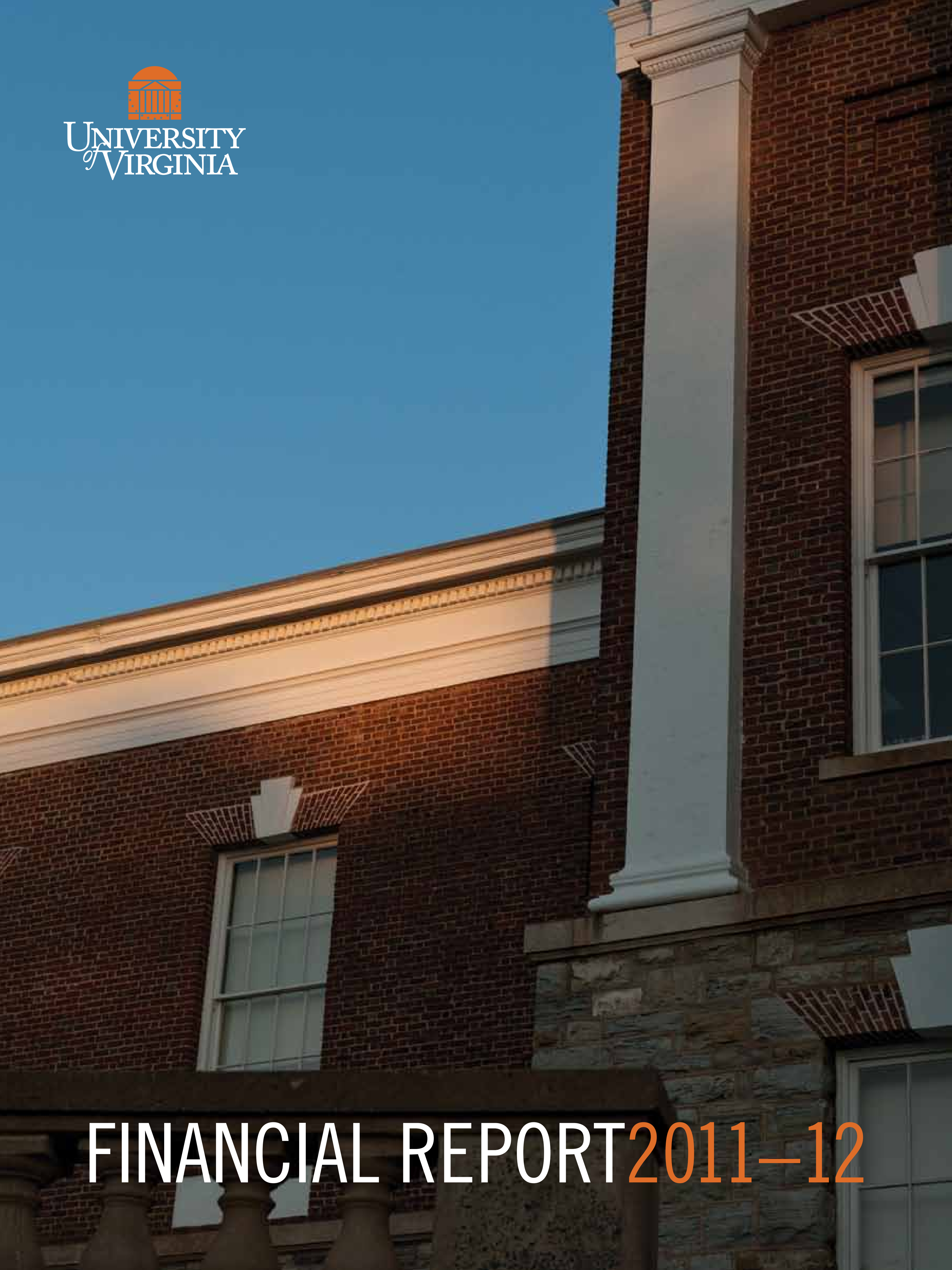
UNIVERSITY of VIRGINIA



FINANCIAL REPORT 2011–12

FINANCIAL REPORT 2011–12

CONTENTS

UNIVERSITY of VIRGINIA

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 fiscal year ended June 30, 2012. Comparative information for the fiscal year ended June 30, 2011, 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 21,106 students and 2,133 full-time instructional and research faculty members in eleven separate schools in 2011–12, the University offers a diverse range of degree programs, from baccalaureate to postdoctoral levels including doctorates in fifty-five disciplines. The University is recognized internationally for the quality of its faculty and for its commitment to the primary academic missions of instruction, research, public service, and medical care. The University consistently ranks among the nation's top public colleges and universities, both for its general academic programs and for its strengths in specific academic disciplines. Its emphasis on the student experience is extraordinary among major public institutions, and its dedication to new advances in research permeates all of its schools and colleges.

MEDICAL CENTER

The University of Virginia Medical Center is an integrated network of primary and specialty care services ranging from wellness programs and routine checkups to the most technologically advanced care. The hub of the Medical Center is a 676-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 Medical Center 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 2,420 students and ninety 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, 2012:

- The University received a 5.1 percent return on its endowment during 2011–12. Overall, the endowment assets increased by nearly $42 million. On a per-share basis, positive investment returns over the last three years have restored market value to 50 percent above the June 30, 2009, level. The University made an endowment spending distribution to its departments totaling $152.6 million, which was the equivalent of 4.6 percent of the June 30, 2011, market value of the endowment. This distribution provided 10.4 percent of operation funding for the Academic and Wise Divisions.
- Through June 30, 2012, the University has been awarded $74.7 million of funding from federal stimulus (American Recovery and Reinvestment Act) grants during the past three years. Of that total, only $171 thousand was awarded during fiscal year 2011–12. With stimulus funding ended, no additional awards are expected from this program. ARRA awards of $13.6 million were expensed in 2011–12 compared to $30.3 million last year.
- As of June 30, 2012, the total funds raised through the Campaign for the University of Virginia stood at $2.752 billion.

- In February 2012, the University negotiated and signed a new F&A (Facilities and Administrative) agreement with the federal government. Beginning with fiscal year 2012–13, the on-Grounds organized research rate will increase from 54.0 to 58.0 percent. That rate will remain in effect for the next three fiscal years, through fiscal year 2014–15, or until a new agreement is negotiated. F&A recoveries for 2011–12 were $69.3 million.
- Capital construction added in the 2011–12 year totaled $289 million, with a construction in progress year-end balance of $349 million. This continues to keep the University's physical capital assets second in value only to endowment assets on the Statement of Net Assets.

The University's net assets increased by $248 million, or 4 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)*	2012	2011	INCREASE (DECREASE) AMOUNT	INCREASE (DECREASE) PERCENT
Total revenues before investment income	$ 2,450,542	$ 2,357,511	$ 93,031	3.9%
Total expenses	2,408,043	2,281,654	126,389	5.5%
Increase in net assets before investment income	**42,499**	**75,857**	**(33,358)**	**(44.0%)**
Investment income	205,747	833,465	(627,718)	(75.3%)
TOTAL CHANGE IN NET ASSETS	**$ 248,246**	**$ 909,322**	**$ (661,076)**	**(72.7%)**

- Overall, the primary factor in the University's net asset growth or decline continues to be the performance of the endowment and other long-term investments, and their resultant realized and unrealized investment income. This year, investment income was a positive $206 million, which was significantly lower than investment income of $833 million in fiscal year 2010–11. However, the return on the University's long-term investments was exceptionally high in fiscal year 2010–11 at 24.3 percent, compared to a 5.1 percent positive return for the 2011–12 fiscal year.
- Total expenses increased by 5.5 percent and total revenues before investment income increased by 3.9 percent. Net revenues before investment income were a positive $42 million, which was 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 on subsequent pages.

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. 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, 2012, and June 30, 2011 (as restated), follows.

SUMMARY OF THE STATEMENT OF NET ASSETS *(in thousands)*	2012	2011	INCREASE AMOUNT	INCREASE PERCENT
Current assets	**$ 890,022**	**$ 723,700**	**$ 166,322**	**23.0%**
Noncurrent assets				
Endowment investments	3,428,234	3,386,469	41,765	1.2%
Other long-term investments	955,538	902,846	52,692	5.8%
Capital assets, net	2,939,931	2,773,660	166,271	6.0%
Other	126,951	214,695	(87,744)	(40.9%)
Total assets	**8,340,676**	**8,001,370**	**339,306**	**4.2%**
Current liabilities	**610,778**	**501,546**	**109,232**	**21.8%**
Noncurrent liabilities	**1,214,569**	**1,232,741**	**(18,172)**	**(1.5%)**
Total liabilities	**1,825,347**	**1,734,287**	**91,060**	**5.3%**
NET ASSETS	**$ 6,515,329**	**$ 6,267,083**	**$ 248,246**	**4.0%**

CURRENT ASSETS AND LIABILITIES

The Statement of Net Assets shows that working capital, which is current assets less current liabilities, was $279 million at June 30, 2012, compared to $222 million at the end of the previous year. Current assets, which totaled $890 million as compared with the previous year's $724 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 $109 million, or 22 percent. Increases to accounts payable and commercial paper account for the increase.

From a liquidity perspective, current assets cover current liabilities 1.5 times, an indicator of good liquidity and the ability to weather short-term demands on working capital. This rate of coverage decreased slightly from last year. Current assets cover 4.9 months of total operating expenses, excluding depreciation. For 2011–12, one month of operating expenses averages approximately $183 million.

ENDOWMENT AND OTHER INVESTMENTS

PERFORMANCE. At June 30, 2012, 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 was a positive 5.1 percent in fiscal year 2011–12, compared to a 24.3 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 $206 million, compared to $833 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 $152.6 million, which is about 4.6 percent of the June 30, 2011, market value of the endowment. It also represents an increase of $8.5 million over last year's distribution of $144.1 million.

ENDOWMENT INVESTMENTS. The total for endowment investments on the Statement of Net Assets is $3.428 billion, a $42 million increase over the prior-year total of $3.386 billion. In addition to new gifts, the net increase in endowment investments results from the 5.1 percent investment return earned during the year, reduced by the spending distribution equal to 4.6 percent of the July 1, 2011, market value.

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 eight related foundations reported as component units, the combined University system endowment was approximately $4.7 billion as of June 30, 2012.

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 $289 million for new capital construction in fiscal year 2011–12. This included amounts for infrastructure and buildings. Of the total, the Academic, Medical Center, and U.Va.-Wise Divisions expended $177 million, $100 million, and $12 million, respectively. Some of the largest amounts expended during the year for construction, for both new and ongoing projects, are listed below:

MAJOR CAPITAL PROJECT EXPENDITURES DURING 2011–12 *(in thousands)*

PROJECT	2012 EXPENSES
Battle Building	$ 42,709
Alderman Road residences, all phases	27,116
Hospital bed expansion	17,364
Infrastructure projects	16,567
Newcomb Hall dining and other renovations	15,450
New Cabell Hall	14,873
Rice Hall	14,331
Jordan Hall HVAC replacement	13,077
Wise Multi-Purpose Building	7,448
TOTAL	**$ 168,935**

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

MAJOR PROJECTS COMPLETED OR ACQUIRED DURING 2011–12 *(in thousands)*

PROJECT	CAPITALIZED COST
Physical and Life Sciences Research Building	$ 66,855
Rice Hall	55,540
Alderman Road residences, Phase 2	36,712
Medical Center 2nd floor renovations	30,944
Heat Plant and Health Sciences Center Chiller	18,106
Wise Smiddy Hall renovation	13,346
Hunter Smith Band Building	11,680
Lannigan Track	6,175
TOTAL	**$ 239,358**

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

The University's debt portfolio contains a strategic mix of maturity structures and both variable- and fixed-rate obligations. The University achieves this mix through issuing a combination of fixed- and variable-rate debt, including commercial paper. It also adjusts its debt mix through the use of interest rate swaps executed according to its board-approved interest rate risk management policy. The University had just over $1.2 billion of long-term debt outstanding at June 30, 2012. Of this amount, $127 million was short-term commercial paper.

