

MANAGEMENT RESPONSIBILITY

October 20, 2005

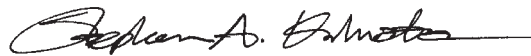
TO THE PRESIDENT AND BOARD OF VISITORS
OF THE UNIVERSITY OF VIRGINIA

We are pleased to submit the annual Financial Report of the University of Virginia for the year ended June 30, 2005. 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, using 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 and Chief Financial Officer

AUDITOR'S OPINION

October 20, 2005

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 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, 2005, as shown on pages 53 through 73. 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 of Virginia, 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, 2005, 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 42 through 50 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 20, 2005, 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.



WALTER J. KUCHARSKI
Auditor of Public Accounts

FINANCIAL REPORT

University of Virginia Statement of Net Assets (in thousands) <i>as of June 30, 2005 (with comparative information as of June 30, 2004)</i>	2005	2004
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (NOTE 2)	\$ 549,409	\$ 266,472
Short-term investments (NOTE 2)	236,793	342,593
Accounts receivable, net (NOTE 3a)	159,571	184,055
Prepaid expenses	9,039	11,499
Inventories	18,532	14,701
Notes receivable, net (NOTE 3b)	7,560	7,838
Other	-	243
TOTAL CURRENT ASSETS	980,904	827,401
NONCURRENT ASSETS		
Restricted cash and cash equivalents (NOTE 2)	9,836	8,774
Endowment investments (NOTE 2)	2,209,164	2,206,032
Other long-term investments (NOTE 2)	178,168	305,465
Deposit with bond trustee	17,322	25,660
Notes receivable, net (NOTE 3b)	19,439	16,014
Pledges receivable, net (NOTE 3c)	37,491	43,381
Capital assets—depreciable, net (NOTE 3d)	1,191,848	1,132,722
Capital assets—nondepreciable (NOTE 3d)	308,779	246,076
Goodwill (NOTE 3e)	14,658	895
Other	614	649
TOTAL NONCURRENT ASSETS	3,987,319	3,985,668
TOTAL ASSETS	\$ 4,968,223	\$ 4,813,069
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities (NOTE 3f)	\$ 198,401	\$ 169,924
Deferred revenue (NOTE 3g)	58,714	61,379
Obligations under securities lending (NOTE 2)	47,723	117,962
Deposits held in custody for others	23,673	18,571
Long-term debt—current portion (NOTE 4a)	16,391	34,390
Long-term liabilities—current portion (NOTE 4b)	50,411	42,167
Advance from Treasurer of Virginia	261	261
TOTAL CURRENT LIABILITIES	395,574	444,654
NONCURRENT LIABILITIES (NOTE 4)		
Long-term debt	483,694	415,548
Long-term liabilities	36,167	247,189
TOTAL NONCURRENT LIABILITIES	519,861	662,737
TOTAL LIABILITIES	\$ 915,435	\$ 1,107,391
NET ASSETS		
INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT	\$ 1,012,969	\$ 955,092
RESTRICTED		
Nonexpendable	333,544	322,218
Expendable	1,567,246	1,384,623
UNRESTRICTED	1,139,029	1,043,745
TOTAL NET ASSETS	\$ 4,052,788	\$ 3,705,678

*Certain 2004 amounts have been restated to conform to 2005 classifications.
The accompanying Notes to Financial Statements are an integral part of this statement.*

University of Virginia Component Units Combined Statements of Financial Position (in thousands) <i>as of June 30, 2005 (with comparative information as of June 30, 2004)</i>	2005	2004
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 276,710	\$ 55,489
Receivables	71,064	57,905
Other current assets	16,322	11,786
TOTAL CURRENT ASSETS	364,096	125,180
NONCURRENT ASSETS		
Pledges receivable, net of current portion of \$36,529	48,689	43,238
Long-term investments	3,323,566	746,020
Capital assets, net of depreciation	258,634	158,037
Other noncurrent assets	32,858	27,829
TOTAL NONCURRENT ASSETS	3,663,747	975,124
TOTAL ASSETS	\$4,027,843	\$ 1,100,304
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Assets held in trust for others	\$ 2,796,587	\$ 62,722
Other liabilities	102,061	79,126
TOTAL CURRENT LIABILITIES	2,898,648	141,848
NONCURRENT LIABILITIES		
Long-term debt, net of current portion of \$2,310	161,520	114,341
Other noncurrent liabilities	75,213	49,924
TOTAL NONCURRENT LIABILITIES	236,733	164,265
TOTAL LIABILITIES	\$3,135,381	\$ 306,113
NET ASSETS		
Unrestricted	\$ 255,645	\$ 225,858
Temporarily restricted	327,036	272,053
Permanently restricted	309,781	296,280
TOTAL NET ASSETS	\$ 892,462	\$ 794,191
TOTAL LIABILITIES AND NET ASSETS	\$ 4,027,843	\$ 1,100,304

*Certain 2004 amounts have been restated to conform to 2005 classifications.
The accompanying Notes to Financial Statements are an integral part of this statement.*

University of Virginia Statement of Revenues, Expenses, and Changes in Net Assets (in thousands) <i>for the year ended June 30, 2005 (with comparative information for the year ended June 30, 2004)</i>	2005	2004
REVENUES		
OPERATING REVENUES		
Student tuition and fees (net of scholarship allowances of \$48,271 and \$45,017)	\$ 246,062	\$ 232,587
Patient services (net of indigent care and contractual adjustments of \$664,667 and \$454,700)	780,197	686,578
Federal grants and contracts	300,425	277,681
State and local grants and contracts	4,917	7,242
Nongovernmental grants and contracts	44,737	42,316
Sales and services of educational departments	16,473	17,563
Auxiliary enterprises revenue (net of scholarship allowances of \$6,506 and \$5,143)	92,202	90,961
Other operating revenues	30,192	26,834
TOTAL OPERATING REVENUES	1,515,205	1,381,762
EXPENSES		
OPERATING EXPENSES (NOTE 7)		
Compensation and benefits	964,721	893,811
Supplies and other services	539,022	482,535
Student aid	40,944	38,940
Utilities	82,322	74,850
Depreciation	104,454	103,017
Other	29,622	24,453
TOTAL OPERATING EXPENSES	1,761,085	1,617,606
OPERATING LOSS	(245,880)	(235,844)
NONOPERATING REVENUES (EXPENSES)		
State appropriations (NOTE 8)	143,605	125,531
Gifts	96,547	84,836
Investment income	329,973	255,384
Interest on capital asset-related debt	(14,660)	(12,619)
Other nonoperating (expenses) revenues	(14,680)	2,506
NET NONOPERATING REVENUES	540,785	455,638
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	294,905	219,794
Capital appropriations	25,228	14,593
Capital grants and gifts	15,525	25,703
Additions to permanent endowments	11,452	10,215
Special item: Write-down of equipment	-	(12,139)
TOTAL OTHER REVENUES	52,205	38,372
INCREASE IN NET ASSETS	347,110	258,166
NET ASSETS		
Net assets—beginning of year	3,705,678	3,447,512
NET ASSETS—END OF YEAR	\$ 4,052,788	\$ 3,705,678

