

 UNIVERSITY of VIRGINIA

President's Report

2007-08





Photography in the President's Report

The 2007–08 President's Report features the photographs of Luca DiCecco, which highlight key aspects of the student experience at U.Va. His pictures capture students studying for exams, performing research with faculty members, joining in community service work, relaxing with friends, and, finally, contemplating graduation. Today's students are outward looking, active participants, open to diverse points of view. They structure their courses, work, and free time in ways that add to intellectual and emotional development and maturity, and prepare them for graduate schools, careers, and civic and community engagement. On pages 13–21, the report explores the special qualities of U.Va. students and the challenges that the University faces in preparing them for leadership in the twenty-first century.

Students and faculty members featured prominently in the report's photos include Olubusayo Akanbi (College '08, Graduate Arts and Sciences '09); Nureya Anthony (College '11); Temitope Awosogba (College '08, Graduate Arts and Sciences '10); Sam Bush (College '09); Robert E. Davis, professor of environmental sciences; Adom Getachew (College '09); Monica Green (McIntire '08); Lyndsay Harper (College '11); Naa-Lamley Lamptey (College '11); Allison Leonard (College '11); Quinn McFrederick (Graduate Arts and Sciences '11); Ethan Richardson (College '09); Salif Traoré (Graduate Arts and Sciences '11); Douglas Taylor, professor and chair of the Department of Biology; Brandon Walsh (College '09); Xiao Wang (College '08, Batten '09); and Jessica Wignall (College '08).



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Building Strength for the Future



John T. Casteen III

The past year was productive for the University in most measurable ways. It brought smooth successions in key academic leadership positions; completion of several major building projects, with others commencing; unconditional reaffirmation of the University's accreditation by the Southern Association of Colleges and Schools; and improvements in the University's financial condition because of implementation of Virginia's 2005 and 2006 restructuring bills, prudent endowment investments, and continued success in our capital campaign. In recent weeks, the financial outlook here and everywhere has dimmed; what is now a global economic crisis began to take shape toward the end of fiscal year 2008. This report includes details on these issues and also a full account of the considerable achievements of our students, faculty members, and staff.

As implementation of Virginia's 2005 and 2006 restructuring legislation continued in 2007–08, we fulfilled our responsibilities by promoting economic development in Southwest Virginia, improving public schools whose performance has declined in recent years, and meeting students' need for financial aid. We received SCHEV certification of our performance under the management agreement. This approval allowed us to receive financial incentives such as interest on tuition and fees of approximately \$1.75 million in 2007–08. By providing support for students from both lower- and middle-income families, the Rector and Visitors' AccessUVA financial aid program enabled some 848 students to enter the University last year. The total cost of the program in fiscal year 2008 was \$53.8 million. Our agreement with Virginia's twenty-three community colleges guarantees admission based on satisfactory grades in specified required courses. This agreement brought some 299 new Virginia Community College System transfers to us in 2007–08. The Medical Center received the Governor's Volunteerism and Community Service Award for providing medical care to underserved persons in remote, rural mountain regions of Southwest Virginia. In

accord with the restructuring agreements, the new University Staff HR Plan is beginning to come into service, with policies and programs that will give employees greater opportunities for growth and advancement. Under the new plan, employees will have access to career-path guides that will keep them informed about the education, skills, and experience they need to succeed in the careers they choose. In our new merit- and market-based compensation model, employees will have the opportunity to receive bonuses and raises for acquiring and using new skills and for using existing skills with superior results. The plan provides new tools to help supervisors and employees connect individual performance goals with departmental and University-wide strategies, making all of our work more cohesive.

The University continued its commitment to diversity as a core value by enrolling the most diverse first-year class in our history in the 2007–08 academic year. Approximately 34 percent of first-year students identified themselves as either minority persons or international students. By recommitting ourselves to working with small, women-owned, and minority-owned businesses, we placed 42.5 percent of our discretionary spending with these businesses, surpassing the 40 percent state goal. Compared with fiscal year 2007, our minority spending grew by 64 percent. This performance is consistent with the state's goals in the SWAM purchasing program.

In November 2007, we successfully concluded negotiations to bring Rolls-Royce to Prince George County to build a new jet engine advanced manufacturing facility. The Commonwealth Center for Advanced Manufacturing will be constructed and operated by the U.Va. Foundation and staffed in part by U.Va. researchers. As part of Rolls-Royce's agreement to locate in Virginia, the University will become part of an innovative partnership that includes Virginia Tech and the Virginia Community College System to collaborate with the company on a variety of projects in both engineering and business.

In 2001, John Kluge gave his 7,378-acre Albemarle County estate, Morven, to the

University of Virginia Foundation. This extraordinary gift included the historic Morven Farm, ten other working farms, and more than two dozen houses and buildings. Mr. Kluge asked that we develop the core property for educational purposes and sell its surrounding land to fund an endowment to support University programs. In 2006, Mr. Kluge terminated his life estate, thus transferring responsibility for maintaining the property to the U.Va. Foundation and making Morven available for academic uses. Both he and we agree that as funds become available, a top priority will be programs to bring top international figures to Morven for sessions intended to address global issues that fall within the University's reach. Meantime, openings of appropriate parts of the property during Historic Garden Week, for visits by persons interested in the unique Japanese garden and house, and limited use for small-group meetings have begun to make Morven known to persons in the region.

In the early years following Mr. Kluge's gift, our first priority was investment in conservation and maintenance. More recently, accumulation of endowment from sale of the non-core properties and from appreciation in endowment values has allowed us to shift our focus to programming. In the past year we hired Stewart Gamage, former vice president for public affairs at the College of William and Mary, as Morven Programs Director, and we undertook several necessary upgrades and refurbishments in buildings on the core property, as well as refurbishing buildings that require new furniture for University use. We are grateful to Mr. Kluge for entrusting Morven to the University, and we look forward to protecting and using this treasure for University programs.

During 2007–08, the University's academic leadership underwent dramatic, important changes. Dr. Tim Garson left the Medical School deanship to become provost in July 2007. In the year following his appointment as provost, we appointed five new deans: Paul Mahoney, Law; Meredith Woo, College; Dorrie Fontaine, Nursing; Steven DeKosky, Medicine; and Billy Cannaday, Continuing and Professional Studies. Other key appointments

included Tom Skalak as vice president for research, Gowher Rizvi as vice provost for international programs, and Beth Turner as vice provost for the arts. We will appoint the first dean of the Batten School during the upcoming winter. This new generation of capable, visionary leaders will guide the University into the next decade and beyond. Dr. Garson's capacity to attract uncommonly promising applicants for these positions and to participate effectively in final recruitment and hiring adds tangible value to administrative work at the senior levels.

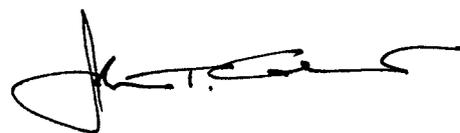
Dr. Garson and Mr. Sandridge have completed a new academic plan through the work of the Commission on the Future of the University. Our general strategy is to strengthen core resources while funding selected new programs that will further distinguish the University. For example, the Jefferson Public Citizens program will enable faculty-mentored teams of undergraduate students to conduct rigorous research and apply that research to society's most pressing problems through service projects. More commission initiatives are coming. The commission is working this year on the financial requirements for its recommendations and on metrics suitable for the use of the Rector and Visitors as they oversee implementation.

The dramatic downturn in the economy that began in 2007–08 has taken a toll whose full effect we cannot yet measure. The University is now facing an overall reduction in state funding of \$10.6 million, or 7 percent of our General Funds. This translates to some 3 percent of the consolidated academic operating budget (i.e., tax funds + tuition revenue). This reduction follows on the permanent \$9.6-million cut imposed in 2007–08, and it too is permanent. We have absorbed these reductions, and continued our progress toward self-sufficiency. The past year brought reaffirmation from the top three rating agencies of our AAA-bond rating, in conjunction with the issuance of \$231 million in tax-exempt long-term bonds in May 2008. We started developing the University's treasury function from scratch four

years ago, and in 2007–08 we completed the infrastructure using the new investment flexibility afforded by the 2007 investment legislation. Vice President and Chief Financial Officer Yoke San Reynolds oversaw implementation of an Internal Bank in 2007–08—the first visible manifestation of our treasury program. Completion of the treasury infrastructure came just in time to help us ensure adequate liquidity to cover capital and operating expenses in the face of tightening credit and liquidity in capital markets. Ms. Reynolds' systematic leadership in completing this infrastructure has been valuable to the entire organization.

Despite the economic crisis, we continue to make progress in the Campaign for the University of Virginia. As I write, current and future support commitments total \$1.8 billion, with considerably more anticipated in the second half of the current fiscal year. Generous commitments made during the first half of the campaign have given us momentum heading into the second half. Nonetheless, we all understand that we must redouble our efforts to succeed in a permanently altered economic environment.

Thomas Jefferson wanted his University to be the bulwark of the human mind, a place where each new generation discovers what he called "the important truths, that knowledge is power, that knowledge is safety, and that knowledge is happiness." Faculty members, staff, students, parents of students, alumni, friends in government, and other persons who are committed to sustaining excellence here have enabled us to pursue our founder's vision this year. That vision, one of the most powerful statements of purpose to emerge from America's Revolution, continues to capture a place in the minds and souls of this generation of students as it has in each generation during these 183 years in which Virginia's youth and the youth of other states have come to drink the cup of knowledge with us.



JOHN T. CASTEEN III
President

The Year at a Glance

September 2007

- Twenty-four University graduates start work as College Guides, helping Virginia high school students with college applications and financial aid forms, and taking students on field trips to college campuses. Funded by the Jack Kent Cooke Foundation and the Office of the Vice President and Provost, the College Guide Program helped 15,000 Virginia students last year.
- The Women's Center presents the Elizabeth Zintl Leadership Award to Commonwealth Professor of Education Carolyn M. Callahan, a specialist in programs for gifted and talented students. Elizabeth Zintl was chief of staff in the president's office until her death in 1997. The award recognizes women at the University whose professionalism, creativity, and commitment mirror Ms. Zintl's.
- More than 1,200 U.Va. volunteers are out in force for the 16th annual Lawrence E. Richardson Day of Caring, taking on projects for not-for-profit agencies in the greater Charlottesville community. Volunteers paint walls and pictures, clear brush, and assist childcare providers, among other activities.
- The School of Continuing and Professional Studies offers its new certificate in nonprofit management. Certificate workshops cover key areas of management including planning and operations, fund-raising and marketing, finance and accounting, human resources and leadership, legal issues, and board development.
- At the Symposium on Race and Society, Dr. Chester Pierce, professor of education and psychiatry emeritus at Harvard University, receives the 2007 Vivian Pinn Distinguished Lecturer's Award.

The award honors lifetime achievement in the field of health disparities.

October 2007

- President John T. Casteen III and Dean of the Curry School of Education Robert Pianta break ground for Bavaro Hall, a four-story building for the Curry School. The building is named for Anthony D. "Wally" Bavaro, a friend of Dan Meyers, chair of the Curry Foundation and the school's most generous donor. Mr. Bavaro was a history teacher and coach in public schools in the Boston area.
- The School of Engineering and Applied Science establishes a new International Programs Office to develop study-abroad and internship programs for U.Va. engineers. The office will collaborate with the University's International Studies Office to provide a global experience for engineering students who are studying world problems in areas such as energy, water, and the needs of an aging population.
- Richard J. Bonnie (Law '69) becomes the fifty-fourth winner of the Thomas Jefferson Award, the University's highest honor. Considered the world's foremost expert in mental health law, Professor Bonnie is the Harrison Foundation Professor of Medicine and Law and director and cofounder of the Institute of Law, Psychiatry, and Public Policy.

- The number of subscribers to the U.Va. Alerts emergency system reaches 10,000. In case of an emergency, registered users receive text messages on their cell phones, while emergency messages flash on a dozen LCD screens placed around the Grounds.

November 2007

- Albert H. Small (Engineering '46) helps the Albert and Shirley Small Special Collections Library acquire 133 Revolutionary War-era issues of the *Virginia Gazette*, which on July 19, 1776, printed the first press report in Virginia about the Declaration of Independence and later published the complete text. The issues will join the Albert H. Small Declaration of Independence Collection at the Small Special Collections Library.
- The Kluge Children's Rehabilitation Center and Research Institute, part of the U.Va. Children's Hospital, celebrates its fiftieth anniversary. The Kluge Center offers developmental pediatrics, rehabilitation for children with brain and orthopedic injuries, respiratory care, outpatient aquatics, and more.
- The lineup for the 20th annual Virginia Film Festival, "Kin Flicks," includes films like *The Savages*, *Persepolis*, *Before the Devil Knows You're Dead*, *Starting Out in the Evening*, and *The Diving Bell and*

the Butterfly. In all, 95 guest artists and speakers present 87 films on the theme of family life to 11,000 attendees. The festival is also chosen to receive a three-year grant of \$75,000 from the Academy of Motion Picture Arts and Sciences to help develop long-term community outreach projects.

- British-based Rolls-Royce announces plans to build a new jet engine manufacturing plant in Prince George County, Virginia. U.Va., Virginia Tech, and the Virginia Community College System will collaborate with Rolls-Royce in engineering and business endeavors including the creation of two major research centers: the Commonwealth Center for Advanced Manufacturing, which U.Va. or one of its related foundations will construct and operate adjacent to the Rolls-Royce facility in Prince George County, and the Center for Aerospace Propulsion Systems at U.Va.

December 2007

- Elizabeth Hutton Turner (College '73, Graduate Arts and Sciences '75, '85), a former senior curator at The Phillips Collection in Washington, D.C., joins the University as its first vice provost for the arts. Ms. Turner, an American art expert, will be responsible for oversight of the University's two museums—the University Art Museum and the Kluge-Ruhe Aboriginal Art Collection.
- The University receives the prestigious Council of Graduate Schools/Peterson's



The Year at a Glance

SEPTEMBER 2007–SEPTEMBER 2008



Award for Promoting an Inclusive Graduate Community. The award is based on a

proposal submitted by the Office of the Vice President for Research and Graduate Studies to establish a pilot mentoring program for graduate students from diverse backgrounds.



David T. Gies



Julian Bond

- David T. Gies, Commonwealth Professor of Spanish, receives a surprise e-mail from the Embassy of Spain in Washington, D.C., announcing that he is to receive one of Spain's highest honors, the Order of Isabella the Catholic. The honor celebrates Professor Gies's academic achievements and devotion to promoting Spanish culture.

- Governor Timothy M. Kaine attends the ribbon-cutting ceremony for two ecoMOD3 housing projects in Charlottesville. The ecoMOD initiative, a partnership with the Piedmont Housing Alliance, is a joint, multi-year project at the School of Architecture and the School of Engineering and Applied Science. Students research, design, build, and evaluate a series of ecological, modular, and affordable house prototypes.

- U.Va. again leads the state in giving to the Commonwealth of Virginia Campaign. A total of 3,807 employees donate a record of \$888,888, with 100 percent participation in eighty-nine of the University's departments. Overall, the campaign raises \$4 million for causes around Virginia.

January 2008

- The Darden School of Business and the *Wall Street Journal* present "The Darden Perspective ... In First Person." This series of nine columns includes thoughts and insights from Darden professors

and school leaders on a variety of topics affecting today's business leaders. The series kicked off in December with Dean Bob Bruner's "Should We Panic Today about the Panic of 1907?"

- In celebration of Dr. Seymour I. Schwartz's pledged bequest of his collection of American maps, the University Library presents "On the Map," an exhibition featuring highlights from the more than 200 rare items in the collection. Included are one of the oldest maps to show the Western Hemisphere (1508), the first map to show Florida (Hernando Cortés's 1524 map of Mexico City), and an eighteenth-century map of the Ohio River Valley drawn by then-unknown surveyor George Washington.

- The McIntire School of Commerce moves into its new home on the Lawn, and both Robertson and Rouss Halls welcome students for the first day of classes.

- The University's efforts to prevent pollution are recognized with the 2007 Outstanding Achievement for Pollution Prevention award from Businesses for the Bay, a coalition of business, government, and nonprofits dedicated to preventing pollution within the Chesapeake Bay watershed. A \$73 million upgrade to the main heating plant is reducing emissions, 90 percent of the University's lighting systems have been replaced with energy efficient lights, and 48 percent of its waste stream is being recycled.

- The University of Virginia Art Museum opens "Landscape of Slavery: The Plantation in American Art," in which depictions of plantations, plantation views, and related slave imagery are examined in the context of the history of American landscape painting. The exhibition is organized by Angela D. Mack, deputy director for curatorial affairs at



The map collection of Dr. Seymour I. Schwartz includes this detailed 1676 edition of a double-hemisphere projection, "A New and Accurat Map of the World."

the Gibbes Museum of Art in Charleston, S.C., and guest curator Maurie D. McInnis (College '88), director of American studies and associate professor of art history at U.Va.

February 2008

- A member of the faculty at the School of Law since 1990, Paul G. Mahoney is appointed the school's eleventh dean. An expert in corporate law, Dean Mahoney is the youngest of just five faculty members to have held the school's most eminent chair, the David and Mary Harrison Distinguished Professorship. He is a member of the Council on Foreign Relations.
- The Board of Visitors now has an international representative, Adom Getachew, its new student member. Born in Ethiopia, Ms. Getachew (College '09) is a Jefferson Scholar, an Echols Scholar, and an honorary Holland Scholar. She also brings to the board a thorough understanding of student issues, having served as a resident adviser for two years and as an officer of Sustained Dialogue.
- The University joins with the Thomas Jefferson Foundation to select recipients in citizen leadership, law, and architecture for its highest honor, the Thomas Jefferson Foundation Medal. The University announces that this year's medals will be presented to U.S. Senator John W. Warner (Law '53), U.S. Supreme Court Justice Antonin Scalia, and Gro Harlem Brundtland, United Nations special envoy on climate change.
- Tyler S. Spencer (College '08), an international health and environmental

sustainability major, is named to *USA Today's* All-USA College Academic Team. Mr. Spencer, an Echols Scholar, received a Morris K. Udall Scholarship in 2007 and two Harrison Undergraduate Research Awards. Active in tennis and crew, he has also organized a cross-country cycling trip to benefit those affected by Hurricane Katrina.

- A new documentary on Walter N. Ridley (Curry '53), the first African American to graduate from the University of Virginia and a leading figure in Virginia civil rights history, airs on PBS. Charlottesville producer and media studies faculty member Bill Reifenberger of Silverthorn Films worked with U.Va.'s Ridley Fund to create the documentary, which is narrated by former U.S. Poet Laureate Rita Dove, Commonwealth Professor of English.

March 2008

- Governor Timothy M. Kaine's Commission on Climate Change holds its second meeting at the Miller Center of Public Affairs. The forty-member commission is developing a plan to curtail Virginia's greenhouse gas emissions. Carbon dioxide emissions in the state rose by 34 percent from 1990 to 2004—a rate nearly twice the national average.
- The University Library acquires the personal papers of civil rights activist and U.Va. history professor Julian Bond. One of the first African Americans to reach national prominence in politics, Professor Bond is a former Georgia state legislator and the current chair of the National Association for the Advancement of Colored People.

U.S. News & World Report Rankings

- The University ranks second among public universities and twenty-third among all national universities.

- Five schools at the University are ranked in the top twenty:

Architecture	6th
McIntire	6th
Law	9th
Darden	14th
Nursing	19th

- The McIntire School of Commerce was judged as having the sixth-best business program in the country, while the School of Engineering and Applied Science ranked twenty-eighth in undergraduate engineering programs among universities granting doctoral degrees. This was a jump from number thirty-five last year.

- The University ranks sixteenth among national universities on the Great Schools, Great Prices list and twenty-third in economic diversity, a measure of the percentage of students receiving federal Pell grants. U.Va.'s first-year experience placed it in one of thirty-three "Programs to Look For."

- This is the fifth year that the University's College at Wise has ranked first among public colleges for the least amount of debt among graduates. U.Va.-Wise has been first among both public and private schools in four of the last five years.

- Seven medical specialties at the University were ranked by *U.S. News & World Report's* eighteenth annual survey of "America's Best Hospitals," published July 2008.

