UNIVERSITY OF VIRGINIA

Statement of Net Assets *(in thousands)*

as of June 30, 2008 (with comparative information as of June 30, 2007)

	2008	2007
ASSETS		
Current assets		
Cash and cash equivalents (Note 2)	$ 244,093	$ 640,941
Cash and cash equivalents, securities lending	—	16,323
Restricted cash and cash equivalents (Note 2)	3	7
Short-term investments (Note 2)	209,904	276,070
Appropriations available	16,809	78,315
Accounts receivable, net (Note 3a)	144,853	142,052
Prepaid expenses	14,183	11,925
Inventories	22,685	21,694
Notes receivable, net	4,611	7,013
Total current assets	**657,141**	**1,194,340**
Noncurrent assets		
Restricted cash and cash equivalents (Note 2)	28,813	48,548
Endowment investments (Note 2)	3,241,709	3,068,268
Other long-term investments (Note 2)	719,030	286,436
Deposits with bond trustee	121,779	13,942
Notes receivable, net (Note 3b)	27,498	21,437
Pledges receivable, net (Note 3c)	11,037	16,071
Capital assets—depreciable, net (Note 3d)	1,594,871	1,486,224
Capital assets—nondepreciable (Note 3d)	420,579	325,030
Goodwill (Note 3e)	13,302	13,744
Other	475	548
Total noncurrent assets	**6,179,093**	**5,280,248**
TOTAL ASSETS	**$ 6,836,234**	**$ 6,474,588**
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 3f)	$ 220,636	$ 242,925
Deferred revenue (Note 3g)	88,863	78,284
Obligations under securities lending (Note 2)	—	80,631
Deposits held in custody for others	24,849	24,902
Commercial paper (Note 4)	17,550	64,200
Long-term debt—current portion (Note 5)	13,047	17,148
Long-term liabilities—current portion (Note 5)	53,690	50,763
Total current liabilities	**418,635**	**558,853**
Noncurrent liabilities (Note 5)		
Long-term debt	723,534	504,207
Other noncurrent liabilities	55,311	56,503
Total noncurrent liabilities	**778,845**	**560,710**
TOTAL LIABILITIES	**$ 1,197,480**	**$ 1,119,563**
NET ASSETS		
Invested in capital assets, net of related debt	$ 1,407,246	$ 1,226,529
Restricted		
Nonexpendable	429,619	369,874
Expendable	2,254,581	2,214,572
Unrestricted	1,547,308	1,544,050
TOTAL NET ASSETS	**$ 5,638,754**	**$ 5,355,025**

Certain 2007 amounts have been restated to conform to 2008 reclassifications.
The accompanying Notes to Financial Statements are an integral part of this statement.

UNIVERSITY OF VIRGINIA

COMPONENT UNITS

Combined Statements of Financial Position *(in thousands)*

as of June 30, 2008 (with comparative information as of June 30, 2007)

	2008	2007
ASSETS		
Current assets		
Cash and cash equivalents	$ 536,384	$ 404,139
Receivables	76,659	94,893
Other current assets	90,069	82,778
Total current assets	**703,112**	**581,810**
Noncurrent assets		
Pledges receivable, net of current portion of $32,244 and $28,824	67,725	61,692
Long-term investments	5,879,609	5,149,397
Capital assets, net of depreciation	342,873	297,848
Other noncurrent assets	79,580	57,224
Total noncurrent assets	**6,369,787**	**5,566,161**
TOTAL ASSETS	**$ 7,072,899**	**$ 6,147,971**
LIABILITIES AND NET ASSETS		
Current liabilities		
Assets held in trust for others	$ 5,215,297	$ 4,353,706
Other liabilities	194,526	156,399
Total current liabilities	**5,409,823**	**4,510,105**
Noncurrent liabilities		
Long-term debt, net of current portion of $6,239 and $5,911	318,562	307,091
Other noncurrent liabilities	110,354	125,827
Total noncurrent liabilities	**428,916**	**432,918**
TOTAL LIABILITIES	**$ 5,838,739**	**$ 4,943,023**
NET ASSETS		
Unrestricted	$ 327,766	$ 323,857
Temporarily restricted	521,688	521,753
Permanently restricted	384,706	359,338
TOTAL NET ASSETS	**$ 1,234,160**	**$ 1,204,948**
TOTAL LIABILITIES AND NET ASSETS	**$ 7,072,899**	**$ 6,147,971**

Certain 2007 amounts have been restated to conform to 2008 reclassifications.
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, 2008 (with comparative information for the year ended June 30, 2007)

	2008	2007
REVENUES		
Operating revenues		
Student tuition and fees (net of scholarship allowances of $66,066 and $61,943)	$ 316,332	$ 290,748
Patient services (net of charity care of $1,166,868 and $986,035)	934,838	882,401
Federal grants and contracts	258,794	236,750
State and local grants and contracts	4,391	3,186
Nongovernmental grants and contracts	38,965	39,174
Sales and services of educational departments	21,743	18,119
Auxiliary enterprises revenue (net of scholarship allowances of $8,809 and $8,163)	116,644	112,331
Other operating revenues	24,967	22,505
TOTAL OPERATING REVENUES	**1,716,674**	**1,605,214**
EXPENSES		
Operating expenses (Note 8)		
Compensation and benefits	1,166,094	1,089,634
Supplies, utilities, and other services	698,124	621,655
Student aid	54,768	51,406
Depreciation	127,554	121,770
Other	35,459	36,691
TOTAL OPERATING EXPENSES	**2,081,999**	**1,921,156**
OPERATING LOSS	**(365,325)**	**(315,942)**
NONOPERATING REVENUES (EXPENSES)		
State appropriations (Note 9)	183,020	170,439
Gifts	147,269	148,073
Investment income	243,280	721,505
Pell grants	5,271	4,384
Interest on capital asset-related debt	(21,213)	(23,889)
Losses on disposal of capital assets	(3,473)	(1,227)
Other nonoperating expenses	(6,221)	(4,063)
NET NONOPERATING REVENUES	**547,933**	**1,015,222**
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	**182,608**	**699,280**
Capital appropriations	6,348	128,075
Capital grants and gifts	35,700	60,805
Additions to permanent endowments	59,073	18,950
TOTAL OTHER REVENUES	**101,121**	**207,830**
INCREASE IN NET ASSETS	**283,729**	**907,110**
NET ASSETS		
Net assets, beginning of year	5,355,025	4,447,915
NET ASSETS, END OF YEAR	**$ 5,638,754**	**$ 5,355,025**

Certain 2007 amounts have been restated to conform to 2008 reclassifications.