*Certain 2004 amounts have been restated to conform to 2005 classifications.
The accompanying Notes to Financial Statements are an integral part of this statement.*

University of Virginia Component Units Combined Statements of Activities (in thousands) <i>for the year ended June 30, 2005 (with comparative information for the year ended June 30, 2004)</i>	2005	2004
UNRESTRICTED REVENUES AND SUPPORT		
Contributions	\$ 20,354	\$ 20,653
Fees for services, rentals, and sales	235,746	224,378
Investment income	26,003	24,251
Net assets released from restriction	70,445	54,774
Other revenues	45,142	54,331
TOTAL UNRESTRICTED REVENUES AND SUPPORT	397,690	378,387
EXPENSES		
Program services, lectures and special events	237,497	239,630
Scholarships and financial aid	26,710	18,863
Management and general	30,434	43,917
Other expenses	74,918	38,608
TOTAL EXPENSES	369,559	341,018
Excess of unrestricted revenues and support over expenses	28,131	37,369
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	72,985	58,403
Investment and other income	53,246	55,225
Reclassification per donor stipulation	(528)	(248)
Net assets released from restriction	(70,445)	(54,774)
NET CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	55,258	58,606
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Contributions	13,708	16,539
Investment and other income	646	732
Reclassification per donor stipulation	528	248
NET CHANGE IN PERMANENTLY RESTRICTED NET ASSETS	14,882	17,519
CHANGE IN NET ASSETS	98,271	113,494
NET ASSETS, BEGINNING OF YEAR	794,191	680,697
NET ASSETS, END OF YEAR	\$ 892,462	\$ 794,191

*Certain 2004 amounts have been restated to conform to 2005 classifications.
The accompanying Notes to Financial Statements are an integral part of this statement.*

University of Virginia Statement of Cash Flows (in thousands) <i>for the year ended June 30, 2005 (with comparative information for the year ended June 30, 2004)</i>	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 246,698	\$ 237,462
Grants and contracts	350,787	334,167
Receipts from patients and third parties	772,361	670,877
Sales and services of educational activities	18,511	7,941
Sales and services of auxiliary enterprises	92,682	90,782
Payments to employees and fringe benefits	(957,866)	(896,933)
Payments to vendors and suppliers	(611,549)	(559,417)
Payments for scholarships and fellowships	(40,945)	(38,948)
Perkins and other loans issued to students	(9,859)	(7,627)
Collection of Perkins and other loans to students	7,771	7,763
Other receipts	33,264	38,252
NET CASH USED BY OPERATING ACTIVITIES	(98,145)	(115,681)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	143,605	125,531
Additions to true endowments	11,452	10,215
Direct lending receipts, including PLUS loans	189	55,290
Direct lending payments, including PLUS loans	(189)	(55,290)
FFELP receipts	68,211	-
FFELP payments	(68,211)	-
Receipts on behalf of agencies	5,101	3,613
Payments on behalf of agencies	(755)	(3,653)
Noncapital gifts and grants and endowments received	77,139	75,355
Other nonoperating expenses	(18,270)	(4,400)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	218,272	206,661
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	30,323	1,017
Capital gifts and grants received	14,299	6,285
Proceeds from capital debt	174,041	134,338
Proceeds from sale of capital assets	564	382
Acquisition and construction of capital assets	(237,241)	(269,003)
Principal paid on capital debt and leases	(334,542)	(23,283)
Interest paid on capital debt and leases	(16,837)	(14,695)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(369,393)	(164,959)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	4,490,174	1,663,565
Interest on investments	39,772	29,981
Purchase of investments and related fees	(3,987,957)	(1,626,072)
Other investment activities	(8,724)	(366)
NET CASH PROVIDED BY INVESTING ACTIVITIES	533,265	67,108
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	283,999	(6,871)
Cash and cash equivalents, July 1	275,246	282,117
CASH AND CASH EQUIVALENTS, JUNE 30	\$ 559,245	\$ 275,246
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	\$ (245,880)	\$ (235,844)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Depreciation expense	104,454	103,017
Provision for uncollectible loans and write-offs	(1,063)	(95)
Miscellaneous nonoperating income	-	4,798
CHANGES IN ASSETS AND LIABILITIES		
Receivables, net	31,072	(8,059)
Inventories	(3,831)	(565)
Other assets	(233)	10,940
Prepaid expenses	2,460	(3,213)
Notes receivable, net	(2,089)	137
Accounts payable and accrued liabilities	20,328	11,533
Noncash adjustment to supplies and services	(1,250)	(1,844)
Deferred revenue	(2,340)	1,598
Accrued vacation leave—long-term	227	1,916
TOTAL ADJUSTMENTS	147,735	120,163
NET CASH USED BY OPERATING ACTIVITIES	\$ (98,145)	\$ (115,681)
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES—ACADEMIC ONLY		
Assets acquired through assumption of a liability	\$ 171,932	\$ 62,721
Assets acquired through a gift	19,143	16,646
Change in fair value of investments	222,462	125,223
Increase in receivables related to nonoperating income	6,390	5,574

*Certain 2004 amounts have been restated to conform to 2005 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

There are currently twenty-four 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, 2005:

- 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 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 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, 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 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, VA 22903.

