

STATEMENT OF NET ASSETS *(in thousands)**as of June 30, 2007 (with comparative information as of June 30, 2006)*

	2007	2006
ASSETS		
Current assets		
Cash and cash equivalents (Note 2)	\$ 719,263	\$ 559,578
Cash and cash equivalents, securities lending (Note 2)	16,323	36,452
Short-term investments (Note 2)	276,070	164,026
Accounts receivable, net (Note 3a)	142,052	124,800
Prepaid expenses	11,925	11,577
Inventories	21,694	18,391
Notes receivable, net (Note 3b)	7,013	7,783
Total current assets	1,194,340	922,607
Noncurrent assets		
Restricted cash and cash equivalents (Note 2)	48,548	9,284
Endowment investments (Note 2)	3,068,268	2,497,309
Other long-term investments (Note 2)	286,436	276,553
Deposits with bond trustee	13,942	43,386
Notes receivable, net (Note 3b)	21,437	19,625
Pledges receivable, net (Note 3c)	16,071	20,247
Capital assets—depreciable, net (Note 3d)	1,486,224	1,271,828
Capital assets—nondepreciable (Note 3d)	325,030	370,467
Goodwill (Note 3e)	13,744	14,186
Other	548	581
Total noncurrent assets	5,280,248	4,523,466
TOTAL ASSETS	\$ 6,474,588	\$ 5,446,073
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 3f)	\$ 242,925	\$ 190,502
Deferred revenue (Note 3g)	78,284	59,826
Obligations under securities lending (Note 2)	80,630	72,524
Deposits held in custody for others	24,902	19,574
Commercial paper (Note 4)	64,200	26,000
Long-term debt—current portion (Note 5a)	17,149	16,784
Long-term liabilities—current portion (Note 5b)	50,763	51,908
Advance from Treasurer of Virginia	—	261
Total current liabilities	558,853	437,379
Noncurrent liabilities (Note 5)		
Long-term debt	504,207	522,119
Long-term liabilities	56,503	38,660
Total noncurrent liabilities	560,710	560,779
TOTAL LIABILITIES	\$ 1,119,563	\$ 998,158
NET ASSETS		
Invested in capital assets, net of related debt	\$ 1,226,529	\$ 1,116,746
Restricted		
Nonexpendable	369,874	350,474
Expendable	2,203,057	1,701,167
Unrestricted	1,555,565	1,279,528
TOTAL NET ASSETS	\$ 5,355,025	\$ 4,447,915

Certain 2006 amounts have been restated to conform to 2007 classifications.

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

<i>University of Virginia</i> COMPONENT UNITS COMBINED STATEMENTS OF FINANCIAL POSITION <i>(in thousands)</i> <i>as of June 30, 2007 (with comparative information as of June 30, 2006)</i>	2007	2006
ASSETS		
Current assets		
Cash and cash equivalents	\$ 404,139	\$ 218,195
Receivables	94,893	63,994
Other current assets	82,778	33,319
Total current assets	581,810	315,508
Noncurrent assets		
Pledges receivable (net of current portion of \$28,824 and \$12,959)	61,692	65,193
Long-term investments	5,149,397	3,898,503
Capital assets, net of depreciation	297,848	291,919
Other noncurrent assets	57,224	49,780
Total noncurrent assets	5,566,161	4,305,395
TOTAL ASSETS	\$ 6,147,971	\$ 4,620,903
LIABILITIES AND NET ASSETS		
Current liabilities		
Assets held in trust for others	\$ 4,353,706	\$ 3,230,308
Other liabilities	156,399	111,767
Total current liabilities	4,510,105	3,342,075
Noncurrent liabilities		
Long-term debt (net of current portion of \$5,911 and \$2,778)	307,091	158,567
Other noncurrent liabilities	125,827	107,228
Total noncurrent liabilities	432,918	265,795
TOTAL LIABILITIES	\$ 4,943,023	\$ 3,607,870
NET ASSETS		
Unrestricted	\$ 323,857	\$ 283,574
Temporarily restricted	521,753	391,927
Permanently restricted	359,338	337,532
TOTAL NET ASSETS	\$ 1,204,948	\$ 1,013,033
TOTAL LIABILITIES AND NET ASSETS	\$ 6,147,971	\$ 4,620,903

*Certain 2006 amounts have been restated to conform to 2007 classifications.
The accompanying Notes to Financial Statements are an integral part of this statement.*

University of Virginia

**STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS** *(in thousands)*

for the year ended June 30, 2007 (with comparative information for the year ended June 30, 2006)

