UNIVERSITY OF VIRGINIA

## Statement of Net Assets *(in thousands)*

*as of June 30, 2010 (with comparative information as of June 30, 2009)*

| | 2010 | 2009 |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash and cash equivalents (Note 2) | $ 365,165 | $ 241,142 |
| Restricted cash and cash equivalents (Note 2) | 1 | 1 |
| Short-term investments (Note 2) | 862 | 273,257 |
| Appropriations available | 7,078 | 6,996 |
| Accounts receivable, net (Note 3a) | 204,531 | 158,658 |
| Prepaid expenses | 13,169 | 14,993 |
| Inventories | 21,522 | 21,152 |
| Notes receivable, net (Note 3b) | 4,015 | 4,313 |
| **Total current assets** | **616,343** | **720,512** |
| **Noncurrent assets** | | |
| Restricted cash and cash equivalents (Note 2) | 30,707 | 30,060 |
| Endowment investments (Note 2) | 2,816,356 | 2,508,603 |
| Other long-term investments (Note 2) | 753,988 | 515,914 |
| Deposits with bond trustee | 72,633 | 170,354 |
| Notes receivable, net (Note 3b) | 31,324 | 30,202 |
| Pledges receivable, net (Note 3c) | 8,771 | 7,037 |
| Capital assets—depreciable, net (Note 3d) | 2,077,566 | 1,958,150 |
| Capital assets—nondepreciable (Note 3d) | 445,241 | 347,482 |
| Goodwill (Note 3e) | 12,431 | 12,860 |
| **Total noncurrent assets** | **6,249,017** | **5,580,662** |
| **Deferred outflow of resources (Note 6)** | **13,776** | **—** |
| **TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES** | **$ 6,879,136** | **$ 6,301,174** |
| | | |
| **LIABILITIES** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities (Note 3f) | $ 189,334 | $ 216,745 |
| Deferred revenue (Note 3g) | 94,143 | 100,789 |
| Deposits held in custody for others | 26,113 | 19,308 |
| Commercial paper (Note 4) | 70,700 | 56,415 |
| Long-term debt—current portion (Note 5a) | 13,427 | 13,512 |
| Long-term liabilities—current portion (Note 5b) | 89,818 | 71,579 |
| **Total current liabilities** | **483,535** | **478,348** |
| **Noncurrent liabilities** | | |
| Long-term debt (Note 5a) | 926,777 | 940,359 |
| Derivative instrument liability (Note 6) | 13,776 | — |
| Other noncurrent liabilities (Note 5b) | 97,287 | 79,723 |
| **Total noncurrent liabilities** | **1,037,840** | **1,020,082** |
| **TOTAL LIABILITIES** | **$ 1,521,375** | **$ 1,498,430** |
| | | |
| **NET ASSETS** | | |
| Invested in capital assets, net of related debt | $ 1,577,969 | $ 1,458,203 |
| Restricted: | | |
| Nonexpendable | 494,201 | 459,247 |
| Expendable | 1,938,361 | 1,785,372 |
| Unrestricted | 1,347,230 | 1,099,922 |
| **TOTAL NET ASSETS** | **$ 5,357,761** | **$ 4,802,744** |

*Certain 2009 amounts have been restated to conform to 2010 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, 2010 (with comparative information as of June 30, 2009)*

| | 2010 | 2009 |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash and cash equivalents | $ 91,054 | $ 88,780 |
| Receivables | 96,683 | 77,572 |
| Other current assets | 433,406 | 266,784 |
| **Total current assets** | **621,143** | **433,136** |
| **Noncurrent assets** | | |
| Pledges receivable, net of current portion of $46,299 | 53,085 | 53,273 |
| Long-term investments | 4,378,165 | 4,032,374 |
| Capital assets, net of depreciation | 357,525 | 329,777 |
| Other noncurrent assets | 36,200 | 25,369 |
| **Total noncurrent assets** | **4,824,975** | **4,440,793** |
| **TOTAL ASSETS** | **$ 5,446,118** | **$ 4,873,929** |
| | | |
| **LIABILITIES AND NET ASSETS** | | |
| **Current liabilities** | | |
| Assets held in trust for others | $ 67,229 | $ 58,188 |
| Other liabilities | 194,308 | 169,565 |
| **Total current liabilities** | **261,537** | **227,753** |
| **Noncurrent liabilities** | | |
| Long-term debt, net of current portion of $9,537 | 200,401 | 235,399 |
| Other noncurrent liabilities | 3,923,230 | 3,447,655 |
| **Total noncurrent liabilities** | **4,123,631** | **3,683,054** |
| **TOTAL LIABILITIES** | **$ 4,385,168** | **$ 3,910,807** |
| | | |
| **NET ASSETS** | | |
| Unrestricted | $ 236,966 | $ 214,420 |
| Temporarily restricted | 412,735 | 354,233 |
| Permanently restricted | 411,249 | 394,469 |
| **TOTAL NET ASSETS** | **$ 1,060,950** | **$ 963,122** |
| **TOTAL LIABILITIES AND NET ASSETS** | **$ 5,446,118** | **$ 4,873,929** |

*Certain 2009 amounts have been restated to conform to 2010 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, 2010 (with comparative information for the year ended June 30, 2009)*

| | 2010 | 2009 |
|---|---|---|
| **REVENUES** | | |
| **Operating revenues** | | |
| Student tuition and fees (net of scholarship allowances of $82,144 and $69,000) | $ 348,436 | $ 341,881 |
| Patient services (net of charity care of $1,610,365 and $1,388,014) | 1,008,858 | 964,346 |
| Federal grants and contracts | 276,301 | 266,818 |
| State and local grants and contracts | 4,782 | 4,975 |
| Nongovernmental grants and contracts | 45,649 | 45,516 |
| Sales and services of educational departments | 18,899 | 18,090 |
| Auxiliary enterprises revenue (net of scholarship allowances of $11,008 and $9,200) | 118,002 | 119,573 |
| Other operating revenues | 30,047 | 27,625 |
| **TOTAL OPERATING REVENUES** | **1,850,974** | **1,788,824** |
| | | |
| **EXPENSES** | | |
| **Operating expenses (Note 9)** | | |
| Compensation and benefits | 1,221,139 | 1,215,234 |
| Supplies and other services | 695,722 | 704,062 |
| Student aid | 55,058 | 62,750 |
| Depreciation | 149,332 | 141,338 |
| Other | 34,507 | 34,464 |
| **TOTAL OPERATING EXPENSES** | **2,155,758** | **2,157,848** |
| **OPERATING LOSS** | **(304,784)** | **(369,024)** |
| | | |
| **NONOPERATING REVENUES (EXPENSES)** | | |
| State appropriations (Note 10) | 152,115 | 170,178 |
| State stabilization (ARRA) | 6,657 | — |
| Gifts | 131,208 | 140,078 |
| Investment income | 467,024 | (850,753) |
| Pell grants | 9,695 | 7,024 |
| Interest on capital asset-related debt | (34,389) | (24,251) |
| Losses on capital assets | (1,456) | (17,079) |
| Other nonoperating expenses | (6,436) | (15,627) |
| **NET NONOPERATING REVENUES (EXPENSES)** | **724,418** | **(590,430)** |
| **INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES** | **419,634** | **(959,454)** |
| | | |
| Capital appropriations | 112,420 | 30,462 |
| Capital grants and gifts | 55,308 | 43,905 |
| Additions to permanent endowments | 24,844 | 49,212 |
| Transfers to the Commonwealth | (57,189) | — |
| **TOTAL OTHER REVENUES** | **135,383** | **123,579** |
| **INCREASE (DECREASE) IN NET ASSETS** | **555,017** | **(835,875)** |
| | | |
| **NET ASSETS** | | |
| Net assets—beginning of year | 4,802,744 | 5,638,619 |
| **NET ASSETS—END OF YEAR** | **$ 5,357,761** | **$ 4,802,744** |

