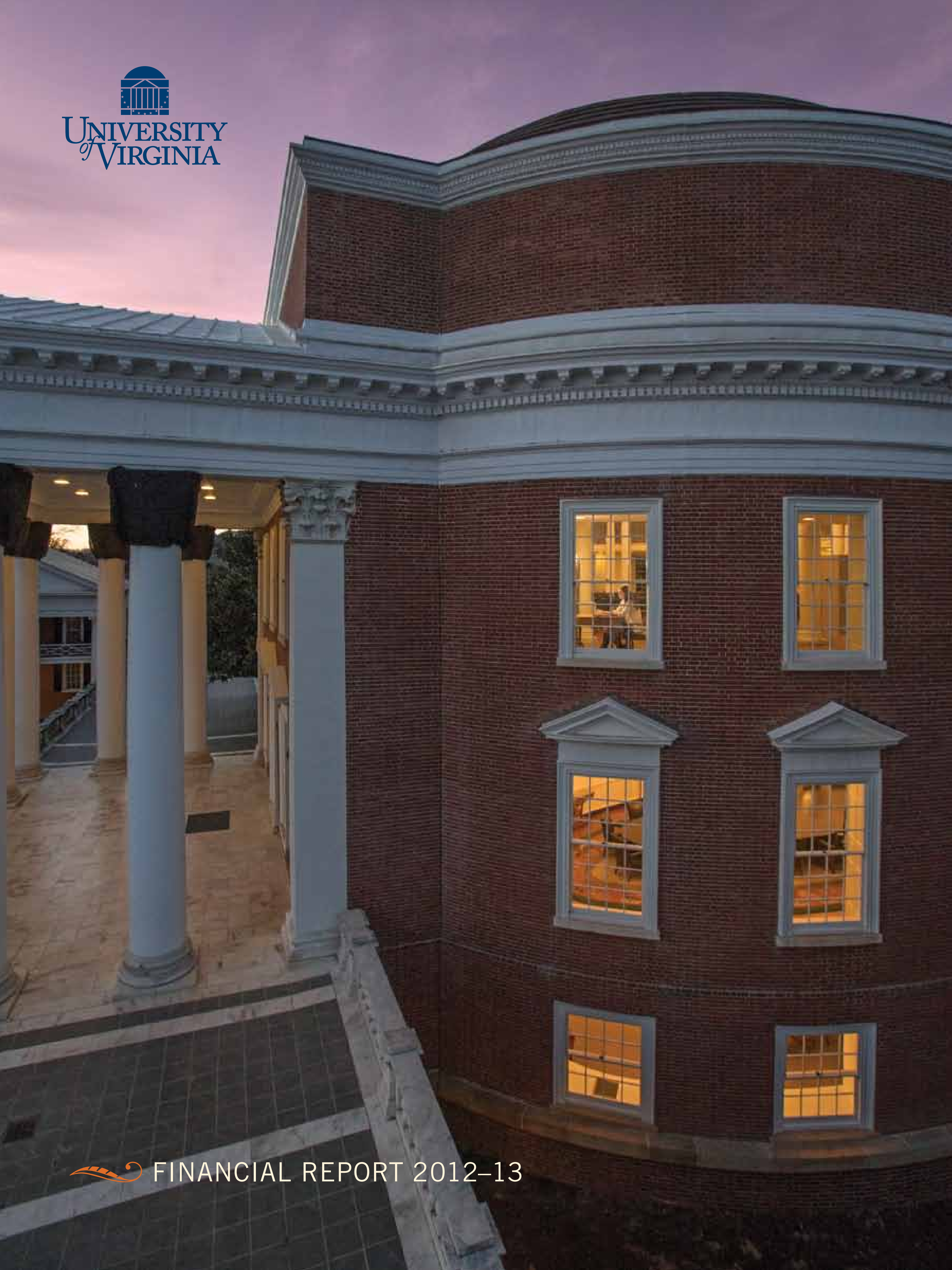
University of Virginia



FINANCIAL REPORT 2012–13

University of Virginia

FINANCIAL REPORT 2012–13

From the President

Until a few years ago, the annual President's Report and the University of Virginia's Financial Report were published together as companion pieces that reflected on the prior fiscal year. To realize cost savings and to keep pace with the evolution toward digital publishing, we began publishing the President's Report in digital-only format. The President's Report is now published at the end of each calendar year, and covers the achievements of our faculty, students, and staff during the prior year. The full archive of President's Reports is available at http://www.virginia.edu/president/presrep.html.

This Financial Report represents Pat Hogan's first year of leadership as U.Va.'s executive vice president and chief operating officer. Pat came to U.Va. with extensive background in finance, operations, and health care. He spent more than thirty-five years with the global professional services firm Ernst & Young, where he held significant leadership and management roles in the U.S., Asia, and the United Kingdom. His broad background includes accounting, finance, risk management, compliance, operations, business processes, and he is also experienced in corporate governance and strategy.

The various elements of the chief operating officer's portfolio at U.Va. are similar, in many ways, to the work that Pat did with great success for three decades. The depth and variety of his experience have prepared him well for leadership as our chief operating officer.

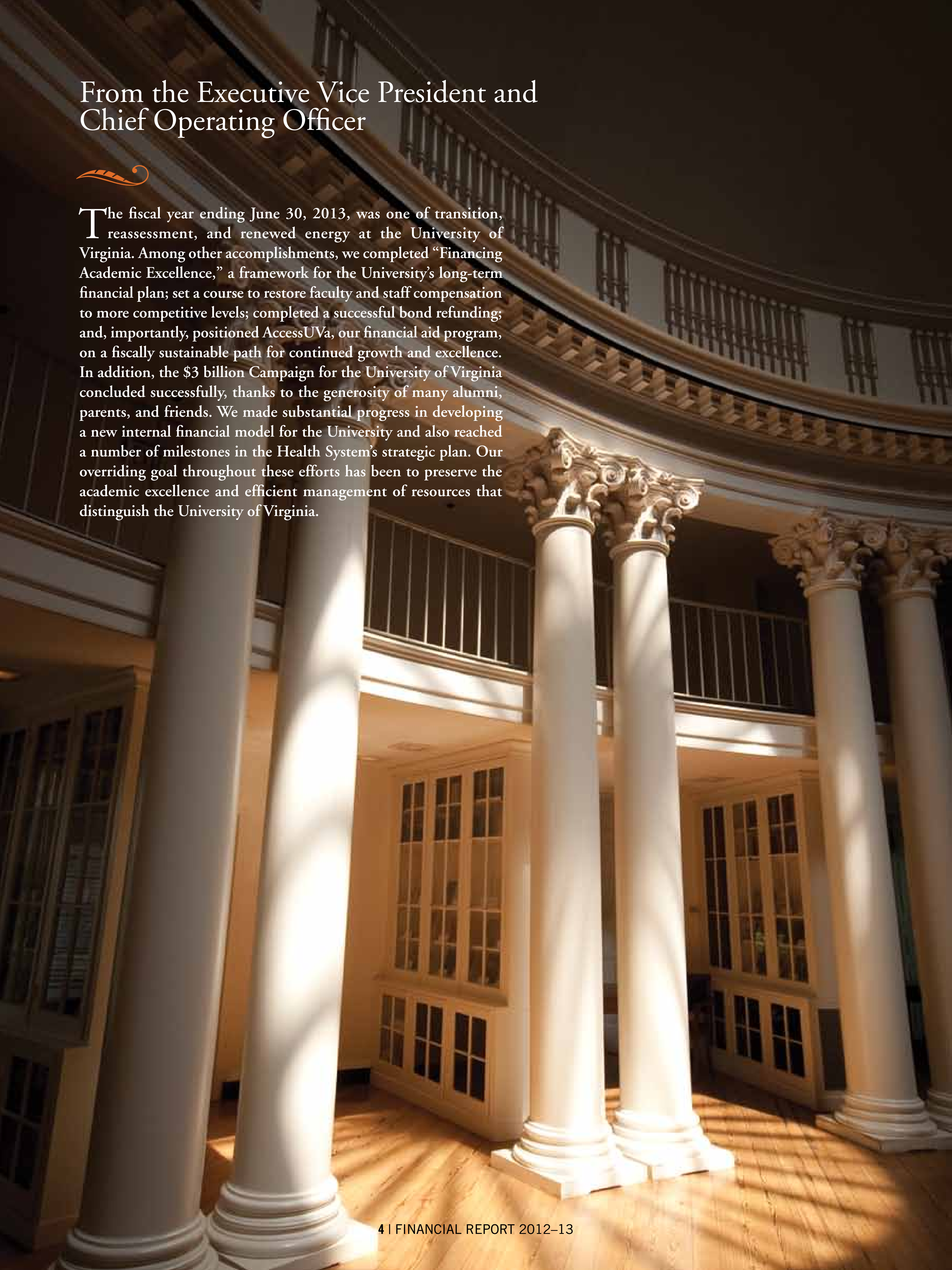
In the pages of this report, you will see abundant evidence that U.Va. continues to be one of the strongest, best managed, most financially stable, and most affordable universities in the country. Under Pat's leadership, we intend to sustain this tradition of excellence in the years ahead.

Teresa A. Sullivan

Teresa A. Sullivan
President

From the Executive Vice President and Chief Operating Officer

The fiscal year ending June 30, 2013, was one of transition, reassessment, and renewed energy at the University of Virginia. Among other accomplishments, we completed "Financing Academic Excellence," a framework for the University's long-term financial plan; set a course to restore faculty and staff compensation to more competitive levels; completed a successful bond refunding; and, importantly, positioned AccessUVa, our financial aid program, on a fiscally sustainable path for continued growth and excellence. In addition, the $3 billion Campaign for the University of Virginia concluded successfully, thanks to the generosity of many alumni, parents, and friends. We made substantial progress in developing a new internal financial model for the University and also reached a number of milestones in the Health System's strategic plan. Our overriding goal throughout these efforts has been to preserve the academic excellence and efficient management of resources that distinguish the University of Virginia.



Moving Forward from a Strong Financial Position

In fiscal year 2012–13, the University's total net position (assets and deferred outflows less liabilities and deferred inflows) increased by $561 million to $7.1 billion. This 8.6 percent increase resulted from strong capital markets, which added $565 million in investment income. In addition, the U.Va. Medical Center achieved a 6.5 percent operating margin, driven by factors such as volumes being above the prior year and good control of expenses. The University's diversity in operational funding remains a factor in its performance, with operational funding generated from patient services (45 percent), tuition and fees (17 percent), grants and contracts (12 percent), philanthropy (gifts and endowment distribution combine for 12 percent), auxiliary and other (8 percent), and state appropriations (6 percent).

The University's record of prudent management has earned it top-level bond ratings. The University remains one of just two public universities in the nation with a AAA or equivalent bond rating from all three major credit-rating institutions—Standard & Poor's, Fitch Investors Service, and Moody's Investors Service.

The University's endowment performance and treasury operations are two areas of particular strength that helped determine these ratings. At year-end, the University of Virginia Investment Management Company managed $5.96 billion in the Long Term Pool, which includes the University's endowment, foundation assets, and current funds. In fiscal year 2012–13, the Long Term Pool returned 13.4 percent. Over twenty years, the Long Term Pool's annualized return of 11.8 percent has exceeded both the policy portfolio benchmark return of 7.2 percent and the annual spending rate, which ranges from 4 percent to 6 percent.

The University continually looks for opportunities to reduce its debt funding costs. In March, U.Va. refunded approximately $230 million of outstanding bonds, realizing savings on a present value basis of $13 million. Our debt service cost of 2.5 percent of operating expenses remains one of the lowest among public universities.

Building a Foundation for the Future

Much of what our team accomplished this year is forward-looking, designed to strengthen the University as it enters a period of dramatic change in higher education. The Financing Academic Excellence (FAE) plan serves as the foundation of this effort and provides a comprehensive, long-term view. FAE lays the groundwork to address critical financial priorities—faculty and staff compensation, research, and financial aid—and provides the basis for analyzing how we might fund the additional priorities of the Cornerstone Plan, the University's strategic plan. Going forward, we will increase our planning window to six years, reflecting reporting requirements associated with the Commonwealth's "Top Jobs" legislation.

Investing in Our People

The key to sustaining the University's excellence is maintaining the high quality of its faculty and staff. The generational turnover of faculty over the next decade must be addressed. Replacing these distinguished faculty members will not be easy. Our peers in the Association of American Universities (AAU) are already mounting aggressive efforts to recruit and hire talented faculty in the face of their own generational turnover. The University's task is especially difficult due to our desire to attract those who combine a commitment to innovation in education with the capacity to set the direction of research in their fields. In other words, to be true to the University's intellectual and educational heritage, we must target a small and very desirable subset of the available talent.

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PATRICK D. HOGAN

Providing more competitive salaries for all faculty members gives the assurance that the University can approach the generational turnover from a position of strength. In 2013, the Board of Visitors endorsed the University's goal of achieving an average faculty salary that will place it within the top twenty AAU institutions by fiscal year 2016–17.

Establishing competitive staff salaries is equally important. As the skills required to support research and education grow in sophistication, the compensation of our staff must increase commensurately. The University's goal for staff is to pay at the market average for the work performed—or a salary average at the 50th percentile of the market range. Salary freezes between 2008 and 2012 meant that U.Va. salaries fell well below that range. In 2013, we began to make up this deficit, achieving a market range position of 45 percent. The University is targeting to move closer to its goal in 2013–14, even as salaries in the marketplace edge up.

We are also committed to doing a better job developing the leadership potential of our staff, providing the training and support they need to advance in their careers and take on new roles and responsibilities. We are in the process of developing an expanded range of programs for focused leadership development. Many employees will participate in leadership development programs, work with mentors, and contribute to special projects that will help them strengthen their skills.

Ensuring Affordability

Another challenge that the University faces is finding a model for tuition pricing that sustains academic excellence while providing relief to lower- and middle-income students and their parents. We made progress in this direction in 2012–13, but more remains to be done. In April 2013, the Board of Visitors approved a 3.8 percent increase in in-state tuition and mandatory fees for academic year 2013–14, the smallest increase in a decade. Out-of-state undergraduate students saw a 4.8 percent rise in their tuition rates for the coming year.

We also have begun to address structural issues affecting AccessUVa, the University's pioneering financial aid program. The increase in the number of students with need, cuts in state and federal funding, and the increasing costs of attendance have caused institutional expenditures for the program to rise sharply, from $11.5 million at its inception to $40.2 million in 2012–13. The University is committed to continuing its principles of need-blind admission and meeting the full need of applicants with comprehensive aid packages to all students with financial need, regardless of income level.

Pursuing Organizational Excellence

One of my priorities this year has been to position University operations to support the Cornerstone Plan, which lays out the University's priorities for the next five years. The ability to achieve these priorities will rest in part on the Organizational Excellence initiative, which emerged as a priority during the University's strategic planning process. Organizational Excellence is an ongoing program designed to achieve institutional goals and priorities through resource alignment and optimization to support U.Va.'s mission.

In the past year, U.Va. achieved savings in its operations that were approximately 1 percent of prior-year expenses and reallocated these funds to strategic priorities. We expect that our Organizational Excellence programs will generate significant productivity and efficiency savings in the coming years. We will realize these savings by seeking opportunities to scale, reduce duplication, streamline processes, and invest.

The new financial model complements the Organizational Excellence initiative. The new model will emphasize transparent decision-making, incentive-based allocations, and prudent stewardship of the University's resources. It will empower individual academic units to be innovative and cost-efficient, and built-in incentives will encourage entrepreneurialism and collaboration among deans, administrative leaders, and faculty and staff members. In 2013–14, we will run the new model side-by-side with the current one to study its impact and make modifications as appropriate before formally adopting it on July 1, 2014.

The goal of organizational excellence is also critical to establishing the basis of quality and access that is fundamental for the Medical Center to serve as a top-decile academic medical center with a reputation for providing the most advanced care. The 2013–14 budget includes investments totaling $171 million, with a focus on quality, patient safety, and the Heart and Vascular, Neurosciences, and Cancer Centers of Excellence.

To support its role as a regional referral center, the Medical Center this year added much-needed bed capacity: seventy-two flexible rooms that can be used for critical care, step-down care, or acute care as required. The Medical Center has reopened its much expanded and light-filled lobby, which now serves as a central hub for patients and their families. Visitors can take advantage of the new climate-controlled pedestrian bridge to move from the parking garages to virtually all patient care areas at the hospital without going outside. On Main Street, the Battle Building—the future outpatient home of the U.Va. Children's Hospital—is rapidly taking shape and a new outpatient clinic in Zion Crossroads opened this past August. Planning is under way to expand and renovate our Emergency Department.