NET ASSETS

The four net asset categories represent the residual interest in the University's assets and deferred outflows after liabilities are deducted. The University's net assets at June 30, 2012, and 2011 (restated), are summarized below.

NET ASSETS *(in thousands)*	2012	2011	INCREASE AMOUNT	INCREASE PERCENT
Invested in capital assets, net of related debt	$ 1,708,603	$ 1,662,987	$ 45,616	2.7%
Restricted				
Nonexpendable	560,007	533,291	26,716	5.0%
Expendable	2,418,734	2,354,163	64,571	2.7%
Unrestricted	1,827,985	1,716,642	111,343	6.5%
TOTAL NET ASSETS	**$ 6,515,329**	**$ 6,267,083**	**$ 248,246**	**4.0%**

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, 2012. It increased by $46 million, or 2.7 percent. This increase reflects the ongoing investment by the University in buildings, infrastructure, and systems. Capital assets (net) increased by more than $166 million and were offset by related debt used to finance those projects.

RESTRICTED NONEXPENDABLE NET ASSETS comprise the University's permanent endowment funds. This category totaled $560 million at June 30, 2012. Overall, nonexpendable net assets increased by $27 million. New gifts of $25 million account for most of the increase. The remaining $2 million of increase resulted from donor-directed capitalizations of endowment distribution.

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 $2.4 billion at June 30, 2012, an increase of $64.6 million, or 2.7 percent. The increase results from investment returns and new gifts, reduced by spending of restricted resources for operations and capital projects.

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 any University initiative. Unrestricted net assets totaled $1.8 billion at June 30, 2012, an increase of $111 million, or 6.5 percent, from the previous year. As with restricted funds, much of the increase results from the 5.1 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 $84 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 changes in net assets for the years ended June 30, 2012, and 2011 (restated).

SUMMARY OF THE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS *(in thousands)*	2012	2011	INCREASE (DECREASE) AMOUNT	INCREASE (DECREASE) PERCENT
Operating revenues				
Student tuition and fees, net	$ 410,739	$ 381,136	$ 29,603	7.8%
Patient services, net	1,146,773	1,042,100	104,673	10.0%
Sponsored programs	313,559	332,185	(18,626)	(5.6%)
Other	183,096	164,262	18,834	11.5%
Total operating revenues	**2,054,167**	**1,919,683**	**134,484**	**7.0%**
Operating expenses	**2,377,736**	**2,233,603**	**144,133**	**6.5%**
Operating loss	**(323,569)**	**(313,920)**	**(9,649)**	**3.1%**
Nonoperating revenues (expenses)				
State appropriations	145,412	161,343	(15,931)	(9.9%)
State stabilization (ARRA)	508	23,638	(23,130)	(97.9%)
Gifts	132,196	147,844	(15,648)	(10.6%)
Investment income	205,747	833,465	(627,718)	(75.3%)
Pell grants	12,017	12,738	(721)	(5.7%)
Interest on capital asset-related debt	(31,046)	(45,628)	14,582	(32.0%)
Build America Bonds rebate	8,750	8,501	249	2.9%
Other net nonoperating expenses	(8,011)	(8,179)	168	(2.1%)
Net nonoperating revenues	**465,573**	**1,133,722**	**(668,149)**	**(58.9%)**
Income before other revenues, expenses, gains, or losses	**142,004**	**819,802**	**(677,798)**	**(82.7%)**
Capital appropriations, gifts, and grants	81,322	64,487	16,835	26.1%
Additions to permanent endowments	24,920	27,778	(2,858)	(10.3%)
Transfers to Commonwealth	—	(2,745)	2,745	(100.0%)
Total other revenues	**106,242**	**89,520**	**16,722**	**18.7%**
Increase in net assets	**248,246**	**909,322**	**(661,076)**	**(72.7%)**
Net assets—beginning of year	6,267,083	5,357,761	909,322	17.0%
NET ASSETS—END OF YEAR	**$ 6,515,329**	**$ 6,267,083**	**$ 248,246**	**4.0%**

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, Pell grants, and gifts, are considered nonoperating, as defined by GASB standards. Consequently, the operating loss of $324 million occurs before the appropriation of these important revenue sources. Adding these revenue sources, which total $290 million for the fiscal year, significantly reduces the operating loss and results in an adjusted income amount of negative $33 million. This provides a more accurate picture of the University's scope and results of operations.

REVENUES

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

SUMMARY OF REVENUES, TOTAL UNIVERSITY

The University's revenues for the years ended June 30, 2012, and 2011 (restated), are summarized below:

SUMMARY OF REVENUES *(in thousands)*	2012			2011			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	$ 410,739	$ —	$ 410,739	$ 381,136	$ —	$ 381,136	$ 29,603	7.8%
Patient services	—	1,146,773	1,146,773	—	1,042,100	1,042,100	104,673	10.0%
Federal, state, and local grants and contracts	264,721	—	264,721	284,993	—	284,993	(20,272)	(7.1%)
Nongovernmental grants and contracts	48,838	—	48,838	47,192	—	47,192	1,646	3.5%
Sales and services of educational departments	20,339	—	20,339	21,289	—	21,289	(950)	(4.5%)
Auxiliary enterprises revenue, net	118,963	—	118,963	113,199	—	113,199	5,764	5.1%
Other operating revenues	—	43,794	43,794	1	29,773	29,774	14,020	47.1%
Total operating revenues	**863,600**	**1,190,567**	**2,054,167**	**847,810**	**1,071,873**	**1,919,683**	**134,484**	**7.0%**
Nonoperating revenues								
State appropriations	145,408	4	145,412	161,343	—	161,343	(15,931)	(9.9%)
State stabilization (ARRA)	508	—	508	23,638	—	23,638	(23,130)	(97.9%)
Private gifts	129,836	2,360	132,196	134,582	13,262	147,844	(15,648)	(10.6%)
Investment income	184,712	21,035	205,747	750,281	83,184	833,465	(627,718)	(75.3%)
Other nonoperating revenues	118,259	—	118,259	105,003	—	105,003	13,256	12.6%
Total nonoperating revenues	**578,723**	**23,399**	**602,122**	**1,174,847**	**96,446**	**1,271,293**	**(669,171)**	**(52.6%)**
TOTAL REVENUES	**$ 1,442,323**	**$ 1,213,966**	**$ 2,656,289**	**$ 2,022,657**	**$ 1,168,319**	**$ 3,190,976**	**$ (534,687)**	**(16.8%)**

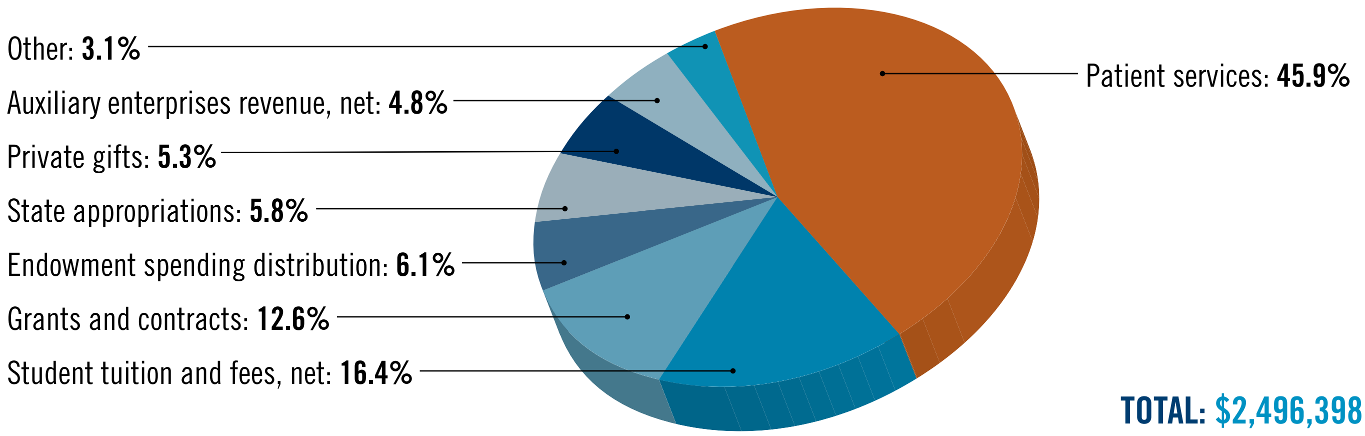
Total revenues declined by 16.8 percent. Operating revenues increased by 7.0 percent, with $119 million of the $134 million increase coming from patient services. The two largest operating revenue sources, net student tuition and fees, and net patient revenues both increased, by 7.8 percent and 10.0 percent, respectively. The increase in net tuition and fees is attributable to an increase in enrollment, as well as an increase in tuition rates, net of smaller increases in scholarships and allowances. Sponsored programs revenues earned decreased by almost $19 million, or 5.6 percent, from the prior year. The depletion of previously awarded federal ARRA grants accounts for almost all of the decrease.

Nonoperating revenues totaled $600 million, which was 52.6 percent less than last year. Nearly all of the decrease is attributable to lower investment returns this year, as compared to the extraordinarily high returns of 24.3 percent last year. As expected, the state stabilization stimulus funding dropped from $23.6 million to $0.5 million. Also expected was a decrease in state appropriations for operations, which fell by $15.9 million, or 9.9 percent, as a result of additional budget cuts from the Commonwealth.

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, 2012. 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)*

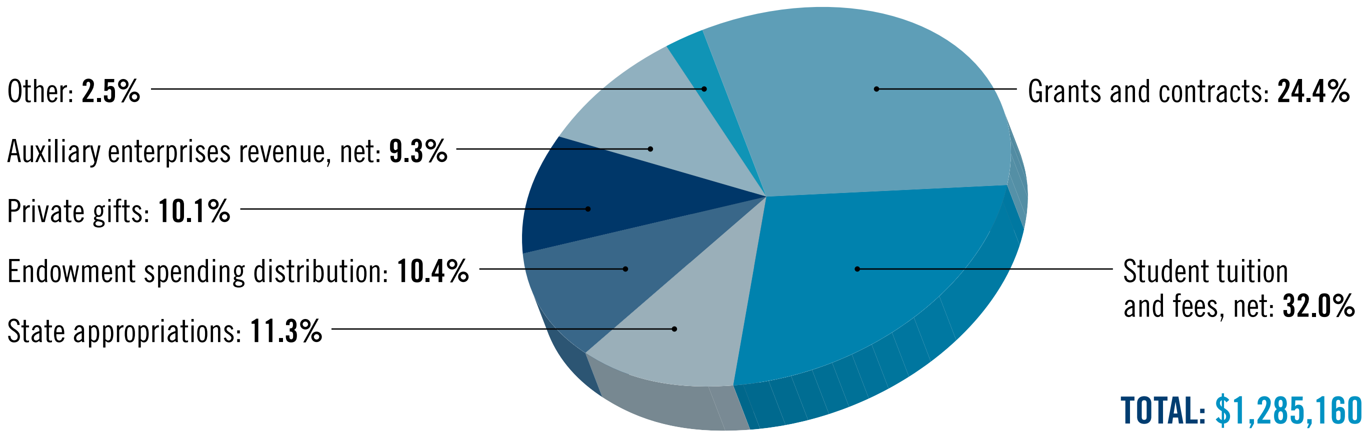


For purposes of this chart, the Medical Center is treated as a self-supporting auxiliary. Patient services revenues accounted for 45.9 percent of the University's revenues and operational funding sources. Student tuition and fees, and grants and contracts, which represent 16.4 percent and 12.6 percent, respectively, are the next largest revenues. After these three sources, the percentage of the total for each of the remaining sources drops off significantly. For the first time, endowment spending distribution exceeds state appropriations. With the end of the federal stimulus (i.e., state stabilization), state appropriations accounted for just 5.8 percent of funding for operations, while endowment spending was 6.1 percent. Private gifts made up 5.3 percent of the total. When combined with endowment spending distribution, these two private sources combined to account for 11.4 percent of the University's operational funding. With ongoing economic pressures on state tax revenues, funding from private sources will become increasingly important to the University.