The **Virginia Student Aid Foundation, Inc., T/A Virginia Athletics Foundation**, was established as a tax-exempt organization to support inter-collegiate 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, 2004. For additional information, contact the Gift Accounting Office at P.O. Box 400833, Charlottesville, VA 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, VA 22904.

The **University of Virginia Health Services Foundation** was established as a nonprofit group practice health care provider organization designed to assist medical education through teaching and research within the academic environment of the Health System of the University of Virginia, and to coordinate and develop superior patient care in the Health System. The Foundation entered into an affiliation agreement with the University of Virginia for the Foundation through its member clinical departments to provide patient care at the Health System. The Foundation will provide patient care services to Health System patients, and in conjunction with the care of patients, will provide teaching services. The University will provide space and certain administrative services to the Foundation. The Foundation will reimburse the University for the salaries and fringe benefits of classified and hourly employees of the clinical departments paid by the University, and not funded by the Commonwealth of Virginia or by gifts, grants, and contracts. For additional information, contact the Finance Office at 500 Ray C. Hunt Drive, Charlottesville, VA 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, VA 22904.

Reporting Basis

The accompanying financial statements are presented in accordance with generally accepted accounting principles applicable to governmental colleges and universities as promulgated by the Governmental Accounting Standards Board (GASB). In addition, the University adheres to Financial Accounting Standards Board (FASB) pronouncements issued prior to November 30, 1989, that do not contradict or conflict with GASB standards. It is the University's policy not to follow FASB standards after that date. The component units 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* (GASB 34), the University has elected to report as an entity engaged in business-type activities. Entities engaged in business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

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

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

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

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

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

The University of Virginia's Notes to the Financial Statements for fiscal year 2005 are presented according to the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, an amendment to GASB Statement No. 3. This Statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates.

Basis of Accounting

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

Inventories

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

Investments

Investments in corporate stocks and marketable bonds are recorded at market value. 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.

Endowment

The major portion of the University's endowment is managed by the UVIMCO Long Term Pool. It is pooled using a market value basis, with each fund subscribing to or disposing of units (permanent shares) on the basis of the market value per unit at the 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.

Capital Assets and Depreciation

Capital assets are stated at cost at date of acquisition, or fair market value at date of donation in the case of gifts. The University capitalizes construction costs that have a value or cost in excess of \$250,000 at the date of acquisition. Renovations in excess of \$250,000 are capitalized if they significantly extend the useful life of the existing asset. The Academic Division capitalizes moveable equipment at a value or cost of \$5,000 and an expected useful life of one or more years.

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

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

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

Depreciation of library books is calculated on a straight-line basis over ten years. Expenditures related to construction are capitalized as they are incurred. Projects that have not been completed as of the date of the Statement of Net Assets are classified as Construction in Process. Construction period interest cost in excess of earnings associated with the debt proceeds is capitalized as a component of the fixed asset.

Capital assets, such as roads, parking lots, sidewalks, and other nonbuilding structures and improvements are capitalized as infrastructure and depreciated accordingly.

In accordance with AICPA Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*, the University capitalizes computer software developed or obtained for internal use. Capitalization begins at the application development stage, which consists of the design, coding, installation, and testing of the software and interfaces.

Deferred Revenue

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

Interest Capitalization

Interest expense incurred during the construction of capital assets is capitalized, if material, net of interest income earned on resources set aside for this purpose. The University incurred net interest expense of \$2,244,440 for the fiscal year ended June 30, 2005. Interest capitalized for the fiscal year ended June 30, 2005, totaled \$2,177,165.

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, 2005, 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 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 other third-party payors. The Medical Center has entered into contractual agreements with these third parties to accept payment for services in amounts less than scheduled charges. In accordance with these agreements, the difference between the contractual payments due and the Medical Center scheduled billing rates results in contractual adjustments. Contractual adjustments are recorded as deductions from Medical Center revenues in the period in which the related services are rendered.

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

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 nonoperating 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 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.

Restatements and Reclassifications

Certain amounts from the prior fiscal year have been restated and reclassified to conform to current-year presentation. Additionally, the following restatements have been made to the ending balance of fiscal year 2004 (in thousands):

Net Assets reported at June 30, 2004	\$3,721,992
Correction of understated accounts payable	(13,395)
Restatement of state-funded balances previously reported as Agency Funds by the University	(2,980)
Miscellaneous restatements	61
Beginning net assets at July 1, 2004, as adjusted	\$3,705,678

NOTE 2: CASH AND CASH EQUIVALENTS AND INVESTMENTS

The Governmental Accounting Standards Board (GASB) issued Statement No. 40, *Deposit and Investment Risk Disclosures*, an amendment to GASB Statement No. 3, which modified previous disclosure requirements related to investment risk and became effective beginning in the fiscal year ended June 30, 2005. Required investment risk disclosures address credit risk, including custodial credit risk and concentrations of credit risk, interest rate risk, and foreign currency risk. The Statement also requires disclosures of custodial credit risk and foreign currency risk for depository accounts.

The University of Virginia Investment Management Company (UVIMCO) provides investment management services to the Rector and Visitors of the University of Virginia (University). UVIMCO is governed by a board of eleven directors, three of whom are appointed by the Board of Visitors of the University of Virginia, and one appointed by the University of Virginia president.

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

Custodial Credit Risk:

GASB Statement No. 40 amends the requirements set out in GASB Statement No. 3 by requiring disclosure only of uncollateralized deposits and uninsured and unregistered securities held by a counterparty or its trust department or agent, but not in the government's name. The University had no investments exposed to custodial credit risk for 2005.

Interest Rate Risk:

Disclosure of the maturities of investments is required when the fair market value is adversely affected by changes in interest rates. Investments subject to interest rate risk are outlined in the accompanying chart.

Credit Risk:

Disclosure of the credit quality rating is required for investments exposed to the risk that an issuer or other counterparty will not fulfill its obligations. State law limits the nonendowed investments in short-term commercial paper and certificates of deposit to the top rating issued by nationally recognized statistical rating organizations (NRSROs) and requires the investment be rated by at least two NRSROs. For longer-term certificates of deposit and corporate notes, the rating must be one of the top two ratings issued by two NRSROs. Investments in asset-backed securities and debt obligations of sovereign governments require the top rating from two of the NRSROs. For endowment investments, the University's policy is to maximize long-term real return commensurate with the risk tolerance of the University.