*Certain 2009 amounts have been restated to conform to 2010 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, 2010 (with comparative information for the year ended June 30, 2009)*

| | 2010 | 2009 |
|---|---|---|
| **UNRESTRICTED REVENUES AND SUPPORT** | | |
| Contributions | $ 21,050 | $ 21,998 |
| Fees for services, rentals, and sales | 290,679 | 272,659 |
| Investment income | 38,233 | (55,961) |
| Net assets released from restriction | 91,561 | 45,553 |
| Other revenues | 83,125 | 75,232 |
| **TOTAL UNRESTRICTED REVENUES AND SUPPORT** | **524,648** | **359,481** |
| | | |
| **EXPENSES** | | |
| Program services, lectures, and special events | 310,716 | 284,475 |
| Scholarships and financial aid | 60,240 | 43,194 |
| Management and general | 33,642 | 43,335 |
| Other expenses | 95,632 | 93,510 |
| **TOTAL EXPENSES** | **500,230** | **464,514** |
| **EXCESS (DEFICIENCY) OF UNRESTRICTED REVENUES AND SUPPORT OVER EXPENSES** | **24,418** | **(105,033)** |
| | | |
| **CHANGES IN TEMPORARILY RESTRICTED NET ASSETS** | | |
| Contributions | $ 62,015 | $ 34,974 |
| Investment and other income | 89,004 | (162,285) |
| Reclassification per donor stipulation | (810) | (1,277) |
| Net assets released from restriction | (91,576) | (44,972) |
| **NET CHANGES IN TEMPORARILY RESTRICTED NET ASSETS** | **58,633** | **(173,560)** |
| | | |
| **CHANGES IN PERMANENTLY RESTRICTED NET ASSETS** | | |
| Contributions | $ 15,178 | $ 12,753 |
| Investment and other income | (1,228) | (5,967) |
| Reclassification per donor stipulation | 825 | 696 |
| **NET CHANGES IN PERMANENTLY RESTRICTED NET ASSETS** | **14,775** | **7,482** |
| | | |
| **CHANGE IN NET ASSETS** | **97,826** | **(271,111)** |
| Net assets, beginning of year | 963,051 | 1,234,160 |
| Cumulative effect of FMV option | 73 | 73 |
| **NET ASSETS, END OF YEAR** | **$ 1,060,950** | **$ 963,122** |

*Certain 2009 amounts have been restated to conform to 2010 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, 2010 (with comparative information for the year ended June 30, 2009)*

| | 2010 | 2009 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Tuition and fees | $ 342,282 | $ 339,395 |
| Grants and contracts | 323,294 | 308,536 |
| Patient services | 943,923 | 913,620 |
| Sales and services of educational activities | 5,289 | 15,731 |
| Sales and services of auxiliary enterprises | 117,953 | 118,781 |
| Payments to employees and fringe benefits | (1,231,919) | (1,201,875) |
| Payments to vendors and suppliers | (630,802) | (707,406) |
| Payments for scholarships and fellowships | (55,057) | (62,750) |
| Perkins and other loans issued to students | (8,000) | (7,548) |
| Collection of Perkins and other loans to students | 6,694 | 5,056 |
| Other receipts | 15,967 | 25,163 |
| **NET CASH USED BY OPERATING ACTIVITIES** | **(170,376)** | **(253,297)** |
| | | |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | |
| State appropriations | 151,320 | 183,612 |
| State stabilization (ARRA) | 6,657 | — |
| Additions to true endowments | 24,844 | 49,212 |
| Federal Family Education Loan Program receipts | 149,027 | 110,845 |
| Federal Family Education Loan Program payments | (149,027) | (110,845) |
| Pell grants | 9,695 | 7,024 |
| Receipts on behalf of agencies | 96,280 | 102,246 |
| Payments on behalf of agencies | (96,027) | (101,873) |
| Deposits held in custody for others | 6,805 | (5,540) |
| Noncapital gifts and grants and endowments received | 131,452 | 142,015 |
| Transfers to the Commonwealth | (57,189) | — |
| Prior year Medical Center eliminations | (983) | — |
| Other net nonoperating expenses | (2,774) | (7,980) |
| **NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES** | **270,080** | **368,716** |
| | | |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | |
| Capital appropriations | 94,982 | 33,933 |
| Capital gifts and grants received | 49,871 | 44,441 |
| Proceeds from capital debt | 42,060 | 401,330 |
| Proceeds (loss) from sale of capital assets | 1,060 | 104 |
| Acquisition and construction of capital assets | (380,445) | (385,430) |
| Principal paid on capital debt and leases | (36,054) | (148,957) |
| Interest paid on capital debt and leases | (38,247) | (24,195) |
| Deposit with trustee | 97,721 | (48,575) |
| **NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES** | **(169,052)** | **(127,349)** |
| | | |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Proceeds from sales and maturities of investments | 298,703 | 518,004 |
| Interest on investments | 4,459 | 9,358 |
| Purchase of investments and related fees | (147,141) | (334,494) |
| Other investment activities | 37,997 | (182,644) |
| **NET CASH PROVIDED BY INVESTING ACTIVITIES** | **194,018** | **10,224** |
| | | |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **124,670** | **(1,706)** |
| Cash and cash equivalents, July 1 | 271,203 | 272,909 |
| **CASH AND CASH EQUIVALENTS, JUNE 30** | **$ 395,873** | **$ 271,203** |
| | | |
| **RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:** | | |
| Operating loss | $ (304,784) | $ (369,024) |
| **ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:** | | |
| Depreciation expense | 149,332 | 141,338 |
| Provision for uncollectible loans and write-offs | 473 | 81 |
| **CHANGES IN ASSETS AND LIABILITIES:** | | |
| Receivables, net | (57,608) | (36,116) |
| Inventories | (370) | 1,533 |
| Other assets | 11 | 11 |
| Prepaid expenses | 1,358 | (3,019) |
| Notes receivable, net | (1,307) | (2,496) |
| Accounts payable and accrued liabilities | 24,835 | 12,309 |
| Due to primary government | — | — |
| Deferred revenue | 14,944 | 658 |
| Accrued vacation leave—long term | 2,740 | 1,428 |
| Accrued vacation leave—current | — | — |
| **TOTAL ADJUSTMENTS** | **134,408** | **115,727** |
| **NET CASH USED BY OPERATING ACTIVITIES** | **$ (170,376)** | **$ (253,297)** |
| | | |
| **NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES—ACADEMIC ONLY** | | |
| Assets acquired through assumption of a liability | $ 29,482 | $ 414,300 |
| Assets acquired through a gift | 5,328 | 2,289 |
| Change in fair value of investments | 427,726 | (786,524) |
| Increase in receivables related to nonoperating income | 4,819 | 10,533 |
| Loss on disposal of capital asset | 750 | 3,719 |

*Certain 2009 amounts have been restated to conform to 2010 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, 2010:

- 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 400314, Charlottesville, Virginia 22904.