Net tuition and fees revenue totaled more than $410 million. That is an increase of $29.6 million, or 7.8 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 $87.4 million for fiscal year 2011–12, compared to $79.6 million in 2010–11. Excluding the discount, gross tuition and fees revenue was $498 million, which was about $37 million and 8.1 percent higher than last year. State appropriations decreased by $16 million, to $145 million. In addition, the $23.6 million of (federal stimulus) state stabilization money received in 2010–11 dropped to just $0.5 million in 2011–12. In total, the University operated with $39 million less funding from the Commonwealth than last year.

Focusing on Academic and Wise Divisions' revenues by excluding the Medical Center's data helps provide a clearer picture of the academic mission revenue streams. Major sources include net tuition and fees at 32.0 percent; grants and contracts at 24.4 percent; state appropriations at 11.3 percent; endowment spending distribution at 10.4 percent; and private gifts at 10.1 percent. Excluding patient services 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 (excluding state stabilization) increased from 2.4 in 2010–11 to 2.8 in 2011–12. The continued pressure on state resources is likely to result in this gap growing in the short-term. At 10.4 percent and 10.1 percent, respectively, endowment spending distribution and private gifts 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 $130 million in 2012, showing a slight decrease of $4.7 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 $2.752 billion as of June 30, 2012.

Revenues for all sponsored programs decreased this year by $18.6 million, or 5.6 percent, to a total of $314 million. However, this decrease includes $13.1 million for ARRA grants. Excluding ARRA grants, federally funded sponsored programs revenue would have actually declined by $5.5 million in 2012. The $314 million of total sponsored programs revenue includes $69.3 million of Facilities and Administrative (F&A) recoveries. That is a decrease of $4 million from the $73.3 million of F&A recoveries in 2010–11. The University negotiated an increase in its on-Grounds organized research F&A rate during the year, and it will increase from 54 percent to 58 percent in 2012–13. However, the extent to which the rate increase results in additional F&A recoveries will depend in large part on future sponsored programs funding awarded to the University.

EXPENSES

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

SUMMARY OF EXPENSES, TOTAL UNIVERSITY

The University's expenses for the years ended June 30, 2012, and 2011 (restated), are summarized below:

SUMMARY OF EXPENSES *(in thousands)*	2012			2011			TOTAL INSTITUTION INCREASE (DECREASE)	
	ACADEMIC DIVISION & WISE	MEDICAL CENTER	TOTAL INSTITUTION	ACADEMIC DIVISION & WISE	MEDICAL CENTER	TOTAL INSTITUTION	AMOUNT	PERCENT
Operating expenses								
Compensation	$ 810,602	$ 472,584	$ 1,283,186	$ 808,617	$ 430,690	$ 1,239,307	$ 43,879	3.5%
Supplies and other services	278,885	529,344	808,229	279,557	452,945	732,502	75,727	10.3%
Student aid	69,504	—	69,504	67,658	—	67,658	1,846	2.7%
Depreciation	108,283	72,937	181,220	101,105	63,428	164,533	16,687	10.1%
Other operating expense	4,229	31,368	35,597	3,765	25,838	29,603	5,994	20.2%
Total operating expenses	**1,271,503**	**1,106,233**	**2,377,736**	**1,260,702**	**972,901**	**2,233,603**	**144,133**	**6.5%**
Nonoperating expenses and other								
Interest expense (net of BAB rebate)	15,193	7,103	22,296	29,402	7,725	37,127	(14,831)	(39.9%)
Loss on capital assets	974	286	1,260	1,214	108	1,322	(62)	(4.7%)
Other nonoperating expense	546	6,205	6,751	1,710	5,147	6,857	(106)	(1.5%)
Transfers to Commonwealth	—	—	—	1,212	1,533	2,745	(2,745)	(100.0%)
Total nonoperating expenses	**16,713**	**13,594**	**30,307**	**33,538**	**14,513**	**48,051**	**(17,744)**	**(36.9%)**
TOTAL UNIVERSITY EXPENSES	**$ 1,288,216**	**$ 1,119,827**	**$ 2,408,043**	**$ 1,294,240**	**$ 987,414**	**$ 2,281,654**	**$ 126,389**	**5.5%**

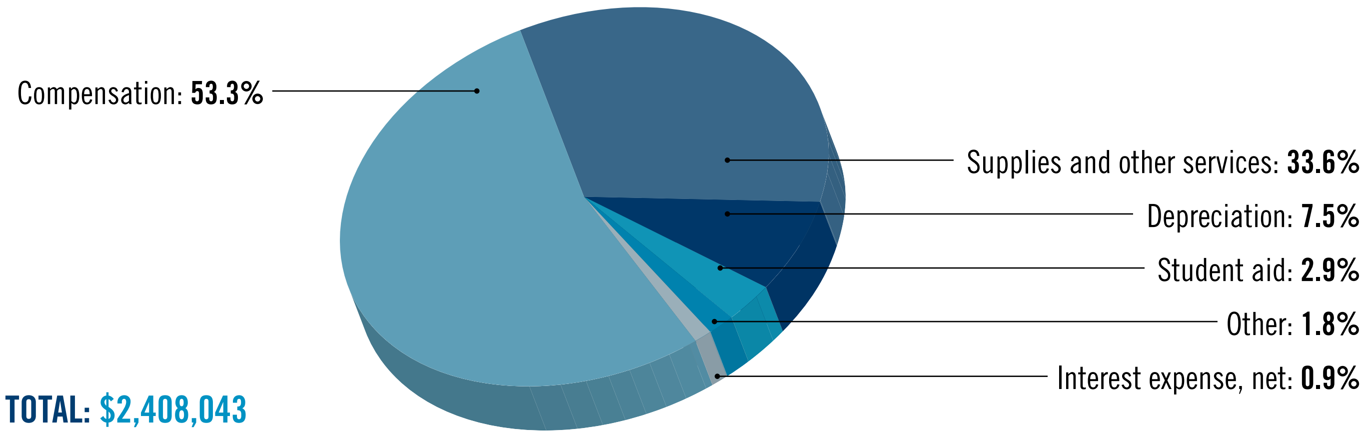
The University's total expenses were just over $2.4 billion, an increase of $126 million, or 5.5 percent. Operating expenses account for 99 percent of total expenses, and they increased by $144 million, or 6.5 percent. Nearly all of the increase is attributable to the Medical Center operations, resulting from market adjustments, volume growth, the first full year of operations for the Transitional Care Hospital, and the acquisition of a large physician oncology group. To staff these new operations, the Medical Center's full-time equivalent employees increased from 6,159 to 6,521. Compensation and benefits expenses increased by $44 million, or 3.5 percent, and totaled $1.283 billion. Within the Academic Division, the University continues to navigate the difficult economy without layoffs, instead leaving some vacant positions open and filling other vacant positions using reallocation of personnel.

An increase in depreciation expense was also expected, given the large dollar amount of completed building and infrastructure projects added in recent years. Depreciation expense totaled $181 million, which was $16.7 million and 10 percent higher than the previous year. The largest dollar increase occurred with supplies and other services. The total of $808 million was an increase of 10.3 percent, or nearly $76 million. All of the increase was due to the new and acquired practices within the Medical Center. Net student aid expense increased by almost $2 million or 2.7 percent. It is important to note that student aid expense is reported net of scholarship discount (as is tuition revenue, noted above). Gross student aid expense (before discount) was $170 million and $160 million, respectively, for 2012 and 2011. Net student aid expense (after discount) increased slightly, from $67.7 million in 2011 to $69.5 million in 2012. The University's commitment to providing financial aid support to students continues, as evidenced by the support provided by the AccessUVa program.

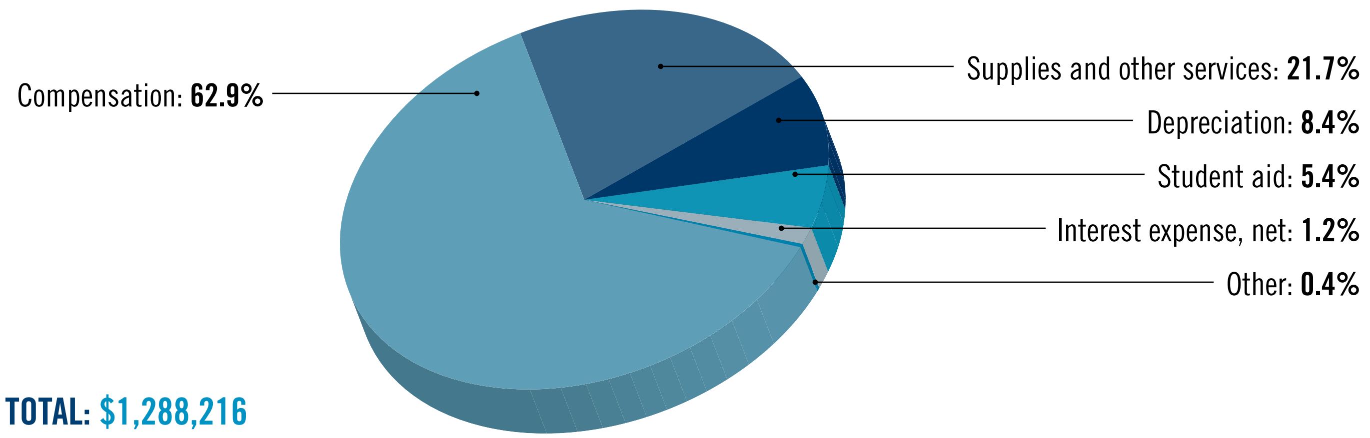
On the nonoperating side, net interest expense decreased by $15 million, but only because a large share of current-year interest was capitalized instead of expensed, per accounting standards. The University's two most recent bond issuances were made as part of the federal government's Build America Bonds (BAB) program. Under that program, the University receives an interest rebate from the federal government, reducing its effective interest rate in the process. The rebate for 2011–12 was $8.7 million, and in effect, reduced the gross interest expense of $31 million to a net interest expense of $22.3 million.

Following are graphic illustrations of expenses (both operating and nonoperating) for the fiscal year ended June 30, 2012.

TOTAL UNIVERSITY EXPENSES, FISCAL YEAR 2012 *(in thousands)*



ACADEMIC AND WISE EXPENSES, FISCAL YEAR 2012 *(in thousands)*



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 53 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 remainder is for fringe benefits. The breakout is similar for the first chart.

On the other hand, supplies and other services make up 33.6 percent of total University expenses in the first chart, but just 21.6 percent of Academic and Wise expenses in the second chart. The difference highlights the Medical Center's stronger reliance on supplies, services, and equipment for its operations, as compared to the Academic and Wise Divisions.

In addition to their natural (object) classification, it is also informative to review operating expenses by function. A complete matrix of expenses, natural versus functional, is contained in the notes to the financial statements. Expenses for patient services, instruction, research, and public service account for 46.5 percent, 13.6 percent, 11.7 percent, and 1.3 percent, respectively, of total operating expenses. When combined, these core mission functions account for 73 percent of total operating expenses. The remainder is for costs incurred in support of these core mission functions, including academic support, libraries, student services, institutional support services, student financial aid, and operation and maintenance of facilities.

FUTURE ECONOMIC OUTLOOK

EXTERNAL FORCES

The future of health care reform is still uncertain, but we expect continued impact on the University's Health System. The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 were signed into law in March 2010. The two acts provide for a number of changes that will affect the health care industry over the next decade. The regulations to implement the acts are beginning to take effect; however, the substantive portions of the acts are deferred until 2014. The impact on the Medical Center cannot be known at this time, but rather will emerge over the next three years. Because patient services revenues for the hospital alone (without considering physicians' practice revenues) amount to 46 percent of total operating expenses, we are carefully monitoring developments in health policy in the nation's capital and in Richmond.

