

**MANAGEMENT RESPONSIBILITY***October 20, 2004*

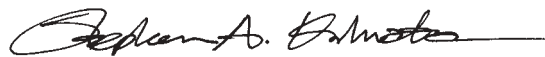
TO THE PRESIDENT AND BOARD OF VISITORS  
OF THE UNIVERSITY OF VIRGINIA:

We are pleased to submit the annual Financial Report of the University of Virginia for the year ended June 30, 2004. 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 internal 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, independent certified public accountants, provides an independent opinion regarding the fair presentation in the financial statements of the University's financial position. Their examination was made in accordance with generally accepted government auditing standards and included a review of the system of internal accounting controls to the extent they considered necessary to determine the audit procedures required to support their opinion. The Audit Committee of the Board of Visitors meets periodically and privately with the independent auditors, the internal auditors, and the financial officers of the University to review matters relating to the quality of the University's financial reporting, the internal accounting controls, and the scope and results of audit examinations. The committee also reviews the scope and quality of the internal auditing program.

Respectfully submitted,



Stephen A. Kimata  
Assistant Vice President for Finance  
and University Comptroller



Yoke San L. Reynolds  
Vice President for Finance

## AUDITOR'S OPINION

October 20, 2004

THE HONORABLE MARK R. WARNER  
*Governor of Virginia*

THE HONORABLE LACEY E. PUTNEY  
*Chairman, Joint Legislative Audit and Review Commission*

THE BOARD OF VISITORS  
*University of Virginia*

## INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying basic financial statements of the University of Virginia, a component unit of the Commonwealth of Virginia, and its aggregate discretely presented component units as of and for the year ended June 30, 2004, as shown on pages 51 through 69. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the component units of the University, which are discussed in note 1 of the notes to the financial statements. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates the amounts included for the component units of the University, is based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Virginia and of its aggregate discretely presented component units as of June 30, 2004, 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.

As described in the notes to the financial statements, the University has implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 39, which addresses the conditions under which institutions should include associated foundations as component units and how such component units should be displayed in the financial statements. The University has determined that six foundations meet the criteria established by GASB Statement No. 39 to be component units and are included in the financial statements as of and for the year ended June 30, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2004, 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 read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 40 through 48 is not a required part of the basic financial statements, but is supplementary information required by 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.



Walter J. Kucharski  
Auditor of Public Accounts

<b>UNIVERSITY OF VIRGINIA</b> <b>Statement of Net Assets</b> (in thousands) As of June 30, 2004 (with comparative information as of June 30, 2003)	<b>2004</b>	<b>2003</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents (NOTE 2)	\$ 266,045	\$ 188,082
Short-term investments (NOTE 2)	342,593	378,143
Accounts receivable, net (NOTE 3a)	184,295	153,866
Prepaid expenses	11,499	8,286
Inventories	14,701	14,136
Notes receivable, net (NOTE 3b)	7,839	6,892
Other	242	59
<b>TOTAL CURRENT ASSETS</b>	<b>827,214</b>	<b>749,464</b>
<b>NON-CURRENT ASSETS</b>		
Restricted cash and cash equivalents (NOTE 2)	8,774	94,034
Endowment investments (NOTE 2)	2,206,032	1,962,217
Other long-term investments (NOTE 2)	305,465	281,398
Deposit with bond trustee	25,660	80,232
Notes receivable, net (NOTE 3b)	16,036	16,999
Pledges receivable, net (NOTE 3c)	43,381	27,393
Capital assets—depreciable, net (NOTE 3d)	1,132,722	1,094,722
Capital assets—non-depreciable (NOTE 3d)	246,076	190,287
Goodwill (NOTE 3e)	895	1,472
Other	649	-
<b>TOTAL NON-CURRENT ASSETS</b>	<b>3,985,690</b>	<b>3,748,754</b>
<b>TOTAL ASSETS</b>	<b>\$ 4,812,904</b>	<b>\$ 4,498,218</b>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities (NOTE 3f)	\$ 156,529	\$ 142,606
Deferred revenue (NOTE 3g)	58,665	56,995
Obligations under securities lending (NOTE 2)	117,962	160,079
Deposits held in custody for others	18,203	14,959
Long-term liabilities—current portion (NOTE 4)	76,557	48,837
Advance from Treasurer of Virginia	260	260
<b>TOTAL CURRENT LIABILITIES</b>	<b>428,176</b>	<b>423,736</b>
<b>NON-CURRENT LIABILITIES (NOTE 4)</b>		
Long-term debt	410,359	425,453
Other non-current liabilities	252,377	199,523
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>662,736</b>	<b>624,976</b>
<b>TOTAL LIABILITIES</b>	<b>\$ 1,090,912</b>	<b>\$ 1,048,712</b>
<b>NET ASSETS</b>		
<b>INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT</b>	<b>\$ 955,092</b>	<b>\$ 917,924</b>
<b>RESTRICTED</b>		
Non-expendable	322,218	311,779
Expendable	1,389,122	1,275,493
<b>UNRESTRICTED</b>	<b>1,055,560</b>	<b>944,310</b>
<b>TOTAL NET ASSETS</b>	<b>\$ 3,721,992</b>	<b>\$ 3,449,506</b>
Certain 2003 amounts have been restated to conform to 2004 classifications. The accompanying Notes to Financial Statements are an integral part of this statement.		

UNIVERSITY OF VIRGINIA <b>Component Units</b> <b>COMBINED STATEMENTS OF FINANCIAL POSITION</b> (in thousands) As of June 30, 2004	<b>2004</b>
<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash and cash equivalents	\$ 55,489
Receivables	60,424
Other current assets	11,786
<b>TOTAL CURRENT ASSETS</b>	<b>127,699</b>
<b>NON-CURRENT ASSETS</b>	
Pledges receivable, net of current portion of \$20,881	43,238
Long-term investments	746,020
Capital assets, net of depreciation	158,037
Other non-current assets	27,259
<b>TOTAL NON-CURRENT ASSETS</b>	<b>974,554</b>
<b>TOTAL ASSETS</b>	<b>\$ 1,102,253</b>
<b>LIABILITIES AND NET ASSETS</b>	
<b>CURRENT LIABILITIES</b>	
Assets held in trust for others	\$ 62,722
Accounts payable—affiliated organizations	21,357
Other current liabilities	57,769
<b>TOTAL CURRENT LIABILITIES</b>	<b>141,848</b>
<b>NON-CURRENT LIABILITIES</b>	
Long-term debt, net of current portion of \$2,184	114,341
Other long-term liabilities	70,997
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>185,338</b>
<b>TOTAL LIABILITIES</b>	<b>\$ 327,186</b>
<b>NET ASSETS</b>	
Unrestricted	\$ 206,734
Temporarily restricted	272,053
Permanently restricted	296,280
<b>TOTAL NET ASSETS</b>	<b>\$ 775,067</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 1,102,253</b>
The accompanying Notes to Financial Statements are an integral part of this statement.	