Welcoming the Opportunity to Serve

During my first year as chief operating officer, I have been tremendously impressed by the hard work and dedication of virtually everyone associated with the University. Consistently, I encounter a deep commitment to preserving the distinctive qualities that place this institution among the nation's best. I see my job simply as empowering people, making it easier for our faculty to teach, our students to learn, and our staff to perform their jobs in the most meaningful way possible.

Patrick D. Hogan

Patrick D. Hogan
Executive Vice President and Chief Operating Officer

Management's Discussion and Analysis (Unaudited)

Introduction

This discussion and analysis provides an overview of the financial position and results of activities of the University of Virginia for the year ended June 30, 2013. Comparative information for the year ended June 30, 2012, has been provided where applicable. This discussion has been prepared by management and should be read in conjunction with the financial statements and the footnotes that follow this section.

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

ACADEMIC DIVISION A public institution of higher learning with more than 21,000 students and 2,100 full-time instructional and research faculty members in eleven separate schools in 2012-13, the University offers a diverse range of degree programs, from baccalaureate to post-doctoral levels, including doctorates in fifty-five disciplines. The University is recognized internationally for the quality of its faculty and for its commitment to the primary academic missions of instruction, research, public service, and medical care. The University consistently ranks among the nation's top public colleges and universities, both for its general academic programs and for its strengths in specific academic disciplines. Its emphasis on the student experience is extraordinary among major public institutions, and its dedication to new advances in research permeates all of its schools and colleges.

MEDICAL CENTER The University of Virginia Medical Center is an integrated network of primary and specialty care services ranging from wellness programs and routine checkups to the most technologically advanced care. The hub of the Medical Center is a 676 licensed bed hospital in a state-designated Level 1 trauma center located in Charlottesville. The Medical Center also has a 40 licensed bed Transitional Care Hospital located west of the Charlottesville campus. In addition, primary and specialty care are provided at convenient clinic locations throughout central Virginia communities. The University's Medical Center has a tradition of excellence in teaching, advancement of medical science, and patient care, and is consistently ranked among the best health care systems in the nation.

COLLEGE AT WISE Located in southwestern Virginia, the College at Wise is a public liberal arts college with 2,420 students and 90 full-time instructional and research faculty. It offers thirty majors and eight pre-professional programs, including dentistry, pharmacy, engineering, forestry, law, medicine, physical therapy, and veterinary medicine. Degrees include the Bachelor of Arts, the Bachelor of Science, and the Bachelor of Science in nursing.

Financial Highlights

For the fiscal year ended June 30, 2013:

The University's net position increased by $561 million, or 8.6 percent. A summary of the factors contributing to this increase are presented in the table below.

SUMMARY OF THE CHANGE IN NET POSITION *(in thousands)*	2013	2012	INCREASE (DECREASE) AMOUNT	INCREASE (DECREASE) PERCENT
Total revenues before investment income	$ 2,496,512	$ 2,450,541	$ 45,971	1.9%
Total expenses	2,494,432	2,408,042	86,390	3.6%
Increase in Net Position before investment income	**2,080**	**42,499**	**(40,419)**	**(95.1%)**
Investment income	564,511	205,747	358,764	174.4%
Net effect of change in accounting principle	(5,595)	—	(5,595)	(100.0%)
TOTAL CHANGE IN NET POSITION	**$ 560,996**	**$ 248,246**	**$ 312,750**	**126.0%**

- The University earned a 13.4 percent investment return on its endowment during 2012–13. Overall, the endowment assets increased by $262 million. The University made an endowment spending distribution to its departments totaling nearly $160 million, which was the equivalent of 4.8 percent of the June 30, 2012, market value of the endowment. This distribution provided 10.5 percent of operational funding for the Academic and Wise divisions.
- During fiscal year 2012-13, the University exceeded the $3 billion goal of the Campaign for the University of Virginia.

- Overall, the primary factor in the University's change in net position continues to be the performance of the endowment and long-term investments, and their resultant realized and unrealized investment income. This year, investment income was a positive $565 million on a return of 13.4 percent, which was substantially higher than investment income of $206 million in fiscal year 2011–12, on a return of 5.1 percent.
- Total expenses increased by 3.6 percent and total revenues before investment income increased by 1.9 percent. Net revenues before investment income were a positive $2 million. Details and discussion by revenue source and expense category are presented respectively in the tables on subsequent pages.

Using the Financial Statements

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

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

These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles, which establish standards for external financial reporting for public colleges and universities. These principles require that financial statements be presented on a consolidated basis to focus on the University as a whole, with resources classified for accounting and reporting purposes into four net asset categories. Although some of the University's foundations are reported in the component unit financial statements, this Management's Discussion and Analysis excludes them except where specifically noted.

Statement of Net Position

The Statement of Net Position presents the financial position of the University at the end of the fiscal year and includes all assets, liabilities, deferred outflows, and deferred inflows of resources of the University. The difference between total assets and total liabilities, deferred outflows of resources and deferred inflows of resources—net position—is one indicator of the current financial condition of the University, while the change in net position is an indicator of whether the overall financial condition has improved or worsened during the year. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation. Depreciation is a method of allocating the cost of a tangible asset over its useful life in order to indicate how much of an asset's value has been consumed.

A summary of the University's assets, liabilities, deferred outflows of resources, deferred inflows of resources, and net position at June 30, 2013, and June 30, 2012 (as restated), is summarized as follows.

SUMMARY OF THE STATEMENT OF NET POSITION *(in thousands)*	2013	2012	INCREASE (DECREASE) AMOUNT	PERCENT
Current assets	$ 1,000,589	$ 890,022	$ 110,567	12.4%
Noncurrent assets				
Endowment investments	3,690,260	3,428,234	262,026	7.6%
Other long-term investments	1,086,474	955,538	130,936	13.7%
Capital assets, net	3,097,929	2,939,931	157,998	5.4%
Other	84,635	91,898	(7,263)	(7.9%)
Total assets	**8,959,887**	**8,305,623**	**654,264**	**7.9%**
Deferred outflows of resources	18,659	35,053	(16,394)	(46.8%)
Total assets and deferred outflows of resources	**8,978,546**	**8,340,676**	**637,870**	**7.6%**
Current liabilities	561,442	583,048	(21,606)	(3.7%)
Noncurrent liabilities	1,299,501	1,214,569	84,932	7.0%
Total liabilities	**1,860,943**	**1,797,617**	**63,326**	**3.5%**
Deferred inflows of resources	41,278	27,730	13,548	48.9%
Total liabilities and deferred inflows of resources	**1,902,221**	**1,825,347**	**76,874**	**4.2%**
NET POSITION	**$ 7,076,325**	**$ 6,515,329**	**$ 560,996**	**8.6%**

Current Assets and Liabilities

The Statement of Net Position shows that working capital, which is current assets less current liabilities, was $439 million at June 30, 2013, compared to $307 million at the end of the previous year. Current assets, which totaled $1 billion as compared with the previous year's $890 million, consist mainly of cash and cash equivalents, short-term investments, and accounts receivable.

Current liabilities, which consist primarily of accounts payable, unearned revenue, and the current portion of long-term liabilities, decreased by $49 million. Decreases to accounts payable and unearned revenue account for most of the decrease.

From a liquidity perspective, current assets cover current liabilities 1.78 times, an indicator of good liquidity and the ability to weather short-term demands on working capital. This rate of coverage increased from last year, with a combined increase in current assets and a decrease in current liabilities. Current assets cover 5.3 months of total operating expenses, excluding depreciation. For 2012–13, one month of operating expenses averaged approximately $187 million.

Endowment and Other Investments

PERFORMANCE. The major portion of the University's endowment continues to be maintained in a long-term investment pool managed by the University of Virginia Investment Management Company (UVIMCO). The return for the long-term investment pool year was a positive 13.4 percent in fiscal year 2012–13, compared to a 5.1 percent increase experienced last year. This performance figure includes realized and unrealized gains and losses, along with cash income. With this return, total investment income for all funds was positive $565 million, compared to $206 million in the prior year.

DISTRIBUTION. The University distributes endowment earnings with the objective of balancing the annual funding needed to support the endowed programs against the preservation of the future purchasing power of the endowment. The endowment spending-rate policy is approved by the Board of Visitors and is based on total return, not just cash earnings. The total distribution for the University's endowment was $159.8 million, which was about 4.8 percent of the June 30, 2012, market value of the endowment. It also represents an increase of $7.2 million over last year's distribution of $152.6 million.

ENDOWMENT INVESTMENTS. The total for endowment investments on the Statement of Net Position is $3.7 billion, a $262 million increase over the prior year total of $3.4 billion. In addition to new gifts, the net increase in endowment results from the 13.4 percent investment returns earned during the year, reduced by spending distribution equal to 4.8 percent of the July 1, 2012, market value.

From a net position perspective, earnings from the endowment, while expendable, are mostly restricted as to use by the donors. It is important to note that of the University's $3.7 billion of endowment funds, only $1.2 billion, or 33 percent, is classified as unrestricted net position. From this unrestricted endowment, a significant portion of the income is internally designated by the University for scholarships, fellowships, professorships, and research activities.

Including endowment investments held by the eight related foundations reported as component units, the combined University system endowment was approximately $5.1 billion as of June 30, 2013.

Capital and Debt Activities

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

Capital additions primarily consist of replacement, renovation, and new construction of academic, research, and health care facilities, as well as significant investments in equipment, including information systems.

The University invested $323 million for new capital construction in fiscal year 2012–13. This included amounts for infrastructure and buildings. Of the total, the Academic, Medical Center, and UVA-Wise divisions expended $204 million, $112 million, and $7 million, respectively. Some of the largest amounts expensed during the year for construction, for both new and ongoing projects, are listed below:

MAJOR CAPITAL PROJECT EXPENDITURES DURING 2012–13 *(in thousands)*

PROJECT		
Alderman Road Residences, all phases	$	34,762
Battle Building		31,800
Indoor Football Practice Facility		11,950
Infrastructure Projects		34,669
Newcomb Hall Dining and Other Renovations		11,746
New Cabell Hall		25,373
North Grounds Recreation Center Expansion		11,603
Wise Health and Wellness Center and Greear Gymnasium		2,906
TOTAL	**$**	**164,809**

The University's capital asset balances grew significantly, as a number of projects were completed or otherwise acquired during the year. More than $329 million of completed projects were added to depreciable capital assets during the fiscal year. The largest building projects completed and placed into service during the year are listed below:

MAJOR PROJECTS COMPLETED OR ACQUIRED DURING 2012–13 *(in thousands)*

PROJECT	CAPITALIZED COST
Jordan Hall HVAC	$ 35,163
Wise Multi-Purpose Center	29,706
Hospital 2nd Floor Radiology	21,212
Newcomb Hall Dining Expansion	18,002
Newcomb Hall Renovations	16,549
Drama Building Additions: New Thrust Theatre	13,185
Indoor Football Practice Facility	11,850
TOTAL	**$ 145,667**

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

The University's debt portfolio contains a strategic mix of maturity structures and both variable- and fixed-rate obligations. The University achieves this mix through issuing a combination of fixed- and variable-rate debt, including commercial paper. It also adjusts its debt mix through the use of interest rate swaps executed according to its board-approved interest rate risk management policy. The University had just over $1.3 billion of debt outstanding at June 30, 2013, of which $140 million was short-term commercial paper.

Net Position

The four net position categories represent the residual interest in the University's assets and deferred inflows of resources after liabilities and deferred outflows of resources are deducted. The University's net position at June 30, 2013, and 2012 (restated), is summarized below.

NET POSITION *(in thousands)*	2013	2012	INCREASE AMOUNT	INCREASE PERCENT
Net investment in capital assets	$ 1,741,026	$ 1,708,603	$ 32,423	1.9%
Restricted:				
Nonexpendable	574,465	560,007	14,458	2.6%
Expendable	2,670,142	2,418,734	251,408	10.4%
Unrestricted	2,090,692	1,827,985	262,707	14.4%
TOTAL NET POSITION	**$ 7,076,325**	**$ 6,515,329**	**$ 560,996**	**8.6%**

NET INVESTMENT IN CAPITAL ASSETS NET POSITION represents the University's capital assets net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets. Net investment in capital assets totaled $1.7 billion at June 30, 2013, an increase of $32 million, or 1.9 percent, related to the ongoing investment by the University in buildings, infrastructure, and systems. Capital assets (net) increased by about $158 million, and were offset by related debt used to finance those projects.

RESTRICTED NONEXPENDABLE NET POSITION is comprised of the University's permanent endowments, which cannot be expended due to donor restriction. This net position increased by $14 million to $574 million at June 30, 2013, related to new gifts of $12 million and donor-directed capitalizations of endowment distribution of $2 million.

RESTRICTED EXPENDABLE NET POSITION includes spendable earnings on permanent and quasi endowments, gifts, grants and contracts, and loan funds that are subject to externally imposed restrictions governing their use. This category totaled $2.7 billion at

June 30, 2013, an increase of $251 million, or 10.4 percent, related to investment returns and new gifts, reduced by spending of restricted resources for operations and capital projects.

UNRESTRICTED NET POSITION includes all remaining activities that are both spendable and not subject to externally imposed stipulations. The majority of the University's unrestricted net position has been internally designated for various instruction, research, and health services programs and initiatives, and capital projects that align with the University's highest priorities. Unrestricted net position totaled $2.1 billion at June 30, 2013, an increase of $263 million, or 14.4 percent, from the previous year, primarily related to investment performance on unrestricted quasi endowments and other long-term investments and the Medical Center's operating margin.

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position presents the University's results of activities for the year. Presented below is a summarized statement of the University's revenues, expenses, and other changes in net position for the years ended June 30, 2013, and 2012 (restated).

SUMMARY OF THE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION *(in thousands)*	2013	2012	INCREASE (DECREASE)	
			AMOUNT	PERCENT
Operating revenues				
Student tuition and fees, net	$ 432,347	$ 410,739	$ 21,608	5.3%
Patient services, net	1,165,690	1,146,773	18,917	1.6%
Sponsored programs	305,432	313,559	(8,127)	(2.6%)
Other	187,440	183,095	4,345	2.4%
Total operating revenues	**2,090,909**	**2,054,166**	**36,743**	**1.8%**
Operating expenses	**2,433,251**	**2,374,176**	**59,075**	**2.5%**
Operating loss	**(342,342)**	**(320,010)**	**(22,332)**	**7.0%**
Nonoperating revenues (expenses)				
State appropriations	155,679	145,412	10,267	7.1%
State stabilization (ARRA)	—	508	(508)	(100.0%)
Gifts	147,984	132,196	15,788	11.9%
Investment income	564,511	205,747	358,764	174.4%
Pell grants	11,677	12,017	(340)	(2.8%)
Interest on capital asset-related debt	(53,160)	(31,046)	(22,114)	71.2%
Build America Bonds rebate	8,496	8,750	(254)	(2.9%)
Other net nonoperating expenses	(16,517)	(11,570)	(4,947)	42.8%
Net nonoperating revenues (expenses)	**818,670**	**462,014**	**356,656**	**77.2%**
Income before other revenues, expenses, gains, or losses	**476,328**	**142,004**	**334,324**	**235.4%**
Capital appropriations, gifts, and grants	77,852	81,322	(3,470)	(4.3%)
Additions to permanent endowments	12,411	24,920	(12,509)	(50.2%)
Total other revenues	**90,263**	**106,242**	**(15,979)**	**(15.0%)**
INCREASE IN NET POSITION	**566,591**	**248,246**	**318,345**	**128.2%**
NET POSITION - beginning of year	6,515,329	6,267,083	248,246	4.0%
Net effect of change in accounting principle	(5,595)	—	(5,595)	(100.0%)
NET POSITION - END OF YEAR	**$ 7,076,325**	**$ 6,515,329**	**$ 560,996**	**8.6%**

Revenues and expenses are categorized as either operating or nonoperating based on existing GASB principles. Significant revenues that are expected to be recurring, including state appropriations, Pell grants, and gifts, are considered nonoperating as defined by GASB Statement No. 34. Consequently, the operating loss of $342 million occurs before the consideration of these important revenue sources. Adding these revenue sources, which total $315 million for the fiscal year, significantly reduces the operating loss, and results in an adjusted operating loss of $27 million. This, as well as considering endowment spending of prior-year recognized investment income, which is an important funding source for current-year operations, provides a more accurate picture of the University's scope and results of operations.

Revenues

The University strives to maintain a diverse stream of revenues, which decreases its dependence on specific revenue types and allows it to adapt during difficult economic times.