	2007	2006
REVENUES		
Operating revenues		
Student tuition and fees (net of scholarship allowances of \$61,943 and \$55,324)	\$ 287,474	\$ 263,728
Patient services (net of indigent care and contractual adjustments of \$986,035 and \$849,870)	882,401	819,492
Federal grants and contracts	245,124	253,596
State and local grants and contracts	3,186	3,482
Nongovernmental grants and contracts	39,174	39,358
Sales and services of educational departments	19,540	18,866
Auxiliary enterprises revenue (net of scholarship allowances of \$8,163 and \$7,432)	110,910	101,093
Other operating revenues	22,504	37,414
TOTAL OPERATING REVENUES	1,610,313	1,537,029
EXPENSES		
Operating expenses (Note 8)		
Compensation and benefits	1,089,634	1,015,113
Supplies and other services	518,669	508,151
Student aid	51,406	46,474
Utilities	95,217	91,363
Depreciation	121,770	111,654
Other operating expenses	35,046	35,103
TOTAL OPERATING EXPENSES	1,911,742	1,807,858
OPERATING LOSS	(301,429)	(270,829)
NONOPERATING REVENUES (EXPENSES)		
State appropriations (Note 9)	170,439	158,192
Gifts	148,073	116,023
Investment income	721,505	367,761
Interest on capital asset-related debt	(23,889)	(15,196)
Loss on disposal of capital assets	(1,227)	(4,815)
Other nonoperating expenses	(1,963)	(13,684)
NET NONOPERATING REVENUES	1,012,938	608,281
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	711,509	337,452
Capital appropriations	128,075	34,101
Capital grants and gifts	48,576	8,930
Additions to permanent endowments	18,950	16,932
TOTAL OTHER REVENUES	195,601	59,963
INCREASE IN NET ASSETS	907,110	397,415
NET ASSETS		
Net assets, beginning of year, restated (Note 1)	4,447,915	4,050,500
NET ASSETS, END OF YEAR	\$5,355,025	\$4,447,915

Certain 2006 amounts have been restated to conform to 2007 classifications.

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

<i>University of Virginia</i> COMPONENT UNITS COMBINED STATEMENTS OF ACTIVITIES <i>(in thousands)</i> <i>for the year ended June 30, 2007 (with comparative information for the year ended June 30, 2006)</i>	2007	2006
UNRESTRICTED REVENUES AND SUPPORT		
Contributions	\$ 28,085	\$ 26,060
Fees for services, rentals, and sales	247,069	245,659
Investment income	62,686	34,224
Other revenues	70,611	55,094
Net assets released from restriction	102,728	78,791
TOTAL UNRESTRICTED REVENUES AND SUPPORT	511,179	439,828
EXPENSES		
Program services, lectures, and special events	247,297	250,024
Scholarships and financial aid	81,000	15,355
Management and general	34,502	66,337
Other expenses	92,081	81,875
TOTAL EXPENSES	454,880	413,591
EXCESS OF UNRESTRICTED REVENUES AND SUPPORT OVER EXPENSES	56,299	26,237
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	83,632	67,121
Investment and other income	149,502	79,163
Reclassification per donor stipulation	(618)	(686)
Net assets released from restriction	(102,728)	(78,791)
NET CHANGES IN TEMPORARILY RESTRICTED NET ASSETS	129,788	66,807
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Contributions	20,629	24,891
Investment and other income	(54)	2,174
Reclassification per donor stipulation	618	686
NET CHANGES IN PERMANENTLY RESTRICTED NET ASSETS	21,193	27,751
CHANGE IN NET ASSETS	207,280	120,795
Net assets, beginning of year	1,013,033	892,462
Current year effect of activity on net assets	(19,472)	—
Prior period adjustment	4,107	(224)
NET ASSETS, END OF YEAR	\$ 1,204,948	\$ 1,013,033

*Certain 2006 amounts have been restated to conform to 2007 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, 2007 (with comparative information for the year ended June 30, 2006)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 287,563	\$ 265,427
Grants and contracts	286,348	301,648
Patient services	865,055	827,606
Sales and services of educational activities	13,125	24,106
Sales and services of auxiliary enterprises	110,351	101,231
Payments to employees and fringe benefits	(1,057,480)	(1,052,795)
Payments to vendors and suppliers	(605,476)	(587,617)
Payments for scholarships and fellowships	(51,410)	(46,452)
Perkins and other loans issued to students	(6,937)	(8,893)
Collection of Perkins and other loans to students	6,548	9,130
Other receipts	17,408	17,058
NET CASH USED BY OPERATING ACTIVITIES	(134,905)	(149,551)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	169,626	157,775
Additions to true endowments	18,950	16,933
Federal Family Education Loan Program receipts	76,521	80,463
Federal Family Education Loan Program payments	(76,521)	(80,463)
Receipts on behalf of agencies	82,966	85,520
Payments on behalf of agencies	(87,742)	(78,814)
Deposits held in custody for others	5,328	(4,099)
Noncapital gifts and grants and endowments received	138,523	123,199
Other net nonoperating revenues (expenses)	17,578	(14,504)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	345,229	286,010
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	125,753	32,501
Capital gifts and grants received	37,757	22,242
Proceeds from capital debt	48,688	222,394
Proceeds from sale of capital assets	184	409
Acquisition and construction of capital assets	(276,779)	(243,163)
Principal paid on capital debt and leases	(22,993)	(170,499)
Interest paid on capital debt and leases	(29,876)	(22,167)
Deposits with trustee	29,445	—
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(87,821)	(158,283)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	494,954	441,379
Interest on investments	80,653	45,200
Purchase of investments and related fees	(477,279)	(433,593)
Other investment activities	(21,882)	17,815
NET CASH PROVIDED BY INVESTING ACTIVITIES	76,446	70,801
NET INCREASE IN CASH AND CASH EQUIVALENTS	198,949	48,977
Cash and cash equivalents, July 1	568,862	519,885
CASH AND CASH EQUIVALENTS, JUNE 30	\$ 767,811	\$ 568,862
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	\$ (301,429)	\$ (270,829)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Depreciation expense	121,770	111,654
Provision for uncollectible loans and write-offs	(664)	148
CHANGES IN ASSETS AND LIABILITIES		
Receivables, net	5,986	47,098
Inventories	(3,303)	140
Other assets	(874)	(1,082)
Prepaid expenses	(348)	(2,353)
Notes receivable, net	(387)	237
Accounts payable and accrued liabilities	23,791	(37,073)
Deferred revenue	18,488	1,198
Accrued vacation leave—long term	2,065	1,311
TOTAL ADJUSTMENTS	166,524	121,278
NET CASH USED BY OPERATING ACTIVITIES	\$ (134,905)	\$ (149,551)
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES—ACADEMIC ONLY		
Assets acquired through assumption of a liability	\$ 44,706	\$ 225,625
Assets acquired through a gift	14,188	7,747
Change in fair value of investments	399,995	149,351
Increase (decrease) in receivables related to nonoperating revenues	(360)	29,007
Loss on disposal of capital assets	798	4,815