**UNIVERSITY OF VIRGINIA**

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

For the year ended June 30, 2004

(with comparative information for the year ended June 30, 2003)

	2004	2003
<b>REVENUES</b>		
<b>OPERATING REVENUES</b>		
Student tuition and fees (net of scholarship allowances of \$43,817 and \$37,670)	\$ 233,786	\$ 204,078
Patient services (net of indigent care of \$454,700 and \$355,948)	686,578	637,891
Federal grants and contracts	274,018	246,244
State and local grants and contracts	7,242	7,489
Non-governmental grants and contracts	42,316	46,573
Sales and services of educational departments	21,650	19,905
Auxiliary enterprises revenue (net of scholarship allowances of \$4,743 and \$4,933)	89,149	81,671
Other operating revenues	26,834	13,193
<b>TOTAL OPERATING REVENUES</b>	<b>1,381,573</b>	<b>1,257,044</b>
<b>EXPENSES</b>		
<b>OPERATING EXPENSES (NOTE 8)</b>		
Compensation	893,463	822,201
Supplies and services	467,520	448,886
Student aid	40,537	37,738
Utilities	76,105	58,718
Depreciation	102,597	99,915
Other operating expenses	24,452	25,326
<b>TOTAL OPERATING EXPENSES</b>	<b>1,604,674</b>	<b>1,492,784</b>
<b>OPERATING LOSS</b>	<b>(223,101)</b>	<b>(235,740)</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
State appropriations (NOTE 7)	125,321	140,851
Gifts	84,850	70,545
Investment income	255,380	189,702
Interest on capital asset-related debt	(12,618)	(11,467)
Other non-operating revenues (expenses)	3,974	(275)
<b>NET NON-OPERATING REVENUES</b>	<b>456,907</b>	<b>389,356</b>
<b>INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES</b>	<b>233,806</b>	<b>153,616</b>
Capital appropriations	14,593	16,667
Capital grants and gifts	26,011	21,216
Additions to permanent endowments	10,215	30,170
Special item: Write-down of equipment (NOTE 14)	(12,139)	-
<b>TOTAL OTHER</b>	<b>38,680</b>	<b>68,053</b>
<b>INCREASE IN NET ASSETS</b>	<b>272,486</b>	<b>221,669</b>
<b>NET ASSETS</b>		
Net assets—beginning of year	3,449,506	3,227,837
<b>NET ASSETS—END OF YEAR</b>	<b>\$ 3,721,992</b>	<b>\$ 3,449,506</b>

Certain 2003 amounts have been restated to conform to 2004 classifications. The accompanying Notes to Financial Statements are an integral part of this statement.

<b>UNIVERSITY OF VIRGINIA</b> <b>Component Units</b> <b>COMBINED STATEMENTS OF ACTIVITIES</b> (in thousands) For the year ended June 30, 2004	<b>2004</b>
<b>UNRESTRICTED REVENUES AND SUPPORT</b>	
Contributions	\$ 20,653
Fees for services, rentals, and sales	224,378
Investment income	24,251
Net assets released from restrictions	54,774
Other revenues	35,207
<b>TOTAL UNRESTRICTED REVENUES AND SUPPORT</b>	<b>359,263</b>
<b>EXPENSES</b>	
Program services, lectures, and special events	239,630
Scholarships and financial aid	18,863
Management and general	43,917
Other expenses	38,608
<b>TOTAL EXPENSES</b>	<b>341,018</b>
<b>Excess of unrestricted revenues and support over expenses</b>	<b>18,245</b>
<b>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS</b>	
Contributions	58,403
Investment and other income	55,225
Reclassifications per donor stipulation	(248)
Net assets released from restrictions	(54,774)
<b>NET CHANGES IN TEMPORARILY RESTRICTED NET ASSETS</b>	<b>58,606</b>
<b>CHANGES IN PERMANENTLY RESTRICTED NET ASSETS</b>	
Contributions	16,539
Investment and other income	732
Reclassifications per donor stipulation	248
<b>NET CHANGES IN PERMANENTLY RESTRICTED NET ASSETS</b>	<b>17,519</b>
<b>CHANGE IN NET ASSETS</b>	<b>94,370</b>
<b>NET ASSETS—BEGINNING OF YEAR</b>	<b>680,697</b>
<b>NET ASSETS—END OF YEAR</b>	<b>\$ 775,067</b>
The accompanying Notes to Financial Statements are an integral part of this statement.	

**UNIVERSITY OF VIRGINIA**  
**Statement of Cash Flows** (in thousands)

For the year ended June 30, 2004 (with comparative information for the year ended June 30, 2003)

	2004	2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Tuition and fees	\$ 235,969	\$ 203,388
Grants and contracts	330,504	293,219
Receipts from patients and third parties	670,877	634,214
Sales and services of educational activities	14,743	20,200
Sales and services of auxiliary enterprises	88,969	81,530
Payments to employees and fringe benefits	(896,589)	(823,958)
Payments to vendors and suppliers	(558,659)	(490,463)
Payments for scholarships and fellowships	(40,537)	(37,738)
Perkins and other loans issued to students	(7,627)	(9,949)
Collection of Perkins and other loans to students	7,763	12,794
Other receipts	36,736	14,188
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b>(117,851)</b>	<b>(102,575)</b>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
State appropriations	126,158	135,317
Additions to true endowments	10,215	30,171
Direct lending receipts, including PLUS loans	55,290	48,405
Direct lending payments, including PLUS loans	(55,290)	(48,405)
Receipts on behalf of agencies	3,244	2,444
Payments on behalf of agencies	(3,524)	(3,958)
Non-capital gifts and grants	75,370	75,204
Other	(4,400)	-
<b>NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES</b>	<b>207,063</b>	<b>239,178</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital appropriations	1,017	10,934
Capital gifts and grants received	6,594	16,416
Proceeds from capital debt	79,766	306,217
Proceeds from sale of capital assets	382	720
Acquisition and construction of capital assets	(267,967)	(192,629)
Principal paid on capital debt and leases	(23,283)	(97,834)
Interest paid on capital debt and leases	(14,695)	(11,912)
(Deposit to)/Withdrawal from trustee	54,571	(71,350)
<b>NET CASH USED BY RELATED FINANCING ACTIVITIES</b>	<b>(163,615)</b>	<b>(39,438)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments	1,663,565	1,534,846
Interest on investments	29,978	49,610
Purchase of investments and related fees	(1,626,072)	(1,646,573)
Other investment activities	(365)	121
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<b>67,106</b>	<b>(61,996)</b>
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>		
Cash and cash equivalents, July 1	\$ 282,116	\$ 246,947
<b>CASH AND CASH EQUIVALENTS, JUNE 30</b>	<b>274,819</b>	<b>282,116</b>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating loss	\$ (223,101)	\$ (235,740)
<b>ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Depreciation expense	102,597	99,915
Provision for uncollectible loans and writeoffs	(117)	242
Miscellaneous non-operating income	6,265	258
<b>CHANGES IN ASSETS AND LIABILITIES</b>		
Receivables, net	(8,299)	14,321
Inventories	(565)	(2,807)
Other assets	10,940	(355)
Prepaid expenses	(3,213)	536
Notes receivable, net	137	2,842
Accounts payable and accrued liabilities	(2,898)	24,830
Non-cash adjustment to supplies and services	(396)	(1,546)
Deferred revenue	(1,116)	257
Accrued vacation leave—long term	1,915	(5,328)
<b>TOTAL ADJUSTMENTS</b>	<b>105,250</b>	<b>133,165</b>
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b>\$ (117,851)</b>	<b>\$ (102,575)</b>

Certain 2003 amounts have been restated to conform to 2004 classifications. The accompanying Notes to Financial Statements are an integral part of this statement.

