REMARKETING – NOT A NEW ISSUE - FULL BOOK ENTRY

Ratings:	Moody's:	Aaa/VMIG 1
	Standard & Poor's:	AAA/A-1+
	Fitch Ratings:	AAA/F-1+
	(See "Ratings")	

Concurrently with the issuance of the 2003A Bonds on March 19, 2003, McGuireWoods LLP, Richmond, Virginia, Bond Counsel in connection with the original issuance of the 2003A Bonds ("Bond Counsel"), rendered its opinion to the effect that, as of the date of such opinion, based on then existing law and subject to certain assumptions and conditions, (a) interest on the 2003A Bonds was excluded from gross income of the holder thereof for federal income tax purposes and would not be a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations and (b) interest on the 2003A Bonds was exempt from income taxation by the Commonwealth of Virginia and any political subdivision thereof. On the Remarketing Date, Bond Counsel will render an opinion to the effect that the Mode Change with respect to the 2003A Bonds (a) is permitted under the Act and the Bond Resolution and (b) will not, in and of itself, adversely affect (1) the excludability of interest on the 2003A Bonds from gross income for federal income tax purposes nor (2) the exemption of interest on the 2003A Bonds from income taxation under the laws of the Commonwealth of Virginia. See ***"TAX EXEMPTION."***

$82,010,000
The Rector and Visitors of the University of Virginia
General Revenue Pledge Bonds, Series 2003A
CUSIP 91521V

Original Issue Date: March 19, 2003 **Remarketing Date: June 29, 2011**

The above-captioned bonds (the "2003A Bonds") were issued by The Rector and Visitors of the University of Virginia (the "University") on March 19, 2003. Simultaneously with the issuance of the 2003A Bonds, the University issued General Revenue Pledge Bonds, Series 2003B in the original aggregate principal amount of $117,990,000 (the "2003B Bonds" and, together with the 2003A Bonds, the "2003 Bonds"). This Remarketing Circular relates solely to the 2003A Bonds.

The 2003A Bonds are payable solely from Pledged Revenues (as herein defined) available to the University.

On June 29, 2011 (the "Remarketing Date"), the interest rate mode (the "Mode") pertaining to the 2003A Bonds will be changed (the "Mode Change") from the current Weekly Mode to a Commercial Paper Mode (the "New Mode"). The duration of the Interest Period for the New Mode, along with the interest rate to be in effect therefor, will be determined on the Remarketing Date. Thereafter, while the 2003A Bonds remain in a Commercial Paper Mode, the duration of any succeeding Interest Period, and the interest rate to be in effect therefor, will be determined on the day following the last day of the prior Interest Period. During the Commercial Paper Mode, interest will be payable on the day following the last day of the Interest Period. The duration of each Interest Period and the applicable interest rate will be determined by J.P. Morgan Securities LLC, as Remarketing Agent (the "Remarketing Agent"), as described in the Resolution adopted March 5, 2003 by the Executive Committee of the Board of Visitors of the University of Virginia (as supplemented and amended from time to time, the "Bond Resolution"), relating to the 2003A Bonds. Subject to the satisfaction of certain conditions in the Bond Resolution, the University may from time to time change the Mode relating to the 2003A Bonds to a Daily, Weekly, Term or ARS Mode, as more fully described under **"THE 2003A BONDS."**

The 2003A Bonds are issuable as fully registered 2003A Bonds in the denomination of $100,000 or any integral multiple of $5,000 in excess thereof. The 2003A Bonds, when remarketed, will continue to be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the 2003A Bonds. Purchases will be made in book-entry only form and no physical delivery of the 2003A Bonds will be made to the Beneficial Owners (as herein defined). Payment of the principal of and premium, if any, and interest on the 2003A Bonds will be made to Beneficial Owners by DTC through its Participants (as herein defined). As long as Cede & Co. is the registered owner of the 2003A Bonds, as nominee of DTC, references herein to the holders of the 2003A Bonds or registered owners shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the 2003A Bonds. See **"THE 2003A BONDS – Book-Entry Only System."**

The 2003A Bonds are subject to redemption, purchase and mandatory tender as provided in the Bond Resolution and as described herein.

The payment of the purchase price of the 2003A Bonds required to be tendered for purchase will be a direct obligation of the University.

THE 2003A BONDS WILL CONSTITUTE LIMITED OBLIGATIONS OF THE UNIVERSITY AND WILL BE SECURED BY A PLEDGE OF CERTAIN REVENUES AND RECEIPTS OF THE UNIVERSITY, ALL AS DESCRIBED HEREIN. THE PRINCIPAL OR PURCHASE PRICE OF, REDEMPTION PREMIUM, IF ANY, AND INTEREST ON THE 2003A BONDS SHALL BE PAYABLE SOLELY FROM THE FUNDS PLEDGED THEREFOR. NEITHER THE COMMONWEALTH OF VIRGINIA, NOR ANY POLITICAL SUBDIVISION THEREOF, NOR THE UNIVERSITY, SHALL BE OBLIGATED TO PAY THE PRINCIPAL OR PURCHASE PRICE OF, REDEMPTION PREMIUM, IF ANY, OR INTEREST ON THE 2003A BONDS EXCEPT FROM THE REVENUES AND RECEIPTS PLEDGED AND ASSIGNED THEREFOR. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COMMONWEALTH OF VIRGINIA, NOR ANY POLITICAL SUBDIVISION THEREOF, IS PLEDGED TO THE PRINCIPAL OR PURCHASE PRICE OF, REDEMPTION PREMIUM, IF ANY, OR INTEREST ON THE 2003A BONDS OR OTHER COSTS INCIDENT THERETO. THE UNIVERSITY HAS NO TAXING POWERS.

In connection with the Mode Change, certain legal matters will be passed upon by McGuireWoods LLP, Richmond, Virginia, Bond Counsel. Certain legal matters will be passed upon for the University by Paul J. Forch, General Counsel to the University and Special Assistant Attorney General. It is expected that the 2003A Bonds will be available for delivery through the facilities of DTC in New York, New York, upon remarketing on June 29, 2011.

J.P. Morgan

June 22, 2011

The information set forth herein has been obtained from the University, DTC and other sources that are deemed to be reliable. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Remarketing Circular nor any sale of the 2003A Bonds shall under any circumstances create any implication that there has been no change in the affairs of the parties referred to above since the date hereof.

The Remarketing Agent has provided the following sentence for inclusion in this Remarketing Circular. The Remarketing Agent has reviewed the information in this Remarketing Circular in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Remarketing Agent does not guarantee the accuracy or completeness of such information and such information is not to be construed as a representation of the Remarketing Agent.

No dealer, broker, salesperson or other person has been authorized to give any information or to make any representation other than as contained in this Remarketing Circular and, if given or made, such other information or representation must not be relied upon as having been authorized by the University or the Remarketing Agent. This Remarketing Circular does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the 2003A Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

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REMARKETING CIRCULAR

relating to

$82,010,000
The Rector and Visitors of the University of Virginia
General Revenue Pledge Bonds,
Series 2003A

CUSIP 91521V

INTRODUCTION

Purpose

This Remarketing Circular, including the cover page and the Appendices, is furnished in connection with the remarketing of $82,010,000 aggregate principal amount of The Rector and Visitors of the University of Virginia (the "University") General Revenue Pledge Bonds, Series 2003A (the "2003A Bonds"). Simultaneously with the issuance of the 2003A Bonds, the University issued General Revenue Pledge Bonds, Series 2003B in the original aggregate principal amount of $117,990,000 (the "2003B Bonds" and, together with the 2003A Bonds, the "2003 Bonds"). This Remarketing Circular relates solely to the 2003A Bonds.

The 2003A Bonds will constitute valid and binding limited obligations of the University and will be secured by a pledge of certain revenues and receipts of the University, all as described herein. The principal or purchase price of, and interest on, the 2003A Bonds shall be payable solely from the funds pledged therefor in accordance with the terms of the Bond Resolution (as defined herein). See **"SECURITY FOR THE 2003A BONDS."** Terms capitalized but undefined in this Remarketing Circular are defined in Appendix C.

While in the Commercial Paper Mode, the 2003A Bonds will bear interest at the rate, and for the duration, determined by the Remarketing Agent. The Bond Resolution provides for the conversion of the interest rate modes of the 2003A Bonds, under certain circumstances, as further described herein. See **"THE 2003A BONDS."**

The proceeds of the 2003A Bonds were used by the University (a) to finance all or a portion of the costs incurred in connection with the following: (i) the construction and equipping of an addition to the Aquatic & Fitness Center consisting of a gymnasium complex, fitness and weightlifting areas and the Engineering/Science chiller plant; (ii) the renovation of the Cancer Center; (iii) the construction and equipping of the Emmet Street Parking Structure; (iv) the construction, renovation and equipping of a renovation and expansion project at University's acute care hospital; (v) the acquisition of the School of Medicine research building; (vi) the construction and equipping of the University's new sports arena; and (vii) the construction of a replacement of Observatory Hill Dining Facility; (b) to refund all or a portion of the outstanding principal amount of (i) the University's General Revenue Pledge Bonds, Series 1993A, issued to refund the University's Series C Bonds and Series D Bonds issued in 1985; (ii) the University's General Revenue Pledge Bonds, Series 1993B issued to finance all or a portion of the costs incurred in connection with the construction and equipping of the Gilmer Field recreation center, and an addition to the chemistry building and new academic facility for the Colgate Darden Graduate School; and (iii) the University's portion of the Commonwealth of Virginia's Higher Educational Institutions Bonds, Series 1992B (Taxable) issued to finance certain dining facilities at the University; and (c) to pay other expenditures associated with the foregoing to the extent financeable, including, without limitation, costs of issuance with respect to the 2003A Bonds.

The University

The University is an educational institution classified and constituted pursuant to Chapter 3, Title 23, Code of Virginia of 1950, as amended, and Chapter 4.10, Title 23, Code of Virginia of 1950, as amended (collectively, the "Act"), as a public body and a governmental instrumentality of the Commonwealth of Virginia (the "Commonwealth") for the dissemination of education. The 2003A Bonds were issued under the Act pursuant to the terms of a resolution adopted by the Executive Committee of the Board of Visitors of the University on March 5, 2003 (as supplemented and amended from time to time, the "Bond Resolution"), relating to the 2003A Bonds. See **"APPENDIX A - The University of Virginia"** for a description of the University.

