

2006-07

financial report



THE UNIVERSITY OF VIRGINIA

42	Readying the University for Its Third Century <i>Report of the Executive Vice President and Chief Operating Officer</i>
44	Management's Discussion and Analysis
54	Management Responsibility Letter
55	Independent Auditor's Opinion
56	University of Virginia Statement of Net Assets
57	University of Virginia Component Units Combined Statements of Financial Position
58	University of Virginia Statement of Revenues, Expenses, and Changes in Net Assets
59	University of Virginia Component Units Combined Statements of Activities
60	University of Virginia Statement of Cash Flows
	Notes to Financial Statements
61	Note 1: Summary of Significant Accounting Policies
64	Note 2: Cash, Cash Equivalents, and Investments
66	Note 3: Statement of Net Assets Details
68	Note 4: Short-Term Debt
	Note 5: Long-Term Obligations
69	Note 6: Affiliated Companies
71	Note 7: Component Units
75	Note 8: Natural Classifications with Functional Classifications
76	Note 9: Appropriations
	Note 10: Retirement Plans
	Note 11: Postemployment Benefits Other Than Pension Benefits
	Note 12: Self-Insurance
77	Note 13: Funds Held in Trust by Others
	Note 14: Commitments

Readying the University for Its Third Century



Leonard W. Sandridge

The University of Virginia is at a pivotal moment in its history. A new relationship with the state, an endowment that is among the top twenty in the United States, a stable financial base reflected by our AAA bond ratings, and a successful ongoing capital campaign give the University an extraordinary opportunity to set its own direction. At the same time, a number of factors—including the high expectations of our students, the continuous impact of information technology on research and education, an unprecedented demand for health care, and the expectations that will arise from the capital campaign—make this the opportune moment to act.

Accordingly, in March 2007 the president created the Commission on the Future of the University. Executive Vice President and Provost Tim Garson and I cochair the commission, which comprises faculty and administrators, students and staff, deans and vice presidents. We are examining our physical and fiscal resources, plans for our schools, the future of the U.Va. Medical Center, our commitment to athletic excellence achieved in the right way, and the rising expectations of our students and faculty. The commission's work will provide a comprehensive view of where we are and where we can make a difference going forward. We will submit a strategy to the Board of Visi-

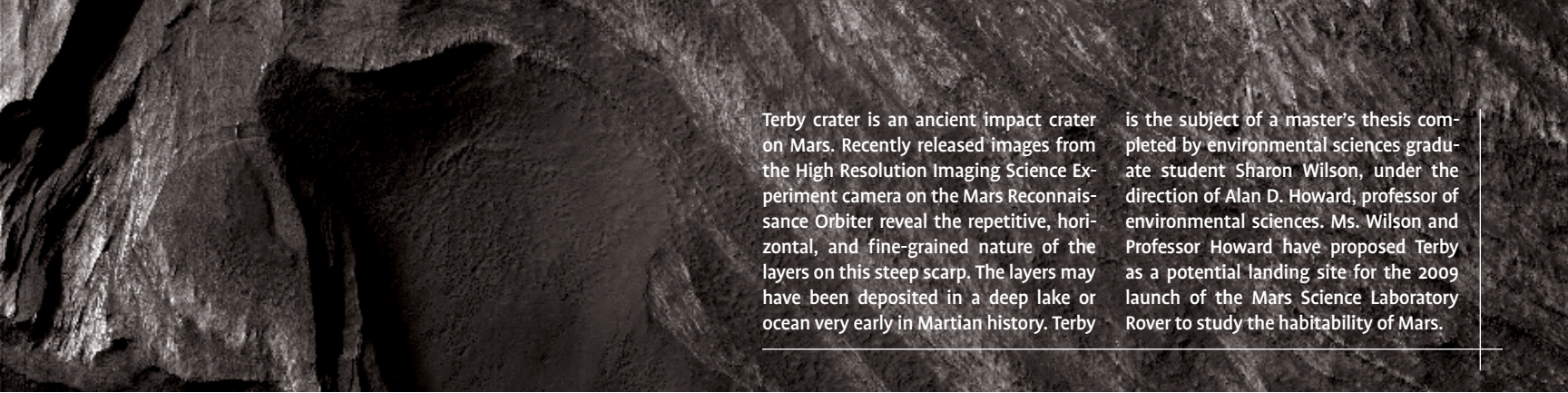
tors early in 2008 and will work with the president and board to evaluate, revise, and finalize the plan.

I expect that the final report will contain many good alternatives. From these alternatives, we must have the discipline to make hard choices and the courage to focus selectively on those proposals that will build on our strengths. By any measure, the Commission on the Future of the University will paint a picture of the future that will challenge all of us.

FUNDING CHANGE

The strength of this institution arises from the diversity of our revenues, including tuition income, state general funds, private gifts, and distributions from our endowment. In the past, private support provided our margin of excellence and was the “icing on the cake.” Today, philanthropic support plays as large a role as—or an even larger role than—state general funds in our budget.