Another major factor that will affect the University is the ability of federal legislators to reach agreements on raising the debt ceiling and balancing the federal budget. If agreement is not reached, the Medical Center will be subject to "sequestration," resulting in automatic cuts in payments from federal sources. In addition, federal funding for sponsored research and financial aid is also at risk by the potential sequestration. The Commonwealth's dependence on federal funding makes the University's reliance on state funding more precarious. As a result, the University will rely on tuition and private gift revenue, while at the same time recognizing that parents and donors are struggling to navigate the uncertainty of the current economy.

UNIVERSITY'S RESPONSE

In response to the uncertainties in the economy and harsh political realities, the University has various initiatives in progress to enhance revenues and 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. The goals of the new model are to better align resources to support strategic priorities and create incentives to control costs, improve productivity, and enable entrepreneurial activities. The new model will place budget authority and accountability in the hands of deans. Significant progress has been made on the revenue attribution phase of the model implementation, and work on the more complicated cost analysis phase is under way. Parts of the new model will be implemented for the 2013–14 budget cycle, with full implementation planned for 2014–15.

President Sullivan is leading a new strategic planning effort this fall. This work will happen in two phases: an assessment phase, followed by a planning phase. Even as this planning work is under way, President Sullivan is simultaneously addressing other urgent priorities covering three areas of focus—faculty, curriculum, and research.

1. **RENEW THE FACULTY** will include changing the way the University hires faculty and providing greater resources for faculty recruitment and retention.
2. **REINVENT THE CURRICULUM** will include utilizing emerging technologies to provide a broad and liberal education that best prepares U.Va. students to be decision makers and leaders in a global economy.
3. **REFOCUS RESEARCH AND SCHOLARSHIP** will include identifying areas in which the University wants to develop deep expertise, such as Big Data research.

To remain competitive, the University must continue to adapt and innovate. Online education is one of the innovative areas the University is exploring. In August 2012, the University entered into a new partnership with Coursera to pilot massive open online courses (MOOCs) through the College and Graduate School of Arts & Sciences and the Darden Graduate School of Business Administration. Combined with the traditional on-Grounds learning experience, the potential addition of MOOCs provides a modified strategy for increasing access to obtaining degrees from the University. The University will also continue to expand its work with other Virginia public institutions to share online educational programs as part of the 4-VA initiative, a partnership with Cisco Systems, Inc.

MANAGEMENT RESPONSIBILITY

November 19, 2012

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, 2012. 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

Colette Sheehy

Colette Sheehy
Vice President for Management and Budget

Commonwealth of Virginia

Auditor of Public Accounts

Walter J. Kucharski
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

November 19, 2012

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

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

Board of Visitors | *University of Virginia*

INDEPENDENT AUDITOR'S REPORT 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, 2012, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the component units of the University, which are discussed in Note 1. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the component units of the University is based on the reports of the other auditors. The prior year summarized comparative information has been derived from the University's 2011 financial statements, and in our report dated October 31, 2011, we expressed an unqualified opinion on the respective financial statements of the University.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to previously present fairly, in all material respects, the financial position of the business-type activities and aggregate discretely presented component units of the University as of June 30, 2012, 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 2 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2012, 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

www.apa.virginia.gov (804) 225-3350

STATEMENT OF NET ASSETS *(in thousands)*

as of June 30, 2012 (with comparative information as of June 30, 2011)

	2012	2011
ASSETS		
Current assets		
Cash and cash equivalents (Note 2)	$ 404,997	$ 324,384
Restricted cash and cash equivalents (Note 2)	3	1
Short-term investments (Note 2)	128,673	127,423
Appropriations available	6,933	8,196
Accounts receivable, net (Note 3a)	301,373	224,682
Prepaid expenses	18,783	13,401
Inventories	24,053	21,105
Notes receivable, net (Note 3b)	5,207	4,508
Total current assets	**890,022**	**723,700**
Noncurrent assets		
Restricted cash and cash equivalents (Note 2)	25,577	37,814
Endowment investments (Note 2)	3,428,234	3,386,469
Other long-term investments (Note 2)	955,538	902,846
Deposit with bond trustee	17,787	112,916
Notes receivable, net (Note 3b)	34,435	33,725
Pledges receivable, net (Note 3c)	2,653	7,179
Capital assets—depreciable, net (Note 3d)	2,541,372	2,310,046
Capital assets—non-depreciable (Note 3d)	398,559	463,614
Goodwill (Note 3e)	11,446	11,938
Total noncurrent assets	**7,415,601**	**7,266,547**
Deferred outflow of resources	35,053	11,123
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	**$ 8,340,676**	**$ 8,001,370**
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 3f)	$ 243,838	$ 188,306
Deferred revenue (Note 3g)	87,287	94,934
Deposits held in custody for others	35,910	36,079
Commercial paper (Note 4)	127,463	76,850
Long-term debt—current portion (Note 5a)	12,804	12,718
Long-term liabilities—current portion (Note 5b)	103,476	92,659
Total current liabilities	**610,778**	**501,546**
Noncurrent liabilities		
Long-term debt (Note 5a)	1,081,828	1,106,387
Derivative instrument liability (Note 6)	35,053	11,123
Other noncurrent liabilities (Note 5b)	97,688	115,231
Total noncurrent liabilities	**1,214,569**	**1,232,741**
TOTAL LIABILITIES	**$ 1,825,347**	**$ 1,734,287**
NET ASSETS		
Invested in capital assets, net of related debt	$ 1,708,603	$ 1,662,987
Restricted:		
Nonexpendable	560,007	533,291
Expendable	2,418,734	2,354,163
Unrestricted	1,827,985	1,716,642
TOTAL NET ASSETS	**$ 6,515,329**	**$ 6,267,083**

Certain 2011 amounts have been restated to conform to 2012 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, 2012 (with comparative information as of June 30, 2011)

	2012	2011
ASSETS		
Current assets		
Cash and cash equivalents	$ 63,222	$ 78,253
Receivables	93,661	99,059
Other current assets	178,577	258,094
Total current assets	**335,460**	**435,406**
Noncurrent assets		
Pledges receivable, net of current portion of $44,324	58,217	44,395
Long-term investments	5,677,122	5,552,160
Capital assets, net of depreciation	370,284	366,193
Other noncurrent assets	98,803	51,143
Total noncurrent assets	**6,204,426**	**6,013,891**
TOTAL ASSETS	**$ 6,539,886**	**$ 6,449,297**
LIABILITIES AND NET ASSETS		
Current liabilities		
Assets held in trust for others	$ 81,919	$ 79,793
Other liabilities	187,993	188,800
Total current liabilities	**269,912**	**268,593**
Noncurrent liabilities		
Long-term debt, net of current portion of $12,025	274,323	215,190
Other noncurrent liabilities	4,697,710	4,705,574
Total noncurrent liabilities	**4,972,033**	**4,920,764**
TOTAL LIABILITIES	**$ 5,241,945**	**$ 5,189,357**
NET ASSETS		
Unrestricted	$ 278,202	$ 297,436
Temporarily restricted	520,712	515,548
Permanently restricted	499,027	446,956
TOTAL NET ASSETS	**$ 1,297,941**	**$ 1,259,940**
TOTAL LIABILITIES AND NET ASSETS	**$ 6,539,886**	**$ 6,449,297**

Certain 2011 amounts have been restated to conform to 2012 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, 2012 (with comparative information for the year ended June 30, 2011)

	2012	2011
REVENUES		
Operating revenues		
Student tuition and fees (net of scholarship allowances of $87,358 and $79,591)	$ 410,739	$ 381,136
Patient services (net of charity care of $2,066,282 and $1,798,563)	1,146,773	1,042,100
Federal grants and contracts	260,434	281,299
State and local grants and contracts	4,287	3,694
Nongovernmental grants and contracts	48,838	47,191
Sales and services of educational departments	20,339	21,289
Auxiliary enterprises revenue (net of scholarship allowances of $13,393 and $12,946)	118,963	113,199
Other operating revenues	43,793	29,774
TOTAL OPERATING REVENUES	**2,054,166**	**1,919,682**
EXPENSES		
Operating expenses (Note 9)		
Compensation	1,283,186	1,239,307
Supplies and other services	808,229	732,502
Student aid	69,504	67,657
Depreciation	181,220	164,533
Other	35,597	29,603
TOTAL OPERATING EXPENSES	**2,377,736**	**2,233,602**
OPERATING INCOME (LOSS)	**(323,570)**	**(313,920)**
NONOPERATING REVENUES (EXPENSES)		
State appropriations (Note 10)	145,412	161,342
State stabilization (ARRA)	508	23,638
Gifts	132,196	147,844
Investment income	205,747	833,465
Pell grants	12,017	12,738
Interest on capital asset-related debt	(31,046)	(45,628)
Build America Bonds rebate	8,750	8,501
Losses on disposal of capital assets	(1,260)	(1,322)
Other nonoperating expenses	(6,750)	(6,857)
NET NONOPERATING REVENUES	**465,574**	**1,133,721**
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	**142,004**	**819,801**
Capital appropriations	32,591	43,749
Capital grants and gifts	48,731	20,739
Additions to permanent endowments	24,920	27,778
Transfers to the Commonwealth	—	(2,745)
TOTAL OTHER REVENUES	**106,242**	**89,521**
INCREASE IN NET ASSETS	**248,246**	**909,322**
NET ASSETS		
Net assets—beginning of year	6,267,083	5,357,761
NET ASSETS—END OF YEAR	**$ 6,515,329**	**$ 6,267,083**

Certain 2011 amounts have been restated to conform to 2012 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, 2012 (with comparative information for the year ended June 30, 2011)

	2012	2011
UNRESTRICTED REVENUES AND SUPPORT		
Contributions	$ 22,910	$ 23,330
Fees for services, rentals, and sales	324,083	299,305
Investment income	(13,929)	62,511
Reclassification per donor stipulation	—	(1,285)
Net assets released from restriction	94,199	92,224
Other revenues	107,672	96,996
TOTAL UNRESTRICTED REVENUES AND SUPPORT	**534,935**	**573,081**
EXPENSES		
Program services, lectures, and special events	379,868	313,233
Scholarships and financial aid	62,223	65,647
Management and general	34,237	33,021
Other expenses	80,665	99,200
TOTAL EXPENSES	**556,993**	**511,101**
EXCESS (DEFICIENCY) OF UNRESTRICTED REVENUES AND SUPPORT OVER EXPENSES	**$ (22,058)**	**$ 61,980**
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	$ 61,237	$ 45,180
Investment and other income	34,752	158,215
Reclassification per donor stipulation	(189)	1,093
Net assets released from restriction	(94,199)	(92,290)
NET CHANGES IN TEMPORARILY RESTRICTED NET ASSETS	**1,601**	**112,198**
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Contributions	$ 64,297	$ 24,808
Investment and other income	2,131	2,486
Reclassification per donor stipulation	189	258
NET CHANGES IN PERMANENTLY RESTRICTED NET ASSETS	**66,617**	**27,552**
CHANGE IN NET ASSETS	**46,160**	**201,730**
Net assets, beginning of year	1,259,940	1,058,210
Elimination of interim activity	(8,159)	—
NET ASSETS, END OF YEAR	**$ 1,297,941**	**$ 1,259,940**