SUMMARY OF REVENUES, TOTAL UNIVERSITY

The University's revenues, for the years ended June 30, 2013, and 2012 (restated), are summarized as follows:

SUMMARY OF REVENUES *(in thousands)*	2013			2012			TOTAL INSTITUTION INCREASE (DECREASE)	
	ACADEMIC DIVISION & WISE	MEDICAL CENTER	TOTAL INSTITUTION	ACADEMIC DIVISION & WISE	MEDICAL CENTER	TOTAL INSTITUTION	AMOUNT	PERCENT
Operating revenues								
Student tuition and fees, net	$ 432,347	$ —	$ 432,347	$ 410,739	$ —	$ 410,739	$ 21,608	5.3%
Patient services	—	1,165,690	1,165,690	—	1,146,773	1,146,773	18,917	1.6%
Federal, state, and local grants and contracts	252,221	—	252,221	264,721	—	264,721	(12,500)	(4.7%)
Nongovernmental grants and contracts	53,211	—	53,211	48,838	—	48,838	4,373	9.0%
Sales and services of educational departments	18,186	—	18,186	20,339	—	20,339	(2,153)	(10.6%)
Auxiliary enterprises revenue, net	120,387	—	120,387	118,963	—	118,963	1,424	1.2%
Other operating revenues	193	48,674	48,867	1	43,792	43,793	5,074	11.6%
Total operating revenues	**876,545**	**1,214,364**	**2,090,909**	**863,601**	**1,190,565**	**2,054,166**	**36,743**	**1.8%**
Nonoperating revenues								
State appropriations	155,679	—	155,679	145,412	—	145,412	10,267	7.1%
State stabilization (ARRA)	—	—	—	508	—	508	(508)	(100.0%)
Private gifts	147,014	970	147,984	129,836	2,360	132,196	15,788	11.9%
Investment income	510,211	54,300	564,511	184,713	21,034	205,747	358,764	174.4%
Other nonoperating revenues	101,940	—	101,940	118,259	—	118,259	(16,319)	(13.8%)
Total nonoperating revenues	**914,844**	**55,270**	**970,114**	**578,728**	**23,394**	**602,122**	**367,992**	**61.1%**
TOTAL REVENUES	**$1,791,389**	**$1,269,634**	**$3,061,023**	**$1,442,329**	**$1,213,959**	**$2,656,288**	**$ 404,735**	**15.2%**

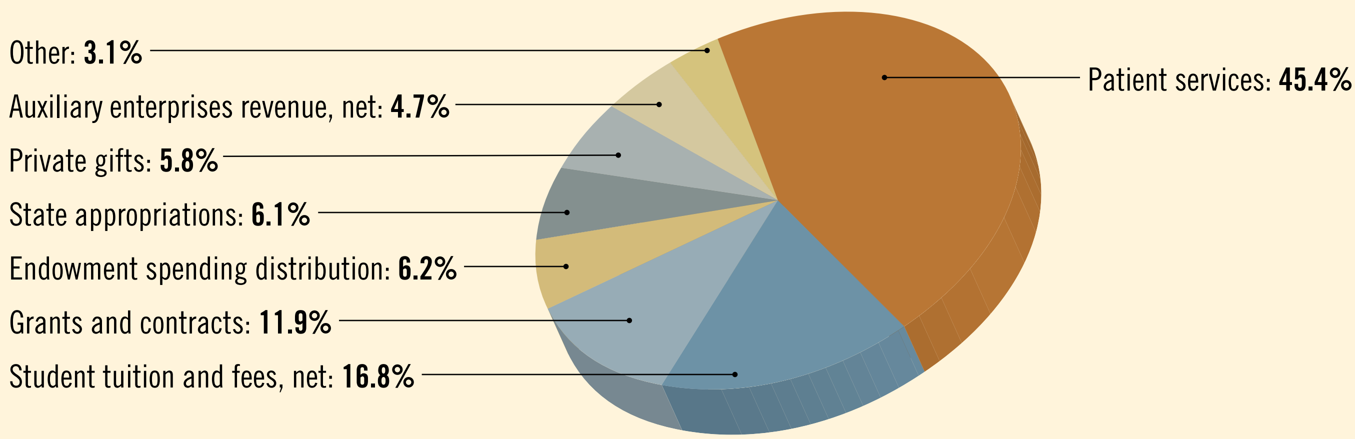
Total revenues increased by 15.2 percent. Operating revenues increased by 1.8 percent, or $37 million. Under operating revenues, both net student tuition and fees, and net patient services increased, by 5.3 percent and 1.6 percent, respectively. The increase in net tuition and fees is attributable to an increase in the prices charged, new academic programs, and increases in enrollment, net of increases in scholarships and allowances. Total sponsored programs revenues decreased by about $8 million, or 2.7 percent, from the prior year. However, revenue from federal sponsored programs decreased nearly $17 million, or 6.5 percent. The federal sequester cuts, as well as the depletion of previously awarded federal ARRA grants, account for the decrease. Revenue from nonfederal sponsored programs partially offset this decline, with increases of $8.7 million.

Nonoperating revenues totaled $970 million, which was $368 million, or 61.1 percent, more than last year. Nearly all of the increase is attributable to higher investment returns of 13.4 percent this year, as compared to 5.1 percent last year. Increases in state appropriations of $10 million and spendable gifts of $16 million also contributed to the increase in nonoperating revenues.

Revenues and Other Sources of Operational Funding

Below is a chart of revenues by source (both operating and nonoperating); these revenues were used to fund the University's operating activities for the fiscal year ended June 30, 2013. As noted earlier, GASB requires state appropriations, current gifts, Pell grants, and other significant revenues to be treated as nonoperating revenues. Endowment spending distribution is not current-year revenue, but an appropriation of previously recognized investment income revenue. Nonetheless, it is an important funding source for current operations and is included in the chart below to present a more accurate picture of the University's funding of current operations.

TOTAL UNIVERSITY REVENUES AND OTHER SOURCES OF OPERATIONAL FUNDING

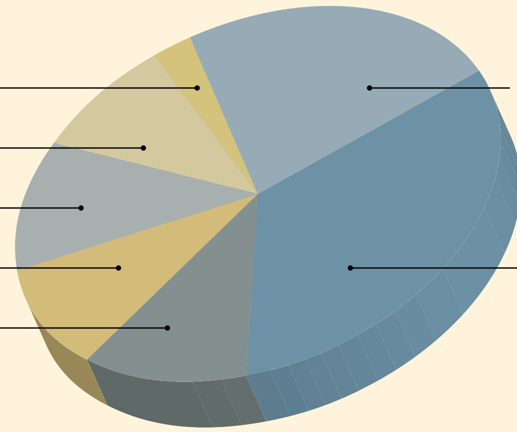


Patient services revenues accounted for 45.4 percent of the University's revenues and operational funding sources. Net student tuition and fees, and grants and contracts, which represent 16.8 percent and 11.9 percent, respectively, are the next largest revenues. Private support from endowment spending (6.2 percent) and gifts (5.8 percent) makes up 12 percent of the University funding sources. State appropriations accounted for just 6.1 percent of funding for operations. With ongoing economic pressures on state revenues and increasing concerns related to affordability, funding from private sources continues to become increasingly important to the University.

Net tuition and fees revenue totaled more than $432 million. That is an increase of $21.6 million, or 5.3 percent. Tuition and fees revenue is reported net of scholarship discount and allowance. The discount 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. The discount was $88.7 million for fiscal year 2012–13, compared to $87.4 million in 2011–12. Excluding the discount, gross tuition and fees revenue was $521 million, which was about $23 million and 4.6 percent higher than last year. State appropriations increased by $10 million to $156 million. The additional funding provided support for employee benefits, a one-time bonus payment to faculty and staff, and additional investment from the state in support for the Higher Education Opportunity Act.

A clearer picture of the academic and research mission revenue stream emerges when the Medical Center's data is excluded. Major sources include net tuition and fees at 32.5 percent; grants and contracts at 23 percent; state appropriations at 11.7 percent; endowment spending distribution at 10.5 percent; auxiliary enterprises and other at 11.3 percent; and private gifts at 11 percent. Excluding patient revenue, tuition and fees revenue comprises the single largest source of revenue to the University. Contributing a combined 21.5 percent, endowment spending distribution and private gifts continue to be critical private sources of funding for University operations. Private support has been, and will continue to be, essential to maintaining the University's academic excellence. Spendable current gift revenue totaled $147 million in 2013, showing an increase of $17.2 million from the prior year. At the same time, the Campaign for the University of Virginia reached its $3 billion target during the fiscal year.

ACADEMIC AND WISE REVENUES AND OTHER SOURCES OF OPERATIONAL FUNDING



Revenues for all sponsored programs decreased this year by $8.1 million, or 2.7 percent, to a total of $305 million. However, revenue from federal sponsored programs actually declined by $17 million, partially offset by increases from private and industry sponsored programs. The decrease is attributed to depleting ARRA grants ($8.2 million) and federal sequester cuts ($8.8 million). The $305 million of total sponsored programs revenue includes $65.6 million of Facilities and Administrative (F&A) recoveries. That is a decrease of $3.7 million from the $69.3 million of F&A recoveries in 2011–12. The decrease occurred due to the decline in direct research, despite the increase in the University's organized research F&A rate from 54 percent to 58 percent that went into effect on July 1, 2012. The extent to which the rate increase results in additional F&A recoveries will depend in large part on future levels of sponsored programs funding awarded to the University.

Expenses

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

SUMMARY OF EXPENSES, TOTAL UNIVERSITY

The University's expenses, for the years ended June 30, 2013, and 2012 (restated), are summarized as follows:

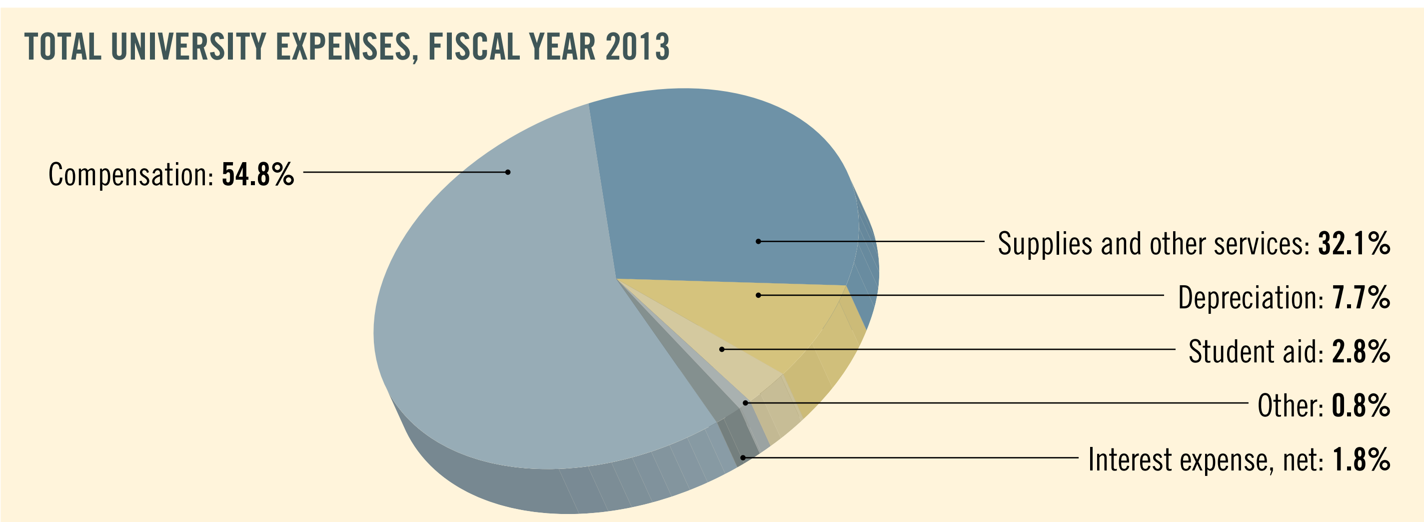
SUMMARY OF EXPENSES *(in thousands)*	2013			2012			TOTAL INSTITUTION INCREASE (DECREASE)	
	ACADEMIC DIVISION & WISE	MEDICAL CENTER	TOTAL INSTITUTION	ACADEMIC DIVISION & WISE	MEDICAL CENTER	TOTAL INSTITUTION	AMOUNT	PERCENT
Operating expenses								
Compensation	$ 858,972	$ 507,672	$1,366,644	$ 810,602	$ 472,584	$1,283,186	$ 83,458	6.5%
Supplies and other services	266,613	534,055	800,668	275,325	529,344	804,669	(4,001)	(0.5%)
Student aid	69,684	—	69,684	69,504	—	69,504	180	0.3%
Depreciation	112,086	80,187	192,273	108,283	72,937	181,220	11,053	6.1%
Other operating expense	3,982	—	3,982	4,229	31,368	35,597	(31,615)	(88.8%)
Total operating expenses	**1,311,337**	**1,121,914**	**2,433,251**	**1,267,943**	**1,106,233**	**2,374,176**	**59,075**	**2.5%**
Nonoperating expenses and other								
Interest expense (net of BAB rebate)	33,708	10,956	44,664	15,193	7,103	22,296	22,368	100.3%
Loss on capital assets	1,802	372	2,174	974	286	1,260	914	72.5%
Other nonoperating expense	5,911	8,432	14,343	4,105	6,205	10,310	4,033	39.1%
Total nonoperating expenses	**41,421**	**19,760**	**61,181**	**20,272**	**13,594**	**33,866**	**27,315**	**80.7%**
TOTAL UNIVERSITY EXPENSES	**$1,352,758**	**$1,141,674**	**$2,494,432**	**$1,288,215**	**$1,119,827**	**$2,408,042**	**$ 86,390**	**3.6%**

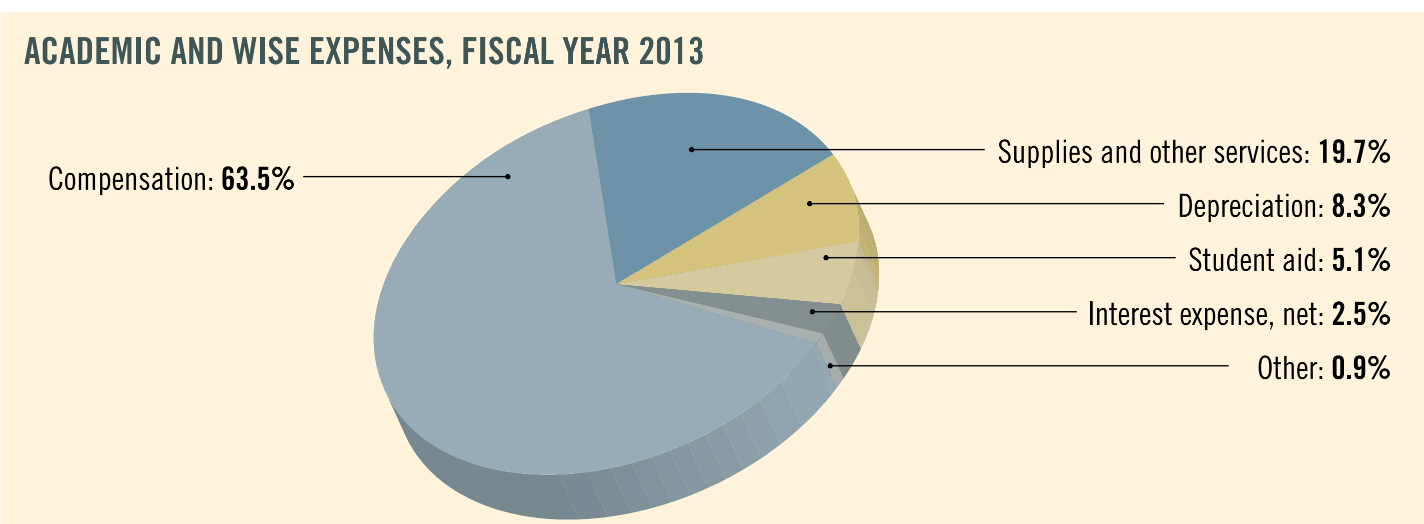
The University's total expenses were $2.5 billion, increasing by $86 million or 3.6 percent. Operating expenses, which increased by $59 million, or 2.5 percent, account for 98 percent of total expenses. Compensation and benefits expenses increased by $83 million, or 6.5 percent, and totaled nearly $1.4 billion. The Academic Division and Wise saw an increase of $48 million, with most of that attributable to a December 2012 one-time bonus and an increase in the cost of employee benefits. The Medical Center saw an increase of about $35 million in compensation and benefits.

The University experienced an increase in depreciation expense due to the number of completed building and infrastructure projects added in recent years. Depreciation expense totaled $192 million, which was $11.1 million, and 6.1 percent higher than the previous year. Net student aid expense was nearly flat at $69.7 million, an increase of less than 1 percent. It is important to note that student aid expense excludes scholarship discounts, which are netted from tuition revenue. Student aid expense including scholarship discounts was $172 million and $170 million, respectively, for 2013 and 2012.