Appendices

In addition to Appendix A describing the University, attached hereto as Appendix B are the University's audited financial statements for the fiscal year ended June 30, 2010. Also included in Appendix B is the University's Management's Discussion and Analysis, which provides an overview of the financial position and results of activities of the University for the fiscal year ended June 30, 2010. Attached as Appendix C are certain definitions and summaries of the Bond Resolution. Attached as Appendix D is the form of original Opinion of Bond Counsel and the proposed form of Conversion Opinion of Bond Counsel.

Document Summaries; Amendments to Documents

This Remarketing Circular contains summaries of certain provisions of the financing documents, including without limitation the Bond Resolution. The document summaries contained in Appendix C hereto reflect certain amendments being made to the Bond Resolution simultaneously with the Mode Change, including the removal of provisions requiring the University to maintain a depreciation reserve fund with respect to certain hospital assets. Reference is hereby made to each of such financing documents for the detailed provisions thereof, and the summaries and other descriptions of the provisions of such instruments and other documents contained in this Remarketing Circular, including the Appendices hereto, are qualified in their entirety by such reference. All capitalized terms not otherwise defined herein shall have the meanings given to such terms in Appendix C hereto.

THE 2003A BONDS

The following is a summary of certain provisions of the 2003A Bonds. For definitions of certain terms and additional detailed information relating to the 2003A Bonds, see **"APPENDIX C - Definitions and Summary of Bond Resolution."**

General

2003A Bonds. The 2003A Bonds were issued in the aggregate principal amount, and have a current outstanding principal amount, of $82,010,000. The 2003A Bonds are dated as of the date of initial delivery and will mature on June 1, 2034. So long as the 2003A Bonds are in the Commercial Paper Mode, interest will be payable on the day following the last day of the Interest Period. While in the Commercial Paper Mode, the 2003A Bonds will be offered in Authorized Denominations of $100,000 or any integral multiple of $5,000 in excess thereof.

While the Bond Resolution provides that the 2003A Bonds may, under certain circumstances, be converted to the Daily or Weekly Mode (sometimes referred to herein collectively as the "Short-Term Modes"), the ARS Mode or the Term Rate Mode, this Remarketing Circular,

including Appendix C hereto, describes the 2003A Bonds only during the period in which they remain in a Commercial Paper Mode. The 2003A Bonds are subject to mandatory tender in the event of any such Mode Change Date.

Commercial Paper Interest Rates and Periods. On the Remarketing Date, the Mode pertaining to the 2003A Bonds will be changed from the current Weekly Mode to a Commercial Paper Mode, and the 2003A Bonds will bear interest at the rate determined by the Remarketing Agent on such date. J.P. Morgan Securities LLC will serve as the Remarketing Agent. While the 2003A Bonds remain in the Commercial Paper Mode, on each Rate Determination Date, the Remarketing Agent will determine the Interest Period for the 2003A Bonds which, if implemented on such Rate Determination Date, would result in the Remarketing Agent being able to remarket such 2003A Bond at par in the secondary market at the lowest interest rate then available and for the longest Interest Period available at such rate, provided that if on any Rate Determination Date, the Remarketing Agent determines that current or anticipated future market conditions or anticipated future events are such that a different Interest Period would result in a lower average interest cost on such 2003A Bond, then the Remarketing Agent shall select the Interest Period which in the judgment of the Remarketing Agent would permit such 2003A Bond to achieve such lower average interest cost; provided, however, that if the Remarketing Agent has received notice from the University that any 2003A Bond is to be changed from the Commercial Paper Mode to any other Mode, the Remarketing Agent shall, with respect to such 2003A Bond, select Interest Periods which do not extend beyond the Mandatory Purchase Date.

In the event the Remarketing Agent fails to determine an interest rate for the 2003A Bonds while they are in the Commercial Paper Mode, the interest rate shall be the Alternate Rate for an Interest Period of 30 days.

Interest Periods in a Commercial Paper Mode shall be of such duration, of at least one day and not more than 270 days, ending on a day next preceding a Business Day, or the maturity date, as the Remarketing Agent shall determine in accordance with the provisions of the Bond Resolution. Each 2003A Bond in the Commercial Paper Mode shall be subject to mandatory tender on the Business Day after the last day of the Interest Period applicable thereto.

Interest on the 2003A Bonds while in the Commercial Paper Mode will be calculated on the basis of a 365 or 366 day year, as appropriate, for the actual number of days elapsed. The determination by the Remarketing Agent of the interest rates for 2003A Bonds shall be conclusive and binding, in the absence of manifest error, upon the University, the Remarketing Agent, the Tender Agent, the Paying Agent and the Owners of the 2003A Bonds.

Optional Tender of 2003A Bonds in the Commercial Paper Mode. The 2003A Bonds are NOT subject to optional tender while in the Commercial Paper Mode.

Mandatory Tender of 2003A Bonds in the Commercial Paper Mode. The 2003A Bonds while in the Commercial Paper Mode are subject to mandatory tender for purchase (i) on the Business Day after the last day of the Interest Period applicable thereto at the Purchase Price, (ii) if the University determines to change the Mode of the 2003A Bonds to another Mode (see **"Changes in 2003A Bonds Modes"**), the 2003A Bonds will be subject to mandatory tender for purchase on the Mode Change Date at the Purchase Price, whether or not all of the conditions to such Mode Change are satisfied or (iii) on any Substitution Date relating to the provision or change of a Liquidity Facility, if any.

The Paying Agent is not required to provide notice of a mandatory tender occurring as described in subsection (i) above. The Paying Agent shall provide at least 15 days but not more than 60 days notice of a mandatory tender with respect to a change from any Short-Term Mode to any other Short-Term

Mode or to an ARS Mode and at least 30 days notice of such mandatory tender with respect to a conversion to a Term Rate Mode. The Paying Agent shall also provide at least 15 days but not more than 60 days notice of a mandatory tender occurring as described in subsection (iii) above.

Remarketing of 2003A Bonds. The Remarketing Agent will use its best efforts to find purchasers for all 2003A Bonds required to be purchased as described above.

The Remarketing Agent will notify the Tender Agent and the University of the amount of 2003A Bonds that were remarketed by 11:00 a.m. (Eastern Time) on the Purchase Date or Mandatory Purchase Date. As soon as possible thereafter, the Tender Agent will notify the Paying Agent and the University of the amount of Remarketing Proceeds, and the University by 2:30 p.m. (Eastern Time) on such date, will provide or cause to be provided moneys sufficient to purchase, at the applicable Purchase Price thereof, all such 2003A Bonds tendered or deemed tendered which have not been remarketed in accordance with the terms of the Bond Resolution.

Purchase of 2003A Bonds. Funds for the payment of the Purchase Price will be derived solely from the following sources in the following order of priority indicated: (a) immediately available funds derived from the remarketing of such 2003A Bonds on deposit in the remarketing proceeds account; and (b) immediately available funds derived from moneys in the purchase account provided by or on behalf of the University in accordance with the terms of the Bond Resolution. Neither the Tender Agent nor the Remarketing Agent will be obligated to provide funds for the payment of the Purchase Price from any other source. **The payment of the Purchase Price of 2003A Bonds will be a direct obligation of the University.**

Changes in 2003A Bonds Modes. In addition to the Commercial Paper Mode, the Bond Resolution provides for the 2003A Bonds to be changed to (i) a Daily Mode, in which the 2003A Bonds will have subsequent interest rate periods, each of one day's duration, during which the 2003A Bonds will bear interest at the rate set by the Remarketing Agent on a daily basis, (ii) a Weekly Mode, in which the 2003A Bonds will have subsequent interest rate periods, each of one week's duration, during which the 2003A Bonds will bear interest at the rate set by the Remarketing Agent on a weekly basis, (iii) a Term Rate Mode of the period (which shall be not less than 271 days) set at the commencement of such Mode, during which the 2003A Bonds will bear interest at the rate set by the Remarketing Agent at the beginning of such period and (iv) an ARS Mode. Any changes in Mode for the 2003A Bonds may only be effected on all 2003A Bonds.

The Bond Resolution provides the methods by which changes from one Mode to another shall be made, which methods include the giving of notice of such change to the Owners of the 2003A Bonds, and describes in detail the provisions of the Mode being changed to and the conditions precedent to a change in Modes. In addition, upon a change in Mode, each Owner of a 2003A Bond subject to such change shall be required to tender such 2003A Bond for purchase on the effective date of such new mode. See **"Optional and Mandatory Tender of 2003A Bonds in the Commercial Paper Mode."**

The 2003A Bonds may be changed from one Mode to another Mode as often as determined by the University in accordance with the provisions of the Bond Resolution. However, once changed to a Term Rate Mode which extends to the maturity date thereof, the 2003A Bonds shall remain in such Mode and not be subsequently changed to another Mode.

Redemption

Mandatory Sinking Fund Redemption. The 2003A Bonds are subject to mandatory sinking fund redemption, and shall be redeemed, in part at a redemption price equal to 100% of the principal amount to be redeemed plus interest accrued to the sinking fund Redemption Date in the amounts and on the sinking fund Redemption Dates set forth below:

Redemption Date	Principal Amount
June 1, 2032	$27,335,000
June 1, 2033	27,335,000
June 1, 2034*	27,340,000

* Maturity

Optional Redemption. While in the Commercial Paper Mode, the 2003A Bonds are subject to redemption prior to maturity, at the option of the University, in whole or in part, on each Purchase Date for Commercial Paper Rate Bonds, at a redemption price equal to 100% of the principal amount of the 2003A Bonds to be redeemed, together with the interest accrued on such principal amount to the date fixed for redemption.

Extraordinary Optional Redemption. The 2003A Bonds are subject to redemption, in whole or in part, on any date at the option of the University, from the proceeds of casualty insurance or condemnation awards, at a redemption price equal to 100% of the principal amount of the 2003A Bonds to be redeemed, without premium, together with the interest accrued on such principal amount of the 2003A Bonds to be redeemed to, but not including, the redemption date if all or any part of the projects financed with the 2003A Bonds is damaged or destroyed or is taken through the exercise of the power of eminent domain. See **"APPENDIX C – Definitions and Summary of the Bond Resolution."**

Notice of Redemption and Other Notices. So long as DTC or its nominee is the Bondholder, the University, the Paying Agent and the Remarketing Agent will recognize DTC or its nominee as the Bondholder for all purposes, including notices and voting. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory and regulatory requirements as may be in effect from time to time.

