

## Management Responsibility

November 3, 2006

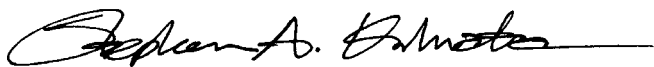
To the President and Board of Visitors of the University of Virginia:

We are pleased to submit the annual Financial Report of the University of Virginia for the year ended June 30, 2006. 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 judgements 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, using 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 and Chief Financial Officer*

## Auditor's Opinion

November 3, 2006

THE HONORABLE TIMOTHY M. KAINÉ  
*Governor of Virginia*

THE HONORABLE THOMAS K. NORMENT, JR.  
*Chairman, Joint Legislative Audit and Review Commission*

BOARD OF VISITORS  
*University of Virginia*

## INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying basic financial statements of the University of Virginia, a component unit of the Commonwealth of Virginia, and its aggregate discretely presented component units as of and for the year ended June 30, 2006, as shown on pages 52 through 75. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the component units of the University of Virginia, which are discussed in Note 1. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the component units of the University, is based on the reports of the other auditors.

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. The financial statements of the component units of the University that were audited by other auditors upon whose reports we are relying were audited in accordance with auditing standards generally accepted in the United States of America, but not in accordance with *Government Auditing Standards*. 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 and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Virginia and of its aggregate discretely presented component units as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 42 through 49 is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2006, on our consideration of the University of Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



WALTER J. KUCHARSKI  
*Auditor of Public Accounts*

**STATEMENT OF NET ASSETS** *(in thousands)**as of June 30, 2006 (with comparative information as of June 30, 2005)*

	<b>2006</b>	<b>2005</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents (Note 2)	\$ 559,578	\$ 510,049
Cash and cash equivalents, securities lending (Note 2)	36,452	39,360
Short-term investments (Note 2)	164,025	236,793
Accounts receivable, net (Note 3a)	138,882	157,283
Prepaid expenses	11,577	9,039
Inventories	18,392	18,532
Notes receivable, net (Note 3b)	7,783	7,560
<b>Total current assets</b>	<b>936,689</b>	<b>978,616</b>
<b>Noncurrent assets</b>		
Restricted cash and cash equivalents (Note 2)	9,284	9,836
Endowment investments (Note 2)	2,497,309	2,209,164
Other long-term investments (Note 2)	276,553	178,168
Deposit with bond trustee	43,386	17,322
Notes receivable, net (Note 3b)	19,625	19,439
Pledges receivable, net (Note 3c)	20,247	37,491
Capital assets—depreciable, net (Note 3d)	1,271,828	1,191,848
Capital assets—nondepreciable (Note 3d)	370,467	308,779
Goodwill (Note 3e)	14,186	14,658
Other	581	614
<b>Total noncurrent assets</b>	<b>4,523,466</b>	<b>3,987,319</b>
<b>TOTAL ASSETS</b>	<b>\$ 5,460,155</b>	<b>\$ 4,965,935</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (Note 3f)	\$ 190,502	\$ 198,401
Deferred revenue (Note 3g)	59,826	58,714
Obligations under securities lending (Note 2)	72,525	47,723
Deposits held in custody for others	19,573	23,673
Commercial paper (Note 4)	26,000	—
Long-term debt - current portion (Note 5a)	16,784	16,391
Long-term liabilities - current portion (Note 5b)	51,908	50,411
Advance from Treasurer of Virginia	261	261
<b>Total current liabilities</b>	<b>437,379</b>	<b>395,574</b>
<b>Noncurrent liabilities (Notes 4 and 5)</b>		
Commercial paper	—	84,963
Long-term debt	522,119	398,731
Long-term liabilities	38,660	36,167
<b>Total noncurrent liabilities</b>	<b>560,779</b>	<b>519,861</b>
<b>TOTAL LIABILITIES</b>	<b>\$ 998,158</b>	<b>\$ 915,435</b>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	\$ 1,116,746	\$ 1,012,969
Restricted		
Nonexpendable	350,474	333,544
Expendable	1,715,249	1,555,598
Unrestricted	1,279,528	1,148,389
<b>TOTAL NET ASSETS</b>	<b>\$ 4,461,997</b>	<b>\$ 4,050,500</b>

*Certain 2005 amounts have been restated to conform to 2006 classifications.*

*The accompanying Notes to Financial Statements are an integral part of this statement.*

<i>University of Virginia</i> <b>COMPONENT UNITS</b> <b>COMBINED STATEMENTS OF FINANCIAL POSITION</b> <i>(in thousands)</i> <i>as of June 30, 2006 (with comparative information as of June 30, 2005)</i>	<b>2006</b>	<b>2005</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 218,195	\$ 276,710
Receivables	63,994	71,064
Other current assets	33,319	16,322
<b>Total current assets</b>	<b>315,508</b>	<b>364,096</b>
<b>Noncurrent assets</b>		
Pledges receivable, net of current portion of \$12,959	65,193	48,689
Long-term investments	3,898,503	3,323,566
Capital assets, net of depreciation	291,919	258,634
Other noncurrent assets	49,780	32,858
<b>Total noncurrent assets</b>	<b>4,305,395</b>	<b>3,663,747</b>
<b>TOTAL ASSETS</b>	<b>\$ 4,620,903</b>	<b>\$ 4,027,843</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current liabilities</b>		
Assets held in trust for others	\$ 3,230,308	\$ 2,796,587
Other liabilities	111,767	102,061
<b>Total current liabilities</b>	<b>3,342,075</b>	<b>2,898,648</b>
<b>Noncurrent liabilities</b>		
Long-term debt, net of current portion of \$2,778	158,567	161,520
Other noncurrent liabilities	107,228	75,213
<b>Total noncurrent liabilities</b>	<b>265,795</b>	<b>236,733</b>
<b>TOTAL LIABILITIES</b>	<b>\$ 3,607,870</b>	<b>\$ 3,135,381</b>
<b>NET ASSETS</b>		
Unrestricted	\$ 283,574	\$ 255,645
Temporarily restricted	391,927	327,036
Permanently restricted	337,532	309,781
<b>TOTAL NET ASSETS</b>	<b>\$ 1,013,033</b>	<b>\$ 892,462</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 4,620,903</b>	<b>\$ 4,027,843</b>

*Certain 2005 amounts have been restated to conform to 2006 classifications.*

*The accompanying Notes to Financial Statements are an integral part of this statement.*

**STATEMENT OF REVENUES, EXPENSES,  
AND CHANGES IN NET ASSETS** *(in thousands)**for the year ended June 30, 2006 (with comparative information for the year ended June 30, 2005)*

	<b>2006</b>	<b>2005</b>
<b>REVENUES</b>		
<b>Operating revenues</b>		
Student tuition and fees (net of scholarship allowances of \$55,324 and \$48,271)	\$ 263,727	\$ 246,062
Patient services (net of indigent care and contractual adjustments of \$849,870 and \$651,130)	819,492	780,197
Federal grants and contracts	261,833	242,032
State and local grants and contracts	3,738	4,633
Nongovernmental grants and contracts	40,972	39,591
Sales and services of educational departments	18,925	16,469
Auxiliary enterprises revenue (net of scholarship allowances of \$7,432 and \$6,506)	101,093	93,983
Other operating revenues	37,414	30,192
<b>TOTAL OPERATING REVENUES</b>	<b>1,547,194</b>	<b>1,453,159</b>
<b>EXPENSES</b>		
<b>Operating expenses (Note 8)</b>		
Compensation and benefits	1,015,113	964,721
Supplies and other services	508,151	467,616
Student aid	46,474	40,944
Utilities	91,363	82,322
Depreciation	111,654	104,454
Other operating expenses	35,103	29,622
<b>TOTAL OPERATING EXPENSES</b>	<b>1,807,858</b>	<b>1,689,679</b>
<b>OPERATING LOSS</b>	<b>(260,664)</b>	<b>(236,520)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations (Note 9)	158,192	143,605
Gifts	111,974	96,547
Investment income	367,761	329,973
Interest on capital asset-related debt	(15,196)	(14,660)
Loss on disposal of capital assets	(4,815)	(2,196)
Other nonoperating expenses	(9,636)	(12,484)
<b>NET NONOPERATING REVENUES</b>	<b>608,280</b>	<b>540,785</b>
<b>INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES</b>	<b>347,616</b>	<b>304,265</b>
Capital appropriations	38,018	13,580
Capital grants and gifts	8,930	15,525
Additions to permanent endowments	16,933	11,452
<b>TOTAL OTHER REVENUES</b>	<b>63,881</b>	<b>40,557</b>
<b>INCREASE IN NET ASSETS</b>	<b>411,497</b>	<b>344,822</b>
<b>NET ASSETS</b>		
Net assets, beginning of year	4,050,500	3,705,678
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 4,461,997</b>	<b>\$ 4,050,500</b>

*Certain 2005 amounts have been restated to conform to 2006 classifications.*

*The accompanying Notes to Financial Statements are an integral part of this statement.*