On the nonoperating side, net interest expense increased by $22.4 million to $44.7 million. This doubling of the 2012 figure occurred only because a large share of 2012 interest was capitalized as part of a major capital asset instead of expensed, consistent with accounting regulations. The University's most recent bond issuance was a refunding of commercial paper and Series 2009 and 2010 bond issuances, while the 2012 issuance was made as part of the federal government's Build America Bonds (BAB) program. Under that program, the University receives an interest rebate from the federal government, reducing its effective interest rate in the process. The rebate for 2012–13 was $8.5 million, which in effect netted down the gross interest expense of $53.2 million to a net interest expense of $44.7 million.

Following are graphic illustrations of expenses (both operating and nonoperating) for the fiscal year ended June 30, 2013.





The first chart presents information for the total University including the Medical Center, while the second chart presents information for just the Academic and Wise divisions. Given the different missions of the Medical Center and the Academic and Wise divisions, it is useful to view them separately. There are significant differences between the two charts. Compensation, including salaries, wages, and benefits, accounts for 54.8 percent of total University expenses in the first chart, and 63.5 percent of expenses for the Academic and Wise divisions, in the second chart.

Supplies and other services make up 32.1 percent of total University expenses in the first chart, and 19.7 percent of Academic and Wise expenses in the second chart. The difference highlights the Medical Center's stronger reliance on supplies, services, and equipment for its operations, as compared to the Academic and Wise divisions.

In addition to their natural (object) classification, it is also informative to review operating expenses by function. A complete matrix of expenses, natural versus functional, is contained in the notes to the financial statements. Expenses for patient services, instruction, research, and public service account for 46.1 percent, 14.1 percent, 11.7 percent, and 1.5 percent, respectively, of total operating expenses. When combined, these core mission functions account for 73 percent of total operating expenses. The remainder is for costs incurred in support of these core mission functions, including academic support, libraries, student services, institutional support services, and operation and maintenance of facilities.

Future Economic Outlook

EXTERNAL FORCES

The future of health care reform is still uncertain, but we expect continued impact on our health system. The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 were signed into law in March 2010. The two Acts provide for a number of changes that will affect the health care industry over the next decade. The regulations to implement the Acts are beginning to take effect; however, many substantive portions of the Acts are deferred until 2014. Because patient revenues for the hospital alone (without considering physicians' practice revenues) amount to 46 percent of total operating expenses, health policy developments in the nation's capital and in Richmond will be carefully monitored. Another factor is the potential expansion of Medicaid in the Commonwealth. If Medicaid is not expanded in Virginia, there is potential for significant negative impacts to the Medical Center's net patient service revenues.

Another major factor that will affect the University is the continued uncertainty of federal legislators reaching long-term agreements on raising the debt ceiling and balancing the federal budget. The fiscal results for the year ended June 30, 2013, already show effects in the form of shorter-term grants and contracts and automatic cuts in federal payments (sequestration) to the Medical Center and Academic Division. A sixteen-day partial federal government shutdown occurred in October 2013 and the potential for another looms later this year. Depending on the timing within an academic calendar, another shutdown could seriously affect our students' ability to obtain federal financial aid, and thus the University's tuition revenue. In addition, the Commonwealth's dependence on federal funding makes the University's reliance on state funding more precarious. The University's diversity of revenues can provide a buffer in such times, but will in turn force increasing reliance on nonfederal sources, even while parents and donors continue to navigate the slowly recovering economy.

UNIVERSITY'S RESPONSE

The University continues to emphasize its efforts to enhance revenues, maximize value obtained from the use of resources, and create organizational excellence. President Teresa Sullivan's initiative to develop a new internal financial model, to be implemented during the 2014–15 budget development process, lies at the heart of this approach. The goals are to develop and implement a new internal financial model that will better align resources to support strategic priorities and create incentives to control costs, improve productivity, and enable more entrepreneurial activities. The new model will better align budget authority, fiscal accountability, and operational management. After initial implementation of the new model, the emphasis will shift to developing decision support tools through improving internal managerial reporting. In a parallel effort, the Academic Division has created a formal effort called Organizational Excellence, which is charged with enhancing organizational capacity across academic and administrative service areas in order to advance excellence in the core missions and to facilitate the realization of strategic priorities.

The strategic planning effort initiated last fall by President Sullivan and the Strategic Planning Steering Committee is entering its final phase. After considering the input of stakeholders including students, faculty, staff, alumni, and others over the past year, the committee has honed a diverse set of emergent ideas into a blueprint for the University's future. A number of specific strategies under refinement are organized along five guiding pillars:

- Extend and strengthen the University's distinctive residential culture
- Strengthen the University's capacity to advance knowledge and to serve the public through research, scholarship, creative arts, and innovation
- Provide educational experiences that deliver new levels of student engagement
- Assemble and support a distinguished faculty
- Steward the University's resources to promote academic excellence and affordable access

Management Responsibility

November 1, 2013

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, 2013. Management is responsible for the objectivity and integrity of the accompanying financial statements, which have been prepared in conformance with the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*. The financial statements, of necessity, included management's estimates and judgments relating to matters not concluded by year-end. Financial information contained elsewhere in the annual Financial Report is consistent with that included in the financial statements.

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

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

Respectfully submitted,

David J. Boling

DAVID J. BOLING
Assistant Vice President for Finance and University Comptroller

Melody S. Bianchetto

MELODY S. BIANCHETTO
Associate Vice President for Finance

Commonwealth of Virginia

AUDITOR OF PUBLIC ACCOUNTS

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

November 1, 2013

The Honorable Robert F. McDonnell | *Governor of Virginia*

The Honorable John M. O'Bannon, III | *Chairman, Joint Legislative Audit and Review Commission*

Board of Visitors | *University of Virginia*

INDEPENDENT AUDITOR'S REPORT

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of the University of Virginia, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units of the University, which are discussed in Note 1. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the component units of the University, 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinions.

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Opinion
In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and aggregate discretely presented component units of the University of Virginia as of June 30, 2013, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter
The University of Virginia's accompanying basic financial statements for the year ended June 30, 2013, reflect the provisions of the Governmental Accounting Standards Board's (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The University chose to implement the requirements of GASB Statement No. 65 one year in advance of the required effective date. See Note 1 in the accompanying financial statements for an explanation of the standard and the impact of the University's implementation. Our opinion is not modified with respect to this matter.

Other Matters
Prior-Year Summarized Comparative Information
We have previously audited the University of Virginia's financial statements, and we expressed an unmodified audit opinion on the respective financial statements in our report dated November 19, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 7 through 16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2013, 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* in considering the University's internal control over financial reporting and compliance.

Martha S. Mavredes

Martha S. Mavredes, CPA
Auditor of Public Accounts

Statement of Net Position *(in thousands)*

as of June 30, 2013 (with comparative information as of June 30, 2012)

	2013	2012
ASSETS		
Current assets		
Cash and cash equivalents (Note 2)	$ 502,269	$ 404,997
Restricted cash and cash equivalents (Note 2)	9	3
Short-term investments (Note 2)	187,822	128,673
Appropriations available	6,366	6,933
Accounts receivable, net (Note 3a)	258,625	301,373
Prepaid expenses	16,690	18,783
Inventories	23,748	24,053
Notes receivable, net (Note 3b)	5,060	5,207
Total current assets	**1,000,589**	**890,022**
Noncurrent assets		
Restricted cash and cash equivalents (Note 2)	33,750	25,577
Endowment investments (Note 2)	3,690,260	3,428,234
Other long-term investments (Note 2)	1,086,474	955,538
Deposit with bond trustee	22	17,787
Notes receivable, net (Note 3b)	35,427	34,435
Pledges receivable, net (Note 3c)	4,249	2,653
Capital assets - depreciable, net (Note 3d)	2,751,426	2,541,372
Capital assets - nondepreciable (Note 3d)	346,503	398,559
Goodwill (Note 3e)	11,187	11,446
Total noncurrent assets	**7,959,298**	**7,415,601**
Deferred outflow of resources	18,659	35,053
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	**$ 8,978,546**	**$ 8,340,676**
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 3f)	$ 227,564	$ 243,838
Unearned revenue (Note 3g)	51,562	59,557
Deposits held in custody for others	31,813	35,910
Commercial paper (Note 4)	139,593	127,463
Long-term debt - current portion (Note 5a)	12,814	12,804
Long-term liabilities - current portion (Note 5b)	98,096	103,476
Total current liabilities	**561,442**	**583,048**
Noncurrent liabilities		
Long-term debt (Note 5a)	1,175,999	1,081,828
Derivative instrument liability (Note 6)	18,659	35,053
Other noncurrent liabilities (Note 5b)	104,843	97,688
Total noncurrent liabilities	**1,299,501**	**1,214,569**
Deferred inflow of resources (Note 6)	41,278	27,730
TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES	**$ 1,902,221**	**$ 1,825,347**
NET POSITION		
Net investment in capital assets	$ 1,741,026	$ 1,708,603
Restricted:		
Nonexpendable	574,465	560,007
Expendable	2,670,142	2,418,734
Unrestricted	2,090,692	1,827,985
TOTAL NET POSITION	**$ 7,076,325**	**$ 6,515,329**

Certain 2012 amounts have been restated to conform to 2013 reclassifications.
The accompanying Notes to Financial Statements are an integral part of this statement.

Component Units
Combined Statements of Financial Position *(in thousands)*

as of June 30, 2013 (with comparative information as of June 30, 2012)

	2013	2012
ASSETS		
Current assets		
Cash and cash equivalents	$ 67,501	$ 63,222
Receivables	99,103	93,681
Other current assets	171,256	178,577
Total current assets	**337,860**	**335,480**
Noncurrent assets		
Pledges receivable, net of current portion of $44,324	50,132	58,217
Long-term investments	6,187,123	5,677,122
Capital assets, net of depreciation	462,780	370,284
Other noncurrent assets	41,723	98,803
Total noncurrent assets	**6,741,758**	**6,204,426**
TOTAL ASSETS	**$ 7,079,618**	**$ 6,539,906**
LIABILITIES AND NET ASSETS		
Current liabilities		
Assets held in trust for others	$ 89,034	$ 81,919
Other liabilities	187,722	187,993
Total current liabilities	**276,756**	**269,912**
Noncurrent liabilities		
Long-term debt, net of current portion of $12,025	248,612	274,323
Other noncurrent liabilities	5,110,591	4,697,710
Total noncurrent liabilities	**5,359,203**	**4,972,033**
TOTAL LIABILITIES	**$ 5,635,959**	**$ 5,241,945**
NET ASSETS		
Unrestricted	$ 329,759	$ 278,222
Temporarily restricted	593,460	520,712
Permanently restricted	520,440	499,027
TOTAL NET ASSETS	**$ 1,443,659**	**$ 1,297,961**
TOTAL LIABILITIES AND NET ASSETS	**$ 7,079,618**	**$ 6,539,906**

Certain 2012 amounts have been restated to conform to 2013 reclassifications.
The accompanying Notes to Financial Statements are an integral part of this statement.

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

for the year ended June 30, 2013 (with comparative information for the year ended June 30, 2012)

	2013	2012
REVENUES		
Operating revenues		
Student tuition and fees (net of scholarship allowances of $88,656 and $87,358)	$ 432,347	$ 410,739
Patient services (net of charity care of $2,346,855 and $2,066,282)	1,165,690	1,146,773
Federal grants and contracts	243,621	260,434
State and local grants and contracts	8,600	4,287
Nongovernmental grants and contracts	53,211	48,838
Sales and services of educational departments	18,186	20,339
Auxiliary enterprises revenue (net of scholarship allowances of $14,494 and $13,393)	120,387	118,963
Other operating revenues	48,867	43,793
TOTAL OPERATING REVENUES	**2,090,909**	**2,054,166**
EXPENSES		
Operating expenses (Note 9)		
Compensation	1,366,644	1,283,186
Supplies and other services	800,668	804,669
Student aid	69,684	69,504
Depreciation	192,273	181,220
Other	3,982	35,597
TOTAL OPERATING EXPENSES	**2,433,251**	**2,374,176**
OPERATING LOSS	**(342,342)**	**(320,010)**
NONOPERATING REVENUES (EXPENSES)		
State appropriations (Note 10)	155,679	145,412
State stabilization (ARRA)	-	508
Gifts	147,984	132,196
Investment income	564,511	205,747
Pell grants	11,677	12,017
Interest on capital asset–related debt	(53,160)	(31,046)
Build America Bonds rebate	8,496	8,750
Losses on capital assets	(2,174)	(1,260)
Other nonoperating expenses	(14,343)	(10,310)
NET NONOPERATING REVENUES	**818,670**	**462,014**
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	**476,328**	**142,004**
Capital appropriations	42,566	32,591
Capital grants and gifts	35,286	48,731
Additions to permanent endowments	12,411	24,920
TOTAL OTHER REVENUES	**90,263**	**106,242**
INCREASE IN NET POSITION	**566,591**	**248,246**
NET POSITION		
Net position—beginning of year	6,515,329	6,267,083
Net effect of change in accounting principle (Note 1)	(5,595)	—
NET POSITION—BEGINNING OF YEAR AS RESTATED	**6,509,734**	**6,267,083**
NET POSITION—END OF YEAR	**$ 7,076,325**	**$ 6,515,329**

Certain 2012 amounts have been restated to conform to 2013 reclassifications.
The accompanying Notes to Financial Statements are an integral part of this statement.

Component Units
Combined Statements of Activities *(in thousands)*

for the year ended June 30, 2013 (with comparative information for the year ended June 30, 2012)

	2013	2012
UNRESTRICTED REVENUES AND SUPPORT		
Contributions	$ 22,144	$ 22,930
Fees for services, rentals, and sales	338,868	324,083
Investment income	52,860	(13,929)
Reclassification per donor stipulation	(6,588)	—
Net assets released from restriction	99,862	94,199
Other revenues	130,907	107,672
TOTAL UNRESTRICTED REVENUES AND SUPPORT	**638,053**	**534,955**
EXPENSES		
Program services, lectures, and special events	407,239	379,868
Scholarships and financial aid	74,501	62,223
Management and general	33,489	34,237
Other expenses	77,509	80,665
TOTAL EXPENSES	**592,738**	**556,993**
EXCESS (DEFICIENCY) OF UNRESTRICTED REVENUES AND SUPPORT OVER EXPENSES	**$ 45,315**	**$ (22,038)**
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	$ 52,412	$ 61,237
Investment and other income	113,118	34,752
Reclassification per donor stipulation	7,044	(189)
Net assets released from restriction	(99,862)	(94,199)
NET CHANGES IN TEMPORARILY RESTRICTED NET ASSETS	**72,712**	**1,601**
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Contributions	24,937	64,297
Investment and other income (loss)	(3,035)	2,131
Reclassification per donor stipulation	(456)	189
NET CHANGES IN PERMANENTLY RESTRICTED NET ASSETS	**21,446**	**66,617**
CHANGE IN NET ASSETS	**139,473**	**46,180**
Net assets, beginning of year	1,297,961	1,259,940
Other activity	6,225	(8,159)
NET ASSETS, END OF YEAR	**$ 1,443,659**	**$ 1,297,961**

Certain 2012 amounts have been restated to conform to 2013 reclassifications.
The accompanying Notes to Financial Statements are an integral part of this statement.