To achieve this objective, UVIMCO actively manages the Long Term Pool in an attempt to achieve returns that consistently exceed the returns on a passively managed benchmark with similar asset allocation and risk.

Concentration of Credit Risk:

Disclosure of any one issuer is required when it represents 5 percent or more of total investments. The University does not have such concentration of credit risk for 2005.

Foreign Currency Risk:

Disclosure is required for investments exposed to changes in exchange rates that will adversely affect the fair value of an investment or a deposit. The University has no foreign investments or deposits for 2005.

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 \$1.8 million at June 30, 2005. Such deposits are not subject to foreign currency risk. Interest rate risk disclosure for cash equivalents is outlined in the accompanying chart.

Investments

The University of Virginia Investment Management Company (UVIMCO) administers and manages the major portion of the University's investments including the endowment, in a Long Term Pool. UVIMCO operated as a department of the University for several years. On July 1, 2004, UVIMCO was established as a separate 501(c)(3) Virginia nonstock corporation. On June 30, 2005, the University exchanged investment assets of \$2.4 billion, including endowment assets of \$2.2 billion and operating assets of \$168 million, for shares of equal value in the UVIMCO Long Term Pool.

The University exchanged nonendowed investment assets of \$224 million for shares of equal value in the UVIMCO Aggregate Cash Pool.

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

At June 30, 2005, the University's investment in the UVIMCO Long Term Pool is \$2.4 billion representing 81 percent of invested assets. Investments in the UVIMCO Aggregate Cash Pool represent 8 percent of invested assets. These pools are not rated by nationally recognized statistical rating organizations.

Securities Lending Transactions

The University participates in the State Treasury's securities lending program. Collateral held for security lending transactions of \$47,723,454 represents the University's allocated share of cash collateral received and reinvested and securities received by the State Treasury 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)*.

Details of the University's investment risks are:

Credit Quality and Interest Rate Risk (in thousands)	INVESTMENT MATURITIES (IN YEARS)					
	FAIR VALUE	CREDIT RATING	LESS THAN 1 YEAR	1-5 YEARS	6-10 YEARS	GREATER THAN 10 YEARS
Cash equivalents						
Assets held under state security lending program	\$ 39,360					
Short-term investment pool	9,944					
Money market funds	393					
University of Virginia Investment Management Company Aggregate Cash Pool	224,767	Unrated				
State Non-Arbitrage Program	1,978	AAAm				
Local government investment pool	20,642	AAAm				
Time deposits	529					
Total cash equivalents	297,613					
Investments subject to interest rate risk						
Endowment investments:						
Demand notes due from related foundation, noninterest bearing	9,902	Unrated	\$ 9,902	\$ -	\$ -	\$ -
Note receivable, 9%	263	Unrated	-	-	-	263
U.S. Treasury bonds	176		-	-	-	176
Other investments:						
Federal Home Loan Bank	70,182	Aaa	60,180	10,002	-	-
Federal Home Loan Mortgage Corporation	65,888	Aaa	46,124	19,764	-	-
Federal National Mortgage Association	71,966	Aaa	52,049	19,917	-	-
Government Home Loan Bank	7,486	Aaa	7,486	-	-	-
Total investments subject to interest rate risk	\$ 225,863		\$ 175,741	\$ 49,683	\$ -	\$ 439
	100.0%		77.8%	22.0%	-	0.2%

NOTE 3: STATEMENT OF NET ASSETS DETAILS

a. **Accounts receivable:** Accounts receivable at June 30, 2005, are summarized in the chart below (in thousands).

ACCOUNTS RECEIVABLE	2005
Patient care	\$ 212,957
Grants and contracts	22,501
Pledges	15,244
Related foundation	11,722
Other	22,326
Less: Allowance for doubtful accounts	(125,179)
Total	\$ 159,571

b. **Notes receivable:** Notes receivable of \$27 million are reported net of the allowance for uncollectible student loans, which amounted to \$1.9 million at June 30, 2005.

c. **Pledges:** The composition of pledges receivable at June 30, 2005, is summarized in the chart below (in thousands).

PLEDGES	2005
Gift pledges outstanding:	
Operations	\$ 22,031
Capital	41,517
Total gift pledges outstanding	63,548
Less:	
Allowance for noncollectability on pledges	6,355
Unamortized discount to present value	5,982
Total pledges receivable, net	51,211
Less current portion, net of allowance	13,720
Total noncurrent pledges receivable	\$ 37,491

d. **Capital assets:** Capital assets activity for the year ended June 30, 2005, is summarized in the chart below (in thousands).

INVESTMENT IN PLANT—CAPITAL ASSETS	BEGINNING BALANCE	ADDITIONS	RETIREMENTS	ENDING BALANCE
Nondepreciable capital assets:				
Land	\$ 40,022	\$ 13	\$ 10	\$ 40,025
Construction in process	206,054	162,402	99,702	268,754
Total nondepreciable capital assets	246,076	162,415	99,712	308,779
Depreciable capital assets:				
Buildings	1,250,905	81,330	365	1,331,870
Equipment	474,649	70,868	33,888	511,629
Infrastructure	162,417	9,197	-	171,614
Improvements other than buildings	143,801	22	-	143,823
Capitalized software	32,852	97	-	32,949
Library books	89,245	3,563	164	92,644
Total depreciable capital assets	2,153,869	165,077	34,417	2,284,529
Less accumulated depreciation for:				
Buildings	(499,341)	(39,966)	(98)	(539,209)
Equipment	(306,676)	(44,250)	(31,382)	(319,544)
Infrastructure	(87,780)	(4,883)	-	(92,663)
Improvements other than buildings	(50,666)	(6,360)	-	(57,026)
Capitalized software	(8,455)	(4,125)	-	(12,580)
Library books	(68,227)	(3,596)	(164)	(71,659)
Total accumulated depreciation	(1,021,145)	(103,180)	(31,644)	(1,092,681)
Total depreciable capital assets, net	1,132,724	61,897	2,773	1,191,848
Total	\$1,378,800	\$ 224,312	\$ 102,485	\$1,500,627

e. **Goodwill:** 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.