Certain 2011 amounts have been restated to conform to 2012 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, 2012 (with comparative information for the year ended June 30, 2011)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 403,215	$ 378,559
Grants and contracts	307,060	337,801
Patient services	1,092,603	999,329
Sales and services of educational activities	28,458	18,443
Sales and services of auxiliary enterprises	119,906	112,623
Payments to employees and fringe benefits	(1,283,753)	(1,245,174)
Payments to vendors and suppliers	(800,794)	(698,299)
Payments for scholarships and fellowships	(69,504)	(67,657)
Perkins and other loans issued to students	(6,888)	(7,513)
Collection of Perkins and other loans to students	5,045	5,821
Other receipts	29,556	22,726
NET CASH USED BY OPERATING ACTIVITIES	**(175,096)**	**(143,341)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	146,624	160,403
State stabilization (ARRA)	508	23,638
Additions to true endowments	24,919	27,778
Federal Family Education Loan Program receipts	1	164
Federal Family Education Loan Program payments	(1)	(164)
Federal Direct Loan Program receipts	123,604	—
Federal Direct Loan Program payments	(123,604)	—
Pell grants	12,017	12,738
Receipts on behalf of agencies	674,144	214,410
Payments on behalf of agencies	(676,093)	(214,773)
Deposits held in custody for others	(170)	9,965
Noncapital gifts and grants and endowments received	134,023	143,898
Transfers to the Commonwealth	—	(1,211)
Other net nonoperating expenses	(545)	(3,813)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	**315,427**	**373,033**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	19,412	50,304
Capital gifts and grants received	48,804	19,887
Proceeds from capital debt	190,511	253,117
Proceeds from sale of capital assets	1,213	1,496
Acquisition and construction of capital assets	(304,523)	(455,824)
Principal paid on capital debt and leases	(161,891)	(61,525)
Interest paid on capital debt and leases	(28,843)	(42,460)
Deposit with trustee	95,129	(40,283)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	**(140,188)**	**(275,288)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	383,719	392,978
Interest on investments	9,749	4,948
Purchase of investments and related fees	(283,948)	(372,014)
Other investment activities	(41,286)	(13,990)
NET CASH PROVIDED BY INVESTING ACTIVITIES	**68,234**	**11,922**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**68,377**	**(33,674)**
Cash and cash equivalents, July 1	362,199	395,873
CASH AND CASH EQUIVALENTS, JUNE 30	**$ 430,576**	**$ 362,199**
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss	$ (323,570)	$ (317,339)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Depreciation expense	181,220	164,533
Provision for uncollectible loans and write-offs	67	381
CHANGES IN ASSETS AND LIABILITIES:		
Receivables, net	(54,509)	(38,373)
Inventories	(2,948)	417
Other assets	366	(1,588)
Prepaid expenses	(4,749)	162
Notes receivable, net	(1,843)	(1,694)
Accounts payable and accrued liabilities	16,337	22,025
Deferred revenue	15,024	26,250
Accrued vacation leave—long term	(491)	1,885
TOTAL ADJUSTMENTS	**148,474**	**173,998**
NET CASH USED BY OPERATING ACTIVITIES	**$ (175,096)**	**$ (143,341)**
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES—ACADEMIC ONLY:		
Assets acquired through assumption of a liability	$ 168,544	$ 232,116
Assets acquired through a gift	3,255	3,227
Change in fair value of investments	185,565	756,578
Increase in receivables related to nonoperating income	2,956	5,163
Loss on disposal of capital asset	974	1,215

Certain 2011 amounts have been restated to conform to 2012 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 eight 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, 2012:

- University of Virginia Law School Foundation
- University of Virginia Darden School Foundation
- Alumni Association of the University of Virginia
- Virginia Athletics Foundation
- University of Virginia Foundation
- University of Virginia Physicians Group
- University of Virginia Investment Management Company
- Jefferson Scholars Foundation

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

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

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

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

The **Virginia Student Aid Foundation, Inc., T/A Virginia Athletics Foundation**, was established as a tax-exempt organization to support intercollegiate athletic programs at the University of Virginia by providing student-athletes the opportunity to achieve academic and athletic excellence. The Foundation provides the funding for student-athlete scholarships at the University, funding for student-athlete academic advising programs at the University, operational support for various sports at the University, informational services to its members and the general public, and ancillary support to the athletic programs at the University. The Foundation has adopted December 31 as its fiscal year end. All amounts reflected are as of December 31, 2011. For additional information, contact the Gift Accounting Office at P.O. Box 400833, Charlottesville, Virginia 22904.

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

The **University of Virginia Physicians Group** was established as a 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.

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

REPORTING BASIS

The University of Virginia prepares its financial statements in conformity with accounting principles generally accepted in the United States of America. As a public institution, the University adheres to standards promulgated by the Governmental Accounting Standards Board (GASB), 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.

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, including state appropriations, gifts, and investment income. 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 fair value per share 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 Progress. Construction-period interest cost in excess of earnings associated with the debt proceeds is capitalized as a component of the fixed asset.

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

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 $9,923,844 and earned capital project interest income of $3,567,918 for the fiscal year ended June 30, 2012, resulting in net interest capitalized of $6,355,926.

ACCRUED COMPENSATED ABSENCES

The amount of leave earned but not taken by non-faculty salaried employees is recorded as a liability on the Statement of Net Assets. The amount reflects, as of June 30, 2012, 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 on 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, 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 on 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, 2011, from which the summarized information was derived. Certain amounts from the prior fiscal year have been reclassified to conform to current-year presentation.

NOTE 2: CASH, CASH EQUIVALENTS, AND INVESTMENTS

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

DEPOSITS
Deposits include bank account balances and are governed by the Virginia Security 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 by 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 $16.6 million at June 30, 2012. Such deposits are not subject to foreign currency risk.

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

The University considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. 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. It is the policy of the University to comply with the Investment of Public Funds Act, Code of Virginia Section 2.2 4500-4518, when investing tuition and educational fees that are used or required for day-to-day operations, as permitted under the Code of Virginia Section 23-76.1.

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

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

Custodial Credit Risk is the risk that, in the event of the failure of a depository financial institution or financial counterparty, the agency will not be able to recover the value of its deposits or investments or recover collateral securities that are in the possession of an outside third party. The University had an immaterial exposure to custodial credit risk as of June 30, 2012.

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, 2012, are outlined in the accompanying chart.

Credit Risk is the possibility that a loss may occur due to the failure of a counterparty to perform according to the terms of the contract. State law limits the investment of certain non-endowed assets to short-term commercial paper, certificates of deposit, asset-backed securities, and debt obligations to the top rating issued by nationally recognized statistical rating organizations (NRSROs) and requires the investment be rated by at least two NRSROs. For longer-term certificates of deposit and corporate notes, the rating must be one of the top two ratings issued by two NRSROs. Investments subject to credit risk at June 30, 2012, are outlined in the accompanying chart.

Concentration of Credit Risk is the risk of a large loss attributed to the magnitude of investment in a single issuer of fixed income securities. The University minimizes this risk by diversifying its investments. As of June 30, 2012, the University does not have investments in any one issuer (excluding investments issued or explicitly guaranteed by the U.S. Government and mutual fund or pool investments) representing 5 percent or more of its total investments.

Foreign Currency Risk is the risk that investments denominated in foreign currencies may lose value due to adverse fluctuations in the value of the U.S. dollar relative to foreign currencies. The University has no foreign investments or deposits as of June 30, 2012.

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	$ 682	Unrated				
University of Virginia Aggregate Cash Pool	287,390	Unrated				
State Non-Arbitrage Program	17,787	AAAm				
STIF Government Securities	12,755	P-1				
TOTAL CASH EQUIVALENTS	**$ 318,614**					
INVESTMENTS SUBJECT TO INTEREST RATE RISK						
Endowment investments:						
Debt securities						
Demand notes due from related foundation, noninterest bearing	$ 30,467	Unrated	$ 30,467			
Note Receivable, 9%	62	Unrated				$ 62
US Treasury Obligations	33,346		33,346			
US Government Debt Securities	18,548		18,548			
Other investments						
Freddie Mac Home Loan	12,755		12,755			
Federal Home Loan Mortgage Corporation	34,608		34,608			
Federal National Mortgage Association	29,225	Aaa	29,225			
TOTAL INVESTMENTS SUBJECT TO INTEREST RATE RISK	**$ 159,011**		**$ 158,949**	**$ —**	**$ —**	**$ 62**
	100.0%		100.0%	0.0%	0.0%	0.0%

INVESTMENTS

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

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

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

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

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

Biannual distributions are made from the University's endowment to departments holding endowment accounts. The University's endowment spending policy ties annual increases to inflation as defined by the Higher Education Price Index. The current inflation factor in use by the University is 3.8 percent. If the increase causes the endowment distribution to fall outside a range defined as 4.0 percent to 6.0 percent of the market value of the endowment, then the Finance Committee of the Board of Visitors may recommend increasing or decreasing the spending rate. For fiscal year 2012, the spending distribution of $152.6 million equaled 4.6 percent of the prior year ending market value. Since the result fell within the range, no further action by the board was needed. The market value of the endowment invested in the LTP at June 30, 2012, was $3.3 billion.

At June 30, 2012, the University's investment in the LTP was $4.3 billion, representing 86 percent of the University's invested assets. At June 30, 2012, the University's short-term investments were $287 million, representing 6 percent of invested assets. These pools are not rated by nationally recognized statistical rating organizations.

For the year ended June 30, 2012, 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	$ 64,810	$ 73,407	$ 1,585	$ 139,802
Contributions to permanent endowment	24,919	—	—	24,919
Other gifts	—	—	2,541	2,541
Spending distribution	(71,492)	(81,146)	—	(152,638)
Transfers in/(out) *	1,978	31,460	(5,587)	27,851
TOTAL CHANGE IN ENDOWMENT FUNDS	**$ 20,215**	**$ 23,721**	**$ (1,461)**	**$ 42,475**

**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, 2012, is summarized as follows:

ACCOUNTS RECEIVABLE *(in thousands)*	
Patient care	$ 450,232
Grants and contracts	45,528
Student payments	13,116
Pledges	15,320
Institutional loans	2,227
Build America Bonds rebate	1,108
Equipment Trust Fund reimbursement	13,344
Auxiliary	1,663
Related foundation	3,443
Other	83,107
Less: Allowance for doubtful accounts	(327,715)
TOTAL	**$ 301,373**

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, 2012, is summarized as follows:

NOTES RECEIVABLE *(in thousands)*

Perkins	$	19,863
Nursing		1,076
Institutional		17,906
Fraternity loan		1,980
House Staff loan		7
Less: Allowance for doubtful accounts		(1,190)
Total notes receivable, net		**39,642**
Less: Current portion, net of allowance		(5,207)
TOTAL NONCURRENT NOTES RECEIVABLE	**$**	**34,435**

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 $3,429,899 and $5,179,749 at June 30, 2012 and 2011, 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, 2012, is summarized as follows:

PLEDGES *(in thousands)*

GIFT PLEDGES OUTSTANDING		
Operations	$	6,056
Capital		14,600
TOTAL GIFT PLEDGES OUTSTANDING		**20,656**
Less:		
Allowance for uncollectible pledges		(2,065)
Unamortized discount to present value		(1,690)
Total pledges receivable, net		**16,901**
Less: Current portion, net of allowance		(14,248)
TOTAL NONCURRENT PLEDGES RECEIVABLE	**$**	**2,653**

d. Capital assets: The capital assets activity for the year ended June 30, 2012, is summarized as follows:

