UNIVERSITY of VIRGINIA

FINANCIAL REPORT 2010–11

CONTENTS

A NEW LEADER FOR THE UNIVERSITY | 36
Q&A with the Executive Vice President and Chief Operating Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS | 38

MANAGEMENT RESPONSIBILITY LETTER | 51

INDEPENDENT AUDITOR'S OPINION | 52

STATEMENT OF NET ASSETS | 53

COMPONENT UNITS
COMBINED STATEMENTS OF FINANCIAL POSITION | 54

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS | 55

COMPONENT UNITS
COMBINED STATEMENTS OF ACTIVITIES | 56

STATEMENT OF CASH FLOWS | 57

NOTES TO FINANCIAL STATEMENTS | 58

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES | 58
NOTE 2: CASH, CASH EQUIVALENTS, AND INVESTMENTS | 61
NOTE 3: STATEMENT OF NET ASSETS DETAILS | 63
NOTE 4: SHORT-TERM DEBT | 66
NOTE 5: LONG-TERM OBLIGATIONS | 66
NOTE 6: DERIVATIVES | 67
NOTE 7: AFFILIATED COMPANIES | 68
NOTE 8: COMPONENT UNITS | 70
NOTE 9: EXPENSE CLASSIFICATION MATRIX | 74
NOTE 10: APPROPRIATIONS | 74
NOTE 11: RETIREMENT PLANS | 75
NOTE 12: POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS | 75
NOTE 13: SELF-INSURANCE | 76
NOTE 14: FUNDS HELD IN TRUST BY OTHERS | 77
NOTE 15: COMMITMENTS AND CONTINGENCIES | 77
NOTE 16: SUBSEQUENT EVENTS | 77

A New Leader for the University

MICHAEL STRINE JOINED THE UNIVERSITY OF VIRGINIA IN July 2011 as the new executive vice president and chief operating officer. He succeeds Leonard W. Sandridge, who stepped down on July 1 after forty-four years at U.Va. Mr. Strine was vice president for finance, chief financial officer and treasurer for the Johns Hopkins University before coming to U.Va. He oversees the financial affairs of the University and each of its schools and divisions, including the Medical Center. In addition, several key operational and administrative areas, such as human resources, facilities, real estate, and public safety, report to him.

Q. You've only had a short time to become familiar with the University. What have you been doing to get up to speed? Who have you been meeting with and have you had a chance to get to know your way around the Grounds and the Medical Center?

I have visited U.Va. throughout my life as it has grown and changed. Much is familiar and there is always something new to learn. Building strong relationships based on trust and transparency is critically important to the important work ahead of us. So spending time with the deans, faculty, and staff in places across the Grounds and Medical Center has been the highest priority during my transition and will continue to be so. Understanding the programmatic goals and needs of the faculty, staff, and students of this University is essential to my role in helping to coordinate resources and energy in support of those goals. I will be forever grateful for the thoughtful transition that people like Leonard Sandridge provided in being so generous with their time in orienting me physically, culturally, and otherwise so that I could sustain momentum and begin adding value on strategic priorities.

Q. What are your impressions of the University so far?

I am continually impressed by the strategic focus and quality of the dialogue of the Rector and Board of Visitors on the core issues facing excellent public institutions of higher education, the strong and deep relationship that President Sullivan has quickly established in every corner of the University and greater Charlottesville community, and the quality, thoughtfulness, and warmth of my colleagues as I transition and we begin working together. But ultimately the distinct values of honor, service, and self-governance that exude from every member of the faculty, staff, students, parents, and alumni make the strongest impression of this great University. That distinctiveness is priceless.

Q. What is U.Va.'s current financial picture? What are the challenges it faces and what strengths can it draw on going forward?

It is a critical time in our nation's history, where some are questioning the public value of University-based research, the cost of undergraduate degrees, and the outcomes of our investments in health care. The University of Virginia is not alone in facing financial challenges ahead. With the headwinds in the global and national economies and the political stalemate in Washington, we must expect pressure on the key revenue sources that support our mission. That said, the stakes are in many ways higher in a public institution because the public investment and all else is much more transparent and therefore more highly accountable, as it should be. The key for us is putting our best foot forward and making clear our record of serving the public with effective and efficient use of resources to deliver high-quality education, patient care, and research that leverages that investment with great returns to our society.

Q. Part of what you do is lead the financial and capital planning and budgeting processes. You'll be working with the provost to develop and implement a new responsibility-based budget model for the University. How would you describe this process and can you tell us a little about your approach for a model that recognizes changes in state funding levels, research support, philanthropic giving, and investment returns?

Our collective capacity to discover, educate, and care for patients and communities and to extend our commitment to public service will advance when we can better and more sustainably align our aspirations with resources. The new internal financial model should be transparent, provide incentives to extend our mission, and be grounded in sound stewardship of the University's resources. We are unique, so it is not possible or wise to transport the budget model of another institution to Virginia. We can learn from others, but must create a model that serves the distinctive mission and fits with the special culture of honor, service, and excellence that defines our institution and its people. This work affects us all and the work we do together. The provost and I are committed to regularly communicating across the Grounds, in groups large and small, in person, and through other means, to ensure that we move together through this important time of empowerment and change. Given the complexity and importance of this undertaking, we anticipate implementing a new budget model for the 2013–14 fiscal year.

Q. What's ahead for the Health System, which is a growing source of support for the University and faces a different set of financial challenges?

The environment for health care in the country is undergoing significant change. Health care reform, financial pressures, and changing demographics are among the forces that have made strategic planning for the future of our academic medical center to be among the highest priorities this year for leadership across the institution. The Medical Center is poised to advance the quality of care for patients and their families while extending its capacity to translate discovery into improved medical practice. With the strength of faculty, facilities, and its balance sheet, the Medical Center is well positioned to execute on these emerging strategic priorities.

Q. What is your early assessment of the University's relationship with the Commonwealth?

From all that I have seen and heard, it is apparent to me that the University is well respected in Richmond. Many individuals at the University have worked to build respectful, credible, productive, professional relationships with government officials, legislators, and state agency personnel.

The Restructuring paradigm has laid the foundation for further progress, and in 2011 the governor and the General Assembly enacted the Virginia Higher Education Opportunity Act. This legislation complements the Restructuring Act and signals the Commonwealth's recognition of the importance of higher education. One of the many objectives of the HEOA is to consider how the principles of Restructuring might be further enhanced. We are working with other institutions to propose additional ways in which we can simplify our work with state agencies. I am pleased that the Commonwealth recognizes the success of Restructuring to date and is open to considering additional ways to further the autonomy-accountability model.

The governor and other key policy leaders value the University's role in preparing a highly qualified workforce, creating jobs, contributing to economic growth, and improving the health and welfare of citizens. The University has demonstrated its commitment to the goals of the Commonwealth by our willingness to grow the number of students, especially in fields of science, technology, engineering, math, and health fields; our consideration of new and creative ways to educate our students; and the diversification of our research agenda. For the University to fulfill these commitments, however, the state will need to provide its share of funding to support faculty and student services. State financial support is a vital component to achieving excellence. The Virginia Higher Education Opportunity Act legislation provides a strong framework for the Commonwealth and public higher education institutions to work together to advance the good of the Commonwealth and its citizens.

Q. Are there other priorities on your "To Do" list?

As our strategic priorities and resource allocation model change, it is critical to ensure that we develop and align the capacity of people, systems, and operations to support the mission. In such a dynamic period, we will be investing energy and time in building and maintaining relationships, enhancing the culture of customer service, and making sure our faculty, staff, and students feel supported in the work they do. At my core, I am an educator who believes that great things come through the thoughtful application of time and effort together with others. So my approach is pretty simple. Do my best. Find committed and excellent people. Help them do their best. Together we can serve those who teach, learn, discover, care for patients, and contribute to the community.

Q. Faculty salaries are now falling in relationship to our peers. Do you foresee the University being able to raise salaries for faculty and for staff?

People are our biggest investment. Therefore, recruiting and retaining the highest quality of faculty, clinicians, staff, and students is the single most important strategic objective and risk. The commitment of our people to this University is unparalleled and has sustained our excellence through years of no pay increases. Recognizing that this cannot continue, the president set as a priority identifying funds to deliver merit-based pay increases. Going forward, I expect that we will continue to prioritize rewarding performance and investing resources in retaining and attracting faculty and staff of the highest quality.

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, 2011. Comparative information for the year ended June 30, 2010, 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 College at Wise.

ACADEMIC DIVISION

A public institution of higher learning with 21,049 students and 2,125 full-time instructional and research faculty members in eleven separate schools in 2010–11, the University offers a diverse range of degree programs, from baccalaureate to graduate levels including doctorates in fifty-five disciplines. The University is recognized internationally for the quality of its graduates and faculty and 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 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 619-bed hospital in a state-designated Level 1 trauma center located in Charlottesville. In addition, primary and specialty care are provided at convenient clinic locations throughout central Virginia communities. The University's Health System has a tradition of excellence in teaching, advancement of medical science, and patient care, consistently ranking 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 2,067 students and eighty-eight full-time instructional and research faculty. It offers thirty majors and seven preprofessional programs, including dentistry, forestry, law, medicine, physical therapy, and veterinary medicine. Degrees include the bachelor of arts, the bachelor of science, and the bachelor of science in nursing.

FINANCIAL HIGHLIGHTS

For the fiscal year ended June 30, 2011:

- The University received a 24.3 percent return on its endowment during 2010–11. Overall, the endowment assets increased by $570 million. On a per share basis, positive investment returns over the last three years have restored market value to 13 percent above the June 30, 2008, level. The University made an endowment spending distribution to its departments totaling $144.1 million, which was the equivalent of 5.3 percent of the June 30, 2010, market value of the endowment.
- Through June 30, 2011, the University has been awarded $72 million of funding from federal stimulus (ARRA) grants during the past three years. Of that total, $5.5 million was awarded during fiscal year 2010–11. With stimulus funding ended, no additional awards are expected from this program. $19.5 million in ARRA awards was expensed in 2010–11.
- In addition to ARRA grants, the University received $23.6 million in one-time federal stimulus funding that came from the Commonwealth of Virginia, as part of the State Fiscal Stabilization Funds program. This funding was used for financial aid to students.
- As of June 30, 2011, the total of the Campaign for the University of Virginia stood at $2.442 billion.
- The University's Facilities and Administrative (F&A) rate was increased in 2009–10 to 54.0 percent, and will remain at that rate until a new agreement is negotiated with the federal government. F&A recoveries for 2010–11 were $73.4 million. A proposal has been submitted to the federal government, and a new agreement will be negotiated sometime during fiscal year 2011–12.

- Capital construction added in fiscal year 2010–11 totaled $318 million, with a construction in progress year-end balance of $415 million. This continues to keep the University's physical capital assets (even recorded at historical cost less depreciation, in accordance with GASB principles) second in value only to endowment assets on the Statement of Net Assets. The increase in debt financing for this construction contributed to the growth in the University's debt position of $179 million during the year, and associated increase in interest expenses. Also, the addition of new facilities has resulted in expanding overall utilities and maintenance services and expenses.

The University's net assets increased by $909 million, or 17 percent. A summary of the factors contributing to this increase are presented in the table below.

SUMMARY OF THE CHANGE IN NET ASSETS *(in thousands)*	2011	2010	INCREASE (DECREASE) AMOUNT	INCREASE (DECREASE) PERCENT
Total revenues before investment income	$ 2,347,806	$ 2,352,925	$ (5,119)	(0.2%)
Total expenses	2,271,949	2,264,932	7,017	0.3%
Increase in net assets before investment income	**75,857**	**87,993**	**(12,136)**	**(13.8%)**
Investment income	833,465	467,024	366,441	78.5%
TOTAL CHANGE IN NET ASSETS	**$ 909,322**	**$ 555,017**	**$ 354,305**	**63.8%**

- Overall, the primary factor in the University's net asset growth or decline 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 $833 million, which was significantly higher than investment income of $467 million in fiscal year 2009–10. The University's long-term investments earned a 24.3 percent positive return for the fiscal year, compared to a 15 percent return in fiscal year 2009–10.

- Total expenses increased by 0.3 percent and net revenues before investment income was a positive $76 million, which was slightly less than the prior year's net revenues before investment income. Details and discussion by revenue source and expense category are presented respectively in the tables below.

USING THE FINANCIAL STATEMENTS

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

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

These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles, which establish standards for external financial reporting for public colleges and universities. These principles require that financial statements be presented on a consolidated basis to focus on the University as a whole, with resources classified for accounting and reporting purposes into four net asset categories. Please note that although 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 ASSETS

The Statement of Net Assets presents the financial position of the University at the end of the fiscal year and includes all assets, liabilities, deferred inflows, and deferred outflows of the University. The difference between total assets and total liabilities—net assets—is one indicator of the current financial condition of the University, while the change in net assets is an indicator of whether the overall financial condition has improved or worsened during the year. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation. Depreciation is a method of allocating the cost of a tangible asset over its useful life. For accounting purposes, depreciation indicates how much of an asset's value has been used up. A summary of the University's assets, liabilities, and net assets at June 30, 2011, and June 30, 2010 (as restated), follows.

SUMMARY OF THE STATEMENT OF NET ASSETS *(in thousands)*	2011	2010	INCREASE	
			AMOUNT	PERCENT
Current assets	$ 723,700	$ 616,343	$ 107,357	17.4%
Noncurrent assets				
Endowment investments	3,386,469	2,816,356	570,113	20.2%
Other long-term investments	902,846	753,988	148,858	19.7%
Capital assets, net	2,773,660	2,522,807	250,853	9.9%
Other	214,695	169,642	45,053	26.6%
Total assets	**8,001,370**	**6,879,136**	**1,122,234**	**16.3%**
Current liabilities	**501,546**	**483,535**	**18,011**	**3.7%**
Noncurrent liabilities	**1,232,741**	**1,037,840**	**194,901**	**18.8%**
Total liabilities	**1,734,287**	**1,521,375**	**212,912**	**14.0%**
NET ASSETS	**$ 6,267,083**	**$ 5,357,761**	**$ 909,322**	**17.0%**

CURRENT ASSETS AND LIABILITIES

The Statement of Net Assets shows that working capital, which is current assets less current liabilities, was $222 million at June 30, 2011, compared with $133 million at the end of the previous year. Current assets, which totaled $724 million as compared with the previous year's $616 million, consist mainly of cash and cash equivalents, short-term investments, and accounts receivable.