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

UNIVERSITY OF VIRGINIA

COMPONENT UNITS

Combined Statements of Activities *(in thousands)*

for the year ended June 30, 2008 (with comparative information for the year ended June 30, 2007)

	2008	2007
UNRESTRICTED REVENUES AND SUPPORT		
Contributions	$ 23,683	$ 28,085
Fees for services, rentals, and sales	261,604	247,069
Investment income	27,063	62,686
Net assets released from restriction	81,780	102,728
Other revenues	70,446	70,611
TOTAL UNRESTRICTED REVENUES AND SUPPORT	**464,576**	**511,179**
EXPENSES		
Program services, lectures, and special events	262,019	247,297
Scholarships and financial aid	57,509	81,000
Management and general	41,448	34,502
Other expenses	95,767	92,081
TOTAL EXPENSES	**456,743**	**454,880**
EXCESS OF UNRESTRICTED REVENUES AND SUPPORT OVER EXPENSES	**7,833**	**56,299**
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	48,203	83,632
Investment and other income	33,989	149,502
Reclassification per donor stipulation	(1,347)	(618)
Net assets released from restriction	(81,909)	(102,728)
NET CHANGES IN TEMPORARILY RESTRICTED NET ASSETS	**(1,064)**	**129,788**
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Contributions	24,632	20,629
Investment and other income	(3,665)	(54)
Reclassification per donor stipulation	1,476	618
NET CHANGES IN PERMANENTLY RESTRICTED NET ASSETS	**22,443**	**21,193**
CHANGE IN NET ASSETS	**29,212**	**207,280**
Net assets, beginning of year	1,204,948	1,013,033
Current year effect of activity on net assets	—	(19,472)
Prior period adjustment	—	4,107
NET ASSETS, END OF YEAR	**$ 1,234,160**	**$ 1,204,948**

Certain 2007 amounts have been restated to conform to 2008 reclassifications.
The accompanying Notes to Financial Statements are an integral part of this statement.

UNIVERSITY OF VIRGINIA

Statement of Cash Flows *(in thousands)*

for the year ended June 30, 2008 (with comparative information for the year ended June 30, 2007)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 318,459	$ 290,838
Grants and contracts	309,078	277,974
Patient services	884,945	865,055
Sales and services of educational activities	39,296	11,703
Sales and services of auxiliary enterprises	116,663	111,772
Payments to employees and fringe benefits	(1,168,738)	(1,057,480)
Payments to vendors and suppliers	(695,521)	(615,345)
Payments for scholarships and fellowships	(54,786)	(51,410)
Perkins and other loans issued to students	(25,823)	(6,937)
Collection of Perkins and other loans to students	21,956	6,548
Other receipts	20,570	15,763
NET CASH USED BY OPERATING ACTIVITIES	(233,901)	(151,519)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	242,668	91,311
Additions to true endowments	59,073	18,950
Federal Family Education Loan Program receipts	99,535	76,521
Federal Family Education Loan Program payments	(99,535)	(76,521)
Pell grants	5,271	4,384
Receipts on behalf of agencies	102,244	82,966
Payments on behalf of agencies	(102,408)	(87,742)
Deposits held in custody for others	(53)	5,328
Noncapital gifts and grants received	142,737	138,523
Other net nonoperating receipts (disbursements)	(1,408)	17,578
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	448,124	271,298
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	4,388	125,753
Capital gifts and grants received	37,647	49,987
Proceeds from capital debt	317,264	48,688
Proceeds from sale of capital assets	471	184
Acquisition and construction of capital assets	(276,583)	(276,779)
Principal paid on capital debt and leases	(151,790)	(22,993)
Interest paid on capital debt and leases	(24,263)	(29,876)
Deposits with trustee	(107,837)	29,445
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(200,703)	(75,591)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	607,763	494,954
Interest and dividends on investments	46,449	80,653
Purchase of investments and related fees	(854,335)	(477,279)
Other investment activities	(229,984)	(21,882)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(430,107)	76,446
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(416,587)	120,634
Cash and cash equivalents, July 1	689,496	568,862
CASH AND CASH EQUIVALENTS, JUNE 30	$ 272,909	$ 689,496
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	$ (365,325)	$ (315,942)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Depreciation expense	127,554	121,770
Provision for uncollectible loans and write-offs	196	(665)
CHANGES IN ASSETS AND LIABILITIES		
Receivables, net	(19,472)	5,986
Inventories	(3,571)	(3,303)
Other assets	10	(874)
Prepaid expenses	(2,437)	(348)
Notes receivable, net	(3,866)	(387)
Accounts payable and accrued liabilities	4,486	36,691
Deferred revenue	28,025	3,488
Accrued vacation leave—long term	499	2,065
TOTAL ADJUSTMENTS	131,424	164,423
NET CASH USED BY OPERATING ACTIVITIES	$ (233,901)	$ (151,519)
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES—ACADEMIC ONLY		
Assets acquired through assumption of a liability	$ 306,639	$ 44,706
Assets acquired through a gift	7,939	14,188
Change in fair value of investments	109,226	399,995
Increase in receivables related to nonoperating income	4,393	(360)
Loss on disposal of capital asset	2,408	798

Certain 2007 amounts have been restated to conform to 2008 reclassifications.
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 discretely presented 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-five 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, 2008:

- 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, 2007. 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 provides patient care services to Health System patients, and in conjunction with the care of patients, provides teaching services. The University provides space and certain administrative services to the Foundation. The Foundation reimburses 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 University of Virginia, as a public institution, prepares its financial statements in accordance with accounting principles applicable to governmental colleges and universities generally accepted in the United States of America, 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 outstanding principal balances of debt attributable to the acquisition, construction, or improvement of these assets.

Restricted. Nonexpendable: Net assets subject to stipulations that they be maintained permanently by the University. Such assets include the University's permanent endowment funds.

Expendable: Net assets whose use by the University is subject to stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time.

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 in accordance with accounting principles generally accepted in the United States of America. Revenues are recorded when earned and expenses are recorded when incurred and measurable, regardless of when the related cash flows take place. Operating activities as reported on the Statement of Revenues, Expenses, and Changes in Net Assets are those that generally result from exchange transactions, such as payments received for providing services and payments made for services or goods received. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenues as specified by GASB Statement No. 34, including state appropriations, gifts, and investment income. In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, revenues from these nonexchange transactions are recognized in the fiscal year in which all eligibility requirements (resource provider conditions) have been satisfied, if measurable and probable of collection.