INVESTMENT IN PLANT—CAPITAL ASSETS *(in thousands)*	BEGINNING BALANCE JULY 1, 2011	ADDITIONS	DISPOSITIONS	ADJUSTMENTS	ENDING BALANCE JUNE 30, 2012
NONDEPRECIABLE CAPITAL ASSETS					
Land	$ 48,982	$ —	$ —	$ —	$ 48,982
Construction in progress	414,632	288,790	—	(354,506)	348,916
Software in development	—	661	—	—	661
TOTAL NONDEPRECIABLE CAPITAL ASSETS	**463,614**	**289,451**	**—**	**(354,506)**	**398,559**
DEPRECIABLE CAPITAL ASSETS					
Buildings	2,613,568	—	(135)	304,466	2,917,899
Equipment	649,216	77,010	(26,802)	(180)	699,244
Infrastructure	376,148	—	—	18,128	394,276
Improvements other than buildings	143,515	—	—	7,059	150,574
Capitalized software	146,241	5,520	—	(17)	151,744
Library books	114,590	2,016	(1,734)	—	114,872
Total depreciable capital assets	**4,043,278**	**84,546**	**(28,671)**	**329,456**	**4,428,609**
Less accumulated depreciation for:					
Buildings	(897,180)	(87,821)	103	875	(984,023)
Equipment	(433,777)	(54,215)	21,381	(163)	(466,774)
Infrastructure	(144,682)	(12,059)	—	1	(156,740)
Improvements other than buildings	(91,447)	(6,360)	—	—	(97,807)
Capitalized software	(75,224)	(12,915)	—	17	(88,122)
Library books	(90,922)	(4,582)	1,734	—	(93,770)
Total accumulated depreciation	**(1,733,232)**	**(177,952)**	**23,218**	**730**	**(1,887,236)**
TOTAL DEPRECIABLE CAPITAL ASSETS, NET	**2,310,046**	**(93,406)**	**(5,453)**	**330,186**	**2,541,373**
TOTAL	**$ 2,773,660**	**$ 196,045**	**$ (5,453)**	**$ (24,320)**	**$ 2,939,932**

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

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

f. Accounts payable and accrued liabilities: The composition of accounts payable at June 30, 2012, is summarized as follows:

ACCOUNTS PAYABLE AND ACCRUED LIABILITIES *(in thousands)*	
Accounts payable	$ 95,678
Accrued salaries and wages payable	62,334
Other payables	85,826
TOTAL	**$ 243,838**

g. Deferred revenue: The composition of deferred revenue at June 30, 2012, is summarized as follows:

DEFERRED REVENUE *(in thousands)*	
Grants and contracts	$ 50,768
Student payments (net of financial aid of $2,677)	9,733
Medical Center unearned revenues	16,575
Other deferred revenues	10,211
TOTAL	**$ 87,287**

NOTE 4: SHORT-TERM DEBT

Short-term debt at June 30, 2012, is summarized as follows:

SHORT-TERM DEBT *(in thousands)*	BEGINNING BALANCE JULY 1, 2011	ADDITIONS	REDUCTIONS	ENDING BALANCE JUNE 30, 2012
COMMERCIAL PAPER				
Taxable	$ —	$ 8,062	$ —	$ 8,062
Commercial paper, tax-exempt	76,850	71,801	29,250	119,401
TOTAL COMMERCIAL PAPER	**$ 76,850**	**$ 79,863**	**$ 29,250**	**$ 127,463**

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's Board of Visitors approved the current commercial paper program limit of $300,000,000 in April 2008. In fiscal year 2012, interest rates on commercial paper ranged from 0.05 to 0.20 percent.

NOTE 5: LONG-TERM OBLIGATIONS

a. Long-term debt: The composition of long-term debt at June 30, 2012, is summarized as follows:

LONG-TERM DEBT *(in thousands)*	INTEREST RATES	FINAL MATURITY	BEGINNING BALANCE JULY 1, 2011	ADDITIONS	REDUCTIONS	ENDING BALANCE JUNE 30, 2012
BONDS AND NOTES PAYABLE						
Revenue bonds						
University of Virginia Series 2003A (9d)	0.05%-0.27%	2034	$ 82,010	$ —	$ 3,371	$ 78,639
University of Virginia Series 2003B (9d)	4.0% to 5.0%	2033	103,365	—	84,835	18,530
University of Virginia Series 2005 (9d)	4.0% to 5.0%	2037	177,060	—	3,035	174,025
University of Virginia Series 2008 (9d)	5.0%	2040	231,365	—	—	231,365
University of Virginia Series 2009 (9d)	4.04%*	2040	250,000	—	—	250,000
University of Virginia Series 2010 (9d)	3.2%**	2041	190,000	—	—	190,000
University of Virginia Series 2011 (9d)	4.0% to 5.0%	2033	—	73,950	—	73,950
Commonwealth of Virginia bonds (9c)	3.8% to 9.3%	2021	13,102	3,993	7,167	9,928
Notes payable to VCBA 2004B (9d)	3.0% to 5.0%	2020	34,725	—	2,030	32,695
Notes payable to VCBA 2007B (9d)	4.0% to 4.25%	2020	10,705	—	25	10,680
Notes payable to VCBA 2010B (9d)	2.0% to 5.0%	2021	5,525	—	2,090	3,435
Other	various	2015	428	—	175	253
TOTAL BONDS AND NOTES PAYABLE			**$ 1,098,285**	**$ 77,943**	**$ 102,728**	**$ 1,073,500**
Less current portion of debt			(12,718)	(86)	—	(12,804)
Bond premium			24,326	12,809	5,188	31,947
Deferred loss on early retirement of debt			(3,505)	(7,993)	(684)	(10,814)
NET LONG-TERM DEBT			**$ 1,106,388**	**$ 82,673**	**$ 107,232**	**$ 1,081,829**

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

On October 12, 2011, the University of Virginia issued $4,691,000 of Taxable Commercial Paper and on October 13, 2011, issued Series 2011 Bonds of $73,950,000 to advance refund $82,215,000 of Series 2003B Bonds. The advance refunding reduced the aggregate debt service by $12,435,451, representing a net present value savings of $8,589,746 and an accounting loss of $7,993,477.

On March 7, 2012, the Commonwealth of Virginia, on behalf of the University of Virginia, issued Series 2012A Bonds of $3,992,533.78 to refund $4,538,693.24 of its Series 2002A Bonds. The refunding reduced the aggregate debt service by $624,346.97, representing a net present value savings of $613,410.36 and an accounting gain of $84,569.76.

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, 2012.

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
2013	$ 12,804	$ 52,221	$ (8,750)	$ 43,471
2014	12,774	51,485	(8,750)	42,735
2015	13,341	50,868	(8,750)	42,118
2016	13,921	50,225	(8,750)	41,475
2017	13,347	49,540	(8,750)	40,790
2018–2022	59,379	238,615	(43,750)	194,865
2023–2027	29,690	228,741	(43,750)	184,991
2028–2032	57,195	221,909	(43,750)	178,159
2033–2037	189,684	209,754	(43,750)	166,004
2038–2042	671,365	95,513	(25,200)	70,313
TOTAL	**$ 1,073,500**	**$ 1,248,871**	**$ (243,950)**	**$ 1,004,921**

PRIOR YEAR REFUNDINGS

As of June 30, 2012, 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, 2012, is summarized as follows:

LONG-TERM LIABILITIES *(in thousands)*	BEGINNING BALANCE JULY 1, 2011	ADDITIONS	REDUCTIONS	ENDING BALANCE JUNE 30, 2012
Investments held for related entities	$ 14,986	$ 2,141	$ 2,335	$ 14,792
Accrual for compensated absences	59,159	69,493	68,732	59,920
Perkins loan program	15,628	390	—	16,018
Investment in Culpeper Regional Hospital	37,693	444	—	38,137
Other postemployment benefits	18,876	6,451	—	25,327
Accrual for overtime labor claims	437	—	437	—
Accrual for GE lawsuit contingency	17,900	—	17,900	—
Other	43,211	12,628	8,869	46,970
Subtotal	**207,890**	**91,547**	**98,273**	**201,164**
Less current portion of long-term liabilities	(92,659)	(10,817)	—	(103,476)
NET LONG-TERM LIABILITIES	**$ 115,231**	**$ 80,730**	**$ 98,273**	**$ 97,688**

NOTE 6: DERIVATIVES

At June 30, 2012, 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 underlying index for the swaps is the Securities Industry and Financial Markets (SIFMA) Municipal Swap Index. The swaps were entered into in January 2007 and February 2007 and both swaps mature June 1, 2038. The swaps were entered into at a zero market value and no payments were made or received when they were initiated.

In February 2011, the University entered into an interest-sharing arrangement with the University of Virginia Foundation (UVAF). Under the arrangement, UVAF agreed to make five annual fixed-premium payments to the University in exchange for limited financial support in the event the one-month London Interbank Offered Rate (LIBOR) falls within a certain range. The arrangement is for a notional amount of $50 million and expires on February 1, 2016, and may be terminated at any time by the mutual consent of the University and UVAF. As of June 30, 2012, 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 $122,000.

RISK

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

Credit risk is the risk that a counterparty will not settle an obligation in full, either when due or at any time thereafter. As of June 30, 2012, the $100 million notional amount of swaps outstanding had a negative market value, net of any posted collateral and netting agreements, of approximately $35.4 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 $23.7 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, 2012, the University had no credit risk related to its swaps. As of June 30, 2012, the University's swap counterparties were rated at least A- from Standard & Poor's or A3 by Moody's. To mitigate credit risk, the University limits market value exposure and requires the posting of collateral based on the credit rating of the counterparty. All counterparties, or their guarantors, are required to have at least an A-/A3 rating by Standard & Poor's and Moody's, respectively. As of June 30, 2012, 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 swap's market value.

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

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

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

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

MATURITIES *(in thousands)*	PRINCIPAL	VARIABLE INTEREST	DERIVATIVE INSTRUMENTS, NET	TOTAL
2013	$ —	$ 160	$ 3,950	$ 4,110
2014	—	160	3,950	4,110
2015	—	160	3,950	4,110
2016	—	160	3,950	4,110
2017	—	160	3,950	4,110
2018–2022	—	800	19,750	20,550
2023–2027	—	800	19,750	20,550
2028–2032	—	800	19,750	20,550
2033–2037	78,639	297	6,481	85,417
2038–2042	21,361	34	1,688	23,083
TOTAL	**$ 100,000**	**$ 3,531**	**$ 87,169**	**$ 190,700**

NOTE 7: AFFILIATED COMPANIES

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

UNIVERSITY OF VIRGINIA IMAGING, LLC On March 26, 2002, the Medical Center entered into an agreement with Outpatient Imaging Affiliates of Virginia, LLC (OIA) to establish University of Virginia Imaging, LLC (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 and at the Transitional Care Hospital. UVI 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, LLC On November 14, 2000, the University of Virginia established the Community Medicine University of Virginia, LLC (Community Medicine). Community Medicine was established as a limited liability corporation (LLC) 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 LLC, 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, 2012, 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, LLC 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, LLC In November 1997, the Medical Center became a participant with Rockingham Memorial Hospital and Augusta Health Care, Inc., in Valiance Health, LLC (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, 2012, the Medical Center's investment totaled $500,000.

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

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

HEMATOLOGY ONCOLOGY PATIENT ENTERPRISES, INC. The Medical Center purchased Hematology Oncology Patient Enterprises, Inc. (HOPE) on July 15, 2012, for $15 million. HOPE is wholly owned by the Medical Center and is comprised of the following clinics: Pantops, Farmville, Culpeper and Augusta. The purchase was the cornerstone of forming UVA HOPE Cancer Care which is a network of doctors and nurses who deliver high quality cancer treatment throughout the region. The physicians at HOPE explore all treatment with a patient-focused approach using the latest medical, surgical and radiological therapies along with support therapies, massage, nutrition, mind and body medicine, naturopathy and spiritual wellness.