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Organization and Purpose

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

### Reporting Entity

During the year ended June 30, 2004, the University implemented GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. This statement addresses the conditions under which institutions should include associated foundations as component units and how such component units should be displayed in the financial statements.

There are currently twenty-one related foundations (parent) operating in support of the interests of the University. These related foundations are not-for-profit corporations controlled by separate boards of directors. Before implementation of GASB Statement No. 39, they were not included as component units of the University. The University determined that the following six foundations meet the criteria established by GASB Statement No. 39 to be component units and are included in the financial statements presented as of June 30, 2004:

- 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

The foundations' financial information is included in the accompanying financial statements. Condensed financial statements for each component unit are disclosed in Note 6. 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, VA 22903.

The **University of Virginia Darden School Foundation** was established as a non-stock 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, VA 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 Program is an awards program primarily sponsored by the Alumni Association and was organized as a separate legal entity, the Jefferson Scholars Foundation, to become a wholly owned subsidiary of the Alumni Association. All related operations and assets were transferred to the Jefferson Scholars Foundation in 2001. For additional information, contact the Finance and Administration Office at P.O. Box 3446, Charlottesville, VA 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, 2003. For additional information, contact the Gift Accounting Office at P.O. Box 400833, Charlottesville, VA 22904.

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

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



The University allows its affiliated foundations to participate in the University's pooled endowment fund, through which the University invests funds on behalf of the foundations. As such, these funds are liabilities of the University to the foundations, and are reported on the Statement of Net Assets as non-current liabilities. At June 30, 2004, these liabilities for all foundations amounted to \$227.5 million of the \$662.7 million total of non-current liabilities.

### Reporting Basis

The accompanying financial statements are presented in accordance with generally accepted accounting principles applicable to governmental colleges and universities as promulgated by the Governmental Accounting Standards Board (GASB) and, for pronouncements issued prior to November 30, 1989, the Financial Accounting Standards Board (FASB). It is the University's policy not to follow FASB standards after that date. The component units included under GASB 39 continue to follow FASB pronouncements, and their financial statements are presented on that basis.

In accordance with GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* and GASB Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, as amended by GASB Statement Nos. 37 and 38, 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. 35 establishes standards for external financial reporting for public colleges and universities and requires that resources be classified for accounting and reporting purposes into the following net asset categories:

**Invested in capital assets, net of related debt:** Capital assets, net of accumulated depreciation and long-term debt attributable to the acquisition, construction, or improvement of these assets.

**Restricted:** Those net assets, either expendable or non-expendable, subject to donor-imposed restrictions stipulating how the resources may be used. Expendable net assets are those that can be satisfied by actions of the University. Non-expendable net assets, consisting of endowments, must be maintained in perpetuity.

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

When an expense is incurred that can be paid using either restricted or unrestricted resources, the University's policy is first to apply the expense toward restricted resources, then toward unrestricted. Restricted funds remain classified as such until restrictions have been satisfied.

### Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when incurred and measurable, regardless of when the related cash flows take place. Non-exchange transactions, in which the University receives value without directly giving equal value in exchange, include grants, state appropriations, and private donations. On an accrual basis, revenues from these transactions are recognized in the fiscal year in which all eligibility requirements (resource provider conditions) have been satisfied, if measurable and probable of collection. The University does not capitalize works of art or historical treasures that are held for exhibition, education, research, and public service. These collections are neither disposed of for financial gain nor encumbered in any means. Accordingly, such collections are not recognized or capitalized for financial statement purposes.

### Cash and Cash Equivalents

In addition to cash on deposit in private bank accounts, petty cash, and undeposited receipts, this classification includes cash on deposit with fiscal agents and short-term investments with the State Treasurer's Cash and Investment Pool (a governmental external investment pool). All other short-term investments are reported as investments.

### 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. Certain less marketable investments, principally real estate and 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. Mortgages held for investment by the endowment fund are recorded at book value representing principal amounts due.

### Endowment

The major portion of the University's endowment is maintained in a single investment pool named the University Pooled Endowment Fund. The Pooled Endowment Fund is pooled using a market value basis, with each individual fund subscribing to or disposing of units (permanent shares) on the basis of the market value per unit at the beginning of the month within which the transaction takes place.

### Pledges Receivable

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

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the estimated future cash flows. An allowance 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.

### Fixed Assets and Depreciation

Fixed assets are stated at cost at date of acquisition, or fair market value at date of donation in the case of gifts. In the case of buildings, the University capitalizes fixed assets that have a value or cost in excess of \$250,000 at the date of acquisition and an expected useful life of one or more years. Effective July 1, 2003, the Academic Division increased its moveable equipment capitalization threshold to a value or cost of \$5,000 and an expected useful life of one or more years. The Medical Center Division capitalizes moveable equipment at a value or cost of \$2,000 and an expected useful life of one or more years. Maintenance or renovation expenditures of \$250,000 or more are capitalized only to the extent that such expenditures prolong the life of the asset or otherwise enhance its capacity to render service.

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

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

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

Fixed assets related to construction are capitalized as expenditures are incurred. Projects that have not been completed as of the date of the statement of net assets are classified as Construction in Process. Construction period interest cost in excess of earnings associated with the debt proceeds is capitalized as a component of the fixed asset.

Fixed 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, the University capitalizes computer software developed or obtained for internal use. Capitalization begins at the application development stage, which consists of the design, coding, installation, and testing of the software and interfaces.

**Deferred Revenue**

Deferred revenue represents revenues collected but not earned as of June 30. This primarily comprises revenue for student tuition accrued in advance of the semester and advance payments on grants and contracts.

**Interest Capitalization**

Interest expense incurred during the construction of capital assets is capitalized, if material, net of interest income earned on resources set aside for this purpose. The University incurred net interest expense of \$3,352,949 for the fiscal year ended June 30, 2004. Interest capitalized for the fiscal year ended June 30, 2004, totaled \$2,081,830.

**Accrued Compensated Absences**

The amount of leave earned but not taken by non-faculty salaried employees is recorded as a liability on the Statement of Net Assets. The amount reflects, as of June 30, 2004, all unused vacation leave, sabbatical 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 non-exchange transactions earned and in which all eligibility requirements (resource provider conditions) have been satisfied, if measurable and probable of collection.

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

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

**Medical Center Sales and Services**

A significant portion of the Medical Center services is rendered to patients covered by Medicare, Medicaid, or Blue Cross of Virginia. The Medical Center has entered into contractual agreements with these third parties to accept payment for services in amounts less than scheduled charges. In accordance with these agreements, the difference between the contractual payments due and the Medical Center scheduled billing rates results in contractual adjustments. Contractual adjustments are recorded as deductions from Medical Center revenues in the period in which the related services are rendered.

Certain annual settlements of amounts due for Medical Center services covered by third parties are determined through cost

reports that are subject to audit and retroactive adjustment by the third parties. Provisions for possible adjustments of cost reports have been estimated and reflected in the accompanying financial statements. Since 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.