The Paying Agent shall give notice of redemption to the 2003A Bondholders, while in the Commercial Paper Mode, at least 15 days prior to the date fixed for redemption. Failure to mail notice to a particular 2003A Bondholder, or any defect in the notice to such 2003A Bondholder, shall not affect the validity of the call for redemption of any other 2003A Bond. So long as DTC or its nominee is the 2003A Bondholder, any failure on the part of DTC or failure on the part of a nominee of a Beneficial Owner (having received notice from a Direct Participant or otherwise) to notify the Beneficial Owner so affected, shall not affect the validity of the call for redemption. Any notice mailed as provided in the Bond Resolution shall be conclusively presumed to have been given regardless of whether actually received by any Beneficial Owner.

Selection for Redemption. Subject to applicable procedures of DTC while the 2003A Bonds are held in book-entry form by DTC, if less than all of the 2003A Bonds are to be called for redemption, the University shall select 2003A Bonds for redemption in such manner as the University may determine.

Subject to applicable procedures of DTC while the 2003A Bonds are held in book-entry form by DTC, if less than all of the 2003A Bonds are to be redeemed and the Paying Agent has not received direction from the University as described above, the Paying Agent shall select the 2003A Bonds to be redeemed from among the outstanding 2003A Bonds: (i) if 2003A Bonds are redeemed pursuant to an optional redemption or an extraordinary optional redemption, in such a manner that the ratio of aggregate principal amount of Term Rate Bonds to aggregate principal amount of Short-Term Bonds and ARS Bonds that will remain outstanding following such redemption is approximately equal to the ratio of aggregate principal amount of Term Rate Bonds to aggregate principal amount of Short-Term Bonds and ARS Bonds that are outstanding prior to such redemption, and, among the Term Rate Bonds and ARS Bonds then outstanding, in equal principal amounts by maturity and, among the Short-Term Bonds then outstanding, by maturity and if the same maturity, by random selection, and (ii) if 2003A Bonds are redeemed other than pursuant to an optional redemption or an extraordinary optional redemption, first, all Short-Term Bonds and ARS Bonds, pro rata, and, if the amount to be so redeemed exceeds the principal amount of Short-Term Bonds and ARS Bonds outstanding, then Term Rate Bonds, by inverse order of maturity and, within a maturity, by random selection. No portion of a 2003A Bond may be redeemed that would result in a 2003A Bond remaining in an amount other than an Authorized Denomination. For this purpose, the Paying Agent shall consider each 2003A Bond in a denomination larger than the minimum Authorized Denomination permitted hereunder to be separate 2003A Bonds each in the minimum Authorized Denomination.

Notwithstanding the foregoing, in the event of any partial redemption of 2003A Bonds, the Registrar shall first select for redemption any outstanding 2003A Bonds of which the University is the Beneficial Owner.

Book-Entry Only System

The 2003A Bonds will be available only in book-entry form, and, will be available only in Authorized Denominations. The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the 2003A Bonds. The 2003A Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered 2003A Bond certificate will be issued for each issue of the 2003A Bonds, each in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of 2003A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2003A Bonds on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2003A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 2003A Bonds, except in the event that use of the book-entry system for the 2003A Bonds is discontinued.

To facilitate subsequent transfers, all 2003A Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2003A Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2003A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2003A Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 2003A Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the University as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts 2003A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the 2003A Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the University or the Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent, or the University, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the University, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the 2003A Bonds at any time by giving reasonable notice to the University or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, 2003A Bond certificates are required to be printed and delivered.

The University may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, 2003A Bond certificates will be printed and delivered to DTC.

The information contained herein concerning DTC and DTC's book-entry system has been obtained from sources that the University believes to be reliable, but the University, the Remarketing Agent, the Tender Agent and the Paying Agent take no responsibility for the accuracy thereof.

Neither the University, the Remarketing Agent, the Tender Agent nor the Paying Agent will have any responsibility or obligation to such DTC Participants or the persons for whom they act as nominees with respect to the payments to the DTC Participants, the Indirect Participants or Beneficial Owners.

Exchange and Transfer

If for any reason the book-entry only system is discontinued, the 2003A Bonds will be exchangeable and transferable on the registration books of the Registrar in Authorized Denominations. Upon presentation and surrender of any 2003A Bond for transfer or exchange, the Registrar will authenticate and deliver in the name of the designated transferee or transferees or the registered Owner, as appropriate, one or more new fully registered 2003A Bonds in any Authorized Denomination or Denominations. For every exchange or transfer of 2003A Bonds, the Registrar may make a charge sufficient to reimburse it for any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer.

SECURITY FOR THE 2003A BONDS

The following summary of the security for the 2003A Bonds is qualified in its entirety and reference is hereby made to Appendix C hereto which sets forth in further detail provisions relating to the security for the 2003A Bonds and to the Bond Resolution. For definitions of certain capitalized terms used but not defined herein, see **"APPENDIX C - Definitions and Summary of Bond Resolution."**

Pledge of Pledged Revenues

Pursuant to the Bond Resolution, the University is required to pay the principal of and interest on the 2003A Bonds as they become due upon redemption, acceleration, maturity or otherwise. Such obligation is secured, together with general revenue pledge bonds issued by the University and certain other obligations issued by the University and secured on a parity basis with the 2003A Bonds (collectively, the "Parity Credit Obligations") by a pledge of "Pledged Revenues" (as hereinafter defined). "Pledged Revenues" means any or all of the revenues now or hereafter available to the University which are not required by law, by binding contract entered into prior to the date of the Bond Resolution, or by the provisions of any Qualifying Senior Obligation (as hereinafter defined) to be devoted to some other purpose and shall include, without limitation, all revenues pledged to the payment of any Qualifying Senior Obligation net of amounts necessary to pay it or any operating or other expenses, the payment of which is required or permitted to be made with such revenues prior to payment of such Qualifying Senior Obligation. "Qualifying Senior Obligations" include any existing obligation of the University (except for Parity Credit Obligations) and certain qualifying future obligations of the University, which are secured with a pledge of any portion of the University's Revenues (not including Outstanding General Revenue Pledge Bonds, as defined below), and all obligations issued to refund such obligations. See **"Qualifying Senior Obligations and Credit Obligations"** and **"Existing and Permitted Parity Credit Obligations."**

Qualifying Senior Obligations and Credit Obligations

The Bond Resolution permits the University, within the limitations described below and other restrictions, to pledge in the future the revenues from certain revenue producing facilities or systems to the payment of future Qualifying Senior Obligations, with such pledge being superior to the pledge securing the 2003A Bonds and with operating expenses of such facilities or systems also having a prior claim to such revenues. For example, Qualifying Senior Obligations may include those secured by a pledge of net revenues from certain dormitory, dining hall, parking or student fees. All such pledges would be (1) prior and superior to the pledge securing the 2003A Bonds, and (2) net of operating expenses for the related system or facility, and such revenues would be available to pay the 2003A Bonds and other Parity Credit Obligations only to the extent such revenues are not required for either operating expenses of the system or facilities involved or debt service on the related Qualifying Senior Obligations.

Under the Bond Resolution, the University may issue Qualifying Senior Obligations and may pledge and apply such portion of the Pledged Revenues as may be necessary to provide for (1) the payment of any such Credit Obligation, (2) the funding of reasonable reserves therefor and (3) the payment of operating and other reasonable expenses of the facilities financed in whole or in part with the proceeds of such Credit Obligation or facilities reasonably related to such facilities, and such pledge shall be senior and superior in all respects to the pledge of Pledged Revenues securing the 2003A Bonds and any other Parity Credit Obligations, but only if the Chief Financial Officer of the University (the "CFO") delivers a certificate stating that (1) taking into account the incurrence of such proposed Credit Obligation, (a) the University will have sufficient funds to meet all of its financial obligations, including its obligations to pay principal of and interest on all Credit Obligations, for all Fiscal Years to and including the second full Fiscal Year after the later of (i) the issuance of such proposed Credit Obligation and (ii) the completion of any facility financed with its proceeds and (b) the CFO has no reason to believe that the University will not have sufficient funds to pay all amounts due under all indebtedness of the University during the term of such proposed Credit Obligation, (2) to the best of the CFO's knowledge, the University is not in default in the performance and observance of any of the provisions of the Bond Resolution and (3) the University has received an opinion of counsel nationally recognized in matters concerning municipal bonds to the effect such proposed Credit Obligation has been validly issued under the relevant provisions of the Constitution of Virginia.

The Bond Resolution further permits the University to issue bonds to refund any Qualifying Senior Obligations and to secure such refunding bonds with the same source of revenues securing the Qualifying Senior Obligations being refunded. Upon the defeasance of the refunded Qualifying Senior Obligations pursuant to any such refunding, the refunding bonds will be considered Qualifying Senior Obligations under the Bond Resolution.

Currently, other than the University's portion (which as of June 30, 2010, was $16,670,345) of certain general revenue bonds previously issued by the Commonwealth of Virginia, there are no Qualifying Senior Obligations and the University has no plans to issue any Qualifying Senior Obligations.

Existing and Permitted Parity Credit Obligations

The University previously has issued Parity Credit Obligations, the outstanding principal amount of which as of June 30, 2010, was $905,586,607, including the then outstanding amount of 2003A Bonds (collectively, the "Outstanding General Revenue Pledge Bonds"). The pledge securing the 2003A Bonds is on a parity with the pledge securing all other Outstanding General Revenue Pledge Bonds. See **"APPENDIX A – THE UNIVERSITY OF VIRGINIA – Indebtedness and Other Obligations."**

The Bond Resolution permits the University to incur other indebtedness that may be secured by a pledge of the Pledged Revenues ranking on a parity with the pledge of Pledged Revenues securing the Outstanding General Revenue Pledge Bonds and the 2003A Bonds, but only if the CFO certifies in writing that (1) taking into account the incurrence of such proposed Parity Credit Obligation, (a) the University will have sufficient funds to meet all of its financial obligations, including its obligations to pay principal of and interest on all Credit Obligations, for all Fiscal Years to and including the second full Fiscal Year after the later of (i) the issuance of such Parity Credit Obligation and (ii) the completion of any facility financed with the proceeds of such Parity Credit Obligation, and (b) the CFO has no reason to believe that the University will not have sufficient funds to pay all amounts due under all indebtedness of the University during the term of such Parity Credit Obligation, and (2) to the best of the CFO's knowledge, the University is not in default in the performance and observance of any of the provisions of the Bond Resolution or of any other resolution pursuant to which any Parity Credit Obligations have been issued.