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

AS OF JUNE 30, 2012 *(in thousands)*	COMMON STOCK AND EQUITY CONTRIBUTIONS	SHARE OF ACCUMULATED INCOME (LOSS)	NET INVESTMENT
UVA Imaging, LLC	$ 687	$ 7,125	$ 7,812
Community Medicine, LLC	1,810	(5,157)	(3,347)
Central Virginia Health Network, Inc.	232	(41)	191
HEALTHSOUTH, LLC	—	8,777	8,777
Valiance, LLC	—	1,695	1,695
University HealthSystem Consortium	—	552	552
Culpeper Regional Hospital	41,248	5,013	46,261
PACE Equity	245	—	245
HOPE Equity	11,217	—	11,217

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, 2012*	UNIVERSITY OF VIRGINIA LAW SCHOOL FOUNDATION	UNIVERSITY OF VIRGINIA DARDEN SCHOOL FOUNDATION	ALUMNI ASSOCIATION OF THE UNIVERSITY OF VIRGINIA	JEFFERSON SCHOLARS FOUNDATION	VIRGINIA ATHLETICS FOUNDATION*	UNIVERSITY OF VIRGINIA FOUNDATION	UNIVERSITY OF VIRGINIA PHYSICIANS GROUP	UNIVERSITY OF VIRGINIA INVESTMENT MANAGEMENT COMPANY	COMPONENT UNITS SUBTOTAL	ELIMINATIONS	COMPONENT UNITS TOTAL
ASSETS											
Current assets											
Total current assets	**$ 15,402**	**$ 38,293**	**$ 28,030**	**$ 15,525**	**$ 32,183**	**$ 7,507**	**$ 70,602**	**$ 127,918**	**$ 335,460**	**$ —**	**$ 335,460**
Noncurrent assets											
Long-term investments	323,556	220,531	211,546	216,851	58,447	83,155	162,542	5,355,222	6,631,850	(954,728)	5,677,122
Capital assets, net, and other assets	29,660	87,654	8,541	37,899	14,348	275,499	73,441	262	527,304	—	527,304
Total noncurrent assets	**353,216**	**308,185**	**220,087**	**254,750**	**72,795**	**358,654**	**235,983**	**5,355,484**	**7,159,154**	**(954,728)**	**6,204,426**
TOTAL ASSETS	**$ 368,618**	**$ 346,478**	**$ 248,117**	**$ 270,275**	**$ 104,978**	**$ 366,161**	**$ 306,585**	**$ 5,483,402**	**$ 7,494,614**	**$ (954,728)**	**$ 6,539,886**
LIABILITIES AND NET ASSETS											
Current liabilities											
Total current liabilities	**$ 382**	**$ 9,768**	**$ 82,922**	**$ 7,101**	**$ 917**	**$ 47,908**	**$ 119,284**	**$ 1,630**	**$ 269,912**	**$ —**	**$ 269,912**
Noncurrent liabilities											
Long-term debt, net of current portion of $11,386	—	37,625	—	22,500	—	173,318	40,880	—	274,323	—	274,323
Other noncurrent liabilities	522	—	2,863	18,102	483	69,658	89,623	5,471,187	5,652,438	(954,728)	4,697,710
Total noncurrent liabilities	**522**	**37,625**	**2,863**	**40,602**	**483**	**242,976**	**130,503**	**5,471,187**	**5,926,761**	**(954,728)**	**4,972,033**
TOTAL LIABILITIES	**$ 904**	**$ 47,393**	**$ 85,785**	**$ 47,703**	**$ 1,400**	**$ 290,884**	**$ 249,787**	**$ 5,472,817**	**$ 6,196,673**	**$ (954,728)**	**$ 5,241,945**
NET ASSETS											
Unrestricted	$ 53,202	$ 80,679	$ 54,271	$ (6,515)	$ 30,449	$ (1,152)	$ 56,683	$ 10,585	$ 278,202	$ —	$ 278,202
Temporarily restricted	185,886	89,130	67,771	73,858	42,300	61,652	115	—	520,712	—	520,712
Permanently restricted	128,626	129,276	40,290	155,229	30,829	14,777	—	—	499,027	—	499,027
TOTAL NET ASSETS	**367,714**	**299,085**	**162,332**	**222,572**	**103,578**	**75,277**	**56,798**	**10,585**	**1,297,941**	**—**	**1,297,941**
TOTAL LIABILITIES AND NET ASSETS	**$ 368,618**	**$ 346,478**	**$ 248,117**	**$ 270,275**	**$ 104,978**	**$ 366,161**	**$ 306,585**	**$ 5,483,402**	**$ 7,494,614**	**$ (954,728)**	**$ 6,539,886**

**December 31, 2011, 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, 2012, are as follows:

SUMMARY SCHEDULE OF PLEDGES RECEIVABLE *(in thousands)* *as of June 30, 2012*	UNIVERSITY OF VIRGINIA LAW SCHOOL FOUNDATION	UNIVERSITY OF VIRGINIA DARDEN SCHOOL FOUNDATION	ALUMNI ASSOCIATION OF THE UNIVERSITY OF VIRGINIA	JEFFERSON SCHOLARS FOUNDATION	VIRGINIA ATHLETICS FOUNDATION*	COMPONENT UNITS TOTAL
Total pledges receivable	**$ 18,922**	**$ 22,470**	**$ 7,828**	**$ 17,846**	**$ 44,367**	**$ 111,433**
Less allowance for uncollectible accounts	(894)	(1,206)	(1,009)	(1,254)	(4,806)	(9,169)
Less effect of discounting to present value	(411)	(4,410)	(352)	(771)	(548)	(6,492)
Net pledges receivable	**17,617**	**16,854**	**6,467**	**15,821**	**39,013**	**95,772**
Less current pledges	(2,730)	(3,800)	(1,584)	(3,607)	(25,834)	(37,555)
TOTAL NONCURRENT PLEDGES RECEIVABLE	**$ 14,887**	**$ 13,054**	**$ 4,883**	**$ 12,214**	**$ 13,179**	**$ 58,217**

**December 31, 2011, year-end*

The **University of Virginia Law School Foundation** has received bequest intentions and certain other conditional promises to give of approximately $5.3 million at June 30, 2012. 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, 2012, for the component units are as follows:

SUMMARY SCHEDULE OF INVESTMENTS *(in thousands)* *as of June 30, 2012*	UNIVERSITY OF VIRGINIA LAW SCHOOL FOUNDATION	UNIVERSITY OF VIRGINIA DARDEN SCHOOL FOUNDATION	ALUMNI ASSOCIATION OF THE UNIVERSITY OF VIRGINIA	JEFFERSON SCHOLARS FOUNDATION	VIRGINIA ATHLETICS FOUNDATION*	UNIVERSITY OF VIRGINIA FOUNDATION	UNIVERSITY OF VIRGINIA PHYSICIANS GROUP	UNIVERSITY OF VIRGINIA INVESTMENT MANAGEMENT COMPANY	COMPONENT UNITS TOTAL
Common stocks, corporate notes, bonds, limited partnerships, and agency securities	$ 11,432	$ 32,393	$ 15,067	$ 3,460	$ 270	$ 16,593	$ 53,542	$2,224,730	$2,357,487
University of Virginia Investment Management Co.	219,236	207,614	181,977	197,309	57,305	43,591	47,696	—	954,728
Mutual and money market funds	19,686	1,899	3,115	5,779	873	9,771	33,779	8,886	83,788
Other	85,759	—	11,417	14,889	20	16,836	32,505	3,247,691	3,409,117
Total investments	**$ 336,113**	**$ 241,906**	**$ 211,576**	**$ 221,437**	**$ 58,468**	**$ 86,791**	**$ 167,522**	**$5,481,307**	**$6,805,120**
Less amounts shown in current assets	(12,557)	(21,375)	(29)	(4,586)	(21)	(3,636)	(4,980)	(126,086)	(173,270)
Less eliminations	(219,236)	(207,614)	(181,977)	(197,309)	(57,305)	(43,591)	(47,696)	—	(954,728)
LONG-TERM INVESTMENTS	**$ 104,320**	**$ 12,917**	**$ 29,570**	**$ 19,542**	**$ 1,142**	**$ 39,564**	**$ 114,846**	**$5,355,221**	**$5,677,122**

**December 31, 2011, 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 $2,588,941,486 (48 percent of investments held for others) at June 30, 2012. 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, 2012, capital assets consisted of (in thousands):

PROPERTY, FURNISHINGS, AND EQUIPMENT *(in thousands)* *as of June 30, 2012*	UNIVERSITY OF VIRGINIA FOUNDATION	UNIVERSITY OF VIRGINIA DARDEN SCHOOL FOUNDATION
Land	$ 118,315	$ —
Buildings and improvements	217,612	103,673
Furnishings and equipment	22,457	1,517
Total	**358,384**	**105,190**
Less accumulated depreciation	(85,293)	(35,308)
NET CAPITAL ASSETS	**$ 273,091**	**$ 69,882**

NOTES PAYABLE

The **University of Virginia Foundation** has established two lines of credit with Wells Fargo Bank, N.A. (formerly Wachovia Bank, N.A.) in the amount of $34 million. The outstanding balance at June 30, 2012, was $21.5 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 $16.4 million at June 30, 2012. In addition, UVAF established a line of credit with U.S. Bank National Association in the amount of $25 million. The outstanding balance at June 30, 2012, 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, 2012, the Foundation had borrowed $30 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 **Jefferson Scholars Foundation**, the **University of Virginia Foundation**, and the **University of Virginia Physicians Group** at June 30, 2012 (in thousands):

LONG-TERM DEBT *(in thousands)* *as of June 30, 2012*	UNIVERSITY OF VIRGINIA DARDEN SCHOOL FOUNDATION	JEFFERSON SCHOLARS FOUNDATION	UNIVERSITY OF VIRGINIA FOUNDATION	UNIVERSITY OF VIRGINIA PHYSICIANS GROUP
University of Virginia Phase I and II Darden School Facilities	$ 41,657	$ —	$ —	$ —
Notes payable SunTrust Bank	—	4,500	—	—
Recovery Zone Facility Bond	—	—	15,000	—
Note payable Augusta Professional Park	—	—	—	5,519
1997 Industrial Development Authority revenue bonds—Louisa	—	—	4,002	—
1998 Refunding bonds	—	—	—	11,560
1999 Mortgage note payable	—	—	5,175	—
2000 Industrial Development Authority revenue bonds—Louisa	—	—	—	4,260
2001 Refinancing demand bonds	—	—	36,460	—
2004 Refinancing note payable	—	—	9,360	—
2009 Economic Development Authority revenue bonds—Albemarle	—	—	—	22,255
2011 Refinancing demand bonds	—	18,000	39,615	—
Total	**41,657**	**22,500**	**109,612**	**43,594**
Less portion due within one year	(4,032)	—	(4,640)	(2,714)
LONG-TERM DEBT, NET OF CURRENT PORTION	**$ 37,625**	**$ 22,500**	**$ 104,972**	**$ 40,880**

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

MATURITIES *(in thousands)* *as of June 30, 2012*	**UNIVERSITY OF VIRGINIA DARDEN SCHOOL FOUNDATION**	**JEFFERSON SCHOLARS FOUNDATION**	**UNIVERSITY OF VIRGINIA FOUNDATION**	**UNIVERSITY OF VIRGINIA PHYSICIANS GROUP**
Year ended June 30, 2013	$ 4,032	$ —	$ 4,640	$ 2,715
Year ended June 30, 2014	4,242	—	25,230	2,848
Year ended June 30, 2015	4,460	—	25,828	2,995
Year ended June 30, 2016	4,689	—	4,563	2,871
Year ended June 30, 2017	4,934	—	4,748	1,665
Years ended June 30, 2018–2036	19,300	22,500	112,949	30,500
TOTAL	**$ 41,657**	**$ 22,500**	**$ 177,958**	**$ 43,594**