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, 2009. 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 (UVIMCO)** 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 UVIMCO at P.O. Box 400215, Charlottesville, Virginia 22904.

### REPORTING BASIS

The University of Virginia prepares its financial statements in conformity with accounting principles generally accepted in the United States of America. As a public institution, the University adheres to standards promulgated by the Governmental Accounting Standards Board (GASB), and additionally, to Financial Accounting Standards Board (FASB) pronouncements issued prior to November 30, 1989, that do not contradict or conflict with GASB standards. It is the University's policy not to follow FASB standards after that date. The component units included herein 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** represents capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of these assets.

**Restricted nonexpendable** represents net assets subject to donor-imposed stipulations that they be maintained permanently by the University. Such assets include the University's permanent endowment funds.

**Restricted expendable** represents 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** represents 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 PRESENTATION

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

Assets are held in the custody and control of UVIMCO on behalf of the University and Foundations within a unitized investment pool. The Long-Term Pool (LTP) commingles endowment, charitable trust, and other assets of the University and Foundations. Assets of the LTP are pooled on a fair value basis in accordance with U.S. generally accepted accounting principles and unitized monthly. Deposits and withdrawals are processed monthly. Each depositor subscribes to or disposes of units on the basis of the value per share at fair value as calculated on the last calendar day of the month in which a deposit or redemption request is received by UVIMCO.

## 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 $2,033,903 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 are depreciated or amortized over their estimated useful lives unless they are inexhaustible, or are 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 greater 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 Process. 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 GASB Statement 51, *Accounting and Financial Reporting for Intangible Assets*, the University capitalizes intangible assets such as computer software developed or obtained for internal use, easements, patents, and trademarks. Capitalization begins when the asset is considered identifiable. For computer software, this is often 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, and public service. These collections are protected and preserved, neither disposed of for financial gain, nor encumbered in any means. Accordingly, such collections are not recognized or capitalized for financial statement purposes.

## DEFERRED REVENUE

Deferred revenue consists primarily of cash received from grant and contract sponsors, which has not been earned under the terms of the agreement, and 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 $4,093,538 and earned capital project interest income of $133,130 for the fiscal year ended June 30, 2010, resulting in net interest capitalized of $3,960,408.

## 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, 2010, 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, discounts, 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. 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 discounts and allowances; federal, state, local, and nongovernmental grants and contracts; and sales and services of educational departments. With the exception of interest expense and losses on the disposal of capital assets, 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 discount and 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. With the implementation of a new Student Information System (SIS), the scholarship allowance to students is now calculated using the direct method, as recommended by the National Association of College and University Business Officers (NACUBO). In the SIS, financial aid is applied to specific charges; therefore, the University can more accurately match up financial aid expenditures and their corresponding tuition, fees, room, board, and/or bookstore revenue.

**DISCOUNTS, PREMIUMS, AND BOND ISSUANCE COSTS**
Bonds payable on the Statement of Net Assets are reported net of related discounts and premiums, which are amortized 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's 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.

**COMPARATIVE DATA**
The University presents its financial information on a comparative basis. The basic financial statements include certain prior year summarized comparative information in total, but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, the prior-year information should be read in conjunction with the University's financial statements for the year ended June 30, 2009, from which the summarized information was derived. 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 the unitized Long-Term Pool (LTP). Operating funds are primarily invested for short periods of time and are managed by the University in the Aggregate Cash Pool.

UVIMCO is governed by a board of ten 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 long-term 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, when investing tuition and educational fees that are used or required for the day-to-day operations, as permitted under the Code of Virginia Section 23-76.1.

### RISK

Risks disclosed below are direct risks to the University. The risk disclosure does not include indirect risks incurred by investing in the UVIMCO LTP.

**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, 2010.

**Interest Rate Risk** is 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, 2010, are outlined in the accompanying chart.

**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 investment of certain nonendowed assets to 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, 2010, are outlined in the accompanying chart.

**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, 2010.

**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, 2010.

### 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 of the defaulting entity. This cross guarantee significantly diminishes custodial credit risk. Amounts on deposit covered by the Virginia Security of Public Deposits Act totaled $59 million at June 30, 2010. Such deposits are not subject to foreign currency risk. Details of the University's investment risks are outlined in the accompanying chart.

| 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 | $ 628 | Unrated | | | | |
| University of Virginia Investment Management Company Aggregate Cash Pool | 177,037 | Unrated | | | | |
| State Non-Arbitrage Program | 72,633 | AAAm | | | | |
| STIF Government Securities | 1,397 | P-1 | | | | |
| **TOTAL CASH EQUIVALENTS** | **$ 251,695** | | | | | |
| | | | | | | |
| **INVESTMENTS SUBJECT TO INTEREST RATE RISK** | | | | | | |
| Endowment investments: | | | | | | |
| Debt securities | | | | | | |
| Demand notes due from related foundation, noninterest bearing | $ 13,433 | Unrated | $ 13,433 | | | |
| Note receivable, 9% | 130 | Unrated | | | | $ 130 |
| Other investments | | | | | | |
| Federal National Mortgage Association | 7,007 | Aaa | 7,007 | | | |
| **TOTAL INVESTMENTS SUBJECT TO INTEREST RATE RISK** | **$ 20,570** | | **$ 20,440** | **$ —** | **$ —** | **$ 130** |
| | 100.0% | | 99.4% | 0.0% | 0.0% | 0.6% |

**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 (LTP), which attempts to achieve returns that consistently exceed the returns on a passively managed benchmark with similar asset allocation and risk.

The LTP 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 market risks. 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 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 may be 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.

Biannual distributions are made from the University's endowment to departments holding endowment accounts. 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. For fiscal year 2010, the endowment distribution was adjusted to 5.5 percent of the fund's market value at June 30, 2009. For fiscal year 2010, for endowments invested in the LTP, the total distribution was $136.5 million and the market value of the LTP endowment at June 30, 2010, was $2.7 billion.

At June 30, 2010, the University's investment in the LTP was $3.5 billion, representing 86 percent of the University's invested assets. At June 30, 2010, the University's investment in the Aggregate Cash Pool was $177 million, representing 4 percent of invested assets. These pools are not rated by nationally recognized statistical rating organizations.