Endocrinology	7th
Ear, nose, and throat	23rd
Digestive disorders	26th
Neurology/neurosurgery	33rd
Cancer	36th
Respiratory diseases	37th
Gynecology	43rd

Other Rankings

- The University ranked number one among comparably sized universities in the number of graduates who enter the Peace Corps. Seventy-two graduates in 2007 made the twenty-seven-month commitment to serve in the Peace Corps.
- In 2007, the Institute for International Education ranked U.Va. fourteenth among the nation's top forty doctoral and research institutions in the number and percentage of students who participate in study abroad programs. In 2007–08, 1,927 students studied abroad or engaged in research abroad (including fall and spring semesters as well as J-term and summer sessions).

continued on page 9



Phoebe Crisman



Erich Harshfield and Ana Jemec



Rebecca Sauerbrunn

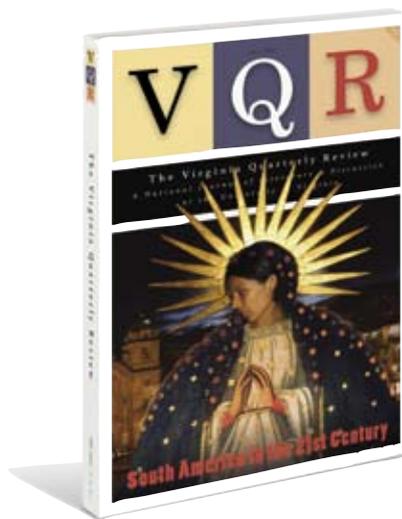
The Year at a Glance

SEPTEMBER 2007–SEPTEMBER 2008

- A coalition of U.Va. law students and area attorneys launches a pro bono project to help disabled veterans. As part of the National Veterans Legal Services Program in Washington, D.C., the group will provide legal services to veterans, who often have difficulty taking their disabilities claims through specialized courts. Law professor Chris Sprigman, along with several student veterans, helped organize the effort, which is sponsored by the School of Law, the student-run Virginia Law Veterans, and the Charlottesville/Albemarle Bar Association.
- Phoebe Crisman, associate professor of architecture, receives the 2008 American Institute of Architects Education Honor Award for her work on the Learning Barge, a floating ecological classroom on Virginia's polluted Elizabeth River. The project has received several awards, including recognition from the U.S. Environmental Protection Agency, the National Council of Architectural Registration Boards, the American Society of Landscape Architects, the James River Green Building Council, and the Association of Collegiate Schools of Architecture.
- Erich Harshfield and Ana Jemec, both third-year chemical engineering students, learn that their design for a water purification system design has been selected as one of the 100 "Projects for Peace" to be funded by philanthropist Kathryn Wasserman Davis. "Projects for Peace" is administered by the Davis United World College Scholars Program and provides funding for student initiatives that hold promise for the prospect of peace around the world.
- While earning a spot on the NSCAA Division 1 All-America Team. The 2007 ACC Defensive Player of the Year, Ms. Sauerbrunn also receives the IMP Student Athlete Award as U.Va.'s top female athlete for the 2007–08 academic year.
- The University of Virginia Patent Foundation licenses innovative silver nanoparticle technology to U.Va. start-up PluroGen Therapeutics, Inc., for use as an enhanced antimicrobial agent to fight infection and promote wound healing. The technology was invented by Lakshmi Nair, assistant professor of research in orthopaedic surgery; and Cato T. Laurencin, M.D., chair of the Department of Orthopaedic Surgery. In 2007, seventy-six U.Va. researchers received patents or registered copyrights through the U.Va. Patent Foundation.
- Katie Couric (College '79) joins her family; Governor Timothy M. Kaine; President John T. Casteen III; George Beller, M.D., the Ruth C. Heede Professor of Cardiology; and many other University leaders at the groundbreaking for the Emily Couric Clinical Cancer Center.
- For the second year in a row, a U.Va.-student team takes first place in the final round of the annual KPMG National Audit Case Competition in New York City. The team includes three McIntire students—Margaret Fowler (McIntire '09), Catherine Mandigo (McIntire '07, '08), and David Myers (McIntire '08)—as well as College student Andrew Serafin (College '10). Student teams from twenty-seven top accounting schools competed in the national five-week competition sponsored by KPMG International's Global Services Centre and the KPMG Foundation.

April 2008

- On or off the soccer field, Rebecca Sauerbrunn (College '08) excels. She is named the National Soccer Coaches Association of America Scholar Athlete of the Year,
- The Carter G. Woodson Institute, under its new director—Deborah E. McDowell,



The fall 2007 issue of *VQR* receives the National Magazine Award for best single-topic issue.

the Alice Griffin Professor of English Literature—celebrates the 100th anniversary of author Richard Wright’s birth. Following a theatrical performance largely based on Wright’s writings and directed by drama professor Theresa Davis, the institute holds a symposium featuring nationally renowned scholars and critics who discuss Wright’s life and work.

May 2008

- Sheila C. Johnson, businesswoman and cofounder of Black Entertainment Television, speaks at Valedictory Exercises, telling the graduating class of 2008 that it should demand more of politicians, the media, and themselves. Hunter Rawlings III, president emeritus of Cornell University and a visiting professor of classics at U.Va., delivers the commencement address, in which he praises the liberal arts education for teaching students “to see familiar things with new eyes, and to form judgments based upon hard-won knowledge.”
- Each year, the Algernon Sydney Sullivan Foundation sponsors awards at fifty-four colleges and universities in the southeastern United States to individuals who have served others, their institutions, and their wider communities. This year, James D. Erickson (College ’08), Wallace Gundy (College ’08), and Brian Balogh, associate professor of history, are cited for their tireless dedication, compassion for others, and tremendous creativity.
- Doctoral nursing student Michael P. Cary, Jr., receives the Inaugural Johnson & Johnson/American Association of Colleges of Nursing Minority Nurse Faculty Scholars Award. The award, one

of five given nationally, will help Mr. Cary continue his studies and develop his career as an academic researcher.

- The *Virginia Quarterly Review* captures a National Magazine Award, the magazine industry’s highest honor, for its fall 2007 issue “South America in the 21st Century,” co-edited by Daniel Alarcón and Ted Genoways (Graduate Arts and Sciences ’99).
- Charles Ransler (College ’01, Darden ’09) and Manoj Sinha (Darden ’09) win the Social Innovation Competition at the University of Texas’s RGK Center for Philanthropy and Community Service. Their business, Husk Power Systems, which supplies electricity to rural villages in India by burning rice husks, was judged to be the most compelling new idea to change the world.

June 2008

- After building a world-class Department of Biomedical Engineering, Thomas Skalak accepts the position of the University’s vice president for research. A recognized expert in microvascular structure and function, computational modeling of disease, and biomechanics, Professor Skalak is a champion of cross-University collaboration.
- This fall, the Marching Highland Cavaliers at the University of Virginia’s College at Wise will take the field at halftimes with new uniforms and instruments, thanks to a \$1.28 million gift from the Hunter Smith Family Foundation. The endowment also provides annual operating budget support for the band. Started just two years ago with

- The School of Nursing is the nation’s number one institution for doctoral student-authored National Research Service Award fellowships through the National Institutes of Health. The NIH also ranks the school twenty-second in the nation in overall nursing research funding.
- The 2007 Thomson 100 Top Hospitals Cardiovascular Benchmarks for Success Survey ranked the University of Virginia Medical Center as one of the top hospitals for cardiovascular care in the country. The survey analyzed 1,000 U.S. hospitals by looking at their outcomes for heart care, and U.Va. is in the top 100.
- The University tied with Columbia University for the highest percentage of African American first-year students in the nation’s top-ranked universities and liberal arts colleges, according to the *Journal of Blacks in Higher Education*’s fifteenth annual survey. African American students made up 11.4 percent of U.Va.’s first-year class in fall 2007. And for the fourteenth straight year, the University’s African American graduation rate was the highest among those at all public universities in the nation, according to the annual compilation published by the *Journal*.
- For the third consecutive year, the University’s McIntire School of Commerce was ranked second among the nation’s best undergraduate business programs by *BusinessWeek* magazine.
- The Darden School of Business ranked fourth in a biennial survey of America’s best business schools by *Forbes*. The survey ranks schools based on “return on investment,” which is determined by compensation five years after graduation minus tuition and the forgone salary during school.
- The University of Virginia ranked number three in the list of Top 100 Values in Public Colleges published annually by *Kiplinger’s Personal Finance* magazine. U.Va.’s four- and six-year graduation rates were the highest among the top 100 in the rankings, and the average debt load of graduates was the lowest among the top 10. U.Va. ranked second among the top 100 in total cost for in-state students after financial aid. This ranking reflects the impact of AccessUVA, the University’s financial aid program.

The University at a Glance

ENROLLMENT, FALL 2008

Undergraduate	13,762
Graduate	4,904
First Professional (law and medicine)	1,725
On-Grounds Continuing Education	666
Total	21,057

FACULTY AND STAFF, 2007–08

Full-time instructional and research faculty	2,171
Full-time other staff in the Academic Division	6,034

Visit the *Facts at a Glance* site at www.virginia.edu/Facts/ for more University statistics.



Billy K. Cannaday, Jr.



UVaExpress

Yoke San L. Reynolds and Karin Wittenborg at the Women in Leadership conference



The Year at a Glance

SEPTEMBER 2007–SEPTEMBER 2008

thirty members, the band is expected to grow to 100 players by 2012.

- The Board of Visitors approves President John T. Casteen III's proposal to rename 15th Street S.W. (between Lane Road and Crispell Drive) to Jeanette Lancaster Way to honor the University's longest-tenured dean as she steps down after nineteen years of leading the School of Nursing.
- Longtime University benefactor and businessman John Kluge and his wife, Tussi, give sixteen Aboriginal paintings valued at \$1.3 million from their private collection to the University's Kluge-Ruhe Aboriginal Art Collection. The paintings are magnificent examples of early western desert art, according to Kluge-Ruhe director and curator Margo Smith (Graduate Arts and Sciences '89, '01). The Kluge-Ruhe Collection was established in 1997 through a generous gift from Mr. Kluge's private collection and ranks as one of the finest groups of works by Australian Aboriginal artists in the world.
- John A. Blackburn, the University's longest-serving dean of admission, announces he will retire in June 2009, after a three-decade career at U.Va. A leader in increasing diversity at the University, he is a national expert on college admissions who is sought widely for his experience in the field.

July 2008

- Billy K. Cannaday, Jr., a veteran educator who serves as Virginia's superintendent of public instruction, is appointed dean of the School of Continuing and Professional Studies. During his career, Mr. Cannaday has repeatedly demonstrated his ability to promote educational reform. When he arrived as superintendent of Chesterfield County Public Schools in Richmond, fewer than half its fifty-nine

schools were fully accredited by the state. Under his leadership, 100 percent received full accreditation five years later.

- The National War Powers Commission, cochaired by former Secretaries of State James A. Baker III and Warren Christopher, recommends that Congress repeal the War Powers Resolution of 1973 and substitute a new statute to establish a clear process on decisions to go to war. The Miller Center of Public Affairs impaneled the commission in February 2007.
- John C. Bean, the John Marshall Money Professor of the School of Engineering and Applied Science, receives the 2009 IEEE Undergraduate Teaching Award from the world's leading professional association for the advancement of technology. With National Science Foundation funding, he developed online tutorials on micro- and nanotechnology for undergraduates and the general public, an effort that grew into the Virtual Lab, a public science education Web site (www.virlab.virginia.edu). By the summer of 2008, visitors from more than 2,000 schools had viewed more than four million pages of content on the site.
- Governor Timothy M. Kaine appoints Helen Dragas (College '84, Darden '88) of Virginia Beach, chief executive officer of the Dragas Group; and Robert D. Hardie (College '87, Darden '95, '99) of Charlottesville, managing director of Level One Partners, LLC, to the Board of Visitors.
- The University's College at Wise announces plans for construction of a \$30 million convocation center seating 3,000 for sporting events and 4,000 for concerts or convocation activities. The largest single capital project in the College's history, it is expected to open in the fall of 2011.

August 2008

- President John T. Casteen III announces the appointment of Gowher Rizvi as vice provost for international programs. Mr. Rizvi is an internationally renowned political scientist and the director of the Ash Institute for Democratic Governance and Innovation at Harvard University's John F. Kennedy School of Government.
- The University's summer Travel and Learn program concludes with the 21st Seminar at Oxford, England: The Era of Revolution in Britain, France, and America and the Making of the Modern Western World. Heading this year's seminar are Peter Onuf, Thomas Jefferson Foundation Professor of History; and widely published scholar Jeremy Black, an Oxford University alumnus and established chair in history at the University of Exeter. Travel and Learn seminars are noncredit adult learning programs offered through the School of Continuing and Professional Studies.
- Students and faculty returning for the fall term find several new facilities on the Grounds. Joining the Campbell Hall additions, the Claude Moore Nursing Education Building, and Ruffin Hall is Kellogg House, a residence hall in the Observatory Hill area. Named after the late Robert Kellogg, an English professor and former dean of the College and Graduate School of Arts and Sciences, Kellogg is home to 194 first-year students and nine resident staff members.
- Some 100 students from twenty-three countries on five continents begin their U.Va. careers by way of the UVaExpress, a volunteer-funded transportation system that welcomes foreign students after an often long, arduous journey from their home countries. UVaExpress conveys international students and family members from Dulles Airport to Charlottesville free of charge.
- U.Va. students announce the new University Unity Project, which promises to revolutionize student engagement

and student governance. Seeking to bring a wide array of students together to achieve common goals, the Unity Project will challenge students to become involved in the greater community beyond the Grounds. Plans include an annual project in which all students would participate. The project will kick off with an on-Grounds Farmer's Market featuring local farmers from Charlottesville's City Market. The event is organized by the Student Council's Environmental Sustainability Committee.

September 2008

- An international team of scientists circulates the first beam of protons at nearly the speed of light around the seventeen-mile Large Hadron Collider on the Franco-Swiss border near Geneva. Brad Cox (Engineering '89), professor of physics and a principal investigator with U.Va.'s High Energy Physics Group, has been involved with the planning and instrument design for the LHC since its inception in 1993.
- The University reports that it has surpassed the state's guidelines for purchasing from small, women-owned, and minority-owned businesses. In fiscal year 2008, U.Va. spent 42.5 percent of its discretionary budget on goods and services from these "SWaM" firms, exceeding the 40 percent requested by Governor Timothy M. Kaine. The University spent \$11.6 million with minority businesses, a jump from \$7.1 million spent the previous fiscal year. Two years ago, U.Va. did just 23.9 percent of its business with SWaM firms, notes Bill Cooper (Architecture '76, '68, Darden '89), director of supplier diversity for U.Va.
- The Miller Center of Public Affairs brings former finance ministers from around the world for a first-of-its-kind global summit to address pressing economic issues caused by changes in world economic power and influence. The



group's recommendations will form a blueprint for global economic management in the twenty-first century.

- A PBS documentary on the Constitution premieres on September 17—Constitution Day—as part of a free event at the Charlottesville Pavilion. Produced by local PBS stations in partnership with the Center for Politics, "Questioning the Constitution" draws from the issues raised in *A More Perfect Constitution: 23 Proposals to Revitalize our Constitution and Make America a Fairer Country*, the latest book by Larry Sabato (College '74), the Robert Kent Gooch Professor of Politics and director of the Center for Politics. The event is hosted by the Thomas Jefferson Center for the Protection of Free Expression, the Center for Politics, and WHTJ Charlottesville PBS.
- Sponsored by the University's Women in Leadership and Philanthropy program, the inaugural "Women in Leadership" conference convenes at the Abbott Center at the Darden School of Business. The conference features keynote speaker Sheila C. Johnson and a bipartisan panel of alumnae, including conservative political columnist Karin Agness (College '06, Law '09); Virginia Delegate Jennifer McClellan (Law '97), D-Richmond; Ellen Qualls (College '88), senior adviser to Speaker of the U.S. House of Representatives Nancy Pelosi, D-California; and Charmaine Yoest (Graduate Arts and Sciences '01, '04), head of Americans United for Life. •



The University of Virginia Student Experience



The University has achieved its excellent reputation by dedicating talent, energy, and resources to sustain and enrich its academic and research programs. U.Va. also has worked efficiently with public and private sources to create superb facilities that more effectively support these efforts. In February 2008, the final report of the President's Commission on the Future of the University presented strategies to strengthen three core areas of the University: student experience, science and technology, and global programs. The

report recommends directing resources for student experience initiatives, including funding for scholarships, fellowships, professorships, public service and study abroad opportunities, leadership programs, and financial aid to enable the University to keep pace with the demands of society's future leaders.

The Class of 2008

While faculty honors and high rankings in national surveys are notable achievements representing years of hard work, the

University's success can best be measured by the superior quality of the students who come here. They are diverse, smart, and engaged, the equal of students anywhere in the nation. U.Va. students contribute to the intellectual, cultural, and social life of the University as they pursue their studies to expand their own horizons—and they take full advantage of the opportunity.

A cross-section of students who graduated in May 2008 highlights the special qualities of U.Va. students and their determination to realize their individual visions.

Students

Elizabeth Wesner, for instance, overcame obstacles to become the first student certified by the Curry School of Education to teach Chinese. Facing limited opportunities to student-teach Chinese in Charlottesville, Ms. Wesner moved to Fairfax County for a semester, lived with a family there, and taught four classes at a local high school.

Having grown up in the inner city of Detroit, James D. Erickson, a studio art major, has long been aware of the conditions of poverty and now has dedicated himself to making the humanity of the homeless impossible to overlook. His work in the studio includes a series of dramatic, monumental portraits of Charlottesville homeless people, painted on cardboard and incorporating other discarded materials often used by the homeless. These paintings express the greater bond that Mr. Erickson formed with his subjects, having lived with them and worked with them as they sought employment.

Inspired by her own mother, Valarie Lynne Morton, a pastor's wife and mother of five, had long planned to become a nurse manager. She had worked in health care for twenty years, which gave her the advantage of applying her coursework to her own work experiences. She also completed the School of Nursing's flexible RN-to-BSN program even though it meant taking more than a full load of courses for a year while working as an RN at Mary Washington Hospital in Fredericksburg. Ms. Morton will return to U.Va. in 2009 to work on her master's degree in health systems management.

A Record of Accomplishment

Students at the University are not only bright and talented. They are motivated by a deeply felt sense of curiosity and are undeterred by hard work. This combination can produce an extensive record of accomplishment—and national recognition.

Xiao Wang (College '08) received national recognition rewarding three years of the dedication that characterizes

leadership. He received a Truman Scholarship, awarded to college juniors exhibiting leadership potential and commitment to careers in public service. Mr. Wang, who received his bachelor's degree in economics in three years, will pursue a master's degree in the newly created Batten School of Leadership and Public Policy in fall 2008.

An Echols Scholar and a Jefferson Scholar, he was inducted into Phi Beta Kappa in his third year. In addition to publishing two papers on the democratic transition in Hong Kong to communist rule, Mr. Wang served as founding editor of the U.Va. student-produced journal in economics, *Virginia Policy Review*. He joined the Miller Center Public Service Fellows Program, the Madison House community service organization, and the Jefferson Literary and Debating Society. He also served as a teacher's aide at local pre-kindergarten and elementary schools.

The scholarships and research support undergraduates earn often lead to educational experiences that can shape their careers. Environmental sciences major Michelle Henry (College '10) received a 2008 Udall Scholarship that will allow her to go to South Africa to pursue research on the relationship between climate and diet. Dana M. Hecht (College '09), a distinguished major in human biology, was awarded a National Society of Collegiate Scholars Scholarship. She is using the funding to attend a four-month international program in Switzerland, India, China, and South Africa to study the policies and practices of public health initiatives.

Other students received awards that helped defray the costs of their education and offer valuable career opportunities. Two chemistry majors specializing in biochemistry, Courtney M. Schroeder (College '09) and Adam C. Nichols-Nielander (College '09), received Goldwater Scholarships. Sarah Buckley (College '09) and Grayson Lambert (College '09) received inaugural Senator John W. Warner Public Leadership

Awards. The Warner awards, established by the University through an unrestricted gift from Senator Warner, are given to third-year undergraduate students who exhibit a serious, convincing ambition to seek future election to public office.

Graduate Students of Great Promise

The University increasingly attracts graduate students whose work is recognized for its top quality even before the completion of their dissertations. Adam J. Jortner, a doctoral candidate in American history, illustrates this point. He argues that small but intense religious groups—and the reaction to them—have often played a pivotal role in shaping church-state relations in America. Mr. Jortner's ideas earned him the support he needed to conduct research this year at the McNeil Center for Early American Studies at the University of Pennsylvania. Next year, he will devote himself to his dissertation, with a Charlotte W. Newcombe Doctoral Dissertation Fellowship given by the Woodrow Wilson Fellowship Foundation. He is one of just twenty-nine students nationwide to receive this award.

The quality of their research secured three other graduate students highly competitive National Science Foundation Fellowships this year. They were Justin Henriques in systems and information engineering, David Hondula in environmental sciences, and Isabelle Stanton in computer science. Fellows receive three years of funding to support their research, including tuition payment as well as an annual stipend.

Rewarding Opportunities that Launch Careers

University graduates' record of accomplishment on the Grounds quite often creates unparalleled opportunities for them as they launch their careers. During his time at the University, the experiences





Student on the Board

The Board of Visitors selected Adom Getachew (College '09) as its student member for 2008–09. Born in Ethiopia and raised in Arlington, Virginia, she is a Jefferson Scholar, an Echols Scholar, and an honorary Holland Scholar.

of Patrick Hopkins (Engineering '04, '07) have opened doors to a career in his field—heat transfer engineering. While an undergraduate, he studied the fundamental processes that affect heat transfer in nanoscale semiconductors. To gain a broader perspective, he earned both a bachelor of science degree in mechanical engineering and a bachelor of science degree in physics when he graduated in 2004. He then completed a Ph.D. in engineering in 2007 and took a postdoctoral position in the laboratory of his mentor, mechanical engineering professor Pamela Norris, where he conducted research that has already made a contribution to his field.

His achievements were rewarded with an opportunity that will enable him to apply new areas of knowledge to his investigations. This year, Mr. Hopkins accepted the Harry S. Truman Fellowship in National Security and Science and Engineering at Sandia National Laboratories; he is one of two fellows selected from a field of

eighteen candidates. His three-year fellowship at Sandia will put him in daily contact with researchers approaching nanoscale heat transfer from a number of disciplines.

Kenneth Brooks Hickman (Law '08) was selected as one of eighteen Luce Scholars for 2008–09. This award is designed to familiarize outstanding new graduates with current issues facing Asia and is awarded to recent graduates who have a record of high achievement, outstanding leadership ability, and a career interest with potential for professional accomplishment. Mr. Hickman, who served as president of the J. B. Moore Society of International Law, will spend a year with a law firm in Singapore or Hong Kong.

A similar history of achievement played a critical role in the selection of three recent School of Law graduates to clerk for the U.S. Supreme Court. Katherine Twomey, a 2008 graduate, will clerk for Justice Antonin Scalia beginning in summer 2009. Porter Wilkinson, a 2007 graduate, will

clerk for Chief Justice John Roberts for the 2008–09 session, while Pamela Bookman, a 2006 graduate, will clerk for Justice Ruth Bader Ginsburg beginning in the summer of 2009. Ms. Bookman currently clerks for Judge Thomas Buergenthal and Judge Rosalyn Higgins at the International Court of Justice in The Hague.

Mobilizing the Academical Village

The activities of U.Va. students charge the atmosphere on the Grounds. U.Va. students bring with them a sense of creativity, engagement, and vitality that manifests itself inside and outside the classroom. Their interests and their activities, more than any other factor, make the Academical Village an exciting place to be.