Current liabilities, which consist primarily of accounts payable, deferred revenue, and the current portion of long-term liabilities, increased by $18 million, or 3.7 percent. Increases to deposits held in custody and commercial paper account for the increase.

From a liquidity perspective, current assets cover current liabilities 1.4 times, an indicator of good liquidity and the ability to weather short-term demands on working capital. This rate of coverage increased slightly from 1.3 last year. Current assets cover 4.2 months of total operating expenses, excluding depreciation. For 2010–11, one month of operating expenses is on average approximately $172 million.

ENDOWMENT AND OTHER INVESTMENTS

PERFORMANCE. At June 30, 2011, the major portion of the University's endowment was maintained in a long-term investment pool managed by the University of Virginia Investment Management Company (UVIMCO). The return for the long-term investment pool year was a positive 24.3 percent in fiscal year 2010–11, compared with a 15.1 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 $833 million, compared with $467 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 $144.1 million, which was about 5.3 percent of the June 30, 2010, market value of the endowment. It also represents an increase of $7.6 million over last year's distribution of $136.5 million.

ENDOWMENT INVESTMENTS. The total for endowment investments on the Statement of Net Assets is $3.4 billion, a $570 million increase over the prior year total of $2.8 billion. Most of that net increase results from the 24.3 percent investment returns earned during the year, reduced by spending distribution of 5.3 percent.

From a net assets perspective, earnings from the endowment, while expendable, are mostly restricted as to use by the donors. It is important to note that of the University's $3.4 billion of endowment funds, only $1.1 billion, or 32 percent, is classified as unrestricted net assets. From this unrestricted endowment, a significant portion of the income is internally designated by the University for scholarships, fellowships, professorships, and research activities.

Including endowment investments held by the seven related foundations reported as component units, the combined University system endowment was approximately $4.6 billion as of June 30, 2011.

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 nearly $318 million for new capital construction in fiscal year 2010–11. This included amounts for infrastructure and buildings. Of the total, the Academic, Medical Center, and U.Va.-Wise Divisions expended $197 million, $101 million, and $20 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 EXPENSES DURING 2010–11 *(in thousands)*

PROJECT	2011 EXPENSES
Emily Couric Clinical Cancer Center	$ 65,817
Physical and Life Sciences Research Building	29,283
Rice Hall	25,618
Alderman Road residences, all phases	23,273
Transitional Care Hospital	22,751
Jordan Hall HVAC replacement	15,052
Wise Multi-Purpose Building	13,735
Information Technology Data Center	8,329
Hunter Smith Band Building	8,053
University Bookstore addition	7,968
Alderman Road Housing Utilities	7,456
South Chiller Plant expansion	7,189
Garrett Hall renovation	5,920
TOTAL	**$ 240,444**

The University's capital asset balances grew significantly, as a number of projects were completed or otherwise acquired during the year. More than $263 million of completed projects were added to depreciable capital assets during the fiscal year. In addition, the Medical Center capitalized nearly $87 million for electronic medical records software. The largest building projects completed and placed into service during the year are listed below:

MAJOR PROJECTS COMPLETED OR ACQUIRED DURING 2010–11 *(in thousands)*

PROJECT	CAPITALIZED COST
Emily Couric Clinical Cancer Center	$ 109,700
Claude Moore Medical Education Building	37,084
Bavaro Hall	35,827
South Lawn Commons Building	25,226
Replacement Hospital	25,065
Transitional Care Hospital	25,251
Information Technology Data Center	10,965
Wise Student Union (Cantrell Hall)	10,804
TOTAL	**$ 279,922**

The noncurrent liabilities of $1.2 billion consist primarily of long-term bonds that were issued to fund construction projects. Financial stewardship requires the effective management of resources, including the use of debt to finance capital projects.

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 seven foundations reported as component units held $205 million of long-term debt outstanding at June 30, 2011.

NET ASSETS

The four net asset categories represent the residual interest in the University's assets after liabilities are deducted. The University's net assets at June 30, 2011, and 2010 (restated), are summarized below.

NET ASSETS *(in thousands)*	2011	2010	INCREASE	
			AMOUNT	PERCENT
Invested in capital assets, net of related debt	$ 1,662,987	$ 1,577,969	$ 85,018	5.4%
Restricted				
Nonexpendable	533,291	494,203	39,088	7.9%
Expendable	2,354,232	1,938,353	415,879	21.5%
Unrestricted	1,716,573	1,347,236	369,337	27.4%
TOTAL NET ASSETS	**$ 6,267,083**	**$ 5,357,761**	**$ 909,322**	**17.0%**

NET ASSETS INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT, 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 capital assets totaled $1.7 billion at June 30, 2011. It increased by $85 million, or 5.4 percent. This increase reflects the ongoing investment by the University in buildings, infrastructure, and systems, reduced by the corresponding debt financing. Capital assets increased by more than $250 million, but related debt also increased $165 million, resulting from the July 2010 issuance of $190 million of additional debt to finance new physical assets.

RESTRICTED NONEXPENDABLE NET ASSETS comprise the University's permanent endowment funds. This category totaled $533 million at June 30, 2011. Overall, nonexpendable net assets increased by $39 million. New gifts of nearly $28 million account for most of the increase. An additional $11 million of increase occurred as a write-up in value of a number of endowments whose market value had fallen below their historical dollar value during the 2008 market decline.

RESTRICTED EXPENDABLE NET ASSETS are subject to externally imposed restrictions governing their use. This category includes spendable earnings on permanent and quasi endowments, but only in accordance with restrictions imposed by external parties. It also includes net assets restricted for operations funded from spendable gifts, grants and contracts, and loan funds. Restricted expendable net assets totaled nearly $2.4 billion at June 30, 2011, an increase of more than $400 million, or 21.5 percent. Most of the increase is attributable to the 24.3 percent investment returns on the University's endowment and other investments.

UNRESTRICTED NET ASSETS are not subject to externally imposed stipulations. The majority of the University's unrestricted net assets have been designated for various instruction and research programs and initiatives, as well as capital projects. Unrestricted funds are particularly important because they can be used for University initiatives. Unrestricted net assets totaled $1.7 billion at June 30, 2011, an increase of $369 million, or 27 percent, from the previous year. As with restricted funds, much of the increase results from the 24.3 percent return in market value on unrestricted quasi endowments and other long-term investments. In addition, the Medical Center generated a positive operating margin of about $98 million.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

The Statement of Revenues, Expenses, and Changes in Net Assets presents the University's results of activities for the year. Presented below is a summarized statement of the University's revenues, expenses, and the resulting changes in net assets for the years ended June 30, 2011, and 2010 (restated).

SUMMARY OF THE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS *(in thousands)*	2011	2010	INCREASE (DECREASE) AMOUNT	INCREASE (DECREASE) PERCENT
Operating revenues				
Student tuition and fees, net	$ 371,432	$ 358,141	$ 13,291	3.7%
Patient services, net	1,042,100	1,008,858	33,242	3.3%
Sponsored programs	332,168	326,732	5,436	1.7%
Other	164,278	166,947	(2,669)	(1.6%)
Total operating revenues	**1,909,978**	**1,860,678**	**49,300**	**2.6%**
Operating expenses	**2,223,898**	**2,165,458**	**58,440**	**2.7%**
Operating loss	**(313,920)**	**(304,780)**	**(9,140)**	**3.0%**
Nonoperating revenues (expenses)				
State appropriations	161,340	152,115	9,225	6.1%
State stabilization (ARRA)	23,638	6,657	16,981	255.1%
Gifts	147,844	131,208	16,636	12.7%
Investment income	833,465	467,024	366,441	78.5%
Pell grants	12,738	9,695	3,043	31.4%
Interest on capital asset related debt	(45,628)	(39,045)	(6,583)	16.9%
Build America Bonds rebate	8,501	4,656	3,845	82.6%
Other net nonoperating expenses	(8,179)	(7,896)	(283)	3.6%
Net nonoperating revenues	**1,133,719**	**724,414**	**409,305**	**56.5%**
Income before other revenues, expenses, gains, or losses	**819,799**	**419,634**	**400,165**	**95.4%**
Capital appropriations, gifts, and grants	64,490	167,728	(103,238)	(61.6%)
Additions to permanent endowments	27,778	24,844	2,934	11.8%
Transfers to Commonwealth	(2,745)	(57,189)	54,444	(95.2%)
Total other revenues	**89,523**	**135,383**	**(45,860)**	**(33.9%)**
Increase in net assets	**909,322**	**555,017**	**354,305**	**63.8%**
Net assets—beginning of year	5,357,761	4,802,744	555,017	11.6%
NET ASSETS—END OF YEAR	**$ 6,267,083**	**$ 5,357,761**	**$ 909,322**	**17.0%**

Revenues and expenses are categorized as either operating or nonoperating based on existing GASB standards. Significant recurring sources of the University's revenues, including state appropriations, state stabilization from ARRA funds, Pell grants, and gifts, are considered non-operating, as defined by GASB. Consequently, the operating loss of $314 million occurs before considering these important revenue sources. Adding these revenue sources, which total $346 million for the fiscal year, negates the operating loss, and results in an adjusted income amount of $32 million. This provides a more accurate picture of the University's scope and results of operations.

One significant increase in nonoperating revenues was the 31.4 percent increase in federal Pell grants for needy students (caused by our increase in tuition and the impact of the economy on families). Additional revenue in the form of Build America Bonds (BAB) rebate, attributable to the addition from our 2010 bond issuance to the continuing rebates from our 2009 issuance, is the flip side of the 16.9 percent increase in nonoperating interest expenses associated with capital project financing.

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, 2011, and 2010 (restated), are summarized as follows:

SUMMARY OF REVENUES *(in thousands)*	2011			2010			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	$ 371,432	$ —	$ 371,432	$ 358,141	$ —	$ 358,141	$ 13,291	3.7%
Patient services	—	1,042,100	1,042,100	—	1,008,858	1,008,858	33,242	3.3%
Federal, state, and local grants and contracts	284,993	—	284,993	281,083	—	281,083	3,910	1.4%
Nongovernmental grants and contracts	47,175	—	47,175	45,649	—	45,649	1,526	3.3%
Sales and services of educational departments	21,305	—	21,305	18,906	—	18,906	2,399	12.7%
Auxiliary enterprises revenue, net	113,199	—	113,199	117,994	—	117,994	(4,795)	(4.1%)
Other operating revenues	—	29,774	29,774	—	30,047	30,047	(273)	(0.9%)
Total operating revenues	**$ 838,104**	**$1,071,874**	**$1,909,978**	**$ 821,773**	**$1,038,905**	**$1,860,678**	**$ 49,300**	**2.6%**
Nonoperating revenues								
State appropriations	$ 161,340	$ —	$ 161,340	$ 152,115	$ —	$ 152,115	$ 9,225	6.1%
State stabilization (ARRA)	23,638	—	23,638	6,657	—	6,657	16,981	255.1%
Private gifts	134,582	13,262	147,844	130,563	645	131,208	16,636	12.7%
Investment income	750,281	83,184	833,465	423,206	43,818	467,024	366,441	78.5%
Other nonoperating revenues	105,006	—	105,006	140,144	62,123	202,267	(97,261)	(48.1%)
Total nonoperating revenues	**$1,174,847**	**$ 96,446**	**$1,271,293**	**$ 852,685**	**$ 106,586**	**$ 959,271**	**$ 312,022**	**32.5%**
TOTAL REVENUES	**$2,012,951**	**$1,168,320**	**$3,181,271**	**$1,674,458**	**$1,145,491**	**$2,819,949**	**$ 361,322**	**12.8%**

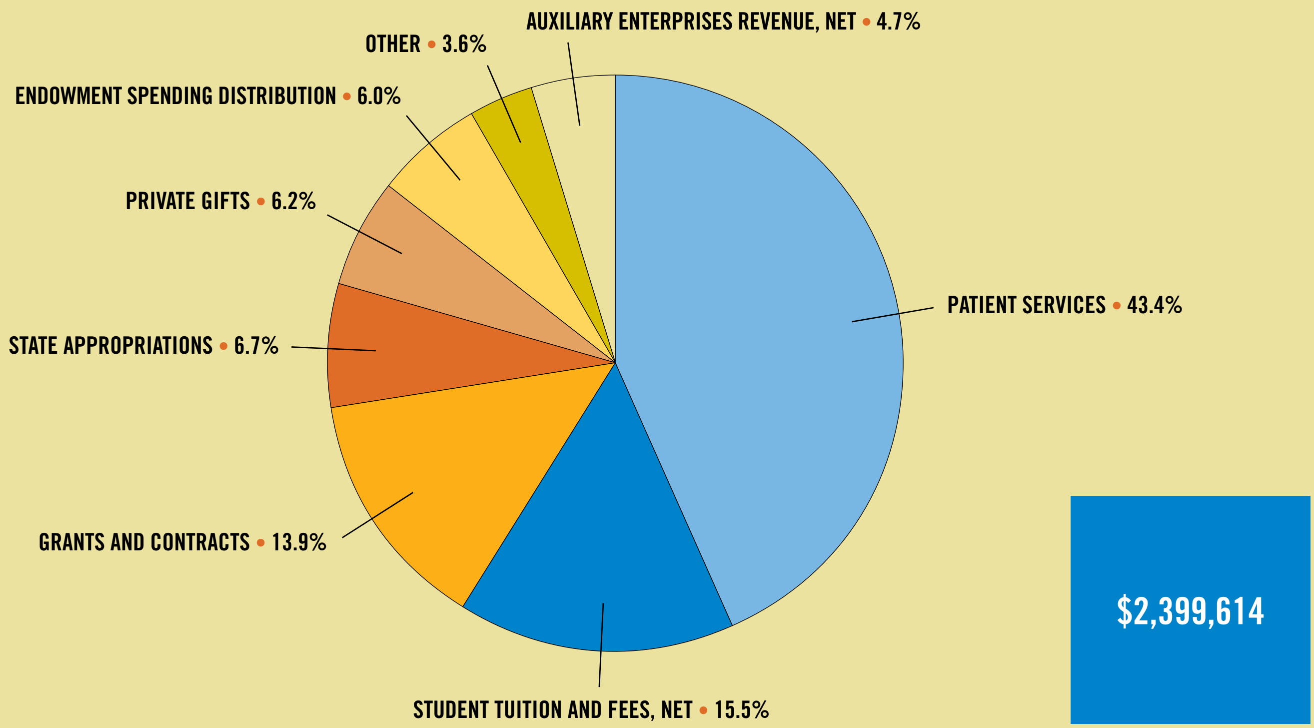
Total revenues increased by 12.8 percent. Operating revenues increased by a modest 2.6 percent, with $33 million of the $49 million increase coming from patient services. The two largest operating revenue sources, net student tuition and fees, and net patient revenues, both increased, by 3.7 percent and 3.3 percent, respectively. The increase in net tuition and fees is attributable to an increase in the prices charged as well as an increase in enrollment, net of smaller increases in scholarships and allowances. Government-sponsored programs revenues earned increased 1.4 percent, and nongovernment-sponsored programs increased 3.3 percent from the prior year. Auxiliary enterprises, which are self-supporting, experienced positive revenues net of expenses, but this year's residual is lower than the prior year's.