For the year ended June 30, 2010, the University had the following endowment-related activities:

| **Summary of Endowment Activity** *(in thousands)* | TYPE OF ENDOWMENT FUND | | | |
|---|---|---|---|---|
| | DONOR-RESTRICTED | QUASI | TRUSTS | TOTAL |
| Investment earnings | $ 163,969 | $ 187,169 | $ 5,501 | $ 356,639 |
| Contributions to permanent endowment | 24,844 | — | — | 24,844 |
| Other gifts | — | — | 1,795 | 1,795 |
| Spending distribution | (63,744) | (72,803) | — | (136,547) |
| Transfers in/(out) * | 300 | 63,613 | (2,899) | 61,014 |
| **TOTAL CHANGE IN ENDOWMENT FUNDS** | **$ 125,369** | **$ 177,979** | **$ 4,397** | **$ 307,745** |

**Transfers in to donor-restricted endowments include donor-directed income capitalizations, and transfers out of trusts include payments to income beneficiaries.*

## NOTE 3: STATEMENT OF NET ASSETS DETAILS

**a. Accounts receivable:** The composition of accounts receivable at June 30, 2010, is summarized as follows:

| **Accounts Receivable** *(in thousands)* | |
|---|---|
| Patient care | $ 342,922 |
| Grants and contracts | 39,358 |
| Student payments | 17,809 |
| Pledges | 14,621 |
| Institutional loans | 1,248 |
| Equipment Trust Fund reimbursement | 6,621 |
| Auxiliary | 4,003 |
| Related foundation | 1,967 |
| Other | 4,862 |
| Less: Allowance for doubtful accounts | (228,880) |
| **TOTAL** | **$ 204,531** |

**b. Notes receivable:** The composition of notes receivable at June 30, 2010, is summarized as follows:

| Notes Receivable *(in thousands)* | |
|---|---|
| Perkins | $ 20,149 |
| Nursing | 1,362 |
| Institutional | 15,176 |
| Fraternity loan | 758 |
| House Staff loan | 15 |
| Less: Allowance for doubtful accounts | (2,121) |
| **Total notes receivable, net** | **35,339** |
| Less: Current portion, net of allowance | (4,015) |
| **TOTAL NONCURRENT NOTES RECEIVABLE** | **$ 31,324** |

**c. Pledges:** The composition of pledges receivable at June 30, 2010, is summarized as follows:

| Pledges *(in thousands)* | |
|---|---|
| **GIFT PLEDGES OUTSTANDING** | |
| Operations | $ 8,023 |
| Capital | 18,425 |
| **TOTAL GIFT PLEDGES OUTSTANDING** | **26,448** |
| **Less:** | |
| Allowance for uncollectible pledges | (2,034) |
| Unamortized discount to present value | (2,180) |
| **Total pledges receivable, net** | **22,234** |
| Less: Current portion, net of allowance | (13,463) |
| **TOTAL NONCURRENT PLEDGES RECEIVABLE** | **$ 8,771** |

**d. Capital assets:** The capital assets activity for the year ended June 30, 2010, is summarized as follows:

| Investment in Plant— Capital Assets *(in thousands)* | BEGINNING BALANCE JULY 1, 2009 | ADDITIONS | DISPOSITIONS | ADJUSTMENTS | ENDING BALANCE JUNE 30, 2010 |
|---|---|---|---|---|---|
| **NONDEPRECIABLE CAPITAL ASSETS** | | | | | |
| Land | $ 37,972 | $ 3,230 | $ — | $ (315) | $ 40,887 |
| Construction in process | 296,055 | 330,398 | — | (222,244) | 404,209 |
| Software in development | 13,455 | 1,525 | — | (14,835) | 145 |
| **TOTAL NONDEPRECIABLE CAPITAL ASSETS** | **347,482** | **335,153** | **—** | **(237,394)** | **445,241** |
| **DEPRECIABLE CAPITAL ASSETS** | | | | | |
| Buildings | 2,202,610 | 10,773 | 113 | 147,302 | 2,360,572 |
| Equipment | 616,418 | 51,895 | 22,614 | 7,776 | 653,475 |
| Infrastructure | 325,335 | — | — | 30,594 | 355,929 |
| Improvements other than buildings | 139,384 | 5 | — | 683 | 140,072 |
| Capitalized software | 41,269 | 1,520 | 498 | 14,835 | 57,126 |
| Library books | 108,497 | 3,735 | 434 | — | 111,798 |
| **Total depreciable capital assets** | **3,433,513** | **67,928** | **23,659** | **201,190** | **3,678,972** |
| Less accumulated depreciation for: | | | | | |
| Buildings | (760,361) | (72,795) | (110) | 4,728 | (828,318) |
| Equipment | (402,133) | (56,197) | (22,215) | 26 | (436,089) |
| Infrastructure | (122,158) | (6,307) | — | (4,713) | (133,178) |
| Improvements other than buildings | (78,968) | (6,140) | — | (4) | (85,112) |
| Capitalized software | (26,979) | (3,783) | (498) | — | (30,264) |
| Library books | (84,764) | (4,116) | (435) | — | (88,445) |
| **Total accumulated depreciation** | **(1,475,363)** | **(149,338)** | **(23,258)** | **37** | **(1,601,406)** |
| **TOTAL DEPRECIABLE CAPITAL ASSETS, NET** | **1,958,150** | **(81,410)** | **401** | **201,227** | **2,077,566** |
| **TOTAL** | **$ 2,305,632** | **$ 253,743** | **$ 401** | **$ (36,167)** | **$ 2,522,807** |

**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. An additional $800,000 was recorded as goodwill for a noncompetition agreement and was amortized over its ten-year life, which ended in April 2010.

In July 2004, the Medical Center purchased Virginia Ambulatory Surgery Center, 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 and accrued liabilities:** The composition of accounts payable at June 30, 2010, is summarized as follows:

| Accounts Payable and Accrued Liabilities *(in thousands)* | |
|---|---|
| Accounts payable | $ 86,062 |
| Accrued salaries and wages payable | 53,847 |
| Other payables | 49,425 |
| **TOTAL** | **$ 189,334** |

**g. Deferred revenue:** The composition of deferred revenue at June 30, 2010, is summarized as follows:

| Deferred Revenue *(in thousands)* | |
|---|---|
| Grants and contracts | $ 49,988 |
| Student payments | 27,892 |
| Medical Center unearned revenues | 16,897 |
| Other deferred revenues | (634) |
| **TOTAL** | **$ 94,143** |

## NOTE 4: SHORT-TERM DEBT

Short-term debt at June 30, 2010, is summarized as follows:

| Short-Term Debt *(in thousands)* | BEGINNING BALANCE JULY 1, 2009 | ADDITIONS | REDUCTIONS | ENDING BALANCE JUNE 30, 2010 |
|---|---|---|---|---|
| Commercial paper, tax-exempt | $ 56,415 | $ 19,112 | $ 4,827 | $ 70,700 |
| **TOTAL COMMERCIAL PAPER** | **$ 56,415** | **$ 19,112** | **$ 4,827** | **$ 70,700** |

The University has a combined taxable and tax-exempt commercial paper program that provides for bridge financing for capital projects up to a board-approved limit. The University Board of Visitors approved the current commercial paper program limit of $300,000,000 in April 2008. In fiscal year 2010, interest rates on commercial paper ranged from 0.1 to 0.4 percent.