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. Substantially all cash and cash equivalents are concentrated in accounts in which balances exceed FDIC insurance limits.

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 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, 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. The discounts on these amounts are computed using risk-free interest rates applicable to the years in which the promises are made, commensurate with expected future payments. An allowance of $2,933,900 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. Capital assets should be depreciated or amortized over their estimated useful lives unless they are inexhaustible or intangible assets with indefinite useful lives. 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 more than one year.

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 is provided on a straight-line basis over estimated useful lives ranging from one to twenty years.

Amortization of intangible assets is also included in depreciation expense and is provided on a straight-line basis over the estimated useful lives ranging from one to forty 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.

COLLECTIONS

The University does not capitalize works of art or historical treasures that are held for exhibition, education, research, or 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.

DEFERRED REVENUE

Deferred revenue consists primarily of cash received from grant and contract sponsors that has not been earned under the terms of the agreement, and from amounts received in advance of an event, such as student tuition, but not earned as of June 30.

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 $3,925,421 and earned capital project interest income of $150,521 for the fiscal year ended June 30, 2008, resulting in net interest capitalized of $3,774,900.

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, 2008, 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 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 mail services, 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 payers. 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. Patient care revenues are reported net of contractual allowances in the Statement of Revenues, Expenses, and Changes in Net Assets 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

The University's policy for defining operating activities as reported on the Statement of Revenues, Expenses, and Changes in Net Assets are those that generally result from 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; federal, state, local, and nongovernmental grants and contracts; and sales and services of educational departments. With the exception of interest expense, all expense transactions are classified as operating expenses.

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.

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.

INCOME TAX STATUS

The University of Virginia is an agency of the Commonwealth of Virginia and is exempt from federal income tax under Section 115(a) of the Internal Revenue Code. The University-related organizations are 501(c)(3) organizations and are exempt from federal income tax under the Internal Revenue Code. Accordingly, no provision for income taxes has been recorded in the accompanying financial statements.

RESTATEMENTS: APPROPRIATIONS AVAILABLE

For fiscal year 2008 the Commonwealth of Virginia Department of Accounts mandated that higher education institutions report general fund appropriations available amounts as a receivable item instead of a cash and cash equivalents line item. As a result, the prior year's cash and cash equivalents have been restated as follows:

Cash and cash equivalents as originally reported	$	767,811
Reporting guidelines change for Department of Accounts appropriations available		(78,315)
CASH AND CASH EQUIVALENTS AT JULY 1, 2007, AS RESTATED	**$**	**689,496**

RECLASSIFICATIONS

Certain amounts from the prior fiscal year have been reclassified to conform to current-year presentation.

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 the 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 of whom 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.

Biannual distributions are made from the University's endowment to departments holding endowment investments. The University's endowment spending policy ties annual increases to inflation as defined by the Higher Education Price Index. If the increase causes the endowment distribution to fall outside a range defined as 4.0 percent to 6.0 percent of the market value of the endowment, then the Finance Committee of the Board of Visitors may recommend increasing or decreasing the spending rate. The current policy calls for the Board of Visitors to review the inflation factor every five years. This will next occur in 2010, unless the distribution falls outside of the current 4.0 percent to 6.0 percent range. For fiscal year 2008, the endowment distribution was adjusted to 4.5 percent of the fund's market value at June 30, 2007. For fiscal year 2008 the total distribution was $133.4 million and the market value of the endowment at June 30, 2008, was $3.2 billion.

The University also maintains an Internal Investment Program. This program allocates University investment earnings in the UVIMCO Aggregate Cash Pool to departments with allowable funds invested in the program. At June 30, 2008, a total of $353.3 million was invested in the program. A total of $9.0 million was allocated in fiscal year 2008. The quarterly annualized rates of return on the Internal Investment Program ranged from 0.4 percent to 4.9 percent.

RISK

Custodial Credit Risk is the risk that in the event of a bank failure, the University's deposits will not be honored. The University had no investments exposed to custodial credit risk as of June 30, 2008.

Interest Rate Risk occurs when the fair market value is adversely affected by changes in interest rates. The longer the duration of an investment, the greater the interest rate risk. Investments subject to interest rate risk at June 30, 2008, are outlined in the accompanying table.

Credit Risk is the possibility that a loss may occur due to the failure of a counterparty to perform according to the terms of the contract. State law limits the nonendowed investments in short-term commercial paper, certificates of deposit, asset-backed securities, and debt obligations 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 subject to credit risk at June 30, 2008, are outlined in the accompanying table.

Concentration of Credit Risk is the risk of a large loss attributed to the magnitude of investment in a single issuer of fixed income securities. The University minimizes this risk by diversifying its investments. The University does not have investments exposed to concentration of credit risk as of June 30, 2008.

Foreign Currency Risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The University has no foreign investments or deposits as of June 30, 2008.

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 $41 million at June 30, 2008. Such deposits are not subject to foreign currency risk. Interest rate risk disclosure for cash equivalents is outlined in the accompanying table.

INVESTMENTS

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 Long-Term Pool, which attempts to achieve returns that consistently exceed the returns on a passively managed benchmark with similar asset allocation and risk.

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 (market risk), while fixed-income investments are subject to interest rate and credit risk. Foreign investments are subject to currency exchange rates (foreign exchange risk), 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.

The UVIMCO Aggregate Cash Pool commingles the short-term investments of the University. The investments are valued on a daily basis by the custodian bank. Deposits and withdrawals are processed daily. An income factor is calculated daily and includes interest and dividends earned, realized gains and losses, the change in unrealized gains and losses, and fees. Income factors are totaled on a monthly basis, and income is reinvested on the first business day of the following month.

At June 30, 2008, the University's investment in the UVIMCO Long-Term Pool was $3.9 billion, representing 86 percent of invested assets. At June 30, 2008, the University's investments in the UVIMCO Aggregate Cash Pool was $213 million, representing 5 percent of invested assets. These pools are not rated by nationally recognized statistical rating organizations.

DERIVATIVES

In January 2007, the University entered into three fixed-payer interest rate swaps totaling $150 million in notional amount. The underlying index for the swaps is the Securities Industry and Financial Markets Association 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 when they were initiated. The objective of the swaps is to offset the risk of rising interest rates between January 2007 and June 2008. The swaps provided a hedge against the impact of rising interest rates on the University's Series 2008 Bonds dated May 22, 2008. On February 25, 2008, the University terminated one of the swaps with a notional amount of $50 million and received payment upon termination of $750,000. The two remaining swaps are scheduled to begin exchanging interest payments on July 1, 2008, for a period of thirty years.