Nonoperating revenues increased by $312 million, or 32.5 percent. The largest increase came from realized and unrealized investment income, which totaled $833 million. Gifts experienced a 12.7 percent increase over the prior year. Excluding the state stabilization stimulus funding, which dries up after fiscal year 2011, state tax appropriations for operations are 6.1 percent higher than the previous year.

REVENUES AND OTHER SOURCES OF OPERATIONAL FUNDING

Below is a pie chart of revenues by source (both operating and nonoperating), which were used to fund the University's operating activities for the fiscal year ended June 30, 2011. As noted earlier, GASB requires state appropriations, state stimulus, 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 *(in thousands)*

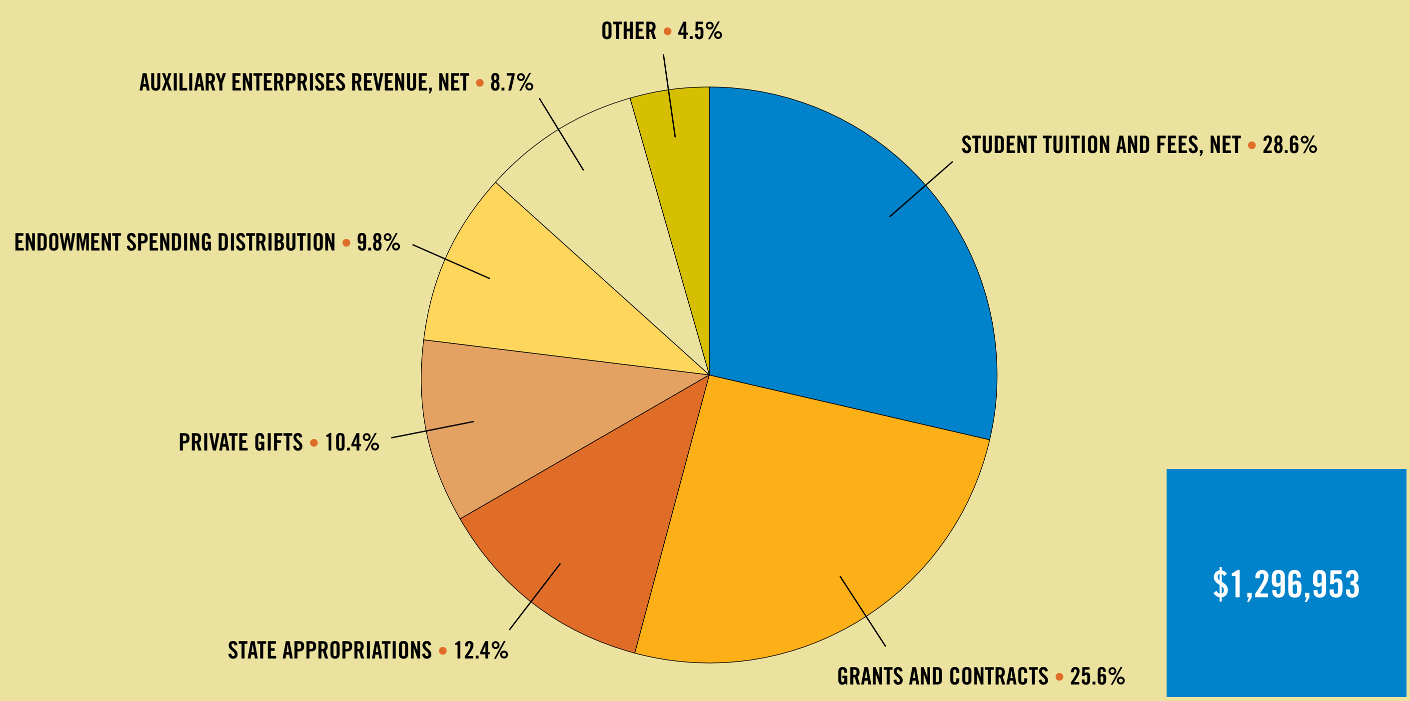


Patient services revenues accounted for 43.4 percent of the University's revenues and operational funding sources. Student tuition and fees, and grants and contracts, which represent 15.5 percent and 13.9 percent, respectively, are the next largest revenues. After these three sources, the percentage of the total for each of the remaining sources drops off significantly. State appropriations account for just 6.7 percent of funding for operations, followed closely by private gifts and endowment spending distribution, at 6.2 percent and 6.0 percent, respectively. These two private sources combined account for 12.2 percent of the University's operational funding. With ongoing economic pressures on state tax revenues, funding from private sources is increasingly important to the University.

Net tuition and fees revenue totaled more than $371 million. That is an increase of $13.3 million, or 3.7 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 $80 million for fiscal year 2010–11, compared with $72 million in 2009–10. Excluding the discount, gross tuition and fees revenue was $451 million, which was about $20 million and 4.7 percent higher than last year. As a result of some one-time funding for employee bonuses and other programs, state appropriations revenue increased by $9 million, to $161 million. (However, the University will incur a nearly $15 million decrease to its state appropriations in 2011–12.) In addition, the University received $23.6 million of (federal stimulus) state stabilization money, compared with just $6.7 million in the prior year. All of the state stabilization funding was used for financial aid to students.

Focusing on the Academic and Wise Divisions' revenues by excluding the Medical Center's data helps provide a clearer picture of the academic revenue streams. Major sources include net tuition and fees at 28.6 percent; grants and contracts at 25.6 percent; state appropriations at 12.4 percent; private gifts at 10.4 percent; and endowment spending distribution at 9.8 percent. Excluding patient revenue, tuition and fees revenue comprises the single largest source of revenue to the University. The ratio of tuition and fees revenue to state appropriations (including state stabilization) dropped from 2.3 in 2009–10 to 2.0 in fiscal year 2010–11. However, with the loss of state stabilization money, and continued pressure on state resources, that ratio is likely to rise significantly going forward. At 10.4 percent and 9.8 percent, respectively, private gifts and endowment spending distribution continue to be critical private sources of funding for University operations.

ACADEMIC AND WISE REVENUES AND OTHER SOURCES OF OPERATIONAL FUNDING *(in thousands)*



The University continues to emphasize revenue diversification and growth, along with cost containment, as ongoing priorities. Private support has been, and will continue to be, essential to maintaining the University's academic excellence. Private support comes in the form of gifts and additions to permanent endowments, as well as the spending distribution made from endowments. Spendable current gift revenue totaled $135 million in 2011, showing a slight increase of $4 million from the prior year. At the same time, the Campaign for the University of Virginia continued its progress toward its $3 billion target, standing at $2.442 billion as of June 30, 2011. An endowment spending distribution of $144.1 million was made during fiscal year 2010–11. That was $7.5 million, and 5.6 percent higher than the previous year.

Revenues for all sponsored programs increased this year by $5.4 million, or 1.7 percent, to a total of $332 million. However, this total includes nearly $31 million in ARRA grants revenue. Excluding ARRA grants, federally funded sponsored programs revenue would have actually declined from $257 million in 2010 to $249 million in 2011. The $332 million of total sponsored programs revenue includes $73.3 million of Facilities and Administrative (F&A) recoveries. Although overall sponsored programs revenue increased just 1.7 percent, F&A recoveries increased by 3.2 percent, or $2.3 million, as more sponsored programs are now eligible to be charged the higher F&A rate of 54 percent.

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, 2011, and 2010 (restated), are summarized as follows:

SUMMARY OF EXPENSES *(in thousands)*	2011			2010			TOTAL INSTITUTION INCREASE (DECREASE)	
	ACADEMIC DIVISION & WISE	MEDICAL CENTER	TOTAL INSTITUTION	ACADEMIC DIVISION & WISE	MEDICAL CENTER	TOTAL INSTITUTION	AMOUNT	PERCENT
Operating expenses:								
Compensation	$ 808,617	$ 430,690	$1,239,307	$ 795,348	$ 425,791	$1,221,139	$ 18,168	1.5%
Supplies and other services	279,557	452,945	732,502	254,531	441,187	695,718	36,784	5.3%
Student aid	57,953	—	57,953	64,762	—	64,762	(6,809)	(10.5%)
Depreciation	101,105	63,428	164,533	95,280	54,052	149,332	15,201	10.2%
Other operating expense	3,765	25,838	29,603	3,559	30,948	34,507	(4,904)	(14.2%)
Total operating expenses	**1,250,997**	**972,901**	**2,223,898**	**1,213,480**	**951,978**	**2,165,458**	**58,440**	**2.7%**
Nonoperating expenses and other:								
Interest expense (net of BAB rebate)	29,402	7,725	37,127	26,976	7,413	34,389	2,738	8.0%
Loss on capital assets	1,214	108	1,322	750	706	1,456	(134)	(9.2%)
Other nonoperating expense	1,710	5,147	6,857	291	6,149	6,440	417	6.5%
Transfers to Commonwealth	1,212	1,533	2,745	13,755	43,434	57,189	(54,444)	(95.2%)
Total nonoperating expenses	**33,538**	**14,513**	**48,051**	**41,772**	**57,702**	**99,474**	**(51,423)**	**(51.7%)**
TOTAL UNIVERSITY EXPENSES	**$1,284,535**	**$ 987,414**	**$2,271,949**	**$1,255,252**	**$1,009,680**	**$2,264,932**	**$ 7,017**	**0.3%**

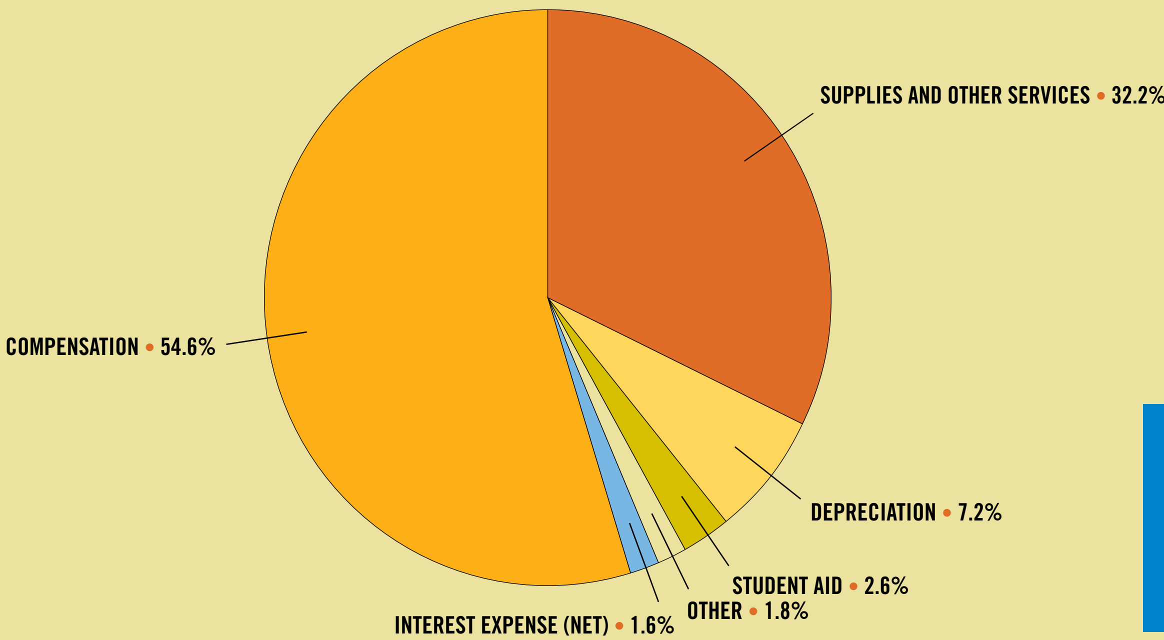
The University's total expenses were nearly $2.3 billion, but increased by just $7 million, which is less than 1 percent. Operating expenses account for 98 percent of total expenses, and they increased by $58 million, or 2.7 percent. Compensation and benefits expenses increased by just $18 million, or 1.5 percent, and totaled $1.2 billion. The University continues to navigate the difficult economy without layoffs, instead leaving some vacant positions open and filling other vacant positions by reallocating personnel.

An increase in depreciation expense was expected, given the large dollar amount of completed building and infrastructure projects added in recent years. Depreciation expense totaled $164.5 million, which was $15.2 million, and 10 percent higher than the previous year. The largest dollar increase occurred with supplies and other services. The total of $733 million was an increase of 5.3 percent, or nearly $37 million, and due in large part to new maintenance expenses for new facilities. The largest decrease in expenses was for student aid expense. It is important to note that student aid expense is reported net of scholarship discount (as is tuition revenue, noted above). While gross student aid expense (before discount) for both fiscal years 2010 and 2011 was virtually the same amount of $137 million, net student aid expense (after discount) decreased from $64.8 million in 2010 to $58.0 million in 2011. The nearly $8 million difference is accounted for by the change in the estimate for the scholarship discount amount, which went from $72 million in 2010 to almost $80 million in 2011. The University's commitment to providing financial aid support to students continues, as evidenced by the support provided by the AccessUVa program.

On the nonoperating side, net interest expense increased by $2.7 million, or 8 percent, to $37.1 million. This increase in debt service was expected, because the University issued $250 million and $190 million of new debt in fiscal years 2009 and 2010, respectively. Both were issued as part of the federal government's 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 fiscal year 2010–11 was $8.5 million, and in effect, netted down the gross interest expense of $45.6 million to a net interest expense of $37.1 million.