THE 2003A BONDS AND THE INTEREST THEREON SHALL NOT BE DEEMED TO CONSTITUTE A DEBT OR LIABILITY OF THE COMMONWEALTH OF VIRGINIA (THE "COMMONWEALTH"), LEGAL, MORAL OR OTHERWISE. NEITHER THE COMMONWEALTH NOR THE UNIVERSITY SHALL BE OBLIGATED TO PAY THE PRINCIPAL OF OR INTEREST ON THE 2003A BONDS OR OTHER COSTS INCIDENT THERETO EXCEPT FROM SOURCES PLEDGED THEREFOR IN THE BOND RESOLUTION, AND NEITHER THE FAITH AND CREDIT NOR FUNDS OF THE UNIVERSITY ARE PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR THE INTEREST ON THE 2003A BONDS OR OTHER COSTS INCIDENT THERETO. THE UNIVERSITY HAS NO TAXING POWER.

Defeasance

If the University provides cash or noncallable Government Obligations sufficient to provide for payment of all or part of the 2003A Bonds and meets certain other requirements, such 2003A Bonds will no longer be secured by the pledge of Pledged Revenues but instead by such cash or noncallable Government Obligations. Such requirements are described more fully in **"APPENDIX C – Defeasance."**

No Liens; Disposition of Assets

The 2003A Bonds are not secured by any lien on or security interest in any property of the University. The University is generally free to sell, encumber or otherwise dispose of its property if such disposition is either in the ordinary course of business or if the CFO certifies that taking into account such disposition (1) the University will have sufficient funds to meet all of its financial obligations to and including the second full Fiscal Year after such disposition and (2) the CFO has no reason to believe that the University will not have sufficient funds to pay all amounts due under all indebtedness of the University then outstanding.

Operating Covenants; Amendments

In the Bond Resolution, the University has entered into certain operating covenants which, along with other provisions relating to the security for the 2003A Bonds, may be amended with the consent of the holders of a majority of the outstanding principal amount of the 2003A Bonds then outstanding.

ENFORCEABILITY OF REMEDIES

The remedies available to the registered holders of the 2003A Bonds upon an event of default under the Bond Resolution are in many respects dependant upon regulatory and judicial actions, which are often subject to discretion and delay. Under existing law, the remedies provided under the Bond Resolution may not be readily available or may be limited. See **"APPENDIX C - Definitions and Summary of Bond Resolution."**

CERTAIN LEGAL MATTERS

All legal matters incident to the remarketing of the 2003A Bonds are subject to the approval of McGuireWoods LLP, Richmond, Virginia, Bond Counsel to the University ("Bond Counsel"). Certain legal matters will be passed upon for the University by Paul J. Forch, General Counsel to the University and Special Assistant Attorney General.

LITIGATION

There is no threatened or pending litigation against or affecting the University that, to the knowledge of the University, seeks to restrain or enjoin the remarketing of the 2003A Bonds, or to in any way contest or affect the validity of the 2003A Bonds, the Bond Resolution, or any proceedings of the University taken with respect to the remarketing of the 2003A Bonds or with respect to the Bond Resolution, or in any way contesting the existence or powers of the University. See **"APPENDIX A – The University of Virginia – Litigation."**

TAX EXEMPTION

Opinion of Bond Counsel

On March 19, 2003, McGuireWoods LLP, Bond Counsel in connection with the original issuance of the 2003A Bonds ("Bond Counsel"), rendered its opinion to the effect that, as of such date, based on then existing law and subject to certain assumptions and conditions, (a) interest on the 2003A Bonds was excluded from gross income of the holder thereof for federal income tax purposes and would not be a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations and (b) interest on the 2003A Bonds was exempt from income taxation by the Commonwealth and any political subdivision thereof (the "Prior Bond Counsel Opinion"). The Prior Bond Counsel Opinion is included in Appendix D hereto.

On the date of the remarketing of the 2003A Bonds described herein, Bond Counsel will render an opinion to the effect that, with respect to the 2003A Bonds, the Mode Change (a) is permitted under the Act and the Bond Resolution and (b) will not, in and of itself, adversely affect (1) the excludability of interest on the 2003A Bonds from gross income for federal income tax purposes nor (2) the exemption of interest on the 2003A Bonds from income taxation under the laws of the Commonwealth (the "Conversion Opinion"). A proposed form of the Conversion Opinion is included in Appendix D hereto.

In rendering the Conversion Opinion, Bond Counsel will assume that the tax-exempt status of the 2003A Bonds has not changed since the date of their original issuance and, except as may be otherwise set forth it its opinion, Bond Counsel will have undertaken no investigation to determine whether any event has occurred or action has been taken that would have any adverse effect on the tax-exempt status of the 2003A Bonds, including without limitation the failure by the University to make periodic filings required by the Internal Revenue Code of 1986, as amended, or otherwise to perform its obligations under the documents related to the 2003A Bonds.

In rendering the Conversion Opinion, Bond Counsel will express no opinion with respect to other matters, including any actions that the University or its affiliates may have taken or omitted to take that had or may have had an adverse effect on (1) the excludability of interest on the 2003A Bonds from gross income for federal income tax purposes or (2) the exemption of interest on the 2003A Bonds from income taxation under the laws of the Commonwealth. Bond Counsel's opinion will not be an update of the Prior Bond Counsel Opinion. In addition, other than as specified above, Bond Counsel will express no opinion as to any tax consequences relating to the 2003A Bonds.

FINANCIAL ADVISOR

Prager, Sealy & Co., LLC of San Francisco, California, serves as financial advisor to the University in connection with the remarketing of the 2003A Bonds.

REMARKETING

J.P. Morgan Securities LLC is the Remarketing Agent for the 2003A Bonds. A successor Remarketing Agent may be appointed in accordance with the terms of the Bond Resolution. The designated office of the Remarketing Agent is located at 383 Madison Avenue, 8th Floor, New York, New York 10179.

FINANCIAL STATEMENTS

The audited financial statements of the University for the fiscal year ended June 30, 2010 have been audited by the Commonwealth's Auditor of Public Accounts and are included in Appendix B. Also included Appendix B is the University's Management's Discussion and Analysis, which provides an overview of the financial position and results of activities of the University for the fiscal year ended June 30, 2010.

RATINGS

Moody's Investors Service, 99 Church Street, New York, New York 10007 ("Moody's"), Standard & Poor's, 55 Water Street, New York, New York 10041 ("Standard & Poor's") and Fitch Ratings, Inc., One State Street Plaza, New York, New York 10004 ("Fitch Ratings") have assigned (a) the 2003A Bonds short-term ratings of "VMIG 1," "A-1+" and "F-1+," respectively, and (b) the 2003A Bonds long-term ratings of "Aaa," "AAA" and "AAA," respectively.

The ratings express only the views of the rating agencies. The explanation of the significance of the ratings may be obtained from Moody's, Standard & Poor's and Fitch Ratings, respectively. There is no assurance that any rating will continue for any period of time or that it will not be revised or withdrawn. Any revision or withdrawal of ratings on the 2003A Bonds may have an effect on the market price thereof.

CONTINUING DISCLOSURE

At the time the 2003 Bonds were issued, the 2003A Bonds were not subject to Rule 15c2-12 under the Securities Exchange Act of 1934, as amended (the "Rule"), but the 2003B Bonds were subject to the Rule. The University entered into a continuing disclosure agreement (the "Continuing Disclosure Agreement") with respect to both series of 2003 Bonds for the benefit of the registered and Beneficial Owners of the 2003 Bonds. Pursuant to the terms of the Continuing Disclosure Agreement, the University has agreed to send, or, where applicable, cause to be sent, certain information annually and to provide, or, where applicable, cause to be provided, notice of certain events to certain information repositories in accordance with the requirements of the Rule.

The University previously has undertaken to provide continuing disclosure pursuant to the Rule, both in connection with its general revenue pledge bonds issued in 1999, 2003, 2005, 2008, 2009 and 2010 and with various bonds issued by the Virginia College Building Authority, a portion of the proceeds of which benefited the University, beginning in 1997. To date, the University has complied with such undertakings in all respects.

The Remarketing Agent has not undertaken either to supplement or update the information included in this Remarketing Circular.

2003A BONDS ELIGIBLE FOR INVESTMENT AND SECURITY FOR PUBLIC DEPOSITS

The Act provides that bonds issued pursuant thereto shall be securities in which all public officers and public bodies of the Commonwealth and all its political subdivisions, all insurance companies, trust companies, banking associations, investment companies, executors, trustees and other fiduciaries may properly and legally invest funds. No representation is made as to the eligibility of the 2003A Bonds for investment or any other purpose under any law of any other state. The Act also provides that bonds issued pursuant thereto may properly and legally be deposited with and received by any state or municipal officer or any agency or political subdivision of the Commonwealth for any purpose for which the deposit of bonds or obligations of the Commonwealth is now or may hereafter be authorized by law.

RELATIONSHIPS

The Honorable Lewis F. Payne is a member of the Board of Visitors of the University, and is the Chief Executive Officer of McGuireWoods Consulting, an affiliate of McGuireWoods LLP, which serves as Bond Counsel for the remarketing of the 2003A Bonds.

MISCELLANEOUS

The summaries or descriptions herein, including the Appendices hereto, of the 2003A Bonds and the Bond Resolution, and all references to other materials not purporting to be quoted in full, are only brief outlines of some of the provisions thereof and do not purport to summarize or describe all of the provisions thereof. So far as any statements are made in this Remarketing Circular involving matters of opinion, whether or not expressly so stated, they are intended merely as such and not as representations of fact.

The attached Appendices are integral parts of this Remarketing Circular and should be read in their entirety together with all of the foregoing information.

The University has reviewed the information contained herein and has approved this Remarketing Circular.

THE RECTOR AND VISITORS OF THE UNIVERSITY OF VIRGINIA

By: /s/ Leonard W. Sandridge
Executive Vice President and Chief Operating Officer

APPENDIX A

THE UNIVERSITY OF VIRGINIA

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APPENDIX A

THE UNIVERSITY OF VIRGINIA

Background

Thomas Jefferson founded the University of Virginia (the "University") near his home in Charlottesville, the culmination of his lifelong dream to "create the bulwark of the human mind in this hemisphere." Chartered by the General Assembly of Virginia (the "General Assembly") in 1819, the University opened for instruction in 1825.