Certain 2006 amounts have been restated to conform to 2007 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 Commonwealth's *Comprehensive Annual Financial Report*. 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-six 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, 2007:

- 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, 2006. 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 devise 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 issued 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 externally-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 the expenses 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 by 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 major portion of 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 end 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 \$2,817,929 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 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 nonbuilding 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.

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 \$7,652,134 and earned capital project interest income of \$846,668 for the fiscal year ended June 30, 2007, resulting in net interest capitalized of \$6,805,466.

ACCRUED COMPENSATED ABSENCES

The amount of leave earned but not taken by nonfaculty salaried employees is recorded as a liability on the Statement of Net Assets. The amount reflects, as of June 30, 2007, 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 SERVICE

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 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, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

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.

DISCOUNTS, PREMIUMS, AND BOND ISSUANCE COSTS

Bonds payable on the Statement of Net Assets are reported net of related discounts and premiums, which are expensed over the life of the bond. Similarly, bond issuance costs are reported as a noncurrent asset that is amortized over the life of the bond on a straight-line basis.

RESTATEMENTS AND RECLASSIFICATIONS

Certain amounts from the prior fiscal year have been restated and reclassified to conform to current-year presentation. The July 1, 2006 beginning net assets as originally reported were overstated by \$10 million as a result of a procedural error. The error was due to a one-time change in the Commonwealth's payroll accrual process during fiscal year 2005–06. The University did not properly accrue corresponding grants and contracts revenue, thereby creating a mismatch between accrued revenues and expenses, resulting in an overstatement of grant and contract revenues for fiscal year 2005–06. The following summarizes restatements that have been made to the ending balance of fiscal year 2006 (in thousands):

Net Assets reported at June 30, 2006	\$ 4,461,997
Capital appropriation: Reporting guideline changes for Treasury's reimbursement programs as mandated by the State	(3,917)
Grants revenue recognition accrual	(10,165)
BEGINNING NET ASSETS AT JULY 1, 2006, AS RESTATED	\$ 4,447,915

NOTE 2: CASH, CASH EQUIVALENTS, AND INVESTMENTS

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 thirteen 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 2007.

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 of 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 2007.

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 2007.

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 \$36 million at June 30, 2007. 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, 2007, the University's investment in the UVIMCO Long-Term Pool is \$3.3 billion, representing 76 percent of invested assets. Investments in the UVIMCO Aggregate Cash Pool represent 5 percent of invested assets. These pools are not rated by nationally recognized statistical rating organizations.

DERIVATIVES

In January 2007, the University of Virginia entered into three, pay-fixed, receive-variable interest rate swaps totaling \$150 million in notional amount. The underlying index for the swaps is the Securities Industry and Financial Markets Municipal Swap Index (SIFMA). The swaps have an effective date of June 1, 2008, and mature June 1, 2038. The swaps were entered into at a zero market value and no payments were made or received at initiation. The objective of the swaps is to hedge the risk of rising interest rates between January 2007 and June 2008. The swaps are intended to provide a hedge against the impact of rising interest rates on the cost of U.Va.'s next anticipated long-term bond issuance expected to occur sometime around June 1, 2008. Each of the swaps is scheduled to begin exchanging interest payments on June 1, 2008, for a period of thirty years designed to match the expected term of any new bonds.

As of June 30, 2007, the swaps had a positive market value of approximately \$5 million representing the amount U.Va. would receive if the swaps were terminated on that date. The fair value was determined by using the quoted SIFMA index curve at the time of market valuation. U.Va. would be exposed to the credit risk of its swap counterparties any time the swaps had a positive market value. As of June 30, 2007, U.Va.'s swap counterparties were rated AA-/Aa3 and A/A2 by Standard & Poor's and Moody's, respectively. To mitigate credit risk, U.Va. limits market value exposure and requires the posting of collateral based on the counterparty's credit rating. All counterparties are required to have at least an A-/A3 rating by Standard & Poor's and Moody's, respectively. As of June 30, 2007, no collateral was required to be posted by the counterparties.