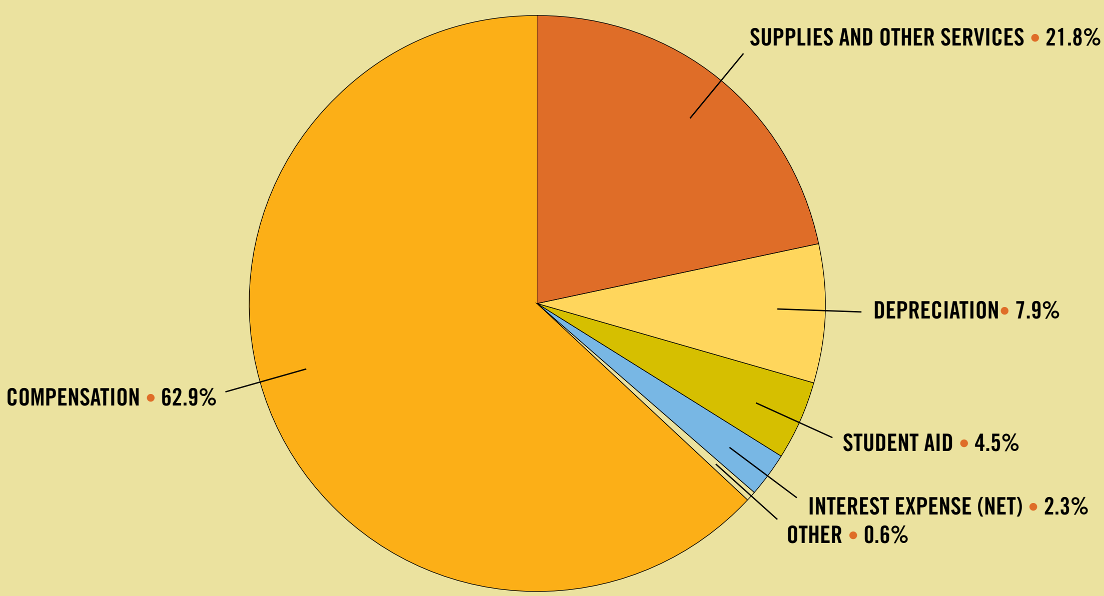
Following are graphic illustrations of expenses (both operating and nonoperating) for the fiscal year ended June 30, 2011.

TOTAL UNIVERSITY EXPENSES FISCAL YEAR 2011 *(in thousands)*



$2,271,949

ACADEMIC AND WISE EXPENSES FISCAL YEAR 2011 *(in thousands)*



$1,284,535

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 sometimes useful to view them separately. There are significant differences between the two charts. Compensation accounts for nearly 55 percent of total University expenses in the first chart, but nearly 63 percent of expenses for the Academic and Wise Divisions, in the second chart. Compensation includes salaries and wages, as well as fringe benefits. In the second chart, of the 62.9 percent for compensation expenses, approximately 49 percent is for salaries and wages, while the other 13 percent is for fringe benefits. The breakout is similar in the first chart. On the other hand, supplies and other services are 32.2 percent of total University expenses in the first chart, but just 21.8 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 43.7 percent, 14.7 percent, 13.1 percent, and 1.2 percent, respectively, of total operating expenses. When combined, these core mission functions account for nearly 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 fraught with uncertainties, but we expect continued impact on the University's Health System. Because patient revenues for the hospital alone (without considering physicians' practice revenues) amount to 47 percent of total operating expenses, we are carefully monitoring developments on health policy in the nation's capital and in Richmond. Federal funding for sponsored research and financial aid is also under challenge as Congress and President Obama struggle to reduce the country's budget deficit but at the same time spur economic recovery. The Commonwealth's dependence on federal funding makes the University's reliance on state funding more precarious. In addition to the end of one-time state stabilization funding, the University will incur a reduction of $14.7 million in its general fund appropriation from the state in 2011–12. This will be the fifth round of state budget reductions in five years, resulting in $51.5 million in total reductions, which equates to a 32 percent reduction in state general fund appropriation in the last five years. As a result, the University will have to rely even more heavily on tuition and private gift revenue. However, parents and donors have not been unaffected in the slow and stumbling recovery.

The Virginia Higher Education Opportunity Act of 2011 (also known as the Top Jobs Act) codifies the recommendations of the Governor's Commission on Higher Education Reform, Innovation and Investment. The University is committed to supporting the recommendations of the commission, including the awarding of an additional 100,000 degrees over the next fifteen years, especially for science, technology, engineering, and math (STEM) majors. Accordingly, the Board of Visitors approved in February 2011 an increase in undergraduate enrollment of 1,673 students between fall 2011 and fall 2018. Graduate enrollment is projected to increase by 99 students over the same period.

UNIVERSITY'S RESPONSE

In response to the new economic and political realities, the University has launched several initiatives to manage revenue risk, as well as to maximize value obtained from the use of resources. President Teresa Sullivan's initiative to develop a new internal financial model lies at the heart of this approach. In an effort to better align resources with mission, the new internal model will place budget authority and accountability in the hands of deans. This change in focus will allow deans to develop strategic multiyear academic plans, and will result naturally in incentives for deans to increase revenues and cut costs because the benefits would accrue directly to them. The expectation is that the new internal financial model will increase productivity in schools as well as in the central units that provide pan-University services.

REVENUE MANAGEMENT

We have already seen several examples of activities to manage revenue risk, including generation of new revenues. In fund-raising, we have repositioned the final phase of our capital campaign to focus on "the heart of the grounds": an intimate, transformative undergraduate experience, outstanding faculty and graduate students, research and discoveries that benefit society, state-of-the-art health care and the Rotunda. Acquisitions by the U.Va. Hospital during the past year will expand our patient base and add to revenues. The Health System will complete its strategic planning project within the year. In the Academic Division, planning was completed to experiment with differential tuition for one undergraduate school, implemented for the fall of 2011. Outcomes are being closely monitored. A final example is that one of our schools is courting new sponsors for research funding by developing infrastructure to support unique sponsor requirements.

VALUE FROM USE OF RESOURCES

Several examples illustrate our efforts to achieve the highest and best use of our resources, through review of existing programs or practices.

- The University utilized 84 and 99 percent of its on-Grounds housing stock for conferences and camps in the summers of 2010 and 2011, respectively. Its planned enrollment increases will continue to put pressure on academic-year use of facilities. Various activities are under way to examine scheduling options that do not require the construction of new facilities.

- In the current economic environment, access and affordability remain priorities for the University. AccessUVa, the University's undergraduate need-based aid program, currently offers aid of 100 percent of demonstrated need to all undergraduates admitted on a need-blind basis. With recent years' decline in external governmental sources of funding for financial aid and increased demands on the University's unrestricted funds, the Board of Visitors has initiated an assessment of the AccessUVa program. The purpose of the study is to determine how best to deploy strategic tuition pricing and financial aid policies to achieve University goals. In doing so, the University seeks to maximize the return on the marginal dollar of tuition revenue and financial aid investment, compared with other uses for the resources.

- Within the next year, the University will launch a review of the endowment distribution policy. A similar assessment was completed five years ago, when the vice president and chief financial officer put forward various distribution policies to achieve the University's distribution objectives. The University's longstanding spending policy calls for an increase in the previous year's distribution by an inflationary factor, as long as the resulting distribution is between 4 percent on the low end, and 6 percent on the high end, of the market value. With the new economic realities and expectations, it is timely to reconsider this policy, along with other financial policies.

- As the University enters another round of F&A negotiations with the federal government and implements the new internal financial model, it will use the opportunity to reexamine the allocation of F&A recoveries. It is also timely to study the policies for operating and capital reserves (approved by the Board of Visitors in April 2006), as we complete a period of accelerated capital construction and begin to move toward greater investments in programs instead of bricks and mortar.

- Last year the University was able to tap into a new resource as its leadership developed a plan to fund two new research buildings. The new internal loan program, created and implemented by the vice president and chief financial officer early in 2003, provided funds to close the gap between construction costs and available fund sources for these two buildings. This was also the first time in the University's capital planning history that it departed from the longstanding bottom-up approach to capital budgeting. Instead, a strategic capital requirement was first identified and then plans were developed to fund it. By the end of fiscal year 2011–12, the University will recommend a policy for internal distribution of investment returns from the Internal Bank, which is the extension of the debt portfolio program.

- Finally, the University is examining the allocation of debt capacity as another scarce resource, and will develop a policy within the next twelve months. This would be the first step in doing strategic balance-sheet planning to support the academic mission and ensure long-term financial health through the appropriate use of leverage. 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+). These ratings were affirmed in June 2011 in conjunction with the University's interest rate mode change of its Series 2003A and in September 2011 for the refunding of the Series 2003B General Revenue Pledge Bonds. The University of Virginia is one of only two public institutions with the highest long-term debt ratings from all three agencies. Besides being an official acknowledgment of the University's financial strength, these ratings enable the University to obtain future debt financing at optimum pricing.

MANAGEMENT RESPONSIBILITY

October 31, 2011

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, 2011. 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
Deputy Comptroller for Financial Reporting and Analysis

YS Reynolds

Yoke San L. Reynolds
Vice President and Chief Financial Officer

Commonwealth of Virginia

Auditor of Public Accounts

Walter J. Kucharski
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

October 31, 2011

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

The Honorable Charles J. Colgan | *Chairman, Joint Legislative Audit and Review Commission*

Board of Visitors | *University of Virginia*

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of the University of Virginia, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2011, which collectively comprise the University of Virginia's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University of Virginia's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the component units of the University of Virginia, which are discussed in Note 1. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the component units of the University of Virginia is based on the reports of the other auditors. The prior year summarized comparative information has been derived from the University of Virginia's 2010 financial statements, and in our report dated October 29, 2010, we expressed an unqualified opinion on the respective financial statements of the University of Virginia.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and aggregate discretely presented component units of the University of Virginia as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 38 through 50 is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2011, on our consideration of the University of Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Walter J. Kucharski
Auditor of Public Accounts

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(804) 225-3350

STATEMENT OF NET ASSETS *(in thousands)* *as of June 30, 2011 (with comparative information as of June 30, 2010)*	**2011**	**2010**
ASSETS		
Current assets		
Cash and cash equivalents (Note 2)	$ 324,384	$ 365,165
Restricted cash and cash equivalents (Note 2)	1	1
Short-term investments (Note 2)	127,423	862
Appropriations available	8,196	7,078
Accounts receivable, net (Note 3a)	224,682	204,531
Prepaid expenses	13,401	13,169
Inventories	21,105	21,522
Notes receivable, net (Note 3b)	4,508	4,015
Total current assets	**723,700**	**616,343**
Noncurrent assets		
Restricted cash and cash equivalents (Note 2)	37,814	30,707
Endowment investments (Note 2)	3,386,469	2,816,356
Other long-term investments (Note 2)	902,846	753,988
Deposit with bond trustee	112,916	72,633
Notes receivable, net (Note 3b)	33,725	31,324
Pledges receivable, net (Note 3c)	7,179	8,771
Capital assets—depreciable, net (Note 3d)	2,310,046	2,077,566
Capital assets—nondepreciable (Note 3d)	463,614	445,241
Goodwill (Note 3e)	11,938	12,431
Total noncurrent assets	**7,266,547**	**6,249,017**
Deferred outflow of resources	11,123	13,776
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	**$ 8,001,370**	**$ 6,879,136**
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 3f)	$ 188,306	$ 189,334
Deferred revenue (Note 3g)	94,934	94,143
Deposits held in custody for others	36,079	26,113
Commercial paper (Note 4)	76,850	70,700
Long-term debt—current portion (Note 5a)	12,718	13,427
Long-term liabilities—current portion (Note 5b)	92,659	89,818
Total current liabilities	**501,546**	**483,535**
Noncurrent liabilities		
Long-term debt (Note 5a)	1,106,387	926,777
Derivative instrument liability (Note 6)	11,123	13,776
Other noncurrent liabilities (Note 5b)	115,231	97,287
Total noncurrent liabilities	**1,232,741**	**1,037,840**
TOTAL LIABILITIES	**$ 1,734,287**	**$ 1,521,375**
NET ASSETS		
Invested in capital assets, net of related debt	$ 1,662,987	$ 1,577,969
Restricted:		
Nonexpendable	533,291	494,203
Expendable	2,354,232	1,938,353
Unrestricted	1,716,573	1,347,236
TOTAL NET ASSETS	**$ 6,267,083**	**$ 5,357,761**

Certain 2010 amounts have been restated to conform to 2011 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, 2011 (with comparative information as of June 30, 2010)

	2011	2010
ASSETS		
Current assets		
Cash and cash equivalents	$ 77,859	$ 91,054
Receivables	99,059	96,683
Other current assets	258,094	433,406
Total current assets	**435,012**	**621,143**
Noncurrent assets		
Pledges receivable, net of current portion of $44,324	44,395	50,345
Long-term investments	5,552,554	4,378,165
Capital assets, net of depreciation	366,193	357,525
Other noncurrent assets	48,223	36,200
Total noncurrent assets	**6,011,365**	**4,822,235**
TOTAL ASSETS	**$ 6,446,377**	**$ 5,443,378**
LIABILITIES AND NET ASSETS		
Current liabilities		
Assets held in trust for others	$ 79,793	$ 67,229
Other liabilities	188,800	194,308
Total current liabilities	**268,593**	**261,537**
Noncurrent liabilities		
Long-term debt, net of current portion of $12,025	215,190	200,401
Other noncurrent liabilities	4,705,574	3,923,230
Total noncurrent liabilities	**4,920,764**	**4,123,631**
TOTAL LIABILITIES	**$ 5,189,357**	**$ 4,385,168**
NET ASSETS		
Unrestricted	$ 296,026	$ 236,966
Temporarily restricted	515,548	408,820
Permanently restricted	445,446	412,424
TOTAL NET ASSETS	**$ 1,257,020**	**$ 1,058,210**
TOTAL LIABILITIES AND NET ASSETS	**$ 6,446,377**	**$ 5,443,378**

Certain 2010 amounts have been restated to conform to 2011 reclassifications. The accompanying Notes to Financial Statements are an integral part of this statement.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS *(in thousands)*

for the year ended June 30, 2011 (with comparative information for the year ended June 30, 2010)