As of June 30, 2008, the $100 million notional amount of swaps outstanding had a negative market value of approximately $3.4 million, representing the amount the University would pay 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. The University would be exposed to the credit risk of its swap counterparties any time the swaps had a positive market value. As of June 30, 2008, the University's swap counterparties were rated A+ and A from Standard & Poor's and Aa3 and A2 by Moody's. To mitigate credit risk, the University limits market value exposure and requires the posting of collateral based on the credit rating of the counterparty. All counterparties are required to have at least an A-/A3 rating by Standard & Poor's and Moody's, respectively. As of June 30, 2008, 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. The University 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, the University would be liable to the counterparty for a payment equal to the swap's market value.

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. Under the University's management agreement with the Commonwealth of Virginia under the Restructured Higher Education Financial and Administrative Operations Act, which took effect July 1, 2007, the University no longer participates in the State Treasury's securities lending program.

Credit Quality and Interest Rate Risk *(in thousands)*	FAIR VALUE	CREDIT RATING	INVESTMENT MATURITIES (IN YEARS)			
			LESS THAN 1 YEAR	1–5 YEARS	6–10 YEARS	GREATER THAN 10 YEARS
CASH EQUIVALENTS						
Short-term investment pool	$ 2,281	Aaa				
University of Virginia Investment Management Company Aggregate Cash Pool	213,302	Unrated				
State Non-Arbitrage Program	121,779	AAAm				
TOTAL CASH EQUIVALENTS	$ 337,362					
INVESTMENTS SUBJECT TO INTEREST RATE RISK						
Endowment investments:						
Debt securities						
Demand notes due from related foundation, noninterest bearing	$ 8,633	Unrated	$ 8,633			
Note receivable, 9%	190	Unrated				$ 190
TOTAL INVESTMENTS SUBJECT TO INTEREST RATE RISKS	$ 8,823		$ 8,633	$ —	$ —	$ 190
	100.0%		97.8%	0.0%	0.0%	2.2%

NOTE 3: STATEMENT OF NET ASSETS DETAILS

a. Accounts receivable: The composition of accounts receivable at June 30, 2008, is summarized as follows:

Accounts Receivable *(in thousands)*	
Patient care	$ 282,062
Grants and contracts	19,085
Equipment Trust Fund reimbursement	5,418
Pledges	18,547
Related foundation	2,045
Capital appropriations	12,512
Other	11,443
Less: Allowance for doubtful accounts	(206,259)
TOTAL	$ 144,853

b. Notes receivable: The composition of notes receivable at June 30, 2008, is summarized in the chart below.

Notes Receivable *(in thousands)*	
Perkins	$ 18,676
Nursing	1,154
Health	24
Institutional	12,282
Fraternity loan	781
House Staff loan	11
Less: Allowance for doubtful accounts	(819)
Total notes receivable, net	**32,109**
Less: Current portion, net of allowance	(4,611)
TOTAL NONCURRENT NOTES RECEIVABLE	**$ 27,498**

c. Pledges: The composition of pledges receivable at June 30, 2008, is summarized as follows:

Pledges *(in thousands)*	
GIFT PLEDGES OUTSTANDING	
Operations	$ 16,413
Capital	17,325
TOTAL GIFT PLEDGES OUTSTANDING	**33,738**
Less:	
Allowance for uncollectible pledges	(2,934)
Unamortized discount to present value	(2,957)
Total pledges receivable, net	**27,847**
Less current portion, net of allowance	(16,810)
TOTAL NONCURRENT PLEDGES RECEIVABLE	**$ 11,037**

d. Capital assets: Activity for the year ended June 30, 2008, is summarized in the chart below.

Investment in Plant— Capital Assets *(in thousands)*	BEGINNING BALANCE JULY 1, 2007	ADDITIONS	DISPOSITIONS	ADJUSTMENTS	ENDING BALANCE JUNE 30, 2008
NONDEPRECIABLE CAPITAL ASSETS					
Land	$ 31,800	$ 6,392	$ —	$ —	$ 38,192
Construction in progress	293,230	261,709	183,433	—	371,506
Software in development	—	8,544	—	2,337	10,881
TOTAL NONDEPRECIABLE CAPITAL ASSETS	**325,030**	**276,645**	**183,433**	**2,337**	**420,579**
DEPRECIABLE CAPITAL ASSETS					
Buildings	1,692,602	162,207	4,051	1,826	1,852,584
Equipment	570,014	106,946	25,069	(36,009)	615,882
Infrastructure	203,670	462	—	10,308	214,440
Improvements other than buildings	146,515	545	8	(8,843)	138,209
Capitalized software	35,188	—	—	(2,398)	32,790
Library books	100,635	5,013	457	—	105,191
Total depreciable capital assets	**2,748,624**	**275,173**	**29,585**	**(35,116)**	**2,959,096**
Less accumulated depreciation for:					
Buildings	(629,719)	(55,629)	(2,553)	(1,068)	(683,863)
Equipment	(360,710)	(53,442)	(21,524)	2,925	(389,703)
Infrastructure	(104,067)	(6,338)	—	(1,915)	(112,320)
Improvements other than buildings	(69,890)	(2,956)	(7)	—	(72,839)
Capitalized software	(20,525)	(3,928)	—	91	(24,362)
Library books	(77,489)	(4,107)	(457)	—	(81,139)
Total accumulated depreciation	**(1,262,400)**	**(126,400)**	**(24,541)**	**33**	**(1,364,226)**
TOTAL DEPRECIABLE CAPITAL ASSETS, NET	**1,486,224**	**148,773**	**5,044**	**(35,083)**	**1,594,870**
TOTAL	**$ 1,811,254**	**$ 425,418**	**$ 188,477**	**$ (32,746)**	**$ 2,015,449**

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 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: The composition of accounts payable at June 30, 2008, is summarized as follows:

Accounts Payable *(in thousands)*	
Accounts payable	$ 136,861
Accrued salaries and wages payable	59,036
Other postemployment benefits	6,766
Other payables	17,973
TOTAL	**$ 220,636**

g. Deferred revenue: The composition of deferred revenue at June 30, 2008, is summarized as follows:

Deferred Revenue *(in thousands)*	
Grants and contracts	$ 45,890
Student payments	14,520
Other deferred revenue	28,453
TOTAL	**$ 88,863**

NOTE 4: SHORT-TERM DEBT

Short-term debt at June 30, 2008, is summarized in the chart below.

