only in the Commonwealth of Virginia's *Comprehensive Annual Financial Report (CAFR)*. The Commonwealth, not the University, has overall responsibility for contributions to this plan.

Substantially all full-time faculty, certain administrative staff, and the majority of Medical Center employees participate in Faculty Optional Retirement Plans. These are defined-contribution plans to which the University contributes an amount established by the statute. Faculty and certain administrative staff are fully vested immediately; Medical Center employees fully vest after one or two years of employment, depending on their date of hire.

Total pension costs under the plans were approximately \$34.4 million and \$33.3 million for the years ended June 30, 2003, and 2002, respectively. Contributions to the Optional Retirement Plans were calculated using base salaries of \$350.0 million and \$337.6 million for the years ended June 30, 2003, and 2002, respectively. The contribution percentage amounted to 9.8 percent and 9.9 percent for the years ended June 30, 2003, and 2002, respectively.

**NOTE 9: POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS**

The Commonwealth of Virginia participates in the VRS-administered statewide group life insurance program, which provides post-employment life insurance benefits to eligible retired and terminated employees. The Commonwealth also provides health care credits against the monthly health insurance premiums of its retirees who have at least fifteen years of state service and participate in the state health plan. Information related to these plans is available at the statewide level in the Commonwealth's *Comprehensive Annual Financial Report (CAFR)*.

University of Virginia faculty receive \$5,000 in retiree life insurance, and Medical Center employees who do not participate in VRS have a variety of retiree life schedules depending on termination date and years of service. Additionally, health care credits are also provided to participants in the U.Va. Health Plan. These participants are allowed to remain in the Plan after retirement until age 65.

**NOTE 10: SELF-INSURANCE**

All University employees have an option to participate in the University's self-funded, comprehensive medical care benefits program. The cost of medical care is paid out of employee and employer contributions and is held in a separate bank account. The market value of investments at June 30, 2003, and 2002 was \$16.0 and \$19.8 million, respectively. The estimated liability for outstanding claims at June 30, 2003, and 2002 was \$9.3 million and \$7.7 million, respectively. The University has contracted with Southern Health Services, Inc., a third-party administrator, to provide administrative services for this healthcare benefits program.

University employees are covered by a self-insured workers' compensation benefits program administered by the Commonwealth of Virginia's Department of Human Resources. Information relating to this plan is available at the statewide level only in the Commonwealth's *Comprehensive Annual Financial Report (CAFR)*.

The risk management insurance plans are administered by the Department of Treasury, Division of Risk Management. Risk management insurance includes property, boiler and machinery, crime, employee faithful performance of duty bond, general (tort) liability, professional liability (includes medical malpractice), aviation and watercraft coverage, and automobile liability. The University is self-insured for the first \$100,000 of each property and boiler and machinery loss, and for the first \$20,000 of each vehicle physical damage loss. The University also maintains excess crime/employee dishonesty and excess vehicle physical damage insurance coverages.

**NOTE 11: FUNDS HELD IN TRUST BY OTHERS**

Assets of funds held by trustees for the benefit of the University are not reflected in the accompanying Statement of Net Assets. The University has irrevocable rights to all or a portion of the income of these funds, but the assets of the funds are not under the management of the University. The market value of the funds held by trustees for the benefit of the University at June 30, 2003, and 2002 was \$110 million and \$113 million, respectively, and income received totaled \$7.0 million and \$6.5 million, respectively.

**NOTE 12: COMMITMENTS**

The University has entered into numerous agreements to lease land, buildings and equipment of which the total expense was approximately \$20.2 million and \$17.6 million for the years ended June 30, 2003, and 2002, respectively.

As of June 30, 2003, the University has outstanding construction contracts commitments of approximately \$112 million. The University's commitments for equipment, leases, and services are as follows (in thousands):

YEAR ENDING JUNE 30	LEASE OBLIGATIONS
2004	\$ 8,127
2005	2,765
2006	2,148
2007	1,682
2008	689
2009-13	1,479
2014-18	1,109
2019-23	823
2024-28	823
2029-33	823
2034-38	823
2039-43	823
2044-48	659
2049-53	83
<b>TOTAL</b>	<b>\$22,856</b>

**Litigation**

The University is a defendant in a number of legal actions. While the final outcome cannot be determined at this time, management is of the opinion that the liability, if any, for these legal actions will not have a material effect on the University's accounting position.