	2011	2010
REVENUES		
Operating revenues		
Student tuition and fees (net of scholarship allowances of $79,591 and $72,440)	$ 371,432	$ 358,141
Patient services (net of charity care of $1,798,563 and $1,610,365)	1,042,100	1,008,858
Federal grants and contracts	281,299	276,301
State and local grants and contracts	3,694	4,782
Nongovernmental grants and contracts	47,175	45,649
Sales and services of educational departments	21,305	18,906
Auxiliary enterprises revenue (net of scholarship allowances of $12,946 and $11,008)	113,199	117,994
Other operating revenues	29,774	30,047
TOTAL OPERATING REVENUES	**1,909,978**	**1,860,678**
EXPENSES		
Operating expenses (Note 9)		
Compensation and benefits	1,239,307	1,221,139
Supplies and other services	732,502	695,718
Student aid	57,953	64,762
Depreciation	164,533	149,332
Other	29,603	34,507
TOTAL OPERATING EXPENSES	**2,223,898**	**2,165,458**
OPERATING LOSS	**(313,920)**	**(304,780)**
NONOPERATING REVENUES (EXPENSES)		
State appropriations (Note 10)	161,340	152,115
State stabilization (ARRA)	23,638	6,657
Gifts	147,844	131,208
Investment income	833,465	467,024
Pell grants	12,738	9,695
Interest on capital asset-related debt	(45,628)	(39,045)
Build America Bonds rebate	8,501	4,656
Losses on capital assets	(1,322)	(1,456)
Other nonoperating expenses	(6,857)	(6,440)
NET NONOPERATING REVENUES	**1,133,719**	**724,414**
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	**819,799**	**419,634**
Capital appropriations	43,749	112,420
Capital grants and gifts	20,741	55,308
Additions to permanent endowments	27,778	24,844
Transfers to the Commonwealth	(2,745)	(57,189)
TOTAL OTHER REVENUES	**89,523**	**135,383**
INCREASE IN NET ASSETS	**909,322**	**555,017**
NET ASSETS		
Net assets—beginning of year	5,357,761	4,802,744
NET ASSETS—END OF YEAR	**$ 6,267,083**	**$ 5,357,761**

Certain 2010 amounts have been restated to conform to 2011 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, 2011 (with comparative information for the year ended June 30, 2010)

	2011	2010
UNRESTRICTED REVENUES AND SUPPORT		
Contributions	$ 20,410	$ 18,311
Fees for services, rentals, and sales	299,305	290,679
Investment income	62,511	38,233
Reclassification per donor stipulation	(1,285)	—
Net assets released from restriction	92,224	91,561
Other revenues	96,996	83,124
TOTAL UNRESTRICTED REVENUES AND SUPPORT	**570,161**	**521,908**
EXPENSES		
Program services, lectures, and special events	313,233	310,716
Scholarships and financial aid	65,647	60,240
Management and general	33,021	33,642
Other expenses	99,200	95,632
TOTAL EXPENSES	**511,101**	**500,230**
EXCESS OF UNRESTRICTED REVENUES AND SUPPORT OVER EXPENSES	**$ 59,060**	**$ 21,678**
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	$ 45,180	$ 62,015
Investment and other income	158,215	89,004
Reclassification per donor stipulation	1,093	(810)
Net assets released from restriction	(92,290)	(91,576)
NET CHANGES IN TEMPORARILY RESTRICTED NET ASSETS	**$ 112,198**	**$ 58,633**
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Contributions	$ 24,808	$ 15,178
Investment and other income	2,486	(1,228)
Reclassification per donor stipulation	258	825
NET CHANGES IN PERMANENTLY RESTRICTED NET ASSETS	**$ 27,552**	**$ 14,775**
CHANGE IN NET ASSETS	**198,810**	**95,086**
Net assets, beginning of year	1,058,210	963,051
Cumulative effect of FMV option	—	73
NET ASSETS, END OF YEAR	**$ 1,257,020**	**$ 1,058,210**

Certain 2010 amounts have been restated to conform to 2011 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, 2011 (with comparative information for the year ended June 30, 2010)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 368,855	$ 342,282
Grants and contracts	337,784	323,294
Patient services	999,329	943,923
Sales and services of educational activities	18,460	5,289
Sales and services of auxiliary enterprises	112,623	117,953
Payments to employees and fringe benefits	(1,245,174)	(1,231,919)
Payments to vendors and suppliers	(698,299)	(630,802)
Payments for scholarships and fellowships	(57,953)	(55,057)
Perkins and other loans issued to students	(7,513)	(8,000)
Collection of Perkins and other loans to students	5,821	6,694
Other receipts	22,726	15,967
NET CASH USED BY OPERATING ACTIVITIES	**(143,341)**	**(170,376)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	160,401	151,320
State stabilization (ARRA)	23,638	6,657
Additions to true endowments	27,778	24,844
Federal Family Education Loan Program receipts	164	149,027
Federal Family Education Loan Program payments	(164)	(149,027)
Pell grants	12,738	9,695
Receipts on behalf of agencies	214,410	96,280
Payments on behalf of agencies	(214,773)	(96,027)
Deposits held in custody for others	9,965	6,805
Noncapital gifts and grants and endowments received	143,898	131,452
Transfers to the Commonwealth	(1,211)	(57,189)
Prior year Medical Center eliminations	—	(983)
Other net nonoperating expenses	(3,813)	(2,774)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	**373,031**	**270,080**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	50,304	94,982
Capital gifts and grants received	19,889	49,871
Proceeds from capital debt	253,117	42,060
Proceeds (loss) from sale of capital assets	1,496	1,060
Acquisition and construction of capital assets	(455,824)	(380,445)
Principal paid on capital debt and leases	(61,525)	(36,054)
Interest paid on capital debt and leases	(42,460)	(38,247)
Deposit with trustee	(40,283)	97,721
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	**(275,286)**	**(169,052)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	392,978	298,703
Interest on investments	4,948	4,459
Purchase of investments and related fees	(372,014)	(147,141)
Other investment activities	(13,990)	37,997
NET CASH PROVIDED BY INVESTING ACTIVITIES	**11,922**	**194,018**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(33,674)**	**124,670**
Cash and cash equivalents, July 1	395,873	271,203
CASH AND CASH EQUIVALENTS, JUNE 30	**$ 362,199**	**$ 395,873**
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss	$ (317,339)	$ (304,784)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Depreciation expense	164,533	149,332
Provision for uncollectible loans and write-offs	381	473
CHANGES IN ASSETS AND LIABILITIES:		
Receivables, net	(38,373)	(57,608)
Inventories	417	(370)
Other assets	(1,588)	11
Prepaid expenses	162	1,358
Notes receivable, net	(1,694)	(1,307)
Accounts payable and accrued liabilities	22,025	24,835
Deferred revenue	26,250	14,944
Accrued vacation leave—long-term	1,885	2,740
TOTAL ADJUSTMENTS	**173,998**	**134,408**
NET CASH USED BY OPERATING ACTIVITIES	**$ (143,341)**	**$ (170,376)**
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES—ACADEMIC ONLY:		
Assets acquired through assumption of a liability	$ 232,116	$ 29,482
Assets acquired through a gift	3,227	5,328
Change in fair value of investments	756,578	427,726
Increase in receivables related to nonoperating income	5,163	4,819
Loss on disposal of capital asset	1,215	750

Certain 2010 amounts have been restated to conform to 2011 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 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.

REPORTING ENTITY

There are currently twenty-five related foundations operating in support of the interests of the University. These related foundations are not-for-profit corporations controlled by separate boards of directors. The University determined that the following seven foundations qualify as component units because they hold significant resources for the benefit of the University. As such, they are included in the financial statements presented as of June 30, 2011:

- 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

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. The consolidated financial information of the Alumni Association of the University of Virginia includes the operating activities and financial position of the Alumni Association and the Jefferson Scholars Foundation. The Jefferson Scholars Foundation is an awards program affiliated with the Alumni Association and was organized as a separate legal entity in 2001. For additional information, contact the Finance and Administration Office at P.O. Box 400314, Charlottesville, Virginia 22904.

The **Virginia Student Aid Foundation, Inc., T/A Virginia Athletics Foundation**, was established as a tax-exempt organization to support intercollegiate athletic programs at the University of Virginia by providing student-athletes the opportunity to achieve academic and athletic excellence. The Foundation provides the funding for student-athlete scholarships at the University, funding for student-athlete academic advising programs at the University, operational support for various sports at the University, informational services to its members and the general public, and ancillary support to the athletic programs at the University. The Foundation has adopted December 31 as its year end. All amounts reflected are as of December 31, 2010. 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** (formerly known as the **University of Virginia Health Services Foundation**) was established as a nonprofit group practice health care provider organization designed to assist medical education through teaching and research within the academic environment of the Health System of the University of Virginia, and to coordinate and develop superior patient care in the Health System. The Foundation entered into an affiliation agreement with the University of Virginia for the Foundation through its member clinical departments to provide patient care at the Health System. The Foundation provides patient care services to Health System patients, and in conjunction with the care of patients, provides teaching services. The University provides space and certain administrative services to the Foundation. The Foundation reimburses the University for the salaries and fringe benefits of classified and hourly employees of the clinical departments paid by the University, and not funded by the Commonwealth of Virginia or by gifts, grants, and contracts. For additional information, contact the Finance Office at 500 Ray C. Hunt Drive, Charlottesville, Virginia 22903.

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

REPORTING BASIS

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

In accordance with GASB, 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 establishes standards for external financial reporting for public colleges and universities and requires that resources be classified for accounting and reporting purposes into the following net asset categories:

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

Restricted nonexpendable represents net assets subject to externally imposed stipulations that they be maintained permanently by the University. Such assets include 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.

Restricted expendable represents net assets whose use by the University is subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time. Such net assets include net appreciation of the University's permanent endowment funds that have not been stipulated by the donor to be reinvested permanently.

Unrestricted represents those net assets that are not subject to externally imposed stipulations or classified either as capital assets, net of related debt or restricted net assets. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Visitors.

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

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 Assets are those that generally result from exchange transactions such as payments received for providing services and payments made for services or goods received. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenues as specified by GASB, including state appropriations, gifts, and investment income. In accordance with GASB, revenues from these nonexchange transactions are recognized in the fiscal year in which all eligibility requirements (resource provider conditions) have been satisfied, if measurable and probable of collection.

CASH AND CASH EQUIVALENTS

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

INVENTORIES

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

INVESTMENTS

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

ENDOWMENT

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

PLEDGES RECEIVABLE

The University receives pledges and bequests of financial support from corporations, foundations, and individuals. Revenue is recognized when a pledge representing an unconditional promise to pay is received and all eligibility requirements, including time requirements, have been met. In the absence of such a promise, revenue is recognized when the gift is received. Endowment pledges do not meet eligibility requirements, as defined by GASB, 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 movable equipment at a value or cost of $5,000 and an expected useful life of greater than one year.

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

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

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

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

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

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

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

In accordance with GASB Statement 51, *Accounting and Financial Reporting for Intangible Assets*, the University capitalizes intangible assets such as computer software developed or obtained for internal use, easements, patents, and trademarks. Capitalization begins when the asset is considered identifiable. For computer software, this is often at the application development stage, which consists of the design, coding, installation, and testing of the software and interfaces.

COLLECTIONS

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

DEFERRED REVENUE

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

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 $8.4 million and earned capital project interest income of $3.1 million for the fiscal year ended June 30, 2011, resulting in net interest capitalized of $5.3 million.

ACCRUED COMPENSATED ABSENCES

The amount of leave earned but not taken by nonfaculty salaried employees is recorded as a liability on the Statement of Net Assets. The amount reflects, as of June 30, 2011, all unused vacation leave, and the amount payable upon termination under the Commonwealth of Virginia's sick leave payout policy. The applicable share of employer-related taxes payable on the eventual termination payments is also included.

REVENUE RECOGNITION

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

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

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

MEDICAL CENTER SALES AND SERVICE

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

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

REVENUE AND EXPENSE CLASSIFICATIONS

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

Nearly all of the University's expenses are from exchange transactions. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenues, as defined by GASB, including state appropriations, state fiscal stabilization funds, federal Pell grants, gifts, and investment income.

SCHOLARSHIP ALLOWANCE

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowance in the Statement of Revenues, Expenses, and Changes in Net Assets. Scholarship discount and allowance is the difference between the stated charge for goods and services provided by the University and the amount paid by students and/or third parties making payments on the students' behalf. The scholarship allowance to students is calculated using the direct method, as recommended by the National Association of College and University Business Officers (NACUBO).

DISCOUNTS, PREMIUMS, AND BOND ISSUANCE COSTS

Bonds payable on the Statement of Net Assets are reported net of related discounts and premiums, which are amortized over the life of the bond. Similarly, bond issuance costs are reported as a noncurrent asset that is amortized over the life of the bond on a straight-line basis.

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, 2010, from which the summarized information was derived. Certain amounts from the prior fiscal year have been reclassified to conform to current-year presentation.

NOTE 2: CASH, CASH EQUIVALENTS, AND INVESTMENTS

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

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

The University monitors and receives periodic reports on the long-term investment policy executed by UVIMCO. It is the policy of the University to comply with the Investment of Public Funds Act, Code of Virginia Section 2.2 4500-4517, when investing tuition and educational fees that are used or required for the day-to-day operations, as permitted under the Code of Virginia Section 23-76.1.

CASH EQUIVALENTS

The University considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. Pursuant to Section 2.2-1800, et seq., Code of Virginia, all state funds of the University are maintained by the Treasurer of Virginia, who is responsible for the collection, disbursement, custody, and investment of state funds. 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.

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, a government will not be able to recover deposits or recover collateral securities that are in the possession of an outside third party. The University had no investments exposed to custodial credit risk as of June 30, 2011.

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, 2011, are outlined in the accompanying chart.

Credit Risk is the possibility that a loss may occur due to the failure of a counterparty to perform according to the terms of the contract. State law limits the investment of certain nonendowed assets to short-term commercial paper, certificates of deposit, asset-backed securities, and debt obligations to the top rating issued by nationally recognized statistical rating organizations (NRSROs) and requires the investment be rated by at least two NRSROs. For longer-term certificates of deposit and corporate notes, the rating must be one of the top two ratings issued by two NRSROs. Investments subject to credit risk at June 30, 2011, are outlined in the accompanying chart.