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 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.

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

In November 2004, the Medical Center purchased Lynchburg and Amherst 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 forty years.

f. Accounts payable: Accounts payable at June 30, 2005, are summarized in the chart below (in thousands).

ACCOUNTS PAYABLE	2005
Accounts payable	\$ 100,400
Accrued salaries and wages payable	60,945
Other payables	37,056
Total	\$ 198,401

g. Deferred revenue: Deferred revenue at June 30, 2005, includes the following (in thousands).

DEFERRED REVENUE	2005
Grants and contracts	\$ 38,301
Student payments	11,618
Other deferred revenue	8,795
Total	\$ 58,714

NOTE 4: LONG-TERM OBLIGATIONS

a. Long-term debt: Long-term debt at June 30, 2005, is summarized in the chart below.

LONG-TERM DEBT (in thousands)	INTEREST RATES	FINAL MATURITY	BEGINNING BALANCE JULY 1, 2004	ADDITIONS	REDUCTIONS	ENDING BALANCE JUNE 30, 2005
Commercial paper:						
Taxable		2005	\$ 2,600	\$ 8,500	\$ -	\$ 11,100
Tax-exempt		2005	17,100	56,763	-	73,863
Total commercial paper			19,700	65,263	-	84,963
Bonds and notes payable:						
Revenue bonds						
Medical Center Series 1998B 9(d)	3.5% to 5.0%	2018	5,270	-	280	4,990
Medical Center Series 1999A 9(d)	4.5% to 5.3%	2013	36,820	-	4,225	32,595
University of Virginia Series 1995A 9(d)	variable	2020	3,080	-	320	2,760
University of Virginia Series 1998A 9(d)	4.0% to 5.1%	2024	63,970	-	2,195	61,775
University of Virginia Series 2003A 9(d)	variable	2034	82,010	-	-	82,010
University of Virginia Series 2003B 9(d)	4.0% to 5.0%	2033	117,465	-	805	116,660
Commonwealth of Virginia bonds 9(c)	3.8% to 9.3%	2021	40,695	5,533	9,643	36,585
Notes payable to VCBA 1997A (9d)	3.5% to 5.0%	2018	3,630	-	2,440	1,190
Notes payable to VCBA 1999A (9d)	3.5% to 6.0%	2020	28,435	-	21,665	6,770
Notes payable to VCBA 2000A (9d)	3.5% to 5.8%	2021	43,330	-	15,430	27,900
Notes payable to VCBA 2004B (9d)	3.0% to 5.0%	2020	-	37,735	-	37,735
Other	various	2009	344	-	124	220
Total bonds and notes payable			425,049	43,268	57,127	411,190
Total commercial paper, bonds and notes payable			444,749	108,531	57,127	496,153
Current portion of long-term debt			(34,390)	17,999	-	(16,391)
Bond premium			7,041	-	321	6,720
Unamortized loss on early retirement of debt			(1,852)	327	1,263	(2,788)
Total long-term debt			\$ 415,548	\$ 126,857	\$ 58,711	\$ 483,694

During the fiscal year ended June 30, 2005, the Commonwealth of Virginia, on behalf of the University of Virginia, issued bonds of \$43,267,982 to advance refund \$42,005,000 in various series of bonds. The advance refunding reduced the aggregate debt service by \$2,887,607, representing a net present-value savings of \$2,352,350 and an accounting loss of \$1,262,982.

The University has both taxable and tax-exempt commercial paper programs that provide for bridge financing. At June 30, 2005, the average days to maturity was 46 and the weighted-average effective interest rate was 2.04 percent. Effective May 25, 2005, the Board of Visitors approved an increase in the commercial paper program, from \$100 million to \$175 million.

The University of Virginia has a revolving credit agreement with a maximum principal amount of \$82 million to provide liquidity for (i) the 2003A General Revenue Pledge Bonds and (ii) the Series 2003A Notes. There were no advances outstanding under this credit agreement as of June 30, 2005.

In July 2005, the University issued General Revenue Pledge Bonds, Series 2005 (see Note 14), a portion of which was used to refund the outstanding commercial paper balance of \$85 million. To reflect this activity, the commercial paper balance is shown as long-term debt at June 30, 2005.

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 (in thousands):

MATURITIES AND INTEREST	PRINCIPAL	INTEREST
2006	\$ 16,391	\$ 17,642
2007	16,696	16,864
2008	17,068	16,013
2009	13,203	15,160
2010	13,716	15,007
2011–2015	86,669	59,044
2016–2020	73,156	39,642
2021–2025	41,845	25,284
2026–2030	28,905	17,080
2031–2034	103,541	7,865
Total	\$ 411,190	\$ 229,601

b. Long-term liabilities: Long-term liabilities at June 30, 2005, are summarized in the chart below.

LONG-TERM LIABILITIES (in thousands)	BEGINNING BALANCE	ADDITIONS	REDUCTIONS	ENDING BALANCE
Investments held for related foundations	\$ 227,533	\$ 61,846	\$ 275,608	\$ 13,771
Accrual for compensated absences	40,511	41,984	41,397	41,098
Perkins loan program	12,906	2,533	-	15,439
Other	8,405	8,151	286	16,270
Subtotal	289,355	114,514	317,291	86,578
Less: current portion of long-term liabilities	(42,166)	-	8,245	(50,411)
Long-term liabilities	\$ 247,189	\$ 114,514	\$ 325,536	\$ 36,167

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 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 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, 2005, 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, 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 UHC is to advance knowledge, foster collaboration, and promote change to help members compete in their respective health care markets. In keeping with this mission, UHC helps members pool resources, create economies of scale, improve clinical and operating efficiencies, and influence the direction and delivery of health care. Accordingly, UHC is organized and operated on a cooperative basis for the benefit of its patron-member health systems.