One program that highlights the sense of purpose and energy that students bring to the University is Alternative Spring Break. Rather than choosing to relax at the beach, increasing numbers of students

spend their breaks performing community service at locations in the United States and overseas. The students themselves organize these activities and establish partnerships with on-site nonprofit organizations and manage transportation, fund-raising, and logistics. In 2007–08, 650 U.Va. students spent seven to ten days at almost sixty worksites in the United States, Central and South America, and Africa, a record for the University. The projects they undertook were wide-ranging. Ten groups returned to New Orleans and five sites in Mississippi to help repair homes damaged or destroyed by Hurricane Katrina. Another resurfaced youth baseball fields in Durham, North Carolina, while another group traveled to La Gracia, Belize, to pinpoint sources of local water supply contamination that was causing widespread diarrhea among children. The motto of the program, “Change Your Perspective,” highlights one of the program’s goals: encouraging students to see their own lives in relation to broader social and global issues.

Enlarging Their World View

For U.Va. students, the understanding that they are global citizens invites action. They are eager to redefine and personalize the process of globalization by working to build long-term connections between the University and people in other countries. In recent years, dozens of University students have worked and studied at Primeros Pasos, a medical clinic cofounded by Brent Savoie (Law ’07), which provides free health care to children living near Quetzaltenango, Guatemala. Megan Dunning (College ’08) and Elizabeth Murphy (College ’08), founders of the Inter-American Health Alliance at the University, organized a fund-raising event for the clinic this year that also publicized the Guatemala Health Partnership, a program dedicated to developing sustainable relationships between the University and the people of Guatemala. After graduation, both Ms. Dunning

and Ms. Murphy will help realize this goal by returning to Guatemala to work at the clinic for a year.

Other students contribute their business know-how to help those in need. Manoj Sinha (Darden ’09) and Charles Ransler (College ’01, Darden ’09) started a company based on a technology that uses cheaply available rice husks to fuel an electric generator. They began pilot projects in two villages in Bihar, India’s poorest state, and hope to expand the service to at least fifteen rice-rich but electricity-poor villages in 2009. Team members added substantially to their start-up capital by taking first prize in the Social Innovation Competition at the University of Texas and winning the Darden School’s annual business plan competition.

Meeting Challenges in Science and Technology

The current generation of students eagerly embraces scientific and technological challenges. This year, a multidisciplinary team of five University undergraduates formed the Virginia Genetically Engineered Machine Team to teach themselves the basics of the new field of synthetic biology and to conduct their own research. They raised \$50,000 from various U.Va. sources to support their efforts to combine standardized genetic elements to create a synthetic microbial system that will produce butanol, a biofuel, from plant biomass and light. They were also awarded a grant from DuPont to further their work after competing at the International Genetically Engineered Materials competition at the Massachusetts Institute of Technology.

Other students are studying vulnerabilities in computer hardware and software. Working with fellow computer scientists in Germany, computer engineering graduate student Karsten Nohl demonstrated that the encryption used by the billions of radio-frequency identification (RFID) chips can be broken with just a few thousand dollars worth of readily available equipment. RFIDs

are found in credit cards, subway fare cards, and high-security building keycards among other applications. His work has led major manufacturers and governments to consider other approaches to encryption.

Mr. Nohl’s advisor is David Evans, associate professor of computer science. Professor Evans also worked with an undergraduate team, Adrienne Felt (Engineering ’08) and Andrew Spisak (College ’08), to research privacy issues surrounding social networking platforms like Facebook. The two students discovered that more than 90 percent of Facebook’s applications grant users access to private data. To combat this danger, the students developed a system that Facebook could use to protect this information.

Taking Action

U.Va. students are equally committed to public service. This year, Deborah Perl (McIntire ’09) assembled a team of twenty volunteers who collaborated with Urban Vision, a local nonprofit responsible for the IRS-sponsored Volunteer Income Tax Assistance program in Charlottesville. Members of the group, called Creating Assets, Savings, and Hope (CASH), helped prepare tax returns for people with low to moderate incomes. Ms. Perl plans to expand the program next year even while preparing younger students to take over the reins of the organization after she graduated.

Bridging the Gap is another example of a student-founded program that took on a life of its own after its founder graduated. In 2006 Clay Broga (College ’07) created the program to help the many refugee children who have been resettled in the Charlottesville area by the International Rescue Committee adjust successfully to American life. Staffed by more than eighty student volunteers, the program now helps about seventy-five children. U.Va. students tutor children in English, supervise homework, read with them, play with them in nearby parks, and take them to soccer practices and games. •



Preparing Citizens for the Twenty-First Century

A great challenge facing the University is refining and strengthening academic programs to prepare students to make meaningful contributions as citizens of the twenty-first century. In an increasingly multidisciplinary world that expects graduates to have mastered complex and advanced skills, the University must also take the opportunity to broaden and enrich their education by making public service, research, international study, and the practice of leadership part of their experience.

Public Spirit. Public Service.

For decades, the center of student public service has been Madison House, a student-run, nonprofit organization that coordinates University of Virginia student volunteers, develops student leaders, and builds community partnerships. Each week, students tutor local children, deliver meals to seniors, coach sports teams, renovate houses, and perform other services.

Thanks to the commitment of U.Va. faculty members, public service for students is not just an extracurricular activity but an integral part of the curriculum. When Charlottesville city officials asked Nisha Botchwey, an assistant professor of

urban and environmental planning in the School of Architecture, to help Charlottesville reach its goal of becoming America's healthiest city by 2015, she turned the project over to her students. At the end of the semester, two of her classes made a series of recommendations to city planners that included creating easier access to grocery stores, gyms, and parks and improving the local trail system.

The University's January term has also helped make public service a part of the curriculum. A January-term Spanish culture and conversation class taught by instructor Patricia E. Reagan is representative. Students undertook various projects in the local Hispanic community, including explaining government-financed services available to Spanish speakers, promoting the Girl Scouts, and reading to children to encourage literacy.

Intellectual Scholarship at All Levels

In conducting research, students learn at every stage of the process, from writing a proposal and securing funding to analyzing and presenting their results. While limited funding for research projects is

available, the Commission on the Future has included increasing student research funding in its proposals. In February 2008, forty-two undergraduate students received Harrison Undergraduate Research Awards, created with a gift from the late David A. Harrison III (College '39, Law '41) and his family. These annual awards defray the costs of conducting an independent research project that is guided by a faculty advisor. Winning proposals this year included studies of the immune system, genocide in Rwanda, and voting patterns in Australia.

Currently, more than 50 percent of students at U.Va. engage in some sort of research during their undergraduate years—and that number is growing annually with the help of faculty members. This year, the Department of Biomedical Engineering received a three-year National Science Foundation Partnerships for Innovation grant designed to promote experiential education for bioengineering students globally. Organized around a newly launched Web site, www.bmeplanet.org, this new network gives students at U.Va. and around the world the opportunity to take part in hands-on research.

Academic Programs

On-Grounds Globalization

The Academical Village is now a global village. During the last academic year alone, almost 1,900 students studied abroad in seventy-nine countries, and international students made up more than 10 percent of the graduating class.

Members of the University community have been instrumental in opening the Grounds to the world. The Department of Spanish, Italian, and Portuguese has for the last three years offered a creative writing seminar featuring discussions with visiting writers from Latin America and Spain. The International Student Center hosts many programs, including the International Speakers Bureau, to introduce international subjects and people from many nations to the University community. Its English language and mentoring programs help international students adjust to University life. Alderman Library now features four television sets that pull in satellite feeds from more than eighty foreign channels, allowing students to keep up with world news. And in response to shifts in global economic and political power, the University this year created a department of East Asian Languages.

Hoos for Open Access

A new student organization, Hoos for Open Access, is doing its part to make higher education accessible to college-bound students. The group was established to educate potential students about the University's financial program, AccessUVA, and to provide financial-education support to students who receive assistance. Hoos for Open Access has also started a blog and hosts weekly chat sessions for students with financial aid questions. Group members met with President John T. Casteen III and Yvonne Hubbard, director of Student Financial Services, to discuss financial aid and suggest changes they think would benefit AccessUVA students. One recommendation they proposed is expanded aid for international study, J-term classes, and summer tuition.

It is the first department of its kind in the southeastern United States.

Faculty members have also developed meaningful opportunities for overseas study. Among many courses combining international travel with study this year was a January-term class that took place in the Ghanaian city of Cape Coast, where students worked with local residents on economic development projects. An environmental thought and practice class was held in Panama, the result of a newly formed collaboration between U.Va. and the Panamanian City of Knowledge, an educational organization in Panama.

At the same time, individual schools within the University are forging ties with overseas institutions that will lead to exchanges of students and joint research opportunities. This year, the McIntire School of Commerce signed an exchange agreement with two of the top business schools in Asia: the School of Business and Management at Hong Kong University of Science and Technology and the Guanghua School of Management at Peking University. The Darden School of Business signed a partnership with the Hochschule für Wirtschaft Zürich that will bring Swiss students to Charlottesville to study general management and marketing. This program is the fourteenth partnership that Darden has established with international business schools.

In other cases, international alliances involve a consortium of schools. The University is a member of the Universitas 21 international education network. This year, President John T. Casteen III traveled to India as chairman of Universitas 21 to welcome Delhi University, its newest member. The School of Engineering and Applied Science is part of a newly formed alliance of South African and U.S. universities that has joined forces with Canadian transportation giant Bombardier. The goal is to help provide a better-educated workforce for industries moving into South Africa

while promoting interaction between U.S. and South African students.

Strengthening Their Capacity to Lead

One of the founding ideals of the University was to create the citizen-leaders that democracy would need to flourish. Accordingly, the University has always placed a premium on student self-government.

One way that students learn to lead is through emulation—and this year saw a steady stream of national leaders pass through Grounds. Among other distinguished visitors, Senator Hillary Clinton interrupted her presidential campaign to address politics professor Larry Sabato's class, former governors John H. Sununu; Lowell P. Weicker, Jr.; and L. Douglas Wilder debated presidential election reform, and Supreme Court Justice Antonin Scalia gave a lecture when he accepted the Thomas Jefferson Foundation Medal in Law.

Founded in 1993 to educate Virginia's future political and community leaders, the Sorensen Institute at U.Va. sent sixteen graduates to serve in the Virginia General Assembly this year—two in the Virginia Senate and fourteen in the House of Delegates. Three graduates are serving in Governor Tim Kaine's cabinet, and dozens more were appointed to boards and commissions or are serving in positions of leadership in local governments or in the private sector. A record number of Sorensen alumni ran and won office in the November 2007 elections. Forty-eight graduates were successful at the polls, including sixteen Republicans, sixteen Democrats, and twelve independents.

The University grounds students in the practical side of leadership. An example is the week-long intensive training program for leaders of student organizations offered by the Office of the Vice President for Student Affairs. The program is designed to familiarize students with resources at



the University and to set the pattern for mutual cooperation that will be essential in accomplishing their goals.

U.Va. also hosted the tenth annual ACC Student Leadership Conference this year. Organized by the ACC Inter-Institutional Academic Collaborative, the conference promotes student leadership and encourages interaction among the ACC member schools outside of athletics. This year's conference theme, "Aspiring for Impact: Evolving Perspectives of Student Leadership," was based on the idea that although student leadership can mean different things for different people, it should always aim to have a positive impact on the community. •



The Intellectual Core of the University

The University's faculty is its most valuable resource. Faculty members uncover knowledge and new perspectives, they apply themselves diligently to transmitting that knowledge in ways that have lasting impact, and they create institutions—centers, departments, and schools—that provide the necessary framework for research, education, and public service.

An important measure of the University's success in fulfilling its mission can be measured by the quality of its faculty. James N. Galloway, the Sidman P. Poole Professor of Environmental Sciences, was one of two scientists this year to share the

Tyler Environmental Prize, considered the Nobel Prize in environmental sciences, energy, and environmental health. He was cited for his pioneering analysis of the flow of reactive nitrogen through the global ecosystem and his work, undertaken on an international scale, to create approaches to manage this flow more efficiently. Professor Galloway also was elected a fellow of the American Geophysical Union, an honor that the association confers on just 0.1 percent of its 51,000 members.

John Hudson, the Wills Johnson Professor of Engineering, was elected to membership in the National Academy of Engineering, among the highest distinctions

awarded engineers. He is known for his work engineering complex, dynamic chemical reactions. Dr. Arthur Garson, Jr., the Robert C. Taylor Professor of Health Science and Public Policy and the University's executive vice president and provost, received a comparable honor with his election to the Institute of Medicine of the National Academy of Sciences. This year, he helped to conceive and draft the Health Partnership Act, a bipartisan bill introduced into the U.S. Senate and House to expand health care coverage to millions of uninsured Americans.

The University's faculty members are receiving recognition from foreign

Faculty

governments for their efforts to promote global understanding. David T. Gies, Commonwealth Professor of Spanish, received one of Spain's highest honors, the Order of Isabella the Catholic. Professor Gies was cited for his work on the Spanish literature of the Enlightenment and Romantic periods, and contemporary Spanish cinema, and for his efforts to promote Spanish literature in Europe and the Americas. His colleague, John Lyons, Commonwealth Professor of French and chair of the Department of French Language and Literature, was inducted into the Legion of Honor, France's highest honor. Professor Lyons was recognized for his scholarship in seventeenth-century French literature and culture and his work to strengthen ties with the French Embassy.

Leaders in Their Fields

Recruiting leading scholars in their fields to teach and study here adds to the quality of the student experience and to the vitality of the University community. This year, Frederick Schauer, a prominent expert on the First Amendment, constitutional law, and legal philosophy joined the School of Law as a David and Mary Harrison Distinguished Professor of Law. Harrison professorships, supported by a gift from the late David A. Harrison III (College '39, Law '41), are reserved for senior teachers and scholars of national distinction who also embody the ideals of the Law School. Professor Schauer, who has written on a wide range of subjects, is a fellow of the American Academy of Arts and Sciences, has held a Guggenheim Fellowship, has been vice president of the American Society for Political and Legal Philosophy, and was a founding co-editor of the journal *Legal Theory*.

Siva Vaidhyanathan, nationally known for his expertise on new media and the law, joined the new Department of Media Studies in the College of Arts and Sciences as associate professor of media studies and law. He came to the University from the

New York University Department of Culture and Communication. The author of *Copyrights and Copywrongs* and the *Google-ization of Everything*, Mr. Vaidhyanathan is also an authority on intellectual property issues. He organized the department's first high-profile event, a panel discussion called "The Fall & Rise of American Liberalism: Media, Race, Religion and Bruce Springsteen," which brought cultural analysts from other universities to U.Va.

The University also places a premium on nurturing promising young faculty. The University's Fund for Excellence in Science and Technology (FEST) Distinguished Young Investigator Award program was established in 2000 to provide young faculty with seed money to launch research projects. The 2007–08 winners were astronomer Philip Arras, electrical engineer Avik Ghosh, and cell biologists Noelle Dwyer and Jing Yu.

The preliminary research conducted with this funding has helped young faculty secure research grants from national agencies. Professor Ghosh and former FEST winner Kim Hazelwood, assistant professor of computer science, were among four assistant professors to win National Science Foundation CAREER Awards. These grants range from \$200,000 to \$500,000 over four or five years. Computer scientists Sudhanva Gurumurthi and Jason Lawrence also received CAREER awards.

Two other FEST winners—Kelsey Johnson, assistant professor of astronomy; and Jill Venton, assistant professor of chemistry—received large grants from other sources. Professor Johnson was one of twenty young scientists to be awarded a Packard Fellowship by the David and Lucille Packard Foundation. She studies globular star clusters and the development of the early universe. Professor Venton received an Eli Lilly and Company Young Investigator Award in Analytical Chemistry. She designs tools to measure the real-time transmission of signals in the brain. Both Professor Johnson and Professor Venton also hold NSF CAREER awards.

Breaking New Ground

The University's ability to push the boundaries of knowledge and to serve the public is a function of both the size of its faculty as well as its quality. Today, 2,140 scholars and researchers are conducting fundamental research in scores of areas critical to the well-being of our society. Some of this work has identified basic areas of education that will benefit directly from improvement. Professor Mabel Kinzie and Robert Pianta, dean of the Curry School of Education, are developing a new pre-kindergarten mathematics and science curriculum. All research points to the importance of pre-kindergarten education, but studies suggest that classroom coverage, especially in these two areas, is highly variable. Their project is funded with a \$1.77 million grant from the U.S. Department of Education.

A number of U.Va. faculty members are working on projects related to national defense and security. Hilary Bart-Smith, associate professor of mechanical and aerospace engineering, received a highly competitive Multidisciplinary University Research Initiative (MURI) grant from the Office of Naval Research. She heads a team conducting basic research that could lead to the creation of an underwater vehicle that mimics the motion of a manta ray. Such a design would allow an undersea vehicle to accelerate and decelerate more quickly and to move more efficiently.

Professor Bart-Smith is one of five faculty members in the School of Engineering and Applied Sciences leading or participating in MURI grants, a high number for any engineering school. Multimillion-dollar, five-year grants like the MURI—long enough and large enough to enable faculty to pursue truly innovative basic research—are extremely rare and are the object of fierce competition.

University business faculty members also conduct research that deepens understanding of basic business concepts and practices. Robert Cross, associate professor of commerce, is an expert on social network

analysis and studies the web of ad hoc relationships that employees form to accomplish their work. His findings help corporations make better use of underutilized personnel and highlight the importance of individual enthusiasm in fostering connections that lead to higher performance.

With the rise of gasoline prices, many scientists are exploring alternative sources of energy. Two U.Va. physicists, Bellave S. Shivaram and Adam B. Phillips, have discovered a new class of materials that can absorb hydrogen at high rates, providing

an affordable way to store and transport hydrogen. The inventors are working with the U.Va. Patent Foundation to patent their discovery, with the belief that the novel materials will translate to the marketplace. Their discovery is an important step that could lead to the widespread acceptance of hydrogen fuel cells to power vehicles. At the same time, U.Va. researchers are also helping governments use existing technologies more efficiently. Byungkyu “Brian” Park, assistant professor of civil engineering, is working with the Korea Transport Institute

and Virginia Tech to modify traffic signal control systems to operate optimally for reducing fuel consumption and emissions.

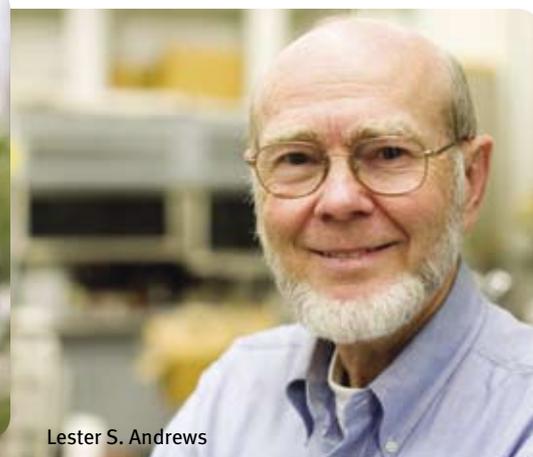
Scholarly research can also heighten critical awareness of society’s perspectives and perceptions. Maurie McInnis, associate professor of American art and material culture, served as consultant curator on “Landscape of Slavery: The Plantation in American Art.” This exhibition underscores changes in society’s views of race, slavery, and the plantation over the last two hundred years.



Carolyn M. Callahan



Edward Berger



Lester S. Andrews

Honored by the Commonwealth and the University

The faculty awards that the state and the University bestow serve a dual purpose. They honor individual faculty members for their outstanding accomplishments, while motivating others to follow in their footsteps. Several University faculty members were singled out for recognition during the 2007–08 academic year:

- Commonwealth Professor of Education Carolyn M. Callahan received the 2007 Elizabeth Zintl Leadership Award from the U.Va. Women’s Center. Professor Callahan is a specialist in educational opportunities for gifted and talented students.
- Matthew Neurock, the Alice M. and Guy A. Wilson Professor of Engineering, was the first recipient of the School of Engineering and Applied Science’s Robert A. Moore, Jr., Award in Chemical Engineering. The

award is given for teaching, research, and outreach activities that best represent the interests of industry.

- Edward Berger, associate professor in the Department of Mechanical and Aerospace Engineering; and Dr. John Kattwinkel, the Charles Fuller Professor of Neonatology and chief of the Division of Neonatology, received the 2008 Outstanding Faculty Award, administered by the State Council of Higher Education for Virginia.
- A *Richmond Times-Dispatch* and Library of Virginia survey included constitutional law expert A. E. Dick Howard, the White Burkett Miller Professor of Law and Public Affairs and Earle K. Shawe Professor of Employment Law, in its list of the most influential Virginians of the twentieth century.

- The U.Va. Patent Foundation named George T. Rodeheaver, Richard F. Edlich Professor of Biomedical Research, the 2008 Edlich-Henderson Inventor of the Year. Professor Rodeheaver invented an antimicrobial gel that has proven significantly more effective than existing therapies in treating severe burns and chronic wounds.
- Lester S. Andrews and Ian G. Macara were honored with the 2007–08 U.Va. Distinguished Scientist Award. Professor Andrews is a renowned physical chemist whose work has fundamentally changed the understanding of chemical bonding in many elements. Ian Macara, the Harrison Distinguished Teaching Professor of Microbiology and director of the School of Medicine’s Advanced Microscopy Facility, is an international leader in the field of cellular regulation.



For the Common Good

The knowledge and insight faculty members gain over the course of their careers reach society in a number of ways. As scholars, they publish for other specialists, exchange ideas at conferences, and give lectures and presentations. As teachers, they transmit their discoveries and their passion for discovery to students in the classroom, online, and in their offices. And as public servants, they contribute their skills and knowledge in a variety of contexts, from Capitol Hill to the high school classroom.

This year, a number of faculty members testified before Congress on matters of policy. Dean of the School of Nursing Jeanette Lancaster testified on the need to provide more funding to train nurses as the population ages. Brandon Garrett,

associate professor of law, described ways to improve the monitoring of corporate fraud settlements. Members of the U.Va. Institute on Aging briefed a Senate committee on the use of technology to promote independent living. Kathryn Thornton, associate dean of the School of Engineering and Applied Science, advised Congress on the timing of space exploration, recommending that manned expeditions to Mars be undertaken soon.