Short-Term Debt *(in thousands)*	BEGINNING BALANCE JULY 1, 2007	ADDITIONS	REDUCTIONS	ENDING BALANCE JUNE 30, 2008
Commercial paper, tax-exempt	$ 64,200	$ 61,906	$ 108,556	$ 17,550

The University has both taxable and tax-exempt commercial paper programs that provide for bridge financing for capital projects up to a board-approved limit. The University Board of Visitors approved an increase in the limit from $175,000,000 to $300,000,000 in April 2008. In fiscal year 2008, the average days to maturity were fifty-nine and the weighted-average effective interest rate was 2.69 percent.

NOTE 5: LONG-TERM OBLIGATIONS

a. Long-term debt: The composition of long-term debt at June 30, 2008, is summarized as follows:

Long-Term Debt *(in thousands)*	INTEREST RATES	FINAL MATURITY	BEGINNING BALANCE JULY 1, 2007	ADDITIONS	REDUCTIONS	ENDING BALANCE JUNE 30, 2008
BONDS AND NOTES PAYABLE						
Revenue bonds						
Medical Center Series 1998B (9d)	3.5% to 5.0%	2018	$ 4,395	$ —	$ 4,395	$ —
Medical Center Series 1999A (9d)	4.5% to 5.3%	2013	23,500	—	4,565	18,935
University of Virginia Series 1995A (9d)	1.27% to 4.07%	2020	1,710	—	1,710	—
University of Virginia Series 2003A (9d)	1.0% to 4.05%	2034	82,010	—	—	82,010
University of Virginia Series 2003B (9d)	4.0% to 5.0%	2033	113,080	—	2,265	110,815
University of Virginia Series 2005 (9d)	4.0% to 5.0%	2037	188,090	—	2,595	185,495
University of Virginia Series 2008 (9d)	5%	2040	—	231,365	—	231,365
Commonwealth of Virginia bonds (9c)	3.8% to 9.3%	2021	28,921	—	3,844	25,077
Notes payable to VCBA 1997A (9d)	3.5% to 5.0%	2018	790	—	790	—
Notes payable to VCBA 1999A (9d)	3.5% to 6.0%	2020	4,255	—	1,345	2,910
Notes payable to VCBA 2000A (9d)	3.5% to 5.8%	2021	24,415	—	12,055	12,360
Notes payable to VCBA 2004B (9d)	3.0% to 5.0%	2020	37,215	—	110	37,105
Notes payable to VCBA 2007B (9d)	4.0% to 4.25%	2020	—	11,010	—	11,010
Other	various	2009	18	298	18	298
TOTAL BONDS AND NOTES PAYABLE			**$ 508,399**	**$ 242,673**	**$ 33,692**	**$ 717,380**
Less current portion of debt			(17,149)	—	(4,102)	(13,047)
Bond premium			17,779	6,988	869	23,898
Deferred loss on early retirement of debt			(4,822)	(260)	(385)	(4,697)
NET LONG-TERM DEBT			**$ 504,207**	**$ 249,401**	**$ 30,074**	**$ 723,534**

On May 22, 2008, the University of Virginia issued $231,365,000 in General Revenue Pledge Bonds, Series 2008. The 2008 Series was issued to fund new construction on the grounds of the University of Virginia, refund $102,093,668 of outstanding commercial paper and to refund the University of Virginia 1995A (9d) and the Medical Center Series 1998B (9d) bonds. The refunding of the bonds increased aggregate debt service $6,907,084, representing a net present value loss of $289,521 and an accounting loss of $40,800.

During the fiscal year ended June 30, 2008, the Commonwealth of Virginia, on behalf of the University, issued bonds in the amount of $11,010,000 to advance refund $10,750,000 in various series of bonds. The advance refunding reduced the aggregate debt service by $645,571, representing a net present value savings of $518,252 and an accounting loss of $260,000.

The University has a revolving credit agreement with a maximum principal amount of $82,010,000 to provide liquidity for its 2003A General Revenue Pledge Bonds, and another revolving credit agreement with a maximum principal amount of $167,990,000 to provide liquidity for all other variable rate obligations of the University. There were no advances outstanding under this credit agreement as of June 30, 2008. 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 *(in thousands)*	PRINCIPAL	INTEREST
2009	$ 13,047	$ 34,139
2010	13,525	33,737
2011	19,353	32,541
2012	19,201	31,580
2013	20,043	30,599
2014–2018	68,468	141,181
2019–2023	55,253	125,766
2024–2028	29,425	116,212
2029–2033	88,900	108,805
2034–2038	232,190	80,203
2039–2040	157,975	11,944
TOTAL	**$ 717,380**	**$ 746,707**

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, 2008, the outstanding balance of the prior years' in-substance defeased bonds and notes totaled $39,750,000.

b. Long-term liabilities: The composition of long-term liabilities at June 30, 2008, is summarized as follows:

Long-Term Liabilities *(in thousands)*	BEGINNING BALANCE JULY 1, 2007	ADDITIONS	REDUCTIONS	ENDING BALANCE JUNE 30, 2008
Investments held for related entities	$ 19,352	$ —	$ 880	$ 18,472
Accrual for compensated absences	48,095	52,588	50,556	50,127
Perkins loan program	13,814	2,046	—	15,860
Other	26,005	14,944	16,407	24,542
Subtotal	**107,266**	**69,578**	**67,843**	**109,001**
Less current portion of long-term liabilities	(50,763)	(2,927)	—	(53,690)
NET LONG-TERM LIABILITIES	**$ 56,503**	**$ 66,651**	**$ 67,843**	**$ 55,311**

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 orthopaedic physicians located at the Fontaine Research 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, 2008, 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 healthcare services in central and western Virginia. The Medical Center contributed $100,000 in initial capital, which entitles it to a pro-rata distribution of any profits and losses of Valiance. As of June 30, 2008, 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, section 1382-1388, of the Internal Revenue Code. As such, UHC's bylaws provide for distributions of patronage dividends to its patrons. This allocation is based on the value of business done with or for each patron by UHC. The Medical Center records the portion of the patronage dividends that were held by UHC as patronage equity.