## NOTE 5: LONG-TERM OBLIGATIONS

**a. Long-term debt:** The composition of long-term debt at June 30, 2010, is summarized as follows:

| **Long-Term Debt** *(in thousands)* | INTEREST RATES | FINAL MATURITY | BEGINNING BALANCE JULY 1, 2009 | ADDITIONS | REDUCTIONS | ENDING BALANCE JUNE 30, 2010 |
|---|---|---|---|---|---|---|
| **BONDS AND NOTES PAYABLE** | | | | | | |
| Revenue bonds | | | | | | |
| University of Virginia Series 2003A (9d) | 0.14% to 0.24% | 2034 | $ 82,010 | $ — | $ — | $ 82,010 |
| University of Virginia Series 2003B (9d) | 4.0% to 5.0% | 2033 | 108,450 | — | 2,480 | 105,970 |
| University of Virginia Series 2005 (9d) | 4.0% to 5.0% | 2037 | 182,795 | — | 2,815 | 179,980 |
| University of Virginia Series 2008 (9d) | 5.0% | 2040 | 231,365 | — | — | 231,365 |
| University of Virginia Series 2009 (9d) | 4.04%* | 2040 | 250,000 | — | — | 250,000 |
| Commonwealth of Virginia bonds (9c) | 3.8% to 9.3% | 2021 | 20,845 | 368 | 4,543 | 16,670 |
| Notes payable to VCBA 1999A (9d) | 3.5% to 6.0% | 2020 | 1,490 | — | 1,490 | — |
| Notes payable to VCBA 2000A (9d) | 3.5% to 5.8% | 2021 | 10,375 | — | 2,095 | 8,280 |
| Notes payable to VCBA 2004B (9d) | 3.0% to 5.0% | 2020 | 36,990 | — | 340 | 36,650 |
| Notes payable to VCBA 2007B (9d) | 4.0% to 4.25% | 2020 | 10,755 | — | 25 | 10,730 |
| Other | various | 2009 | 221 | 515 | 134 | 602 |
| **TOTAL BONDS AND NOTES PAYABLE** | | | **$ 935,296** | **$ 883** | **$ 13,922** | **$ 922,257** |
| Less current portion of debt | | | (13,512) | 85 | — | (13,427) |
| Bond premium | | | 22,874 | — | 1,025 | 21,849 |
| Deferred loss on early retirement of debt | | | (4,299) | — | (397) | (3,902) |
| **NET LONG-TERM DEBT** | | | **$ 940,359** | **$ 968** | **$ 14,550** | **$ 926,777** |

** The University of Virginia Series 2009 (9d) revenue bonds are Build America Bonds, issued at 6.2%. With the ARRA rebate, the effective rate is reduced to 4.04%.*

During the fiscal year ended June 30, 2010, the Commonwealth of Virginia, on behalf of the University of Virginia, issued bonds of $368,203 to refund $350,000 of series 2001A bonds. The refunding reduced the aggregate debt service paid by the University on this series by $16,755, representing a net present value savings of $16,131, and an accounting loss of $18,203. The proceeds of the bonds have been deposited in an irrevocable escrow account and will be used to pay all future debt service payments on the bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the University's financial statements. At June 30, 2010, $350,000 of the defeased bonds was outstanding.

The University of Virginia has a revolving credit agreement with a maximum principal amount of $82,010,000 to provide liquidity for its 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 either credit agreement as of June 30, 2010.

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 |
|---|---|---|
| 2011 | $ 13,427 | $ 39,201 |
| 2012 | 12,963 | 39,231 |
| 2013 | 13,485 | 37,881 |
| 2014 | 12,955 | 37,236 |
| 2015 | 13,560 | 36,586 |
| 2016–2020 | 69,284 | 172,807 |
| 2021–2025 | 41,313 | 159,522 |
| 2026–2030 | 28,905 | 151,712 |
| 2031–2035 | 145,235 | 143,861 |
| 2036–2040 | 571,130 | 98,744 |
| **TOTAL** | **$ 922,257** | **$ 916,781** |

**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, 2010, the outstanding balance of the prior years' in-substance defeased bonds and notes totaled $46,953,000.

**b. Long-term liabilities:** The composition of long-term liabilities at June 30, 2010, is summarized as follows:

| **Long-Term Liabilities** *(in thousands)* | BEGINNING BALANCE JULY 1, 2009 | ADDITIONS | REDUCTIONS | ENDING BALANCE JUNE 30, 2010 |
|---|---|---|---|---|
| Investments held for related entities | $ 12,699 | $ 1,419 | $ 1,394 | $ 12,724 |
| Accrual for compensated absences | 52,974 | 63,175 | 59,904 | 56,245 |
| Perkins loan program | 15,962 | 392 | — | 16,354 |
| Investment in Culpeper Regional Hospital | 37,697 | 9,767 | 9,772 | 37,692 |
| Other postemployment benefits | 7,633 | 6,479 | — | 14,112 |
| Accrual for overtime labor claims | — | 10,102 | — | 10,102 |
| Accrual for GE lawsuit contingency | — | 17,900 | — | 17,900 |
| Other | 24,337 | 19,818 | 22,179 | 21,976 |
| **Subtotal** | **151,302** | **129,052** | **93,249** | **187,105** |
| Less current portion of long-term liabilities | (71,579) | (18,239) | — | (89,818) |
| **NET LONG-TERM LIABILITIES** | **$ 79,723** | **$ 110,813** | **$ 93,249** | **$ 97,287** |

## NOTE 6: DERIVATIVES

The University implemented GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, for the fiscal year ended June 30, 2010. At June 30, 2010, the University had two fixed-payer interest rate swaps totaling $100 million in notional amount. The swaps are used as cash flow hedges by the University in order to provide a hedge against changes in interest rates on a similar amount of the University's variable-rate debt. The University's objective is to hedge the cash flow variability of a portion of its variable-rate debt. The underlying index for the swaps is the Securities Industry and Financial Markets Municipal Swap Index (SIFMA). The swaps were entered into in January 2007 and February 2007 and both swaps 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.

**RISK**

The use of derivatives may introduce certain risks for the University, including:

**Credit risk** is the risk that a counterparty will not settle an obligation in full, either when due or at any time thereafter. As of June 30, 2010, the $100 million notional amount of swaps outstanding had a negative market value, net of any posted collateral and netting agreements, of approximately $13.5 million, representing the amount the University would pay if the swaps were terminated on that date. The market value of the swaps has fallen by approximately $6.5 million over the reporting period.

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. At June 30, 2010, the University had no credit risk related to its swaps. As of June 30, 2010, the University's swap counterparties were rated A by Standard & Poor's and A2 by Moody's Investors Service. 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, 2010, no collateral was required to be posted by the counterparties.

**Interest rate risk** is the risk that an unexpected change in interest rates will negatively affect the collective value of a hedge and a hedged item. When viewed collectively, the hedges and the hedged item are subject to interest rate risk in that a change in interest rate will impact the collective market value of both the hedge and hedged item. Conversely, the collective effect of the hedges and the hedged item serve to reduce cash flow variability caused by changes in interest rates.

**Basis risk** arises when different indexes are used in connection with a derivative resulting in the hedge and hedged item not experiencing price changes in entirely opposite directions from each other. The University's swaps are deemed to be effective hedges of its variable-rate debt with an amount of basis risk that is within the guidelines for establishing hedge effectiveness.

**Termination risk** arises when the unscheduled termination of a derivative could have an adverse effect on the University's strategy or could lead to potentially significant unscheduled payments. The University's 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 swaps' market value.

**Rollover risk** arises when a derivative associated with a hedged item does not extend all the way to the maturity date of the hedged item, thereby creating a gap in the protection otherwise afforded by the derivative. The University's hedges serve to hedge all $82.01 million of its variable-rate Series 2003A Bonds maturing in June 2034. The remaining $19.99 million of hedges serves to hedge the University's outstanding commercial paper, which may have various maturities of no greater than 270 days each.

**Market-access risk** arises when an entity enters into a derivative in anticipation of entering the credit market at a later date, but is ultimately prevented from doing so. The University's derivatives have no market-access risk.

**Foreign currency risk** is the risk of a hedge's value changing due to changes in currency exchange rates. The University's derivatives have no foreign currency risk.

## NOTE 7: 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 Office Park. UVI also provides services to outpatients from the Medical Center's primary and secondary service areas. Because the Medical Center owns 80 percent of UVI, its financial activity is presented under the consolidation method.