**NOTE 13: SUBSEQUENT EVENTS**

**Community Medicine University of Virginia, L.L.C.**  
The Medical Center contributed an additional \$250,000 to Community Medicine in July 2003, bringing its total contributions to \$1,810,000.

**Commercial Paper General Revenue Pledge Notes**  
In November 2003, the University issued \$100,000,000 Commercial Paper General Revenue Pledge Notes consisting of a tax-exempt series (the Series 2003A Notes) and a taxable series (the Series 2003B Notes). The notes will be issued from time to time to temporarily finance capital projects.

**Pending Governmental Accounting Standards Board Statement:** Statement No. 39 of the Governmental Accounting Standards Board, *Determining Whether Certain Organizations Are Component Units*, was issued May 2002, to be effective for the fiscal year ending June 30, 2004. This Statement provides additional guidance regarding the inclusion of certain organizations as component units. Generally, it requires an organization to be reported as a component unit if the organization raises and holds economic resources for the direct benefit of the University, even if the University is not financially accountable for the organization. As a result, the University will be required under Statement No. 39 to include selected affiliated foundations in the body of its financial statements, rather than the Notes to the Financial Statements. The University is currently in the process of determining foundations to be included as component units.

## UNIVERSITY ADMINISTRATION 2002-2003

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Leonard W. Sandridge, *Executive Vice President and Chief Operating Officer*  
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Richard W. Miksad, *Dean of the School of Engineering and Applied Science*  
Sondra F. Stallard, *Dean of the School of Continuing and Professional Studies*  
Karen Van Lengen, *Dean of the School of Architecture*  
Carl P. Zeithaml, *Dean of the McIntire School of Commerce*  
John A. Blackburn, *Dean of Undergraduate Admission*  
H. E. "Penny" Rue, *Dean of Students*  
M. Rick Turner, *Dean of African-American Affairs*  
Karin Wittenborg, *University Librarian*  
Steven H. Kaplan, *Chancellor, University of Virginia's College at Wise*

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Thomas F. Farrell II, *Richmond, Virginia, Vice Rector*  
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Mark J. Kington, *Alexandria, Virginia*  
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John R. M. Rodney, *Student Member, Charlottesville, Virginia*  
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## FINANCIAL STAFF

Leonard W. Sandridge, *Executive Vice President and Chief Operating Officer*  
Yoke San L. Reynolds, *Vice President for Finance*  
Colette Sheehy, *Vice President for Management and Budget*  
Stephen A. Kimata, *Assistant Vice President for Finance and University Comptroller*  
Alice W. Handy, *University Treasurer*

## INTERNAL AUDIT

Barbara J. Deily, *Director of Audits*

University of Virginia President's Report  
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## ABOUT THE COVER

The paintings of the University on the cover and throughout the report are by Lincoln Perry, a visiting faculty member in the McIntire Department of Art and the artist who painted *The Student's Progress*, the eleven-panel mural completed in 2000 in Old Cabell Hall. The paintings are provided courtesy of Les Yeux du Monde gallery in Charlottesville. For more information, call 434-973-5566, or visit <http://lesyeuxdumonde.com>.

*Untitled, Latitude/Longitude Box*, by Joseph Cornell (page 6) courtesy of © The Joseph and Robert Cornell Memorial Foundation/Licensed by VAGA, New York, New York.

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Consistent with federal and state law, the University does not discriminate in any of its programs, procedures, or practices on the basis of age, color, disability, national or ethnic origin, political affiliation, race, religion, sex (including pregnancy), sexual orientation, or veteran status. The University operates equal opportunity and affirmative action programs for faculty, staff, and students, including discriminatory harassment policies and procedures. The University of Virginia is an Equal Opportunity/Affirmative Action Employer. The University's Section 504 and Americans with Disabilities Act Coordinator is Bradford K. Holland, University Ombudsman (434-924-7819; [ombuds@virginia.edu](mailto:ombuds@virginia.edu)). Mr. Holland also serves as the Interim Title IX Coordinator in the Office of Equal Opportunity Programs (434-924-3200; [bkh9d@virginia.edu](mailto:bkh9d@virginia.edu)). Both offices are in Washington Hall, East Range, P.O. Box 400219, Charlottesville, Virginia 22904.

An online version of this report is available at [www.virginia.edu/president/report03](http://www.virginia.edu/president/report03).

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