**Operating Activities**

The University’s policy for defining operating activities is based primarily on an activity’s character as an exchange event. Exchange events generally involve payments or receipts for providing or receiving goods and services. With the exception of interest expense, all expense transactions are classified as operating, while some revenue transactions (i.e., state appropriations, gifts, and investment income) are classified as non-operating in accordance with GASB Statement No. 34.

**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 cash payments to students, excluding payments for services, on the ratio of total aid to the aid not considered to be third-party aid.

**Reclassifications**

Certain amounts from the prior fiscal year have been reclassified to conform to current year presentation. The following adjustments have been made to the ending balance of fiscal year 2003 (in thousands):

<b>NET ASSETS REPORTED</b>	
<b>AT JUNE 30, 2003 (in thousands)</b>	<b>\$ 3,449,439</b>
Additional state appropriation	26
Prior year expense adjustment	41
Beginning net assets	
at July 1, 2003, as adjusted	\$ 3,449,506

## NOTE 2: INVESTMENT RISK

The relative risk associated with the University's financial assets is detailed below.

**Cash:** All cash of the University is maintained in accounts that are collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et seq., of the Code of Virginia.

**Investments:** The investment policy goals, objectives, and guidelines are established by the Finance Committee of the Board of Visitors. The University's cash equivalents and investments are categorized by levels of credit risk as described below:

**Category 1**—Insured or registered securities or securities held by the University of Virginia or its agent in the University's name.

**Category 2**—Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the University of Virginia's name. None of the University's investments are classified as category 2 investments.

**Category 3**—Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the University of Virginia's name. None of the University's investments are classified as category 3 investments.

CATEGORIZATION OF INVESTMENT RISK FOR ASSETS HELD AS OF JUNE 30, 2004 (in thousands)				
	CATEGORY 1	NON-CATEGORIZED	FAIR VALUE	COST
U.S. Treasury and agency securities	\$ 381,229	\$ -	\$ 381,229	\$ 382,893
Index funds	-	112,707	112,707	107,283
Common and preferred stocks	96,990	-	96,990	80,708
Corporate notes	85,546	-	85,546	86,064
Mutual and money market funds	-	211,785	211,785	187,187
Real estate and other tangible property	-	42,240	42,240	31,003
Mortgages	-	31,154	31,154	31,154
Private placement investments	-	1,798,834	1,798,834	1,476,619
Asset-backed securities	93,094	-	93,094	93,181
Guaranteed investment contract	-	25,309	25,309	25,309
Other intangible property	-	862	862	863
<b>TOTAL</b>	<b>\$ 656,859</b>	<b>\$ 2,222,891</b>	<b>\$ 2,879,750</b>	<b>\$ 2,502,264</b>

**Security Lending:** Under authorization of the board of the University of Virginia Investment Management Company, the University of Virginia, through its agent, Mellon Bank, lends U.S. government and equity securities to various broker-dealers on a temporary basis for collateral. All security loan agreements are collateralized by readily marketable and liquid securities, loans, or other obligations secured by a lien or similar interest on an asset totaling at least 102 percent of the market value of the loaned securities. The University of Virginia retains the right to pledge or sell these securities held as collateral at its discretion. All security loans can be terminated on demand by either the University or the borrower, and the average term of the security loans as well as collateral held is less than one week. Under the University's security lending program, securities loaned as of June 30, 2004, have a carrying value of \$78,510,481 and a market value of \$102,576,789. Collateral received totals \$104,418,847. In addition, the University participates in the State Treasury's securities lending program. Collateral held for securities lending transactions of \$13,542,836 represents the University's allocated share of cash collateral received and reinvested and securities received for the State Treasury's securities lending program. Information related to the credit risk of these investments and the State Treasury's securities lending program is available on a statewide level in the Commonwealth of Virginia's *Comprehensive Annual Financial Report (CAFR)*.

**Derivative Financial Instruments:** Derivative instruments are financial contracts whose values depend on the values of one or more underlying assets, reference rates, or financial indexes. A derivative instrument generally has one or more underlying investments, requires little or no initial net investment, and requires or permits a net settlement.

The University from time to time may use, through its investments and through investments in pooled funds, a variety of derivative securities including futures, options, and forward foreign currency contracts. These financial instruments are used to modify market risk exposure. Futures contracts and options on futures contracts are traded on organized exchanges and require collateral or margin in the form of cash or marketable securities. The net change in the futures contract value, if any, is settled with a cash transaction on a daily basis. Holders of futures contracts look to the exchange for performance under the contract and not the entity holding the offsetting futures position. Accordingly, the amount of risk due to non-performance of counterparties to the futures contracts is minimal. Foreign exchange contracts are used to protect the University's portfolio against fluctuations in the values of foreign currencies. The credit risk of forward currency contracts traded over-the-counter lies with the counterparty. Asset swap contracts are privately negotiated agreements between two participants to exchange the return stream derived from their assets to each other without exchanging underlying assets. The University uses asset swaps to gain exposure to certain market sectors in lieu of direct investment. The credit risk lies with the intermediary who arranges the asset swap. The University has no direct exposure to derivative instruments at June 30, 2004.

### NOTE 3: STATEMENT OF NET ASSETS DETAILS

**a. Accounts receivable:** Accounts receivable at June 30, 2004, are summarized in the chart below.

ACCOUNTS RECEIVABLE (in thousands)	2004
Patient care	\$ 193,166
Grants and contracts	23,692
Pledges	9,836
Related foundation	11,994
Other	34,944
Less allowance for doubtful accounts	(89,337)
<b>TOTAL</b>	<b>\$ 184,295</b>

**b. Notes receivable:** Notes receivable are reported net of the allowance for uncollectible student loans, which amounted to \$2.9 million for the fiscal year ending June 30, 2004.

**c. Pledges:** The composition of pledges receivable at June 30, 2004, is summarized in the chart below.

PLEDGES (in thousands)	2004
<b>GIFT PLEDGES OUTSTANDING:</b>	
Operations	\$ 25,918
Capital	44,113
<b>TOTAL GIFT PLEDGES OUTSTANDING</b>	<b>70,031</b>
<b>LESS:</b>	
Allowance for doubtfully collectible pledges	7,003
Unamortized discount to present value	10,794
<b>TOTAL PLEDGES RECEIVABLE, NET</b>	<b>52,234</b>
Less current portion, net of allowance	8,853
<b>TOTAL NON-CURRENT PLEDGES RECEIVABLE</b>	<b>\$ 43,381</b>