Throughout its history, the University has drawn strength from the heritage of Mr. Jefferson. His belief in the "illimitable freedom of the human mind" continues to shape the goals of students and faculty. Audacious at its inception, the University's goals today are no less ambitious: to represent the American ideal for higher education and to achieve excellence in all of its endeavors. It pursues these by concentrating on four key areas: academic rigor, student self-governance, honor, and public service. Moreover, the University intends to remain a national model of excellence for undergraduate learning and professional education within a modern research university.

As a public entity, the University still embraces Mr. Jefferson's belief that an enlightened populace, sustained by students and scholars drawn from the Commonwealth of Virginia (the "Commonwealth") and around the world, is the surest way to secure the nation's liberty. By providing abundant opportunities for self-discovery and self-determination, it offers a student experience without parallel in higher education. Its tradition of student self-governance, marked most prominently by the student-run honor system, strives to imbue its graduates with a devotion to ethical conduct that remains with them for the rest of their lives.

General

The University has three main operating divisions: the Academic Division, the Medical Center, and the College at Wise.

The University's Academic Division is a comprehensive teaching and research institution enrolling 20,885 full-time equivalent students, including an estimated 14,455 undergraduates, in on-grounds programs. The Academic Division is comprised of 11 separate schools, including the College and Graduate School of Arts and Sciences, the McIntire School of Commerce, the Curry School of Education, the Frank Batten School of Leadership and Public Policy, the School of Engineering and Applied Science, the Darden Graduate School of Business Administration, the School of Architecture, the School of Law, the School of Medicine, the School of Nursing and the School of Continuing and Professional Studies. Collectively, these schools offer 51 bachelor's degrees in 47 fields and programs, 84 master's degrees in 67 fields, six educational specialist degrees, two first-professional degrees (law and medicine) and 57 doctoral degrees in 55 fields. Many of these programs rank among the nation's elite. In August 2010, U.S. News & World Report's latest undergraduate college rankings the University tied for No. 2 among public universities and tied for No. 25 among its 197 ranked national universities. Since U.S. News & World Report began a separate listing of the top 50 public universities in 1998, the University has never been ranked lower than No. 2, and in the 20-year history of the rankings, has always been in the top 25 among all ranked universities.

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 570-bed hospital with a Commonwealth-designated Level 1 trauma center located on the Charlottesville campus. In addition, primary and specialty care are provided at convenient clinic locations throughout central Virginia communities. The Medical Center is one of the leading academic research hospitals in the nation and is a seven-time winner of Solucient, Inc.'s Top 100 Hospitals Award.

The University of Virginia's College at Wise (the "College at Wise") in southwest Virginia was originally founded in 1954 as Clinch Valley College, a branch campus of the University. The College at Wise provides undergraduate programs in the arts and sciences as well as select undergraduate professional programs in business, nursing, teacher education and other fields, all characterized by a strong liberal arts experience. The liberal arts foundation prepares individuals for professional careers, graduate study, or lifelong learning. The current fiscal year full-time equivalent student enrollment for fall 2010 is 1,642.

Academic and Research Programs

The University has established 499 endowed professorships for outstanding scholars, and the Center for Advanced Studies plays a major role in attracting and retaining scholars of national and international distinction. The University has graduated 46 Rhodes Scholars, more than any other state-supported institution. Nationally recognized programs include Architecture, English, Spanish, German, Religious Studies, Physiology, French, Art History, Astronomy, Classics, History, Psychology, undergraduate Business, graduate Business, Law, and Education.

Accreditation and Membership

The University has been accredited by the Southern Association of Colleges and Schools (SACS) since 1904. Re-accreditation occurs every ten years with the next re-accreditation visit scheduled for 2017. Additionally, individual programs, departments and schools have received accreditation from applicable professional agencies. The University belongs to the Association of American Universities, a group of 62 prominent research institutions throughout the United States and Canada.

Facilities

Thomas Jefferson designed the original University as an "academical village" – a plan to foster students and professors living and learning together. While that vision remains, today the University consists of 3,405 acres of land holdings throughout the Commonwealth, including 245 acres in Charlottesville and 1,467 additional acres in Albemarle County. Capital infrastructure is comprised of 548 buildings consisting of approximately 16 million square feet, including the Medical Center. In 1987, the University of Virginia at Charlottesville was named a World Heritage site on the United Nations' Educational, Scientific and Cultural Organization's prestigious World Heritage list.

Mr. Jefferson's private collection of books and materials created the nucleus of the University's first library. Since then the library system has grown to encompass 14 separate facilities housing approximately 5,181,000 books, 117,749 journals, periodicals, and serials, and an extensive selection of electronic media and texts. The newest facility, the Albert and Shirley Small Special Collections Library, holds the University's archives and world-renowned collections of more than 316,500 rare books and 18.5 million manuscripts and other materials.

University Governance

Board of Visitors

The first Board of Visitors for the University (the "Board") had three former United States presidents as members – James Madison, James Monroe and Thomas Jefferson, who also served as the University's first Rector. Responsibility for all property, property rights, duties, contracts and agreements of the University is vested in the Board. The President of the University, a position created in 1904, is the chief executive officer and serves at the behest of the Board. The corporate powers of the University are exercised by the Board through its 17 members, 16 of whom are appointed by the Governor and confirmed by the Senate of the Commonwealth, and one of whom is a non-voting student member appointed for a one-year term by the Board. The usual term is four years, and service is limited to two full terms, except in limited circumstances. At least 13 members must be residents of Virginia and at least 11 members must be alumni of the University. The current members of the Board, including their primary residence and occupation are:

JOHN O. WYNNE, RECTOR, *Virginia Beach*	Retired President and CEO, *Landmark Communications, Inc.*
A. MACDONALD CAPUTO, *Greenwich, CT*	Advisory Director, *Morgan Stanley*
HUNTER E. CRAIG, *Charlottesville*	President and CEO, *Hunter E. Craig Company*
THE HON. ALAN A. DIAMONSTEIN, *Newport News*	Attorney, Sr. Partner, *Patten, Wornom, Hatten & Diamonstein*
SUSAN Y. DORSEY, *Mechanicsville*	Special Assistant, *The Office of the Secretary of Technology (VA)*
HELEN E. DRAGAS, *Virginia Beach*	President and CEO, *The Dragas Companies*
MARVIN W. GILLIAM, JR., *Bristol*	Former Vice President, *Cumberland Resources Corporation*
RANDAL J. KIRK, *Radford*	Senior Managing Director and CEO, *Third Securities, LLC*
W. HEYWOOD FRALIN, *Roanoke*	CEO, *Medical Facilities of America*
ROBERT D. HARDIE, *Charlottesville*	Managing Director, *Level One Partners, LLC*
GLYNN D. KEY, *Washington, D.C.*	Attorney, General Counsel, *GE Water & Process Technologies*
MARK KINGTON, *Alexandria*	Managing Director, *X-10 Capital Management*; and President, *Kington Management Corporation*
AUSTIN LIGON, *Manakin-Sabot*	Retired CEO and Co-Founder, *CarMax Inc.*
VINCENT J. MASTRACCO, JR, *Norfolk*	Attorney, Partner, *Kaufman & Canoles, P.C.*
THE HON. LEWIS F. PAYNE, *Charlottesville*	Retired Congressman and CEO, *McGuire Woods Consulting*
STEWART HILL ACKERLY, *Charlottesville*	Student, *University of Virginia*
ONE VACANT SEAT – To be filled through appointment by Governor	

Administrative Officers of the University

The President of the University has primary responsibility for the management and operation of the University. The provost, vice presidents, deans and all other administrative officers are responsible to the President and through the President to the Board. The following table sets forth the principal administrative officers of the University.

Name	Title
TERESA A. SULLIVAN	President
LEONARD W. SANDRIDGE	Executive Vice President and COO (through June 2011)
MICHAEL STRINE	Executive Vice President and COO (starting July 2011)
J. MILTON ADAMS	Interim Executive Vice President and Provost
ROBERT D. SWEENEY	Senior Vice President for Development and Public Affairs
YOKE SAN L. REYNOLDS	Vice President and CFO
COLETTE SHEEHY	Vice President for Management and Budget
R. EDWARD HOWELL	Vice President and CEO, Medical Center
PAUL J. FORCH	General Counsel
SUSAN G. HARRIS	Secretary to the Board of Visitors
JAMES S. MATTEO	Assistant Vice President for Treasury Management and Fiscal Planning

Teresa A. Sullivan. Teresa Sullivan became President on August 1, 2010. Previously, Dr. Sullivan was Provost and Executive Vice President for Academic Affairs of the University of Michigan (2006-2010), where she served as both Chief Academic Officer and Chief Budget Officer. She served earlier as Executive Vice Chancellor of The University of Texas System (2002-2006) and as Vice President and Graduate Dean of The University of Texas at Austin (1995-2002). She is Professor Emerita of Sociology and Law at The University of Texas at Austin. Dr. Sullivan is an elected Fellow of the American Association for the Advancement of Science and the Texas Philosophical Society, and the past president of the Association of Graduate Schools and of the Council of Southern Graduate Schools. She won the Silver Gavel Award of the American Bar Association for her co-authored study of consumer bankruptcy and credit, titled *As We Forgive Our Debtors*, and won the writing award of the American College of Financial Services Lawyers for the sequel *The Fragile Middle Class*. She is the author or co-author of four additional books and eighty scholarly articles and chapters, many of which deal with the economic position of American workers and families. She is a Phi Beta Kappa graduate of Michigan State University and earned her master's and doctoral degrees at The University of Chicago.

Leonard W. Sandridge. Leonard W. Sandridge is Executive Vice President and Chief Operating Officer. Mr. Sandridge joined the University administration in 1967 as a member of the internal audit staff. He serves on the boards of the Charlottesville Regional Chamber of Commerce, University of Virginia Foundation, University of Virginia Investment Management Company, and Culpeper Regional Hospital. In 1993, Mr. Sandridge received the Thomas Jefferson Award, the University's highest honor for a faculty member, recognizing one who exemplifies Jefferson's principles and ideals in character, work, and influence. In 2003, he received the Paul Goodloe McIntire Citizenship Award, presented by the Charlottesville Regional Chamber of Commerce to recognize outstanding citizen contributions. Mr. Sandridge will retire at the end of June 2011. During the following year, Mr. Sandridge plans to serve as a part-time consultant to President Sullivan.