Faculty members also have accepted positions advising state and federal government agencies and administering their programs. Daniel Pitti, associate director of the Institute for Advanced Technology in the Humanities, was appointed to the National Archives and Record Administration's Advisory Committee on the Electronic

Records Archives. Professor Pitti has been the main technical architect on a number of standards for electronic archives.

Maurice Cox, associate professor of architecture, accepted a two-year appointment as director of design for the National Endowment for the Arts. He will oversee the Mayors' Institute on City Design, the Governors' Institute on Community Design, and the Your Town program, which helps smaller communities preserve their character in the face of economic or social change. Professor Cox brings both his experience as mayor of Charlottesville and his expertise as an urban planner to the position.

U.Va. faculty members also have teamed with local school divisions to expand the opportunities they offer their students. The Virginia Foundation for



the Humanities and the Virginia Center for Digital History helped four school districts in southern Virginia secure a \$1 million Teaching American History grant from the U.S. Department of Education in 2007. The grant will fund intensive training over three years for twenty-four teachers. A second \$1 million Teaching American History grant spearheaded by the Center for the Liberal Arts was secured in 2008. As part of a \$1.3 million grant from the National Science Foundation, John Bean, the John Marshall Money Professor of the School of Engineering and Applied Science, and his colleagues are working with the Science Museum of Virginia in Richmond to develop hands-on educational displays to explain the intricacies of nanoscience.

The University also hosts various institutes and centers that serve the people of the Commonwealth. The Weldon Cooper Center for Public Service provides surveys, data, research, technical assistance, and practical training to help state and local officials anticipate and respond to change. The center's annual population estimates are the official figures the Commonwealth uses in the interim between federal censuses. This year, the center estimated that seven out of ten Virginians now live in urban areas.

The Virginia Public History Project and the Executive Political Institute at the Center for Politics also serve the state of Virginia. In partnership with the Weldon Cooper Center, the Virginia Public History Project examines the

administrations of Virginia's more recent, former governors and other high-ranking elected officials, and explores the dynamics of various institutions of Virginia government. The Virginia Public History Project presented two conferences during 2007–08: "Ten Years of Good Politics" and "A Decade of Political Change." Hosted by Larry J. Sabato (College '74), the Robert Kent Gooch Professor of Government and Foreign Affairs and director of the Center for Politics, the Executive Politics Institute brings corporate executives from across Virginia to discuss politics, government, and history from a business perspective. Sessions include presentations and panel discussions by academics, policymakers, and state and local government experts. •



The Changing Face of the University

At an institution as conscious of its architectural heritage as the University of Virginia, buildings are built and maintained with care. When William Thornton, architect of the Capitol in Washington, D.C., reviewed Thomas Jefferson's plans for the University of Virginia he noted, "This plan of yours is I think admirably calculated for almost indefinite extension." The University has continued to coordinate planning for preserving historic buildings on the Grounds while building new facilities to meet the requirements for higher education and research today.

Taken individually, the assortment of major buildings now being constructed

across the Grounds addresses pressing needs. Collectively, they represent an ambitious effort to position the University for leadership in the twenty-first century. The University's goal is to create settings that promote continual interaction among students and faculty, offer open spaces for inspiration and recreation, and support the finest teaching, research, and patient care.

Anticipating the Growing Need for Medical Care

In response to the national shortage of nurses, the School of Nursing is expanding to increase its space and provide a richer, more comprehensive educational

experience to its students. The Claude Moore Nursing Education Building opened in time for students arriving at the University for the fall 2008 semester. The building added 32,000 square feet of lecture halls, classrooms, meeting rooms, and common spaces. Across the street, construction began on the Claude Moore Medical Education Building, which will meet the School of Medicine's need for modern, consolidated facilities and will support technology-enhanced teaching methods that improve the way medical students learn.

In anticipation of the growing need for medical care, construction at the U.Va.



Medical Center continues. The parking garage that stood on the site of the Emily Couric Clinical Cancer Center has been demolished and construction has begun, with completion scheduled for 2011. At the same time, planning is under way to extend the front of the U.Va. Hospital thirty-four feet toward Lee Street, making it possible to add seventy-two private patient rooms by 2011.

Strengthening Research Infrastructure

The Carter-Harrison Research Building rising behind Jordan Hall responds to another pressing need. One of the largest constraints the University faces in its efforts to strengthen its science programs is laboratory space. This building—and the Snyder Translational Research Building and Life Sciences Annex nearing completion at the University's Fontaine Research Park—will help to overcome this limitation.

The Board of Visitors has endorsed three other construction projects that will add more than 300,000 square feet to U.Va. laboratories. One project is a 100,000-square-foot facility for physical and life sciences research adjacent to the chemistry annex. The other two projects involve significant expansions to planned research facilities for the Medical School and the School of Engineering and Applied Science.

Classrooms for the Digital Age

The University has also embarked on a series of projects that redefine the traditional classroom to take advantage of new technology and reorganize and expand academic areas. This year, the McIntire School of Commerce moved to its new home on the Lawn. Its 156,000-square-foot facility is composed of historic Rouss Hall, which appears unchanged from the Lawn, and Robertson Hall, named for financier Julian H. Robertson, Jr., and his wife, Josie. Mr. Robertson's protégé,

John A. Griffin (McIntire '85), made the gift to name the building in honor of his mentor. The new facility includes state-of-the-art class presentation technology as well as areas conducive to community, interdisciplinary learning, and faculty-student interaction.

The South Lawn Project is integral to the College's plan to expand its faculty so that it can increase class offerings and reduce class sizes. Phase I, now in progress, consists of three buildings housing history, politics, and religious studies. It will be linked to Central Grounds by a landscaped plaza spanning Jefferson Park Avenue. Governor Timothy M. Kaine and the General Assembly included the funding required to renovate New Cabell Hall across Jefferson Park Avenue in his proposed bond package for higher education.

Ruffner Hall, home of the Curry School of Education, has become so crowded that faculty members must find off-Grounds space to conduct their research. The new four-story Bavaro Hall being built adjacent to Ruffner will nearly double the space available to the school.

The School of Architecture faced similar constraints. Campbell Hall houses one of the nation's leading architecture and landscape architecture departments, as well as distinguished programs in architectural history and urban and environmental planning. The school has, however, more than doubled its enrollment since moving into the building more than thirty years ago, and space is at a premium. Additions just completed include a new entry tower housing flexible exhibition space, rooms for reviewing student work, and, to the south, a bank of twenty-six faculty offices that are linked to nearby studios and teaching spaces.

In other cases, new construction will bring departments together for the first time. Newly completed Ruffin Hall will enable the studio art program to meet more of the growing demand for its courses by bringing together all of its classrooms and faculty

offices, now scattered among several locations on Central Grounds. Envisioned as a village for the arts, Ruffin Hall includes windows that allow abundant natural light and freight elevators for moving large objects. The building holds studios designed specifically for the teaching of painting, drawing, sculpture, printmaking, photography, performance art, and digital media.

Building to Plan

Thomas Jefferson's original Academical Village is an exemplar of coherent planning. It is an ideal setting in which to nurture the mind and promote social interaction. In looking ahead to the needs of the future, the University's leaders are guided by Jefferson's belief that the principles that shape the physical character of the institution are derived from the principles that guide its academic undertakings. The vision for the Grounds includes integrating academic, residential, and recreational uses into multi-use zones, reconnecting all sectors of the University Grounds, creating a walking environment, and engaging the surrounding community.

Building Sustainability

In 2006, the University released its Guidelines for Sustainable Buildings and Environmental Design, which established a sustainable approach to campus planning, facilities design, and resource management. Following the Board of Visitors' commitment in 2007 to LEED certify all new building projects and renovations, the University currently has twenty-four projects seeking LEED certification. The South Lawn Project, which will be among the first U.Va. facilities to receive LEED certification, is on track for achieving high standards of energy efficiency, sustainability in site planning, water protection, conservation of materials and resources, and indoor environmental quality. The \$105 million project is scheduled to open in 2010. •

Shaping the Future of Health Care

The technology that caregivers, educators, and researchers at the U.Va. Health System have at their disposal is impressive in its complexity and power. But ultimately the ability to offer high-quality care to patients in the U.Va. community and in the Commonwealth is due to the dedication, energy, and expertise of the 6,000 Health System employees.

The outstanding performance of Health System employees is the reason that *U.S. News & World Report* ranks the School of Medicine twenty-third in the nation for research-intensive medical schools and the

School of Nursing nineteenth. These individuals are why the U.Va. Medical Center once again was named one of the top 100 cardiovascular hospitals in the nation, and why many of our specialties—such as neurosciences, digestive health, and endocrinology—are consistently ranked among the best in the nation. The contributions of U.Va.'s health care personnel are also the reason the Medical Center achieved Magnet Recognition from the American Nurses Credentialing Center, a mark of nursing excellence bestowed on just 5 percent of U.S. hospitals.

Collective Success

A number of achievements serve to highlight the quality of the professionals the Health System attracts. Many Health System employees attain recognition from the most prestigious professional organizations in their fields. For instance, Pamela Cipriano, chief clinical officer and chief nursing officer at the Medical Center, was one of just thirteen nurses across the country to receive the Distinguished Member Award from the American Nurses Association.

R. Edward Howell, vice president and CEO of the U.Va. Medical Center, was





Dr. Steven T. DeKosky



Dorrie K. Fontaine

recognized for his leadership in advocating for community health care and hospital services. He received a Partnership for Action Grassroots Champion Award from the American Hospital Association, in partnership with the Virginia Hospital & Healthcare Association. Mr. Howell and his team at the Medical Center have spent the last several years focused on advocacy.

Others are recognized for their sustained commitment to education. Neurosurgeon John Jane received the 2008 Parker J. Palmer Courage to Teach Award from the Accreditation Council for Graduate Medical Education. During his tenure at U.Va., Dr. Jane has trained fifty-five neurosurgeons, sixteen of whom are now chairs of their own neurosurgery departments. Dr. John Kattwinkel, the Charles Fuller Professor of Neonatology, was named a recipient of a 2008 Outstanding Faculty Award, administered by the State Council of Higher Education for Virginia.

Nursing professor Suzanne Burns (Nursing '85, '88) received one of the first Flame of Excellence Awards from the American Association of Critical-Care Nurses honoring teaching and clinical excellence at the regional and national levels. Her colleague, Reba Moyer Childress (Nursing '79, '91), assistant professor of nursing, was named a fellow of the American Academy of Nurse Practitioners, while Sarah Farrell (Nursing '81, '83), associate dean for academic programs and chief technology officer for the School of Nursing, was elected president of the Virginia Association of Colleges of Nursing.

U.Va. Health System faculty members were also honored for their contributions to research. Dr. Anindya Dutta, the Harry Flood Byrd, Jr., Professor of Biochemistry; and William R. Pearson,

professor of biochemistry and molecular genetics, were named fellows of the American Association for the Advancement of Science. Dr. Dutta was honored for his investigations of processes that lead to genomic instability in cancer cells, while Professor Pearson is highly regarded as the codeveloper of FASTA, a software package with programs for searching protein and DNA databases.

This level of individual excellence places the Health System at the forefront of health care. This year, 160 University of Virginia physicians were named to the list of "Best Doctors in America," the result of a comprehensive peer-review survey. This total reflects an increase of thirty-five more U.Va. physicians since the last survey. Doctors included in the list are among the top 3 percent to 5 percent in their specialties.

New Leadership in Medical and Nursing Education

Strong, visionary medical educators can influence generations of students and inspire their colleagues. The Health System is fortunate to have found superb leaders to serve as new deans of the Schools of Medicine and Nursing.

Dr. Steven T. DeKosky, an international leader in Alzheimer's disease research, is the new vice president and dean of the School of Medicine. He is charged with developing patient-centered models of care and establishing U.Va. as a translational research center.

This appointment represents a homecoming for Dr. DeKosky. He completed a postdoctoral fellowship in neurochemistry at U.Va.'s Clinical Neuroscience Research Center, and his first academic appointment was in the Department of Neurology.

He succeeds Dr. Sharon L. Hostler, the McLemore Birdsong Professor of Pediatrics, who assumed the post in May 2007 as interim vice president and dean.

Dorrie K. Fontaine, a specialist in addressing the needs of critically ill patients, was appointed dean of the School of Nursing. Her research focuses on comfort for critically ill patients, pain relief, and family presence at end of life. While at the University of California, San Francisco, she also established a reputation for promoting interprofessional education across health care disciplines. Another of Dean Fontaine's key interests is promoting healthy work environments for nurses and hospital colleagues. She served as president of the American Association of Critical-Care Nurses, the largest specialty nursing organization in the world, in 2003–04. Dean Fontaine succeeds Jeanette Lancaster, the University's longest-tenured dean and among the longest-tenured deans of nursing in the nation, who has stepped down after nineteen years of service.

This year, the School of Nursing officially dedicated the newly completed Claude Moore Nursing Education Building, and the School of Medicine broke ground on the Claude Moore Medical Education Building. Both schools are also expanding their programs in clinical simulation, one of the most powerful health care teaching models in practice today.

Advancements in Medical and Nursing Care

Because U.Va. medical and nursing faculty members serve at an academic medical center, they are able to make essential connections between patient care and scientific and technological progress. And these faculty members have

the opportunity not simply to make new treatments available to patients but to play a role in their development.

The Health System is committed to funding advanced technology. As a result, U.Va. physicians are often among the first to gain access to this new medical technology and specialized equipment. This year, physicians from the Health System were the first in the nation to use the Artis zeego imaging system from Siemens Healthcare. This new machine's robotic arm technology makes it possible to visualize internal organs clearly from perspectives that could never be gained otherwise. U.Va. physicians first used the system to guide a liver shunt precisely into place and are now leading the way in exploring its benefits for patients with different imaging and treatment needs.

Many high-tech interventions are only available to patients who can come to Health System facilities for care. Through the Office of Telemedicine, the Health System is involved in a multifaceted effort to use technology to reach out to people in rural areas of the state and to provide routine and follow-up care in their communities. The office received \$2.7 million in funding from the Federal Communications Commission for a Rural Health Care Pilot Program that gives outlying health care facilities broadband access to experts and equipment at leading medical institutions. When these networks are in place, doctors will be able to transmit patient records, video files, and other images for diagnosis and ongoing care.

The office is also a partner in the new Virginia Acute Stroke Telehealth network, which is funded by a \$1.3 million grant from the national Office of Rural Health Policy. Its goal is to decrease Virginia's stroke mortality rates—among the nation's highest—and boost the number of stroke patients who receive clot-busting medication within hours of experiencing stroke symptoms.

Research from Cells to Society

Basic science research at the cellular and molecular level provides the critical foundation for advances in medical care. In a recent article published in *Science*, Todd Stukenberg, associate professor of biochemistry and molecular genetics, explained why a single protein—the Aurora-B kinase—plays such an important role in guiding the process of cell division. Professor Stukenberg and his colleagues investigated the activation of Aurora-B and found that there are at least two independent mechanisms to activate Aurora-B that depend on the kinase's location on the chromosome. This discovery sets the stage for research into new chemotherapies that could interrupt cell division in tumors with limited side effects.

Other examples of basic research conducted at the U.Va. Health System have even more direct application for treatment. Dr. William Petri (Graduate Arts and Sciences '80, Medicine '82), the Wade Hampton Frost Professor of Epidemiology and chief of the Division of Infectious Diseases and International Health, discovered a protein used by the *Entamoeba histolytica*, a parasite that causes diarrhea and malnutrition and kills nearly 100,000 people a year, to undermine the body's immune mechanism. Inhibiting this protein might clear this infection.

Some Health System researchers are investigating treatments that could be adopted in months. In clinical trials conducted at the University, Dr. Bankole Johnson, the Alumni Professor of Psychiatric Medicine and chair of the Department of Psychiatry and Neurobehavioral Sciences, demonstrated that topiramate, an existing therapeutic medication, not only decreases heavy drinking but also diminishes the extensive harm alcohol dependence causes to physical organs, such as the heart and liver, as well as damage to an individual's psychosocial well-being that decreases quality of life. Findings from the

clinical trials provide evidence that may lead the FDA to approve topiramate for alcohol dependence.

Applying an existing treatment to a different area of medicine often proves successful. Dr. Adam Katz, associate professor of plastic surgery, will study the use of fat grafting for wounds and severe burns as part of an effort of the Armed Forces Institute of Regenerative Medicine (AFIRM), a multimillion-dollar initiative launched by the Department of Defense to develop clinical therapies using regenerative medicine to treat battlefield injuries. This fat-grafting procedure currently performed all over the world for cosmetic purposes might also improve wound healing and limb function for soldiers who are severely hurt and scarred.

Some studies have impact much closer to home. A nursing study led by operating room nurse and researcher Eric Blum underscored the importance of providing regular communication to families

Lasting Contributions

In the fall of 2008, the first nursing students began classes in the newly constructed Claude Moore Nursing Education Building. The building was the realization of a vision of former Dean Jeanette Lancaster. Her contributions to the School of Nursing and her profession were widely acknowledged this year, her last as dean. She was presented with the prestigious Melanie C. Dreher Outstanding Dean Award from Sigma Theta Tau International and an honorary doctorate of humane letters from SUNY Downstate Medical Center. She also was elected a Distinguished Scholar by the National Academies of Practice. The Virginia General Assembly recognized her contributions and passed a resolution commending Dr. Lancaster for her "effective, visionary, and inspiring leadership . . . and her work in improving health care for all the citizens of the Commonwealth." The U.S. Congress also honored her for her achievements contributing to the health care of the nation.



of patients undergoing surgery. With the documented findings in place, new policies can be put in practice to ensure that such conversations take place.

Space for research continues to be a priority. This year saw the opening of the new Sheridan G. Snyder Translational Research Building; the Carter-Harrison Research Building is scheduled for completion early next year. Still, at a time when the budget of the National Institutes of Health is being cut, Health System researchers continue to be successful in attracting funding. This year, nine Health System researchers were awarded a total of \$10 million over three years from the U.Va. Tobacco Research Program to advance the study of diseases associated with smoking. The program was created in 2007 following a gift from Philip Morris USA. Other major grants include those below.

- Dr. R. Ariel Gomez, the Robert J. Roberts Professor of Pediatrics, received a Method to Extend Research in Time award from the National Heart, Lung, and Blood Institute to further his study of renin cells in the kidneys. The award covers an initial five-year period (\$1.9 million) and is renewable for an additional five years of support.
- Dr. Richard Guerrant (Medicine '68), the Thomas Harrison Hunter Professor of International Medicine and founder of U.Va.'s Center for Global Health, received a \$3.6 million grant from the National Institute of Allergy and Infectious Diseases to develop a new approach to treat the *Clostridium difficile*, a major cause of diarrhea that has become increasingly resistant to antibiotics.
- Dr. Eric Houpt, the Harrison Distinguished Teaching Professor of Medicine, will use a \$2.6 million grant from National Institute of Allergy and Infectious Diseases to develop a single test for more than twenty different food and waterborne pathogens. Dr. Paul Hoffman, professor of medicine, received \$2.6 million from the institute to create a single treatment to prevent infection from a variety of pathogens.
- Kim Innes, assistant professor of research in the School of Nursing and adjunct assistant professor in the Department of Physical Medicine and Rehabilitation, was awarded a five-year, \$585,070 grant from the National Center for Complementary and Alternative Medicine to investigate yoga for the prevention and management of cardiovascular disease and related chronic, insulin-resistant conditions.
- With a \$1.8 million grant from the National Heart, Lung, and Blood Institute and the National Institute of Neurological Disorders and Stroke, the Health System will establish a consortium of seven medical centers to evaluate best procedures in cardiothoracic surgery. Dr. Irving L. Kron, the S. Hurt Watts Professor of Surgery and chair of the Department of Surgery; and Dr. Karen C. Johnston (Graduate School of Arts and Sciences '99), the Harrison Distinguished Teaching Professor of Neurology and chair of the Department of Neurology, are leading this initiative.
- Kathryn Laughon (Nursing '98, '99), assistant professor of nursing, received a two-year NIH grant, providing \$275,000 a year, to test an interactive health communication application as a way of providing information and support to the guardians of children who survived intraparental homicide.
- Kevin Lee, the Harrison Foundation Professor of Neuroscience and chair of the Department of Neuroscience, received an \$890,000 grant from the National Institute of Neurological Disorders and Stroke to test a new treatment for stroke that delivers oxygen and glucose to brain cells cut off by a blood clot.
- Richard J. Price, associate professor of biomedical engineering, received a \$300,000 three-year grant from the Hartwell Foundation to further his research on an innovative method to treat pediatric brain tumors.
- Dr. Benjamin W. Purow, assistant professor of neurology, was awarded a five-year, \$375,000 Early Career Physician-Scientist award from the Howard Hughes Medical Institute for his work studying glioma, the most common and lethal brain tumor.
- Ann Gill Taylor (Nursing '63, Curry '75), the Betty Norman Norris Professor of Nursing and director of the Center for the Study of Complementary and Alternative Medicine, received a five-year, \$673,299 Academic Career Award from the National Center for Complementary and Alternative Medicine to build leadership skills in complementary and alternative medicine research. •

The Emily Couric Clinical Cancer Center

Before her death from pancreatic cancer in October 2001, Virginia State Senator Emily Couric asked the U.Va. community to envision a superior medical facility—a cancer center dedicated to meeting the individual needs of each patient and to treating the whole patient, not just the disease.

Senator Couric's vision has been realized with the groundbreaking for the \$74 million Emily Couric Clinical Cancer Center in April 2008. When completed in three years, the five-story, 150,000-square-foot facility will provide the latest treatments and compassionate cancer care services to patients and their families. The U.Va. Cancer Center now handles 41,000 outpatient visits a year.

Talent and Ability

University of Virginia fans can look back at the 2007–08 season with a sense of satisfaction. The statistics compiled over the year tell the story of a first-rate group of athletes who brought a national level of play to the University.

In twenty-one of the University's twenty-five sports, teams or individuals advanced to postseason competition, participating in nineteen NCAA championship events. The men's lacrosse and men's tennis teams reached the semifinals in NCAA championships, while the women's rowing team finished fifth. The men's tennis team won

the Intercollegiate Tennis Association's (ITA) National Team Indoor Championship.