**d. Capital assets:** Capital assets activity for the year ended June 30, 2004, is summarized in the chart below.

INVESTMENT IN PLANT-CAPITAL ASSETS (in thousands)	BEGINNING BALANCE	ADDITIONS	RETIREMENTS	ENDING BALANCE
<b>NON-DEPRECIABLE CAPITAL ASSETS:</b>				
Land	\$ 37,851	\$ 2,171	\$ -	\$ 40,022
Construction in process	152,436	146,096	92,478	206,054
<b>TOTAL NON-DEPRECIABLE CAPITAL ASSETS</b>	<b>190,287</b>	<b>148,267</b>	<b>92,478</b>	<b>246,076</b>
<b>DEPRECIABLE CAPITAL ASSETS:</b>				
Buildings	1,162,169	88,762	26	1,250,905
Equipment	521,402	51,780	98,303	474,879
Infrastructure	151,822	10,595	-	162,417
Improvements other than buildings	143,645	156	-	143,801
Software	32,062	559	-	32,621
Library books	85,197	4,200	152	89,245
<b>TOTAL DEPRECIABLE CAPITAL ASSETS</b>	<b>\$ 2,096,297</b>	<b>\$ 156,052</b>	<b>\$ 98,481</b>	<b>\$ 2,153,868</b>
<b>LESS ACCUMULATED DEPRECIATION FOR:</b>				
Buildings	(462,630)	(36,715)	(4)	(499,341)
Equipment	(339,941)	(49,356)	(82,621)	(306,676)
Infrastructure	(67,108)	(4,477)	-	(71,585)
Improvements other than buildings	(58,653)	(8,208)	-	(66,861)
Software	(8,037)	(418)	-	(8,455)
Library books	(65,206)	(3,490)	(468)	(68,228)
<b>TOTAL ACCUMULATED DEPRECIATION</b>	<b>(1,001,575)</b>	<b>(102,664)</b>	<b>(83,093)</b>	<b>(1,021,146)</b>
<b>TOTAL DEPRECIABLE CAPITAL ASSETS, NET</b>	<b>\$ 1,094,722</b>	<b>\$ 53,388</b>	<b>\$ 15,388</b>	<b>\$ 1,132,722</b>
<b>TOTAL</b>	<b>\$ 1,285,009</b>	<b>\$ 201,655</b>	<b>\$ 107,866</b>	<b>\$ 1,378,798</b>

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

In July 1994, the Medical Center and the University of Virginia Health Services Foundation (HSF) entered into a Memorandum of Agreement for the purpose of joint purchase and operation of a Hyperbaric Oxygen Unit. The memorandum provided that HSF would own 67 percent interest and the Medical Center would own 33 percent. In December 2000, the Medical Center acquired from HSF its interest in the Hyperbaric Oxygen Unit. Of the acquisition price, \$1,166,615 was recorded as goodwill for the purchase of the assets and is being amortized over five years.

**f. Accounts payable:** Accounts payable are summarized in the chart below.

ACCOUNTS PAYABLE (in thousands)	2004
Accounts payable	\$ 50,536
Accrued salaries and wages	53,956
Other payables	52,037
<b>TOTAL</b>	<b>\$ 156,529</b>

**g. Deferred revenue:** Deferred revenue includes the following.

DEFERRED REVENUE (in thousands)	2004
Grants and contracts	\$ 38,784
Student payments	13,182
Other deferred revenue	6,699
<b>TOTAL</b>	<b>\$ 58,665</b>

## NOTE 4: NON-CURRENT LIABILITIES

NON-CURRENT LIABILITY ACTIVITY As of June 30, 2004 (in thousands)	INTEREST RATES	MATURITY	BEGINNING BALANCE	ADDITIONS	REDUCTIONS	ENDING BALANCE	CURRENT PORTION
<b>LONG-TERM DEBT</b>							
Medical Center Series 1998B	3.5% to 5.0%	2018	\$ 5,540	\$ -	\$ 270	\$ 5,270	\$ 280
Medical Center Series 1999A	4.5% to 5.3%	2013	40,860	-	4,040	36,820	4,225
University of Virginia Series 1995A	variable	2020	3,360	-	280	3,080	-
University of Virginia Series 1998A	4.0% to 5.1%	2024	66,075	-	2,105	63,970	2,195
University of Virginia Series 2003A	variable	2034	82,010	-	-	82,010	-
University of Virginia Series 2003B	4.0% to 5.0%	2033	117,990	-	525	117,465	805
U.Va.'s College at Wise 1973B	5.6% to 5.9%	2011	220	-	220	-	-
Commonwealth of Virginia bonds	3.8% to 9.3%	2021	44,666	-	3,971	40,695	4,069
Notes payable to VCBA	3.8% to 5.0%	2018	3,810	-	180	3,630	185
Notes payable to VCBA	4.5% to 6.0%	2020	29,555	-	1,120	28,435	1,175
Notes payable to VCBA	4.3% to 5.8%	2021	44,895	-	1,565	43,330	1,630
Other	various	2007	390	71	117	344	126
<b>TOTAL LONG-TERM DEBT</b>			<b>439,371</b>	<b>71</b>	<b>14,393</b>	<b>425,049</b>	<b>14,690</b>
<b>Commercial Paper</b>							
Taxable	1.1% to 1.3%	2004	-	2,600	-	2,600	2,600
Tax Exempt	1.0% to 1.1%	2004	-	17,100	-	17,100	17,100
<b>TOTAL COMMERCIAL PAPER</b>			<b>-</b>	<b>19,700</b>	<b>-</b>	<b>19,700</b>	<b>19,700</b>
<b>TOTAL DEBT</b>			<b>439,371</b>	<b>19,771</b>	<b>14,393</b>	<b>444,749</b>	<b>34,390</b>
<b>OTHER NON-CURRENT LIABILITIES:</b>							
Investments held for related foundations			173,932	58,989	5,388	227,533	-
Accrual for compensated absences			36,471	44,066	40,027	40,510	40,510
Perkins loan program			11,900	1,007	-	12,907	-
Bond premium			7,362	-	321	7,041	-
Deferred loss on early retirement of debt			(1,990)	138	-	(1,852)	-
Other			5,316	3,994	905	8,405	1,657
<b>TOTAL OTHER NON-CURRENT LIABILITIES</b>			<b>232,991</b>	<b>108,194</b>	<b>46,641</b>	<b>294,544</b>	<b>42,167</b>
<b>TOTAL NON-CURRENT LIABILITIES</b>			<b>\$ 672,362</b>	<b>\$ 127,965</b>	<b>\$ 61,034</b>	<b>\$ 739,293</b>	<b>\$ 76,557</b>

Maturities and interest on notes, bonds payable, and commercial paper for the next five years and in subsequent five-year periods are as summarized in the chart to the right:

	PRINCIPAL	INTEREST	TOTAL
2005	\$ 34,390	\$ 19,773	\$ 54,163
2006	15,605	19,076	34,681
2007	16,579	18,306	34,885
2008	16,958	17,457	34,415
2009	13,079	16,617	29,696
2010–2014	85,946	70,690	156,636
2015–2019	70,952	49,626	120,578
2020–2024	54,000	32,868	86,868
2025–2029	27,195	23,572	50,767
2030–2034	110,045	13,431	123,476
<b>TOTAL</b>	<b>\$ 444,749</b>	<b>\$ 281,416</b>	<b>\$ 726,165</b>

The University entered into a revolving credit agreement with a maximum principal amount of \$82,010,000 to provide liquidity for (i) the Series 2003A General Revenue Pledge Bonds and (ii) the Series 2003A Notes. There were no advances outstanding under this credit agreement as of June 30, 2004.

The University has taxable and tax-exempt commercial paper facilities that provide for borrowings up to \$100,000,000 outstanding at any time. The weighted average days to maturity was 77.49 days and the weighted average effective interest rate was 1.10% as of June 30, 2004.

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

## NOTE 5: 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 in Charlottesville, Virginia. Although available to all U.Va. physicians, the site principally serves orthopedic physicians located at Fontaine. UVI also provides services to outpatients from the Medical Center's primary and secondary service areas.