The derivative contracts use the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an additional termination event. That is, the swap may be terminated by either party if the counterparty's credit rating falls below BBB/Baa2 in the case of Standard & Poor's and Moody's, respectively. U.Va. or the counterparty may also terminate the swap if the other party fails to perform under the terms of the contract. If at the time of termination the swap has a negative market value, U.Va. would be liable to the counterparty for a payment equal to the swap's market value.

As of June 30, 2007, U.Va. does not anticipate any restrictions in its ability to access capital markets at the time of bond issuance.

SECURITY 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
CASH EQUIVALENTS						
Assets held under State Security Lending Program	\$ 80,631					
Short-term investment pool	64,392	Unrated				
University of Virginia Investment Management Company Aggregate Cash Pool	226,188	Unrated				
State Non-Arbitrage Program	10,067	AAAm				
Federal Home Loan Bank Demand Note	49,864	P-1				
TOTAL CASH EQUIVALENTS	\$ 431,142					
INVESTMENTS SUBJECT TO INTEREST RATE RISK						
Endowment investments:						
Debt securities						
Demand notes due from related foundation, noninterest bearing	\$ 9,902	Unrated	\$ 9,902			
Note receivable, 9%	216	Unrated				\$ 216
Other investments						
Federal Home Loan Bank	42,114	Aaa	22,170	\$ 19,944		
Federal Home Loan Mortgage Corporation	54,864	Aaa	34,948	19,916		
Federal National Mortgage Association	64,739	Aaa	9,881	54,858		
TOTAL INVESTMENTS SUBJECT TO INTEREST RATE RISK	\$ 171,835		\$ 76,901	\$ 94,718	\$ —	\$ 216
	100.0%		44.8%	55.1%	0.0%	0.1%

NOTE 3: STATEMENT OF NET ASSETS DETAILS

a. **Accounts receivable** at June 30, 2007, are summarized in the chart below.

ACCOUNTS RECEIVABLE <i>(in thousands)</i>	
Patient care	\$ 298,888
Grants and contracts	19,261
Equipment Trust Fund reimbursement	11,248
Pledges	16,794
Related foundation	2,346
Capital appropriations	5,714
Other	11,789
Less: Allowance for doubtful accounts	(223,988)
TOTAL	\$ 142,052

b. **Notes receivable** of \$28 million are reported net of the allowance for uncollectible student loans, which amounted to \$1 million at June 30, 2007.

c. **Pledges:** The composition of pledges receivable at June 30, 2007, is summarized in the chart below.

PLEDGES <i>(in thousands)</i>	
GIFT PLEDGES OUTSTANDING	
Operations	\$ 17,668
Capital	20,435
TOTAL GIFT PLEDGES OUTSTANDING	38,103
Less	
Allowance for uncollectible pledges	(2,818)
Unamortized discount to present value	(3,606)
Total pledges receivable, net	31,679
Less current portion, net of allowance	(15,608)
TOTAL NONCURRENT PLEDGES RECEIVABLE	\$ 16,071

d. **Capital assets** activity for the year ended June 30, 2007, is summarized in the chart below.

INVESTMENT IN PLANT— CAPITAL ASSETS <i>(in thousands)</i>	BEGINNING BALANCE JULY 1, 2006	ADDITIONS	DISPOSITIONS	ENDING BALANCE JUNE 30, 2007
NONDEPRECIABLE CAPITAL ASSETS				
Land	\$ 27,954	\$ 3,846	\$ —	\$ 31,800
Construction in progress	342,513	214,180	263,463	293,230
TOTAL NONDEPRECIABLE CAPITAL ASSETS	370,467	218,026	263,463	325,030
DEPRECIABLE CAPITAL ASSETS				
Buildings	1,449,627	243,782	807	1,692,602
Equipment	520,921	89,342	40,249	570,014
Infrastructure	187,206	16,464	—	203,670
Improvements other than buildings	144,674	1,841	—	146,515
Capitalized software	32,949	2,336	97	35,188
Library books	97,066	4,722	1,153	100,635
Total depreciable capital assets	2,432,443	358,487	42,306	2,748,624
Less accumulated depreciation for				
Buildings	(581,095)	(50,764)	(2,140)	(629,719)
Equipment	(326,567)	(49,956)	(15,813)	(360,710)
Infrastructure	(98,174)	(5,893)	—	(104,067)
Improvements other than buildings	(63,450)	(6,478)	(38)	(69,890)
Capitalized software	(16,513)	(3,947)	65	(20,525)
Library books	(74,816)	(3,827)	(1,154)	(77,489)
Total accumulated depreciation	(1,160,615)	(120,865)	(19,080)	(1,262,400)
TOTAL DEPRECIABLE CAPITAL ASSETS, NET	1,271,828	237,622	23,226	1,486,224
TOTAL	\$ 1,642,295	\$ 455,648	\$ 286,689	\$ 1,811,254

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 was 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 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 Amherst and Lynchburg 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, 2007, are summarized in the chart below.