Statement of Cash Flows *(in thousands)*

for the year ended June 30, 2013 (with comparative information for the year ended June 30, 2012)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 435,030	$ 403,215
Grants and contracts	304,393	307,060
Patient services	1,186,229	1,092,603
Sales and services of educational activities	20,703	28,458
Sales and services of auxiliary enterprises	119,606	119,906
Payments to employees and fringe benefits	(1,364,284)	(1,283,753)
Payments to vendors and suppliers	(748,502)	(797,234)
Payments for scholarships and fellowships	(69,684)	(69,504)
Perkins and other loans issued to students	(6,225)	(6,888)
Collection of Perkins and other loans to students	4,948	5,045
Other receipts	43,105	29,556
NET CASH USED BY OPERATING ACTIVITIES	**(74,681)**	**(171,536)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	156,176	146,624
State stabilization (ARRA)	-	508
Additions to true endowments	12,411	24,919
Federal Family Education Loan Program receipts	5	1
Federal Family Education Loan Program payments	(5)	(1)
Federal Direct Loan Program receipts	118,427	123,604
Federal Direct Loan Program payments	(118,427)	(123,604)
Pell grants	11,677	12,017
Receipts on behalf of agencies	388,579	674,144
Payments on behalf of agencies	(401,175)	(676,093)
Deposits held in custody for others	(4,097)	(170)
Noncapital gifts and grants and endowments received	137,178	134,023
Other net nonoperating expenses	(7,511)	(4,105)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	**293,238**	**311,867**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	42,986	19,412
Capital gifts and grants received	45,714	48,804
Proceeds from capital debt	411,622	190,511
Proceeds (loss) from sale of capital assets	(1,733)	1,213
Acquisition and construction of capital assets	(410,494)	(304,523)
Principal paid on capital debt and leases	(297,213)	(161,891)
Interest paid on capital debt and leases	(47,064)	(28,843)
Deposit with trustee	17,766	95,129
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	**(238,416)**	**(140,188)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	315,935	383,719
Interest on investments	8,222	9,749
Purchase of investments and related fees	(162,664)	(283,948)
Other investment activities	(36,182)	(41,285)
NET CASH PROVIDED BY INVESTING ACTIVITIES	**125,311**	**68,235**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**105,452**	**68,378**
Cash and cash equivalents, July 1	430,576	362,199
CASH AND CASH EQUIVALENTS, JUNE 30	**$ 536,028**	**$ 430,577**
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss	$ (342,342)	$ (320,010)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Depreciation expense	192,273	181,220
Provision for uncollectible loans and write-offs	399	67
CHANGES IN ASSETS AND LIABILITIES:		
Receivables, net	47,898	(54,509)
Inventories	305	(2,948)
Other assets	34	366
Prepaid expenses	(431)	(4,749)
Notes receivable, net	(1,276)	(1,843)
Accounts payable and accrued liabilities	(17,760)	16,337
Deferred revenue	40,424	15,024
Accrued vacation leave-long term	5,795	(491)
TOTAL ADJUSTMENTS	**267,661**	**148,474**
NET CASH USED BY OPERATING ACTIVITIES	**$ (74,681)**	**$ (171,536)**
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES—ACADEMIC ONLY:		
Assets acquired through assumption of a liability	$ 357,371	$ 168,544
Assets acquired through a gift	6,919	3,255
Change in fair value of investments	513,152	185,565
Increase in receivables related to nonoperating income	11,744	2,956
Loss on disposal of capital asset	1,802	974

Certain 2012 amounts have been restated to conform to 2013 reclassifications.
The accompanying Notes to Financial Statements are an integral part of this statement.

NOTE 1 | ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND PURPOSE

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

INCOME TAX STATUS

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

FINANCIAL REPORTING ENTITY

The University has twenty-five legally separate, tax-exempt 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 eight foundations qualify as component units of the University because of the nature and significance of their relationship with the University, including their ongoing financial support of the University. As such, they are presented discretely in the financial statements presented as of June 30, 2013:

- 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 Physicians Group
- University of Virginia Investment Management Company
- Jefferson Scholars Foundation

The foundations' financial information is included in the accompanying financial statements. Condensed financial statements for each component unit are disclosed in Note 8. Information on the organization and nature of activities for each foundation is presented below.

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

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

The **Alumni Association of the University of Virginia** was established as a legally separate, tax-exempt organization to provide services to all alumni of the University of Virginia, thereby assisting the University of Virginia and all its students, faculty, and administration in attaining the University's highest priority of achieving eminence as a center of higher learning. For additional information, contact the Finance and Administration Office at P.O. Box 400314, Charlottesville, Virginia 22904.

The **Virginia Student Aid Foundation, Inc., T/A Virginia Athletics Foundation**, was established as a tax-exempt organization to support intercollegiate athletic programs at the University of Virginia by providing student-athletes the opportunity to achieve academic and athletic excellence. The Foundation provides the funding for student-athlete scholarships at the University, funding for student-athlete academic advising programs at the University, operational support for various sports at the University, informational services to its members and the general public, and ancillary support to the athletic programs at the University. The Foundation has adopted December 31 as its year-end. All amounts reflected are as of December 31, 2012. For additional information, contact the Gift Accounting Office at P.O. Box 400833, Charlottesville, Virginia 22904.

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

The **University of Virginia Physicians Group** 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 provides patient care services to Health System patients, and in conjunction with the care of patients, provides teaching services. The University provides space and certain administrative services to the Foundation. The Foundation reimburses the University for the salaries and fringe benefits of classified and hourly employees of the clinical departments paid by the University, and not funded by the Commonwealth of Virginia or by gifts, grants, and contracts. For additional information, contact the Finance Office at 500 Ray C. Hunt Drive, Charlottesville, Virginia 22903.

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

The **Jefferson Scholars Foundation** was established to develop and administer a merit-based scholarship, fellowship, and professorship program. The mission of the Jefferson Scholars Foundation is to serve the University of Virginia by identifying, attracting, and nurturing individuals of extraordinary intellectual range and depth, who possess the highest concomitant qualities of leadership, scholarship, and citizenship. For additional information, contact the Finance Team at P.O. Box 400891, Charlottesville, Virginia 22904.

REPORTING BASIS

The University of Virginia prepares its financial statements in conformity with accounting principles generally accepted in the United States of America. As a public institution, the University adheres to standards promulgated by the Governmental Accounting Standards Board (GASB). In accordance with GASB Statement No. 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.

In December 2010, the GASB issued Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. This standard incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA's Committee on Accounting Procedure. The component units included herein continue to follow FASB pronouncements, and their financial statements are presented in accordance with those standards.

In June 2011, the GASB issued Statement No. 64, Derivative Instruments: Application of Hedge Accounting Termination Provisions, effective for the University's fiscal year beginning July 1, 2012. This statement clarifies the existing requirements for the termination of hedge accounting. Implementation of GASB Statement No. 64 had no effect on the University's net position or changes in net position for the years ended June 30, 2013 and 2012.

In June 2011, the GASB issued Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, effective for the University's fiscal year ended June 30, 2013. This statement modifies the presentation of deferred inflows and deferred outflows in the financial statements and establishes the concept of net position.

In March 2012, the GASB issued Statement No. 65, Items Previously Reported as Assets and Liabilities, effective for the University's fiscal year beginning July 1, 2013; however, the University early adopted this statement effective for the fiscal year beginning July 1, 2012. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. The concept of Net Position was also defined by GASB 65 which renames net assets as Net Position. The effect of the changes from the implementation of GASB 65 on the University's financial statements for the year ended June 30, 2012, was as follows:

NET POSITION *(in thousands)*	2012 BEGINNING BALANCE PREVIOUSLY ISSUED	CHANGE	2012 ENDING BALANCE AS RESTATED
Current liabilities	$ 610,778	$ (27,730)	$ 583,048
Noncurrent liabilities	1,214,569	—	1,214,569
Total liabilities	**1,825,347**	**(27,730)**	**1,797,617**
Deferred inflows of resources	—	27,730	27,730
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	**$ 1,825,347**	**$ —**	**$ 1,825,347**

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources is defined as the consumption of net assets applicable to a future reporting period. The deferred outflows of resources has a positive effect on net position similar to assets.

DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources is defined as the acquisition of net assets applicable to a future reporting period. The deferred inflows of resources has a negative effect on net position similar to liabilities.

NET POSITION

The University's Net Position is required to be classified for accounting and reporting purposes into the following categories:

Net Investment in Capital Assets. This category represents all of the University's capital assets, net of accumulated depreciation, reduced by outstanding debt attributable to the acquisition, construction, or improvement of those assets.

Restricted. The University classifies the net position resulting from transactions with purpose restrictions as restricted net position until the specific resources are used for the required purpose or for as long as the provider requires the resources to remain intact.

Nonexpendable. The net position subject to externally imposed restrictions, which must be retained in perpetuity by the University, is classified as nonexpendable net position. This includes the corpus portion (historical value) of gifts to the University's permanent endowment funds and certain investment earnings stipulated by the donor to be reinvested.

Expendable. The net position whose use by the University is subject to externally imposed restrictions that can be fulfilled by actions of the University pursuant to those restrictions or that expire by the passage of time are classified as expendable net position. This includes net appreciation of the University's permanent endowment funds that have not been stipulated by the donor to be reinvested permanently.

Unrestricted. The net position that is neither restricted nor invested in capital assets, net of related debt, is classified as unrestricted net position. The University's unrestricted net position may be designated for specific purposes by the Board of Visitors. Substantially all of the University's unrestricted net position is allocated for academic and research initiatives or programs, for capital programs, or for other purposes.

Expenses are charged to either restricted or unrestricted net position based on a variety of factors, including consideration of prior and future revenue sources, the type of expenditure incurred, the University's budgetary policies surrounding the various revenue sources, or whether the expense is a reoccurring cost.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

CASH AND CASH EQUIVALENTS

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

INVENTORIES

Inventories, consisting primarily of supplies and merchandise for resale, are valued at the lower of cost (generally determined on the weighted-average method) or market value.

INVESTMENTS

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

ENDOWMENT

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

PLEDGES RECEIVABLE

The University receives pledges and bequests of financial support from corporations, foundations, and individuals. Revenue is recognized when a pledge representing an unconditional promise to pay is received and all eligibility requirements, including time requirements, have been met. In the absence of such a promise, revenue is recognized when the gift is received. Endowment pledges do not meet eligibility requirements, as defined by GASB, and are not recorded as assets until the related gift is received.

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the estimated future cash flows. The discounts on these amounts are computed using risk-free interest rates applicable to the years in which the promises are made, commensurate with expected future payments. An allowance 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 recorded at cost at date of acquisition, or, if donated, at the appraised value at date of donation. Capital assets are depreciated or amortized on a straight-line basis over their estimated useful lives unless they are inexhaustible, or are intangible assets with indefinite useful lives. The University capitalizes construction costs that have a value or cost in excess of $250,000 at the date of acquisition. Renovations in excess of $250,000 are capitalized if they significantly extend the useful life of the existing asset. The Academic Division capitalizes moveable equipment at a value or cost of $5,000 and an expected useful life of greater than one year.

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

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

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

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

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

Expenditures related to construction are capitalized as they are incurred. Projects that have not been completed as of the date of the Statement of Net Position 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 non-building structures and improvements are capitalized as infrastructure and depreciated accordingly.

In accordance with GASB Statement No. 51, the University capitalizes intangible assets such as computer software developed or obtained for internal use, easements, patents, and trademarks. Capitalization begins when the asset is considered identifiable. For computer software, this is often at the application development stage, which consists of the design, coding, installation, and testing of the software and interfaces.

COLLECTIONS

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

UNEARNED REVENUE

Unearned revenue consists primarily of cash received from grant and contract sponsors that has not been earned under the terms of the agreement, and amounts received in advance of an event, such as student tuition and fees and fees for housing and dining services.

DEPOSITS

Deposits of affiliates and others represent cash and invested funds held by the University on behalf of others as a result of agency relationships with various groups and organizations.

INTEREST CAPITALIZATION

Interest expense incurred during the construction of capital assets is capitalized, if material, net of interest income earned on resources set aside for this purpose. The University incurred capital project interest expense of $3,614,014 and earned capital project interest income of $1,193,973 for the fiscal year ended June 30, 2013, resulting in net interest capitalized of $2,420,041.

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 Position. The amount reflects, as of June 30, 2013, all unused vacation leave, and the amount payable on 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 Position, include all exchange and nonexchange transactions earned and in which all eligibility requirements (resource provider conditions) have been satisfied, if measurable and probable of collection.

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

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

MEDICAL CENTER SALES AND SERVICE

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

REVENUE AND EXPENSE CLASSIFICATIONS

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

Certain significant revenues relied on and budgeted for fundamental operational support of the core institutional mission of the University are mandated by the GASB to be recorded as nonoperating revenues. Nonoperating revenues and expenses include state educational appropriations, state financing appropriations, state fiscal stabilization funds, federal Pell grants, private gifts for other than capital purposes, investment income, net unrealized appreciation or depreciation in the fair value of investments, interest expense, and gain or loss on the disposal of assets.

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 Position. Scholarship discount and allowance is the difference between the stated charge for goods and services provided by the University and the amount paid by students and/or third parties making payments on the students' behalf.

DISCOUNTS, PREMIUMS, AND BOND ISSUANCE COSTS

Bonds payable on the Statement of Net Position are reported net of related discounts and premiums, which are amortized over the life of the bond. Bond issuance costs, except portions related to prepaid insurance, are no longer capitalized. In accordance with GASB Statement No. 65, the costs are now expensed as nonoperating expenses, which resulted in a restatement of beginning net position of $5.6 million.

COMPARATIVE DATA

The University presents its financial information on a comparative basis. The basic financial statements include certain prior-year summarized comparative information in total, but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, the prior-year information should be read in conjunction with the University's financial statements for the year ended June 30, 2012, from which the summarized information was derived. Certain amounts from the prior fiscal year have been reclassified to conform to current-year presentation.

NOTE 2 | CASH, CASH EQUIVALENTS, AND INVESTMENTS

The University of Virginia Investment Management Company (UVIMCO) administers and manages the majority of the University's investments in its unitized Long Term Pool (LTP). Operating funds, excluding reserves, are primarily invested for short periods of time and are managed by the University.

DEPOSITS

Deposits include bank account balances and are governed by the Virginia Security for Public Deposits Act. The Act includes a cross guarantee among approved financial institutions eligible to hold public funds. In the event of a default of one of the approved financial institutions, an assessment is levied against all participating institutions to cover the uncollateralized public deposits of the defaulting entity. This cross guarantee significantly diminishes custodial credit risk. Amounts on deposit covered by the Virginia Security for Public Deposits Act totaled $15.4 million at June 30, 2013. Such deposits are not subject to foreign currency risk.

CASH EQUIVALENTS

The investment policy of the University is established by the Board of Visitors and monitored by the Board's Finance and Audit Committee. Authorized investments are set forth in the Investment of Public Funds Act, Sections 2.2-4500 through 2.2-4518, Code of Virginia. Authorized investments include U.S. Treasury and agency securities, corporate debt securities of domestic corporations, asset-backed securities, mortgage-backed securities, AAA rated obligations of foreign governments, bankers' acceptances and bank notes, negotiable certificates of deposit, repurchase agreements and money market funds.

The University considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. Cash deposits held by the University are maintained in commercial banking accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400, et seq., Code of Virginia. The Virginia Security for Public Deposits Act eliminates any custodial risk on the University's banking deposits. Cash equivalents include short-term money market investments in mutual funds, overnight collective funds, or other short-term, highly liquid investments registered as securities held by the University. It is the policy of the University to comply with the Investment of Public Funds Act, Sections 2.2-4500 through 2.2-4518, Code of Virginia, when investing tuition and educational fees that are used or required for day-to-day operations, as permitted under the Code of Virginia Section 23-76.1.

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

RISK

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

Custodial Credit Risk is the risk that, in the event of the failure of a depository financial institution or financial counterparty, the agency will not be able to recover the value of its deposits or investments or recover collateral securities that are in the possession of an outside third party. The University had an immaterial exposure to custodial credit risk as of June 30, 2013.

Interest Rate Risk is when the fair market value is adversely affected by changes in interest rates. The longer the duration of an investment, the greater the interest rate risks. Investments subject to interest rate risk at June 30, 2013, are outlined in the accompanying chart.

Credit Risk is the possibility that a loss may occur due to the failure of a counterparty to perform according to the terms of the contract. State law limits the investment of certain non-endowed assets to short-term commercial paper, certificates of deposit, asset-backed securities, and debt obligations to the top rating issued by nationally recognized statistical rating organizations (NRSROs) and requires the investment be rated by at least two NRSROs. For longer term certificates of deposit and corporate notes, the rating must be one of the top two ratings issued by two NRSROs. Investments subject to credit risk at June 30, 2013, are outlined in the accompanying chart.

Concentration of Credit Risk is the risk of a large loss attributed to the magnitude of investment in a single issuer of fixed income securities. The University minimizes this risk by diversifying its investments. As of June 30, 2013, the University does not have investments in any one issuer (excluding investments issued or explicitly guaranteed by the U.S. Government and mutual fund or pool investments) representing 5 percent or more of its total investments.

Foreign Currency Risk is the risk that investments denominated in foreign currencies may lose value due to adverse fluctuations in the value of the U.S. dollar relative to foreign currencies. The University has no foreign investments or deposits as of June 30, 2013.

Details of the University's investment risks are outlined in the accompanying chart.