Since 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 July 1, 2003, the Medical Center's investment totaled \$1,560,000. During fiscal year 2004, the Medical Center made an additional investment of \$250,000, bringing the total investment to \$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. Gravelly, Esq., Mezzullo and McCandlish, P.O. Box 796, Richmond, VA 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, VA 23294.

### Valiance Health, L.L.C.

In November 1997, the Medical Center became a participant with Rockingham Memorial Hospital and Augusta Health Care, Inc., in Valiance Health, L.L.C. (Valiance), a joint venture integrating and coordinating the delivery of health care services in Central and Western Virginia. The Medical Center contributed \$100,000 in initial capital, which entitles it to a pro-rata distribution of any profits and losses of Valiance. In October 2003, the Medical Center contributed an additional \$400,000 in capital to Valiance, bringing the Medical Center's total investment to \$500,000.

### University HealthSystem Consortium (UHC)

In December 1986, the Medical Center became a member of the University HealthSystem Consortium (UHC). Founded in 1984, UHC is an alliance of the clinical enterprises of academic health centers. While focusing on the clinical mission, UHC is mindful of and supports the research and education missions. The mission of the 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 non-stock corporation and designated as a non-exempt 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.

AFFILIATED COMPANIES AS OF JUNE 30, 2004 (in thousands)	UNIVERSITY OF VIRGINIA IMAGING	COMMUNITY MEDICINE	CENTRAL VIRGINIA HEALTH NETWORK	HEALTHSOUTH	VALIANCE	UHC
Common stock and equity contributions	\$ 687	\$ 1,810	\$ 233	\$ 2,230	\$ 500	\$ -
Share of accumulated income (loss)	5,330	(1,974)	(31)	1,529	62	613
<b>NET INVESTMENT</b>	<b>\$ 6,017</b>	<b>\$ (164)</b>	<b>\$ 202</b>	<b>\$ 3,759</b>	<b>\$ 562</b>	<b>\$ 613</b>

### HealthCare Partners, Inc.

In May 1995, HealthCare Partners, Inc. (HealthCare Partners), a non-stock, non-profit 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 Sciences Center staff, community members, and University Board of Visitors appointees.

## NOTE 6: COMPONENT UNITS

During the year ended June 30, 2004, the University implemented GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. Summary financial statements and additional disclosures are presented below.

STATEMENT OF FINANCIAL POSITION (in thousands)	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	COMPONENT UNITS TOTALS
<b>ASSETS</b>							
<b>CURRENT ASSETS</b>							
Total current assets	\$ 4,745	\$ 20,302	\$ 10,239	\$ 17,340	\$ 5,284	\$ 69,789	\$ 127,699
<b>NON-CURRENT ASSETS</b>							
Long-term investments	195,662	174,352	251,446	41,777	59,033	23,750	746,020
Capital assets, net of depreciation and other assets	7,283	6,682	10,121	26,991	137,678	39,779	228,534
Total non-current assets	202,945	181,034	261,567	68,768	196,711	63,529	974,554
<b>TOTAL ASSETS</b>	<b>\$ 207,690</b>	<b>\$ 201,336</b>	<b>\$ 271,806</b>	<b>\$ 86,108</b>	<b>\$ 201,995</b>	<b>\$ 133,318</b>	<b>\$ 1,102,253</b>
<b>LIABILITIES AND NET ASSETS</b>							
<b>CURRENT LIABILITIES</b>							
Total current liabilities	\$ 105	\$ 5,283	\$ 63,275	\$ 445	\$ 21,872	\$ 50,868	\$ 141,848
<b>NON-CURRENT LIABILITIES</b>							
Long-term debt, net of current portion of \$2,184	8	-	-	-	82,621	31,712	114,341
Other non-current liabilities	440	2,100	16,550	1,045	31,137	19,725	70,997
Total non-current liabilities	448	2,100	16,550	1,045	113,758	51,437	185,338
<b>TOTAL LIABILITIES</b>	<b>\$ 553</b>	<b>\$ 7,383</b>	<b>\$ 79,825</b>	<b>\$ 1,490</b>	<b>\$ 135,630</b>	<b>\$ 102,305</b>	<b>\$ 327,186</b>
<b>NET ASSETS</b>							
Unrestricted	\$ 40,207	\$ 62,860	\$ 32,372	\$ 31,563	\$ 8,719	\$ 31,013	\$ 206,734
Temporarily restricted	97,815	30,338	62,547	36,173	45,180	-	272,053
Permanently restricted	69,115	100,755	97,062	16,882	12,466	-	296,280
<b>TOTAL NET ASSETS</b>	<b>207,137</b>	<b>193,953</b>	<b>191,981</b>	<b>84,618</b>	<b>66,365</b>	<b>31,013</b>	<b>775,067</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 207,690</b>	<b>\$ 201,336</b>	<b>\$ 271,806</b>	<b>\$ 86,108</b>	<b>\$ 201,995</b>	<b>\$ 133,318</b>	<b>\$ 1,102,253</b>

## Investments

Investments are recorded at market value, which is determined by readily available quotes on the stock exchange or as quoted by the investment company for pooled investments. Realized gains (losses) from the sale of securities and unrealized gains (losses) from the appreciation (depreciation) of the value of securities held are recognized in the year incurred. The fair values of investments by investment class at June 30, 2004, for the foundations are as follows:

SUMMARY SCHEDULE OF INVESTMENTS (in thousands)	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	COMPONENT UNITS TOTALS
Private placements and limited partnerships	\$ 10	\$ -	\$ 199,499	\$ -	\$ -	\$ -	\$ 199,509
University of Virginia Investment Management Co.	84,937	47,277	-	18,876	35,460	-	186,550
Equities	81,655	89,135	22,032	21,238	-	1,205	215,265
Other	29,060	37,940	29,915	1,663	23,573	22,545	144,696
<b>TOTAL INVESTMENTS</b>	<b>\$ 195,662</b>	<b>\$ 174,352</b>	<b>\$ 251,446</b>	<b>\$ 41,777</b>	<b>\$ 59,033</b>	<b>\$ 23,750</b>	<b>\$ 746,020</b>

## Pledges Receivable

Unconditional promises to give (pledges) are recorded as receivables and revenues and are assigned net asset categories in accordance with 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 payments will be received. The foundations record an allowance against pledges receivable for estimated uncollectible amounts. The Health Services Foundation does not accept gifts. Unconditional promises to give at June 30, 2004, are as follows:

SUMMARY SCHEDULE OF PLEDGES RECEIVABLE (in thousands)	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	COMPONENT UNITS TOTALS
<b>TOTAL PLEDGES RECEIVABLE</b>	<b>\$ 16,782</b>	<b>\$ 11,174</b>	<b>\$ 10,024</b>	<b>\$ 41,257</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 79,237</b>
Less allowance for uncollectible accounts	(4,569)	(350)	(999)	(2,312)	-	-	(8,230)
Less effect of discounting to present value	(1,015)	(447)	(1,228)	(4,198)	-	-	(6,888)
<b>NET PLEDGES RECEIVABLE</b>	<b>11,198</b>	<b>10,377</b>	<b>7,797</b>	<b>34,747</b>	<b>-</b>	<b>-</b>	<b>64,119</b>
Less current pledges	(4,583)	(6,817)	(1,274)	(8,207)	-	-	(20,881)
<b>TOTAL NON-CURRENT PLEDGES RECEIVABLE</b>	<b>\$ 6,615</b>	<b>\$ 3,560</b>	<b>\$ 6,523</b>	<b>\$ 26,540</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 43,238</b>

The **University of Virginia Law School Foundation** held bequest intentions and certain other conditional promises to give of approximately \$24.5 million at June 30, 2004. These intentions and conditional promises to give are not recognized as assets, and if they are received, will generally be restricted for specific purposes stipulated by the donors, primarily endowments for scholarships and professorships.