**COMMUNITY MEDICINE, L.L.C.** • On November 14, 2000, the University of Virginia established the Community Medicine University of Virginia, L.L.C. (Community Medicine). Community Medicine was established as a limited liability corporation (L.L.C.) under the laws of the Commonwealth of Virginia to house physician practices. This model gives physicians an organizational structure that allows them the opportunity to practice independently in a virtual private practice environment with all the risks and gains associated with an independent model. As an L.L.C., which is a wholly-owned subsidiary of the University, Community Medicine is considered a disregarded entity for tax purposes and its financial activity is accounted for under the consolidation method.

Community Medicine commenced operations on July 1, 2001, and as of June 30, 2010, 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, 2010, 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.

**CULPEPER REGIONAL HOSPITAL** • On December 31, 2008, the University of Virginia Medical Center and Culpeper Regional Hospital entered into a partnership agreement, whereby the Medical Center obtained a 49 percent interest in Culpeper Regional Hospital, with a $41.2 million investment. The Medical Center uses the equity method of consolidation in order to reflect the Medical Center's investment in Culpeper Regional Hospital.

| **As of June 30, 2010** *(in thousands)* | COMMON STOCK AND EQUITY CONTRIBUTIONS | SHARE OF ACCUMULATED INCOME (LOSS) | NET INVESTMENT |
|---|---|---|---|
| UVA Imaging, L.L.C. | $ 687 | $ 2,066 | $ 2,753 |
| Community Medicine, L.L.C. | 1,810 | (4,253) | (2,443) |
| Central Virginia Health Network, Inc. | 232 | (41) | 191 |
| HEALTHSOUTH, L.L.C. | 27 | 8,040 | 8,067 |
| Valiance, L.L.C. | — | 1,276 | 1,276 |
| University HealthSystem Consortium | — | 647 | 647 |
| Culpeper Regional Hospital | 41,248 | 1,590 | 42,838 |

**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 8: COMPONENT UNITS

Summary financial statements and additional disclosures are presented below.

| **Statement of Financial Position** *(in thousands)* *as of June 30, 2010* | 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** | **$ 25,050** | **$ 27,712** | **$ 64,310** | **$ 37,594** | **$ 12,570** | **$ 77,470** | **$ 376,437** | **$ 621,143** | **$ —** | **$ 621,143** |
| **Noncurrent assets** | | | | | | | | | | |
| Long-term investments | 253,642 | 181,139 | 292,330 | 54,385 | 60,925 | 138,462 | 4,191,940 | 5,172,823 | (794,658) | 4,378,165 |
| Capital assets, net, and other assets | 12,730 | 91,834 | 41,827 | 26,360 | 228,826 | 44,406 | 827 | 446,810 | — | 446,810 |
| **Total noncurrent assets** | **266,372** | **272,973** | **334,157** | **80,745** | **289,751** | **182,868** | **4,192,767** | **5,619,633** | **(794,658)** | **4,824,975** |
| **TOTAL ASSETS** | **$ 291,422** | **$ 300,685** | **$ 398,467** | **$ 118,339** | **$ 302,321** | **$ 260,338** | **$4,569,204** | **$6,240,776** | **$ (794,658)** | **$ 5,446,118** |
| | | | | | | | | | | |
| **LIABILITIES AND NET ASSETS** | | | | | | | | | | |
| **Current liabilities** | | | | | | | | | | |
| **Total current liabilities** | **$ 294** | **$ 9,816** | **$ 68,701** | **$ 2,129** | **$ 73,854** | **$ 105,284** | **$ 1,459** | **$ 261,537** | **$ —** | **$ 261,537** |
| **Noncurrent liabilities** | | | | | | | | | | |
| Long-term debt, net of current portion of $9,537 | — | 45,729 | 18,000 | — | 99,457 | 37,215 | — | 200,401 | — | 200,401 |
| Other noncurrent liabilities | 642 | — | 22,955 | 644 | 55,797 | 77,939 | 4,559,911 | 4,717,888 | (794,658) | 3,923,230 |
| **Total noncurrent liabilities** | **642** | **45,729** | **40,955** | **644** | **155,254** | **115,154** | **4,559,911** | **4,918,289** | **(794,658)** | **4,123,631** |
| **TOTAL LIABILITIES** | **$ 936** | **$ 55,545** | **$ 109,656** | **$ 2,773** | **$ 229,108** | **$ 220,438** | **$4,561,370** | **$ 5,179,826** | **$ (794,658)** | **$4,385,168** |
| **NET ASSETS** | | | | | | | | | | |
| Unrestricted | $ 45,632 | $ 73,390 | $ 38,987 | $ 31,594 | $ 2,350 | $ 37,179 | $ 7,834 | $ 236,966 | $ — | $ 236,966 |
| Temporarily restricted | 135,141 | 63,761 | 96,000 | 59,025 | 56,087 | 2,721 | — | 412,735 | — | 412,735 |
| Permanently restricted | 109,713 | 107,989 | 153,824 | 24,947 | 14,776 | — | — | 411,249 | — | 411,249 |
| **TOTAL NET ASSETS** | **290,486** | **245,140** | **288,811** | **115,566** | **73,213** | **39,900** | **7,834** | **1,060,950** | **—** | **1,060,950** |
| **TOTAL LIABILITIES AND NET ASSETS** | **$ 291,422** | **$ 300,685** | **$ 398,467** | **$ 118,339** | **$ 302,321** | **$ 260,338** | **$4,569,204** | **$6,240,776** | **$ (794,658)** | **$ 5,446,118** |

**December 31, 2009, 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, 2010, are as follows:

| **Summary Schedule of Pledges Receivable** *(in thousands)* *as of June 30, 2010* | 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** | **$ 10,979** | **$ 21,914** | **$ 17,130** | **$ 64,903** | **$ —** | **$ —** | **$ —** | **$ 114,926** |
| Less allowance for uncollectible accounts | (644) | (1,353) | (1,329) | (5,812) | — | — | — | (9,138) |
| Less effect of discounting to present value | (301) | (2,565) | (1,823) | (1,715) | — | — | — | (6,404) |
| **Net pledges receivable** | **10,034** | **17,996** | **13,978** | **57,376** | **—** | **—** | **—** | **99,384** |
| Less current pledges | (5,280) | (5,042) | (3,706) | (32,271) | — | — | — | (46,299) |
| **TOTAL NONCURRENT PLEDGES RECEIVABLE** | **$ 4,754** | **$ 12,954** | **$ 10,272** | **$ 25,105** | **$ —** | **$ —** | **$ —** | **$ 53,085** |

**December 31, 2009, year-end*

The **University of Virginia Law School Foundation** has received bequest intentions and certain other conditional promises to give of approximately $18 million at June 30, 2010. 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, 2010, for the component units are as follows:

| **Summary Schedule of Investments** *(in thousands)* *as of June 30, 2010* | 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 | $ 3,070 | $ — | $ 12,881 | $ 171 | $ 8,790 | $ 5,628 | $ 1,622,913 | $ 1,653,453 |
| University of Virginia Investment Management Co. | 179,546 | 176,867 | 295,579 | 53,853 | 52,135 | 36,680 | — | 794,660 |
| Equities | 40 | 4,273 | 8,599 | 50 | — | 30,134 | 438,873 | 481,969 |
| Other | 90,607 | 812 | — | 704 | 5,343 | 71,674 | 2,502,852 | 2,671,992 |
| **Total investments** | **$ 273,263** | **$ 181,952** | **$ 317,059** | **$ 54,778** | **$ 66,268** | **$ 144,116** | **$4,564,638** | **$5,602,074** |
| Less amounts shown in current assets | (19,621) | (812) | (24,729) | (393) | (5,343) | (5,655) | (372,698) | (429,251) |
| Less eliminations | (179,546) | (176,867) | (295,579) | (53,852) | (52,135) | (36,679) | — | (794,658) |
| **LONG-TERM INVESTMENTS** | **$ 74,096** | **$ 4,273** | **$ (3,249)** | **$ 533** | **$ 8,790** | **$ 101,782** | **$4,191,940** | **$4,378,165** |