CREDIT QUALITY AND INTEREST RATE RISK *(in thousands)*	FAIR VALUE	CREDIT RATING	INVESTMENT MATURITIES (IN YEARS)			
			LESS THAN 1 YEAR	1–5 YEARS	6–10 YEARS	GREATER THAN 10 YEARS
CASH EQUIVALENTS						
Short-term investment pool	$ 152,502	Unrated				
University of Virginia Aggregate Cash Pool	337,626	Unrated				
State Non-Arbitrage Program	21	AAAm				
TOTAL CASH EQUIVALENTS	**$ 490,149**					
INVESTMENTS SUBJECT TO INTEREST RATE RISK						
Endowment investments:						
Debt securities:						
Demand notes due from related foundation, noninterest bearing	$ 30,467	Unrated	$ 30,467			
Note receivable, 9%	22	Unrated				$ 22
US Treasury Obligations	97,408		97,408			
Other investments:						
Freddie Mac Home Loan	10,814		10,814			
Federal Home Loan Mortgage Corporation	30,912		30,912			
Federal National Mortgage Association	28,540	Aaa	28,540			
TOTAL INVESTMENTS SUBJECT TO INTEREST RATE RISK	**$ 198,163**		**$ 198,141**	**$ —**	**$ —**	**$ 22**
	100.0%		100.0%	0.0%	0.0%	0.0%

INVESTMENTS

The University of Virginia Investment Management Company (UVIMCO) provides investment management services to the University of Virginia and to the University's related Foundations. UVIMCO's primary investment objective is to maximize long-term real return commensurate with the risk tolerance of the University. To achieve this objective, UVIMCO actively manages their Long Term Pool in an attempt to provide a substantial and growing stream of income to support the University's programs, while at the same time preserving the purchasing power of its long-term investment assets. UVIMCO is governed by a board of directors, three of whom are appointed by the Board of Visitors of the University of Virginia and one of whom is appointed by the University President. The University receives and monitors periodic reports on the long-term investment policy as executed by UVIMCO.

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

UVIMCO invests primarily in investment funds that allow the Long Term Pool to gain exposure to a broad array of financial instruments and markets. UVIMCO classifies LTP investments as public equity, long/short equity, buyout, venture capital, real estate, resources, or marketable alternatives and credit according to the investment strategy of the underlying manager. These investments are subject to a variety of risks including market risk, manager risk, and liquidity risk. UVIMCO closely manages and monitors its exposure to these risks, which may be influenced by a number of factors including the size, composition and diversification of positions held, fund manager actions, and market volatility.

In the normal course of business, UVIMCO's external investment fund managers trade various financial instruments and enter into investment activities subject to various market risks. Market risk is the risk that the value of assets such as common stocks may fall. Fixed income investments are subject to other market risks, including interest rate risk, and credit risk. Foreign investments are subject to currency exchange rates (foreign exchange risk), political and economic developments, limited legal recourse, and market risks. The prices of derivative positions such as futures, options, warrants, and swap contracts 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.

Manager risk includes tracking error or active positions away from the benchmark, operational or business risks, a lack of transparency, and leverage. UVIMCO mitigates manager risk through extensive due diligence, diversification, by declining certain partnership structures, and by avoiding certain investment strategies (e.g., highly leveraged hedge funds). UVIMCO's investment fund managers often limit the liquidity of their funds, resulting in liquidity risk for the Long Term Pool. UVIMCO manages liquidity risk by maintaining a portfolio of treasury bills and bonds, maintaining sufficient liquidity with public equity and hedge fund managers, and managing the pace of commitments to private investments.

Biannual distributions are made from the University's endowment to departments holding endowment accounts. The University's endowment spending policy ties annual increases to inflation as defined by the Higher Education Price Index. The current inflation factor in use by the University is 3.8 percent. If the increase causes the endowment distribution to fall outside a range defined as 4.0 percent to 6.0 percent of the market value of the endowment, then the Finance Committee of the Board of Visitors may recommend increasing or decreasing the spending rate. For fiscal year 2013, the spending distribution of $159.8 million equaled 4.8 percent of the prior year-ending market value. Since the result fell within the range, no further action by the Board was needed. The market value of the endowment invested in the LTP at June 30, 2013, was $3.6 billion.

At June 30, 2013, the University's investment in the LTP was $4.7 billion, representing 85 percent of the University's invested assets. At June 30, 2013, the University's short-term investments were $188 million, representing 3.4 percent of invested assets. These pools are not rated by nationally recognized statistical rating organizations.

For the year ended June 30, 2013, the University had the following endowment-related activities:

SUMMARY OF ENDOWMENT ACTIVITY *(in thousands)*	TYPE OF ENDOWMENT FUND			
	DONOR-RESTRICTED	QUASI	TRUSTS	TOTAL
Investment earnings	$ 194,176	$ 221,030	$ 7,060	$ 422,266
Contributions to permanent endowment	12,411	—	—	12,411
Other gifts	—	—	6,083	6,083
Spending distribution	(75,140)	(84,652)	—	(159,792)
Transfers in (out)*	1,621	(16,186)	(4,866)	(19,431)
TOTAL CHANGE IN ENDOWMENT FUNDS	**$ 133,068**	**$ 120,192**	**$ 8,277**	**$ 261,537**

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

NOTE 3 | STATEMENT OF NET POSITION DETAILS

a. Accounts receivable: The composition of accounts receivable at June 30, 2013, is summarized as follows:

ACCOUNTS RECEIVABLE *(in thousands)*

Patient care	$	456,171
Grants and contracts		36,256
Student payments		19,631
Pledges		7,445
Institutional loans		1,586
Build America Bonds rebate		855
Equipment Trust Fund reimbursement		12,869
Auxiliary		2,524
Related foundation		23,748
Other		33,359
Less allowance for doubtful accounts		(335,819)
TOTAL	**$**	**258,625**

b. Notes receivable: The principal repayment and interest rate terms of federal and University loans vary considerably. The allowance for doubtfully collectible notes only applies to University funded notes and the University portion of federal student loans, as the University is not obligated to fund the federal portion of uncollected student loans. Federal loan programs are funded principally with federal advances to the University under the Perkins and various other loan programs. The composition of notes receivable at June 30, 2013, is summarized as follows:

NOTES RECEIVABLE *(in thousands)*

Perkins	$	19,665
Nursing		1,010
Institutional		19,220
Fraternity loan		1,946
House Staff loan		9
Less allowance for doubtful accounts		(1,363)
Total notes receivable, net		**40,487**
Less current portion, net of allowance		(5,060)
TOTAL NONCURRENT NOTES RECEIVABLE	**$**	**35,427**

c. Pledges: As discussed in Note 1, permanent endowment pledges do not meet eligibility requirements, as defined by the GASB, until the related gift is received. Accordingly, permanent endowment pledges totaling $2,715,000 and $3,429,899 at June 30, 2013, and 2012, respectively, are not recognized as assets in the accompanying financial statements. In addition, bequest intentions and other conditional promises are not recognized as assets until the specified conditions are met because of uncertainties with regard to their realizability and valuation. The composition of pledges receivable at June 30, 2013, is summarized as follows:

PLEDGES *(in thousands)*

GIFT PLEDGES OUTSTANDING		
Operations	$	8,086
Capital		5,975
TOTAL GIFT PLEDGES OUTSTANDING		**14,061**
Less:		
Allowance for uncollectible pledges		(1,839)
Unamortized discount to present value		(1,182)
Total pledges receivable, net		**11,040**
Less current portion, net of allowance		(6,791)
TOTAL NONCURRENT PLEDGES RECEIVABLE	**$**	**4,249**

d. Capital assets: The capital assets activity for the year ended June 30, 2013, is summarized as follows:

INVESTMENT IN PLANT—CAPITAL ASSETS *(in thousands)*	BEGINNING BALANCE JULY 1, 2012	ADDITIONS	DISPOSITIONS	ADJUSTMENTS	ENDING BALANCE JUNE 30, 2013
NONDEPRECIABLE CAPITAL ASSETS					
Land	$ 48,982	$ 489	$ —	$ (245)	$ 49,226
Construction in progress	348,916	322,781	—	(374,420)	297,277
Software in development	661	8	—	(669)	—
TOTAL NONDEPRECIABLE CAPITAL ASSETS	**398,559**	**323,278**	**—**	**(375,334)**	**346,503**
DEPRECIABLE CAPITAL ASSETS					
Buildings	2,917,899	—	(2)	309,529	3,227,426
Equipment	699,244	72,422	(28,938)	(9,444)	733,284
Infrastructure	394,276	—	—	13,310	407,586
Improvements other than buildings	150,574	—	—	5,502	156,076
Capitalized software	151,744	5,868	(56)	600	158,156
Library books	114,872	2,907	(1,146)	—	116,633
Total depreciable capital assets	**4,428,609**	**81,197**	**(30,142)**	**319,497**	**4,799,161**
Less accumulated depreciation for:					
Buildings	(984,023)	(96,987)	2	509	(1,080,499)
Equipment	(466,774)	(57,367)	26,817	—	(497,324)
Infrastructure	(156,740)	(11,481)	—	(8)	(168,229)
Improvements other than buildings	(97,807)	(6,511)	—	—	(104,318)
Capitalized software	(88,122)	(12,313)	56	—	(100,379)
Library books	(93,770)	(4,362)	1,146	—	(96,986)
Total accumulated depreciation	**(1,887,236)**	**(189,021)**	**28,021**	**501**	**(2,047,735)**
TOTAL DEPRECIABLE CAPITAL ASSETS, NET	**2,541,373**	**(107,824)**	**(2,121)**	**319,998**	**2,751,426**
TOTAL	**$ 2,939,932**	**$ 215,454**	**$ (2,121)**	**$ (55,336)**	**$ 3,097,929**

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

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

f. Accounts payable and accrued liabilities: The composition of accounts payable at June 30, 2013, is summarized as follows:

ACCOUNTS PAYABLE AND ACCRUED LIABILITIES *(in thousands)*	
Accounts payable	$ 99,647
Accrued salaries and wages payable	61,247
Due to related foundations	24,642
Other payables	42,028
TOTAL	**$ 227,564**

g. Unearned revenue: The composition of unearned revenue at June 30, 2013, is summarized as follows:

UNEARNED REVENUE *(in thousands)*	
Grants and contracts	$ 45,591
Student payments (net of financial aid of $2,677)	12,222
Medical Center unearned revenues	—
Other deferred revenues	(6,251)
TOTAL	**$ 51,562**

NOTE 4 | SHORT-TERM DEBT

Short-term debt at June 30, 2013, is summarized as follows:

SHORT-TERM DEBT *(in thousands)*	BEGINNING BALANCE JULY 1, 2012	ADDITIONS	REDUCTIONS	ENDING BALANCE JUNE 30, 2013
COMMERCIAL PAPER				
Taxable	$ 8,062	$ 3,230	$ —	$ 11,292
Commercial paper, tax-exempt	119,401	108,900	100,000	128,301
TOTAL COMMERCIAL PAPER	**$ 127,463**	**$ 112,130**	**$ 100,000**	**$ 139,593**

The University has a combined taxable and tax-exempt commercial paper program that provides for bridge financing for capital projects up to a board-approved limit. The University Board of Visitors approved the current commercial paper program limit of $300,000,000 in April 2008. In fiscal year 2013, interest rates on commercial paper ranged from 0.06 to 0.21 percent.

NOTE 5 | LONG-TERM OBLIGATIONS

a. Long-term debt: The composition of long-term debt at June 30, 2013, is summarized as follows:

LONG-TERM DEBT *(in thousands)*	INTEREST RATES	FINAL MATURITY	BEGINNING BALANCE JULY 1, 2012	ADDITIONS	REDUCTIONS	ENDING BALANCE JUNE 30, 2013	CURRENT PORTION
BONDS AND NOTES PAYABLE							
Revenue bonds							
University of Virginia Series 2003A (9d)	0.05% to 0.27%	2034	$ 78,639	$ —	$ —	$ 78,639	$ —
University of Virginia Series 2003B (9d)	4.0% to 5.0%	2033	18,530	—	18,530	—	—
University of Virginia Series 2005 (9d)	4.0% to 5.0%	2037	174,025	—	134,675	39,350	3,345
University of Virginia Series 2008 (9d)	5.0%	2040	231,365	—	—	231,365	—
University of Virginia Series 2009 (9d)	4.04%*	2040	250,000	—	—	250,000	—
University of Virginia Series 2010 (9d)	3.2%**	2041	190,000	—	—	190,000	—
University of Virginia Series 2011 (9d)	4.0% to 5.0%	2033	73,950	—	—	73,950	2,325
University of Virginia Series 2013A (9d)	2.0% to 5.0%	2043	—	168,830	—	168,830	530
University of Virginia Series 2013B (9d)	5.0%	2037	—	61,595	—	61,595	—
Commonwealth of Virginia bonds (9c)	3.8% to 9.3%	2021	9,928	—	2,139	7,789	1,664
Notes payable to VCBA 2004B (9d)	3.0% to 5.0%	2020	32,695	—	4,595	28,100	4,820
Notes payable to VCBA 2007B (9d)	4.0% to 4.25%	2020	10,680	—	30	10,650	30
Notes payable to VCBA 2010B (9d)	2.0% to 5.0%	2021	3,435	—	—	3,435	—
Other	various	2015	253	—	100	153	100
TOTAL BONDS AND NOTES PAYABLE			**$ 1,073,500**	**$ 230,425**	**$ 160,069**	**$ 1,143,856**	**$ 12,814**
Less current portion of debt			(12,804)	(10)	—	(12,814)	
Bond premium			31,947	37,502	9,324	60,125	
Deferred loss on early retirement of debt			(10,814)	(6,017)	(1,663)	(15,168)	
NET LONG-TERM DEBT			**$ 1,081,829**	**$ 261,900**	**$ 167,730**	**$ 1,175,999**	

**The University of Virginia Series 2009 (9d) revenue bonds are Build America Bonds (BAB), issued at 6.2%. With the BAB rebate, the effective rate is reduced to 4.04%.*
***The University of Virginia Series 2010 (9d) revenue bonds are Build America Bonds (BAB), issued at 5.0%. With the BAB rebate, the effective rate is reduced to 3.2%.*

On March 28, 2013, the University of Virginia issued Series 2013A Bonds of $168,830,000 to advance refund $15,775,000 of Series 2003B Bonds and $69,895,000 of Series 2005 Bonds and converted $100,000,000 of commercial paper to long-term debt. The advance refunding reduced the aggregate debt service by $9,842,205 representing a net present value savings of $7,708,150. The bonds were issued with a premium of $26,327,740 and an accounting loss, representing the difference between the par value of the refunding debt and the defeasance amount of the refunded debt, of $4,074,169.

On March 28, 2013, the University of Virginia issued Series 2013B Bonds of $61,595,000 to refund $61,595,000 of Series 2005 Bonds. The refunding represents a net present value gain of $6,175,678. The bonds were issued with a premium of $11,175,348 and an accounting loss of $1,942,132.

The University of Virginia has three revolving credit agreements from three different banks in the aggregate amount of $250 million to provide liquidity for its variable-rate debt obligations. There were no advances outstanding under any credit agreements as of June 30, 2013.

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

MATURITIES *(in thousands)*	PRINCIPAL	INTEREST	BAB INTEREST REBATE*	NET INTEREST EXPENSE
2014	$ 12,814	$ 55,403	$ (8,369)	$ 47,034
2015	13,366	54,801	(8,750)	46,051
2016	13,881	54,172	(8,750)	45,422
2017	13,212	53,580	(8,750)	44,830
2018	13,813	53,031	(8,750)	44,281
2019–2023	51,606	257,325	(43,750)	213,575
2024–2028	26,505	248,515	(43,750)	204,765
2029–2033	85,345	241,975	(43,750)	198,225
2034–2038	227,984	224,615	(43,750)	180,865
2039–2043	685,330	80,783	(16,450)	64,333
TOTAL	**$ 1,143,856**	**$ 1,324,200**	**$ (234,819)**	**$ 1,089,381**

**FY2014 represents a reduction in the credit interest payment for September 1, 2013, by 8.7 percent. The sequestration reduction rate will be applied until September 30, 2013, or intervening Congressional action, at which time the sequestration rate is subject to change.*

PRIOR-YEAR REFUNDINGS

As of June 30, 2013, prior years' in-substance defeased bonds and notes had no outstanding balances.

b. Long-term liabilities: The composition of long-term liabilities at June 30, 2013, is summarized as follows:

LONG-TERM LIABILITIES *(in thousands)*	BEGINNING BALANCE JULY 1, 2012	ADDITIONS	REDUCTIONS	ENDING BALANCE JUNE 30, 2013
Investments held for related entities	$ 14,792	$ 2,155	$ 1,600	$ 15,347
Accrual for compensated absences	59,920	72,181	68,384	63,717
Perkins loan program	16,018	—	3,455	12,563
Investment in Culpeper Regional Hospital	38,137	2,221	6,903	33,455
Other postemployment benefits	25,327	9,379	—	34,706
Other	46,970	8,499	12,318	43,151
Subtotal	**201,164**	**94,435**	**92,660**	**202,939**
Less current portion of long-term liabilities	(103,476)	—	(5,380)	(98,096)
NET LONG-TERM LIABILITIES	**$ 97,688**	**$ 94,435**	**$ 87,280**	**$ 104,843**

NOTE 6 | DERIVATIVES

At June 30, 2013, the University had two fixed-payer interest rate swaps totaling $100 million in notional amount. The swaps are used as cash flow hedges by the University in order to provide a hedge against changes in interest rates on a similar amount of the University's variable-rate debt. The University's objective is to hedge the cash flow variability of a portion of its variable-rate debt. The underlying index for the swaps is the Securities Industry and Financial Markets (SIFMA) Municipal Swap Index. The swaps were entered into in January 2007 and February 2007 and both swaps mature June 1, 2038. The swaps were entered into at a zero market value and no payments were made or received when they were initiated.