<i>University of Virginia</i> <b>COMPONENT UNITS</b> <b>COMBINED STATEMENTS OF ACTIVITIES</b> <i>(in thousands)</i> <i>for the year ended June 30, 2006 (with comparative information for the year ended June 30, 2005)</i>	<b>2006</b>	<b>2005</b>
<b>UNRESTRICTED REVENUES AND SUPPORT</b>		
Contributions	\$ 26,060	\$ 20,354
Fees for services, rentals, and sales	245,659	235,746
Investment income	34,224	26,003
Net assets released from restriction	78,791	70,445
Other revenues	55,094	45,142
<b>TOTAL UNRESTRICTED REVENUES AND SUPPORT</b>	<b>439,828</b>	<b>397,690</b>
<b>EXPENSES</b>		
Program services, lectures and special events	250,024	237,497
Scholarships and financial aid	15,355	26,710
Management and general	66,337	30,434
Other expenses	81,875	74,918
<b>TOTAL EXPENSES</b>	<b>413,591</b>	<b>369,559</b>
<b>EXCESS OF UNRESTRICTED REVENUES AND SUPPORT OVER EXPENSES</b>	<b>26,237</b>	<b>28,131</b>
<b>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS</b>		
Contributions	67,121	72,985
Investment and other income	79,163	53,246
Reclassification per donor stipulation	(686)	(528)
Net assets released from restriction	(78,791)	(70,445)
<b>NET CHANGE IN TEMPORARILY RESTRICTED NET ASSETS</b>	<b>66,807</b>	<b>55,258</b>
<b>CHANGES IN PERMANENTLY RESTRICTED NET ASSETS</b>		
Contributions	24,891	13,708
Investment and other income	2,174	646
Reclassification per donor stipulation	686	528
<b>NET CHANGE IN PERMANENTLY RESTRICTED NET ASSETS</b>	<b>27,751</b>	<b>14,882</b>
<b>CHANGE IN NET ASSETS</b>	<b>120,795</b>	<b>98,271</b>
Net assets, beginning of year	892,462	794,191
Prior period adjustment	(224)	—
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 1,013,033</b>	<b>\$ 892,462</b>

*Certain 2005 amounts have been restated to conform to 2006 classifications.*

*The accompanying Notes to Financial Statements are an integral part of this statement.*

**STATEMENT OF CASH FLOWS** (in thousands)

for the year ended June 30, 2006 (with comparative information for the year ended June 30, 2005)

	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Tuition and fees	\$ 265,427	\$ 246,698
Grants and contracts	311,754	286,964
Patient services	827,606	772,361
Sales and services of educational activities	14,001	18,508
Sales and services of auxiliary enterprises	101,231	94,462
Payments to employees and fringe benefits	(1,052,796)	(957,866)
Payments to vendors and suppliers	(587,617)	(537,890)
Payments for scholarships and fellowships	(46,452)	(40,945)
Perkins and other loans issued to students	(8,893)	(9,859)
Collection of Perkins and other loans to students	9,130	7,771
Other receipts	7,698	23,904
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b>(158,911)</b>	<b>(95,892)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State appropriations	153,858	143,605
Additions to true endowments	16,933	11,452
Direct lending receipts, including PLUS loans	-	189
Direct lending payments, including PLUS loans	-	(189)
Federal Family Education Loan Program receipts	80,463	68,211
Federal Family Education Loan Program payments	(80,463)	(68,211)
Receipts on behalf of agencies	85,520	77,696
Payments on behalf of agencies	(82,913)	(73,350)
Noncapital gifts and grants and endowments received	119,150	77,139
Other net nonoperating expenses	(10,455)	(16,074)
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<b>282,093</b>	<b>220,468</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital appropriations	45,778	30,323
Capital gifts and grants received	22,242	14,299
Proceeds from capital debt	222,394	169,940
Proceeds from sale of capital assets	409	564
Acquisition and construction of capital assets	(243,163)	(239,437)
Principal paid on capital debt and leases	(170,499)	(332,301)
Interest paid on capital debt and leases	(22,167)	(16,837)
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(145,006)</b>	<b>(373,449)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments	441,379	4,450,814
Interest on investments	45,200	40,616
Purchase of investments and related fees	(433,593)	(3,987,957)
Other investment activities	17,815	(9,960)
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>70,801</b>	<b>493,513</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>48,977</b>	<b>244,640</b>
Cash and cash equivalents, July 1	519,885	275,245
<b>CASH AND CASH EQUIVALENTS, JUNE 30</b>	<b>\$ 568,862</b>	<b>\$ 519,885</b>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating loss	\$ (260,664)	\$ (236,520)
<b>ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Depreciation expense	111,654	104,454
Provision for uncollectible loans and writeoffs	148	(1,063)
<b>CHANGES IN ASSETS AND LIABILITIES</b>		
Receivables, net	27,573	21,712
Inventories	140	(3,831)
Other assets	(1,082)	(233)
Prepaid expenses	(2,353)	2,460
Notes receivable, net	237	(2,089)
Accounts payable and accrued liabilities	(37,073)	21,331
Deferred revenue	1,198	(2,340)
Accrued vacation leave—long term	1,311	227
<b>TOTAL ADJUSTMENTS</b>	<b>101,753</b>	<b>140,628</b>
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b>\$ (158,911)</b>	<b>\$ (95,892)</b>
<b>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES—ACADEMIC ONLY</b>		
Assets acquired through assumption of a liability	\$ 225,625	\$ 171,932
Assets acquired through a gift	7,747	19,143
Change in fair value of investments	149,351	222,462
Increase in receivables related to nonoperating revenues	36,766	18,038
Loss on disposal of capital asset	4,815	2,196

Certain 2005 amounts have been restated to conform to 2006 classifications.

The accompanying Notes to Financial Statements are an integral part of this statement.

## NOTE 1: 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 the 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

There are currently twenty-four related foundations operating in support of the interests of the University. These related foundations are not-for-profit corporations controlled by separate boards of directors. The University determined that the following seven foundations qualify as component units because they hold significant resources for the benefit of the University. As such, they are included in the financial statements presented as of June 30, 2006:

- University of Virginia Law School Foundation
- University of Virginia Darden School Foundation
- Alumni Association of the University of Virginia
- Virginia Athletics Foundation
- University of Virginia Foundation
- University of Virginia Health Services Foundation
- University of Virginia Investment Management Company

The foundations' financial information is included in the accompanying financial statements. Condensed financial statements for each component unit are disclosed in Note 7. Information on the organization and nature of activities for each foundation is presented below.

The **University of Virginia Law School Foundation** was established as a tax-exempt organization to foster the study and teaching of law at the University of Virginia and to receive and administer funds for that purpose. The Foundation is affiliated with the University of Virginia and expends funds to support professorships, faculty benefits, financial aid, student activities, and other academic programs within the University's Law School. For additional information, contact the Treasurer's Office at Slaughter Hall, 580 Massie Road, Charlottesville, Virginia 22903.

The **University of Virginia Darden School Foundation** was established as a nonstock corporation created under the laws of the Commonwealth of Virginia. Its primary purposes are to promote the advancement and further the aims and purposes of the Colgate Darden Graduate School of Business Administration of the University of Virginia and to provide education for business executives. For additional information, contact the Finance and Administration Office at P.O. Box 7263, Charlottesville, Virginia 22906.

The **Alumni Association of the University of Virginia** was established as a legally separate, tax-exempt organization to provide services to all alumni of the University of Virginia, thereby assisting the University of Virginia and all its students, faculty, and administration in attaining the University's highest priority of achieving eminence as a center of higher learning. The consolidated financial information of the Alumni Association of the University of Virginia includes the operating activities and financial position of the Alumni Association and the Jefferson Scholars Foundation. The Jefferson Scholars Foundation is an awards program affiliated with the Alumni Association and was organized as a separate legal entity in 2001. For additional information, contact the Finance and Administration Office at P.O. Box 3446, Charlottesville, Virginia 22903.

The **Virginia Student Aid Foundation, Inc., T/A Virginia Athletics Foundation**, was established as a tax-exempt organization to support intercollegiate athletic programs at the University of Virginia by providing student-athletes the opportunity to achieve academic and athletic excellence. The Foundation provides the funding for student-athlete scholarships at the University, funding for student-athlete academic advising programs at the University, operational support for various sports at the University, informational services to its members and the general public, and ancillary support to the athletic programs at the University. The Foundation has adopted December 31 as its year end. All amounts reflected are as of December 31, 2005. For additional information, contact the Gift Accounting Office at P.O. Box 400833, Charlottesville, Virginia 22904.

The **University of Virginia Foundation**, including the University of Virginia Real Estate Foundation, was established as a nonstock corporation under applicable Virginia statutes to provide administrative services to the University of Virginia and supporting organizations, engage in any and all matters pertaining to real property for the benefit of the University, and use and administer gifts, grants and bequests, and devises for the benefit of the University. For additional information, contact the Financial Services Office at P.O. Box 400218, Charlottesville, Virginia 22904.