**December 31, 2009, 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 $1,822,684,789 (40 percent of investments held for others) at June 30, 2010. 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, 2010, capital assets consisted of (in thousands):

| **Property, Furnishings, and Equipment** *(in thousands)* *as of June 30, 2010* | UNIVERSITY OF VIRGINIA FOUNDATION | UNIVERSITY OF VIRGINIA DARDEN SCHOOL FOUNDATION |
|---|---|---|
| Land | $ 74,793 | $ — |
| Buildings and improvements | 199,400 | 103,834 |
| Furnishings and equipment | 21,793 | 1,372 |
| **Total** | **295,986** | **105,206** |
| Less accumulated depreciation | (72,987) | (29,704) |
| **NET CAPITAL ASSETS** | **$ 222,999** | **$ 75,502** |

**NOTES PAYABLE**

The **University of Virginia Foundation** has established a line of credit with Wachovia Bank in the amount of $34 million. The outstanding balance at June 30, 2010, was $14 million. The Foundation has a second line of credit with Bank of America in the amount of $40 million. The outstanding balance on this line was $20 million at June 30, 2010. In addition, the Foundation established a line of credit with U.S. Bank National Association in the amount of $25 million on March 8, 2010. The outstanding balance at June 30, 2010, was $25 million.

The University has allocated up to $53 million of its quasi-endowment funds for use by the Foundation to acquire and develop real estate. As of June 30, 2010, the Foundation had borrowed $13 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, 2010 (in thousands):

| **Long-Term Debt** *(in thousands)* *as of June 30, 2010* | 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 | $ 49,347 | $ — | $ — |
| 1997 Industrial Development Authority revenue bonds - Louisa | — | 4,698 | — |
| 1998 Refunding bonds | — | — | 13,090 |
| 1999 Mortgage note payable | — | 6,225 | — |
| 2000 Industrial Development Authority revenue bonds - Louisa | — | — | 4,460 |
| 2001 Refinancing demand bonds | — | 39,615 | — |
| 2004 Refinancing note payable | — | 9,744 | — |
| 2006 Refinancing demand bonds | — | 41,660 | — |
| 2009 Economic Development Authority revenue bonds - Albemarle | — | — | 23,100 |
| **Total** | **49,347** | **101,942** | **40,650** |
| Less portion due within one year | (3,618) | (2,484) | (3,435) |
| **LONG-TERM DEBT, NET OF CURRENT PORTION** | **$ 45,729** | **$ 99,458** | **$ 37,215** |

Principal maturities of all mortgages and notes payable 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):

| **Maturities** *(in thousands)* *as of June 30, 2010* | UNIVERSITY OF VIRGINIA DARDEN SCHOOL FOUNDATION | UNIVERSITY OF VIRGINIA FOUNDATION | UNIVERSITY OF VIRGINIA HEALTH SERVICES FOUNDATION |
|---|---|---|---|
| Year ended June 30, 2011 | $ 3,617 | $ 2,484 | $ 3,435 |
| Year ended June 30, 2012 | 3,822 | 3,695 | 1,315 |
| Year ended June 30, 2013 | 4,032 | 12,949 | 1,375 |
| Year ended June 30, 2014 | 4,242 | 7,733 | 1,440 |
| Year ended June 30, 2015 | 4,460 | 3,292 | 1,515 |
| Years ended June 30, 2016–2034 | 29,174 | 71,789 | 31,570 |
| **TOTAL** | **$ 49,347** | **$ 101,942** | **$ 40,650** |

| **Statement of Activities** *(in thousands)* *for the year ended June 30, 2010* | 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 | $ 3,306 | $ 3,081 | $ 664 | $ 13,999 | $ — | $ — | $ — | $ 21,050 |
| Fees for services, rentals, and sales | — | 24,897 | 2,308 | 712 | 40,731 | 209,610 | 12,421 | 290,679 |
| Other revenues | 29,020 | 17,301 | 51,034 | 16,511 | 2,325 | 95,387 | 1,341 | 212,919 |
| **TOTAL UNRESTRICTED REVENUES AND SUPPORT** | **32,326** | **45,279** | **54,006** | **31,222** | **43,056** | **304,997** | **13,762** | **524,648** |
| | | | | | | | | |
| **EXPENSES** | | | | | | | | |
| Program services, lectures, and special events | 13,576 | 40,851 | 45,230 | 11,747 | — | 251,566 | 7,986 | 370,956 |
| Other expenses | 4,226 | 4,007 | 4,655 | 23,551 | 44,261 | 44,549 | 4,025 | 129,274 |
| **TOTAL EXPENSES** | **17,802** | **44,858** | **49,885** | **35,298** | **44,261** | **296,115** | **12,011** | **500,230** |
| | | | | | | | | |
| **EXCESS (DEFICIENCY) OF UNRESTRICTED REVENUES AND SUPPORT OVER EXPENSES** | **14,524** | **421** | **4,121** | **(4,076)** | **(1,205)** | **8,882** | **1,751** | **24,418** |
| | | | | | | | | |
| **CHANGES IN TEMPORARILY RESTRICTED NET ASSETS** | | | | | | | | |
| Contributions | 6,114 | 5,619 | 22,749 | $ 27,333 | — | 200 | — | 62,015 |
| Other | 5,324 | 8,035 | (8,660) | (7,941) | 2,995 | (3,135) | — | (3,382) |
| **NET CHANGE IN TEMPORARILY RESTRICTED NET ASSETS** | **11,438** | **13,654** | **14,089** | **19,392** | **2,995** | **(2,935)** | **—** | **58,633** |
| | | | | | | | | |
| **CHANGES IN PERMANENTLY RESTRICTED NET ASSETS** | | | | | | | | |
| Contributions | 7,006 | 636 | 6,821 | 715 | — | — | — | 15,178 |
| Other | 1,110 | — | 456 | 156 | (2,125) | — | — | (403) |
| **NET CHANGE IN PERMANENTLY RESTRICTED NET ASSETS** | **8,116** | **636** | **7,277** | **871** | **(2,125)** | **—** | **—** | **14,775** |
| | | | | | | | | |
| **CHANGE IN NET ASSETS** | **34,078** | **14,711** | **25,487** | **16,187** | **(335)** | **5,947** | **1,751** | **97,826** |
| Net assets, beginning of year | 256,408 | 230,429 | 263,324 | 99,306 | 73,548 | 33,953 | 6,083 | 963,051 |
| Cumulative effect of FMV option | — | — | — | 73 | — | — | — | 73 |
| **NET ASSETS, END OF YEAR** | **$ 290,486** | **$ 245,140** | **$ 288,811** | **$ 115,566** | **$ 73,213** | **$ 39,900** | **$ 7,834** | **$1,060,950** |

**December 31, 2009, 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, 2010, totaled $1 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, 2010. Approximately $16 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 $16 million to the University in support of various academic programs, equipment, teaching, and research for the year ended June 30, 2010.