Concentration of Credit Risk is the risk of a large loss attributed to the magnitude of investment in a single issuer of fixed-income securities. The University minimizes this risk by diversifying its investments. The University does not have investments exposed to concentration of credit risk as of June 30, 2011.

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, 2011.

DEPOSITS

Deposits include bank account balances and are governed by the Virginia Security of Public Deposits Act. The Act includes a cross guarantee among approved financial institutions eligible to hold public funds. In the event of a default of one of the approved financial institutions, an assessment is levied against all participating institutions to cover the uncollateralized public deposits of the defaulting entity. This cross guarantee significantly diminishes custodial credit risk. Amounts on deposit covered by the Virginia Security of Public Deposits Act totaled $102.9 million at June 30, 2011. Such deposits are not subject to foreign currency risk. Details of the University's investment risks are outlined in the accompanying chart.

CREDIT QUALITY AND INTEREST RATE RISK *(in thousands)*	FAIR VALUE	CREDIT RATING	INVESTMENT MATURITIES (IN YEARS)			
			LESS THAN 1 YEAR	1–5 YEARS	6–10 YEARS	GREATER THAN 10 YEARS
CASH EQUIVALENTS						
Short-term investment pool	$ 2,068	Unrated				
University of Virginia Aggregate Cash Pool	108,983	Unrated				
State Non-Arbitrage Program	112,916	AAAm				
STIF Government Securities	—	P-1				
TOTAL CASH EQUIVALENTS	**$ 223,967**					
INVESTMENTS SUBJECT TO INTEREST RATE RISK						
Endowment investments:						
Debt securities						
Demand notes due from related foundation, non-interest bearing	$ 29,433	Unrated	$ 29,433			
Note Receivable, 9%	99	Unrated				$ 99
U.S. Treasury Obligations	40,560		40,560			
U.S. Government Debt Securities	5,086		5,086			
Other investments						
Federal Home Loan Mortgage Corporation	59,310		59,310			
Federal National Mortgage Association	12,712	Aaa	12,712			
TOTAL INVESTMENTS SUBJECT TO INTEREST RATE RISK	**$ 147,200**		**$ 147,101**	**$ —**	**$ —**	**$ 99**
	100.0%		99.9%	0.0%	0.0%	0.1%

INVESTMENTS

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 2.2-4516 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.

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

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

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

Biannual distributions are made from the University's endowment to departments holding endowment accounts. The University's endowment spending policy ties annual increases to inflation as defined by the Higher Education Price Index. 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 2011, the spending distribution of $144.1 million equaled 5.3 percent of the prior year ending market value. Since the result fell within the range, no further action by the board was needed. For fiscal year 2011, the market value of the endowment invested in the LTP at June 30, 2011, was $3.3 billion.

At June 30, 2011, the University's investment in the LTP was $4.2 billion, representing 85 percent of the University's invested assets. At June 30, 2011, the University's short-term investments were $109 million, representing 2 percent of invested assets. These pools are not rated by nationally recognized statistical rating organizations.

For the year ended June 30, 2011, 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	$ 295,846	$ 339,090	$ 10,473	$ 645,409
Contributions to permanent endowment	27,778	—	—	27,778
Other gifts	—	—	5,090	5,090
Spending distribution	(67,176)	(76,900)	—	(144,076)
Transfers in/(out) *	1,950	35,645	(3,851)	33,744
TOTAL CHANGE IN ENDOWMENT FUNDS	**$ 258,398**	**$ 297,835**	**$ 11,712**	**$ 567,945**

**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 ASSETS DETAILS

a. Accounts receivable: The composition of accounts receivable at June 30, 2011, is summarized as follows:

ACCOUNTS RECEIVABLE *(in thousands)*	
Patient care	$ 359,486
Grants and contracts	37,306
Student payments	17,188
Pledges	17,095
Institutional loans	2,293
Build America Bonds rebate	1,108
Equipment Trust Fund reimbursement	—
Auxiliary	3,812
Related foundation	3,660
Other	47,655
Less: Allowance for doubtful accounts	(264,921)
TOTAL	**$ 224,682**

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, 2011, is summarized as follows:

NOTES RECEIVABLE *(in thousands)*

Perkins	$ 20,470
Nursing	1,269
Institutional	16,642
Fraternity loan	2,346
House Staff loan	8
Less: Allowance for doubtful accounts	(2,502)
Total notes receivable, net	**38,233**
Less: Current portion, net of allowance	(4,508)
TOTAL NONCURRENT NOTES RECEIVABLE	**$ 33,725**

c. Pledges: As discussed in Note 1, permanent endowment pledges do not meet eligibility requirements, as defined by GASB, until the related gift is received. Accordingly, permanent endowment pledges totaling $5,179,749 and $6,312,401 at June 30, 2011, and 2010, 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, 2011, is summarized as follows:

PLEDGES *(in thousands)*

GIFT PLEDGES OUTSTANDING	
Operations	$ 9,076
Capital	18,900
TOTAL GIFT PLEDGES OUTSTANDING	**27,976**
Less:	
Allowance for uncollectible pledges	(2,443)
Unamortized discount to present value	(2,563)
Total pledges receivable, net	**22,970**
Less: Current portion, net of allowance	(15,791)
TOTAL NONCURRENT PLEDGES RECEIVABLE	**$ 7,179**

d. Capital assets: The capital assets activity for the year ended June 30, 2011, is summarized as follows:

INVESTMENT IN PLANT— CAPITAL ASSETS *(in thousands)*	BEGINNING BALANCE JULY 1, 2010	ADDITIONS	DISPOSITIONS	ADJUSTMENTS	ENDING BALANCE JUNE 30, 2011
NONDEPRECIABLE CAPITAL ASSETS					
Land	$ 40,887	$ 8,095	$ —	$ —	$ 48,982
Construction in progress	404,209	317,528	—	(307,105)	414,632
Software in development	145	2,038	—	(2,183)	—
TOTAL NONDEPRECIABLE CAPITAL ASSETS	**445,241**	**327,661**	**—**	**(309,288)**	**463,614**
DEPRECIABLE CAPITAL ASSETS					
Buildings	2,360,572	—	10,023	263,019	2,613,568
Equipment	653,475	52,665	56,795	(129)	649,216
Infrastructure	355,929	—	—	20,219	376,148
Improvements other than buildings	140,072	—	—	3,443	143,515
Capitalized software	57,126	86,931	—	2,184	146,241
Library books	111,798	4,598	1,806	—	114,590
Total depreciable capital assets	**3,678,972**	**144,194**	**68,624**	**288,736**	**4,043,278**
Less accumulated depreciation for:					
Buildings	(828,318)	(76,266)	(7,244)	160	(897,180)
Equipment	(436,089)	(53,305)	(55,656)	(39)	(433,777)
Infrastructure	(133,178)	(11,328)	—	(176)	(144,682)
Improvements other than buildings	(85,112)	(6,339)	—	4	(91,447)
Capitalized software	(30,264)	(44,960)	—	—	(75,224)
Library books	(88,445)	(4,283)	(1,806)	—	(90,922)
Total accumulated depreciation	**(1,601,406)**	**(196,481)**	**(64,706)**	**(51)**	**(1,733,232)**
TOTAL DEPRECIABLE CAPITAL ASSETS, NET	**2,077,566**	**(52,287)**	**3,918**	**288,685**	**2,310,046**
TOTAL	**$ 2,522,807**	**$ 275,374**	**$ 3,918**	**$ (20,603)**	**$ 2,773,660**

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

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

f. Accounts payable and accrued liabilities: The composition of accounts payable at June 30, 2011, is summarized as follows:

ACCOUNTS PAYABLE AND ACCRUED LIABILITIES *(in thousands)*	
Accounts payable	$ 79,591
Accrued salaries and wages payable	57,422
Other payables	51,293
TOTAL	**$ 188,306**

g. Deferred revenue: The composition of deferred revenue at June 30, 2011, is summarized as follows:

DEFERRED REVENUE *(in thousands)*	
Grants and contracts	$ 54,642
Student payments (net of financial aid of $2,677)	17,009
Medical Center unearned revenues	16,936
Other deferred revenues	6,347
TOTAL	**$ 94,934**

NOTE 4: SHORT-TERM DEBT

Short-term debt at June 30, 2011, is summarized as follows:

SHORT-TERM DEBT *(in thousands)*	BEGINNING BALANCE JULY 1, 2010	ADDITIONS	REDUCTIONS	ENDING BALANCE JUNE 30, 2011
Commercial paper, tax-exempt	$ 70,700	$ 28,362	$ 22,212	$ 76,850
TOTAL COMMERCIAL PAPER	**$ 70,700**	**$ 28,362**	**$ 22,212**	**$ 76,850**

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 2011, interest rates on commercial paper ranged from 0.05 to 0.27 percent.

NOTE 5: LONG-TERM OBLIGATIONS

a. Long-term debt: The composition of long-term debt at June 30, 2011, is summarized as follows:

LONG-TERM DEBT *(in thousands)*	INTEREST RATES	FINAL MATURITY	BEGINNING BALANCE JULY 1, 2010	ADDITIONS	REDUCTIONS	ENDING BALANCE JUNE 30, 2011
BONDS AND NOTES PAYABLE						
Revenue bonds						
University of Virginia Series 2003A (9d)	0.05% to 0.27%	2034	82,010	—	—	82,010
University of Virginia Series 2003B (9d)	4.0% to 5.0%	2033	105,970	—	2,605	103,365
University of Virginia Series 2005 (9d)	4.0% to 5.0%	2037	179,980	—	2,920	177,060
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
Commonwealth of Virginia bonds (9c)	3.8% to 9.3%	2021	16,670	—	3,568	13,102
Notes payable to VCBA 2000A (9d)	3.5% to 5.8%	2021	8,280	—	8,280	—
Notes payable to VCBA 2004B (9d)	3.0% to 5.0%	2020	36,650	—	1,925	34,725
Notes payable to VCBA 2007B (9d)	4.0% to 4.25%	2020	10,730	—	25	10,705
Notes payable to VCBA 2010B (9d)	0.0%	2020	—	5,525	—	5,525
Other	various	2009	602	—	174	428
TOTAL BONDS AND NOTES PAYABLE			**$ 922,257**	**$ 195,525**	**$ 19,497**	**$ 1,098,285**
Less current portion of debt			(13,427)	709	—	(12,718)
Bond premium			21,849	3,640	1,163	24,326
Deferred loss on early retirement of debt			(3,902)	—	(397)	(3,505)
NET LONG-TERM DEBT			**$ 926,777**	**$ 199,874**	**$ 20,263**	**$ 1,106,388**

**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, issued at 5.0%. With the BAB rebate, the effective rate is reduced to 3.2%.*

On July 21, 2010, the University of Virginia issued $190,000,000 in taxable General Revenue Pledge Bonds, Series 2010. The 2010 Series was issued to refund a portion of the outstanding commercial paper in the amount of $19,701,500 and to fund new construction on the grounds of the University of Virginia. The bonds were issued as Build America Bonds with a coupon rate of 5.0 percent; the University will receive a 35 percent federal subsidy payment, yielding an effective interest rate of 3.2 percent.

On December 18, 2010, the Commonwealth of Virginia, on behalf of the University of Virginia, issued bonds of $5,525,000 to refund $6,070,000 of Series 2000A bonds. The refunding reduced the aggregate debt service by $833,138, representing a net present value savings of $728,851 and an accounting loss of $92,684.09.

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 obligations. There were no advances outstanding under any credit agreements as of June 30, 2011.

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
2012	$ 12,718	$ 53,434	$ (8,750)	$ 44,684
2013	13,485	52,828	(8,750)	44,078
2014	12,955	52,165	(8,750)	43,415
2015	13,560	51,515	(8,750)	42,765
2016	14,171	50,834	(8,750)	42,084
2017–2021	66,546	244,280	(43,750)	200,530
2022–2026	34,615	232,397	(43,750)	188,647
2027–2031	30,700	224,986	(43,750)	181,236
2032–2036	182,185	215,236	(43,750)	171,486
2037–2041	717,350	134,380	(33,950)	100,430
TOTAL	**$ 1,098,285**	**$ 1,312,055**	**$ (252,700)**	**$ 1,059,355**

PRIOR YEAR REFUNDINGS

As of June 30, 2011, 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, 2011, is summarized as follows:

LONG-TERM LIABILITIES *(in thousands)*	BEGINNING BALANCE JULY 1, 2010	ADDITIONS	REDUCTIONS	ENDING BALANCE JUNE 30, 2011
Investments held for related entities	$ 12,724	$ 2,287	$ 25	$ 14,986
Accrual for compensated absences	56,245	62,483	59,569	59,159
Perkins loan program	16,354	—	726	15,628
Investment in Culpeper Regional Hospital	37,692	8,001	8,000	37,693
Other Postemployment Benefits	14,112	4,764	—	18,876
Accrual for overtime labor claims	10,102	—	9,665	437
Accrual for GE lawsuit contingency	17,900	—	—	17,900
Other	21,976	38,015	16,780	43,211
Subtotal	**187,105**	**115,550**	**94,765**	**207,890**
Less current portion of long-term liabilities	(89,818)	(2,841)	—	(92,659)
NET LONG-TERM LIABILITIES	**$ 97,287**	**$ 112,709**	**$ 94,765**	**$ 115,231**

NOTE 6: DERIVATIVES

At June 30, 2011, the University had two fixed-payer interest rate swaps totaling $100 million in notional amount. The swaps are used as cash flow hedges by the University in order to provide a hedge against changes in interest rates on a similar amount of the University's variable-rate debt. The University's objective is to hedge the cash flow variability of a portion of its variable-rate debt. The underlying index for the swaps is the Securities Industry and Financial Markets Municipal Swap Index (SIFMA). The swaps were entered into in January 2007 and February 2007 and both swaps mature June 1, 2038. The swaps were entered into at a zero market value and no payments were made or received when they were initiated.

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, 2011, the market value of the interest-sharing arrangement between the University and UVAF, representing the amount the University would pay if the arrangement was terminated, was approximately $1.4 million.