As of June 30, 2008 *(in thousands)*	COMMON STOCK AND EQUITY CONTRIBUTIONS	SHARE OF ACCUMULATED INCOME (LOSS)	NET INVESTMENT
UVA Imaging, L.L.C.	$ 687	$ 1,541	$ 2,228
Community Medicine, L.L.C.	1,810	(3,762)	(1,952)
Central Virginia Health Network, Inc.	232	(41)	191
HEALTHSOUTH, L.L.C.	1,830	5,661	7,491
Valiance, L.L.C.	350	791	1,141
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 *(in thousands)* *as of June 30, 2008*	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	$ 5,351	$ 14,632	$ 37,273	$ 28,580	$ 22,758	$ 116,250	$ 478,268	$ 703,112	$ —	$ 703,112
Noncurrent assets										
Long-term investments	304,070	248,280	376,037	69,926	119,070	90,631	5,653,700	6,861,714	(982,105)	5,879,609
Capital assets, net, and other assets	8,418	93,408	34,229	34,243	294,898	23,866	1,116	490,178	—	490,178
Total noncurrent assets	312,488	341,688	410,266	104,169	413,968	114,497	5,654,816	7,351,892	(982,105)	6,369,787
TOTAL ASSETS	$ 317,839	$ 356,320	$ 447,539	$ 132,749	$ 436,726	$ 230,747	$6,133,084	$8,055,004	$ (982,105)	$7,072,899
LIABILITIES AND NET ASSETS										
Current liabilities										
Total current liabilities	$ 196	$ 9,263	$ 74,309	$ 1,041	$ 79,799	$ 99,460	$6,127,860	$6,391,928	$ (982,105)	$5,409,823
Noncurrent liabilities										
Long-term debt, net of current portion of $6,239	—	52,586	18,000	—	229,616	18,360	—	318,562	—	318,562
Other noncurrent liabilities	672	—	20,042	919	39,000	49,721	—	110,354	—	110,354
Total noncurrent liabilities	672	52,586	38,042	919	268,616	68,081	—	428,916	—	428,916
TOTAL LIABILITIES	$ 868	$ 61,849	$ 112,351	$ 1,960	$ 348,415	$ 167,541	$6,127,860	$6,820,844	$ (982,105)	$5,838,739
NET ASSETS										
Unrestricted	$ 63,965	$ 91,372	$ 50,279	$ 52,779	$ 8,436	$ 55,711	$ 5,224	$ 327,766	$ —	$ 327,766
Temporarily restricted	156,655	95,770	142,172	54,497	65,099	7,495	—	521,688	—	521,688
Permanently restricted	96,351	107,329	142,737	23,513	14,776	—	—	384,706	—	384,706
TOTAL NET ASSETS	316,971	294,471	335,188	130,789	88,311	63,206	5,224	1,234,160	—	1,234,160
TOTAL LIABILITIES AND NET ASSETS	$ 317,839	$ 356,320	$ 447,539	$ 132,749	$ 436,726	$ 230,747	$6,133,084	$8,055,004	$ (982,105)	$7,072,899

**December 31, 2007, 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 was 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, 2008, are as follows:

Summary Schedule of Pledges Receivable *(in thousands)* *as of June 30, 2008*	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	$ 16,883	$ 21,536	$ 23,583	$ 54,976	$ —	$ —	$ —	$ 116,978
Less allowance for uncollectible accounts	(707)	(690)	(1,337)	(3,018)	—	—	—	(5,752)
Less effect of discounting to present value	(2,896)	(1,859)	(2,924)	(3,578)	—	—	—	(11,257)
Net pledges receivable	**13,280**	**18,987**	**19,322**	**48,380**	**—**	**—**	**—**	**99,969**
Less current pledges	(4,926)	(5,162)	(4,750)	(17,406)	—	—	—	(32,244)
TOTAL NONCURRENT PLEDGES RECEIVABLE	**$ 8,354**	**$ 13,825**	**$ 14,572**	**$ 30,974**	**$ —**	**$ —**	**$ —**	**$ 67,725**

**December 31, 2007, year-end*

The **University of Virginia Law School Foundation** has received bequest intentions and certain other conditional promises to give of approximately $13 million at June 30, 2008. 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.

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 **University of Virginia Investment Management Company (UVIMCO)**. 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, 2008, for the component units are as follows:

Summary Schedule of Investments *(in thousands)* *as of June 30, 2008*	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	$ 23	$ —	$ —	$ 44	$ —	$ 1,082	$ —	$ 1,149
University of Virginia Investment Management Company	199,892	243,142	359,719	66,449	71,655	41,248	6,310	988,415
Equities	10,968	5,139	3,331	—	—	15,048	4,032,348	4,066,834
Other	93,186	940	12,987	3,433	65,487	99,846	2,091,991	2,367,870
Total investments	**$ 304,069**	**$ 249,221**	**$ 376,037**	**$ 69,926**	**$ 137,142**	**$ 157,224**	**$6,130,649**	**$7,424,268**
Less amounts shown in current assets	—	(937)	—	—	(18,072)	(66,594)	(476,951)	(562,554)
Less eliminations	(199,892)	(243,142)	(359,719)	(66,449)	(71,655)	(41,248)	—	(982,105)
LONG-TERM INVESTMENTS	**$ 104,177**	**$ 5,142**	**$ 16,318**	**$ 3,477**	**$ 47,415**	**$ 49,382**	**$5,653,698**	**$5,879,609**

**December 31, 2007, year-end*

UVIMCO has investments in limited partnership hedge funds, private equity and venture capital investments, or similar private investment vehicles. These investments do not actively trade through established exchange mechanisms and are valued at estimated fair market value, based on **UVIMCO's** interest in the investee as determined and reported by the external manager of the investment. Such investments represent $1,659,394,789 (32 percent of investments held for others) at June 30, 2008. 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 property, furnishings, and equipment of the **University of Virginia Foundation** and the **University of Virginia Darden School Foundation** 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, 2008, capital assets consisted of (in thousands):

	UNIVERSITY OF VIRGINIA FOUNDATION	UNIVERSITY OF VIRGINIA DARDEN SCHOOL FOUNDATION
Land	$ 61,549	
Rights of occupancy		$ 100,828
Buildings and improvements	205,070	1,682
Furnishings and equipment	19,540	1,102
Total	286,159	103,612
Less accumulated depreciation	(58,529)	(24,127)
NET CAPITAL ASSETS	$ 227,630	$ 79,485

NOTES PAYABLE

The **University of Virginia Foundation** has established a line of credit with Wachovia Bank in the amount of $41 million. The outstanding balance at June 30, 2008, was $31 million. The Foundation has a second line of credit with Bank of America in the amount of $25 million. The outstanding balance on this line was $17 million at June 30, 2008.