Michael Strine. Michael Strine was appointed as the Executive Vice President and Chief Operating Officer of the University in May 2011 and will commence service in July 2011. Mr. Strine previously served as Vice President for Finance, Chief Financial Officer and Treasurer of the Johns Hopkins University working with the university's central administration and with the deans and directors of Johns Hopkins' divisions to manage the university's financial resources in support of its mission. In that role, he served as primary liaison to the Finance Committee of the board of trustees, led the development of the annual budget and five-year plan for the University, oversaw the university's debt, banking and insurance relationships and operations, led significant compliance and risk management efforts, and worked closely on matters such as finance, information technology and infrastructure with the Johns Hopkins Health System, including chairing or otherwise serving on joint entity boards and committees. Prior to Johns Hopkins University, Mr. Strine had nearly a decade of experience in senior finance roles in government in Delaware, as chief financial officer of New Castle County and as chief of policy and operations in the state's Department of Finance. Mr. Strine is a 1986 graduate of the University of Delaware and in 1992 earned a doctorate in political science from Johns Hopkins University, where he studied public law, organization theory and public policy. Before leaving academia for government service, Mr. Strine served as an assistant professor at the University of Denver and the University of Colorado at Boulder, where he was published in leading journals and was a finalist for university-wide teaching awards.

J. Milton Adams. Milton Adams was appointed Interim Executive Vice President and Provost of the University by President Sullivan in May 2011. He is responsible for the planning and operations of the University's 11 schools, as well as academic planning. Mr. Adams was appointed Vice Provost for Academic Programs in 2003 and he worked to advance the student academic experience by expanding undergraduate research opportunities. As Vice Provost, he coordinates the University Seminar program for first-year students, and with colleagues, began the January Term and new undergraduate Arts Awards, oversees regional accreditation, the Institute for Advanced Technology in the Humanities, the College Guide program, has worked to support Access UVa and co-chairs the Provost's Promotion and Tenure Committee. He received the Ph.D. in biomedical engineering from the University of Virginia in 1976. Following an NIH Postdoctoral Fellowship in the trauma research program at Albany Medical College, he has been on the faculty of the department of Biomedical Engineering since 1978. He was Visiting Scientist at Dartmouth Medical School in 1984 – 1985. Milton Adams has been assistant dean for graduate programs and associate dean for academic programs in the School of Engineering and Applied Science prior to serving as Vice Provost. He studied mechanisms of control of the pulmonary and cardiovascular systems, most recently control of a left ventricular assist pump. He is a Fellow of the American Institute for Medical and Biological Engineering and of the Biomedical Engineering Society (BMES); he served in an elected position on the Board of the BMES. He was selected for several teaching awards, including the University of Virginia Alumni Association Distinguished Professor Award.

Yoke San L. Reynolds. Yoke San L. Reynolds joined the University in 2001 as Vice President for Finance, and was named Vice President and Chief Financial Officer in May 2005. She serves as the University's chief business officer, and oversees the offices of treasury management, financial administration (comptroller and financial aid), research administration, business operations (housing, dining, parking and others), risk management, and University policy. She also administers the University's relationship with its twenty-five related foundations. Ms. Reynolds' background in higher education finance includes six years at the State University of New York at Albany and ten years at Cornell University, where she was Vice President for Financial Affairs. She served two consecutive terms as a director of the National Association of College and University Business Officers ("NACUBO") and of the Council on Governmental Relations. Ms. Reynolds was the inaugural chair of NACUBO's committee on Managerial Analysis and Decision Support, and a member of NACUBO's ad hoc committee on the Cost of Education. She served as President of the Eastern Association of College and University Business Officers in 2005. In 2002 she devised and spearheaded the development of the University's new portfolio approach to debt. She also initiated the 2007 investment legislation that gave the University unique authority to invest its non-general funds in equities, and championed the legislation through the State's executive and legislative branches. In 2009, she was selected for NACUBO's Distinguished Business Officer award which recognizes "outstanding overall achievement in the field of business and financial management in higher education".

Colette Sheehy. Colette Sheehy has been the University's Vice President for Management and Budget since 1993. She serves as the institution's senior budget officer and oversees the functions of facilities management, budget development and financial planning, procurement services, space and real estate management, and state governmental relations. Collectively, these units support the University's mission by providing primary financial and administrative services. Ms. Sheehy began her career at the University as a Budget Analyst in 1982. In 1986 she became the Assistant to the Director of the Budget, and in 1988 was named the Director of the Budget. Between 1991 and 1993 she served as the Associate Vice President and Director of the Budget before assuming her current position. She served on the Virginia Association of Management Analysis and Planning's Executive Committee from 1990 to 1993 and was Vice President and President of Virginia's Council of State Senior Business Officers from 1998-2000. In 1995, Ms. Sheehy was presented the Woman of Achievement Award from the University of Virginia Women Faculty and Professional Association. She served as one of the chief architects and negotiators of the Restructured Higher Education Financial and Administrative Operations Act passed by the General Assembly of Virginia in 2005—a law that created a new relationship between the Commonwealth and its public institutions of higher education. Ms. Sheehy serves on the board of the Thomas Jefferson Partnership for Economic Development. She was appointed by the Governor in 2009 to serve on the nine member Board of Trustees of the Virginia Retirement System.

Robert D. Sweeney. Bob Sweeney has spent his career in higher education development. For 37 years, he has led both public and private institutions in their fund-raising, public relations, and strategic planning efforts. In August 1991, President John T. Casteen III appointed Mr. Sweeney as Vice President for Development at the University. He was responsible for restructuring the University's development effort and for the planning and implementation of a $1 billion capital campaign. At that time, the campaign was one of the 10 largest fund-raising ventures in U.S. philanthropic history. The campaign concluded in December 2000 with over $1.4 billion in commitments. In January 2000, Mr. Sweeney assumed responsibility for the public affairs function at the University. This includes public relations, publications, news and television bureaus, web services, marketing and community relations. He was subsequently promoted to Senior Vice President for Development and Public Affairs in 2001. Mr. Sweeney is the architect of the University's current $3 billion capital campaign that is scheduled to conclude in 2011. It is among the eight largest higher education philanthropic campaigns ever announced. To date, over $2.15 billion has been raised.

R. Edward Howell. Ed Howell has been the Vice President and Chief Executive Officer of the Medical Center since February 2002. He oversees all operations of the University's hospital and clinics, as well as business development and finance, marketing, strategic planning, and information technology functions for the UVA Health System. For the past 25 years, Mr. Howell has dedicated his life to academic medicine – working, teaching, and moving through the administrative ranks at the Universities of Minnesota, Georgia, and Iowa. Mr. Howell served for eight years as Director and CEO of the University of Iowa Hospitals and Clinics. Prior to joining the University of Iowa Hospitals and Clinics, he served as Executive Director of the Medical College of Georgia Hospital and Clinics for eight years and prior to that, ten years on the administrative staff of the University of Minnesota Hospitals. Mr. Howell has served as a member of the Executive Committee of the Association of American Colleges, a member of the American Hospital Association Long-Range Policy Committee, Chair of the Council of Teaching Hospitals, Chair of the Accreditation Council for Graduate Medical Education, Chair of the University HealthSystem Consortium Board of Directors, and Co-Chair of the Advisory Board for Clinical Research at the National Institutes of Health. He is currently Chair of the Novation Board of Directors, and serves as a member of the Virginia Hospital and Healthcare Association Board of Directors.

Paul J. Forch. Paul Forch was appointed by the University and the Attorney General of Virginia as the University's General Counsel in 1996. He is responsible for the legal services provided to the University and is a member of the President's senior cabinet, as well as a Special Assistant Attorney General reporting to the State Attorney General. Mr. Forch has been practicing law since 1975, predominantly specializing in state and federal laws governing education policy and representing public institutions and providing litigation defense. Previously, as Education Chief in the Virginia Attorney General's Office, Mr. Forch supervised, the legal services provided to all of the Commonwealth's public institutions of higher education.

Susan G. Harris. Susan Harris is the Secretary to the Board of Visitors and Special Assistant to the President. Ms. Harris has served as Secretary to the Board since May 2009. She is responsible for coordinating and managing Board meetings and activities as well as serving as a liaison between the Board and the University administration. Ms. Harris is a 1987 graduate of the University of Virginia School of Law and has served in the University's administration for 21 years, initially in the Office of the General Counsel and then as Assistant to the Executive Vice President and Chief Operating Officer, where she worked closely with specific units reporting to the EVP/COO including athletics, the Medical Center, police, emergency management, the University of Virginia Foundation, and the University of Virginia Investment Management Company. She is a member of the National Association of College and University Attorneys, the Virginia State Bar, and the American Bar Association.

James S. Matteo. Jim Matteo is the University's Assistant Vice President for Treasury Management and Fiscal Planning. He is responsible for debt management, banking and cash management, short-term investment management, and long-term investment portfolio oversight as well as liquidity and interest rate risk management. Prior to joining the University in 2005, Mr. Matteo spent 14 years in the private sector with a Fortune 500 company managing various treasury functions including banking, corporate finance, cash management, and interest rate and foreign currency risk management. Mr. Matteo is the Director of Programming for the Treasury Institute for Higher Education. He has also been a member of the Association for Financial Professional's ("AFP's") Cash Flow Forecasting Task Force and other AFP task forces responsible for developing questions and determining passing scores for the Certified Treasury Professional Exam. In 2010, he was selected for NACUBO's Rising Star Award which recognizes outstanding professionals at colleges or universities who have high potential to succeed as an executive and officer in higher education.

Faculty and Staff

For the fall 2010 semester, the University employed 2,125 full-time and 152 part-time instructional, research, and public service faculty, as well as 685 full-time and 27 part-time administrative and professional faculty. Included were 1,189 tenured faculty and an additional 362 who were non-tenured but on tenure-track. More than 92% of the full-time instructional faculty hold the highest academic degree in their field. The ratio of full-time equivalent students to full-time equivalent instructional faculty members is approximately 16:1. Excluding the faculty, as of the fall 2010 semester, the University employed 9,379 full-time and 1,371 part-time permanent staff, including approximately 5,056 full-time equivalent employees at the Medical Center. Salaried non-faculty employees hired prior to July 1, 2006, are covered by the Commonwealth's Personnel Act with compensation and benefits set at the Commonwealth level. Salaried and wage non-faculty University staff, hired on or after July 1, 2006, are covered under University Human Resources policies. In December 2008, all staff employees under the Commonwealth's Personnel Act were given the option to enroll in the University's benefit plan. Open enrollment periods for the new plan will be offered at least every two years.