STATEMENT OF ACTIVITIES *(in thousands)* *for the year ended June 30, 2012*	**UNIVERSITY OF VIRGINIA LAW SCHOOL FOUNDATION**	**UNIVERSITY OF VIRGINIA DARDEN SCHOOL FOUNDATION**	**ALUMNI ASSOCIATION OF THE UNIVERSITY OF VIRGINIA**	**JEFFERSON SCHOLARS FOUNDATION**	**VIRGINIA ATHLETICS FOUNDATION***	**UNIVERSITY OF VIRGINIA FOUNDATION**	**UNIVERSITY OF VIRGINIA PHYSICIANS GROUP**	**UNIVERSITY OF VIRGINIA INVESTMENT MANAGEMENT COMPANY**	**COMPONENT UNITS SUBTOTAL**	**ELIMINATIONS**	**COMPONENT UNITS TOTAL**
UNRESTRICTED REVENUES AND SUPPORT											
Contributions	$ 3,189	$ 4,992	$ 2,062	$ 60	$ 12,458	$ 149	$ —	$ —	$ 22,910	$ —	$ 22,910
Fees for services, rentals, and sales	—	24,062	2,228	—	731	42,849	244,215	9,998	324,083	—	324,083
Other revenues	12,407	12,061	37,540	8,887	25,482	4,882	86,257	426	187,942	—	187,942
TOTAL UNRESTRICTED REVENUES AND SUPPORT	**15,596**	**41,115**	**41,830**	**8,947**	**38,671**	**47,880**	**330,472**	**10,424**	**534,935**	**—**	**534,935**
EXPENSES											
Program services, lectures, and special events	10,999	36,847	40,017	12,010	38,233	26,680	269,732	7,573	442,091	—	442,091
Other expenses	4,785	5,221	3,534	1,137	2,341	23,942	70,744	3,198	114,902	—	114,902
TOTAL EXPENSES	**15,784**	**42,068**	**43,551**	**13,147**	**40,574**	**50,622**	**340,476**	**10,771**	**556,993**	**—**	**556,993**
DEFICIENCY OF UNRESTRICTED REVENUES AND SUPPORT OVER EXPENSES	**(188)**	**(953)**	**(1,721)**	**(4,200)**	**(1,903)**	**(2,742)**	**(10,004)**	**(347)**	**(22,058)**	**—**	**(22,058)**
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS											
Contributions	4,653	7,668	30,762	2,192	15,962	—	—	—	61,237	—	61,237
Other	(2,194)	(1,020)	(29,700)	(4,689)	(21,658)	(375)	—	—	(59,636)	—	(59,636)
NET CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	**2,459**	**6,648**	**1,062**	**(2,497)**	**(5,696)**	**(375)**	**—**	**—**	**1,601**	**—**	**1,601**
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS											
Contributions	6,605	10,292	25,955	20,870	575	—	—	—	64,297	—	64,297
Other	2,149	—	154	122	(105)	—	—	—	2,320	—	2,320
NET CHANGE IN PERMANENTLY RESTRICTED NET ASSETS	**8,754**	**10,292**	**26,109**	**20,992**	**470**	**—**	**—**	**—**	**66,617**	**—**	**66,617**
CHANGE IN NET ASSETS	**11,025**	**15,987**	**25,450**	**14,295**	**(7,129)**	**(3,117)**	**(10,004)**	**(347)**	**46,160**	**—**	**46,160**
Net assets, beginning of year	356,689	283,098	353,318	—	110,707	78,394	66,802	10,932	1,259,940	—	1,259,940
Elimination of interim activity	—	—	—	(8,159)	—	—	—	—	(8,159)	—	(8,159)
Distribution of net assets	—	—	(216,436)	216,436	—	—	—	—	—	—	—
NET ASSETS, END OF YEAR	**$ 367,714**	**$ 299,085**	**$ 162,332**	**$ 222,572**	**$ 103,578**	**$ 75,277**	**$ 56,798**	**$ 10,585**	**$ 1,297,941**	**$ —**	**$ 1,297,941**

**December 31, 2011, 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, 2012, totaled $956 thousand. This amount includes gift transfers, payment for facilities and services, and other support for University activities.

The **University of Virginia Physicians Group** has contracted with the University to provide certain professional and technical services. Payments received for these services were approximately $73 million for the year ended June 30, 2012. Approximately $20 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 $18 million to the University in support of various academic programs, equipment, teaching, and research for the year ended June 30, 2012.

NOTE 9: EXPENSE CLASSIFICATION MATRIX

OPERATING EXPENSES BY FUNCTIONAL CLASSIFICATION *(in thousands)* *for the year ended June 30, 2012*	COMPENSATION	SUPPLIES, UTILITIES, AND OTHER SERVICES	STUDENT AID	DEPRECIATION	OTHER	TOTAL
Instruction	$ 287,004	$ 32,920	$ 3,489	$ —	$ 988	$ 324,401
Research	162,773	100,046	15,378	—	509	278,706
Public service	19,073	11,844	464	—	537	31,918
Academic support	92,734	31,690	375	—	180	124,979
Student services	27,134	9,866	147	—	109	37,256
Institutional support	77,999	27,500	14	—	752	106,265
Operation of plant	80,558	10,532	—	—	217	91,307
Student aid	587	4,687	49,517	—	196	54,987
Auxiliary	62,802	76,872	120	—	665	140,459
Depreciation	—	—	—	108,282	—	108,282
Patient services	472,584	529,344	—	72,937	31,368	1,106,233
Other	(62)	(10,870)	—	—	76	(10,856)
Central services recoveries	—	(16,199)	—	—	—	(16,199)
TOTAL	**$ 1,283,186**	**$ 808,232**	**$ 69,504**	**$ 181,219**	**$ 35,597**	**$ 2,377,738**

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 College at Wise, including all supplemental appropriations and reversions for the year ended June 30, 2012, is provided in the chart below.

APPROPRIATIONS *(in thousands)*	
Original legislative appropriation per Chapter 890	$ 121,564
Adjustments	
Financial Aid—General Fund	11,851
Eminent Scholars	799
SWVA Public Education Consortium	196
Financial Assistance for educational and general	2,697
Miscellaneous educational and general	8,305
TOTAL	**$ 145,412**

NOTE 11: RETIREMENT PLANS

Essentially all regular employees of the University are eligible to enroll in the defined benefit plan administered by the Virginia Retirement System (VRS). Eighty-four percent of salaried classified and University staff employees, 13 percent of faculty, and 16 percent of Medical Center employees participate in this 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, 2012. The Commonwealth, not the University, has overall responsibility for contributions to this plan.

Eighty-seven percent of teaching, research, and administrative faculty, 16 percent of University staff, and 84 percent of Medical Center employees participate in Optional Retirement Plans offered through TIAA-CREF and Fidelity Investments, Inc. The Optional Retirement Plan is a defined contribution plan to which the University contributes an amount established by statute. Beginning July 1, 2010, there are two defined contribution plans for eligible Academic employees. Plan 1 is for employees hired prior to July 1, 2010, and retirement benefits received are based 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 in which 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 $48.4 million, and contributions were calculated using base salaries of $577.0 million, for the year ended June 30, 2012. The contribution percentage amounted to 8.4 percent.

State employees may elect to participate in the Commonwealth's Deferred Compensation 457 Plan or the University's 403(b) Plan. Participating employees can contribute to either plan each pay period, with the Commonwealth matching at 50 percent up to $10 per pay period or $20 per month. This dollar amount match can change depending on the funding available in the Commonwealth's budget. The Employer Matching Plan falls under Section 401(a) of the Internal Revenue Code. Employer contributions for University employees to the 401(a) plan were $2.5 million and employee contributions were $41.8 million for the fiscal year ended June 30, 2012.

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 $1.6 million for fiscal year 2012.

NOTE 12: POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

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

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

The University's annual postemployment benefits expense is actuarially determined in accordance with the parameters of GASB standards which call 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 2012, the University contributed $3,469,285 to the plan for retiree claims. Retirees receiving benefits contributed $4,216,869 or approximately 55 percent of the total premiums through their required contribution of $517 per month for retiree-only coverage and $1,051 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. The total cost of providing postemployment benefits is projected, taking into account assumptions about demographics, turnover, mortality, disability, retirement, health care trends, and other actuarial assumptions. This amount is discounted to determine the actuarial present value of total projected benefits. The actuarial accrued liability (AAL) is the portion of the present value of the total projected benefits allocated to years of employment prior to the measurement date. The unfunded actuarial accrued liability (UAAL) is the difference between the AAL and actuarial value of assets in the plan.

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

SUMMARY OF VALUATION RESULTS *(in thousands)*

Actuarial accrued liability by category	
Current retirees, beneficiaries, dependents, and terminated vested members	$ 13,809
Current active members	55,661
Adjust to June 30, 2012	2,620
Total actuarial accrued liability as of June 30, 2012	**72,090**
Annual Required Contribution (ARC)	
ARC for June 30, 2012	10,317
Interest on net OPEB obligation	849
ARC adjustment to June 30, 2012	(1,246)
Actual contributions	(3,469)
Net increase in ARC for June 30, 2012	**6,451**
Actual ARC July 1, 2011	18,876
Total annual required contribution as of June 30, 2012	**$ 25,327**

As of June 30, 2012, 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, 2012, actuarial valuation, the University elected to use the Entry Age Normal Level Dollar method. The actuarial assumptions include a 4.5 percent investment rate of return, which is a blended rate of the expected long-term investment returns on plan assets and the University's own investments calculated based on the funded level of the plan at the valuation date, and an annual health care cost trend rate of 8 percent initially, reduced by decrements to an ultimate rate of 5 percent after six years and a drug cost trend rate of 7.5 percent reduced by decrements to an ultimate rate of 5 percent after five years. All rates include a 4 percent inflation assumption. The UAAL is being amortized as a level percentage of projected payrolls on an open basis over a rolling thirty-year period.

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, 2012, was $60.5 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, 2012, was $15.5 million. The University has contracted with several third-party claims administrators: Aetna for its medical claims; United Concordia for its dental claims; and CatalystRx for its pharmacy claims.

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

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

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, 2012, was $118 million and income received totaled $5.6 million.

NOTE 15: COMMITMENTS AND CONTINGENCIES

Authorized expenditures for construction and other projects unexpended as of June 30, 2012, were approximately $151 million.

The University has entered into numerous operating lease agreements to rent, lease, and maintain land, buildings, and equipment, which expire at various dates through 2050. In most cases, the University has renewal options on the leased assets for another similar term, and expects that, in the normal course of business, these leases will be replaced by similar leases. Operating lease expense totaled approximately $25 million for the year ended June 30, 2012.

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
2013	$ 13,204
2014	9,595
2015	7,781
2016	4,545
2017	3,982
2018–2022	14,526
2023–2027	4,808
2028–2032	823
2033–2037	823
2038–2042	823
2043–2047	823
2048–2052	329
TOTAL	**$ 62,062**

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. Based on the receipt of final settlements in the years in question, the Medical Center's portion of the loss would be $17.9 million for the federal portion and DMAS could elect to recoup the state portion of another $17.9 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.

UNIVERSITY of VIRGINIA

FINANCIAL STAFF

Patrick D. Hogan | *Executive Vice President and Chief Operating Officer*
Colette Sheehy | *Vice President for Management and Budget*
James S. Matteo | *Assistant Vice President for Treasury Management and Fiscal Planning*
David J. Boling | *Deputy Comptroller for Financial Reporting and Analysis*
Randall B. Ellis | *Assistant University Comptroller*
Laura N. Lingo | *Manager of Financial Reporting*

INTERNAL AUDIT

Barbara J. Deily | *Chief Audit Executive*

FINANCIAL REPORT 2011–12

Produced by the Office of Public Affairs
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Photos by Michael Bailey

An online version of this report is available at
www.virginia.edu/finance/finanalysis/report.html.

Produced with private funds

The University of Virginia is committed to equal employment opportunity and affirmative action. To fulfill this commitment, the University administers its programs, procedures, and practices without regard to age, color, disability, marital status, national or ethnic origin, political affiliation, race, religion, sex (including pregnancy), sexual orientation or veteran status, and family medical or genetic information, and operates both affirmative action and equal opportunity programs, consistent with resolutions of the Board of Visitors and with federal and state requirements, including the Governor's Executive Order on Equal Opportunity. The University's policies on "Preventing and Addressing Discrimination and Harassment" and "Preventing and Addressing Retaliation" implement this statement. The Office of Equal Opportunity Programs has complaint procedures available to address alleged violations of these policies. The ADA coordinator and the Section 504 coordinator is Melvin Mallory, Office of Equal Opportunity Programs, 434-924-3295. The Title IX coordinator is Darlene Scott-Scurry, director, Office of Equal Opportunity Programs, 434-924-3200. The Office of Equal Opportunity Programs is in Washington Hall, East Range, P.O. Box 400219, Charlottesville, VA 22904-4219.

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