The **University of Virginia Health Services Foundation** was established as a nonprofit group practice health care provider organization designed to assist medical education through teaching and research within the academic environment of the Health System of the University of Virginia, and to coordinate and develop superior patient care in the Health System. The Foundation entered into an affiliation agreement with the University of Virginia for the Foundation through its member clinical departments to provide patient care at the Health System. The Foundation will provide patient care services to Health System patients, and in conjunction with the care of patients, will provide teaching services. The University will provide space and certain administrative services to the Foundation. The Foundation will reimburse the University for the salaries and fringe benefits of classified and hourly employees of the clinical departments paid by the University, and not funded by the Commonwealth of



Virginia or by gifts, grants, and contracts. For additional information, contact the Finance Office at 500 Ray C. Hunt Drive, Charlottesville, Virginia 22903.

The **University of Virginia Investment Management Company** was established to provide investment management services to the University of Virginia, independent foundations, and other entities affiliated with the University and operating in support of its mission. For additional information, contact the Administrative Office at P.O. Box 400215, Charlottesville, Virginia 22904.

## 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). In addition, the University adheres to Financial Accounting Standards Board (FASB) pronouncements issued prior to November 30, 1989, that do not contradict or conflict with GASB standards. It is the University's policy not to follow FASB standards after that date. The component units continue to follow FASB pronouncements, and their financial statements are presented in accordance with those standards.

In accordance with GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, 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. 34 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:** Those net assets, either expendable or nonexpendable, 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. Nonexpendable net assets, consisting of endowments, must be maintained in perpetuity.

**Unrestricted:** 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.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the University's policy is to evaluate these expenditures and apply resources on a case by case basis.

## 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. Nonexchange 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 protected and preserved, 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 in private bank accounts, petty cash, and undeposited receipts, this classification includes cash on deposit with fiscal agents and investments with original maturities of ninety days or less.

## 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. All real estate investments are capital assets, and thus recorded at cost. Certain less marketable investments, such as 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.

## ENDOWMENT

The University's endowment is managed by the University of Virginia Investment Management Company (UVIMCO). The majority of the endowment is invested in the UVIMCO Long-Term Pool. It is pooled using a market value basis, with each fund subscribing to or disposing of units (permanent shares) on the basis of the market value per unit at the beginning of the month within which the transaction takes place.

## PLEDGES RECEIVABLE

The University receives pledges and bequests of financial support from corporations, foundations, and individuals. Revenue is recognized when a pledge representing an unconditional promise to pay is received and all eligibility requirements, including time requirements, have been met. In the absence of such a promise, revenue is recognized when the gift is received. Endowment pledges do not meet eligibility requirements, as

defined by GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, and are not recorded as assets until the related gift is received.

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the estimated future cash flows. An allowance of \$3,143,200 for uncollectible pledges receivable is provided based on management's judgment of potential uncollectible amounts. The determination includes such factors as prior collection history and type of gift.

## **CAPITAL ASSETS AND DEPRECIATION**

Capital assets are stated at cost at the date of acquisition, or fair market value at date of donation in the case of gifts. The University capitalizes construction costs that have a value or cost in excess of \$250,000 at the date of acquisition. Renovations in excess of \$250,000 are capitalized if they significantly extend the useful life of the existing asset. The Academic Division capitalizes moveable equipment at a value or cost of \$5,000 and an expected useful life of one or more years.

The Medical Center Division capitalizes moveable equipment at a value or cost of \$2,000 and an expected useful life of two or more years. 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, improvements other than buildings, and infrastructure is provided on a straight-line basis over the 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 one to twenty years.

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

Expenditures related to construction are capitalized as they are incurred. Projects that have not been completed as of the date of the Statement of Net Assets are classified as Construction in Progress. Construction period interest cost in excess of earnings associated with the debt proceeds is capitalized as a component of the fixed asset.

Capital 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, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*, 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.

Beginning July 1, 2005, the University follows guidance presented in GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This statement requires colleges and universities to report the effects of capital asset impairment in their financial statements.

## **DEFERRED REVENUE**

Deferred revenue represents revenues collected but not earned as of June 30. This consists primarily 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 capital project interest expense of \$9,228,700 and earned capital project interest income of \$2,369,523 for the fiscal year ended June 30, 2006, resulting in net interest capitalized of \$6,859,177.

## **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, 2006, all unused vacation 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 nonexchange transactions earned and in which all eligibility requirements (resource provider conditions) have been satisfied, if measurable and probable of collection.

Student tuition and students' 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 other third-party payors. 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 financial statements. Because 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.

## REVENUE AND EXPENSE CLASSIFICATIONS

Operating revenues include activities having the characteristics of exchange transactions, meaning revenues are received in exchange for goods and services. Operating revenues include student tuition and fees, net of scholarship discounts and allowances; sales and services of auxiliary enterprises, net of scholarship allowances; and federal, state, local and nongovernmental grants and contracts.

Nonoperating revenues include activities having the characteristics of nonexchange transactions, meaning revenues are received for which goods and services are not provided. Nonoperating revenues include revenues from gifts; state appropriations; investment and interest income; and other revenue sources defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34.

With the exception of interest expense and losses on the disposal of capital assets, all expense transactions are classified as operating expenses.

## 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 recommended 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 amounts applied to student accounts and 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.

## RESTATEMENTS AND RECLASSIFICATIONS

Certain amounts from the prior fiscal year have been restated and reclassified to conform to current-year presentation. Additionally, the following restatements have been made to the ending balance of fiscal year 2005 (in thousands):

Net Assets reported at June 30, 2005	\$ 4,052,788
Capital appropriation	(11,648)
Equipment Trust Fund revenue	9,360
<b>BEGINNING NET ASSETS AT JULY 1, 2005, AS ADJUSTED</b>	<b>\$ 4,050,500</b>

## NOTE 2: CASH, CASH EQUIVALENTS, AND INVESTMENTS

The Governmental Accounting Standards Board (GASB) issued GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, an amendment to GASB Statement No. 3, which requires disclosures related to investment risk. Required investment risk disclosures address credit risk, including custodial credit risk and concentrations of credit risk, interest rate risk and foreign currency risk. The Statement also requires disclosures of custodial credit risk and foreign currency risk for depository accounts.

The University of Virginia Investment Management Company (UVIMCO) administers and manages the majority of the University's investments in two investment pools. The Long-Term Pool includes endowment assets. Operating funds invested for short periods of time are managed in an Aggregate Cash Pool.

UVIMCO is governed by a board of eleven directors, three of whom are appointed by the Board of Visitors of the University of Virginia, and one who is appointed by the University president.

The University monitors and receives periodic reports on the investment policy executed by UVIMCO. It is the policy of the University to comply with the Investment of Public Funds Act, Code of Virginia Section 2.2 4500-4517.

**Custodial Credit Risk:** The University had no investments exposed to custodial credit risk for 2006.

**Interest Rate Risk:** Disclosure of the maturities of investments is required when the fair market value is adversely affected by changes in interest rates. Investments subject to interest rate risk are outlined in the accompanying chart.

**Credit Risk:** Disclosure of the credit quality rating is required for investments exposed to the risk an issuer or other counterparty will not fulfill its obligations. State law limits the nonendowed investments in short-term commercial paper and certificate of deposit to the top rating issued by nationally recognized statistical rating organizations (NRSROs) and requires the investment be rated by at least two NRSROs. For longer term certificates of deposit and corporate notes, the rating must be one of the top two ratings issued by two NRSROs. Investments in asset backed securities and debt obligations of sovereign governments require the top rating from two of the NRSROs.

For endowment investments, the University's policy is to maximize long-term real return commensurate with the risk tolerance of the University. To achieve this objective, the University participates in the UVIMCO-managed Long-Term Pool, which attempts to achieve returns that consistently exceed the returns on a passively managed benchmark with similar asset allocation and risk.

**Concentration of Credit Risk:** Disclosure of any one issuer is required when it represents 5 percent or more of total investments. The University does not have such concentration of credit risk for 2006.

**Foreign Currency Risk:** Disclosure is required for investments exposed to changes in exchange rates that will adversely affect the fair value of an investment or a deposit. The University has no foreign investments or deposits for 2006.

## DEPOSITS

Deposits include bank account balances and are governed by the Virginia Security of Public Deposits Act. The Act includes a cross guarantee among approved financial institutions eligible to hold public funds. In the event of a default of one of the approved financial institutions, an assessment is levied against all participating institutions to cover the uncollateralized public deposits. This cross guarantee eliminates custodial credit risk. Amounts on deposit covered by the Virginia Security of Public Deposits Act totaled \$4 million at June 30, 2006. Such deposits are not subject to foreign currency risk. Interest rate risk disclosure for cash equivalents is outlined in the accompanying chart.