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

AS OF JUNE 30, 2005	COMMON STOCK AND EQUITY CONTRIBUTIONS	SHARE OF ACCUMULATED INCOME (LOSS)	NET INVESTMENT
UVA Imaging, L.L.C.	\$ 687,019	\$ 2,336,542	\$ 3,023,561
Community Medicine, L.L.C.	1,810,000	(2,400,427)	(590,427)
Central Virginia Health Network, Inc.	232,500	(41,026)	191,474
HealthSouth, L.L.C.	2,230,000	2,583,431	4,813,431
Valiance, L.L.C.	500,000	34,635	534,635
University HealthSystem Consortium	-	897,157	897,157

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 6: COMPONENT UNITS

Summary financial statements and additional disclosures are presented below.

Statement of Financial Position (in thousands) <i>as of June 30, 2005</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	\$ 5,037	\$ 13,360	\$ 20,244	\$ 18,498	\$ 5,077	\$ 75,215	\$ 226,665	\$ 364,096	\$ -	\$ 364,096
NONCURRENT ASSETS										
Long-term investments	215,942	190,685	264,652	45,464	69,583	34,821	2,754,603	3,575,750	(252,184)	3,323,566
Capital assets, net and other assets	9,177	88,975	14,966	28,881	154,283	43,832	67	340,181	-	340,181
Total noncurrent assets	225,119	279,660	279,618	74,345	223,866	78,653	2,754,670	3,915,931	(252,184)	3,663,747
TOTAL ASSETS	\$ 230,156	\$ 293,020	\$ 299,862	\$ 92,843	\$ 228,943	\$ 153,868	\$ 2,981,335	\$ 4,280,027	\$ (252,184)	\$ 4,027,843
LIABILITIES AND NET ASSETS										
CURRENT LIABILITIES										
Total current liabilities	\$ 97	\$ 6,586	\$ 70,315	\$ 755	\$ 43,998	\$ 48,632	\$ 2,980,449	\$ 3,150,832	\$ (252,184)	\$ 2,898,648
NONCURRENT LIABILITIES										
Long-term debt, net of current portion of \$2,310	5	61,755	-	-	79,160	20,600	-	161,520	-	161,520
Other noncurrent liabilities	457	-	17,355	1,031	33,193	23,177	-	75,213	-	75,213
Total noncurrent liabilities	462	61,755	17,355	1,031	112,353	43,777	-	236,733	-	236,733
TOTAL LIABILITIES	\$ 559	\$ 68,341	\$ 87,670	\$ 1,786	\$ 156,351	\$ 92,409	\$ 2,980,449	\$ 3,387,565	\$ (252,184)	\$ 3,135,381
NET ASSETS										
Unrestricted	\$ 46,045	\$ 81,215	\$ 35,210	\$ 33,632	\$ 12,198	\$ 46,459	\$ 886	\$ 255,645	\$ -	\$ 255,645
Temporarily restricted	113,321	42,336	68,933	39,625	47,821	15,000	-	327,036	-	327,036
Permanently restricted	70,231	101,128	108,049	17,800	12,573	-	-	309,781	-	309,781
Total net assets	\$ 229,597	\$ 224,679	\$ 212,192	\$ 91,057	\$ 72,592	\$ 61,459	\$ 886	\$ 892,462	\$ -	\$ 892,462
TOTAL LIABILITIES AND NET ASSETS	\$ 230,156	\$ 293,020	\$ 299,862	\$ 92,843	\$ 228,943	\$ 153,868	\$ 2,981,335	\$ 4,280,027	\$ (252,184)	\$ 4,027,843

*December 31, 2004 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 payment will be received. The component units recorded an allowance against pledges receivable for estimated uncollectible amounts. Unconditional promises to give at June 30, 2005, 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	UNIVERSITY OF VIRGINIA INVESTMENT MANAGEMENT COMPANY	COMPONENT UNITS TOTAL
TOTAL PLEDGES RECEIVABLE	\$ 20,000	\$ 10,425	\$ 17,046	\$ 43,225	\$ -	\$ 15,000	\$ -	\$ 105,696
Less allowance for uncollectible accounts	(4,773)	(3,482)	(1,650)	(2,401)	-	-	-	(12,306)
Less effect of discounting to present value	(2,201)	(156)	(2,140)	(3,675)	-	-	-	(8,172)
NET PLEDGES RECEIVABLE	13,026	6,787	13,256	37,149	-	15,000	-	85,218
Less current pledges	(4,538)	(5,160)	(1,804)	(10,027)	-	(15,000)	-	(36,529)
TOTAL NONCURRENT PLEDGES RECEIVABLE	\$ 8,488	\$ 1,627	\$ 11,452	\$ 27,122	\$ -	\$ -	\$ -	\$ 48,689

*December 31, 2004 year-end

The **University of Virginia Law School Foundation** has also received bequest intentions and certain other conditional promises to give of approximately \$21.2 million at June 30, 2005. 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, 2005, was \$62.4 million.

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

Investments

Investments are recorded at market value, which is determined by readily available quotes on the stock exchange or as quoted by the investment company for pooled investments. Realized gains (losses) from the sale of securities and unrealized gains (losses) from the appreciation (depreciation) of the value of securities held are recognized in the year incurred. The fair values of investments by investment class at June 30, 2005, for the component units 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	UNIVERSITY OF VIRGINIA INVESTMENT MANAGEMENT COMPANY	COMPONENT UNITS TOTAL
Private placements and limited partnerships	\$ 25	\$ -	\$ 205,664	\$ 612	\$ -	\$ -	\$ 2,333,769	\$ 2,540,070
University of Virginia Investment Management Company	97,048	54,018	34,861	20,513	36,976	3,895	-	247,311
Equities	69,530	25,997	-	20,427	-	-	70,027	185,981
Other	49,339	110,670	24,127	3,912	34,005	33,614	575,574	831,241
TOTAL INVESTMENTS	215,942	190,685	264,652	45,464	70,981	37,509	2,979,370	3,804,603
Less amounts shown in current assets	-	-	-	-	(1,398)	(2,688)	(224,767)	(228,853)
Less eliminations	(97,048)	(54,018)	(34,861)	(20,513)	(41,849)	(3,895)	-	(252,184)
LONG-TERM INVESTMENTS	\$ 118,894	\$ 136,667	\$ 229,791	\$ 24,951	\$ 27,734	\$ 30,926	\$ 2,754,603	\$ 3,323,566

*December 31, 2004 year-end

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, 2005, capital assets consisted of (in thousands):

Land	\$ 42,296
Buildings and improvements	126,662
Furnishings and equipment	15,356
TOTAL	184,314
Less accumulated depreciation	(40,306)
NET CAPITAL ASSETS	\$ 144,008

Notes Payable

The **University of Virginia Foundation** has established a line of credit in the amount of \$21 million. The outstanding balance at June 30, 2005, was \$21 million. The Foundation has a second line of credit in the amount of \$16 million. The outstanding balance on this line was \$16 million at June 30, 2005. The Foundation has a third line of credit in the amount of \$15 million. The outstanding balance was \$8.9 million at June 30, 2005.