The **Alumni Association of the University of Virginia** receives contributions that are designated for University of Virginia-related programs. These amounts are held in trust until they are disbursed. The total of such amounts being held by the Association at June 30, 2004, was \$62.7 million.

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

## Property, Furnishings, and Equipment

The University of Virginia Foundation's property, furnishings, and equipment are recorded at cost, except donated property, which is recorded at fair market value at the date of the gift. Depreciation is taken over estimated useful lives of five to thirty-nine years using the straight-line method. As of June 30, 2004, capital assets consisted of (in thousands):

Land	\$ 41,370
Building and improvements	112,988
Furnishings and equipment	10,685
<b>TOTAL</b>	<b>165,043</b>
Less accumulated depreciation	(35,071)
<b>NET CAPITAL ASSETS</b>	<b>\$ 129,972</b>



### Notes Payable

The **University of Virginia Foundation** has established a line of credit in the amount of \$16 million. The outstanding balance at June 30, 2004, was \$16 million. The Foundation has a second line of credit in the amount of \$15 million. The outstanding balance on this line was \$1.5 million at June 30, 2004.

The University has allocated up to \$48 million of its quasi-endowment funds for use by the Foundation to acquire and develop real estate. As of June 30, 2004, the Foundation had borrowed \$9.9 million of these funds to acquire properties on behalf of the University. The notes payable are non-interest bearing and are due on demand.

### Long-Term Debt

The following table summarizes the University of Virginia Foundation's long-term obligations at June 30, 2004 (in thousands):

1996 Industrial Development Authority revenue bonds	\$ 1,502
1997 Industrial Development Authority revenue bonds—Louisa	6,786
1999 Mortgage note payable	8,590
1999 Mortgage note payable	510
2001 Refinancing demand bonds	47,130
2004 Mortgage note payable	1,303
2004 Refinancing note payable	18,366
<b>TOTAL</b>	<b>\$ 84,187</b>
Less portion due within one year	(1,566)
<b>LONG-TERM DEBT, NET OF CURRENT PORTION</b>	<b>\$ 82,621</b>

Principal maturities of all mortgages and notes payable after refinancing, over the next five years, are as follows (in thousands):

Years ended June 30, 2005–2009	\$ 36,273
Years ended June 30, 2010–2020	47,914
<b>TOTAL</b>	<b>\$ 84,187</b>

The following table summarizes the University of Virginia Health Services Foundation's long-term obligations at June 30, 2004 (in thousands):

1998 Refunding bonds	\$ 16,890
1996 Industrial Development Authority revenue bonds—Albemarle	9,920
1998 Mortgage note payable	647
2000 Industrial Development Authority revenue bonds—Louisa	4,860
<b>TOTAL</b>	<b>32,317</b>
Less current portion	(605)
<b>LONG-TERM DEBT, NET OF CURRENT PORTION</b>	<b>\$ 31,712</b>

Annual maturities of debt for the next five fiscal years are as follows (in thousands):

Years ended June 30, 2005–2009	\$ 5,197
Years ended June 30, 2010–2030	27,120
<b>TOTAL</b>	<b>\$ 32,317</b>

COMPONENT UNITS, STATEMENT OF ACTIVITIES (in thousands)	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	COMPONENT UNITS TOTALS
<b>UNRESTRICTED REVENUES AND SUPPORT</b>							
Contributions	\$ 1,615	\$ 2,149	\$ 994	\$ 15,895	\$ –	\$ –	\$ 20,653
Fees for services, rentals, and sales	–	17,463	1,094	556	31,301	173,964	224,378
Other revenues	11,746	13,899	41,908	7,674	3,599	35,406	114,232
<b>TOTAL UNRESTRICTED REVENUES AND SUPPORT</b>	<b>13,361</b>	<b>33,511</b>	<b>43,996</b>	<b>24,125</b>	<b>34,900</b>	<b>209,370</b>	<b>359,263</b>
<b>EXPENSES</b>							
Program services, lectures, and special events	6,164	18,406	41,035	7,408	–	185,480	258,493
Other expenses	2,424	16,495	1,464	11,397	30,696	20,049	82,525
<b>TOTAL EXPENSES</b>	<b>8,588</b>	<b>34,901</b>	<b>42,499</b>	<b>18,805</b>	<b>30,696</b>	<b>205,529</b>	<b>341,018</b>
<b>Excess (deficiency) of unrestricted revenues and support over expenses</b>	<b>4,773</b>	<b>(1,390)</b>	<b>1,497</b>	<b>5,320</b>	<b>4,204</b>	<b>3,841</b>	<b>18,245</b>
<b>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS</b>							
Contributions	8,323	1,081	27,066	21,931	2	–	58,403
Other	10,030	8,397	(21,267)	(2,353)	5,396	–	203
<b>NET CHANGES IN TEMPORARILY RESTRICTED NET ASSETS</b>	<b>18,353</b>	<b>9,478</b>	<b>5,799</b>	<b>19,578</b>	<b>5,398</b>	<b>–</b>	<b>58,606</b>
<b>CHANGES IN PERMANENTLY RESTRICTED NET ASSETS</b>							
Contributions	5,948	1,208	8,377	1,006	–	–	16,539
Other	259	–	597	10	114	–	980
<b>NET CHANGES IN PERMANENTLY RESTRICTED NET ASSETS</b>	<b>6,207</b>	<b>1,208</b>	<b>8,974</b>	<b>1,016</b>	<b>114</b>	<b>–</b>	<b>17,519</b>
<b>CHANGE IN NET ASSETS</b>	<b>29,333</b>	<b>9,296</b>	<b>16,270</b>	<b>25,914</b>	<b>9,716</b>	<b>3,841</b>	<b>94,370</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>177,804</b>	<b>184,657</b>	<b>175,711</b>	<b>58,704</b>	<b>56,649</b>	<b>27,172</b>	<b>680,697</b>
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 207,137</b>	<b>\$ 193,953</b>	<b>\$ 191,981</b>	<b>\$ 84,618</b>	<b>\$ 66,365</b>	<b>\$ 31,013</b>	<b>\$ 775,067</b>

### Other Significant Transactions with the University of Virginia

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

In addition, the University of Virginia Darden School Foundation will pay the University the following amounts for the construction of new and improved facilities at the Darden School (in thousands).

Years ended June 30, 2005–2009	\$ 29,975
Years ended June 30, 2010–2020	69,827
<b>TOTAL</b>	<b>\$ 99,802</b>
For the year ended June 30, 2004, \$4.4 million was paid to the University under this agreement.	