## INVESTMENTS

The UVIMCO Long Term Pool invests in a variety of asset classes, including common stocks, fixed income, foreign investments, derivatives, private equity, and hedge funds. These assets are subject to a variety of risks. Common stocks are subject to risk that the value may fall (basis risk), while fixed income investments are subject to interest rate and credit risk. Foreign investments are subject to currency exchange rates, political and economic developments, limited legal recourse, and markets. Derivatives such as futures, options, warrants, and swap contracts involve risks that may result in losses. The prices of derivatives may move in unexpected ways due to the use of leverage or other factors, especially in unusual market conditions, and may result in increased volatility. Hedge funds are subject to the risks contained in the underlying investments and can limit liquidity.

At June 30, 2006, the University's investment in the UVIMCO Long-Term Pool is \$2.7 billion representing 80 percent of invested assets. Investments in the UVIMCO Aggregate Cash Pool represent 7 percent of invested assets. These pools are not rated by nationally recognized statistical rating organizations.

## SECURITIES LENDING TRANSACTIONS

Investments and cash equivalents held by the Treasurer of Virginia represent 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.

Details of the University's investment risks are:

CREDIT QUALITY AND INTEREST RATE RISK <i>(in thousands)</i>	FAIR VALUE	CREDIT RATING	INVESTMENT MATURITIES (IN YEARS)			
			LESS THAN 1 YEAR	1 - 5 YEARS	6 - 10 YEARS	GREATER THAN 10 YEARS
<b>CASH EQUIVALENTS</b>						
Assets held under state security lending program	\$ 36,452					
Short-term investment pool	22,421	Aaa				
Money market funds	861					
University of Virginia Investment Management Company Aggregate Cash Pool	196,421	Non rated				
State Non Arbitrage Program	21,391	AAAm				
Federal Home Loan Bank Demand Note	19,928	P-1				
Local Government Investment Pool	2,765	AAAm				
Time deposits	212					
<b>TOTAL CASH EQUIVALENTS</b>	<b>\$ 300,451</b>					
<b>INVESTMENTS SUBJECT TO INTEREST RATE RISK</b>						
Endowment investments:						
Debt Securities						
Demand notes due from related foundation, noninterest bearing	\$ 9,902	Unrated	\$ 9,902			
Note Receivable, 9%	244	Unrated				\$ 244
U. S. Treasury Bonds	157					157
Other Investments						
Federal Home Loan Bank	48,524	Aaa	38,615	\$ 9,909		
Federal Home Loan Mortgage Corporation	104,399	Aaa	59,473	44,926		
Federal National Mortgage Association	49,359	Aaa	29,653	19,706		
<b>TOTAL INVESTMENTS SUBJECT TO INTEREST RATE RISK</b>	<b>\$ 212,585</b>		<b>\$ 137,643</b>	<b>\$ 74,541</b>	<b>\$ —</b>	<b>\$ 401</b>
	<b>100.0%</b>		<b>64.7%</b>	<b>35.1%</b>	<b>0.0%</b>	<b>0.2%</b>

### NOTE 3: STATEMENT OF NET ASSETS DETAILS

a. **Accounts receivable** at June 30, 2006, are summarized in the chart below.

ACCOUNTS RECEIVABLE <i>(in thousands)</i>	
Patient care	\$ 225,185
Grants and contracts	16,162
Equipment Trust Fund reimbursement	9,360
Pledges	9,504
Related foundation	5,125
Capital appropriations	4,334
Other	17,009
Less: Allowance for doubtful accounts	(147,797)
<b>TOTAL</b>	<b>\$ 138,882</b>

**b. Notes receivable** of \$27 million are reported net of the allowance for uncollectible student loans, which amounted to \$2 million at June 30, 2006.

**c. Pledges:** The balance was reduced by \$9 million as a result of a pledge revocation recorded during the fiscal year. The composition of pledges receivable at June 30, 2006, is summarized in the chart below.

<b>PLEDGES</b> <i>(in thousands)</i>	
<b>GIFT PLEDGES OUTSTANDING</b>	
Operations	\$ 17,069
Capital	16,781
<b>TOTAL GIFT PLEDGES OUTSTANDING</b>	<b>33,850</b>
<b>Less</b>	
Allowance for uncollectible pledges	(3,143)
Unamortized discount to present value	(1,906)
<b>Total pledges receivable, net</b>	<b>28,801</b>
Less current portion, net of allowance	(8,554)
<b>TOTAL NONCURRENT PLEDGES RECEIVABLE</b>	<b>\$ 20,247</b>

**d. Capital assets** activity for the year ended June 30, 2006, is summarized in the chart below.

<b>INVESTMENT IN PLANT— CAPITAL ASSETS</b> <i>(in thousands)</i>	<b>BEGINNING BALANCE JULY 1, 2005</b>	<b>ADDITIONS</b>	<b>DISPOSITIONS</b>	<b>ENDING BALANCE JUNE 30, 2006</b>
<b>NONDEPRECIABLE CAPITAL ASSETS</b>				
Land	\$ 40,025	\$ 1,215	\$ 13,286	\$ 27,954
Construction in progress	268,754	194,577	120,818	342,513
<b>TOTAL NONDEPRECIABLE CAPITAL ASSETS</b>	<b>308,779</b>	<b>195,792</b>	<b>134,104</b>	<b>370,467</b>
<b>DEPRECIABLE CAPITAL ASSETS</b>				
Buildings	1,331,870	124,039	6,282	1,449,627
Equipment	511,629	54,003	44,711	520,921
Infrastructure	171,614	15,592	—	187,206
Improvements other than buildings	143,823	851	—	144,674
Capitalized software	32,949	—	—	32,949
Library books	92,644	4,970	548	97,066
<b>Total depreciable capital assets</b>	<b>2,284,529</b>	<b>199,455</b>	<b>51,541</b>	<b>2,432,443</b>
Less accumulated depreciation for				
Buildings	(539,209)	(44,235)	(2,349)	(581,095)
Equipment	(319,544)	(47,537)	(40,514)	(326,567)
Infrastructure	(92,663)	(5,511)	—	(98,174)
Improvements other than buildings	(57,026)	(6,424)	—	(63,450)
Capitalized software	(12,580)	(3,933)	—	(16,513)
Library books	(71,659)	(3,663)	(506)	(74,816)
<b>Total accumulated depreciation</b>	<b>(1,092,681)</b>	<b>(111,303)</b>	<b>(43,369)</b>	<b>(1,160,615)</b>
<b>TOTAL DEPRECIABLE CAPITAL ASSETS, NET</b>	<b>1,191,848</b>	<b>88,152</b>	<b>8,172</b>	<b>1,271,828</b>
<b>TOTAL</b>	<b>\$ 1,500,627</b>	<b>\$ 283,944</b>	<b>\$ 142,276</b>	<b>\$ 1,642,295</b>

**e. Goodwill:** In May 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 noncompetition agreement and is being amortized over its ten-year life.

In July 1994, the Medical Center and the University of Virginia Health Services Foundation (HSF) entered into a Memorandum of Agreement for the purpose of the 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. In December 2000, the Medical Center acquired from HSF its interest in the hyperbaric oxygen unit. Of the acquisition price, \$1,166,615 was recorded as goodwill for the purchase of the assets and is being amortized over five years. The amortization ended in November 2005.

In July 2004, the Medical Center purchased Virginia Ambulatory Surgery Center (VASI), now known as Virginia Outpatient Surgery Center. As a result of the purchase, the Medical Center recorded \$6,980,198 of goodwill to be amortized over a period of forty years.

In November 2004, the Medical Center purchased Lynchburg and Amherst renal facilities. As a result of the purchase, the Medical Center recorded goodwill of \$3,476,068 and \$4,017,321, respectively, for the Amherst and Lynchburg facilities. The goodwill is to be amortized over a period of forty years.

f. **Accounts payable** at June 30, 2006, are summarized in the chart below.

<b>ACCOUNTS PAYABLE</b> <i>(in thousands)</i>	
Accounts payable	\$ 118,284
Accrued salaries and wages payable	35,536
Other payables	36,682
<b>TOTAL</b>	<b>\$ 190,502</b>

g. **Deferred revenue** at June 30, 2006, includes the following:

<b>DEFERRED REVENUE</b> <i>(in thousands)</i>	
Grants and contracts	\$ 37,174
Student payments	13,298
Other deferred revenue	9,354
<b>TOTAL</b>	<b>\$ 59,826</b>

## NOTE 4: SHORT-TERM DEBT

Short-term debt at June 30, 2006, is summarized in the chart below.

<b>SHORT-TERM DEBT</b> <i>(in thousands)</i>	<b>BEGINNING BALANCE</b> <b>JULY 1, 2005</b>	<b>ADDITIONS</b>	<b>REDUCTIONS</b>	<b>ENDING BALANCE</b> <b>JUNE 30, 2006</b>
<b>COMMERCIAL PAPER</b>				
Taxable	\$ 11,100	\$ —	\$ 11,100	\$ —
Tax-exempt	73,863	26,000	73,863	26,000
<b>TOTAL COMMERCIAL PAPER</b>	<b>\$ 84,963</b>	<b>\$ 26,000</b>	<b>\$ 84,963</b>	<b>\$ 26,000</b>

The University has both taxable and tax-exempt commercial paper programs that provided bridge financing for up to \$175,000,000 of capital projects. At June 30, 2006 the average days to maturity was 52 and the weighted average effective interest rate was 2.41 percent.