RISK

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

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, 2011, the $100 million notional amount of swaps outstanding had a negative market value, net of any posted collateral and netting agreements, of approximately $11.7 million, representing the amount the University would pay if the swaps were terminated on that date. The market value of the swaps has fallen by approximately $1.8 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, 2011, the University had no credit risk related to its swaps. As of June 30, 2011, the University's swap counterparties were rated A from Standard & Poor's and A2 by Moody's. To mitigate credit risk, the University limits market value exposure and requires the posting of collateral based on the credit rating of the counterparty. All counterparties are required to have at least an A-/A3 rating by Standard & Poor's and Moody's, respectively. As of June 30, 2011, no collateral was required to be posted by the counterparties.

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

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

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

Rollover risk arises when a derivative associated with a hedged item does not extend all the way to the maturity date of the hedged item, thereby creating a gap in the protection otherwise afforded by the derivative. The University's hedges serve to hedge all $82.01 million of its variable-rate Series 2003A Bonds maturing in June 2034. The remaining $19.99 million of hedges 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 (in thousands):

MATURITIES *(in thousands)*	PRINCIPAL	VARIABLE INTEREST	DERIVATIVE INSTRUMENTS, NET	TOTAL
2012	$ —	$ 33	$ 3,297	$ 3,330
2013	—	33	3,297	3,330
2014	—	33	3,297	3,330
2015	—	33	3,297	3,330
2016	—	33	3,297	3,330
2017–2021	—	164	16,483	16,647
2022–2026	—	164	16,483	16,647
2027–2031	—	164	16,483	16,647
2032–2036	82,010	65	9,892	91,967
2037–2041	—	—	—	—
TOTAL	**$ 82,010**	**$ 722**	**$ 75,826**	**$ 158,558**

NOTE 7: AFFILIATED COMPANIES

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

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

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

Community Medicine commenced operations on July 1, 2001, and as of June 30, 2011, the Medical Center's investment totaled $1,810,000.

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

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

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

VALIANCE HEALTH, L.L.C. In November 1997, the Medical Center became a participant with Rockingham Memorial Hospital and Augusta Health Care, Inc., in Valiance Health, L.L.C. (Valiance), a joint venture integrating and coordinating the delivery of health care services in central and western Virginia. The Medical Center contributed $100,000 in initial capital, which entitles it to a pro-rata distribution of any profits and losses of Valiance. As of June 30, 2011, the Medical Center's investment totaled $500,000.

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

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

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

AS OF JUNE 30, 2011 *(in thousands)*	COMMON STOCK AND EQUITY CONTRIBUTIONS	SHARE OF ACCUMULATED INCOME (LOSS)	NET INVESTMENT
UVA Imaging, L.L.C.	$ 687	$ 4,868	$ 5,555
Community Medicine, L.L.C.	1,810	(4,393)	(2,583)
Central Virginia Health Network, Inc.	232	(41)	191
HEALTHSOUTH, L.L.C.	—	8,777	8,777
Valiance, L.L.C.	—	1,695	1,695
University HealthSystem Consortium	—	552	552
Culpeper Regional Hospital	41,248	3,323	44,571

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, 2011*	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	COMPONENT UNITS SUBTOTAL	ELIMINATIONS	COMPONENT UNITS TOTAL
ASSETS										
Current assets										
Total current assets	**$ 32,329**	**$ 26,986**	**$ 57,640**	**$ 35,293**	**$ 8,163**	**$ 71,210**	**$ 203,391**	**$ 435,012**	**$ —**	**$ 435,012**
Noncurrent assets										
Long-term investments	307,434	222,497	375,497	59,477	93,369	162,192	5,291,414	6,511,880	(959,326)	5,552,554
Capital assets, net, and other assets	18,046	86,129	43,260	17,560	234,062	59,234	520	458,811	—	458,811
Total noncurrent assets	**325,480**	**308,626**	**418,757**	**77,037**	**327,431**	**221,426**	**5,291,934**	**6,970,691**	**(959,326)**	**6,011,365**
TOTAL ASSETS	**$ 357,809**	**$ 335,612**	**$ 476,397**	**$ 112,330**	**$ 335,594**	**$ 292,636**	**$5,495,325**	**$7,405,703**	**$ (959,326)**	**$6,446,377**
LIABILITIES AND NET ASSETS										
Current liabilities										
Total current liabilities	**$ 379**	**$ 10,857**	**$ 81,326**	**$ 1,049**	**$ 57,075**	**$ 112,911**	**$ 4,996**	**$ 268,593**	**$ —**	**$ 268,593**
Noncurrent liabilities										
Long-term debt,										
net of current portion of $12,025	—	41,657	22,500	—	109,612	41,421	—	215,190	—	215,190
Other noncurrent liabilities	741	—	22,173	574	90,513	71,502	5,479,397	5,664,900	(959,326)	4,705,574
Total noncurrent liabilities	**741**	**41,657**	**44,673**	**574**	**200,125**	**112,923**	**5,479,397**	**5,880,090**	**(959,326)**	**4,920,764**
TOTAL LIABILITIES	**$ 1,120**	**$ 52,514**	**$ 125,999**	**$ 1,623**	**$ 257,200**	**$ 225,834**	**$5,484,393**	**$6,148,683**	**$ (959,326)**	**$5,189,357**
NET ASSETS										
Unrestricted	$ 53,390	$ 81,829	$ 49,105	$ 32,492	$ 1,590	$ 66,687	$ 10,932	$ 296,025	$ —	$ 296,025
Temporarily restricted	184,279	82,285	138,840	48,002	62,028	115	—	515,549	—	515,549
Permanently restricted	119,020	118,984	162,453	30,213	14,776	—	—	445,446	—	445,446
TOTAL NET ASSETS	**356,689**	**283,098**	**350,398**	**110,707**	**78,394**	**66,802**	**10,932**	**1,257,020**	**—**	**1,257,020**
TOTAL LIABILITIES AND NET ASSETS	**$ 357,809**	**$ 335,612**	**$ 476,397**	**$ 112,330**	**$ 335,594**	**$ 292,636**	**$5,495,325**	**$7,405,703**	**$ (959,326)**	**$6,446,377**

**December 31, 2010, 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, 2011, are as follows:

SUMMARY SCHEDULE OF PLEDGES RECEIVABLE *(in thousands)* *as of June 30, 2011*	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	COMPONENT UNITS TOTAL
Total pledges receivable	**$ 14,838**	**$ 19,969**	**$ 17,343**	**$ 52,954**	**$ —**	**$ —**	**$ —**	**$ 105,104**
Less allowance for uncollectible accounts	(733)	(1,014)	(1,832)	(5,234)	—	—	—	(8,813)
Less effect of discounting to present value	(550)	(4,989)	(1,255)	(778)	—	—	—	(7,572)
Net pledges receivable	**13,555**	**13,966**	**14,256**	**46,942**	**—**	**—**	**—**	**88,719**
Less current pledges	(5,570)	(3,765)	(4,419)	(30,570)	—	—	—	(44,324)
TOTAL NONCURRENT PLEDGES RECEIVABLE	**$ 7,985**	**$ 10,201**	**$ 9,837**	**$ 16,372**	**$ —**	**$ —**	**$ —**	**$ 44,395**

**December 31, 2010, year-end*

The **University of Virginia Law School Foundation** has received bequest intentions and certain other conditional promises to give of approximately $56 million at June 30, 2011. These intentions and conditional promises to give are not recognized as assets, and if they are received, will generally be restricted for specific purposes stipulated by the donors, primarily endowments for scholarships and professorships.

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

INVESTMENTS

Investments are recorded at market value, which is determined by readily available quotes on the stock exchange or as quoted by the **University of Virginia Investment Management Company (UVIMCO)**. Realized gains (losses) from the sale of securities and unrealized gains (losses) from the appreciation (depreciation) of the value of securities held are recognized in the year incurred. The fair values of investments by investment class at June 30, 2011, for the component units are as follows:

SUMMARY SCHEDULE OF INVESTMENTS *(in thousands)* *as of June 30, 2011*	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	COMPONENT UNITS TOTAL
Private placements and limited partnerships	$ 1,554	$ —	$ 9,094	$ —	$ 19,339	$ 8,545	$1,786,898	$1,825,430
University of Virginia Investment Management Co.	222,547	210,844	370,720	58,273	51,478	45,464	—	959,326
Equities	52	11,654	—	876	—	31,397	611,587	655,566
Other	106,018	10,227	11,510	349	27,390	77,869	3,087,839	3,321,202
Total investments	**$ 330,171**	**$ 232,725**	**$ 391,324**	**$ 59,498**	**$ 98,207**	**$ 163,275**	**$5,486,324**	**$6,761,524**
Less amounts shown in current assets	(22,737)	(10,227)	(15,828)	(21)	(4,838)	(1,083)	(194,910)	(249,644)
Less eliminations	(222,547)	(210,844)	(370,720)	(58,273)	(51,478)	(45,464)	—	(959,326)
LONG-TERM INVESTMENTS	**$ 84,887**	**$ 11,654**	**$ 4,776**	**$ 1,204**	**$ 41,891**	**$ 116,728**	**$5,291,414**	**$5,552,554**

**December 31, 2010, 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 $2,029,769,811 (37 percent of investments held for others) at June 30, 2011. 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, 2011, capital assets consisted of (in thousands):

PROPERTY, FURNISHINGS, AND EQUIPMENT *(in thousands)* *as of June 30, 2011*	UNIVERSITY OF VIRGINIA FOUNDATION	UNIVERSITY OF VIRGINIA DARDEN SCHOOL FOUNDATION
Land	$ 83,072	$ —
Buildings and improvements	204,090	103,545
Furnishings and equipment	22,777	1,409
Total	**309,939**	**104,954**
Less accumulated depreciation	(81,429)	(32,542)
NET CAPITAL ASSETS	**$ 228,510**	**$ 72,412**

NOTES PAYABLE

The **University of Virginia Foundation** has established a line of credit with Wachovia Bank in the amount of $34 million. The outstanding balance at June 30, 2011, was $14 million. The Foundation has a second line of credit with Bank of America in the amount of $40 million. The outstanding balance on this line was $5 million at June 30, 2011. In addition, the Foundation established a line of credit with U.S. Bank National Association in the amount of $25 million on March 8, 2010. The outstanding balance at June 30, 2011, was $25 million.

The University has allocated up to $53 million of its quasi-endowment funds for use by the Foundation to acquire and develop real estate. As of June 30, 2011, the Foundation had borrowed $29 million of these funds to acquire properties on behalf of the University. These notes payable are non-interest bearing and due on demand.

LONG-TERM DEBT

The following table summarizes the long-term obligations of the **University of Virginia Darden School Foundation**, the **University of Virginia Foundation**, and the **University of Virginia Physicians Group** at June 30, 2011 (in thousands):

LONG-TERM DEBT *(in thousands)* *as of June 30, 2011*	**UNIVERSITY OF VIRGINIA DARDEN SCHOOL FOUNDATION**	**UNIVERSITY OF VIRGINIA FOUNDATION**	**UNIVERSITY OF VIRGINIA PHYSICIANS GROUP**
University of Virginia Phase I and II Darden School Facilities	$ 45,274	$ —	$ —
Recovery Zone Facility Bond	—	15,000	—
Note payable Augusta Professional Park	—	—	6,794
1997 Industrial Development Authority revenue bonds—Louisa	—	4,350	—
1998 Refunding bonds	—	—	12,345
1999 Mortgage note payable	—	5,719	—
2000 Industrial Development Authority revenue bonds—Louisa	—	—	4,360
2001 Refinancing demand bonds	—	38,085	—
2004 Refinancing note payable	—	9,644	—
2009 Economic Development Authority revenue bonds—Albemarle	—	—	22,685
2011 Refinancing demand bonds	—	40,460	—
Total	**45,274**	**113,258**	**46,184**
Less portion due within one year	(3,617)	(3,646)	(4,763)
LONG-TERM DEBT, NET OF CURRENT PORTION	**$ 41,657**	**$ 109,612**	**$ 41,421**

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

MATURITIES *(in thousands)* *as of June 30, 2011*	**UNIVERSITY OF VIRGINIA DARDEN SCHOOL FOUNDATION**	**UNIVERSITY OF VIRGINIA FOUNDATION**	**UNIVERSITY OF VIRGINIA PHYSICIANS GROUP**
Year ended June 30, 2012	$ 3,617	$ 3,646	$ 4,763
Year ended June 30, 2013	4,032	13,480	2,715
Year ended June 30, 2014	4,242	8,281	2,848
Year ended June 30, 2015	4,460	3,858	2,995
Year ended June 30, 2016	4,689	4,043	2,886
Years ended June 30, 2017–2035	24,234	79,950	29,977
TOTAL	**$ 45,274**	**$ 113,258**	**$ 46,184**

STATEMENT OF ACTIVITIES *(in thousands)*
as of June 30, 2011

	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	COMPONENT UNITS TOTAL
UNRESTRICTED REVENUES AND SUPPORT								
Contributions	$ 2,919	$ 5,097	$ 782	$ 11,612	$ —	$ —	$ —	$ 20,410
Fees for services, rentals, and sales	—	25,894	2,343	796	42,033	214,553	13,686	299,305
Other revenues	17,615	19,911	61,152	25,564	4,674	119,588	1,942	250,446
TOTAL UNRESTRICTED REVENUES AND SUPPORT	**20,534**	**50,902**	**64,277**	**37,972**	**46,707**	**334,141**	**15,628**	**570,161**
EXPENSES								
Program services, lectures, and special events	8,557	38,586	49,323	12,135	—	260,548	9,731	378,880
Other expenses	4,219	3,876	4,836	24,939	47,467	44,085	2,799	132,221
TOTAL EXPENSES	**12,776**	**42,462**	**54,159**	**37,074**	**47,467**	**304,633**	**12,530**	**511,101**
EXCESS (DEFICIENCY) OF UNRESTRICTED								
REVENUES AND SUPPORT OVER EXPENSES	**7,758**	**8,440**	**10,118**	**898**	**(760)**	**29,508**	**3,098**	**59,060**
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS								
Contributions	8,751	3,994	26,416	6,019	—	—	—	45,180
Other	40,387	23,914	16,424	(17,042)	5,941	(2,606)	—	67,018
NET CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	**49,138**	**27,908**	**42,840**	**(11,023)**	**5,941**	**(2,606)**	**—**	**112,198**
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS								
Contributions	6,995	4,350	9,277	4,186	—	—	—	24,808
Other	2,312	—	(648)	1,080	—	—	—	2,744
NET CHANGE IN PERMANENTLY RESTRICTED NET ASSETS	**9,307**	**4,350**	**8,629**	**5,266**	**—**	**—**	**—**	**27,552**
CHANGE IN NET ASSETS	**66,203**	**40,698**	**61,587**	**(4,859)**	**5,181**	**26,902**	**3,098**	**198,810**
Net assets, beginning of year	290,486	242,400	288,811	115,566	73,213	39,900	7,834	1,058,210
NET ASSETS, END OF YEAR	**$ 356,689**	**$ 283,098**	**$ 350,398**	**$ 110,707**	**$ 78,394**	**$ 66,802**	**$ 10,932**	**$1,257,020**

**December 31, 2010, 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, 2011, totaled $871,000. 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 $59 million for the year ended June 30, 2011. Approximately $16 million of the fiscal year payments received relates to disproportionate share funds paid for indigent patients served by the Foundation. The **University of Virginia Physicians Group** contributed $16 million to the University in support of various academic programs, equipment, teaching, and research for the year ended June 30, 2011.