## NOTE 9: EXPENSE CLASSIFICATION MATRIX

| **Operating Expenses by Functional Classification** *(in thousands)* *for the year ended June 30, 2010* | COMPENSATION AND BENEFITS | SUPPLIES, UTILITIES, AND OTHER SERVICES | STUDENT AID | DEPRECIATION | OTHER | TOTAL |
|---|---|---|---|---|---|---|
| Instruction | $ 281,947 | $ 27,477 | $ 4,799 | $ — | $ 841 | $ 315,064 |
| Research | 171,421 | 99,603 | 17,118 | — | 464 | 288,606 |
| Public service | 14,885 | 12,680 | 397 | — | 498 | 28,460 |
| Academic support | 86,446 | 28,628 | 584 | — | 293 | 115,951 |
| Student services | 24,868 | 8,687 | 126 | — | 125 | 33,806 |
| Institutional support | 79,730 | 18,039 | 17 | — | 578 | 98,364 |
| Operation of plant | 68,792 | 1,506 | 1 | — | 129 | 70,428 |
| Student aid | 617 | 4,537 | 31,982 | — | 120 | 37,256 |
| Auxiliary | 64,613 | 69,656 | 34 | — | 509 | 134,812 |
| Depreciation | — | — | — | 95,280 | — | 95,280 |
| Patient services | 425,790 | 441,187 | — | 54,052 | 30,948 | 951,977 |
| Other | 2,030 | 320 | — | — | 2 | 2,352 |
| Central services recoveries | — | (16,598) | — | — | — | (16,598) |
| **TOTAL** | **$ 1,221,139** | **$ 695,722** | **$ 55,058** | **$ 149,332** | **$ 34,507** | **$ 2,155,758** |

## NOTE 10: 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 for the year ended June 30, 2010, is provided in the chart below.

| **Appropriations** *(in thousands)* | |
|---|---|
| Original legislative appropriation per Chapter 872 | $ 164,127 |
| **Adjustments** | |
| Financial Aid—General Fund | 11,278 |
| 2010 Budget Reduction | (32,998) |
| Eminent Scholars | 1,597 |
| SWVA Public Education Consortium | 207 |
| Allotment for Engineering Telecommunications Project | 775 |
| Financial Assistance for educational and general | 3,105 |
| Employee benefits | (1,482) |
| Miscellaneous educational and general | 5,506 |
| **TOTAL** | **$ 152,115** |

During fiscal year 2010, the University remitted several amounts to the Commonwealth totaling $57.1 million. The University participated in a cash-for-debt swap with the Commonwealth in which the University transferred funds to the Commonwealth in exchange for Commonwealth debt proceeds totaling $48.9 million. Those proceeds were received by the University as capital appropriations revenue. The University also transferred funds for the Virginia Sickness and Disability Program, the Virginia Retirement System, State Furlough Day, eVA rate reduction, motor pool cost savings, Virginia Information Technology Agency savings, health care credits, and life insurance totaling $8.2 million.

## NOTE 11: RETIREMENT PLANS

Employees of the University are employees of the Commonwealth. Substantially all (96 percent) of salaried classified and University staff employees, 11 percent of faculty, and 20 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, 2010. The Commonwealth, not the University, has overall responsibility for contributions to this plan.

Eighty-nine percent of teaching, research, and administrative faculty, 4 percent of University staff, and 80 percent of Medical Center employees participate in Optional Retirement Plans. The Optional Retirement Plan is a defined-contribution plan to which the University contributes an amount established by statute. Participants 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 $46.5 million, and contributions were calculated using base salaries of $539.6 million, for the year ended June 30, 2010. The contribution percentage amounted to 8.6 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 457 of the Internal Revenue Code. The employer matching portion falls under section 401(a) of the Internal Revenue Code. Contributions under the Deferred Compensation Plan were approximately $8.6 million in employee contributions and $4.2 million in employer contributions for the fiscal year ended June 30, 2010.

## NOTE 12: 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 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 2010, the University contributed $3,159,621 to the plan for retiree claims. Retirees receiving benefits contributed $3,414,119, or approximately 52 percent, of the total premiums through their required contribution of $454 per month for retiree-only coverage and $923 per month for retiree-and-spouse coverage.

The University's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, 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 UAAL 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 table 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** *(in thousands)* | |
|---|---|
| **Actuarial accrued liability by category** | |
| Current retirees, beneficiaries, dependents, and terminated vested members | $ 9,175 |
| Current active members | 38,120 |
| Adjust to June 30, 2010 | 30,665 |
| **Total actuarial accrued liability as of June 30, 2010** | **77,960** |
| | |
| **Annual required contribution (ARC)** | |
| ARC for June 30, 2009 | 9,780 |
| Interest on net OPEB obligation | 344 |
| ARC adjustment to June 30, 2010 | (485) |
| Actual contributions | (3,160) |
| **Net increase in ARC for June 30, 2010** | **6,479** |
| Actual ARC July 1, 2009 | 7,633 |
| **Total annual required contribution as of June 30, 2010** | **$ 14,112** |

As of June 30, 2010, 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, 2010, actuarial valuation, the University elected to use the Entry Age Normal Level Dollar 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 health care cost trend rate of 85 percent initially, reduced by decrements to an ultimate rate of 5 percent after seven years and a drug cost trend rate of 8 percent, reduced by decrements to an ultimate rate of 5 percent after six years. All rates include a 4 percent inflation assumption. The UAAL is being amortized as a level percentage of projected payrolls on an open basis over a rolling thirty-year period.

## NOTE 13: 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, 2010, was $44 million. The estimated liability for outstanding claims at June 30, 2010, was $13 million. The University has contracted with several third-party claims administrators: Southern Health Services, Inc., for its medical claims; United Concordia for its dental claims; and 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 14: 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, 2010, was $112 million and income received totaled $5.5 million.

## NOTE 15: COMMITMENTS

As of June 30, 2010, the University had outstanding construction contracts commitments of approximately $221 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, 2010, was approximately $28 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 |
|---|---|
| 2011 | $ 13,739 |
| 2012 | 9,642 |
| 2013 | 6,579 |
| 2014 | 5,481 |
| 2015 | 4,720 |
| 2016–2020 | 10,961 |
| 2021–2025 | 2,781 |
| 2026–2030 | 823 |
| 2031–2035 | 823 |
| 2036–2040 | 823 |
| 2041–2045 | 823 |
| 2046–2050 | 659 |
| **TOTAL** | **$ 57,854** |

### 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 16: SUBSEQUENT EVENTS

On July 28, 2010, the University of Virginia issued $190,000,000 par amount of Taxable General Revenue Pledge Bonds, Series 2010. The Series 2010 Bonds were issued to refund $19,701,500 of the University's outstanding commercial paper and fund new construction on the Grounds of the University. The Series 2010 Bonds were issued as Build America Bonds for purposes of the American Recovery and Reinvestment Act of 2009 with a coupon rate of 5.00 percent. The University will receive a 35 percent interest subsidy payment from the U.S. Treasury on the amount of each interest payment made on the Series 2010 Bonds, resulting in an effective yield to the University of 3.2 percent.