In July 2005 the University issued General Revenue Pledge Bonds Series 2005, a portion of which was used to refund the June 30, 2005, outstanding commercial paper balance of \$84,963,000. To reflect this activity the balance was shown as long-term debt at June 30, 2005.

## NOTE 5: LONG-TERM OBLIGATIONS

a. Long-term debt at June 30, 2006, is summarized in the chart below.

<b>LONG-TERM DEBT</b> <i>(in thousands)</i>	<b>INTEREST RATES</b>	<b>FINAL MATURITY</b>	<b>BEGINNING BALANCE JULY 1, 2005</b>	<b>ADDITIONS</b>	<b>REDUCTIONS</b>	<b>ENDING BALANCE JUNE 30, 2006</b>
<b>BONDS AND NOTES PAYABLE</b>						
Revenue bonds						
Medical Center Series 1998B (9d)	3.5% to 5.0%	2018	\$ 4,990	\$ –	\$ 290	\$ 4,700
Medical Center Series 1999A (9d)	4.5% to 5.3%	2013	32,595	–	4,435	28,160
University of Virginia Series 1995A (9d)	variable	2020	2,760	–	730	2,030
University of Virginia Series 1998A (9d)	4.0% to 5.1%	2024	61,775	–	61,775	–
University of Virginia Series 2003A (9d)	variable	2034	82,010	–	–	82,010
University of Virginia Series 2003B (9d)	4.0% to 5.0%	2033	116,660	–	1,425	115,235
University of Virginia Series 2005 (9d)	4.0% to 5.0%	2037	–	193,355	2,770	190,585
Commonwealth of Virginia bonds (9c)	3.8% to 9.3%	2021	36,585	–	3,943	32,642
Notes payable to VCBA 1997A (9d)	3.5% to 5.0%	2018	1,190	–	195	995
Notes payable to VCBA 1999A (9d)	3.5% to 6.0%	2020	6,770	–	1,225	5,545
Notes payable to VCBA 2000A (9d)	3.5% to 5.8%	2021	27,900	–	1,700	26,200
Notes payable to VCBA 2004B (9d)	3.0% to 5.0%	2020	37,735	–	410	37,325
Other	various	2009	220	–	133	87
<b>TOTAL BONDS AND NOTES PAYABLE</b>			<b>\$ 411,190</b>	<b>\$ 193,355</b>	<b>\$ 79,031</b>	<b>\$ 525,514</b>
Less current portion of debt			(16,391)	(393)	–	(16,784)
Bond premium			6,720	12,590	725	18,585
Less deferred loss on early retirement of debt			(2,788)	(2,782)	(374)	(5,196)
<b>NET LONG-TERM DEBT</b>			<b>\$ 398,731</b>	<b>\$ 202,770</b>	<b>\$ 79,382</b>	<b>\$ 522,119</b>

On July 20, 2005, the University of Virginia issued \$193,355,000 in General Revenue Pledge Bonds, Series 2005.

The 2005 Series was issued to fund new construction on the Grounds of the University of Virginia, refund the outstanding commercial paper and refund the University of Virginia 1998(A) 9(d) bonds. The refunding of the 1998(A) bonds reduced the aggregate debt service by \$4,395,470, representing a net present-value savings of \$3,075,985 and an accounting loss of \$2,781,908. The portion of the proceeds used to refund the 1998(A) bonds was deposited into an irrevocable trust with an escrow agent to provide for all future debt service payment on the refunded bonds. Accordingly, the trust account assets and liability for the defeased bonds are not included in the University's financial statements. At June 30, 2006, \$59,500,000 of the defeased bonds was outstanding.

The University of Virginia has a revolving credit agreement with a maximum principal amount of \$82,010,000 to provide liquidity for (i) the 2003A General Revenue Pledge Bonds and (ii) the Series 2003A Notes. There were no advances outstanding under this credit agreement as of June 30, 2006.

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



Maturities and interest on notes and bonds payable for the next five years and in subsequent five year periods are as follows:

<b>MATURITIES</b> <i>(in thousands)</i>	<b>PRINCIPAL</b>	<b>INTEREST</b>
2007	\$ 16,784	\$ 24,058
2008	17,151	23,228
2009	13,283	22,359
2010	13,771	22,232
2011	19,614	21,022
2012-2016	81,624	91,085
2017-2021	69,802	72,801
2022-2026	34,615	60,357
2027-2031	30,700	52,946
2032-2036	182,185	38,746
2037	45,985	2,299
<b>TOTAL</b>	<b>\$ 525,514</b>	<b>\$ 431,133</b>

### PRIOR YEAR REFUNDINGS

In previous fiscal years, bonds and notes were issued to refund a portion of previously outstanding bonds and notes payable.

Funds relating to the refundings were deposited into irrevocable trusts with escrow agents to provide for future debt service on the refunded bonds. The trust account assets and liabilities for the defeased bonds are not included in the University's financial statements.

At June 30, 2006, the outstanding balance of the prior years in-substance defeased bonds and notes totaled \$42,005,000.

b. Long-term liabilities at June 30, 2006, are summarized in the chart below.

<b>LONG-TERM LIABILITIES</b> <i>(in thousands)</i>	<b>BEGINNING BALANCE</b> <b>JULY 1, 2005</b>	<b>ADDITIONS</b>	<b>REDUCTIONS</b>	<b>ENDING BALANCE</b> <b>JUNE 30, 2006</b>
Investments held for related entities	\$ 13,771	\$ 2,479	\$ 533	\$ 15,717
Accrual for compensated absences	41,098	47,491	44,343	44,246
Perkins loan program	15,439	–	1,071	14,368
Other	16,270	5,683	5,716	16,237
<b>Subtotal</b>	<b>86,578</b>	<b>55,653</b>	<b>51,663</b>	<b>90,568</b>
Less current portion of long-term liabilities	(50,411)	–	1,497	(51,908)
<b>NET LONG-TERM LIABILITIES</b>	<b>\$ 36,167</b>	<b>\$ 55,653</b>	<b>\$ 53,160</b>	<b>\$ 38,660</b>

## NOTE 6: AFFILIATED COMPANIES

### UNIVERSITY OF VIRGINIA IMAGING, L.L.C.

On March 26, 2002, the Medical Center entered into an agreement with Outpatient Imaging Affiliates of Virginia, L.L.C. (OIA) to establish University of Virginia Imaging, L.L.C. (UVI). 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 area.

The Medical Center currently operates an outpatient imaging department offering MRI, plain film radiography, fluoroscopy, and ultrasound in office space at the Fontaine Research Park. Although available to all Medical Center physicians, the site principally serves orthopedic physicians located at the Fontaine Office Park. UVI also provides services to outpatients from the Medical Center's primary and secondary service areas. Because the Medical Center owns 80 percent of UVI, its financial activity is presented under the consolidation method.

### COMMUNITY MEDICINE, L.L.C.

On November 14, 2000, the University of Virginia established the 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. This 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. As an L.L.C., which is a wholly owned

subsidiary of the University, Community Medicine is considered a disregarded entity for tax purposes and its financial activity is accounted for under the consolidation method.

Community Medicine commenced operations on July 1, 2001, and as of June 30, 2006, the Medical Center's investment totaled \$1,810,000.

## **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. CVHN 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 CVHN of \$15,913. 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, located at the Fontaine Research Park in Charlottesville, Virginia, to provide patient services to the region. The Medical Center made a capital contribution of \$2,230,000 to the joint venture in May 1996, which represents a 50-percent interest. 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 integrating and coordinating the delivery of health care 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. In October 2003, the Medical Center contributed an additional \$400,000 in capital to Valiance, bringing the Medical Center's total investment to \$500,000.

## **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 UHC 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 patron-member health systems.

UHC is a not-for-profit organization. It is incorporated as a nonstock corporation and designated as a nonexempt cooperative that is taxable under Subchapter T (Sections 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. The Medical Center records the portion of the patronage dividends that were held by UHC as patronage equity.

<b>AS OF JUNE 30, 2006</b> <i>(in thousands)</i>	<b>COMMON STOCK AND EQUITY CONTRIBUTIONS</b>	<b>SHARE OF ACCUMULATED INCOME (LOSS)</b>	<b>NET INVESTMENT</b>
UVA Imaging, LLC	\$ 687	\$ 1,914	\$ 2,601
Community Medicine, LLC	1,810	(2,935)	(1,125)
Central Virginia Health Network, Inc.	233	(41)	192
Healthsouth, LLC	2,230	3,786	6,016
Valiance, LLC	500	35	535
University HealthSouth Consortium	–	614	614

## **HEALTHCARE PARTNERS, INC.**

In May 1995, HealthCare Partners, Inc. (HealthCare Partners), a nonstock, nonprofit 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 System staff, community members, and University Board of Visitors appointees.