The Cavaliers also did well in conference play. U.Va. teams won ACC championships in men's swimming and diving, women's swimming and diving, men's tennis, men's cross country, women's lacrosse, and women's rowing, the most of any league member. Over the last six years, the University has won twenty-nine ACC championships, more than any other school. U.Va. has established itself as the school to beat in a number of sports. The women's rowing team has won nine

consecutive conference championships, and the men's swimming and diving team has won nine conference championships in the last ten years.

Altogether, U.Va.'s intercollegiate athletics teams won more than 61 percent of their contests in 2007–08, compiling an overall record of 262-160-8 for a .619 winning percentage. This achievement was summed up by a seventeenth-place finish in the Division I United States Sports Academy Directors' Cup standings, which are based on the combined performance of men's and women's sports during the



academic year. The University is one of just fifteen schools to finish in the top thirty in all fifteen years of the existence of the Directors' Cup.

A Great Ending to a Memorable Career

Statistics tell only a part of the story. The sustained high-quality play that Virginia demonstrated reflects the talent, determination, and character of its athletes. A number of students who graduated this year epitomized these qualities over the course of their collegiate careers.

Sean Singletary, three-time cocaptain of the men's basketball team, brought versatility and excitement to his position as guard. He is the only player in ACC history to compile 2,000 career points, 500 career assists, 400 career rebounds, and 200 career steals. The University retired his jersey in ceremonies before his last regular-season home game.

Defensive end Chris Long compiled a similar record in football. This year, he became the third unanimous first-team All-American in U.Va.'s football history, received the Ted Hendricks Award as the best defensive end in the nation, and was named the ACC's Defensive Player of the Year. He tied for third nationally in quarterback sacks and was fourteenth in tackles for loss. His jersey also was retired at the end of the season. Mr. Long was the second player drafted in the first round of the National Football League draft.

Somdev Devvarman also compiled an outstanding record during his four years at the University. He became just the third player to repeat as the Intercollegiate Tennis Association's Men's Player of the Year. Mr. Devvarman also won the NCAA singles championship for the second consecutive season as well as the ITA National Indoor Singles Championship. He finished the season with an overall singles record of 44-1, tying the school record he set last



Chris Long

year, and was ranked number one in the nation every week of the season.

Leading from the Sidelines

There is no one more influential in the personal and athletic development of these students than U.Va. coaches, who serve as teachers, mentors, and exemplars. They bring to their position a deep-seated understanding of their sports, the ability to communicate, to empathize, and to inspire, as well as a determination to win. One measure of their success is the honors they receive. Seven Virginia coaches won a total of eight ACC Coach of the Year awards, including Mark Bernardino in men's and women's swimming and diving, Brian Boland in men's tennis, Jason Dunn in men's cross-country, Al Groh in football, Kim Lewellen in women's golf, Julie Myers in women's lacrosse, and Kevin Sauer in rowing. Brian Boland was named the Intercollegiate Tennis Association's National Coach of the Year.

The valuable contributions of two coaches have been sustained over such an extended period of time that they were elected to their sports' halls of fame. Women's head basketball coach Debbie Ryan was inducted into the Women's Basketball Hall of Fame in June of 2008. As head coach of Virginia, Ms. Ryan has taken her team to twenty-two NCAA Tournament



Somdev Devvarman

appearances and three consecutive Final Four berths (1990-92). She is among seven coaches in NCAA women's basketball history to reach the 600-win milestone at the same school. In addition, Ms. Ryan led the 2001 USA Basketball team to the gold medal in the World University Games and the 2003 team to a silver medal at the Pan American Games.

Dom Starsia, head coach of men's lacrosse, will be inducted into the National Lacrosse Hall of Fame in November 2008. Since coming to U.Va. in 1993, Mr. Starsia has led the Cavaliers to three national championships (1999, 2003, and 2006). At Virginia he has a record of 184-62 and has taken the Cavaliers to ten NCAA semifinal appearances.

Although these coaches appreciate the accolades that are bestowed on them, their goal is not simply to compile a winning record but to help their student-athletes become well-rounded individuals. Steve Swanson, head coach of the women's soccer team, can point with pride to the success of Becky Sauerbrunn. Ms. Sauerbrunn was not only named to the 2007 National Soccer Coaches Association of America Division 1 All-America Team, she was also awarded the organization's Scholar Athlete of the Year Award. Even while competing for the U.S. Women's National Team, the English major compiled a 3.43 GPA, often finishing assignments in a post-practice ice bath or on 3 a.m. trips back from away games. •

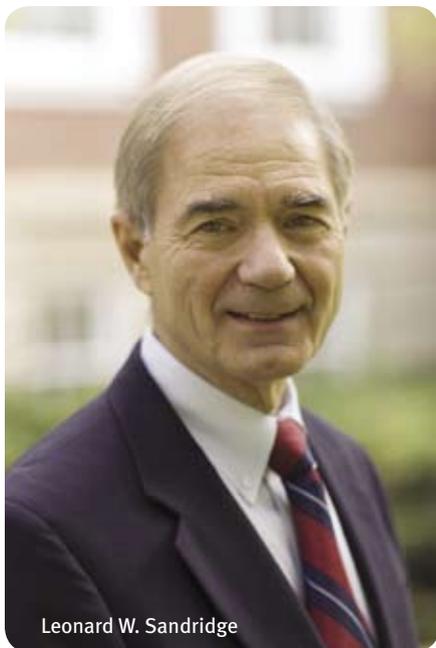
Financial Report

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Opportunity and Promise

A NEW GENERATION OF UNIVERSITY LEADERS



Leonard W. Sandridge

The University of Virginia is facing a period of significant change—change on a scale we have seen only a handful of times in our history. Three historic changes in particular led to substantial improvements in the scope and quality of our programs: the influx of students supported by the GI Bill after World War II, the admission of African Americans in 1950, and the admission of women some twenty years later. In each case, new people brought new ideas, new perspectives, and new energy to the Academical Village. As they have in the past, the changes we anticipate will both challenge us and provide us with promising opportunities to advance our missions of teaching, research, and service to the Commonwealth.

We are facing a generational shift that will take place in the next few years. The current leadership will be stepping down, and a new generation will assume the responsibility for shaping the University's future. This change is already under way. In little more than a year, we have appointed new deans for five of our schools, a new provost, and a new vice president for research. The composition of our faculty, too, will reflect this change. We estimate that we will hire 300 faculty members over the next ten years. Half will replace retiring faculty, while the rest will add depth in engineering, the College, and health sciences. In the years ahead, we will build on the strength that these new leaders and faculty members bring to the University.

To ensure that we take full advantage of the opportunities these changes create, the president directed that the University form the Commission on the Future of the University. This planning effort came at an ideal juncture, enabling us to capture the insight and experience of the current leadership and the excitement of the next generation in pursuing new directions.

Executive Vice President and Provost Tim Garson and I cochair the commission, which involved more than 250 people around the University.

The final recommendations of the commission, which were presented to the Board of Visitors at its October 2008 meeting, focus on three priorities: the student experience, global programs, and science and technology. In each of these areas, we are making hard decisions, reinforcing our existing areas of strength, and targeting new areas of excellence in fields that are essential to fulfilling our aspirations. We will act on these recommendations with the assurance that the University of 2020 will be a better institution because of them.

Building on Our Financial Strength

Drawing on our experience of earlier downturns, we are working to maintain our momentum as the economy slows. In October 2008, the state cut 7 percent of our general fund appropriation, or \$10.6 million, for current 2008–09 operations. Our schools and departments are in the process of removing 3 percent from their operating budgets to produce the amount we must return to the state. Another \$10 million in the equipment trust fund remains frozen. State salary increases planned for academic division employees to be effective in fall 2008 have been deferred “at least” until July 2009. The cuts in 2009–10 are likely to be even more significant. We are planning for what the General Assembly may do when it meets in early 2009.

Tuition and fees are also critical sources of revenue for the University. Under the Restructured Higher Education Financial and Administrative Operations Act of 2005, the Board of Visitors has the ability to adjust tuition and fees to preserve the financial stability of the University.

For 2008–09, the board mandated a 9.4 percent increase for in-state students and a 6.7 percent increase for students from out of state, consistent with a six-year plan revised in fall 2007. At the same time, the board increased funding for AccessUVA, our financial aid program. Students whose family incomes are at or below an amount representing 200 percent of the federal poverty level will have all costs—including tuition and fees, room and board, books and expenses—met by grants from the University.

Our strong endowment gives us the ability to compensate for reductions in state contributions. As of June 2008, our returns for three, five, ten, fifteen, and twenty years equal more than a 13 percent annual rate of return. In the 2007–08 fiscal year—a year that was hard on endowments of other universities—our total return was about 6 percent. Obviously, the situation in late 2008 has affected this performance record, but these are the times we remind ourselves that we are a long-term investor. We also received reaffirmation from the top three rating agencies of the University's AAA rating, in conjunction with the issuance of tax-exempt long-term bonds in May 2008.

This year, the Board of Visitors voted to alter the University's endowment payout formula, increasing the fiscal year 2008–09 distribution to 5 percent and making \$16 million more available for the benefit of students and U.Va. Health System patients. The distribution is based on the June market value. We will review the 2009–10 payout carefully.

Acting on Our Administrative Flexibility

We are now able to see the many advantages of our restructuring agreement with the state. Freed from many state constraints, we

have seen buildings rise more rapidly. This accelerated schedule enables us to realize substantial construction savings in the face of inflation. Because we are in the midst of the most ambitious building program in the University's history, this independence and the savings that result are particularly important in realizing our aspirations. For instance, the University's science and technology programs have long been hampered by a lack of research space. Our ability to build more efficiently is making it possible to rectify that deficit by planning an additional 300,000 square feet of research facilities. Clearly, restructuring has lived up to its promise.

The restructuring agreement has also allowed the University to create its own human resources system, substituting for the state classified system one that is designed specifically for higher education. The new system is launching in fall 2008. We expect that current state employees, who will be given an option to join the new system, will find it very attractive.

At the same time, the University is developing a new student system to replace ISIS. The course catalog, the schedule of classes, and first-year applicants for fall 2009 have been transferred to the new system, and pre-enrollment and academic advisement will be added in March 2009.

In addition to providing a higher level of service, these new systems generate better planning information. The data we gain from them allow us to know more about ourselves, make more accurate projections, understand the needs of our customers, and respond to them more appropriately.

A Sound Infrastructure for Health Care

At a time when the costs of providing health care are rising and the number of people requiring care is increasing, prudent

management has enabled the U.Va. Medical Center to continue operating at a profit and to reinvest funds in capital improvements needed to serve critically ill patients in central and southwest Virginia. As part of this initiative, we are preparing to add seventy-two intensive-care-capable beds to our hospital as well as thirty beds in a long-term acute care hospital facility. We have also begun construction on a new clinical cancer center.

The Medical Center also continues to attract exceptional physicians, nurses, and other health care professionals. In particular, our Magnet nursing recognition has served us well and enabled us to attract talented nurses during a time of shortage.

Continuity and Change

This is an exciting opportunity in the University's history. We have enlisted the most experienced members of our community to help us chart our course for the next decade. Our loyal employees have never been more dedicated, and their professional opportunities have never been greater. The quality of our students and faculty is a continuous source of pride. With a reliance on private funding that underscores the importance of our current capital campaign, our goal is to emerge from the economic downturn with a strategic advantage relative to our peers. The University as it exists in 2020 may look different than the one Thomas Jefferson envisioned, but our commitment to his ideals of excellence, service, integrity, and leadership will remain as strong as ever.



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

Management's Discussion and Analysis (Unaudited)

INTRODUCTION

This discussion and analysis provides an overview of the financial position and results of activities of the University of Virginia for the year ended June 30, 2008. Comparative information for the year ended June 30, 2007, has been provided where applicable. This overview has been prepared by management and should be read in conjunction with the financial statements and the footnotes that follow this section.

The University of Virginia is an agency of the Commonwealth of Virginia and is governed by the University's Board of Visitors. The Commonwealth prepares a separate financial report that incorporates all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. The University, consisting of three major divisions, is a component unit of the Commonwealth of Virginia and is included in the Commonwealth's *Comprehensive Annual Financial Report*. The University of Virginia's three divisions are its Academic Division, Medical Center, and the College at Wise.

Academic Division

A public institution of higher learning with 21,057 students and 2,171 full-time instructional and research faculty members in eleven separate schools, the University offers a diverse range of degree programs, including doctorates in fifty-seven disciplines. The University is recognized internationally for the quality of its faculty and for its commitment to the primary academic missions of instruction, research, and public service. The University consistently ranks among the nation's top public colleges and universities, both for its general academic programs and for its strengths in specific disciplines. Its emphasis on the student experience is extraordinary among major public institutions, and its dedication to new advances in research permeates all of its schools and colleges.

Medical Center

The University of Virginia Medical Center is an integrated network of primary and specialty care services ranging from wellness programs and routine checkups to the most technologically advanced care. The hub of the Medical Center is a 589-bed hospital, which is in a state-designated Level 1 trauma center located in Charlottesville. In addition, primary and specialty care are provided at convenient clinic locations throughout central Virginia communities.

College at Wise

Located in southwestern Virginia, the College at Wise is a public liberal arts college with 1,964 students and 95 full-time instructional and research faculty members. It offers twenty-nine majors, including preprofessional programs in dentistry, forestry, law, medicine, physical therapy, and veterinary medicine. Degrees include the bachelor of arts, the bachelor of science, and the bachelor of science in nursing.

FINANCIAL HIGHLIGHTS

For the fiscal year ended June 30, 2008:

- In May 2008, the University issued \$231 million of general revenue pledge bonds. The proceeds will be used to acquire and construct a number of important projects that will advance the University's missions. They include the Carter-Harrison Research Building (MR-6), the Hospital Expansion, the Rouss Hall Complex, the South Lawn Project (Arts and Sciences Building), the Observatory Hill Residence Hall, and the Wise Dining and Residence Hall.
- In February 2008, the University terminated one of its three fixed-payer interest swaps. This swap had a notional amount of \$50 million and was entered into at zero market value with no payment made or received at execution. With the termination of this swap, the University received a payment of \$750,000. For additional information about interest swaps, see Note 2.
- The Board of Visitors adjusted the endowment spending rate from 4.5 percent to 5.0 percent in June 2008 to provide continued growth of restricted and unrestricted funds to its schools and departments for fiscal year 2008–09.
- The Board of Visitors also approved an annual administrative fee on endowment funds equal to 0.5 percent. The fee will generate almost \$16 million in 2008–09 to help fund new academic initiatives identified by the Commission on the Future of the University.
- In May 2008, the State Council of Higher Education for Virginia certified that the University met the management standards established under the Restructured Higher Education Financial and Administrative Operations Act. As a result, the University will continue to operate with the increased independence granted by the legislation.
- In 2007, the University obtained legislation to allow the investment of University funds (excluding state appropriations and tuition revenues) in a fuller complement of options beyond the previous portfolio of cash and fixed-income instruments. With this investment legislation effective in fiscal year 2007–08, the University strategically moved long-term health-insurance reserves and certain capital reserves to higher-return long-term investment vehicles. Portions of nongeneral funds available to the University for management under restructuring were invested utilizing the same 2007 investment authority.
- In 2008, the Commonwealth of Virginia instituted budget reductions to help offset lower than expected revenues. The University experienced a reduction of \$9.6 million in state support. At the time of this report, the Commonwealth of Virginia had announced further budget reductions for fiscal year 2008–09. The University's new reduction represents an additional \$10.6 million.
- The University saw a modest increase in net assets of \$284 million. The contributing factors to this increase are outlined in the summary table below.

Summary of the Increase in Net Assets (<i>in thousands</i>)	2008	2007	INCREASE (DECREASE)	
			AMOUNT	PERCENT
Total revenues before investment income	\$ 2,153,355	\$ 2,135,940	\$ 17,415	0.8%
Total expenses	2,112,906	1,950,335	162,571	8.3%
Increase in net assets before investment income	40,449	185,605	(145,156)	(78.2%)
Investment income	243,280	721,505	(478,225)	(66.3%)
TOTAL INCREASE IN NET ASSETS	\$ 283,729	\$ 907,110	\$ (623,381)	(68.7%)

- Revenues before investment income stayed almost even with the prior year, increasing by less than 1 percent. The main reason for this was a large decrease in capital appropriations revenue, which was abnormally high in 2006–07. Capital appropriations decreased from \$128 million in 2006–07 to \$6 million in 2007–08. Expenditures increased 8.3 percent, leading to an overall decrease before investment income of \$145 million.
- Annual investment income decreased from \$722 to \$243 million as the University's endowment investments earned a 5.9 percent return for the fiscal year. Market returns were not nearly as high as the 25.2 percent achieved in fiscal year 2006–07.
- The increase in total net assets was \$284 million. This represents a modest 5.3 percent increase in net assets (see table below), with almost all of it attributable to investment income.

Overall, the primary factor in the University's net asset growth continues to be the performance of the endowment and its resultant investment income.

USING THE FINANCIAL STATEMENTS

The University's financial report includes five financial statements and related notes:

1. The Statement of Net Assets for the University of Virginia
2. The Combined Statements of Financial Position for the Component Units of the University of Virginia
3. The Statement of Revenues, Expenses, and Changes in Net Assets for the University of Virginia
4. The Combined Statements of Activities for the Component Units of the University of Virginia
5. The Statement of Cash Flows for the University of Virginia

These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles, which establish standards for external financial reporting for public colleges and universities. These principles require that financial statements be presented on a consolidated basis to focus on the University as a whole, with resources classified for accounting and reporting purposes into four net asset categories. Please note that although the University's foundations identified under guidance from GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, are reported in the component unit financial statements, this Management's Discussion and Analysis excludes them except where specifically noted.

STATEMENT OF NET ASSETS

The Statement of Net Assets presents the financial position of the University at the end of the fiscal year and includes all assets and liabilities of the University. The difference between total assets and total liabilities—net assets—is one indicator of the current financial condition of the University, while the change in net assets is an indicator of whether the overall financial condition has improved or worsened during the year. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation. A summary of the University's assets, liabilities, and net assets at June 30, 2008, and June 30, 2007, follows.

Summary of the Statement of Net Assets (<i>in thousands</i>)	2008	2007	INCREASE (DECREASE)	
			AMOUNT	PERCENT
Current assets	\$ 657,141	\$ 1,194,340	\$ (537,199)	(45.0%)
Noncurrent assets				
Endowment and other long-term investments	3,960,739	3,354,704	606,035	18.1%
Capital assets, net	2,015,450	1,811,254	204,196	11.3%
Other	202,904	114,290	88,614	77.5%
Total assets	6,836,234	6,474,588	361,646	5.6%
Current liabilities	418,635	558,853	(140,218)	(25.1%)
Noncurrent liabilities	778,845	560,710	218,135	38.9%
Total liabilities	1,197,480	1,119,563	77,917	7.0%
NET ASSETS	\$ 5,638,754	\$ 5,355,025	\$ 283,729	5.3%

This summary shows that the University's financial condition continues to strengthen.

CURRENT ASSETS AND LIABILITIES

Current assets, which totaled \$657 million as compared to the previous year's \$1.2 billion, consist primarily of cash and cash equivalents, short-term investments, and accounts receivable. The decrease in current assets of \$537 million, or 45 percent, resulted from a shift of current assets to noncurrent assets. More specifically, current cash and cash equivalents of roughly \$400 million were moved into other long-term investments as now permitted by the 2007 legislation. Implementation of the University's first treasury management system facilitated better cash flow projections. As a result, the University was able to maximize its investment earnings while retaining sufficient working capital to meet operating needs.

Current liabilities, which consist primarily of accounts payable, deferred revenue, and the current portion of long-term liabilities, decreased by \$140 million, or 25.1 percent. The two major reasons for this change were the elimination of the securities lending program and a reduction in the outstanding commercial paper balance. The commercial paper, as bridge funding, was largely refinanced with the University's bond issuance in May 2008.

From a liquidity perspective, current assets cover current liabilities 1.6 times, an indicator of good liquidity and the ability to weather short-term demands on working capital. This rate of coverage decreased from 2.1 last year. Current assets also cover four months of total operating expenses, including depreciation, a decrease from last year's seven and one-half months of coverage. As mentioned above, the major factor in the reduction of these ratios was a shift from current assets to longer-term investments.

ENDOWMENT AND OTHER INVESTMENTS

Performance. At June 30, 2008, the major portion of the University's endowment was maintained in a long-term investment pool managed by the University of Virginia Investment Management Company (UVIMCO). The annual return for the long-term investment pool this year was 5.9 percent, a decline from last year's unusually high return of 25.2 percent. Included in the calculation of this performance figure are realized and unrealized gains and losses, along with cash income. With this return, total investment income for all funds declined \$478 million, or 66.3 percent.

Distribution. The University distributes endowment earnings in a way that balances the annual support needed for operational purposes against the preservation of the future purchasing power of the endowment. The endowment spending-rate policy is approved by the Board of Visitors and is based on total return, not just cash earnings. The total distribution for the University's endowment was \$133 million, an increase of \$33 million over last year's distribution of \$100 million.

Endowment investments. The total for endowment investments on the Statement of Net Assets is \$3.2 billion, a very slight increase from last year's \$3.1 billion.

From a net assets perspective, earnings from the endowment, while expendable, are mostly restricted as to use by the donors. It is important to note that of the University's endowment funds, only \$945 million, or 30 percent, is classified as unrestricted net assets. From this unrestricted endowment, a significant portion of the income is internally designated by the University for scholarships, fellowships, professorships, and research activities.

Including endowment investments held by the seven related foundations reported as component units, the combined University system endowment was approximately \$4.6 billion as of June 30, 2008.

CAPITAL AND DEBT ACTIVITIES

One of the critical factors in sustaining the quality of the University's academic and research programs and residential life is the development and renewal of its capital assets. The University continues to implement its long-range plan to modernize its older teaching and research facilities, construct new facilities, and fund its deferred maintenance.