For the fall 2010 semester, the College at Wise employed 91 full-time and 78 adjunct instructional, research, and public service faculty as well as 53 full-time and 2 part-time administrative and professional faculty. Included were 45 tenured faculty and an additional 22 who were non-tenured but on tenure-track. Seventy-four percent of the full-time instructional faculty hold the highest academic degree in their field. The ratio of full-time equivalent students to full time equivalent instructional faculty members is approximately 15:1.

Excluding the faculty, as of October 15, 2010, the College at Wise employed 142 full-time and 5 part-time permanent staff. Staff employees are covered by the Commonwealth's Personnel Act with compensation and benefits set at the Commonwealth level. A designated group of research, instructional, and senior academic and administrative staff are covered under the employment policies for Exempt from Personnel Act Non-Faculty Employees. The staff workforces at both the University and the University's College at Wise are not unionized, as public employees in the Commonwealth are not allowed to engage in collective bargaining.

Students

Admissions. The University practices a selective admissions policy, seeking students from the Commonwealth and throughout the United States and the world. The University also recognizes its commitment to the Commonwealth by reserving a significant portion of the available spaces for residents of Virginia. Approximately two-thirds (67.3%) of the first-year class entering in fall 2010 was comprised of in-state students, a percentage that has remained relatively stable over the last five academic years.

Interest in admission to the University remains high as 23,589 completed applications were received for the 2011-12 academic year to fill a target of approximately 3,360 spaces in the first year class. The following table sets forth the information on applications, acceptances and matriculations for first-year students for the five most recent academic years.

Undergraduate Applications, Acceptances and Matriculations

	2007-08	2008-09	2009-10	2010-11	2011-12***
Completed Applications					
In-state	7,090	7,370	7,637	7,803	7,947
Out-of-state	10,708	10,993	13,471	14,321	15,642
Total	17,798	18,363	21,108	22,124	23,589
Applications Accepted*	35%	37%	32%	33%	33%
In-state	47%	47%	45%	45%	46%
Out-of-state	27%	30%	25%	26%	27%
Offers Accepted**	52%	48%	48%	45%	44%
In-state	67%	63%	65%	62%	63%
Out-of-state	34%	33%	31%	29%	27%

Note: First-time freshmen only.
* As a percent of completed applications received
** As a percent of applications accepted
***Estimated.

Graduate & Professional Applications, Acceptances and Matriculations

	2006-07	2007-08	2008-09	2009-10	2010-11
Completed Applications	19,091	21,477	22,971	24,560	25,720
Applications Accepted*	27%	26%	23%	22%	23%
Offers Accepted**	47%	40%	44%	44%	44%

* As a percent of completed applications received
** As a percent of applications accepted

Enrollments. The following chart reflects the University's on-grounds fall enrollment for the five most recent academic years.

On Grounds Fall Enrollment

	2007-08	2008-09	2009-10	2010-11	2011-12*
Undergraduate	13,636	13,762	13,928	14,015	14,157
Graduate	4,830	4,904	4,835	4,831	4,830
First-Professional	1,724	1,725	1,695	1,694	1,706
Unclassified	644	666	437	509	400
Total Headcount	20,834	21,057	20,895	21,049	21,093
Full Time Equivalent	20,398	20,592	20,734	20,801	20,900

*Projected.

For the fall 2010 entering class, of the entering undergraduates for whom high school class rank was available, approximately 90% ranked in the top 10% of their class and approximately 96% ranked in the top 20% of their class. Approximately 93% of the first-year students who enter the University earn degrees, and approximately 86% graduate within four years. The SAT scores for the 25^{th} to 75^{th} percentile range of the fall 2010 incoming class were approximately 1250-1430.

Student Life. The University has long cherished the goal of producing "educated citizens," a mission voiced by Thomas Jefferson two centuries ago. While Mr. Jefferson considered education in itself an ennobling enterprise, which helped develop the "natural aristocracy" of man, of greater concern to him were education's communal effects. By developing educated citizens, he believed the University would serve the nation, producing leaders who would be public servants in the broadest sense. The University has a long tradition of developing "thinkers and doers," and much of this training occurs outside of the classroom. The University, therefore, judges the success of its educational mission by looking at the entire student experience. To that end, key components include a significant degree of student autonomy, involvement, self-governance and a belief in, and inculcation of, ethical behavior.

Today the University offers students 680 contracted independent organizations, including several musical groups, numerous student publications, almost 60 Greek social organizations, and an extremely wide array of hobby/interest/recreational clubs. In addition, the University Programs Council, a Grounds-wide organization, offers dozens of movies, large-scale concerts, prominent speakers, renowned artists, and other notable events throughout the year. The University also participates in 25 NCAA sports (12 for men, 13 for women) and provides additional opportunities in over 65 club sports and numerous intramural recreational activities. The graduation rate of student athletes routinely ranks among the nation's best, indicative of the University's dedication to the entire educational experience.

The Honor System is one of the University's oldest and most venerated traditions. Based on the fundamental assumption that anyone who enrolls at the University subscribes to a code of ethics forbidding lying, cheating, and stealing, the Honor System allows students personal freedom possible only in an environment where respect and trust are presumed. For 150 years this system has been run entirely by students.

Relationship with the Commonwealth

As an agency and instrumentality of the Commonwealth, the University is obligated to conform its financial procedures to various constitutional and statutory provisions. Except for gifts and endowment income, substantially all the funds received by the University, including grants and contract income, constitute revenues of the Commonwealth, which must in all cases be appropriated to the University by the General Assembly before the University can spend them. These revenues are of two kinds: general fund revenues, primarily derived from tax revenues, appropriated to cover both capital expenditures and a portion of operating expenses; and non-general fund revenues, primarily derived from collections by the University itself, such as tuition, room, board and fees and revenues from the operation of the Medical Center. The Constitution of Virginia provides that once non-general fund revenues are deposited into the State Treasury, they cannot be paid out for any purpose "except in pursuance of appropriations made by law."

The General Assembly historically has appropriated to the University all non-general fund revenues collected by the University, including revenues derived from the ownership or operations of the Medical Center. While the General Assembly has provided in Section 23-26 of the *Code of Virginia* that it "will not limit or alter" the right of the University to pledge any revenues to the payment of obligations issued by the University and that it will not act "in any way to impair the rights and remedies" of the holders of such obligations, the power to appropriate funds is entirely within the discretion of the General Assembly.

The General Assembly historically has also appropriated general fund revenues of the Commonwealth to the University for a variety of purposes. See "**Financial Information - Appropriations from the Commonwealth**" below.

Like other state agencies dependent upon legislative appropriations for operating revenues, the University has no assurance that the General Assembly will continue to make appropriations of general fund revenues or non-general fund revenues derived from operations of the University, either for operating expenses or capital expenditures, or, if such appropriations are made, that they will be made in a timely fashion or in adequate amounts to enable the University to pay debt service on the Bonds.

Over the past 15 years, the Commonwealth's contribution of general funds to the University's total revenues, including operating and non-operating revenues, has dropped from more than 13% in FY 1996 to less than 7% in FY 2011. During this time, the University has increased other sources of support, including externally funded research grants and private fundraising.

The reduction in public support from the Commonwealth motivated the University to examine ways in which the University may alter its business relationship with the Commonwealth. The University is committed to its public mandate; therefore, altering the business relationship with the Commonwealth does not mean privatization.

In 1996 the General Assembly granted the Medical Center partial autonomy from the Commonwealth. As a result, the Medical Center may approve operating leases without the Commonwealth's approval, is exempted from certain provisions of the Commonwealth's Public Procurement Act, is permitted to establish its own human resources policies and procedures, and is granted limited post-appropriation autonomy for non-general fund capital projects.

Higher Education Restructuring Legislation. In 2005, the General Assembly passed landmark legislation known as the Restructured Higher Education Financial and Administrative Operations Act (the "Act"). The Act provides a framework for redefining relationships between public higher education institutions and the Commonwealth. The legislation is founded upon the principles of long-term planning. In exchange for additional authority, institutions must commit to fulfilling specific state goals in areas of access, affordability, breadth of academics, academic standards, student retention and graduation rates, articulation agreements with the Virginia Community College System, economic development, research, elementary and secondary education, and campus safety and security.

One of the benefits of the Act is the eligibility of institutions to receive financial incentives if they meet certain performance standards related to the accountability measures. The most significant of these financial incentives is retaining the interest on tuition heretofore credited to the general fund of the Commonwealth. Upon being certified as having met the performance standards, the University will be credited with the interest earned on tuition and fees deposited in the previous year.

Pursuant to the Act, the University entered into a Management Agreement (the "Agreement") with the Commonwealth that became effective July 1, 2006, after it was enacted by the General Assembly and approved by the Governor.

The Agreement improves the ability of the institution to plan over a multi-year time frame; reaffirms the Board of Visitors' authority to set tuition and fees, providing a more predictable funding stream; and provides increased delegated authority in the areas of human resources management, procurement, financial administration, capital outlay, and information technology.

Pursuant to further legislation enacted by the General Assembly, the University renewed its Agreement with the Commonwealth, which renewal became effective on July 1, 2009, after approval by the Governor. The legislation will expire on June 30, 2012, if the Governor provides written notice by November 15, 2011, that the Agreement needs to be renegotiated or revised. If the Governor takes no action, the Agreement will remain in effect through June 30, 2015.

Investment Legislation. Legislation passed during the 2007 General Assembly Session provides the University with broader authority to manage investments of non-general fund reserves and balances. Previously, non-general funds were deposited and held in the State Treasury and the University was credited with interest only on select balances (e.g., state auxiliary money) with the investments generally being restricted to cash and fixed income securities.

The University of Virginia Medical Center

The Medical Center is an organizational unit of the University employing approximately 6,363 full-time equivalent employees. It serves as the teaching facility for the University's School of Medicine and School of Nursing, and also has extensive relationships with many of the University's other schools, notably the College of Arts and Sciences.