## NOTE 7: COMPONENT UNITS

Summary financial statements and additional disclosures are presented below.

<b>STATEMENT OF FINANCIAL POSITION</b> <i>(in thousands)</i> <i>as of June 30, 2006</i>	UNIVERSITY OF VIRGINIA LAW SCHOOL FOUNDATION	UNIVERSITY OF VIRGINIA DARDEN SCHOOL FOUNDATION	ALUMNI ASSOCIATION OF THE UNIVERSITY OF VIRGINIA	VIRGINIA ATHLETICS FOUNDATION*	UNIVERSITY OF VIRGINIA FOUNDATION	UNIVERSITY OF VIRGINIA HEALTH SERVICES FOUNDATION	UNIVERSITY OF VIRGINIA INVESTMENT MANAGEMENT COMPANY	COMPONENT UNITS SUBTOTAL	ELIMINATIONS	COMPONENT UNITS TOTAL
<b>ASSETS</b>										
<b>Current assets</b>										
<b>Total current assets</b>	\$ 3,578	\$ 10,163	\$ 16,792	\$ 23,292	\$ 11,904	\$ 64,880	\$ 184,899	\$ 315,508	\$ —	\$ 315,508
<b>Noncurrent assets</b>										
Long-term investments	250,736	202,162	289,609	50,463	59,319	56,915	3,693,526	4,602,730	(704,227)	3,898,503
Capital assets, net and other assets	7,805	88,331	21,854	36,626	208,154	44,008	114	406,892	—	406,892
<b>Total noncurrent assets</b>	<b>258,541</b>	<b>290,493</b>	<b>311,463</b>	<b>87,089</b>	<b>267,473</b>	<b>100,923</b>	<b>3,693,640</b>	<b>5,009,622</b>	<b>(704,227)</b>	<b>4,305,395</b>
<b>TOTAL ASSETS</b>	<b>\$ 262,119</b>	<b>\$ 300,656</b>	<b>\$ 328,255</b>	<b>\$ 110,381</b>	<b>\$ 279,377</b>	<b>\$ 165,803</b>	<b>\$3,878,539</b>	<b>\$5,325,130</b>	<b>\$(704,227)</b>	<b>\$4,620,903</b>
<b>LIABILITIES AND NET ASSETS</b>										
<b>Current liabilities</b>										
<b>Total current liabilities</b>	\$ 122	\$ 3,483	\$ 58,298	\$ 738	\$ 57,136	\$ 49,489	\$3,877,036	\$4,046,302	\$(704,227)	\$3,342,075
<b>Noncurrent liabilities</b>										
Long-term debt, net of current portion of \$2,778	1	61,811	—	—	76,870	19,885	—	158,567	—	158,567
Other noncurrent liabilities	732	7	17,164	961	60,130	28,234	—	107,228	—	107,228
<b>Total noncurrent liabilities</b>	<b>733</b>	<b>61,818</b>	<b>17,164</b>	<b>961</b>	<b>137,000</b>	<b>48,119</b>	<b>—</b>	<b>265,795</b>	<b>—</b>	<b>265,795</b>
<b>TOTAL LIABILITIES</b>	<b>\$ 855</b>	<b>\$ 65,301</b>	<b>\$ 75,462</b>	<b>\$ 1,699</b>	<b>\$ 194,136</b>	<b>\$ 97,608</b>	<b>\$3,877,036</b>	<b>\$4,312,097</b>	<b>\$(704,227)</b>	<b>\$3,607,870</b>
<b>NET ASSETS</b>										
Unrestricted	\$ 52,857	\$ 79,838	\$ 40,524	\$ 38,580	\$ 15,164	\$ 55,108	\$ 1,503	\$ 283,574	\$ —	\$ 283,574
Temporarily restricted	128,070	52,925	91,413	51,131	55,301	13,087	—	391,927	—	391,927
Permanently restricted	80,337	102,592	120,856	18,971	14,776	—	—	337,532	—	337,532
<b>TOTAL NET ASSETS</b>	<b>\$ 261,264</b>	<b>\$ 235,355</b>	<b>\$ 252,793</b>	<b>\$ 108,682</b>	<b>\$ 85,241</b>	<b>\$ 68,195</b>	<b>\$ 1,503</b>	<b>\$1,013,033</b>	<b>\$ —</b>	<b>\$1,013,033</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 262,119</b>	<b>\$ 300,656</b>	<b>\$ 328,255</b>	<b>\$ 110,381</b>	<b>\$ 279,377</b>	<b>\$ 165,803</b>	<b>\$3,878,539</b>	<b>\$5,325,130</b>	<b>\$(704,227)</b>	<b>\$4,620,903</b>

\*December 31, 2005 year-end

## PLEDGES RECEIVABLE

Unconditional promises to give (pledges) are recorded as receivables and revenues and are assigned to net asset categories based on the presence or absence of donor-imposed restrictions. Pledges expected to be collected within one year are recorded at net realizable value. Pledges that are expected to be collected in future years are recorded at the net present value of their estimated future cash flows. The discounts on these amounts are computed using risk-free interest rates applicable to the years in which the payment will be received and then remain consistent throughout the pledge's life. The component units recorded an allowance against pledges receivable for estimated uncollectible amounts. The Health Services Foundation does not accept gifts. Unconditional promises to give at June 30, 2006, are as follows:

SUMMARY SCHEDULE OF PLEDGES RECEIVABLE <i>(in thousands)</i>	UNIVERSITY OF VIRGINIA LAW SCHOOL FOUNDATION	UNIVERSITY OF VIRGINIA DARDEN SCHOOL FOUNDATION	ALUMNI ASSOCIATION OF THE UNIVERSITY OF VIRGINIA	VIRGINIA ATHLETICS FOUNDATION*	UNIVERSITY OF VIRGINIA FOUNDATION	UNIVERSITY OF VIRGINIA HEALTH SERVICES FOUNDATION	UNIVERSITY OF VIRGINIA INVESTMENT MANAGEMENT COMPANY	COMPONENT UNITS TOTAL
<b>Total pledges receivable</b>	\$ 15,759	\$ 8,011	\$ 18,022	\$ 55,826	\$ —	\$ —	\$ —	\$ 97,618
Less allowance for uncollectible accounts	(834)	(1,348)	(1,802)	(3,011)	—	—	—	(6,995)
Less effect of discounting to present value	(4,067)	(560)	(2,687)	(5,155)	—	—	—	(12,469)
<b>Net pledges receivable</b>	<b>10,858</b>	<b>6,103</b>	<b>13,533</b>	<b>47,660</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>78,154</b>
Less current pledges	(3,322)	(2,757)	(1,076)	(12,146)	—	—	—	(19,301)
<b>TOTAL NONCURRENT PLEDGES RECEIVABLE</b>	<b>\$ 7,536</b>	<b>\$ 3,346</b>	<b>\$ 12,457</b>	<b>\$ 35,514</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 58,853</b>

\*December 31, 2005 year-end

The **University of Virginia Law School Foundation** has also received bequest intentions and certain other conditional promises to give of approximately \$21 million at June 30, 2006. These intentions and conditional promises to give are not recognized as assets, and if they are received, will generally be restricted for specific purposes stipulated by the donors, primarily endowments for scholarships and professorships.

The **Alumni Association of the University of Virginia** receives contributions that are designated for University of Virginia-related programs. These amounts are held in trust until they are disbursed. The total of such amounts being held by the Association at June 30, 2006, was \$58 million.

Pledges receivable for the **Virginia Athletics Foundation** are for several programs. The majority of these are for the Arena Campaign.

## INVESTMENTS

Investments are recorded at market value, which is determined by readily available quotes on the stock exchange or as quoted by the investment company for pooled investments. Realized gains (losses) from the sale of securities and unrealized gains (losses) from the appreciation (depreciation) of the value of securities held are recognized in the year incurred. The fair values of investments by investment class at June 30, 2006, for the component units are as follows:

SUMMARY SCHEDULE OF INVESTMENTS <i>(in thousands)</i>	UNIVERSITY OF VIRGINIA LAW SCHOOL FOUNDATION	UNIVERSITY OF VIRGINIA DARDEN SCHOOL FOUNDATION	ALUMNI ASSOCIATION OF THE UNIVERSITY OF VIRGINIA	VIRGINIA ATHLETICS FOUNDATION*	UNIVERSITY OF VIRGINIA FOUNDATION	UNIVERSITY OF VIRGINIA HEALTH SERVICES FOUNDATION	UNIVERSITY OF VIRGINIA INVESTMENT MANAGEMENT COMPANY	COMPONENT UNITS TOTAL
Private placements and limited partnerships	\$ 20	\$ —	\$ —	\$ 157	\$ —	\$ —	\$ 1,704,518	\$ 1,704,695
University of Virginia Investment Management Co.	111,295	197,934	269,696	48,983	59,310	17,009	—	704,227
Equities	70,356	4,228	—	—	—	—	1,332,654	1,407,238
Other	69,065	989	19,914	1,323	7,256	53,326	840,899	992,772
<b>Total investments</b>	<b>250,736</b>	<b>203,151</b>	<b>289,610</b>	<b>50,463</b>	<b>66,566</b>	<b>70,335</b>	<b>3,878,071</b>	<b>4,808,932</b>
Less amounts shown in current assets	—	(989)	—	—	(7,247)	(13,421)	(184,545)	(206,202)
Less eliminations	(111,295)	(197,934)	(269,696)	(48,983)	(59,310)	(17,009)	—	(704,227)
<b>LONG-TERM INVESTMENTS</b>	<b>\$ 139,441</b>	<b>\$ 4,228</b>	<b>\$ 19,914</b>	<b>\$ 1,480</b>	<b>\$ 9</b>	<b>\$ 39,905</b>	<b>\$3,693,526</b>	<b>\$3,898,503</b>