Capital additions before depreciation were \$368 million in 2008. Capital additions primarily consist of replacement, renovation, and new construction of academic, research, and health care facilities, as well as significant investments in equipment, including information technology.

Projects that were in progress at June 30, 2008, included the South Lawn Project, the Carter-Harrison Research Building for the School of Medicine, the Claude Moore Medical Education Building, the Emily C. Couric Clinical Cancer Center, the Claude Moore Nursing Education Building, the Bavaro Hall Curry School of Education Building, the Medical Center Bed Expansion and Infrastructure project, the College at Wise's Arts Center and Crockett Hall, and the Heating Plant Environmental Complex.

Other projects in the design stage at June 30, 2008, include the New Cabell Hall Replacement Building (South Lawn Phase II), the Rugby Administrative Building, and the Klöckner Stadium and Baseball Stadium expansions.

Financial stewardship requires the effective management of resources, including the use of debt to finance capital projects. As evidence of the University's creditworthiness, the University has received the highest long-term and short-term debt ratings from all three major rating agencies, including Moody's Investors Service (Aaa/P-1), Standard and Poor's (AAA/A-1+), and Fitch Ratings (AAA/F1+). These long-term bond ratings were affirmed in May 2008 in conjunction with the University's issuance of its Series 2008 General Revenue Pledge Bonds. The University of Virginia is one of only two public institutions with the highest long-term debt ratings from all three agencies. Besides being an official acknowledgment of the University's financial strength, these ratings enable the University to obtain debt financing at optimum pricing. In addition to issuing its own bonds, the University utilizes its commercial paper program for short-term bridge financing.

The University's debt portfolio contains a strategic mix of both variable- and fixed-rate obligations. The University achieves this mix through a combination of issuing fixed- and variable-rate debt, including commercial paper. It also adjusts its debt mix through the use of interest rate swaps executed according to its board-approved interest rate risk management policy. The seven foundations now required by GASB Statement No. 39 to be reported as component units held \$325 million of long-term debt outstanding at June 30, 2008.

NET ASSETS

Net assets represent the residual interest in the University's assets after liabilities are deducted. The University's net assets at June 30, 2008, and 2007, are summarized below.

Net Assets <i>(in thousands)</i>	2008	2007	INCREASE	
			AMOUNT	PERCENT
Invested in capital assets, net of related debt	\$ 1,407,246	\$ 1,226,529	\$ 180,717	14.7%
Restricted				
Nonexpendable	429,619	369,874	59,745	16.2%
Expendable	2,254,581	2,214,572	40,009	1.8%
Unrestricted	1,547,308	1,544,050	3,258	0.2%
TOTAL NET ASSETS	\$ 5,638,754	\$ 5,355,025	\$ 283,729	5.3%

Net assets invested in capital assets, net of related debt, represents the University's equity in capital assets net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets. Net capital assets increased \$181 million, or 14.7 percent, in the current fiscal year compared with 9.8 percent growth in the previous year.

Restricted nonexpendable net assets comprise the University's permanent endowment funds.

Restricted expendable net assets are subject to externally imposed restrictions governing their use. This category of net assets includes permanent endowment fund earnings that can be spent, but only in accordance with restrictions imposed by external parties. This net assets category increased \$40 million, or 1.8 percent. The smaller than usual increase was primarily due to the lower than usual investment performance of the University's endowment and the unprecedented use of these funds for facilities construction.

Unrestricted net assets are not subject to externally imposed stipulations. The majority of the University's unrestricted net assets have been designated for various instruction and research programs and initiatives, as well as capital projects. This year, unrestricted net assets increased by just 0.2 percent, or \$3 million. Increases in unrestricted funds are particularly important since these are used primarily for the instructional and public service missions of the University.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

The Statement of Revenues, Expenses, and Changes in Net Assets presents the University's results of activities for the year. Presented below is a summarized statement of the University's revenues, expenses, and changes in net assets for the years ended June 30, 2008, and June 30, 2007.

Summary of the Statement of Revenues, Expenses, and Changes in Net Assets <i>(in thousands)</i>	2008	2007	INCREASE (DECREASE)	
			AMOUNT	PERCENT
Operating revenues	\$ 1,716,674	\$ 1,605,214	\$ 111,460	6.9%
Operating expenses	2,081,999	1,921,156	160,843	8.4%
Operating loss	(365,325)	(315,942)	(49,383)	15.6%
Nonoperating revenues (expenses)				
State appropriations	183,020	170,439	12,581	7.4%
Gifts	147,269	148,073	(804)	(0.5%)
Investment income	243,280	721,505	(478,225)	(66.3%)
Pell grants	5,271	4,384	887	20.2%
Other net nonoperating expenses	(30,907)	(29,179)	(1,728)	5.9%
Net nonoperating revenues	547,933	1,015,222	(467,289)	(46.0%)
Income before other revenues, expenses, gains, or losses	182,608	699,280	(516,672)	(73.9%)
Capital appropriations, gifts, and grants	42,048	188,880	(146,832)	(77.7%)
Additions to permanent endowments	59,073	18,950	40,123	211.7%
Total other revenues	101,121	207,830	(106,709)	(51.3%)
Increase in net assets	283,729	907,110	(623,381)	(68.7%)
Net assets, beginning of year	5,355,025	4,447,915	907,110	20.4%
NET ASSETS, END OF YEAR	\$ 5,638,754	\$ 5,355,025	\$ 283,729	5.3%

Under GASB principles, revenues and expenses are categorized as either operating or nonoperating. Significant recurring sources of the University's revenues, including state appropriations, gifts, and investment income, are considered nonoperating, as defined by GASB Statement No. 34. Consequently, the operating loss of \$365 million does not consider these revenue sources. Adding the net nonoperating revenues of \$548 million for the fiscal year offsets the operating loss and results in an adjusted income amount of \$183 million. This provides a more accurate picture of the University's total scope and results of operations.

REVENUES

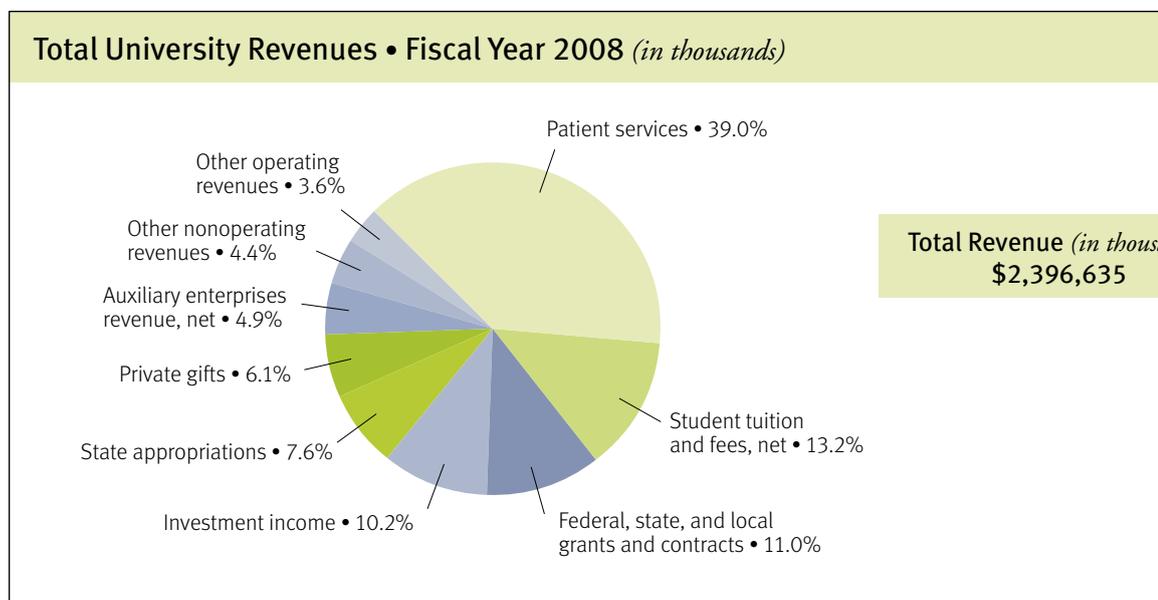
The University strives to maintain a diverse stream of revenues, which allows it to weather difficult economic times.

SUMMARY OF REVENUES, TOTAL UNIVERSITY

A summary of the University's revenues, for the years ended June 30, 2008, and 2007.

Summary of Revenues (in thousands)	2008			2007			TOTAL INSTITUTION INCREASE (DECREASE)	
	ACADEMIC DIVISION & WISE	MEDICAL CENTER	TOTAL INSTITUTION	ACADEMIC DIVISION & WISE	MEDICAL CENTER	TOTAL INSTITUTION	AMOUNT	PERCENT
Operating revenues								
Student tuition and fees, net	\$ 316,332	\$ —	\$ 316,332	\$ 290,748	\$ —	\$ 290,748	\$ 25,584	8.8%
Federal, state, and local grants and contracts	263,185	—	263,185	239,936	—	239,936	23,249	9.7%
Nongovernmental grants and contracts	38,965	—	38,965	39,174	—	39,174	(209)	(0.5%)
Sales and services of educational departments	21,743	—	21,743	18,119	—	18,119	3,624	20.0%
Auxiliary enterprises revenue, net	116,644	—	116,644	112,331	—	112,331	4,313	3.8%
Other operating revenues	—	24,967	24,967	211	22,294	22,505	2,462	10.9%
Patient services	—	934,838	934,838	—	882,401	882,401	52,437	5.9%
Total operating revenues	\$ 756,869	\$ 959,805	\$1,716,674	\$ 700,519	\$ 904,695	\$1,605,214	\$ 111,460	6.9%
Nonoperating revenues								
State appropriations	\$ 183,020	\$ —	\$ 183,020	\$ 170,439	\$ —	\$ 170,439	\$ 12,581	7.4%
Private gifts	146,411	858	147,269	142,252	5,821	148,073	(804)	(0.5%)
Investment income	209,843	33,437	243,280	663,364	58,141	721,505	(478,225)	(66.3%)
Other nonoperating revenues	128,515	(22,123)	106,392	187,214	25,000	212,214	(105,822)	(49.9%)
Total nonoperating revenues	\$ 667,789	\$ 12,172	\$ 679,961	\$1,163,269	\$ 88,962	\$1,252,231	\$(572,270)	(45.7%)
TOTAL REVENUES	\$1,424,658	\$ 971,977	\$2,396,635	\$1,863,788	\$ 993,657	\$2,857,445	\$(460,810)	(16.1%)

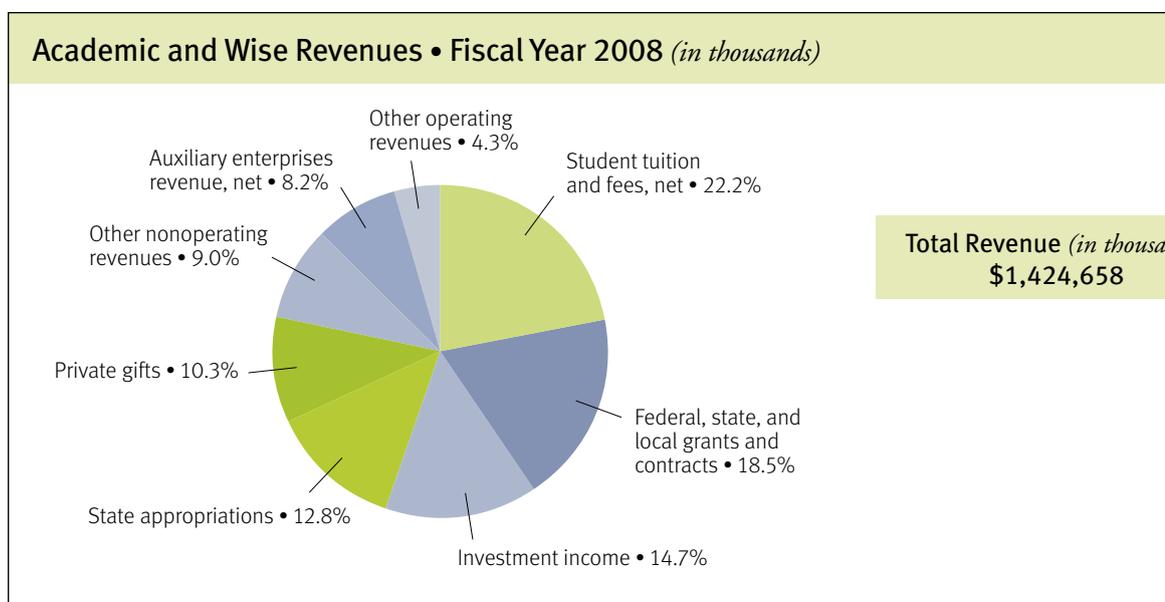
Below is a graph of revenues by source (both operating and nonoperating sources), which were used to fund the University's operating activities for the fiscal year ended June 30, 2008. As noted earlier, GASB Statement No. 34 requires state appropriations, gifts, and other significant revenues to be treated as nonoperating revenues.



Patient services revenues accounted for 54.4 percent of the University's operating revenues and 39.0 percent of the operating and nonoperating revenues combined. State appropriations and student tuition and fees, which represent 7.6 percent and 13.2 percent, respectively, of the University's total revenues, are used to fund current operations.

State appropriations increased by \$12.6 million, or 7.4 percent. The increases were for faculty and staff salaries, financial aid for students, research support, and operations and maintenance funding for new facilities. Net tuition and fees increased by 8.8 percent, in accordance with the University's six-year plan as submitted to the Commonwealth.

Excluding the Medical Center data provides a clearer picture of the academic revenue stream. Major sources for 2008 included net tuition and fees, 22.2 percent; federal, state, and local grants and contracts, 18.5 percent; investment income, 14.7 percent; state appropriations, 12.8 percent; and private gifts, 10.3 percent. Excluding patient revenue, tuition and fees revenue comprises the single largest source of revenue to the University.



The University continues to emphasize revenue diversification, along with cost containment, as ongoing priorities. This is necessary as the University continues to face significant financial pressure from increased compensation and benefit costs, and escalating technology and energy prices. In 2008, investment income also decreased due to changing market conditions. Private support has been, and will continue to be, essential to maintaining the University's academic excellence. Private support comes in the form of gifts and additions to the permanent endowment. Private gifts were nearly equal to the prior year amount, totaling \$147.3 million as the Campaign for the University of Virginia progressed.

Revenues for all sponsored programs increased this year by \$23 million, or 8.2 percent, to a total of \$302 million in 2008. This increase resulted primarily from the recruitment of one major researcher in the School of Medicine.

EXPENSES

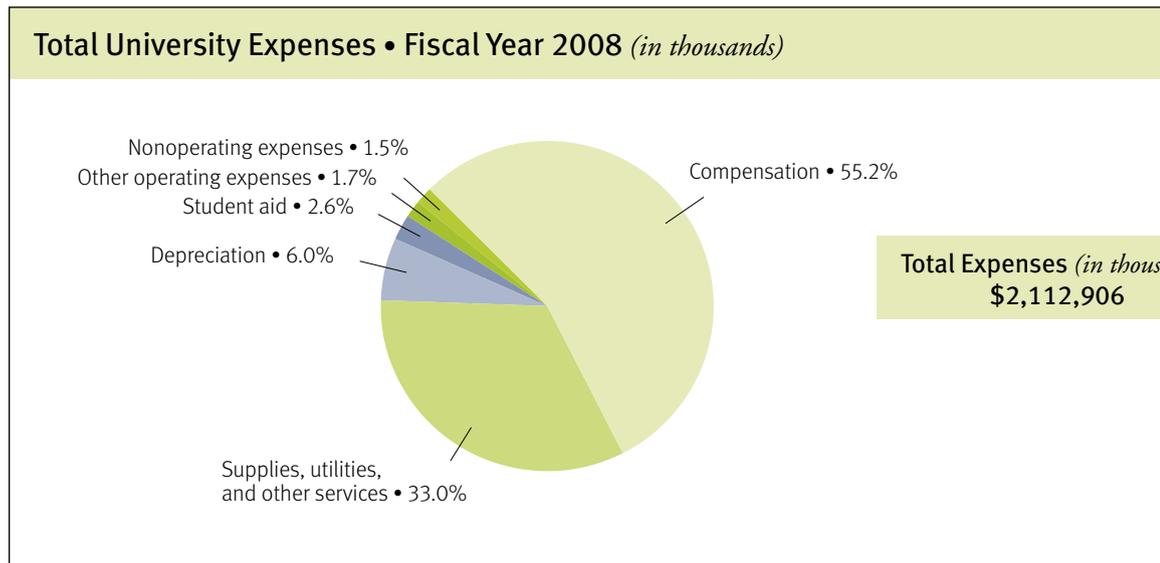
The University continues to be a good steward in the judicious expenditure of funds.

SUMMARY OF EXPENSES, TOTAL UNIVERSITY

A summary of the University's expenses, for the years ended June 30, 2008, and 2007.

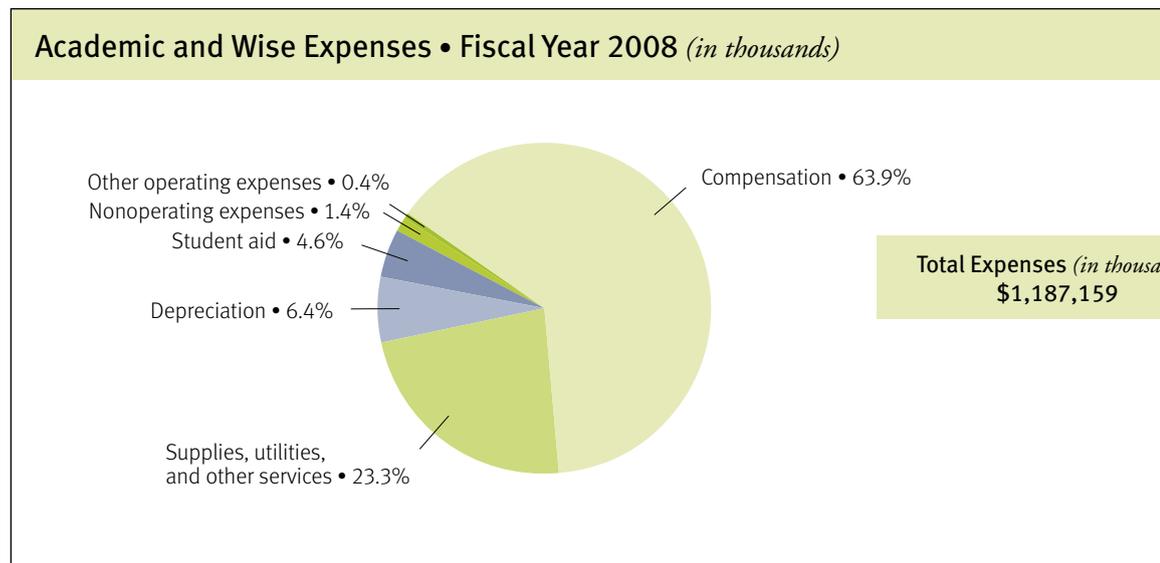
Summary of Expenses (in thousands)	2008			2007			TOTAL INSTITUTION INCREASE (DECREASE)	
	ACADEMIC DIVISION & WISE	MEDICAL CENTER	TOTAL INSTITUTION	ACADEMIC DIVISION & WISE	MEDICAL CENTER	TOTAL INSTITUTION	AMOUNT	PERCENT
Operating expenses								
Compensation	\$ 758,571	\$ 407,523	\$ 1,166,094	\$ 712,847	\$ 376,787	\$ 1,089,634	\$ 76,460	7.0%
Supplies, utilities, and other services	276,736	421,388	698,124	226,545	395,110	621,655	76,469	12.3%
Student aid	54,768	—	54,768	51,406	—	51,406	3,362	6.5%
Depreciation	76,281	51,273	127,554	73,503	48,267	121,770	5,784	4.7%
Other operating expense	3,987	31,472	35,459	3,848	32,843	36,691	(1,232)	(3.4%)
Total operating expenses	1,170,343	911,656	2,081,999	1,068,149	853,007	1,921,156	160,843	8.4%
Nonoperating expenses								
Interest expense	12,999	8,214	21,213	17,935	5,954	23,889	(2,676)	(11.2%)
Other nonoperating expense	3,817	5,877	9,694	805	4,485	5,290	4,404	83.3%
Total nonoperating expenses	16,816	14,091	30,907	18,740	10,439	29,179	1,728	5.9%
TOTAL UNIVERSITY EXPENSES	\$1,187,159	\$ 925,747	\$2,112,906	\$1,086,889	\$ 863,446	\$1,950,335	\$ 162,571	8.3%

Following is a graphic illustration of expenses (both operating and nonoperating) for the fiscal year ended June 30, 2008.



The University's total expenses exceeded \$2 billion for the first time in 2007–08, reaching \$2.1 billion. As expected, compensation (salaries and benefits) expenses continue to increase and reached \$1.2 billion. As a percentage of total expenses, compensation decreased slightly. However, in dollars, compensation increased by \$76 million, or 7.0 percent, as the Board of Visitors continued its goal of raising compensation for faculty, health care workers, and staff.

Student aid expense increased to \$55 million, an increase of \$3 million, or 6.5 percent, as the University continued its commitment to the AccessUVA program. Depreciation increased by \$6 million, or 4.7 percent, as the University's investment in depreciable capital assets continues to grow. Interest expense actually decreased by \$3 million to \$21 million. However, there will be significant increases in interest expense beginning next year. The University issued \$231 million of revenue bonds in May 2008, and based on current debt service schedules, interest expense will be in the \$30 million to \$35 million range for the next few years.



In addition to their natural (object) classification, it is also informative to review operating expenses by function. A complete matrix of expenses, natural versus functional, is contained in the notes to the financial statements. Expenses for patient services, instruction, and research account for 43.8 percent, 14.7 percent, and 13.5 percent, respectively, of total operating expenses. When combined, these major functions account for 71.9 percent of the total, which is consistent with the mission-critical nature of instruction, research, and patient services for the University.