Our confidence in our ability to act decisively to realize ambitious aspirations is underscored by the \$2.1 billion budget that the Board of Visitors approved for 2007–08, the first time ever the University budget has exceeded \$2 billion. It includes \$1.1 billion for the University's academic division, \$930 million for the U.Va. Medical Center, and \$33.3 million for U.Va.'s College at Wise.



Terby crater is an ancient impact crater on Mars. Recently released images from the High Resolution Imaging Science Experiment camera on the Mars Reconnaissance Orbiter reveal the repetitive, horizontal, and fine-grained nature of the layers on this steep scarp. The layers may have been deposited in a deep lake or ocean very early in Martian history. Terby

is the subject of a master's thesis completed by environmental sciences graduate student Sharon Wilson, under the direction of Alan D. Howard, professor of environmental sciences. Ms. Wilson and Professor Howard have proposed Terby as a potential landing site for the 2009 launch of the Mars Science Laboratory Rover to study the habitability of Mars.

In the academic division, private support continues to outpace state funding. State funds will account for \$170.9 million, or 14.9 percent, of the academic division budget, while private-source revenue will amount to \$193.4 million, or 16.8 percent.

Our growing reliance on private funding highlights the importance of the ongoing capital campaign and the performance of our endowment. At the end of June 2007, we had raised \$1.35 billion toward the campaign goal; we ended the year with \$302 million in philanthropic cash flow. The University endowment returned more than 25 percent for the year and has exhibited a ten-year annual return of 14.9 percent. These private funds have strengthened the University in a number of ways. Large gifts—such as the \$100 million from Frank Batten, Sr., to create a school of leadership and public policy—enable us to act boldly.

At the same time, the capital campaign builds major expectations. The campaign thrives on new ideas and opportunities. In many ways, the campaign both stretches us to find the resources to support new initiatives and challenges us to provide for our core activities related to teaching, research, and service. Building a solid foundation for our core needs will help assure that the campaign's expectations are sustainable over time.

LOOKING FORWARD

Even as we await the findings of the Commission on the Future of the University, we will continue to make progress in activities that strengthen the University. In 2007–08, we will begin to replace ISIS, the Integrated Student Information System, a mainframe-based system that dates to 1990. Other initiatives will be the final implementation of AccessUVA, continued reduction in the University's deferred maintenance backlog, additional steps to keep faculty and staff salaries at competi-

tive levels, renewed efforts to enhance the University's research program by strengthening our commitment to the sciences, and an uncompromised obligation to the safety of the University community.

We are also taking the opportunity to increase the capacity of the U.Va. Medical Center, which has become a crucial resource in central and southwest Virginia for critically ill patients. Last year, more than 30,000 people were treated as inpatients, and our physicians conducted almost 18,000 surgeries. To meet the expected demand for our services over the next decade, we will add seventy-two intensive-care-capable beds to our hospital as well as thirty beds in a long-term acute care hospital facility. In 2006, the professional nursing staff in the Medical Center was awarded Magnet Status from the American Nurses Credentialing Center. This prestigious designation helps us recruit and retain nurses, who are in ever-increasing demand. Building on this success, we are focused on how best to support our extraordinary healthcare providers with what they need to provide safe care to those entrusted to us. Our sound financial results in fiscal year 2006–07 allow us to continue our commitment to patient safety and quality of care.

In addition, we are recommitting ourselves as responsible stewards of our resources. It is reasonable for us to expect to lead in this regard. Because of the remarkable historic legacy that Thomas Jefferson built, our stewardship has tended to focus on preservation of physical structures, but we also have a responsibility to preserve the natural environment. This year, the Office of the Architect issued a report that provides the first comprehensive look at U.Va.'s numerous programs in support of environmental sustainability.

The sustainability report highlights an impressive number of faculty, administrators, and staff who are already weaving sus-

tainability into their daily work, providing quiet leadership in the areas of energy, water, recycling, and public transportation. The report also contains a road map for future initiatives designed to secure the University's position as a national leader among colleges and universities. Among other initiatives, the Board of Visitors passed a resolution requiring that all new and renovated buildings at the University meet Leadership in Energy and Environmental Design (LEED) certification under the rating system developed by the U.S. Green Building Council. LEED is the nationally accepted benchmark for the design, construction, and operation of high-performance green buildings.

A COMMUNITY SUSTAINED BY INDIVIDUAL COMMITMENT

Ultimately, the well-being of this institution depends, as it has since Jefferson's time, on the talent, character, and wisdom of the individuals who commit themselves to this remarkable enterprise. The quality of our faculty, professionalism of our administrators, and commitment of our employees ensure that the University will remain a top-ranked institution for learning, research, and health care. Our students and their families engage with us in exciting new ways. The generosity, support, and passion of our alumni and Board of Visitors inspire us to map out a future that we can hardly imagine. In short, we enjoy an unprecedented base of human talent and the best thinking by human minds today. It is our responsibility to use all these resources to maintain the University of Virginia's national and global leadership in higher education.

LEONARD W. SANDRIDGE
*Executive Vice President
and Chief Operating Officer*