\*December 31, 2005 year-end

The **University of Virginia Investment Management Company** has investments in limited partnership hedge fund, private equity and venture capital investments or similar private investment vehicles that do not actively trade through established exchange mechanisms and are valued at estimated fair market value, based on University of Virginia Investment Management Company's interest in the investee as determined and reported by the external manager of the investment vehicle. Such investments represent \$557,270 (15 percent of investments held for others) at June 30, 2006. Because of the inherent uncertainty of such valuations, these estimated values may differ from the values that would have been used had a ready market for the investments existed, and such differences could be material.

## PROPERTY, FURNISHINGS, AND EQUIPMENT

The **University of Virginia Foundation's** property, furnishings, and equipment are recorded at cost, except donated property, which is recorded at fair market value at the date of the gift. Depreciation is taken over estimated useful lives of 5 to 39 years using the straight-line method. As of June 30, 2006, capital assets consisted of (in thousands):

Land	\$	54,727
Buildings and improvements		158,468
Furnishings and equipment		18,613
<b>Total</b>		<b>231,808</b>
Less accumulated depreciation		(45,800)
<b>NET CAPITAL ASSETS</b>	<b>\$</b>	<b>186,008</b>

The **University of Virginia Darden School Foundation's** property, furnishings, and equipment are recorded at cost, except donated property, which is recorded at fair market value at the date of the gift. Depreciation is taken over estimated useful lives of 5 to 39 years using the straight-line method. As of June 30, 2006, capital assets consisted of (in thousands):

Rights of occupancy	\$	100,828
Buildings and improvements		1,488
Furnishings and equipment		1,319
<b>Total</b>		<b>103,635</b>
Less accumulated depreciation		(19,056)
<b>NET CAPITAL ASSETS</b>	<b>\$</b>	<b>84,579</b>

## NOTES PAYABLE

The **University of Virginia Foundation** has established a line of credit in the amount of \$41 million. The outstanding balance at June 30, 2006, was \$41 million. The Foundation has a second line of credit in the amount of \$25 million. The outstanding balance on this line was \$19 million at June 30, 2006.

The University has allocated up to \$51 million of its quasi-endowment funds for use by the Foundation to acquire and develop real estate. As of June 30, 2006, the Foundation had borrowed \$10 million of these funds to acquire properties on behalf of the University. These notes payable are noninterest bearing and due on demand.

## LONG-TERM DEBT

The following table summarizes the **University of Virginia Foundation's** long-term obligations at June 30, 2006 (in thousands):

1996 Industrial Development Authority revenue bonds—Albemarle	\$	1,377
1997 Industrial Development Authority revenue bonds—Louisa		6,090
1999 Mortgage note payable		7,914
1999 Mortgage note payable		255
2001 Refinancing demand bonds		44,915
2004 Mortgage note payable		1,217
2004 Refinancing note payable		17,165
<b>Total</b>		<b>78,933</b>
Less portion due within one year		(2,063)
<b>LONG-TERM DEBT, NET OF CURRENT PORTION</b>	<b>\$</b>	<b>76,870</b>

# Financial Report

Principal maturities of all mortgages and notes payable after refinancing for the **University of Virginia Foundation** are as follows (in thousands):

Year ended June 30, 2007	\$ 2,063
Year ended June 30, 2008	17,323
Year ended June 30, 2009	19,423
Year ended June 30, 2010	2,382
Year ended June 30, 2011	2,513
Years ended June 30, 2012-2021	35,229
<b>TOTAL</b>	<b>\$ 78,933</b>

The following table summarizes the **University of Virginia Health Services Foundation's** long-term obligations at June 30, 2006 (in thousands):

1998 Refunding bonds	\$ 15,740
2000 Industrial Development Authority revenue bonds—Louisa	4,860
<b>Total</b>	<b>20,600</b>
Less portion due within one year	(715)
<b>LONG-TERM DEBT, NET OF CURRENT PORTION</b>	<b>\$ 19,885</b>

Principal maturities of all mortgages and notes payable after refinancing for the **University of Virginia Health Services Foundation** are as follows (in thousands):

Year ended June 30, 2007	\$ 715
Year ended June 30, 2008	745
Year ended June 30, 2009	780
Year ended June 30, 2010	810
Year ended June 30, 2011	845
Years ended June 30, 2012-2031	16,705
<b>TOTAL</b>	<b>\$ 20,600</b>

The following table summarizes the **University of Virginia Darden School Foundation's** long-term obligations at June 30, 2006 (in thousands):

University of Virginia Phase I and II Darden School Facilities	\$ 61,811
<b>Total</b>	<b>61,811</b>
Less portion due within one year	(2,915)
<b>LONG-TERM DEBT, NET OF CURRENT PORTION</b>	<b>\$ 58,896</b>

Principal maturities of all mortgages and notes payable after refinancing for the **University of Virginia Darden School Foundation** are as follows (in thousands):

Year ended June 30, 2007	\$ 2,915
Year ended June 30, 2008	3,070
Year ended June 30, 2009	3,240
Year ended June 30, 2010	3,415
Year ended June 30, 2011	3,595
Years ended June 30, 2012-2031	45,576
<b>TOTAL</b>	<b>\$ 61,811</b>

<b>STATEMENT OF ACTIVITIES</b> <i>(in thousands)</i> <i>for the year ended June 30, 2006</i>	<b>UNIVERSITY OF VIRGINIA LAW SCHOOL FOUNDATION</b>	<b>UNIVERSITY OF VIRGINIA DARDEN SCHOOL FOUNDATION</b>	<b>ALUMNI ASSOCIATION OF THE UNIVERSITY OF VIRGINIA</b>	<b>VIRGINIA ATHLETICS FOUNDATION*</b>	<b>UNIVERSITY OF VIRGINIA FOUNDATION</b>	<b>UNIVERSITY OF VIRGINIA HEALTH SERVICES FOUNDATION</b>	<b>UNIVERSITY OF VIRGINIA INVESTMENT MANAGEMENT COMPANY</b>	<b>COMPONENT UNITS SUBTOTAL</b>	<b>ELIMINATIONS</b>	<b>COMPONENT UNITS TOTAL</b>
<b>UNRESTRICTED REVENUES AND SUPPORT</b>										
Contributions	\$ 2,520	\$ 3,548	\$ 563	\$ 19,429	\$ –	\$ –	\$ –	\$ 26,060	\$ –	\$ 26,060
Fees for services, rentals, and sales	–	20,841	2,030	521	37,339	178,530	6,398	245,659	–	245,659
Other revenues	14,703	12,817	62,339	15,344	5,924	56,665	317	168,109	–	168,109
<b>TOTAL UNRESTRICTED REVENUES AND SUPPORT</b>	<b>17,223</b>	<b>37,206</b>	<b>64,932</b>	<b>35,294</b>	<b>43,263</b>	<b>235,195</b>	<b>6,715</b>	<b>439,828</b>	<b>–</b>	<b>439,828</b>
<b>EXPENSES</b>										
Program services, lectures, special events	7,160	–	58,208	8,604	–	191,407	–	265,379	–	265,379
Other expenses	3,251	38,584	1,410	21,743	40,074	37,052	6,098	148,212	–	148,212
<b>TOTAL EXPENSES</b>	<b>10,411</b>	<b>38,584</b>	<b>59,618</b>	<b>30,347</b>	<b>40,074</b>	<b>228,459</b>	<b>6,098</b>	<b>413,591</b>	<b>–</b>	<b>413,591</b>
<b>EXCESS (DEFICIENCY) OF UNRESTRICTED REVENUES AND SUPPORT OVER EXPENSES</b>	<b>6,812</b>	<b>(1,378)</b>	<b>5,314</b>	<b>4,947</b>	<b>3,189</b>	<b>6,736</b>	<b>617</b>	<b>26,237</b>	<b>–</b>	<b>26,237</b>
<b>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS</b>										
Contributions	1,087	1,563	43,513	20,511	447	–	–	67,121	–	67,121
Other	13,662	9,027	(21,033)	(9,004)	7,034	–	–	(314)	–	(314)
<b>NET CHANGE IN TEMPORARILY RESTRICTED NET ASSETS</b>	<b>14,749</b>	<b>10,590</b>	<b>22,480</b>	<b>11,507</b>	<b>7,481</b>	<b>–</b>	<b>–</b>	<b>66,807</b>	<b>–</b>	<b>66,807</b>
<b>CHANGES IN PERMANENTLY RESTRICTED NET ASSETS</b>										
Contributions	9,420	1,464	12,379	1,171	457	–	–	24,891	–	24,891
Other	686	–	428	–	1,746	–	–	2,860	–	2,860
<b>NET CHANGE IN PERMANENTLY RESTRICTED NET ASSETS</b>	<b>10,106</b>	<b>1,464</b>	<b>12,807</b>	<b>1,171</b>	<b>2,203</b>	<b>–</b>	<b>–</b>	<b>27,751</b>	<b>–</b>	<b>27,751</b>
<b>CHANGE IN NET ASSETS</b>	<b>31,667</b>	<b>10,676</b>	<b>40,601</b>	<b>17,625</b>	<b>12,873</b>	<b>6,736</b>	<b>617</b>	<b>120,795</b>	<b>–</b>	<b>120,795</b>
Net assets, beginning of year	229,597	224,679	212,192	91,057	72,592	61,459	886	892,462	–	892,462
Prior period adjustment	–	–	–	–	(224)	–	–	(224)	–	(224)
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 261,264</b>	<b>\$ 235,355</b>	<b>\$ 252,793</b>	<b>\$ 108,682</b>	<b>\$ 85,241</b>	<b>\$ 68,195</b>	<b>\$ 1,503</b>	<b>\$1,013,033</b>	<b>\$ –</b>	<b>\$1,013,033</b>