ACCOUNTS PAYABLE <i>(in thousands)</i>	
Accounts payable	\$ 145,584
Accrued salaries and wages payable	62,239
Other payables	35,102
TOTAL	\$ 242,925

g. **Deferred revenue** at June 30, 2007, includes the following:

DEFERRED REVENUE <i>(in thousands)</i>	
Grants and contracts	\$ 39,137
Student payments	13,294
Other deferred revenue	25,853
TOTAL	\$ 78,284

NOTE 4: SHORT-TERM DEBT

Short-term debt at June 30, 2007, is summarized in the chart below.

SHORT-TERM DEBT <i>(in thousands)</i>	BEGINNING BALANCE JULY 1, 2006	ADDITIONS	REDUCTIONS	ENDING BALANCE JUNE 30, 2007
COMMERCIAL PAPER				
Tax-exempt	\$ 26,000	\$ 38,200	\$ —	\$ 64,200
TOTAL COMMERCIAL PAPER	\$ 26,000	\$ 38,200	\$ —	\$ 64,200

The University has commercial paper programs that provide for bridge financing up to \$175,000,000 of capital projects. At June 30, 2007, the average days to maturity was sixty-two and the weighted average effective interest rate was 3.52 percent.

NOTE 5: LONG-TERM OBLIGATIONS

a. Long-term debt at June 30, 2007, is summarized in the chart below.

LONG-TERM DEBT <i>(in thousands)</i>	INTEREST RATES	FINAL MATURITY	BEGINNING BALANCE JULY 1, 2006	ADDITIONS	REDUCTIONS	ENDING BALANCE JUNE 30, 2007
BONDS AND NOTES PAYABLE						
Revenue bonds						
Medical Center Series 1998B (9d)	3.5% to 5.0%	2018	\$ 4,700	\$ —	\$ 305	\$ 4,395
Medical Center Series 1999A (9d)	4.5% to 5.3%	2013	28,160	—	4,660	23,500
University of Virginia Series 1995A (9d)	3.29% to 4.05%	2020	2,030	—	320	1,710
University of Virginia Series 2003A (9d)	3.31% to 3.97%	2034	82,010	—	—	82,010
University of Virginia Series 2003B (9d)	4.0% to 5.0%	2033	115,235	—	2,155	113,080
University of Virginia Series 2005 (9d)	4.0% to 5.0%	2037	190,585	—	2,495	188,090
Commonwealth of Virginia bonds (9c)	3.8% to 9.3%	2021	32,642	—	3,721	28,921
Notes payable to VCBA 1997A (9d)	3.5% to 5.0%	2018	995	—	205	790
Notes payable to VCBA 1999A (9d)	3.5% to 6.0%	2020	5,545	—	1,290	4,255
Notes payable to VCBA 2000A (9d)	3.5% to 5.8%	2021	26,200	—	1,785	24,415
Notes payable to VCBA 2004B (9d)	3.0% to 5.0%	2020	37,325	—	110	37,215
Other	various	2009	87	—	69	18
TOTAL BONDS AND NOTES PAYABLE			\$ 525,514	\$ —	\$ 17,115	\$ 508,399
Less current portion of debt			(16,784)	(365)	—	(17,149)
Bond premium			18,585	—	806	17,779
Deferred loss on early retirement of debt			(5,196)	—	(374)	(4,822)
NET LONG-TERM DEBT			\$ 522,119	\$ (365)	\$ 17,547	\$ 504,207

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, 2007. The 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:

MATURITIES <i>(in thousands)</i>	PRINCIPAL	INTEREST
2008	\$ 17,149	\$ 26,870
2009	13,273	23,021
2010	13,771	22,894
2011	19,614	21,684
2012	19,477	20,707
2013–2017	76,202	90,267
2018–2022	63,423	72,946
2023–2027	31,895	61,902
2028–2032	59,930	54,592
2033–2037	193,665	32,648
TOTAL	\$ 508,399	\$ 427,531

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, 2007, the outstanding balance of the prior years in-substance defeased bonds and notes totaled \$99,115,000.

b. Long-term liabilities at June 30, 2007, are summarized in the chart below.

LONG-TERM LIABILITIES <i>(in thousands)</i>	BEGINNING BALANCE JULY 1, 2006	ADDITIONS	REDUCTIONS	ENDING BALANCE JUNE 30, 2007
Investments held for related entities	\$ 15,717	\$ 3,635	\$ —	\$ 19,352
Accrual for compensated absences	44,246	51,863	48,014	48,095
Perkins loan program	14,368	—	554	13,814
Other	16,237	14,216	4,448	26,005
Subtotal	90,568	69,714	53,016	107,266
Less current portion of long-term liabilities	(51,908)	—	(1,145)	(50,763)
NET LONG-TERM LIABILITIES	\$ 38,660	\$ 69,714	\$ 51,871	\$ 56,503

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 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, 2007, 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, P.O. 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. As of June 30, 2007, the Medical Center's investment totaled \$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 health care 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.

AS OF JUNE 30, 2007 <i>(in thousands)</i>	COMMON STOCK AND EQUITY CONTRIBUTIONS	SHARE OF ACCUMULATED INCOME (LOSS)	NET INVESTMENT
UVA Imaging, L.L.C.	687	306	993
Community Medicine, L.L.C.	1,810	(3,239)	(1,429)
Central Virginia Health Network, Inc.	233	(41)	192
HEALTHSOUTH, L.L.C.	1,830	4,476	6,306
Valiance, L.L.C.	350	408	758
University HealthSystem Consortium	—	647	647

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.