NOTE 9: EXPENSE CLASSIFICATION MATRIX

OPERATING EXPENSES BY FUNCTIONAL CLASSIFICATION *(in thousands)* *for the year ended June 30, 2011*	COMPENSATION AND BENEFITS	SUPPLIES, UTILITIES, AND OTHER SERVICES	STUDENT AID	DEPRECIATION	OTHER	TOTAL
Instruction	$ 284,599	$ 36,962	$ 3,488	$ —	$ 894	$ 325,943
Research	170,169	104,577	16,265	—	613	291,624
Public service	15,142	11,331	308	—	529	27,310
Academic support	89,912	27,724	413	—	416	118,465
Student services	26,290	8,219	148	—	122	34,779
Institutional support	82,652	19,930	30	—	415	103,027
Operation of plant	74,044	8,219	5	—	136	82,404
Student aid	436	4,705	37,212	—	125	42,478
Auxiliary	65,286	78,326	84	—	515	144,211
Depreciation	—	—	—	101,105	—	101,105
Patient services	430,690	452,945	—	63,428	25,838	972,901
Other	87	(4,955)	—	—	—	(4,868)
Central services recoveries	—	(15,481)	—	—	—	(15,481)
TOTAL	**$ 1,239,307**	**$ 732,502**	**$ 57,953**	**$ 164,533**	**$ 29,603**	**$ 2,223,898**

NOTE 10: APPROPRIATIONS

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

A summary of state appropriations received by the University and the University's College at Wise, including all supplemental appropriations and reversions for the year ended June 30, 2011, is provided in the chart below.

APPROPRIATIONS *(in thousands)*	
Original legislative appropriation per Chapter 874	$ 132,158
Adjustments	
Financial Aid—General Fund	11,508
Eminent Scholars	801
SWVA Public Education Consortium	197
Allotment for Engineering Telecommunications Project	618
Financial Assistance for educational and general	5,968
Employee benefits	1,115
Miscellaneous educational and general	8,975
TOTAL	**$ 161,340**

During fiscal year 2011, the University transferred funds to the Commonwealth for Virginia Sickness and Disability Program, the Virginia Retirement System, State Furlough Day, eVA rate reduction, motor pool cost savings, Virginia Information Technology Agency savings, health care credits, and life insurance totaling $2.7 million.

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). Substantially all (95 percent) of salaried classified and University staff employees, 12 percent of faculty, and 18 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, 2011. The Commonwealth, not the University, has overall responsibility for contributions to this plan.

Eighty-eight percent of teaching, research, and administrative faculty, 5 percent of University staff, and 82 percent of Medical Center employees participate in Optional Retirement Plans offered through TIAA-CREF; Fidelity Investments, Inc.; and Vanguard. 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 upon 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 upon 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 $47.1 million, and contributions were calculated using base salaries of $550.3 million, for the year ended June 30, 2011. The contribution percentage amounted to 8.6 percent.

State employees may elect to participate in the Commonwealth's Deferred Compensation 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 $1.3 million and employee contributions were $8.7 million for the fiscal year ended June 30, 2011.

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 $1.3 million for fiscal year 2011.

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 established by GASB, 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.

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 2011, the University contributed $2,600,134 to the plan for retiree claims. Retirees receiving benefits contributed $4,142,107 or approximately 61 percent of the total premiums through their required contribution of $499 per month for retiree-only coverage and $1,015 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 established by GASB. The total cost of providing postemployment benefits is projected, taking into account assumptions about demographics, turnover, mortality, disability, retirement, health care trends, and other actuarial assumptions. This amount is discounted to determine the actuarial present value of total projected benefits. The actuarial accrued liability (AAL) is the portion of the present value of the total projected benefits allocated to years of employment prior to the measurement date. The unfunded actuarial accrued liability (UAAL) is the difference between the AAL and actuarial value of assets in the plan.

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

SUMMARY OF VALUATION RESULTS *(in thousands)*

Actuarial accrued liability by category		
Current retirees, beneficiaries, dependents, and terminated vested members	$	9,175
Current active members		38,119
Adjust to June 30, 2011		14,362
Total actuarial accrued liability as of June 30, 2011		**61,656**
Annual required contribution (ARC)		
ARC for June 30, 2010		7,643
Interest on net OPEB obligation		635
ARC adjustment to June 30, 2011		(914)
Actual contributions		(2,600)
Net increase in ARC for June 30, 2011		**4,764**
Actual ARC July 1, 2010		14,112
Total annual required contribution as of June 30, 2011	**$**	**18,876**

As of June 30, 2011, the University has not funded this retirement plan.

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

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

In the June 30, 2011, actuarial valuation, the University elected to use the Entry Age Normal Level Dollar method. The actuarial assumptions include a 4.5 percent investment rate of return, which is a blended rate of the expected long-term investment returns on plan assets and the University's own investments calculated based on the funded level of the plan at the valuation date, and an annual health care cost trend rate of 8.5 percent initially, reduced by decrements to an ultimate rate of 5 percent after seven years and a drug cost trend rate of 8 percent reduced by decrements to an ultimate rate of 5 percent after six years. All rates include a 4 percent inflation assumption. The UAAL is being amortized as a level percentage of projected payrolls on an open basis over a rolling thirty-year period.

NOTE 13: SELF-INSURANCE

All University employees have the option to participate in the University's self-funded, comprehensive medical care benefits program. The cost of medical care is paid out of employee and employer contributions. The market value of investments at June 30, 2011, was $54 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, 2011, was $13 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 and insurance for physical damage on vehicles valued in excess of $20,000. Separate insurance coverage is maintained as appropriate on subsidiary organizations owned by the Health System, such as Community Medicine University of Virginia, L.L.C.

NOTE 14: FUNDS HELD IN TRUST BY OTHERS

Assets of funds held by trustees for the benefit of the University are not reflected in the accompanying Statement of Net Assets. The University has irrevocable rights to all or a portion of the income of these funds, but the assets of the funds are not under the management of the University. The market value of the funds held by trustees for the benefit of the University at June 30, 2011, was $126 million and income received totaled $5.5 million.

NOTE 15: COMMITMENTS AND CONTINGENCIES

Authorized expenditures for construction and other projects unexpended as of June 30, 2011, were approximately $150 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 $26 million for the year ended June 30, 2011.

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
2012	$ 12,694
2013	7,698
2014	6,088
2015	4,830
2016	3,676
2017–2021	10,396
2022–2026	1,180
2027–2031	823
2032–2036	823
2037–2041	823
2042–2046	823
2047–2051	494
TOTAL	**$ 50,348**

In October 2010, the Medical Center was informed that the federal government's Center for Medicare Services (CMS) issued notices to Virginia's Department of Medical Assistance Services (DMAS) disallowing $34.1 million in Disproportionate Share Hospital adjustment payments to DMAS for fiscal years 2006 through 2009. The Medical Center's portion of the $34.1 million is $12.65 million. CMS contends that DMAS inappropriately applied payments against subsequent year allotments. DMAS has appealed this disallowance and any repayment is deferred, pending the appeals resolution. The appeal has not progressed sufficiently to determine whether DMAS will be required to return any payments to the federal program and, if so, whether DMAS will require any providers, including the Medical Center, to return any payments to DMAS. The financial impact of the final resolution of this case on the Medical Center is not known at this time; therefore, no liability has been recorded in the financial statements.

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.

NOTE 16: SUBSEQUENT EVENTS

On October 12, 2011, the University of Virginia issued $4.7 million of Taxable Commercial paper and on October 13, 2011, issued $74 million par amount of Tax-exempt General Revenue Pledge Bonds, Series 2011, to advance refund $82.2 million of Taxable General Revenue Pledge Bonds, Series 2003B. The advance refunding reduced the aggregate debt service of the University by $12.4 million, representing a net present value savings of $8.6 million and an accounting loss of $8 million. The new 2011 Series bonds have a true interest cost of 3.3 percent, with a net interest cost of 3.6 percent.

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UNIVERSITY ADMINISTRATION, 2010–11

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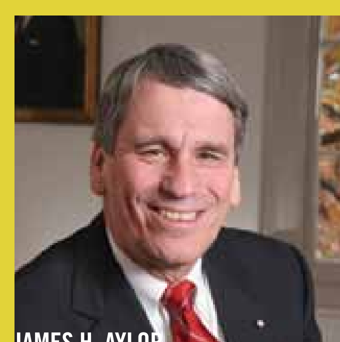
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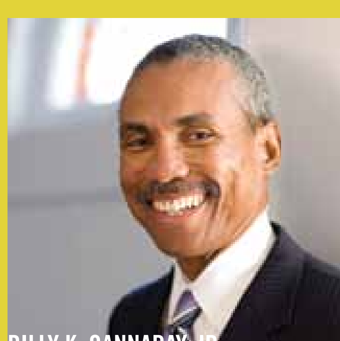
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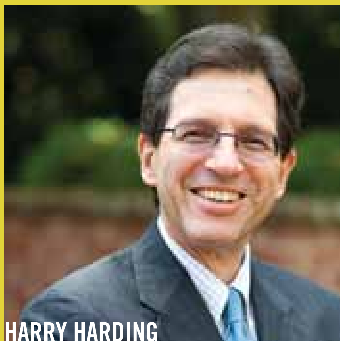
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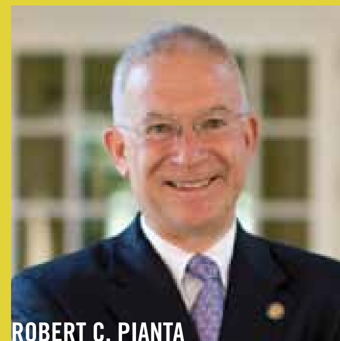
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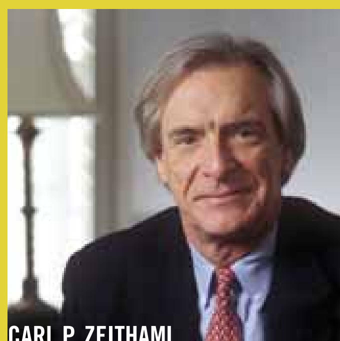
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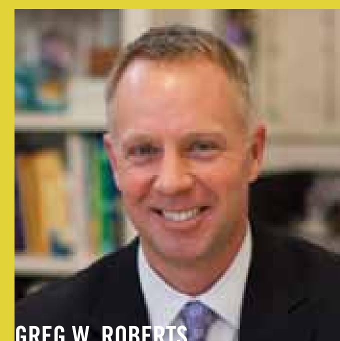
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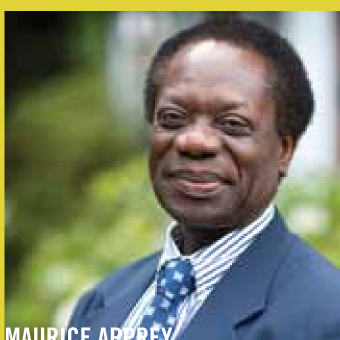
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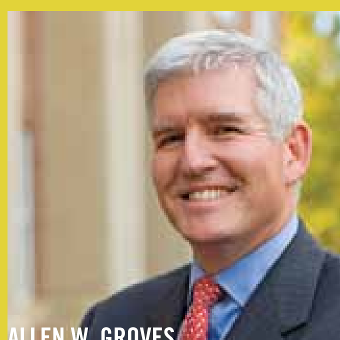
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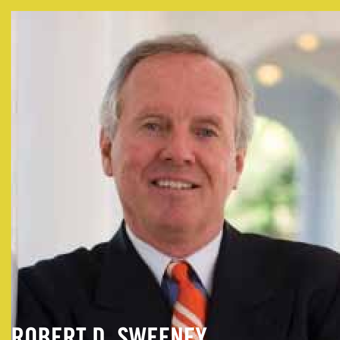
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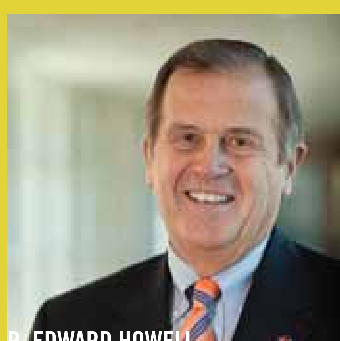
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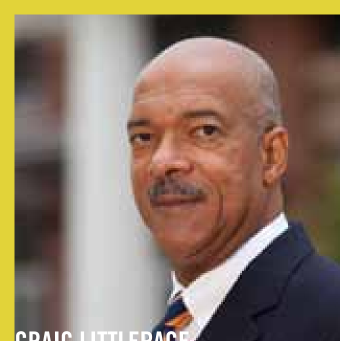
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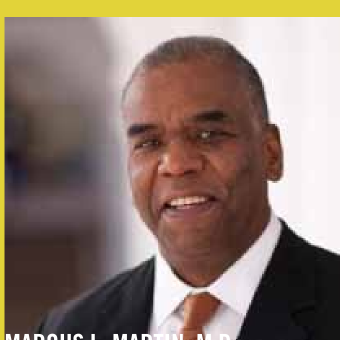
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UNIVERSITY OF VIRGINIA PRESIDENT'S REPORT

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An online version of this report is available at
www.virginia.edu/president/report11.

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