In February 2011, the University entered into an interest sharing arrangement with the University of Virginia Foundation (UVAF). Under the arrangement, UVAF agreed to make five annual fixed-premium payments to the University in exchange for limited financial support in the event the one-month London Interbank Offered Rate (LIBOR) falls within a certain range. The arrangement is for a notional amount of $50 million and expires on February 1, 2016, and may be terminated at any time by the mutual consent of the University and UVAF. As of June 30, 2013, the market value of the interest-sharing arrangement between the University and UVAF, representing the amount the University would pay if the arrangement were terminated, was approximately $107,000.

RISK

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

Credit risk is the risk that a counterparty will not settle an obligation in full, either when due or at any time thereafter. As of June 30, 2013, the $100 million notional amount of swaps outstanding had a negative market value, net of any posted collateral and netting agreements, of approximately $18.7 million, representing the amount the University would pay if the swaps were terminated on that date. The market value of the swaps has risen by approximately $16.4 million over the reporting period.

The fair value was determined by using the quoted SIFMA index curve at the time of market valuation. The University would be exposed to the credit risk of its swap counterparties any time the swaps had a positive market value. At June 30, 2013, the University had no credit risk related to its swaps. As of

June 30, 2013, the University's swap counterparties were rated at least A- from Standard & Poor's or A3 by Moody's. To mitigate credit risk, the University limits market value exposure and requires the posting of collateral based on the credit rating of the counterparty. All counterparties, or their guarantors, are required to have at least an A-/A3 rating by Standard & Poor's and Moody's, respectively. As of June 30, 2013, no collateral was required to be posted by the counterparties.

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

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

Termination risk arises when the unscheduled termination of a derivative could have an adverse effect on the University's strategy or could lead to potentially significant unscheduled payments. The University's derivative contracts use the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an additional termination event. That is, the swap may be terminated by either party if the counterparty's credit rating falls below BBB/Baa2 in the case of Standard & Poor's and Moody's, respectively. The University or the counterparty may also terminate the swap if the other party fails to perform under the terms of the contract. If at the time of termination the swap has a negative market value, the University would be liable to the counterparty for a payment equal to the swaps' market value.

Rollover risk arises when a derivative associated with a hedged item does not extend all the way to the maturity date of the hedged item, thereby creating a gap in the protection otherwise afforded by the derivative. The University's hedges serve to hedge all $78.64 million of its variable rate Series 2003A Bonds maturing in June 2034. The remaining $21.36 million of hedges serve to hedge the University's outstanding commercial paper, which may have various maturities of no greater than 270 days each.

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

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

Future net cash flows for this hedging derivative for the next five years and in subsequent five-year periods are as follows:

MATURITIES *(in thousands)*	PRINCIPAL	VARIABLE INTEREST	DERIVATIVE INSTRUMENTS, NET	TOTAL
2014	$ —	$ 149	$ 4,050	$ 4,199
2015	—	149	4,050	4,199
2016	—	149	4,050	4,199
2017	—	149	4,050	4,199
2018	—	149	4,050	4,199
2019-2023	—	745	20,250	20,995
2024-2028	—	745	20,250	20,995
2029-2033	54,670	704	19,143	74,517
2034-2038	23,969	195	5,296	29,460
2039-2043	21,361	32	865	22,258
TOTAL	**$ 100,000**	**$ 3,166**	**$ 86,054**	**$ 189,220**

NOTE 7 | AFFILIATED COMPANIES

CULPEPER REGIONAL HOSPITAL

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

CENTRAL VIRGINIA HEALTH NETWORK, INC.

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

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

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

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

VALIANCE HEALTH, L.L.C.

In November 1997, the Medical Center became a participant with Rockingham Memorial Hospital and Augusta Health Care, Inc., in Valiance Health, L.L.C. (Valiance), a joint venture integrating and coordinating the delivery of health care services in central and western Virginia. The Medical Center contributed $100,000 in initial capital, which entitles it to a *pro rata* distribution of any profits and losses of Valiance. As of June 30, 2013, the Medical Center's investment totaled $500,000.

UNIVERSITY HEALTHSYSTEM CONSORTIUM (UHC)

In December 1986, the Medical Center became a member of the University HealthSystem Consortium (UHC). Founded in 1984, UHC is an alliance of the clinical enterprises of academic health centers. While focusing on the clinical mission, UHC is mindful of and supports the research and education missions. The mission of UHC is to advance knowledge, foster collaboration, and promote change to help members compete in their respective healthcare 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.

CHARLOTTESVILLE PROGRAM OF ALL INCLUSIVE CARE FOR THE ELDERLY

The Medical Center contributed $245,000 for a 24.5 percent investment in Charlottesville Program of All Inclusive Care for the Elderly (PACE). The program delivers various medical and support services to senior residents in Charlottesville and surrounding counties. Patients in the program have an alternative to residential nursing home care through daily access to doctors and physical therapists, home health care, and personal care. Charlottesville PACE financial transactions are recorded using the equity method of accounting.

INVESTMENT IN AFFILIATED COMPANIES *(in thousands)* *as of June 30, 2013*	COMMON STOCK AND EQUITY CONTRIBUTIONS	SHARE OF ACCUMULATED INCOME (LOSS)	NET INVESTMENT
Central Virginia Health Network, Inc.	$ 232	$ (41)	$ 191
HEALTHSOUTH, L.L.C.	—	11,258	11,258
Valiance, L.L.C.	—	463	463
University HealthSystem Consortium	—	552	552
Culpeper Regional Hospital	41,248	5,780	47,028
PACE Equity	245	—	245

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 University Physicians Group are the primary contributors to the funding of the corporation. The corporation is governed by a board of directors composed of Health System staff, community members, and University Board of Visitors appointees.

NOTE 8 | COMPONENT UNITS

Summary financial statements and additional disclosures are presented below.

STATEMENT OF FINANCIAL POSITION *(in thousands)* *as of June 30, 2013*	UNIVERSITY OF VIRGINIA LAW SCHOOL FOUNDATION	UNIVERSITY OF VIRGINIA DARDEN SCHOOL FOUNDATION	ALUMNI ASSOCIATION OF THE UNIVERSITY OF VIRGINIA	JEFFERSON SCHOLARS FOUNDATION	VIRGINIA ATHLETICS FOUNDATION*	UNIVERSITY OF VIRGINIA FOUNDATION	UNIVERSITY OF VIRGINIA PHYSICIANS GROUP	UNIVERSITY OF VIRGINIA INVESTMENT MANAGEMENT COMPANY	COMPONENT UNITS SUBTOTAL	ELIMINATIONS	COMPONENT UNITS TOTAL
ASSETS											
Current assets											
Total current assets	**$ 18,666**	**$ 39,493**	**$ 32,673**	**$ 13,629**	**$ 23,282**	**$ 7,377**	**$ 81,295**	**$ 121,445**	**$ 337,860**	**$ —**	**$ 337,860**
Noncurrent assets											
Long-term investments	362,110	238,531	227,617	249,876	61,611	73,288	183,684	5,849,162	7,245,879	(1,058,756)	6,187,123
Capital assets, net and other assets	20,072	80,919	8,859	37,888	13,516	315,219	77,992	170	554,635	—	554,635
Total noncurrent assets	**382,182**	**319,450**	**236,476**	**287,764**	**75,127**	**388,507**	**261,676**	**5,849,332**	**7,800,514**	**(1,058,756)**	**6,741,758**
TOTAL ASSETS	**$ 400,848**	**$ 358,943**	**$ 269,149**	**$ 301,393**	**$ 98,409**	**$ 395,884**	**$ 342,971**	**$ 5,970,777**	**$ 8,138,374**	**$(1,058,756)**	**$ 7,079,618**
LIABILITIES AND NET ASSETS											
Current liabilities											
Total current liabilities	**$ 511**	**$ 9,186**	**$ 90,102**	**$ 8,699**	**$ 1,020**	**$ 44,418**	**$ 120,054**	**$ 2,766**	**$ 276,756**	**$ —**	**$ 276,756**
Noncurrent liabilities											
Long-term debt, net of current portion of $32,699	—	18,734	—	22,500	—	169,347	38,031	—	248,612	—	248,612
Other noncurrent liabilities	508	—	2,892	17,453	389	94,762	97,410	5,955,933	6,169,347	(1,058,756)	5,110,591
Total noncurrent liabilities	**508**	**18,734**	**2,892**	**39,953**	**389**	**264,109**	**135,441**	**5,955,933**	**6,417,959**	**(1,058,756)**	**5,359,203**
TOTAL LIABILITIES	**$ 1,019**	**$ 27,920**	**$ 92,994**	**$ 48,652**	**$ 1,409**	**$ 308,527**	**$ 255,495**	**$ 5,958,699**	**$ 6,694,715**	**$(1,058,756)**	**$ 5,635,959**
NET ASSETS											
Unrestricted	$ 56,865	$ 90,865	$ 57,424	$ (11,642)	$ 29,048	$ 7,760	$ 87,361	$ 12,078	$ 329,759	$ —	$ 329,759
Temporarily restricted	212,868	108,791	75,897	94,971	35,998	64,820	115	—	593,460	—	593,460
Permanently restricted	130,096	131,367	42,834	169,412	31,954	14,777	—	—	520,440	—	520,440
TOTAL NET ASSETS	**$ 399,829**	**$ 331,023**	**$ 176,155**	**$ 252,741**	**$ 97,000**	**$ 87,357**	**$ 87,476**	**$ 12,078**	**$1,443,659**	**$ —**	**$1,443,659**
TOTAL LIABILITIES AND NET ASSETS	**$ 400,848**	**$ 358,943**	**$ 269,149**	**$ 301,393**	**$ 98,409**	**$ 395,884**	**$ 342,971**	**$ 5,970,777**	**$ 8,138,374**	**$(1,058,756)**	**$ 7,079,618**

**December 31, 2012, year-end*

PLEDGES RECEIVABLE

Unconditional promises to give (pledges) are recorded as receivables and revenues and are assigned to net asset categories based on the presence or absence of donor-imposed restrictions. Pledges expected to be collected within one year are recorded at net realizable value. Pledges that are expected to be collected in future years are recorded at the net present value of their estimated future cash flows. The discounts on these amounts are computed using risk-free interest rates applicable to the years in which the promise was received and then remain consistent throughout the pledge's life. The component units recorded an allowance against pledges receivable for estimated uncollectible amounts. The **University of Virginia Physicians Group** does not accept gifts. Unconditional promises to give at June 30, 2013, are as follows:

SUMMARY SCHEDULE OF PLEDGES RECEIVABLE *(in thousands)* *as of June 30, 2013*	UNIVERSITY OF VIRGINIA LAW SCHOOL FOUNDATION	UNIVERSITY OF VIRGINIA DARDEN SCHOOL FOUNDATION	ALUMNI ASSOCIATION OF THE UNIVERSITY OF VIRGINIA	JEFFERSON SCHOLARS FOUNDATION	VIRGINIA ATHLETICS FOUNDATION*	COMPONENT UNITS TOTAL
Total pledges receivable	**$ 15,353**	**$ 21,300**	**$ 8,084**	**$ 21,246**	**$ 34,992**	**$ 100,975**
Less allowance for uncollectible accounts	(761)	(1,446)	(905)	(1,641)	(4,430)	(9,183)
Less effect of discounting to present value	(393)	(3,824)	(287)	(837)	(194)	(5,535)
Net pledges receivable	**14,199**	**16,030**	**6,892**	**18,768**	**30,368**	**86,257**
Less current pledges	(5,827)	(4,591)	(1,640)	(6,005)	(18,062)	(36,125)
TOTAL NONCURRENT PLEDGES RECEIVABLE	**$ 8,372**	**$ 11,439**	**$ 5,252**	**$ 12,763**	**$ 12,306**	**$ 50,132**

**December 31, 2012, year-end*

The **University of Virginia Law School Foundation** has received bequest intentions and certain other conditional promises to give of approximately $4.1 million at June 30, 2013. These intentions and conditional promises to give are not recognized as assets, and if they are received, will generally be restricted for specific purposes stipulated by the donors, primarily endowments for scholarships and professorships.

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

INVESTMENTS

Investments are recorded at market value, which is determined by readily available quotes on the stock exchange or as quoted by the **University of Virginia Investment Management Company (UVIMCO)**. Realized gains (losses) from the sale of securities and unrealized gains (losses) from the appreciation (depreciation) of the value of securities held are recognized in the year incurred. The fair values of investments by investment class at June 30, 2013, for the component units are as follows:

SUMMARY SCHEDULE OF INVESTMENTS *(in thousands)* *as of June 30, 2013*	UNIVERSITY OF VIRGINIA LAW SCHOOL FOUNDATION	UNIVERSITY OF VIRGINIA DARDEN SCHOOL FOUNDATION	ALUMNI ASSOCIATION OF THE UNIVERSITY OF VIRGINIA	JEFFERSON SCHOLARS FOUNDATION	VIRGINIA ATHLETICS FOUNDATION*	UNIVERSITY OF VIRGINIA FOUNDATION	UNIVERSITY OF VIRGINIA PHYSICIANS GROUP	UNIVERSITY OF VIRGINIA INVESTMENT MANAGEMENT COMPANY	ELIMINATIONS	COMPONENT UNITS TOTAL
Common stocks, corporate notes, bonds, limited partnerships, and agency securities	$ 1,930	$ 29,343	$ 17,280	$ 2,750	$ 289	$ —	$ 63,837	$ —	$ —	$ 115,429
University of Virginia Investment Management Co.	240,006	230,548	198,811	227,151	60,688	47,577	53,975	—	(1,058,756)	—
Mutual and money market funds	12,719	109	766	—	655	809	36,475	70,295	—	121,828
Other	120,175	—	14,646	22,886	—	28,538	33,038	5,897,262	—	6,116,545
Total investments	**374,830**	**260,000**	**231,503**	**252,787**	**61,632**	**76,924**	**187,325**	**5,967,557**	**(1,058,756)**	**6,353,802**
Less amounts shown in current assets	(12,720)	(21,469)	(3,886)	(2,911)	(21)	(3,636)	(3,641)	(118,395)	—	(166,679)
LONG-TERM INVESTMENTS	**$ 362,110**	**$ 238,531**	**$ 227,617**	**$ 249,876**	**$ 61,611**	**$ 73,288**	**$ 183,684**	**$ 5,849,162**	**$(1,058,756)**	**$ 6,187,123**

**December 31, 2012, year-end*

UVIMCO has investments in limited partnership hedge funds, private equity, and venture capital investments or similar private investment vehicles. These investments do not actively trade through established exchange mechanisms and are valued at estimated fair market value, based on UVIMCO's interest in the investee as determined and reported by the external manager of the investment. Such investments represent $3,103,249,396 (52 percent of investments held for others) at June 30, 2013. Because of the inherent uncertainty of such valuations, these estimated values may differ from the values that would have been used had a ready market for the investments existed, and such differences could be material.

PROPERTY, FURNISHINGS, AND EQUIPMENT

The property, furnishings, and equipment of the **University of Virginia Foundation** and the **University of Virginia Darden School Foundation** are recorded at cost, except donated property, which is recorded at fair market value at the date of the gift. Depreciation is taken over estimated useful lives of five to thirty-nine years using the straight-line method. As of June 30, 2013, capital assets consisted of (in thousands):

PROPERTY, FURNISHINGS, AND EQUIPMENT *(in thousands)* *as of June 30, 2013*	UNIVERSITY OF VIRGINIA FOUNDATION	UNIVERSITY OF VIRGINIA DARDEN SCHOOL FOUNDATION
Land	$ 143,537	$ —
Buildings and improvements	241,055	105,196
Furnishings and equipment	22,538	1,619
Total	**407,130**	**106,815**
Less accumulated depreciation	(94,218)	(38,144)
NET CAPITAL ASSETS	**$ 312,912**	**$ 68,671**

NOTES PAYABLE

The **University of Virginia Foundation** has established two lines of credit with Wells Fargo Bank, N.A., in the amount of $34 million. The outstanding balance under these lines at June 30, 2013, was $21.5 million. The Foundation has a third line of credit with Bank of America in the amount of $40 million. The outstanding balance on this line was $19 million at June 30, 2013. In addition, UVAF established a fourth line of credit with U.S. Bank National Association in the amount of $25 million. The outstanding balance at June 30, 2013, was $25 million.

The University has allocated up to $37.8 million of its quasi-endowment funds for use by the Foundation to acquire and develop real estate. As of June 30, 2013, the Foundation had borrowed $30 million of these funds to acquire properties on behalf of the University. These notes payable are noninterest bearing and due on demand.