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, 2008, the Foundation had borrowed $9 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 long-term obligations of the **University of Virginia Darden School Foundation**, the **University of Virginia Foundation**, and the **University of Virginia Health Services Foundation** at June 30, 2008 (in thousands):

	UNIVERSITY OF VIRGINIA DARDEN SCHOOL FOUNDATION	UNIVERSITY OF VIRGINIA FOUNDATION	UNIVERSITY OF VIRGINIA HEALTH SERVICES FOUNDATION
University of Virginia Phase I and II Darden School Facilities	$ 55,826		
1996 Industrial Development Authority revenue bonds—Albemarle		$ 1,242	
1997 Industrial Development Authority revenue bonds—Louisa		5,394	
1998 Refunding bonds			$ 14,480
1999 Mortgage note payable		7,132	
2000 Industrial Development Authority revenue bonds—Louisa			4,660
2001 Refinancing demand bonds		42,420	
2004 Refinancing note payable		9,747	
2006 Refinancing demand bonds		165,900	
Total	55,826	231,835	19,140
Less portion due within one year	(3,240)	(2,219)	(780)
LONG-TERM DEBT, NET OF CURRENT PORTION	$ 52,586	$ 229,616	$ 18,360

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

	UNIVERSITY OF VIRGINIA DARDEN SCHOOL FOUNDATION	UNIVERSITY OF VIRGINIA FOUNDATION	UNIVERSITY OF VIRGINIA HEALTH SERVICES FOUNDATION
Year ended June 30, 2009	$ 3,240	$ 2,219	$ 780
Year ended June 30, 2010	3,415	2,407	810
Year ended June 30, 2011	3,595	2,534	845
Year ended June 30, 2012	3,800	2,614	885
Year ended June 30, 2013	4,005	2,731	920
Years ended June 30, 2014–2032	37,771	219,327	14,900
TOTAL	$ 55,826	$ 231,832	$ 19,140

Statement of Activities *(in thousands)* *for the year ended June 30, 2008*	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
UNRESTRICTED REVENUES AND SUPPORT								
Contributions	$ 1,822	$ 3,147	$ 682	$ 18,025	$ —	$ —	$ 7	$ 23,683
Fees for services, rentals, and sales	—	26,661	2,143	742	41,784	190,274	—	261,604
Other revenues	12,747	12,404	47,403	28,469	2,692	62,881	12,693	179,289
TOTAL UNRESTRICTED REVENUES AND SUPPORT	**14,569**	**42,212**	**50,228**	**47,236**	**44,476**	**253,155**	**12,700**	**464,576**
EXPENSES								
Program services, lectures, special events	13,377	37,675	44,693	10,442	—	213,341	—	319,528
Other expenses	3,888	3,241	3,786	25,189	46,359	43,627	11,125	137,215
TOTAL EXPENSES	**17,265**	**40,916**	**48,479**	**35,631**	**46,359**	**256,968**	**11,125**	**456,743**
EXCESS (DEFICIENCY) OF UNRESTRICTED REVENUES AND SUPPORT OVER EXPENSES	**(2,696)**	**1,296**	**1,749**	**11,605**	**(1,883)**	**(3,813)**	**1,575**	**7,833**
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS								
Contributions	$ 3,210	$ 3,986	$ 31,751	$ 6,756	$ —	$ 2,500	$ —	$ 48,203
Other	(11,589)	1,131	(22,998)	(15,240)	1,446	(2,017)	—	(49,267)
NET CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	**(8,379)**	**5,117**	**8,753**	**(8,484)**	**1,446**	**483**	**—**	**(1,064)**
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS								
Contributions	$ 8,155	$ 2,655	$ 10,889	$ 2,933	$ —	$ —	$ —	$ 24,632
Other	1,347	—	(654)	42	(2,924)	—	—	(2,189)
NET CHANGE IN PERMANENTLY RESTRICTED NET ASSETS	**9,502**	**2,655**	**10,235**	**2,975**	**(2,924)**	**—**	**—**	**22,443**
CHANGE IN NET ASSETS	**(1,573)**	**9,068**	**20,737**	**6,096**	**(3,361)**	**(3,330)**	**1,575**	**29,212**
Net assets, beginning of year	318,544	285,403	314,451	124,693	91,672	66,536	3,649	1,204,948
Current year effect of activity on net assets	—	—	—	—	—	—	—	—
Prior period adjustment	—	—	—	—	—	—	—	—
NET ASSETS, END OF YEAR	**$ 316,971**	**$ 294,471**	**$ 335,188**	**$ 130,789**	**$ 88,311**	**$ 63,206**	**$ 5,224**	**$1,234,160**

**December 31, 2007, 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.

Direct payments to the University from the **Alumni Association of the University of Virginia** for the year ended June 30, 2008, 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 $53 million for the year ended June 30, 2008. Approximately $18 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 $13 million to the University in support of various academic programs, equipment, teaching, and research for the year ended June 30, 2008.

NOTE 8: EXPENSE CLASSIFICATION MATRIX

Operating Expenses by Functional Classification *(in thousands)* *for the year ended June 30, 2008*	COMPENSATION AND BENEFITS	SUPPLIES, UTILITIES, AND OTHER SERVICES	STUDENT AID	DEPRECIATION	OTHER	TOTAL
Instruction	$ 273,643	$ 27,648	$ 3,502	$ —	$ 928	$ 305,721
Research	165,941	98,136	15,371	—	662	280,110
Public service	12,539	13,907	526	—	645	27,617
Academic support	81,076	29,853	1,370	—	308	112,607
Student services	26,412	5,362	215	—	149	32,138
Institutional support	70,992	2,766	19	—	415	74,192
Operation of plant	60,980	4,520	5	—	94	65,599
Student aid	859	4,750	33,568	—	147	39,324
Auxiliary	58,813	73,699	192	—	639	133,343
Depreciation	—	—	—	76,281	—	76,281
Patient services	407,523	421,387	—	51,273	31,472	911,655
Other	7,316	16,096	—	—	—	23,412
TOTAL	$ 1,166,094	$ 698,124	$ 54,768	$ 127,554	$ 35,459	$ 2,081,999

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 *(in thousands)*	
Original legislative appropriation per Chapter 847	$ 161,297
Adjustments	
Financial Aid—General Fund	11,268
2008 Budget Reduction	(9,157)
Eminent Scholars	2,934
SWVA Public Education Consortium	298
Salary increase	4,054
Allot funds for Engineering Telecommunications Project	775
Financial assistance for educational and general	6,324
Employee benefits	1,642
Miscellaneous educational and general	3,796
Reappropriate funds from U.Va. to VIMS for Fishery	(211)
TOTAL	$ 183,020

NOTE 10: RETIREMENT PLANS

Employees of the University are employees of the Commonwealth. Substantially all salaried classified employees and research staff, 10 percent of faculty, and 22 percent of Medical Center employees participate in a defined-benefit pension plan administered by the Virginia Retirement System (VRS). The VRS does not measure assets and pension benefit obligations separately for individual state institutions. Information relating to this plan is available at the statewide level only in the Commonwealth of Virginia's *Comprehensive Annual Financial Report* (CAFR). The CAFR provides disclosure of the Commonwealth's unfunded pension benefit obligation at June 30, 2008. The Commonwealth, not the University, has overall responsibility for contributions to this plan.