STATEMENT OF FINANCIAL POSITION <i>(in thousands)</i> <i>as of June 30, 2007</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
ASSETS										
Current assets										
Total current assets	\$ 4,747	\$ 25,978	\$ 32,638	\$ 26,527	\$ 17,798	\$ 111,510	\$ 362,612	\$ 581,810	\$ —	\$ 581,810
Noncurrent assets										
Long-term investments	306,752	241,633	362,582	57,801	162,737	100,518	4,791,211	6,023,234	(873,837)	5,149,397
Capital assets, net, and other assets	7,956	81,993	21,791	42,181	241,414	21,316	113	416,764	—	416,764
Total noncurrent assets	314,708	323,626	384,373	99,982	404,151	121,834	4,791,324	6,439,998	(873,837)	5,566,161
TOTAL ASSETS	\$ 319,455	\$ 349,604	\$ 417,011	\$ 126,509	\$ 421,949	\$ 233,344	\$5,153,936	\$7,021,808	\$(873,837)	\$6,147,971
LIABILITIES AND NET ASSETS										
Current liabilities										
Total current liabilities	\$ 125	\$ 8,375	\$ 83,619	\$ 864	\$ 45,335	\$ 95,337	\$5,150,287	\$5,383,942	\$(873,837)	\$4,510,105
Noncurrent liabilities										
Long-term debt, net of current portion of \$5,911	—	55,826	—	—	232,125	19,140	—	307,091	—	307,091
Other noncurrent liabilities	786	—	18,941	952	52,817	52,331	—	125,827	—	125,827
Total noncurrent liabilities	786	55,826	18,941	952	284,942	71,471	—	432,918	—	432,918
TOTAL LIABILITIES	\$ 911	\$ 64,201	\$ 102,560	\$ 1,816	\$ 330,277	\$ 166,808	\$5,150,287	\$5,816,860	\$(873,837)	\$4,943,023
NET ASSETS										
Unrestricted	\$ 66,661	\$ 90,078	\$ 49,529	\$ 41,174	\$ 13,243	\$ 59,523	\$ 3,649	\$ 323,857	\$ —	\$ 323,857
Temporarily restricted	165,034	90,651	132,420	62,982	63,653	7,013	—	521,753	—	521,753
Permanently restricted	86,849	104,674	132,502	20,537	14,776	—	—	359,338	—	359,338
TOTAL NET ASSETS	318,544	285,403	314,451	124,693	91,672	66,536	3,649	1,204,948	—	1,204,948
TOTAL LIABILITIES AND NET ASSETS	\$ 319,455	\$ 349,604	\$ 417,011	\$ 126,509	\$ 421,949	\$ 233,344	\$5,153,936	\$7,021,808	\$(873,837)	\$6,147,971

*December 31, 2006, 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 promise is 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, 2007, 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
Total pledges receivable	\$ 16,798	\$ 18,690	\$ 20,179	\$ 65,687	\$ —	\$ —	\$ —	\$ 121,354
Less allowance for uncollectible accounts	(783)	(879)	(2,018)	(3,513)	—	—	—	(7,193)
Less effect of discounting to present value	(3,666)	(1,927)	(2,806)	(4,753)	—	—	—	(13,152)
Net pledges receivable	12,349	15,884	15,355	57,421	—	—	—	101,009
Less current pledges	(4,414)	(4,566)	(3,315)	(17,392)	—	—	—	(29,687)
TOTAL NONCURRENT PLEDGES RECEIVABLE	\$ 7,935	\$ 11,318	\$ 12,040	\$ 40,029	\$ —	\$ —	\$ —	\$ 71,322

*December 31, 2006, year-end

The **University of Virginia Law School Foundation** has also received bequest intentions and certain other conditional promises to give of approximately \$23.5 million at June 30, 2007. 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, 2007, was \$78 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, 2007, 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	\$ 18	\$ —	\$ —	\$ 44	\$ —	\$ 48,707	\$ 2,001,330	\$2,050,099
University of Virginia Investment Management Company	139,151	235,538	345,492	56,375	69,313	27,968	2,469	876,306
Equities	67,667	6,095	6,596	—	—	21,780	1,905,313	2,007,451
Other	99,916	294	10,494	1,382	107,521	61,399	1,242,937	1,523,943
Total investments	\$ 306,752	\$ 241,927	\$ 362,582	\$ 57,801	\$ 176,834	\$ 159,854	\$ 5,152,049	\$6,457,799
Less amounts shown in current assets	—	(294)	—	—	(14,096)	(59,337)	(360,838)	(434,565)
Less eliminations	(139,151)	(235,538)	(345,492)	(56,375)	(69,313)	(27,968)	—	(873,837)
LONG-TERM INVESTMENTS	\$ 167,601	\$ 6,095	\$ 17,090	\$ 1,426	\$ 93,425	\$ 72,549	\$ 4,791,211	\$5,149,397