LONG-TERM DEBT

The following table summarizes the long-term obligations of the **University of Virginia Darden School Foundation**, the **Jefferson Scholars Foundation**, the **University of Virginia Foundation**, and the **University of Virginia Physicians Group** at June 30, 2013 (in thousands):

LONG-TERM DEBT *(in thousands)* *as of June 30, 2013*	UNIVERSITY OF VIRGINIA DARDEN SCHOOL FOUNDATION	JEFFERSON SCHOLARS FOUNDATION	UNIVERSITY OF VIRGINIA FOUNDATION	UNIVERSITY OF VIRGINIA PHYSICIANS GROUP
University of Virginia Phase I and II Darden School Facilities	$ 20,951	$ —	$ —	$ —
Notes payable SunTrust Bank	—	4,500	—	—
Recovery Zone Facility Bond	—	—	10,555	—
Note payable Augusta Professional Park	—	—	—	4,180
1997 Industrial Development Authority revenue bonds—Louisa	—	—	3,654	—
1998 Refunding bonds	—	—	—	10,740
1999 Mortgage note payable	—	—	4,588	—
2000 Industrial Development Authority revenue bonds—Louisa	—	—	—	4,160
2001 Refinancing demand bonds	—	—	34,735	—
2004 Refinancing note payable	—	—	8,840	—
2009 Economic Development Authority revenue bonds—Albemarle	—	—	—	21,800
2011 Refinancing demand bonds	—	18,000	38,735	—
Total	**20,951**	**22,500**	**101,107**	**40,880**
Less portion due within one year	(2,217)	—	(27,634)	(2,848)
LONG-TERM DEBT, NET OF CURRENT PORTION	**$ 18,734**	**$ 22,500**	**$ 73,473**	**$ 38,032**

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

MATURITIES *(in thousands)* *as of June 30, 2013*	UNIVERSITY OF VIRGINIA DARDEN SCHOOL FOUNDATION	JEFFERSON SCHOLARS FOUNDATION	UNIVERSITY OF VIRGINIA FOUNDATION	UNIVERSITY OF VIRGINIA PHYSICIANS GROUP
Year ended June 30, 2014	$ 2,217	$ —	$ 27,634	$ 2,848
Year ended June 30, 2015	2,326	—	25,697	2,995
Year ended June 30, 2016	2,439	—	29,418	2,871
Year ended June 30, 2017	2,564	—	4,596	1,665
Year ended June 30, 2018	2,727	—	11,024	1,750
Years ended June 30, 2019—2037	8,678	22,500	98,612	28,750
TOTAL	**$ 20,951**	**$ 22,500**	**$ 196,981**	**$ 40,879**

STATEMENT OF ACTIVITIES *(in thousands)* *for the year ended June 30, 2013*	UNIVERSITY OF VIRGINIA LAW SCHOOL FOUNDATION	UNIVERSITY OF VIRGINIA DARDEN SCHOOL FOUNDATION	ALUMNI ASSOCIATION OF THE UNIVERSITY OF VIRGINIA	JEFFERSON SCHOLARS FOUNDATION	VIRGINIA ATHLETICS FOUNDATION*	UNIVERSITY OF VIRGINIA FOUNDATION	UNIVERSITY OF VIRGINIA PHYSICIANS GROUP	UNIVERSITY OF VIRGINIA INVESTMENT MANAGEMENT COMPANY	COMPONENT UNITS TOTAL
UNRESTRICTED REVENUES AND SUPPORT									
Contributions	$ 3,005	$ 4,756	$ 490	$ 45	$ 13,848	$ —	$ —	$ —	$ 22,144
Fees for services, rentals, and sales	—	23,062	2,264	—	807	46,790	253,465	12,480	338,868
Other revenues	15,527	16,148	52,349	10,384	24,117	7,592	149,971	953	277,041
TOTAL UNRESTRICTED REVENUES AND SUPPORT	**18,532**	**43,966**	**55,103**	**10,429**	**38,772**	**54,382**	**403,436**	**13,433**	**638,053**
EXPENSES									
Program services, lectures, and special events	11,021	35,005	49,778	14,030	37,715	28,099	296,794	9,298	481,740
Other expenses	3,847	5,020	2,172	1,527	2,458	17,368	75,964	2,642	110,998
TOTAL EXPENSES	**14,868**	**40,025**	**51,950**	**15,557**	**40,173**	**45,467**	**372,758**	**11,940**	**592,738**
EXCESS (DEFICIENCY) OF UNRESTRICTED REVENUES AND SUPPORT OVER EXPENSES	**3,664**	**3,941**	**3,153**	**(5,128)**	**(1,401)**	**8,915**	**30,678**	**1,493**	**45,315**
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS									
Contributions	2,380	6,469	31,412	2,581	9,470	100	—	—	52,412
Other	24,687	13,192	(23,286)	18,533	(15,891)	3,065	—	—	20,300
NET CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	**27,067**	**19,661**	**8,126**	**21,114**	**(6,421)**	**3,165**	**—**	**—**	**72,712**
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS									
Contributions	4,827	2,091	2,446	14,524	1,049	—	—	—	24,937
Other	(3,443)	—	98	(341)	195	—	—	—	(3,491)
NET CHANGE IN PERMANENTLY RESTRICTED NET ASSETS	**1,384**	**2,091**	**2,544**	**14,183**	**1,244**	**—**	**—**	**—**	**21,446**
CHANGE IN NET ASSETS	**32,115**	**25,693**	**13,823**	**30,169**	**(6,578)**	**12,080**	**30,678**	**1,493**	**139,473**
Net assets, beginning of year	367,714	299,105	162,332	222,572	103,578	75,277	56,798	10,585	1,297,961
Distribution of net assets	—	6,225	—	—	—	—	—	—	6,225
NET ASSETS, END OF YEAR	**$ 399,829**	**$ 331,023**	**$ 176,155**	**$ 252,741**	**$ 97,000**	**$ 87,357**	**$ 87,476**	**$ 12,078**	**$1,443,659**

**December 31, 2012, year-end*

SIGNIFICANT TRANSACTIONS WITH THE UNIVERSITY OF VIRGINIA

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

Direct payments to the University from the **Alumni Association of the University of Virginia** for the year ended June 30, 2013, totaled $991 thousand. This amount includes gift transfers, payment for facilities and services, and other support for University activities.

The **University of Virginia Physicians Group** has contracted with the University to provide certain professional and technical services. Payments received for these services were approximately $76 million for the year ended June 30, 2013. Approximately $22 million of the fiscal year payments received relates to disproportionate share funds paid for indigent patients served by the Foundation. The **University of Virginia Physicians Group** contributed $20 million to the University in support of various academic programs, equipment, teaching, and research for the year ended June 30, 2013.

NOTE 9 | EXPENSE CLASSIFICATION MATRIX

OPERATING EXPENSES BY FUNCTIONAL CLASSIFICATION *(in thousands)* *for the year ended June 30, 2013*	COMPENSATION	SUPPLIES, UTILITIES, AND OTHER SERVICES	STUDENT AID	DEPRECIATION	OTHER	TOTAL
Instruction	$ 304,493	$ 33,850	$ 3,770	$ —	$ 776	$ 342,889
Research	163,238	105,528	14,649	—	594	284,009
Public service	21,764	12,279	760	—	581	35,384
Academic support	102,947	31,727	432	—	184	135,290
Student services	30,569	10,375	151	—	130	41,225
Institutional support	87,410	16,850	115	—	734	105,109
Operation of plant	82,215	(2,691)	—	—	137	79,661
Student aid	1,414	4,648	49,805	—	179	56,046
Auxiliary	64,941	83,014	2	—	667	148,624
Depreciation	—	—	—	112,086	—	112,086
Patient services	507,672	534,055	—	80,187	—	1,121,914
Other	(19)	(12,960)	—	—	—	(12,979)
Central services recoveries	—	(16,007)	—	—	—	(16,007)
TOTAL	**$ 1,366,644**	**$ 800,668**	**$ 69,684**	**$ 192,273**	**$ 3,982**	**$ 2,433,251**

NOTE 10 | APPROPRIATIONS

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

A summary of state appropriations received by the University and the University's College at Wise, including all supplemental appropriations and reversions for the year ended June 30, 2013, is provided in the chart below.

APPROPRIATIONS *(in thousands)*	
Original legislative appropriation per Chapter 890	$ 128,307
Adjustments	
Financial Aid - General Fund	12,090
SWVA Public Education Consortium	124
Financial Assistance for educational and general	5,015
Miscellaneous educational and general	10,143
TOTAL	**$ 155,679**

NOTE 11 | RETIREMENT PLANS

Essentially all regular employees of the University are eligible to enroll in the defined-benefit pension plan administered by the Virginia Retirement System (VRS). Eighty-four percent of salaried classified and University staff employees, 13 percent of faculty, and 16 percent of Medical Center employees participate in this defined-benefit pension plan. The VRS does not measure assets and pension benefit obligations separately for individual state institutions. Information relating to this plan is available at the statewide level only in the Commonwealth of Virginia's Comprehensive Annual Financial Report (CAFR). The CAFR provides disclosure of the Commonwealth's unfunded pension benefit obligation at June 30, 2013. The Commonwealth, not the University, has overall responsibility for contributions to this plan.

Eighty-seven percent of teaching, research, and administrative faculty, 16 percent of University staff, and 84 percent of Medical Center employees participate in Optional Retirement Plans offered through TIAA-CREF and Fidelity Investments, Inc. The Optional Retirement Plan is a defined-contribution plan to which the University contributes an amount established by statute. Beginning July 1, 2010, there are two defined-contribution plans for eligible Academic employees. Plan 1 is for employees hired prior to July 1, 2010, and retirement benefits received are based on the employer's 10.4 percent contributions, plus interest and dividends. Plan 2 is for employees hired on or after July 1, 2010, and retirement benefits received are based upon the employer's 8.9 percent contribution and the employee's 5.0 percent contribution, plus interest and dividends. Participants are fully vested immediately. The Medical Center Optional Retirement Plan is a defined-contribution plan where the retirement benefits received are based on the employer and employee contributions, all of which are paid by the Medical Center, plus interest and dividends. Medical Center employees are fully vested after one or two years of employment, depending on their date of hire.

Total pension costs under the Optional Retirement Plans were approximately $49.0 million, and contributions were calculated using base salaries of $605.1 million, for the year ended June 30, 2013. The contribution percentage amounted to 8.10 percent.

State employees may elect to participate in the Commonwealth's Deferred Compensation 457 Plan or the University's 403(b) Plan. Participating employees can contribute to either plan each pay period, with the Commonwealth matching at 50 percent up to $10 per pay period or $20 per month. This dollar amount match can change depending on the funding available in the Commonwealth's budget. The Employer Matching Plan falls under section 401(a) of the Internal Revenue Code. Employer contributions for University employees to the 401(a) plan were $2.4 million and employee contributions were $43.1 million for the fiscal year ended June 30, 2013.

The Deferred Compensation plan for the University Medical Center employees hired on or after September 30, 2002, allows employee contributions up to 4 percent of their salary and an employer match of 50 percent of the employee's 4 percent deferral amount not to exceed 2 percent of their salary. Employer contributions under this plan were approximately $1.8 million for fiscal year 2013.

NOTE 12 | POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

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

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

The University's annual postemployment benefits expense is actuarially determined in accordance with the parameters of GASB Statement No. 45, which calls for the measurement and recognition of the cost of other postemployment benefits (OPEB) during the periods when employees render their services. The statement also establishes more comprehensive disclosure for OPEB obligations. OPEB refers to postemployment benefits other than pension benefits and includes postemployment health care benefits and other types of postemployment benefits if provided separately from a pension plan. The University implemented GASB Statement No. 45 prospectively as of June 30, 2008, with a zero net OPEB obligation at transition.

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

The contribution requirements of plan members and the University are based on projected pay-as-you-go financing requirements. For fiscal year 2013, the University contributed $1,990,428 to the plan for retiree claims. Retirees receiving benefits contributed $4,235,865, or approximately 68 percent of the total premiums, through their required contribution of $548 per month for retiree-only coverage and $1,114 per month for retiree-and-spouse coverage.

The University's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The total cost of providing postemployment benefits is projected, taking into account assumptions about demographics, turnover, mortality, disability, retirement, health care trends, and other actuarial assumptions. This amount is discounted to determine the actuarial present value of total projected benefits. The actuarial accrued liability (AAL) is the portion of the present value of the total projected benefits allocated to years of employment prior to the measurement date. The unfunded actuarial accrued liability (UAAL) is the difference between the AAL and actuarial value of assets in the plan.

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

SUMMARY OF VALUATION RESULTS *(in thousands)*

Actuarial accrued liability by category	
Current retirees, beneficiaries, dependents, and terminated vested members	$ 13,809
Current active members	55,661
Adjust to June 30, 2013	2,620
Total accrued liability as of June 30, 2013	**72,090**
Annual Required Contribution (ARC)	
Estimated ARC for June 30, 2013	11,766
Estimated interest on net OPEB obligation	849
ARC adjustment to June 30, 2013	(1,246)
Actual contributions	(1,990)
Net increase in ARC for June 30, 2013	**9,379**
Actual ARC July 1, 2012	25,327
Total estimated annual required contribution as of June 30, 2013	**$ 34,706**

As of June 30, 2013, the University has not funded this retirement plan.

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

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

The University elected not to have an actuarial valuation for the period ending June 30, 2013. In the June 30, 2012, actuarial valuation, the University elected to use the Entry Age Normal Level Dollar method. The actuarial assumptions include a 4.5 percent investment rate of return, which is a blended rate of the expected long-term investment returns on plan assets and the University's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 8 percent initially, reduced by decrements to an ultimate rate of 5 percent after six years and a drug cost trend rate of 7.5 percent reduced by decrements to an ultimate rate of 5 percent after five years. All rates include a 4 percent inflation assumption. The UAAL is being amortized as a level percentage of projected payrolls on an open basis over a rolling thirty-year period. In estimating the amounts for the period ending June 30, 2013, the University did not change the assumptions presented in the June 30, 2012, actuarial valuation.

NOTE 13 | SELF-INSURANCE

All University employees have the option to participate in the University's self-funded, comprehensive medical care benefits program. The cost of medical care is paid out of employee and employer contributions. The market value of investments at June 30, 2013, was $65.1 million. Claims and expenses are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Those losses include an estimate of claims that have been incurred but not reported and the future costs of handling claims. The estimated liability for outstanding claims at June 30, 2013, was $10.9 million. The University has contracted with several third-party claims administrators: Aetna for its medical claims; United Concordia for its dental claims; and CatalystRx for its pharmacy claims.

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

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

NOTE 14 | FUNDS HELD IN TRUST BY OTHERS

Assets of funds held by trustees for the benefit of the University are not reflected in the accompanying Statement of Net Position. 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, 2013, was $120 million and income received totaled $5.8 million.

NOTE 15 | COMMITMENTS AND CONTINGENCIES

Authorized expenditures for construction and other projects unexpended as of June 30, 2013, were approximately $99 million.

The University has entered into numerous operating lease agreements to rent, lease, and maintain land, buildings, and equipment that expire at various dates through 2050. In most cases, the University has renewal options on the leased assets for another similar term, and expects that, in the normal course of business, these leases will be replaced by similar leases. Operating lease expense totaled approximately $25 million for the year ended June 30, 2013.

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

YEARS ENDING JUNE 30 *(in thousands)*	LEASE OBLIGATION
2014	$ 15,058
2015	11,104
2016	7,363
2017	6,641
2018	6,177
2019–2023	12,436
2024–2028	4,012
2029–2033	823
2034–2038	823
2039–2043	823
2044–2048	823
2049–2053	165
TOTAL	**$ 66,248**

LITIGATION

The University is a party to various legal actions and other claims in the normal course of business. While the final outcome cannot be determined at this time, management is of the opinion that the liability, if any, for these legal actions will not have a material effect on the University's financial position.

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FINANCIAL STAFF

Melody S. Bianchetto | *Associate Vice President for Finance*
James S. Matteo | *Assistant Vice President for Treasury Management and Fiscal Planning*
David J. Boling | *Assistant Vice President for Finance and University Comptroller*
Randall B. Ellis | *Senior Associate Comptroller*
Laura N. Lingo | *Manager of Financial Reporting*

INTERNAL AUDIT

Barbara J. Deily | *Chief Audit Executive*

FINANCIAL REPORT 2012–13

The University of Virginia Office of Advancement
P.O. Box 400807
Charlottesville, VA 22904-4807
E-mail cb2zf@virginia.edu

Photos by Stephanie Gross and Sanjay Suchak

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UNIVERSITY of VIRGINIA
P.O. Box 400807
Charlottesville, VA 22904-4807

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