Ninety percent of teaching, research, and administrative faculty, and 78 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 Optional Retirement Plans were approximately $44 million, and contributions were calculated using base salaries of $496 million, for the year ended June 30, 2008. The contribution percentage amounted to 8.8 percent.

State employees may elect to participate in the Commonwealth's Deferred Compensation Plan. Participating employees can contribute to the plan each pay period, with the Commonwealth matching up to $20 per pay period. This dollar-amount match can change depending on the funding available in the Commonwealth's budget. The Deferred Compensation Plan is a qualified defined-contribution plan under section 401(a) of the Internal Revenue Code. Employer contributions under the Deferred Compensation Plan were approximately $4 million for the fiscal year ended June 30, 2008.

NOTE 11: POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

The University participates in the Commonwealth of Virginia-sponsored 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 CAFR.

University of Virginia faculty members who participate in the Optional Retirement Plan receive $10,000 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. Benefit provisions for this plan are established and maintained by the University under the authority of the Board of Visitors. This Optional Retirement Plan is a single-employer plan administered by the University. The University does not issue stand-alone financial statements for this plan.

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, calls for the measurement and recognition of the cost of other postemployment benefits (OPEB) during the periods when employees render their services. The statement also establishes more comprehensive disclosure for OPEB obligations. OPEB refers to postemployment benefits other than pension benefits and includes postemployment health care benefits and other types of postemployment benefits if provided separately from a pension plan. The University implemented GASB 45 prospectively as of June 30, 2008, with a zero net OPEB obligation at transition.

University employees who retire before becoming eligible for Medicare participate in the Retiree Health Plan, which mirrors the University's Health Plan for active employees, until they are Medicare-eligible. At that time, University retirees can participate in the Commonwealth's Medicare Supplement Plan.

The contribution requirements of plan members and the University are based on projected pay-as-you-go financing requirements. For fiscal year 2008, the University contributed $2,568,204 to the plan for retiree claims. Retirees receiving benefits contributed $2,983,967, or approximately 54 percent of the total premiums, through their required contribution of $377 per month for retiree-only coverage and $772 per month for retiree- and spouse-coverage.

The University's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The total cost of providing postemployment benefits is projected, taking into account assumptions about demographics, turnover, mortality, disability, retirement, health care trends, and other actuarial assumptions. This amount is discounted to determine the actuarial present value of total projected benefits. The actuarial accrued liability (AAL) is the portion of the present value of the total projected benefits allocated to years of employment prior to the measurement date. The unfunded actuarial accrued liability (UAAL) is the difference between the AAL and actuarial value of assets in the plan.

Once the UALL is determined, the ARC is determined as the normal cost and the amortization of the UAAL. This ARC is compared to actual contributions made and any difference is reported as the net OPEB obligation. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following chart shows the components of the University's annual OPEB costs for the year, the amount actually contributed to the plan, and changes in the net OPEB obligation.

Summary of Valuation Results		
Actuarial Accrued Liability by Category		
Current retirees, beneficiaries, dependents and terminated vested members	$	9,175
Current active members		38,120
Adjust to June 30, 2007		687
Total actuarial accrued liability as of June 30, 2007	**$**	**47,982**
Annual Required Contribution		
Normal cost as of July 1, 2007	$	3,656
Amortization of the unfunded actuarial accrued liability as of July 1, 2007		2,819
Total annual required contribution as of July 1, 2007	**$**	**6,475**
Total annual required contribution as of June 30, 2008	**$**	**6,766**

As of June 30, 2008, the University has not funded this retirement plan.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Amounts determined regarding the funded status of the plan and the required annual contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (as understood by the University and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2007, actuarial valuation, the University has elected to use the Level Dollar Entry Age method. The actuarial assumptions include a 4.5 percent investment rate of return, which is a blended rate of the expected long-term investment returns on plan assets and the University's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 10 percent initially, reduced by decrements to an ultimate rate of 5 percent after five years. Both rates include a 4 percent inflation assumption. The UAAL is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2008, was twenty-nine years.

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, 2008, was $35 million. The estimated liability for outstanding claims at June 30, 2008, was $11 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 CVS/Caremark 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 CAFR.

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, 2008, was $140 million and income received totaled $6 million.

NOTE 14: COMMITMENTS

As of June 30, 2008, the University had outstanding construction contracts commitments of approximately $226 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, 2008, was approximately $31 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 *(in thousands)*	LEASE OBLIGATION
2009	$ 14,088
2010	8,897
2011	5,315
2012	3,263
2013	2,323
2014–2018	8,488
2019–2023	5,681
2024–2028	823
2029–2033	823
2034–2038	823
2039–2043	823
2044–2048	823
2049–2053	329
TOTAL	**$ 52,499**

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.

NOTE 15: SUBSEQUENT EVENTS

Subsequent to June 30, 2008, the global financial and credit markets experienced some of the greatest turbulence in their history, resulting in significant reductions in equity values and available credit. University management estimates the effect of these declines on its investment portfolio, including its endowment, to be a decrease of approximately 11 percent, or $434 million, as of September 30, 2008.

The market value of the University of Virginia Investment Management Company's (UVIMCO) Long-Term Pool is estimated at the end of each calendar month. As of October 30, 2008, the actual market value for October was not yet available. UVIMCO utilizes a Policy Portfolio benchmark to represent the global investment opportunity set. Historically, the Long-Term Pool has outperformed this benchmark. From October 1, 2008, to October 24, 2008, the Policy Portfolio benchmark decreased 20.52 percent.

The University has continued to remarket its Series 2003A variable-rate bonds and issue new commercial paper, and maintains sufficient liquidity to meet the future remarketing risk for these instruments. Although the credit situation remains tenuous, the University has seen its variable remarketing rates return to a level nearly on par with rates that existed prior to the credit crisis. University management and its board actively continue to monitor the changing markets in order to maintain liquidity and best position the University's assets for the future.