FUTURE ECONOMIC OUTLOOK

The University faces a time of unprecedented change and challenge. Continued reductions in state support, a worsening state and global economy, and the large number of faculty retirements in the near term are just a few of the significant challenges facing the University. From July 1 to the end of September, the University's Long-Term Pool decreased in value 11 percent, or \$434 million. From October 1 to October 24, the Policy Portfolio benchmark decreased an additional 20.52 percent. And yet, in such times, opportunities exist for improvement and positive change. Fortunately, the University remains well positioned financially to continue providing excellent programs and service to its constituents. The University's financial position, as evidenced by the highest credit ratings obtainable, and reaffirmed this year, provides a high degree of accessibility to capital funds on the most competitive terms. The issuance of long-term bonds and the use of its expanded short-term commercial paper program, along with continued efforts toward revenue diversification, will help the University to continue to fund its targeted aspirations.

To help identify these priorities, the president created the Commission on the Future of the University. This commission is cochaired by the executive vice president and chief operating officer and the executive vice president and provost. Its report provides an overview of institutional and Medical Center financial planning, philanthropic capacity and strategies, and the advantages and disadvantages of the current school-based development foundation structure. The Academic Division's long-range plan goes through fiscal year 2015–16 and the Medical Center's extends through fiscal year 2012–13. The commission's three priority areas are the student experience; science, engineering, and technology; and global education. Some of the initiatives and projects underpinning these three priorities are described below:

AccessUVA. In the continued implementation of AccessUVA, as of the 2007–08 academic year, the University will offer 100 percent of demonstrated need to all undergraduates and will provide full grant funding for all undergraduate low-income students. It will replace need-based loans with grants for students reaching their loan cap and continue its financial literacy program. Even though the state has reduced its general fund support, it has not cut its financial aid funding.

Investment in Student Information Technology. In June 2007, the Board of Visitors officially approved an investment in a new student information system. The University chose PeopleSoft Campus Solutions to replace its aging Integrated Student Information System to provide enhanced services to its students and faculty, and to provide stronger security over student data. The admissions module has been successfully implemented and the remaining system modules will be implemented in phases from spring 2009 to fall 2009 as planned.

Deferred Maintenance. In February 2005, the Board of Visitors stated that the University should move to establish ongoing maintenance investments that would protect its education and general physical assets and make one-time investments to reduce the backlog of deferred maintenance to reasonable levels based on industry standards. Within ten years, annual maintenance spending needs to be increased by \$15 million. To achieve this, the University is adding \$1.5 million each year for the next ten years.

Going Green. The Board of Visitors has mandated that all new construction and major renovation projects comply with the U.S. Green Building Council standards through Leadership in Energy and Environmental Design (LEED) certification. Additionally, the new Grounds Improvement Fund will finance much-needed improvements, including landscape and pedestrian and bicycle accommodations.

Research. The University plans to add 200 new faculty members over the next ten years, with an emphasis on the science and engineering disciplines. In addition, the University has plans for creating new laboratory space and increasing its investment in information infrastructure and computing capacity. Modern research, especially in engineering and the sciences, requires significant new resources in academic computing.

Restructuring and Cash Management Authority. The University received additional financial benefits under its restructuring authority, which will help support the commission's priorities. Nongeneral fund balances previously deposited and invested with the State Treasury were transferred to, and invested by, the University. With additional flexibility provided by investment legislation obtained by the University in the spring of 2007, management now has the ability to prudently invest these funds in equities in addition to the previous portfolio of cash and fixed-income instruments. Restructuring authority must be certified annually by the State Council of Higher Education for Virginia. The University achieved its certification status in May 2008 for fiscal year 2007–08.

From the end of the fiscal year into October 2008, the global financial markets experienced unprecedented fluctuations and credit tightening. State support is not expected to grow next year; in fact, the University is planning for additional reductions. In responding to these economic challenges, the University leadership and its board believe a sound strategic vision and strong leadership will lead the University successfully through these times. The University cannot be all things to all people. Its leaders must make informed choices. The strategies laid out by the Commission on the Future of the University will strengthen the University's core resources while funding selected new efforts. To help ensure adequate funding, the University increased the endowment payout rate to 5 percent for fiscal year 2008–09. In addition, the Campaign for the University of Virginia continues to make progress due to the continued generous support of its patrons.

The University has the strategic vision and the financial plans in place to meet these economic challenges. However, the commission and University leadership recognize these may not be enough. In going back to the institution's founding ideals, management has identified and communicated the underlying core values that will guide its actions now and in the future. These core values are honor and ethics; faculty excellence; innovation and collaboration in the pursuit of knowledge; diversity; leadership for the public good; and education for freedom. These core values will help ensure that shortcuts are not taken, that prudent financial management will continue to be practiced, and that the University will always exist for the public good, just as its founder envisioned. •

Management Responsibility

October 30, 2008

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

We are pleased to submit the annual Financial Report of the University of Virginia for the year ended June 30, 2008. Management is responsible for the objectivity and integrity of the accompanying financial statements, which have been prepared in conformance with the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*. The financial statements, of necessity, included management's estimates and judgments relating to matters not concluded by year-end. Financial information contained elsewhere in the annual Financial Report is consistent with that included in the financial statements.

Management is responsible for maintaining the University's system of internal control that includes careful selection and development of employees, proper division of duties, and written accounting and operating policies and procedures augmented by a continuing internal audit program. Although there are inherent limitations to the effectiveness of any system of accounting controls, management believes that the University's system provides reasonable, but not absolute, assurance that assets are safeguarded from unauthorized use or disposition and that the accounting records are sufficiently reliable to permit the preparation of financial statements that conform in all material respects with generally accepted accounting principles.

The Auditor of Public Accounts for the Commonwealth of Virginia, using independent certified public accountants for the audits of component units, provides an independent opinion regarding the fair presentation in the financial statements of the University's financial position. Their examination was made in accordance with generally accepted government auditing standards and included a review of the system of internal accounting controls to the extent they considered necessary to determine the audit procedures required to support their opinion. The Audit Committee of the Board of Visitors meets periodically and privately with the independent auditors, the internal auditors, and the financial officers of the University to review matters relating to the quality of the University's financial reporting, the internal accounting controls, and the scope and results of audit examinations. The committee also reviews the scope and quality of the internal auditing program.

Respectfully submitted,



STEPHEN A. KIMATA
*Assistant Vice President for Finance
and University Comptroller*



YOKE SAN L. REYNOLDS
Vice President and Chief Financial Officer

Auditor's Opinion

October 30, 2008

THE HONORABLE TIMOTHY M. KAINE
Governor of Virginia

THE HONORABLE M. KIRKLAND COX
Chairman, Joint Legislative Audit and Review Commission

BOARD OF VISITORS
University of Virginia

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of the University of Virginia, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2008, which collectively comprise the University of Virginia's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University of Virginia's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the component units of the University of Virginia, which are discussed in Note 1. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the component units of the University of Virginia, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the component units of the University of Virginia that were audited by other auditors upon whose reports we are relying were audited in accordance with auditing standards generally accepted in the United States of America, but not in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and discretely presented component units of the University of Virginia as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 44 through 51 is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2008, on our consideration of the University of Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



WALTER J. KUCHARSKI
Auditor of Public Accounts

Statement of Net Assets *(in thousands)**as of June 30, 2008 (with comparative information as of June 30, 2007)*

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

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

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

UNIVERSITY OF VIRGINIA		
COMPONENT UNITS		
Combined Statements of Financial Position <i>(in thousands)</i>		
<i>as of June 30, 2008 (with comparative information as of June 30, 2007)</i>		
	2008	2007
ASSETS		
Current assets		
Cash and cash equivalents	\$ 536,384	\$ 404,139
Receivables	76,659	94,893
Other current assets	90,069	82,778
Total current assets	703,112	581,810
Noncurrent assets		
Pledges receivable, net of current portion of \$32,244 and \$28,824	67,725	61,692
Long-term investments	5,879,609	5,149,397
Capital assets, net of depreciation	342,873	297,848
Other noncurrent assets	79,580	57,224
Total noncurrent assets	6,369,787	5,566,161
TOTAL ASSETS	\$ 7,072,899	\$ 6,147,971
LIABILITIES AND NET ASSETS		
Current liabilities		
Assets held in trust for others	\$ 5,215,297	\$ 4,353,706
Other liabilities	194,526	156,399
Total current liabilities	5,409,823	4,510,105
Noncurrent liabilities		
Long-term debt, net of current portion of \$6,239 and \$5,911	318,562	307,091
Other noncurrent liabilities	110,354	125,827
Total noncurrent liabilities	428,916	432,918
TOTAL LIABILITIES	\$ 5,838,739	\$ 4,943,023
NET ASSETS		
Unrestricted	\$ 327,766	\$ 323,857
Temporarily restricted	521,688	521,753
Permanently restricted	384,706	359,338
TOTAL NET ASSETS	\$ 1,234,160	\$ 1,204,948
TOTAL LIABILITIES AND NET ASSETS	\$ 7,072,899	\$ 6,147,971

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

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

Statement of Revenues, Expenses, and Changes in Net Assets *(in thousands)*

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

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

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

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

UNIVERSITY OF VIRGINIA		
COMPONENT UNITS		
Combined Statements of Activities <i>(in thousands)</i>		
<i>for the year ended June 30, 2008 (with comparative information for the year ended June 30, 2007)</i>		
	2008	2007
UNRESTRICTED REVENUES AND SUPPORT		
Contributions	\$ 23,683	\$ 28,085
Fees for services, rentals, and sales	261,604	247,069
Investment income	27,063	62,686
Net assets released from restriction	81,780	102,728
Other revenues	70,446	70,611
TOTAL UNRESTRICTED REVENUES AND SUPPORT	464,576	511,179
EXPENSES		
Program services, lectures, and special events	262,019	247,297
Scholarships and financial aid	57,509	81,000
Management and general	41,448	34,502
Other expenses	95,767	92,081
TOTAL EXPENSES	456,743	454,880
EXCESS OF UNRESTRICTED REVENUES AND SUPPORT OVER EXPENSES	7,833	56,299
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	48,203	83,632
Investment and other income	33,989	149,502
Reclassification per donor stipulation	(1,347)	(618)
Net assets released from restriction	(81,909)	(102,728)
NET CHANGES IN TEMPORARILY RESTRICTED NET ASSETS	(1,064)	129,788
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Contributions	24,632	20,629
Investment and other income	(3,665)	(54)
Reclassification per donor stipulation	1,476	618
NET CHANGES IN PERMANENTLY RESTRICTED NET ASSETS	22,443	21,193
CHANGE IN NET ASSETS	29,212	207,280
Net assets, beginning of year	1,204,948	1,013,033
Current year effect of activity on net assets	—	(19,472)
Prior period adjustment	—	4,107
NET ASSETS, END OF YEAR	\$ 1,234,160	\$ 1,204,948

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

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

Statement of Cash Flows *(in thousands)**for the year ended June 30, 2008 (with comparative information for the year ended June 30, 2007)*

2008

2007

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

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

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**ORGANIZATION AND PURPOSE**

The University of Virginia is an agency of the Commonwealth of Virginia and is governed by the University's Board of Visitors. A separate report is prepared for the Commonwealth of Virginia that includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. The University is a discretely presented component unit of the Commonwealth of Virginia and is included in the basic financial statements of the Commonwealth. The University consists of three divisions. The Academic Division and the University of Virginia's College at Wise generate and disseminate knowledge in the humanities, arts, scientific, and professional disciplines through instruction, research, and public service. The Medical Center Division provides routine and ancillary patient services through a full-service hospital and clinics.

REPORTING ENTITY

There are currently twenty-five related foundations operating in support of the interests of the University. These related foundations are not-for-profit corporations controlled by separate boards of directors. The University determined that the following seven foundations qualify as component units because they hold significant resources for the benefit of the University. As such, they are included in the financial statements presented as of June 30, 2008:

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

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

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

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

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

The **Virginia Student Aid Foundation, Inc., T/A Virginia Athletics Foundation**, was established as a tax-exempt organization to support intercollegiate athletic programs at the University of Virginia by providing student-athletes the opportunity to achieve academic and athletic excellence. The Foundation provides the funding for student-athlete scholarships at the University, funding for student-athlete academic advising programs at the University,

operational support for various sports at the University, informational services to its members and the general public, and ancillary support to the athletic programs at the University. The Foundation has adopted December 31 as its year end. All amounts reflected are as of December 31, 2007. For additional information, contact the Gift Accounting Office at P.O. Box 400833, Charlottesville, Virginia 22904.

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

The **University of Virginia Health Services Foundation** was established as a nonprofit group practice health care provider organization designed to assist medical education through teaching and research within the academic environment of the Health System of the University of Virginia, and to coordinate and develop superior patient care in the Health System. The Foundation entered into an affiliation agreement with the University of Virginia for the Foundation through its member clinical departments to provide patient care at the Health System. The Foundation provides patient care services to Health System patients, and in conjunction with the care of patients, provides teaching services. The University provides space and certain administrative services to the Foundation. The Foundation reimburses the University for the salaries and fringe benefits of classified and hourly employees of the clinical departments paid by the University, and not funded by the Commonwealth of Virginia or by gifts, grants, and contracts. For additional information, contact the Finance Office at 500 Ray C. Hunt Drive, Charlottesville, Virginia 22903.

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

REPORTING BASIS

The University of Virginia, as a public institution, prepares its financial statements in accordance with accounting principles applicable to governmental colleges and universities generally accepted in the United States of America, as promulgated by the Governmental Accounting Standards Board (GASB). In addition, the University adheres to Financial Accounting Standards Board (FASB) pronouncements issued prior to November 30, 1989, that do not contradict or conflict with GASB standards. It is the University's policy not to follow FASB standards issued after that date. The component units continue to follow FASB pronouncements, and their financial statements are presented in accordance with those standards.

In accordance with GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, the University has elected to report as an entity engaged in business-type activities. Entities engaged in business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

GASB Statement No. 34 establishes standards for external financial reporting for public colleges and universities and requires that resources be classified for accounting and reporting purposes into the following net asset categories:

Invested in capital assets, net of related debt. Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of these assets.

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

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

Unrestricted. Those net assets that are not classified either as capital assets, net of related debt or restricted net assets. Unrestricted net assets may be designated for specific purposes by management.

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

BASIS OF ACCOUNTING

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

CASH AND CASH EQUIVALENTS

In addition to cash on deposit in private bank accounts, petty cash, and undeposited receipts, this classification includes cash on deposit with fiscal agents and investments with original maturities of ninety days or less. Substantially all cash and cash equivalents are concentrated in accounts in which balances exceed FDIC insurance limits.

INVENTORIES

Inventories are valued at the lower of cost (generally determined on the weighted-average method) or market value.

INVESTMENTS

Investments in corporate stocks and marketable bonds are recorded at market value. All real estate investments are capital assets, and thus recorded at cost. Certain less marketable investments, such as private equity investments, are generally carried at estimated values as determined by management. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments.

ENDOWMENT

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

PLEDGES RECEIVABLE

The University receives pledges and bequests of financial support from corporations, foundations, and individuals. Revenue is recognized when a pledge representing an unconditional promise to pay is received and all eligibility requirements, including time requirements, have been met. In the absence of such a promise, revenue is recognized when the gift is received. Endowment pledges do not meet eligibility requirements, as defined by GASB Statement No. 33, and are not recorded as assets until the related gift is received.

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the estimated future cash flows. The discounts on these amounts are computed using risk-free interest rates applicable to the years in which the promises are made, commensurate with expected future payments. An allowance of \$2,933,900 for uncollectible pledges receivable is provided based on management's judgment of potential uncollectible amounts. The determination includes such factors as prior collection history and type of gift.

CAPITAL ASSETS AND DEPRECIATION

Capital assets are stated at cost at date of acquisition, or fair market value at date of donation in the case of gifts. Capital assets should be depreciated or amortized over their estimated useful lives unless they are inexhaustible or intangible assets with indefinite useful lives. The University capitalizes construction costs that have a value or cost in excess of \$250,000 at the date of acquisition. Renovations in excess of \$250,000 are capitalized if they significantly extend the useful life of the existing asset. The Academic Division capitalizes moveable equipment at a value or cost of \$5,000 and an expected useful life of more than one year.

The Medical Center Division capitalizes moveable equipment at a value or cost of \$2,000 and an expected useful life of two or more years. Maintenance or renovation expenditures of \$250,000 or more are capitalized only to the extent that such expenditures prolong the life of the asset or otherwise enhance its capacity to render service.

Depreciation of buildings, improvements other than buildings, and infrastructure is provided on a straight-line basis over the estimated useful lives ranging from ten to fifty years.

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

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

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

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

Capital assets, such as roads, parking lots, sidewalks, and other non-building structures and improvements are capitalized as infrastructure and depreciated accordingly. In accordance with AICPA Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*, the University capitalizes computer software developed or obtained for internal use. Capitalization begins at the application development stage, which consists of the design, coding, installation, and testing of the software and interfaces.

COLLECTIONS

The University does not capitalize works of art or historical treasures that are held for exhibition, education, research, or public service. These collections are protected and preserved, neither disposed of for financial gain, nor encumbered in any means. Accordingly, such collections are not recognized or capitalized for financial statement purposes.

DEFERRED REVENUE

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

INTEREST CAPITALIZATION

Interest expense incurred during the construction of capital assets is capitalized, if material, net of interest income earned on resources set aside for this purpose. The University incurred capital project interest expense of \$3,925,421 and earned capital project interest income of \$150,521 for the fiscal year ended June 30, 2008, resulting in net interest capitalized of \$3,774,900.

ACCRUED COMPENSATED ABSENCES

The amount of leave earned but not taken by nonfaculty salaried employees is recorded as a liability on the Statement of Net Assets. The amount reflects, as of June 30, 2008, all unused vacation leave, and the amount payable upon termination under the Commonwealth of Virginia's sick leave payout policy. The applicable share of employer-related taxes payable on the eventual termination payments is also included.

REVENUE RECOGNITION

Revenues, as reflected on the Statement of Revenues, Expenses, and Changes in Net Assets, include all exchange and nonexchange transactions earned and in which all eligibility requirements (resource provider conditions) have been satisfied, if measurable and probable of collection.

Student tuition and auxiliary fees are presented net of scholarships and fellowships applied to student accounts.

Certain auxiliary operations provide goods and services to internal customers. These auxiliary operations include activities such as mail services, the print shop, and other auxiliaries with interdepartmental activities. The net effect of these internal transactions has been eliminated in the Statement of Revenues, Expenses, and Changes in Net Assets to avoid inflating revenues and expenses.

MEDICAL CENTER SALES AND SERVICE

A significant portion of the Medical Center services is rendered to patients covered by Medicare, Medicaid, or other third-party payers. The Medical Center has entered into contractual agreements with these third parties to accept payment for services in amounts less than scheduled charges. In accordance with these agreements, the difference between the contractual payments due and the Medical Center scheduled billing rates results in contractual adjustments. Patient care revenues are reported net of contractual allowances in the Statement of Revenues, Expenses, and Changes in Net Assets in the period in which the related services are rendered.

Certain annual settlements of amounts due for Medical Center services covered by third parties are determined through cost reports that are subject to audit and retroactive adjustment by the third parties. Provisions for possible adjustments of cost reports have been estimated and reflected in the accompanying financial statements. Because the determination of settlements in prior years has been based on reasonable estimation, the difference in any year between the originally estimated amount and the final determination is reported in the year of determination as an adjustment to Medical Center revenues.

REVENUE AND EXPENSE CLASSIFICATIONS

The University's policy for defining operating activities as reported on the Statement of Revenues, Expenses, and Changes in Net Assets are those that generally result from activities having the characteristics of exchange transactions, meaning revenues are received in exchange for goods and services. Operating revenues include student tuition and fees, net of scholarship discounts and allowances; sales and services of auxiliary enterprises, net of scholarship allowances; federal, state, local, and nongovernmental grants and contracts; and sales and services of educational departments. With the exception of interest expense, all expense transactions are classified as operating expenses.

Nonoperating revenues include activities having the characteristics of nonexchange transactions, meaning revenues are received for which goods and services are not provided. Nonoperating revenues include revenues from gifts, state appropriations, investment and interest income, and other revenue sources.

SCHOLARSHIP ALLOWANCE

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowance in the Statement of Revenues, Expenses, and Changes in Net Assets. Scholarship allowance is the difference between the stated charge for goods and services provided by the University and the amount paid by students and/or third parties making payments on the students' behalf. Financial aid to students is reported using the alternative method as recommended by the National Association of College and University Business Officers (NACUBO). The alternative method is a simple proportionality algorithm that computes scholarship allowance on a University-wide basis by allocating the amounts applied to student accounts and the cash payments to students, excluding payments for services, on the ratio of total aid to the aid not considered to be third-party aid.

DISCOUNTS, PREMIUMS, AND BOND ISSUANCE COSTS

Bonds payable on the Statement of Net Assets are reported net of related discounts and premiums, which are expensed over the life of the bond.

Similarly, bond issuance costs are reported as a noncurrent asset that is amortized over the life of the bond on a straight-line basis.

INCOME TAX STATUS

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

RESTATEMENTS: APPROPRIATIONS AVAILABLE

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

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

RECLASSIFICATIONS

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

NOTE 2: CASH, CASH EQUIVALENTS, AND INVESTMENTS

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

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

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

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

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

RISK

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

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

Credit Risk is the possibility that a loss may occur due to the failure of a counterparty to perform according to the terms of the contract. State law limits the nonendowed investments in short-term commercial paper, certificates of deposit, asset-backed securities, and debt obligations to the top rating issued by nationally recognized statistical rating organizations (NRSROs), and requires the investment be rated by at least two NRSROs. For longer-term certificates of deposit and corporate notes, the rating must be one of the top two ratings issued by two NRSROs. Investments subject to credit risk at June 30, 2008, are outlined in the accompanying table.