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, 2005, the Foundation had borrowed \$9.9 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 **University of Virginia Foundation's** long-term obligations at June 30, 2005 (in thousands).

1996 Industrial Development Authority revenue bonds—Albemarle	\$ 1,440
1997 Industrial Development Authority revenue bonds—Louisa	6,438
1999 Mortgage note payable	8,265
1999 Mortgage note payable	255
2001 Refinancing demand bonds	46,055
2004 Mortgage note payable	1,262
2004 Refinancing note payable	17,165
TOTAL	80,880
Less portion due within one year	(1,720)
LONG-TERM DEBT, NET OF CURRENT PORTION	\$ 79,160

FINANCIAL REPORT

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

Year ended June 30, 2006	\$ 1,720
Year ended June 30, 2007	2,749
Year ended June 30, 2008	7,541
Year ended June 30, 2009	20,248
Year ended June 20, 2010	1,969
Years ended June 30, 2011–2020	46,653
TOTAL	\$ 80,880

The following table summarizes the **University of Virginia Health Services Foundation's** long-term obligations at June 30, 2005 (in thousands):

1998 Refunding bonds	\$ 16,330
2000 Industrial Development Authority revenue bonds—Louisa	4,860
TOTAL	21,190
Less portion due within one year	(590)
LONG-TERM DEBT, NET OF CURRENT PORTION	\$ 20,600

Principal maturities of all mortgages and notes payable after refinancing are as follows (in thousands):

Year ended June 30, 2006	\$ 590
Year ended June 30, 2007	715
Year ended June 30, 2008	745
Year ended June 30, 2009	780
Year ended June 30, 2010	810
Years ended June 30, 2011–2030	17,550
TOTAL	\$ 21,190

Statement of Activities (in thousands) <i>for the year ended June 30, 2005</i>	UNIVERSITY OF VIRGINIA LAW SCHOOL FOUNDATION	UNIVERSITY OF VIRGINIA DARDEN SCHOOL FOUNDATION	ALUMNI ASSOCIATION OF THE UNIVERSITY OF VIRGINIA	VIRGINIA ATHLETICS FOUNDATION	UNIVERSITY OF VIRGINIA FOUNDATION*	UNIVERSITY OF VIRGINIA HEALTH SERVICES FOUNDATION	UNIVERSITY OF VIRGINIA INVESTMENT MANAGEMENT COMPANY	COMPONENT UNITS SUBTOTAL	ELIMINATIONS	COMPONENT UNITS TOTAL
UNRESTRICTED REVENUES AND SUPPORT										
Contributions	\$ 2,340	\$ 3,342	\$ 599	\$ 14,073	\$ -	\$ -	\$ -	\$ 20,354	\$ -	\$ 20,354
Fees for services, rentals, and sales	-	19,858	1,152	530	34,023	175,478	4,705	235,746	-	235,746
Other revenues	12,956	11,422	48,108	12,183	4,247	52,220	454	141,590	-	141,590
Total Unrestricted Revenues and Support	15,296	34,622	49,859	26,786	38,270	227,698	5,159	397,690	-	397,690
EXPENSES										
Program services, lectures, special events	6,905	29,062	45,670	8,192	-	174,378	-	264,207	-	264,207
Other expenses	2,553	7,985	1,350	16,525	34,792	37,874	4,273	105,352	-	105,352
Total Expenses	9,458	37,047	47,020	24,717	34,792	212,252	4,273	369,559	-	369,559
Excess (deficiency) of unrestricted revenues and support over expenses	5,838	(2,425)	2,839	2,069	3,478	15,446	886	28,131	-	28,131
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS										
Contributions	7,299	3,690	29,611	11,706	5,679	15,000	-	72,985	-	72,985
Other	8,207	8,584	(23,226)	(8,254)	(3,038)	-	-	(17,727)	-	(17,727)
Net Change in Temporarily Restricted Net Assets	15,506	12,274	6,385	3,452	2,641	15,000	-	55,258	-	55,258
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS										
Contributions	588	1,753	10,482	885	-	-	-	13,708	-	13,708
Other	528	-	505	33	108	-	-	1,174	-	1,174
Net Change in Permanently Restricted Net Assets	1,116	1,753	10,987	918	108	-	-	14,882	-	14,882
CHANGE IN NET ASSETS	22,460	11,602	20,211	6,439	6,227	30,446	886	98,271	-	98,271
NET ASSETS, BEGINNING OF YEAR	207,137	193,953	191,981	84,618	66,365	31,013	-	775,067	-	775,067
Prior period adjustment	-	19,124	-	-	-	-	-	19,124	-	19,124
NET ASSETS, END OF YEAR	\$ 229,597	\$224,679	\$212,192	\$ 91,057	\$ 72,592	\$ 61,459	\$ 886	\$892,462	\$ -	\$892,462

*December 31, 2004 year-end

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):

Year ended June 30, 2006	\$ 2,748
Year ended June 30, 2007	2,900
Year ended June 30, 2008	3,055
Year ended June 30, 2009	3,225
Year ended June 30, 2010	3,400
Years ended June 30, 2011–2020	49,187
TOTAL	\$ 64,515

In prior years, the Foundation entered into three separate agreements with the University of Virginia (the University) to pay for the costs of the construction of Sponsors Hall and new Darden School facilities (Phases I and II). As a result of these agreements, the Foundation was required to reimburse the University for a total of \$81.6 million in bonds issued for these construction projects.