Direct payments to the University from the **Alumni Association of the University of Virginia** for the year ended June 30, 2004, totaled \$8.2 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. The Foundation's revenue from these services was approximately \$26.2 million for the year ended June 30, 2004.

The **University of Virginia Health Services Foundation** contributed \$20.8 million to the University in support of various academic programs, equipment, and teaching and research for the year ended June 30, 2004.

## NOTE 7: 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 at right.

APPROPRIATIONS (in thousands)	2004
Original Legislative appropriation per Chapter 1042, as amended	\$ 120,269
<b>ADJUSTMENTS:</b>	
Salary increase	\$ 1,398
Property insurance increase	36
Group Life rate suspension	(803)
Retirees' health credit reduction	(148)
Health insurance premium increase	181
VRS rate reduction	(290)
VSDP rate increase	222
VSDP rate reduction	(110)
Miscellaneous appropriation	1,743
Reversions	(1,622)
Legislative amendment	(2)
Financial aid—General Fund	6,098
Fishery (VGMSC)	(210)
Commonwealth Technology Research Fund	1,089
Miscellaneous educational and general	(2,530)
<b>TOTAL APPROPRIATIONS</b>	<b>\$ 125,321</b>

## NOTE 8: NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

OPERATING EXPENSES BY FUNCTIONAL CLASSIFICATION							
As of June 30, 2004 (in thousands)							
	COMPENSATION	SUPPLIES AND SERVICES	STUDENT AID	UTILITIES	DEPRECIATION	OTHER	TOTAL
Instruction	\$ 212,276	\$ 293	\$ 1,467	\$ 1,665	-	\$ 816	\$ 216,517
Research	138,218	130,034	13,914	924	-	277	283,367
Public service	12,072	7,712	527	192	-	345	20,848
Academic support	71,259	22,110	671	1,021	-	(156)	94,905
Student services	15,173	3,847	153	204	-	222	19,599
Institutional support	51,765	1,668	28	1,593	-	(120)	54,934
Operation of plant	40,308	(39,190)	19	42,335	-	9	43,481
Student aid	506	3,337	23,140	-	-	100	27,083
Auxiliary	46,053	27,083	3	15,260	-	1,470	89,869
Depreciation	-	-	-	-	64,942	-	64,942
Patient services	305,817	304,917	-	12,203	37,655	21,376	681,968
Other	16	5,709	615	708	-	113	7,161
<b>TOTAL</b>	<b>\$ 893,463</b>	<b>\$ 467,520</b>	<b>\$ 40,537</b>	<b>\$ 76,105</b>	<b>\$ 102,597</b>	<b>\$ 24,452</b>	<b>\$ 1,604,674</b>

## NOTE 9: RETIREMENT PLANS

Employees of the University are employees of the Commonwealth. Substantially all salaried classified employees and research staff, 9 percent of faculty, and 32 percent of Medical Center employees participate in a defined benefit pension plan administered by the Virginia Retirement System (VRS). Information relating to this plan is available at the statewide level only in the Commonwealth of Virginia's *Comprehensive Annual Financial Report (CAFR)*. The Commonwealth, not the University, has overall responsibility for contributions to this plan.

Ninety-one percent of teaching, research, and administrative faculty, and 68 percent of Medical Center employees participate in Optional Retirement Plans. The Faculty Retirement Plan is a defined contribution plan to which the University contributes an amount established by statute. Faculty are fully vested immediately. The Medical Center Retirement Plan is a defined contribution plan to which the University contributes an amount determined by the Board of Visitors. Medical Center employees are fully vested after one or two years of employment, depending on their date of hire.

Total pension costs under the plans were approximately \$35 million, and contributions to the Optional Retirement Plans were calculated using base salaries of \$358 million, for the year ended June 30, 2004. The contribution percentage amounted to 9.8 percent.

## NOTE 10: POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

The Commonwealth of Virginia sponsors a VRS-administered statewide group life insurance program, which provides post-employment life insurance benefits to eligible retired and terminated employees. The Commonwealth also provides healthcare credits against the monthly health insurance premiums of its retirees who have at least fifteen years of state service. Information related to these plans is available at the statewide level in the Commonwealth's *Comprehensive Annual Financial Report (CAFR)*.

University of Virginia faculty receive \$5,000 in retiree life insurance, and Medical Center employees who do not participate in VRS have a variety of retiree life insurance options depending on termination date and years of service.

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

## NOTE 11: 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, 2004, was \$16.3 million. The estimated liability for outstanding claims at June 30, 2004, was \$10.2 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 EHS for its pharmacy claims.

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

The University's Office of Risk Management manages all insurance programs for the University, including the Health System and U.Va.'s 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 State Department of Treasury, Division of Risk Management. Risk management insurance includes property, boiler and machinery, crime, employee faithful performance of duty 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 the first \$20,000 of each vehicle physical damage loss. The University also maintains excess crime/employee dishonesty and excess vehicle physical damage insurance coverages. Separate insurance coverage is maintained as appropriate on subsidiary organizations owned by the Health System, such as Community Medicine and Virginia Ambulatory Surgery, Inc.

## NOTE 12: 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, 2004, was \$111 million and income received totaled \$6.1 million.

## NOTE 13: COMMITMENTS

### Contractual Commitments

The University has entered into numerous agreements to lease land, buildings, and equipment, of which the total expense was approximately \$21.4 million for the year ended June 30, 2004.

As of June 30, 2004, the University has outstanding construction contract commitments of approximately \$145 million. The University's lease commitments are summarized in the chart at right.

### 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 accounting position.

YEAR ENDING JUNE 30	LEASE OBLIGATIONS (in thousands)
2005	\$ 5,049
2006	3,139
2007	2,636
2008	1,476
2009	341
2010-2014	1,192
2015-2019	823
2020-2024	823
2025-2029	823
2030-2034	823
2035-2039	823
2040-2044	823
2045-2049	823
<b>TOTAL</b>	<b>\$ 19,594</b>

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## **NOTE 14: FIXED ASSET RETIREMENTS**

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Effective July 1, 2003, the University increased its equipment capitalization threshold from \$2,000 to \$5,000. The University wrote off the remaining value of equipment with an original cost below the \$5,000 capitalization threshold, with which the U.S. Department of Health and Human Services concurred. The University retired approximately 18,000 assets, with a total original cost, less accumulated depreciation, of \$12,139,481.

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## **NOTE 15: SUBSEQUENT EVENTS**

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### **University of Virginia Investment Management Company (UVIMCO)**

Effective July 1, 2004, the University of Virginia Investment Management Company (UVIMCO) was formed as a legally separate non-profit, non-stock corporation organized under Virginia law exclusively for charitable and educational purposes and more specifically to provide investment and investment management related services to the University of Virginia and the private and independent foundations and other entities affiliated with the University. The University of Virginia has entered into a Deposit and Management Agreement delegating investment management responsibility for endowment and other assets to UVIMCO. Upon the occurrence of several managerial and operational objectives, the University of Virginia will deposit securities and cash items with UVIMCO to be held in custody and control and in the name of UVIMCO for the benefit of the University.

### **Virginia Ambulatory Surgery, Inc.**

The Medical Center purchased Virginia Ambulatory Surgery, Inc. (VASI), on July 1, 2004, for \$10.3 million. The Medical Center owns 100 percent of VASI and will be presenting its financial statements under the consolidation method.