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

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

DEPOSITS

Deposits include bank account balances and are governed by the Virginia Security of Public Deposits Act. The Act includes a cross-guarantee among approved financial institutions eligible to hold public funds. In the event of a default of one of the approved financial institutions, an assessment is levied against all participating institutions to cover the uncollateralized public deposits. This cross-guarantee eliminates custodial credit risk. Amounts on deposit covered by the Virginia Security of Public Deposits

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

INVESTMENTS

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

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

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

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

DERIVATIVES

In January 2007, the University entered into three fixed-payer interest rate swaps totaling \$150 million in notional amount. The underlying index for the swaps is the Securities Industry and Financial Markets Association Municipal Swap Index (SIFMA). The swaps have an effective date of June 1, 2008, and mature June 1, 2038. The swaps were entered into at a zero market value and no payments were made or received when they were initiated. The objective of the swaps is to offset the risk of rising interest rates between January 2007 and June 2008. The swaps provided a hedge against the impact of rising interest rates on the University's Series 2008 Bonds dated May 22, 2008. On February 25, 2008, the University terminated one of the swaps with a notional amount of \$50 million and received payment upon termination of \$750,000. The two remaining swaps are scheduled to begin exchanging interest payments on July 1, 2008, for a period of thirty years.

As of June 30, 2008, the \$100 million notional amount of swaps outstanding had a negative market value of approximately \$3.4 million, representing the amount the University would pay if the swaps were terminated on that date. The fair value was determined by using the quoted SIFMA index curve at the time of market valuation. The University would be exposed to the credit risk of its swap counterparties any time the swaps had a positive market value. As of June 30, 2008, the University's swap counterparties were rated A+ and A from Standard & Poor's and Aa3 and A2 by Moody's. To mitigate credit risk, the University limits market value exposure and requires the posting of collateral based on the credit rating of the counterparty. All counterparties are required to have at least an A-/A3 rating by Standard & Poor's and Moody's, respectively. As of June 30, 2008, no collateral was required to be posted by the counterparties.

The derivative contracts use the International Swap Dealers Association Master Agreement, which includes standard termination events, such

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

SECURITY LENDING TRANSACTIONS

Investments and cash equivalents held by the Treasurer of Virginia represent the University's allocated share of cash collateral received and reinvested and securities received for the State Treasury's securities lending program. Under the University's management agreement with the Commonwealth of Virginia under the Restructured Higher Education Financial and Administrative Operations Act, which took effect July 1, 2007, the University no longer participates in the State Treasury's securities lending program.

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

NOTE 3: STATEMENT OF NET ASSETS DETAILS

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

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

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

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

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

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

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

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

e. Goodwill: In May 2000, the Medical Center acquired from Augusta Health Care, Inc., the kidney dialysis assets in a transaction accounted for as a purchase. Accordingly, \$987,188 was recorded as goodwill for the purchase of the assets and is being amortized over five years. An additional \$800,000 was recorded as goodwill for a noncompetition agreement and is being amortized over its ten-year life.

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

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

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

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

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

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

NOTE 4: SHORT-TERM DEBT

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

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

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

NOTE 5: LONG-TERM OBLIGATIONS

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

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

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

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

The University has a revolving credit agreement with a maximum principal amount of \$82,010,000 to provide liquidity for its 2003A General Revenue Pledge Bonds, and another revolving credit agreement with a maximum principal amount of \$167,990,000 to provide liquidity for all other variable rate obligations of the University. There were no advances outstanding under this credit agreement as of June 30, 2008. The 9c and 9d bonds are supported by all revenue of the University not otherwise pledged.

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

Maturities <i>(in thousands)</i>	PRINCIPAL	INTEREST
2009	\$ 13,047	\$ 34,139
2010	13,525	33,737
2011	19,353	32,541
2012	19,201	31,580
2013	20,043	30,599
2014–2018	68,468	141,181
2019–2023	55,253	125,766
2024–2028	29,425	116,212
2029–2033	88,900	108,805
2034–2038	232,190	80,203
2039–2040	157,975	11,944
TOTAL	\$ 717,380	\$ 746,707

PRIOR YEAR REFUNDINGS

In previous fiscal years, bonds and notes were issued to refund a portion of previously outstanding bonds and notes payable. Funds relating to the refundings were deposited into irrevocable trusts with escrow agents to provide for future debt service on the refunded bonds. The trust account assets and liabilities for the defeased bonds are not included in the University's financial statements. At June 30, 2008, the outstanding balance of the prior years' in-substance defeased bonds and notes totaled \$39,750,000.

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

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

NOTE 6: AFFILIATED COMPANIES

UNIVERSITY OF VIRGINIA IMAGING, L.L.C.

On March 26, 2002, the Medical Center entered into an agreement with Outpatient Imaging Affiliates of Virginia, L.L.C. (OIA), to establish University of Virginia Imaging, L.L.C. (UVI). The limited liability corporation was formed to operate an outpatient diagnostic imaging center to help respond to the need for radiology services in the Charlottesville area.

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

COMMUNITY MEDICINE, L.L.C.

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

Community Medicine commenced operations on July 1, 2001, and as of June 30, 2008, the Medical Center's investment totaled \$1,810,000.

CENTRAL VIRGINIA HEALTH NETWORK, INC.

In May 1995, the Medical Center joined the Central Virginia Health Network, Inc. (CVHN), a partnership of eight Richmond-area hospitals. CVHN was formed to provide an efficient and coordinated continuum of care, with services ranging from acute hospital treatment to primary physician care and home health services.

The Medical Center originally paid \$100 for 10,000 shares of common stock and \$109,900 as additional paid-in capital. In addition, the Medical Center is obligated for monthly dues to CVHN of \$15,913. Complete financial statements can be obtained from the registered agent: Steven D. Gravely, Esq., Mezzullo and McCandlish, P.O. Box 796, Richmond, Virginia 23206.

UNIVERSITY OF VIRGINIA/HEALTHSOUTH, L.L.C.

The Medical Center entered into a joint venture with HEALTHSOUTH Corporation to establish an acute rehabilitation facility, located at the Fontaine Research Park in Charlottesville, Virginia, to provide patient services to the region. The Medical Center made a capital contribution of \$2,230,000 to the joint venture in May 1996, which represents a 50 percent interest. Complete financial statements can be obtained from the managing member: HEALTHSOUTH Corporation, 7700 East Parham Road, Richmond, Virginia 23294.

VALIANCE HEALTH, L.L.C.

In November 1997, the Medical Center became a participant with Rockingham Memorial Hospital and Augusta Health Care, Inc., in Valiance Health, L.L.C. (Valiance), a joint venture integrating and coordinating the delivery of healthcare services in central and western Virginia. The Medical Center contributed \$100,000 in initial capital, which entitles it to a pro-rata distribution of any profits and losses of Valiance. As of June 30, 2008, the Medical Center's investment totaled \$500,000.

UNIVERSITY HEALTHSYSTEM CONSORTIUM (UHC)

In December 1986, the Medical Center became a member of the University HealthSystem Consortium (UHC). Founded in 1984, UHC is an alliance of the clinical enterprises of academic health centers. While focusing on the clinical mission, UHC is mindful of and supports the research and education missions. The mission of UHC is to advance knowledge, foster collaboration, and promote change to help members compete in their respective health care markets. In keeping with this mission, UHC helps members pool resources, create economies of scale, improve clinical and operating efficiencies, and influence the direction and delivery of health care. Accordingly, UHC is organized and operated on a cooperative basis for the benefit of its patron-member health systems.

UHC is a not-for-profit organization. It is incorporated as a nonstock corporation and designated as a nonexempt cooperative that is taxable under Subchapter T, section 1382-1388, of the Internal Revenue Code. As such, UHC's bylaws provide for distributions of patronage dividends to its patrons. This allocation is based on the value of business done with or for each patron by UHC. The Medical Center records the portion of the patronage dividends that were held by UHC as patronage equity.

As of June 30, 2008 <i>(in thousands)</i>	COMMON STOCK AND EQUITY CONTRIBUTIONS	SHARE OF ACCUMULATED INCOME (LOSS)	NET INVESTMENT
UVA Imaging, L.L.C.	\$ 687	\$ 1,541	\$ 2,228
Community Medicine, L.L.C.	1,810	(3,762)	(1,952)
Central Virginia Health Network, Inc.	232	(41)	191
HEALTHSOUTH, L.L.C.	1,830	5,661	7,491
Valiance, L.L.C.	350	791	1,141
University HealthSystem Consortium	—	647	647

HEALTHCARE PARTNERS, INC.

In May 1995, HealthCare Partners, Inc. (HealthCare Partners), a nonstock, nonprofit corporation, was established to support networking, external business relationships with neighboring hospitals and physicians groups, and expansion of primary care activities. The Medical Center and the Health Services Foundation are the primary contributors to the funding of the corporation. The corporation is governed by a board of directors composed of Health System staff, community members, and University Board of Visitors appointees.

NOTE 7: COMPONENT UNITS

Summary financial statements and additional disclosures are presented below.

Statement of Financial Position <i>(in thousands)</i> <i>as of June 30, 2008</i>	UNIVERSITY OF VIRGINIA LAW SCHOOL FOUNDATION	UNIVERSITY OF VIRGINIA DARDEN SCHOOL FOUNDATION	ALUMNI ASSOCIATION OF THE UNIVERSITY OF VIRGINIA	VIRGINIA ATHLETICS FOUNDATION*	UNIVERSITY OF VIRGINIA FOUNDATION	UNIVERSITY OF VIRGINIA HEALTH SERVICES FOUNDATION	UNIVERSITY OF VIRGINIA INVESTMENT MANAGEMENT COMPANY	COMPONENT UNITS SUBTOTAL	ELIMINATIONS	COMPONENT UNITS TOTAL
ASSETS										
Current assets										
Total current assets	\$ 5,351	\$ 14,632	\$ 37,273	\$ 28,580	\$ 22,758	\$ 116,250	\$ 478,268	\$ 703,112	\$ —	\$ 703,112
Noncurrent assets										
Long-term investments	304,070	248,280	376,037	69,926	119,070	90,631	5,653,700	6,861,714	(982,105)	5,879,609
Capital assets, net, and other assets	8,418	93,408	34,229	34,243	294,898	23,866	1,116	490,178	—	490,178
Total noncurrent assets	312,488	341,688	410,266	104,169	413,968	114,497	5,654,816	7,351,892	(982,105)	6,369,787
TOTAL ASSETS	\$ 317,839	\$ 356,320	\$ 447,539	\$ 132,749	\$ 436,726	\$ 230,747	\$6,133,084	\$8,055,004	\$ (982,105)	\$7,072,899
LIABILITIES AND NET ASSETS										
Current liabilities										
Total current liabilities	\$ 196	\$ 9,263	\$ 74,309	\$ 1,041	\$ 79,799	\$ 99,460	\$6,127,860	\$6,391,928	\$ (982,105)	\$5,409,823
Noncurrent liabilities										
Long-term debt, net of current portion of \$6,239	—	52,586	18,000	—	229,616	18,360	—	318,562	—	318,562
Other noncurrent liabilities	672	—	20,042	919	39,000	49,721	—	110,354	—	110,354
Total noncurrent liabilities	672	52,586	38,042	919	268,616	68,081	—	428,916	—	428,916
TOTAL LIABILITIES	\$ 868	\$ 61,849	\$ 112,351	\$ 1,960	\$ 348,415	\$ 167,541	\$6,127,860	\$6,820,844	\$ (982,105)	\$5,838,739
NET ASSETS										
Unrestricted	\$ 63,965	\$ 91,372	\$ 50,279	\$ 52,779	\$ 8,436	\$ 55,711	\$ 5,224	\$ 327,766	\$ —	\$ 327,766
Temporarily restricted	156,655	95,770	142,172	54,497	65,099	7,495	—	521,688	—	521,688
Permanently restricted	96,351	107,329	142,737	23,513	14,776	—	—	384,706	—	384,706
TOTAL NET ASSETS	316,971	294,471	335,188	130,789	88,311	63,206	5,224	1,234,160	—	1,234,160
TOTAL LIABILITIES AND NET ASSETS	\$ 317,839	\$ 356,320	\$ 447,539	\$ 132,749	\$ 436,726	\$ 230,747	\$6,133,084	\$8,055,004	\$ (982,105)	\$7,072,899

*December 31, 2007, year-end

PLEDGES RECEIVABLE

Unconditional promises to give (pledges) are recorded as receivables and revenues and are assigned to net asset categories based on the presence or absence of donor-imposed restrictions. Pledges expected to be collected within one year are recorded at net realizable value. Pledges that are expected to be collected in future years are recorded at the net present value of their estimated future cash flows. The discounts on these amounts are computed using risk-free interest rates applicable to the years in which the promise was received and then remain consistent throughout the pledge's life. The component units recorded an allowance against pledges receivable for estimated uncollectible amounts. The **Health Services Foundation** does not accept gifts. Unconditional promises to give at June 30, 2008, are as follows:

Summary Schedule of Pledges Receivable <i>(in thousands)</i> <i>as of June 30, 2008</i>	UNIVERSITY OF VIRGINIA LAW SCHOOL FOUNDATION	UNIVERSITY OF VIRGINIA DARDEN SCHOOL FOUNDATION	ALUMNI ASSOCIATION OF THE UNIVERSITY OF VIRGINIA	VIRGINIA ATHLETICS FOUNDATION*	UNIVERSITY OF VIRGINIA FOUNDATION	UNIVERSITY OF VIRGINIA HEALTH SERVICES FOUNDATION	UNIVERSITY OF VIRGINIA INVESTMENT MANAGEMENT COMPANY	COMPONENT UNITS TOTAL
Total pledges receivable	\$ 16,883	\$ 21,536	\$ 23,583	\$ 54,976	\$ —	\$ —	\$ —	\$ 116,978
Less allowance for uncollectible accounts	(707)	(690)	(1,337)	(3,018)	—	—	—	(5,752)
Less effect of discounting to present value	(2,896)	(1,859)	(2,924)	(3,578)	—	—	—	(11,257)
Net pledges receivable	13,280	18,987	19,322	48,380	—	—	—	99,969
Less current pledges	(4,926)	(5,162)	(4,750)	(17,406)	—	—	—	(32,244)
TOTAL NONCURRENT PLEDGES RECEIVABLE	\$ 8,354	\$ 13,825	\$ 14,572	\$ 30,974	\$ —	\$ —	\$ —	\$ 67,725

*December 31, 2007, year-end

The **University of Virginia Law School Foundation** has received bequest intentions and certain other conditional promises to give of approximately \$13 million at June 30, 2008. These intentions and conditional promises to give are not recognized as assets, and if they are received, will generally be restricted for specific purposes stipulated by the donors, primarily endowments for scholarships and professorships.

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

INVESTMENTS

Investments are recorded at market value, which is determined by readily available quotes on the stock exchange or as quoted by the **University of Virginia Investment Management Company (UVIMCO)**. Realized gains (losses) from the sale of securities and unrealized gains (losses) from the appreciation (depreciation) of the value of securities held are recognized in the year incurred. The fair values of investments by investment class at June 30, 2008, for the component units are as follows:

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

*December 31, 2007, year-end

UVIMCO has investments in limited partnership hedge funds, private equity and venture capital investments, or similar private investment vehicles. These investments do not actively trade through established exchange mechanisms and are valued at estimated fair market value, based on **UVIMCO's** interest in the investee as determined and reported by the external manager of the investment. Such investments represent \$1,659,394,789 (32 percent of investments held for others) at June 30, 2008. Because of the inherent uncertainty of such valuations, these estimated values may differ from the values that would have been used had a ready market for the investments existed, and such differences could be material.

PROPERTY, FURNISHINGS, AND EQUIPMENT

The property, furnishings, and equipment of the **University of Virginia Foundation** and the **University of Virginia Darden School Foundation** are recorded at cost, except donated property, which is recorded at fair market value at the date of the gift. Depreciation is taken over estimated useful lives of five to thirty-nine years using the straight-line method. As of June 30, 2008, capital assets consisted of (in thousands):

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

NOTES PAYABLE

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

The University has allocated up to \$51 million of its quasi-endowment funds for use by the Foundation to acquire and develop real estate. As of June 30, 2008, the Foundation had borrowed \$9 million of these funds to acquire properties on behalf of the University. These notes payable are noninterest bearing and due on demand.

LONG-TERM DEBT

The following table summarizes the long-term obligations of the **University of Virginia Darden School Foundation**, the **University of Virginia Foundation**, and the **University of Virginia Health Services Foundation** at June 30, 2008 (in thousands):

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

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

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

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

*December 31, 2007, year-end

SIGNIFICANT TRANSACTIONS WITH THE UNIVERSITY OF VIRGINIA

The University provides certain services for the **University of Virginia Darden School Foundation** that are reimbursed by the Foundation monthly.

Direct payments to the University from the **Alumni Association of the University of Virginia** for the year ended June 30, 2008, totaled \$2 million. This amount includes gift transfers, payment for facilities and services, and other support for University activities.

The **University of Virginia Health Services Foundation** has contracted with the University to provide certain professional and technical services. Payments received for these services were approximately \$53 million for the year ended June 30, 2008. Approximately \$18 million of the fiscal year payments received relates to disproportionate share funds paid for indigent patients served by the Foundation. The **University of Virginia Health Services Foundation** contributed \$13 million to the University in support of various academic programs, equipment, teaching, and research for the year ended June 30, 2008.

NOTE 8: EXPENSE CLASSIFICATION MATRIX

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

NOTE 9: APPROPRIATIONS

The University receives state appropriations from the General Fund of the Commonwealth. The Appropriation Act specifies that such unexpended appropriations shall revert, as specifically provided by the General Assembly, at the end of the biennium. For years ending at the middle of a biennium, unexpended appropriations that have not been approved for reappropriation in the next year by the governor become part of the General Fund of the Commonwealth and are, therefore, no longer available to the University for disbursements.

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

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

NOTE 10: RETIREMENT PLANS

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

Ninety percent of teaching, research, and administrative faculty, and 78 percent of Medical Center employees participate in Optional Retirement Plans. The Faculty Retirement Plan is a defined-contribution plan to which the University contributes an amount established by statute. Faculty are fully vested immediately. The Medical Center Retirement Plan is a defined-contribution plan to which the University contributes an amount determined by the Board of Visitors. Medical Center employees are fully vested after one or two years of employment, depending on their date of hire.

Total pension costs under the Optional Retirement Plans were approximately \$44 million, and contributions were calculated using base salaries of \$496 million, for the year ended June 30, 2008. The contribution percentage amounted to 8.8 percent.

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

NOTE 11: POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

The University participates in the Commonwealth of Virginia-sponsored Virginia Retirement System-administered statewide group life insurance program, which provides postemployment life insurance benefits to eligible retired and terminated employees. The Commonwealth also provides health care credits against the monthly health insurance premiums of its retirees who have at least fifteen years of state service. Information related to these plans is available at the statewide level in the Commonwealth's CAFR.

University of Virginia faculty members who participate in the Optional Retirement Plan receive \$10,000 in retiree life insurance; Medical Center employees who participate in the Optional Retirement Plan have a variety of retiree life insurance options depending on termination date and years of service. Benefit provisions for this plan are established and maintained by the University under the authority of the Board of Visitors. This Optional Retirement Plan is a single-employer plan administered by the University. The University does not issue stand-alone financial statements for this plan.

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

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

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

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

Once the 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 chart shows the components of the University's annual OPEB costs for the year, the amount actually contributed to the plan, and changes in the net OPEB obligation.

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

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

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

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

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

NOTE 12: SELF-INSURANCE

All University employees have the option to participate in the University's self-funded, comprehensive medical care benefits program. The cost of medical care is paid out of employee and employer contributions. The market value of investments at June 30, 2008, was \$35 million. The estimated liability for outstanding claims at June 30, 2008, was \$11 million. The University has contracted with several third-party claims administrators: Southern Health Services, Inc., for its medical claims; United Concordia for its dental claims; and CVS/Caremark for its pharmacy claims.

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

The University's Office of Risk Management manages all property and casualty insurance programs for the University, including the Health System and the College at Wise. At present, most insurance coverages are obtained through participation in the state risk management self-insurance plans, which are administered by the Virginia Department of the Treasury, Division of Risk Management. Risk management insurance includes property, boiler and machinery, crime, employee bond (employee dishonesty), general (tort) liability, professional liability (includes medical malpractice), aviation and watercraft coverage, and automobile liability. The University is self-insured for the first \$100,000 of each property and boiler and machinery loss, and for physical damage on all vehicles valued up to \$20,000. The University also maintains excess crime/employee dishonesty insurance and insurance for physical damage on vehicles valued in excess of \$20,000. Separate insurance coverage is maintained as appropriate on subsidiary organizations owned by the Health System, such as Community Medicine University of Virginia, L.L.C.

NOTE 13: FUNDS HELD IN TRUST BY OTHERS

Assets of funds held by trustees for the benefit of the University are not reflected in the accompanying Statement of Net Assets. The University has irrevocable rights to all or a portion of the income of these funds, but the assets of the funds are not under the management of the University. The market value of the funds held by trustees for the benefit of the University at June 30, 2008, was \$140 million and income received totaled \$6 million.

NOTE 14: COMMITMENTS

As of June 30, 2008, the University had outstanding construction contracts commitments of approximately \$226 million.

The University has entered into numerous agreements to rent, lease, and maintain land, buildings, and equipment. With some of these agreements, the University is committed under various operating leases for equipment and space. In most cases, the University has renewal options on the leased assets for another similar term, and expects that, in the normal course of business, these leases will be replaced by similar leases. The total expense for the year ended June 30, 2008, was approximately \$31 million.

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

Years Ending June 30 <i>(in thousands)</i>	LEASE OBLIGATION
2009	\$ 14,088
2010	8,897
2011	5,315
2012	3,263
2013	2,323
2014–2018	8,488
2019–2023	5,681
2024–2028	823
2029–2033	823
2034–2038	823
2039–2043	823
2044–2048	823
2049–2053	329
TOTAL	\$ 52,499

LITIGATION

The University is a defendant in a number of legal actions. While the final outcome cannot be determined at this time, management is of the opinion that the liability, if any, for these legal actions will not have a material effect on the University's financial position.

NOTE 15: SUBSEQUENT EVENTS

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

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

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

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UNIVERSITY OF VIRGINIA PRESIDENT'S REPORT

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