\*December 31, 2005 year-end

## SIGNIFICANT TRANSACTIONS WITH THE UNIVERSITY OF VIRGINIA

The University provides certain services for the **University of Virginia Darden School Foundation** that are reimbursed by the Foundation monthly. In addition, the **University of Virginia Darden School Foundation** will pay the University the following amounts for the construction of new and improved facilities at the Darden School (in thousands):

Year ended June 30, 2007	\$ 2,915
Year ended June 30, 2008	3,070
Year ended June 30, 2009	3,240
Year ended June 30, 2010	3,415
Year ended June 30, 2011	3,595
Years ended June 30, 2012-2021	45,576
<b>TOTAL</b>	<b>\$ 61,811</b>

Direct payments to the University from the **Alumni Association of the University of Virginia** for the year ended June 30, 2006, totaled \$2 million. This amount includes gift transfers, payment for facilities and services, and other support for University activities.

The **University of Virginia Health Services Foundation** has contracted with the University to provide certain professional and technical services. Payments received for these services were approximately \$45 million for the year ended June 30, 2006. Approximately \$10 million of the fiscal year payments received relates to disproportionate share funds paid for indigent patients served by the Foundation.

The **University of Virginia Health Services Foundation** contributed \$10 million to the University in support of various academic programs, equipment, teaching and research for the year ended June 30, 2006.

## NOTE 8: NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

<b>OPERATING EXPENSES BY FUNCTIONAL CLASSIFICATION</b> <i>(in thousands)</i> <i>for the year ended June 30, 2006</i>	<b>COMPENSATION AND BENEFITS</b>	<b>SUPPLIES AND OTHER SERVICES</b>	<b>STUDENT AID</b>	<b>UTILITIES</b>	<b>DEPRECIATION</b>	<b>OTHER</b>	<b>TOTAL</b>
Instruction	\$ 236,224	\$ 10,484	\$ 1,461	\$ 1,588	\$ –	\$ 830	\$ 250,587
Research	153,853	79,841	15,754	1,033	–	510	250,991
Public service	13,310	9,984	760	205	–	447	24,706
Academic support	75,977	30,632	576	867	–	(102)	107,950
Student services	19,407	7,271	106	233	–	200	27,217
Institutional support	61,230	3,983	19	2,284	–	168	67,684
Operation of plant	49,930	(50,328)	1	52,222	–	(26)	51,799
Student aid	722	4,623	27,698	1	–	157	33,201
Auxiliary	52,369	37,569	99	17,689	–	628	108,354
Depreciation	–	–	–	–	65,692	–	65,692
Patient services	352,088	369,283	–	14,485	45,962	32,286	814,104
Other	3	4,809	–	756	–	5	5,573
<b>TOTAL</b>	<b>\$ 1,015,113</b>	<b>\$ 508,151</b>	<b>\$ 46,474</b>	<b>\$ 91,363</b>	<b>\$ 111,654</b>	<b>\$ 35,103</b>	<b>\$ 1,807,858</b>

## NOTE 9: 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.



A summary of state appropriations received by the University and the University's College at Wise, including all supplemental appropriations and reversions, is provided in the chart below.

<b>APPROPRIATIONS</b> <i>(in thousands)</i>	<b>2006</b>
Original legislative appropriation per Chapter 3	\$ 140,546
<b>Adjustments</b>	
Financial Aid—General Fund	8,000
Additional appropriation for shift in July 3, 2006 payroll	7,022
Eminent Scholars	3,231
Salary increase	1,864
Engineering Telecommunications Project	625
Virginia Graduate Marine Science Consortium	210
Employee benefits	121
Reversions	(25)
Miscellaneous educational and general	(1,398)
Prior year miscellaneous appropriation withdrawn	(2,004)
<b>TOTAL</b>	<b>\$ 158,192</b>

## NOTE 10: RETIREMENT PLANS

Employees of the University are employees of the Commonwealth. Substantially all salaried classified employees and research staff, 8 percent of faculty, and 28 percent of Medical Center 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.

Ninety-two percent of teaching, research, and administrative faculty, and 72 percent of Medical Center employees participate in Optional Retirement Plans. The Faculty Retirement Plan is a defined-contribution plan to which the University contributes an amount established by statute. Faculty are fully vested immediately. The Medical Center Retirement Plan is a defined-contribution plan to which the University contributes an amount determined by the Board of Visitors. Medical Center employees are fully vested after one or two years of employment, depending on their date of hire.

Total pension costs under the plans were approximately \$39 million, and contributions to the Optional Retirement Plans were calculated, using base salaries of \$430 million, for the year ended June 30, 2006. The contribution percentage amounted to 9.0 percent.

## NOTE 11: POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

The Commonwealth of Virginia sponsors a Virginia Retirement System-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. Information related to these plans is available at the statewide level in the Commonwealth's *Comprehensive Annual Financial Report (CAFR)*.

University of Virginia faculty who participate in the Optional Retirement Plan receive \$5,000 in retiree life insurance; Medical Center employees who participate in the Optional Retirement Plan have a variety of retiree life insurance options depending on termination date and years of service.

University employees who retire before reaching age 65 participate in the Retiree Health Plan, which mirrors the University's Health Plan for active employees, until they reach age 65. At age 65, University retirees can participate in the Commonwealth's Medicare Supplement Plan.

## NOTE 12: SELF-INSURANCE

All University employees have the 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. The market value of investments at June 30, 2006, was \$44 million. The estimated liability for outstanding claims at June 30, 2006, was \$13 million. The University has contracted with several third-party claims administrators: Southern Health Services, Inc., for its medical claims; United Concordia for its dental claims; and PharmaCare for its pharmacy claims.

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

The University's Office of Risk Management manages all insurance programs for the University, including the Health System and the College at Wise. At present, most insurance coverages are obtained through participation in the state risk management self-insurance plans, which are administered by the Virginia Department of the Treasury, Division of Risk Management. Risk management insurance includes property, boiler and machinery, crime, employee bond (employee dishonesty), 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 physical damage on all vehicles valued up to \$20,000. The University also maintains excess crime/employee dishonesty insurance and insurance for vehicle physical damage on vehicles valued in excess of \$20,000. Separate insurance coverage is maintained as appropriate on subsidiary organizations owned by the Health System, such as Community Medicine University of Virginia, L.L.C.

## NOTE 13: 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, 2006, was \$136 million and income received totaled \$6 million.

## NOTE 14: COMMITMENTS

As of June 30, 2006, the University had outstanding construction contract commitments of approximately \$197 million.

The University has entered into numerous agreements to rent, lease, and maintain land, buildings, and equipment. With some of these agreements, the University is committed under various operating leases for equipment and space. In most cases, the University has renewal options on the leased assets for another similar term, and expects that, in the normal course of business, these leases will be replaced by similar leases. The total expense for the year ended June 30, 2006, was approximately \$23 million.

The University's ongoing minimum commitments for operating leases for land, office and clinical buildings, and equipment are as follows:

YEARS ENDING JUNE 30 <i>(in thousands)</i>	LEASE OBLIGATION
2007	\$ 12,334
2008	7,002
2009	4,816
2010	4,221
2011	1,589
2012-2016	7,057
2017-2021	5,276
2022-2026	823
2027-2031	823
2032-2036	823
2037-2041	823
2042-2046	823
2047-2051	494
<b>TOTAL</b>	<b>\$ 46,904</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 financial position.