In addition to agreeing to reimburse the University for the cost of the bonds it issued, the Foundation received future economic benefits from these three agreements with the University because a portion of the Foundation's operations are housed within the Sponsors Hall facility, the Phase I expansion and the Phase II facility. As such, the Foundation recorded a rights of occupancy asset, which represents the Foundation's future economic benefits from the agreements. The rights of occupancy asset is being amortized over the life of the future economic benefits, which is estimated to be 40 years.

To account for the notes payable and rights of occupancy asset, the Foundation recorded a prior period adjustment, which increases net assets in the amount of \$19.1 million as of June 30, 2004.

Direct payments to the University from the **Alumni Association of the University of Virginia** for the year ended June 30, 2005, totaled \$9.9 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 from these services were approximately \$36.3 million for the year ended June 30, 2005. Approximately \$5.5 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 \$22.2 million to the University in support of various academic programs, equipment, teaching, and research for the year ended June 30, 2005.

On June 30, 2005, the Foundations transferred \$212 million of assets to the **University of Virginia Investment Management Company (UVIMCO)** in exchange for shares of equal value in the UVIMCO Long Term Pool.

NOTE 7: NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

OPERATING EXPENSES BY FUNCTIONAL CLASSIFICATIONS AS OF JUNE 30, 2005 (in thousands)	COMPENSATION AND BENEFITS	SUPPLIES AND OTHER SERVICES	STUDENT AID	UTILITIES	DEPRECIATION	OTHER	TOTAL
Instruction	\$ 225,110	\$ 6,454	\$ 1,064	\$ 1,790	\$ -	\$ 563	\$ 234,981
Research	149,827	139,838	15,557	1,195	-	565	306,982
Public service	12,254	11,048	577	182	-	434	24,495
Academic support	72,647	24,340	508	677	-	348	98,520
Student services	17,351	8,431	109	218	-	257	26,366
Institutional support	56,549	2,940	10	1,648	-	211	61,358
Operation of plant	45,075	(38,736)	17	46,099	-	64	52,519
Student aid	729	4,446	22,940	-	-	99	28,214
Auxiliary	50,335	30,133	74	16,957	-	(239)	97,260
Depreciation	-	-	-	-	62,446	-	62,446
Patient services	334,828	344,438	-	13,016	42,008	27,389	761,679
Other	16	5,690	88	540	-	(69)	6,265
Total	\$ 964,721	\$ 539,022	\$ 40,944	\$ 82,322	\$ 104,454	\$ 29,622	\$1,761,085

NOTE 8: 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 (in thousands).

APPROPRIATIONS	2005
Original legislative appropriation per Chapter 951	\$ 129,465
Adjustments:	
Salary increase	653
Employee benefits	(234)
Eminent Scholars	2,957
Financial Aid—General Fund	7,389
Reversions	(161)
Prior year correction	2,935
Virginia Graduate Marine Science Consortium	210
Miscellaneous appropriation	2,005
Miscellaneous educational and general	(1,614)
Total	\$ 143,605

NOTE 9: RETIREMENT PLANS

Employees of the University are employees of the Commonwealth. Substantially all salaried classified employees and research staff, 8 percent of faculty, and 28 percent of Medical Center employees participate in a defined-benefit pension plan administered by the Virginia Retirement System (VRS). Information relating to this plan is available at the statewide level only in the Commonwealth of Virginia's *Comprehensive Annual Financial Report (CAFR)*. The Commonwealth, not the University, has overall responsibility for contributions to this plan.

Ninety-two percent of teaching, research, and administrative faculty and 72 percent of Medical Center employees participate in Optional Retirement Plans. The Faculty Retirement Plan is a defined-contribution plan to which the University contributes an amount established by statute. Faculty 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 \$37 million, and contributions to the Optional Retirement Plans were calculated, using base salaries of \$400 million, for the year ended June 30, 2005. The contribution percentage amounted to 9.3 percent.

NOTE 10: POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

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

University of Virginia faculty who participate in the Optional Retirement Plan receive \$5,000 in retiree life insurance; Medical Center employees who participate in the Optional Retirement Plan have a variety of retiree life insurance options depending on termination date and years of service.

University employees who retire before reaching age 65 participate in the Retiree Health Plan, which mirrors the University's 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, 2005, was \$25.6 million. The estimated liability for outstanding claims at June 30, 2005, was \$10.5 million. The University has contracted with several third-party claims administrators: Southern Health Services, Inc., for its medical claims; United Concordia for its dental claims; and PharmaCare for its pharmacy claims.

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

The University's Office of Risk Management manages all 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 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 physical damage on all vehicles valued up to \$20,000. The University also maintains excess crime/employee dishonesty insurance and insurance for vehicle 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 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, 2005, was \$119.7 million and income received totaled \$6.3 million.

NOTE 13: COMMITMENTS

Contractual Commitments

As of June 30, 2005, the University had outstanding construction contracts commitments of approximately \$202 million. The University’s ongoing commitments for operating leases for land, office and clinical buildings, and equipment are as follows (in thousands):

Years Ending June 30	Lease Obligation
2006	\$ 11,097
2007	7,899
2008	4,923
2009	3,359
2010	2,926
2011–2015	2,489
2016–2020	1,006
2021–2025	823
2026–2030	823
2031–2035	823
2036–2040	823
2041–2045	823
2046–2050	659
Total	\$ 38,473

The University has entered into numerous agreements to rent, lease, and maintain land, buildings, and equipment. The total expense for the year ended June 30, 2005, was approximately \$31.8 million.

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.

NOTE 14: SUBSEQUENT EVENTS

On July 20, 2005, the University of Virginia issued \$193,335,000 in General Revenue Bonds, Series 2005. The 2005 Series reduced the aggregate debt service by \$4,395,470 and represents a net present value savings of \$3,262,829. The 2005 Series was issued to refund the University of Virginia 1998(A) 9(d) bonds, the outstanding commercial paper and to fund new construction on the Grounds of the University of Virginia.

Medical Center management officials have recorded reserve funds pending a decision by the Centers for Medicare and Medicaid Services (CMS) regarding the recovery of certain federal payments made during the period 1997–2005. The financial impact of the final resolution of this case on the Medical Center is not known at this time; however, based on the CMS disallowances for prior years, management has recorded adequate reserves to cover an unfavorable settlement.