*December 31, 2006, 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 \$873,731 (17 percent of investments held for others) at June 30, 2007. 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 five to thirty-nine years using the straight-line method. As of June 30, 2007, capital assets consisted of (in thousands):

Land	\$ 57,583
Buildings and improvements	160,755
Furnishings and equipment	18,515
Total	236,853
Less accumulated depreciation	(51,646)
NET CAPITAL ASSETS	\$ 185,207

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 five to thirty-nine years using the straight-line method. As of June 30, 2007, capital assets consisted of (in thousands):

Rights of occupancy	\$ 100,828
Buildings and improvements	1,554
Furnishings and equipment	970
Total	103,352
Less accumulated depreciation	(21,451)
NET CAPITAL ASSETS	\$ 81,901

NOTES PAYABLE

The **University of Virginia Foundation** has established a line of credit in the amount of \$34 million. The outstanding balance at June 30, 2007, was \$26 million. The Foundation has a second line of credit in the amount of \$25 million. The outstanding balance on this line was \$8 million at June 30, 2007.

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, 2007, 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, 2007 (in thousands):

1996 Industrial Development Authority revenue bonds—Albemarle	\$	1,310
1997 Industrial Development Authority revenue bonds—Louisa		5,742
1999 Mortgage note payable		7,526
2001 Refinancing demand bonds		43,999
2004 Refinancing note payable		9,744
2006 Refinancing demand bonds		165,900
Total		234,221
Less portion due within one year		(2,096)
LONG-TERM DEBT, NET OF CURRENT PORTION	\$	232,125

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, 2008	\$	2,095
Year ended June 30, 2009		12,777
Year ended June 30, 2010		3,910
Year ended June 30, 2011		4,037
Year ended June 30, 2012		4,117
Years ended June 30, 2013–2031		207,285
TOTAL	\$	234,221

The following table summarizes the **University of Virginia Health Services Foundation's** long-term obligations at June 30, 2007 (in thousands):

1998 Refunding bonds	\$	15,125
2000 Industrial Development Authority revenue bonds—Louisa		4,760
Total		19,885
Less portion due within one year		(745)
LONG-TERM DEBT, NET OF CURRENT PORTION	\$	19,140

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, 2008	\$	745
Year ended June 30, 2009		780
Year ended June 30, 2010		810
Year ended June 30, 2011		845
Year ended June 30, 2012		885
Years ended June 30, 2013–2031		15,820
TOTAL	\$	19,885

The following table summarizes the **University of Virginia Darden School Foundation's** long-term obligations at June 30, 2007 (in thousands):

University of Virginia Phase I and II Darden School Facilities	\$	58,896
Total		58,896
Less portion due within one year		(3,070)
LONG-TERM DEBT, NET OF CURRENT PORTION	\$	55,826

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, 2008	\$ 3,070
Year ended June 30, 2009	3,240
Year ended June 30, 2010	3,415
Year ended June 30, 2011	3,595
Year ended June 30, 2012	3,800
Years ended June 30, 2013–2031	41,776
TOTAL	\$ 58,896

STATEMENT OF ACTIVITIES <i>(in thousands)</i> <i>for the year ended June 30, 2007</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
UNRESTRICTED REVENUES AND SUPPORT										
Contributions	\$ 3,563	\$ 3,282	\$ 553	\$ 20,535	\$ —	\$ —	\$ 152	\$ 28,085	\$ —	\$ 28,085
Fees for services, rentals, and sales	—	23,646	2,130	802	38,808	181,683	—	247,069	—	247,069
Other revenues	24,006	22,897	77,103	19,171	4,065	80,470	8,313	236,025	—	236,025
TOTAL UNRESTRICTED REVENUES AND SUPPORT	27,569	49,825	79,786	40,508	42,873	262,153	8,465	511,179	—	511,179
EXPENSES										
Program services, lectures, special events	10,178	36,778	68,979	9,698	—	202,664	—	328,297	—	328,297
Other expenses	3,587	2,767	1,802	28,217	44,183	39,708	6,319	126,583	—	126,583
TOTAL EXPENSES	13,765	39,545	70,781	37,915	44,183	242,372	6,319	454,880	—	454,880
EXCESS (DEFICIENCY) OF UNRESTRICTED REVENUES AND SUPPORT OVER EXPENSES	13,804	10,280	9,005	2,593	(1,310)	19,781	2,146	56,299	—	56,299
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS										
Contributions	5,957	10,753	43,907	23,015	—	—	—	83,632	—	83,632
Other	31,007	26,934	(2,900)	(11,163)	8,352	(6,074)	—	46,156	—	46,156
NET CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	36,964	37,687	41,007	11,852	8,352	(6,074)	—	129,788	—	129,788
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS										
Contributions	5,894	2,081	11,108	1,546	—	—	—	20,629	—	20,629
Other	618	—	537	21	(612)	—	—	564	—	564
NET CHANGE IN PERMANENTLY RESTRICTED NET ASSETS	6,512	2,081	11,645	1,567	(612)	—	—	21,193	—	21,193
CHANGE IN NET ASSETS	57,280	50,048	61,657	16,012	6,430	13,707	2,146	207,280	—	207,280
Net assets, beginning of year	261,264	235,355	252,794	108,681	85,242	68,194	1,503	1,013,033	—	1,013,033
Current year effect of activity on net assets	—	—	—	—	—	(19,472)	—	(19,472)	—	(19,472)
Prior period adjustment	—	—	—	—	—	4,107	—	4,107	—	4,107
NET ASSETS, END OF YEAR	\$ 318,544	\$ 285,403	\$ 314,451	\$ 124,693	\$ 91,672	\$ 66,536	\$ 3,649	\$ 1,204,948	\$ —	\$ 1,204,948

*December 31, 2006, 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, 2008	\$ 3,070
Year ended June 30, 2009	3,240
Year ended June 30, 2010	3,415
Year ended June 30, 2011	3,595
Year ended June 30, 2012	3,800
Years ended June 30, 2013–2031	41,776
TOTAL	\$ 58,896

Direct payments to the University from the **Alumni Association of the University of Virginia** for the year ended June 30, 2007, 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 \$54 million for the year ended June 30, 2007. Approximately \$21 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 \$14 million to the University in support of various academic programs, equipment, teaching, and research for the year ended June 30, 2007.

OTHER SIGNIFICANT ACTIVITY

The **University of Virginia Health Services Foundation** has a net asset adjustment for fiscal year 2007. This adjustment is due to two occurrences. The first is an overstating of the pension liability reported last year. Adjusting for this overstatement caused a beginning net asset increase of \$1 million. The second is the realizing of Piedmont Liability Trust as a component unit of the Foundation. Piedmont Liability Trust is a revocable trust, formed March 9, 1989, to accumulate and hold funds for use in satisfying medical professional liability claims of the clinicians and employees of the Foundation and the Virginia Urologic Foundation. Piedmont Liability Trust provides administrative, claims, legal, and risk management services in conjunction with satisfying medical professional liability claims. Adjusting for this new subsidiary caused a beginning net asset increase of \$3 million, and a current year decrease in net assets of \$19 million. The results of the above activity caused a beginning net asset increase of \$4 million and a current year decrease in net assets of \$19 million; a net effect of decreasing net assets by \$15 million.

NOTE 8: NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

OPERATING EXPENSES BY FUNCTIONAL CLASSIFICATION <i>(in thousands)</i> <i>for the year ended June 30, 2007</i>	COMPENSATION AND BENEFITS	SUPPLIES AND OTHER SERVICES	STUDENT AID	UTILITIES	DEPRECIATION	OTHER	TOTAL
Instruction	\$ 256,562	\$ 8,396	\$ 3,147	\$ 1,818	\$ —	\$ 895	\$ 270,818
Research	161,513	79,113	15,859	1,145	—	634	258,264
Public service	13,060	11,763	344	203	—	475	25,845
Academic support	82,365	30,829	857	1,059	—	(162)	114,948
Student services	21,901	7,668	194	258	—	206	30,227
Institutional support	66,840	5,115	4	1,773	—	959	74,691
Operation of plant	55,354	(60,241)	6	56,830	—	(304)	51,645
Student aid	792	5,027	30,848	3	—	164	36,834
Auxiliary	54,458	47,964	147	18,223	—	(654)	120,138
Depreciation	—	—	—	—	73,503	—	73,503
Patient services	376,787	383,784	—	13,426	48,267	32,843	855,107
Other	2	(749)	—	479	—	(10)	(278)
TOTAL	\$ 1,089,634	\$ 518,669	\$ 51,406	\$ 95,217	\$ 121,770	\$ 35,046	\$ 1,911,742

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.

APPROPRIATIONS <i>(in thousands)</i>	2007
Original legislative appropriation per Chapter 847	\$ 154,985
Adjustments	
Financial Aid—General Fund	10,912
Reversions	(531)
Reversal required for payroll shift at end of FY06	(7,022)
Eminent Scholars	2,934
SWVA Public Education Consortium	300
Salary increase	1,711
Engineering Telecommunications Project	775
Virginia Graduate Marine Science Consortium	210
Employee benefits	1,284
Graduate Nursing Student Loan Funds (SCHEV)	700
Miscellaneous educational and general	4,181
TOTAL	\$ 170,439

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*. 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 members 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 \$43 million, and contributions to the Optional Retirement Plans were calculated, using base salaries of \$471 million, for the year ended June 30, 2007. The contribution percentage amounted to 9.2 percent.

NOTE 11: POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

The Commonwealth of Virginia sponsors a Virginia Retirement System-administered statewide group life insurance program, which provides postemployment 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*.

University of Virginia faculty members 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 U.Va. 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, 2007, was \$50 million. The estimated liability for outstanding claims at June 30, 2007, was \$12 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*.

The University's Office of Risk Management manages all property and casualty 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 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, 2007, was \$151 million and income received totaled \$6 million.

NOTE 14: COMMITMENTS

As of June 30, 2007, the University had outstanding construction contract commitments of approximately \$159 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, 2007, was approximately \$24 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
2008	\$ 13,684
2009	8,303
2010	7,161
2011	4,372
2012	2,845
2013-2017	9,241
2018-2022	7,574
2023-2027	823
2028-2032	823
2033-2037	823
2038-2042	823
2043-2047	823
2048-2052	424
TOTAL	\$ 57,719

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.