The diagnostic and treatment services of the Medical Center are located on several sites, including University Hospital, Kluge Children's Rehabilitation Center, the West Complex, Northridge, Fontaine, McCue Center, Forest Lakes, Moser Radiation Oncology Center, Lynchburg and a number of primary care practices throughout central Virginia. The Medical Center also has facilities at the Fontaine Research Park for inpatient and outpatient adult rehabilitation services. The Medical Center has been designated a Level 1 Trauma Center and provides helicopter services for trauma and disaster emergency transport requests. It also provides emergency transportation for newborns, coronary care and other highly specialized needs of patients throughout the Commonwealth. During fiscal year 2010, the Medical Center had 570 beds available for patient care.

The Medical Center provides tertiary and quaternary care to patients from all areas of the Commonwealth, as well as to a limited number of patients from other states and other countries. The Medical Center service area consists of a Primary Service Area ("PSA"), from which about 50% of its inpatients were drawn in FY2010, and northern and southern Secondary Service Areas, from which another 22% of inpatients were drawn. Of the remaining patients, 27% reside in other parts of Virginia, West Virginia, and other states and outside the U.S. The PSA consists of ten cities and counties, extending about ninety miles from east to west and fifty miles from north to south. The total population of the PSA was 383,962 in 2010 and is expected to grow about 5.4%, to 407,799 by 2015, which is a relatively fast growth rate compared with the Virginia average of 4.3%.

There are two hospitals in addition to the Medical Center located in the PSA: Martha Jefferson Hospital in Charlottesville, and Augusta Medical Center in Augusta County. Both are small but high quality community-based hospitals with a typical array of services. The Medical Center's inpatient market share has remained steady over the past few years but showed a slight decline in the PSA, from 35.3% to 33.5% of discharges between CY2008 and CY2009. Very few PSA residents leave the state for hospital services, indicating that the Medical Center provides the full array of health services for the region. The strongest service lines with over 40% PSA market share include Adult Neurosurgery, Psychiatry, Cancer and Pediatric Cancer, Digestive, Heart, Neurology, Neurosurgery, Orthopedics, Spine, Surgery and Transplant.

In 2001, the University created the position of Vice President and Chief Executive Officer of the Medical Center (the "Medical Center CEO"). Reporting to the University's Executive Vice President and Chief Operating Officer, the Medical Center CEO has overall management responsibilities for the operation of the University of Virginia hospitals and clinics. The Medical Center CEO works to promote excellence across all functional areas of system administration, focusing especially on a strong financial management platform and a simplified user-friendly administrative environment. Nine of the most senior administrative staff persons at the Medical Center report directly to the Medical Center CEO. These include the Chief Financial and Business Development Officer, Chief Clinical Care Officer and Chief Nursing Officer, Chief Health Information and Technology Officer, Chief Environment of Care Officer, Chief Marketing and Strategic Relations Officer, three directors of key functions, and a special advisor. The Medical Center CEO also plays a key role in ensuring that both School of Medicine faculty and hospital administrative efforts are closely coordinated. To facilitate these efforts, the Medical Center CEO and the deans of the School of Medicine and the School of Nursing work closely together to coordinate plans and strategies.

In order to centralize and strengthen the governance of the Medical Center, a specialized operating board, the "Medical Center Operating Board" was established in 2002 devoted exclusively to overseeing the operations of the University's hospitals and clinics. The Medical Center Operating Board is a subcommittee of the University's Board of Visitors and currently has nine members, with an additional four ex officio advisory members who are senior administrators of the Medical Center. The legal responsibility for the Medical Center rests with the Medical Center Operating Board and the Board of Visitors. Five of the Medical Center Operating Board members are also members of the Board of Visitors, including the Rector and the Chair of the Finance Committee, and three others chosen by the Rector. In addition, four members with specialized healthcare or other expertise provide valuable insights to the Operating Board and are selected by the Board of Visitors. Advisory members of the Operating Board include the Medical Center CEO, the Vice President and Dean of the School of Medicine, the President of the Medical Center Clinical Staff, and the Executive Vice President and Chief Operating Officer of the University.

For the fiscal year ended June 30, 2010, the Medical Center had net operating revenues of $1 billion and operating income of $87 million. See "**Financial Information – Medical Center**" for additional information.

The table below summarizes selected patient information for each of the five most recent fiscal years.

Selected Medical Center Patient Information
For the Year Ended June 30,

	2007	2008	2009	2010	2011*
Average Daily Census	472	483	479	458	453
Length of Stay (days)	5.7	5.9	6.1	6.2	5.97
Discharges	30,145	29,922	28,575	27,049	23,068
Outpatient Visits	630,201	642,777	644,015	683,750	574,897

*Through April 30, 2011.

Financial Information

The University's audited financial statements for fiscal year ended June 30, 2010 are provided in Appendix B. Also included in Appendix B is the University's Management's Discussion and Analysis for the fiscal year ended June 30, 2010. The University's financial statements are presented 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.

Summary Statement of Net Assets
As of June 30,
(in thousands)

	2006*	2007*	2008*	2009	2010
Assets					
Current assets	922,607	1,194,340	657,141	720,512	616,343
Noncurrent endowment investments	2,497,309	3,068,268	3,241,709	2,508,603	2,816,356
Other Noncurrent assets	2,026,157	2,211,980	2,937,250	3,072,059	3,446,437
Total assets	5,446,073	6,474,588	6,836,100	6,301,174	6,879,136
Liabilities					
Current liabilities	437,379	558,853	411,868	478,348	483,535
Non current liabilities	560,779	560,710	785,613	1,020,082	1,037,840
Total liabilities	998,158	1,119,563	1,197,481	1,498,430	1,521,375
Net assets					
Invested in capital assets, net of related debt	1,116,746	1,226,529	1,407,111	1,458,203	1,577,969
Restricted					
Non-expendable	350,474	369,874	429,619	459,247	494,201
Expendable	1,701,167	2,214,572	2,254,581	1,785,372	1,938,361
Unrestricted	1,279,528	1,544,050	1,547,308	1,099,922	1,347,230
Total net assets	4,447,915	5,355,025	5,638,619	4,802,744	5,357,761
Liabilities and net assets	5,446,073	6,474,588	6,836,100	6,301,174	6,879,136

* Certain fiscal year amounts have been restated to conform to current classifications.

Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30,
(in thousands)

	2006	2007*	2008*	2009	2010
Revenues					
Student tuition and fees	263,728	290,748	316,332	342,619	348,436
Patient services	819,492	882,401	934,838	964,346	1,008,858
Grants and contracts	296,436	279,110	302,150	317,309	326,732
Sales and services of educational departments	18,866	18,119	21,743	20,488	18,899
Auxiliary enterprises revenue	101,093	112,331	116,644	116,437	118,002
Other	37,414	22,505	24,967	27,625	30,047
Total operating revenues	1,537,029	1,605,214	1,716,674	1,788,824	1,850,974
Non-Operating Revenues					
State appropriations	158,192	170,439	183,020	170,178	170,178
State stabilization (ARRA)					6,657
Gifts	116,023	148,073	147,269	140,078	131,208
Investment income	367,761	721,505	243,280	(850,753)	467,024
Pell Grants		4,384	5,271	7,024	9,695
Additions to permanent endowment	16,932	18,950	59,073	49,212	24,844
Other	43,031	188,880	42,048	74,367	167,728
Total operating and non-operating revenues	2,238,968	2,857,445	2,396,635	1,378,930	2,810,245
Expenses					
Operating Expenses					
Compensation and benefits	1,015,113	1,089,634	1,166,094	1,215,234	1,221,139
Supplies, utilities and other services	599,514	621,655	698,124	704,062	695,722
Student aid	46,474	51,406	54,768	62,750	55,058
Depreciation	111,654	121,770	127,689	141,338	149,332
Other	35,103	36,691	35,459	34,464	34,507
Total operating expenses	1,807,858	1,921,156	2,082,134	2,157,848	2,155,758
Non-Operating Expenses	33,695	29,179	30,907	56,957	99,470
Total operating and non-operating expenses	1,841,553	1,950,335	2,113,041	2,214,805	2,255,228
Increase in Net Assets	397,415	907,110	283,594	(835,875)	555,017

* Certain fiscal year amounts have been restated to conform to current classifications.

Reporting Entity. There are currently twenty-five foundations operating in support of the University. These related foundations are not-for-profit corporations controlled by separate boards of directors. The University determined that the following seven foundations qualify as component units under GASB 39 because of the nature and significance of their relationships with the University. As such, they are included in the financial statements for the year ended June 30, 2010, provided in Appendix B:

University of Virginia Law School Foundation
Alumni Association of the University of Virginia
University of Virginia Foundation
University of Virginia Investment Management Company
University of Virginia Darden School Foundation
Virginia Athletics Foundation
University of Virginia Health Services Foundation

Component Units*
Summary Statement of Net Assets
As of June 30,
(in thousands)

	2006**	2007**	2008**	2009**	2010
Assets					
Current assets	315,508	581,810	703,112	433,136	621,144
Noncurrent long-term investments	3,898,503	5,149,397	5,879,609	4,032,374	4,378,163
Other Noncurrent assets	406,892	416,764	490,178	408,419	446,810
Total assets	4,620,903	6,147,971	7,072,899	4,873,929	5,446,117
Liabilities					
Current liabilities	354,360	760,177	1,139,638	227,753	264,971
Non current liabilities	3,253,510	4,182,846	4,699,101	3,683,054	4,120,197
Total Liabilities	3,607,870	4,943,023	5,838,739	3,910,807	4,385,168
Net assets					
Unrestricted	283,574	323,857	327,766	214,420	236,966
Temporarily restricted	391,927	521,753	521,688	354,233	412,734
Permanently restricted	337,532	359,338	384,706	394,469	411,249
Total net assets	1,013,033	1,204,948	1,234,160	963,122	1,060,949
Total liabilities and net assets	4,620,903	6,147,971	7,072,899	4,873,929	5,446,117

* Component Units included are the UVA Law School Foundation, UVA Darden School Foundation, Alumni Association of UVA, Virginia Athletics Foundation, UVA Foundation, UVA Health Services Foundation, UVA Investment Management Company.
** Certain fiscal year amounts have been restated to conform to current classifications.

For the fiscal year ended June 30, 2010, component unit net assets increased $98 million, or 10% from fiscal year 2009.

The relationship between the University and the foundations is governed by the Policy on University-Related Foundations, which ensures that operations are consistent with the University's purpose, policies and procedures.

The foundations provide substantial financial support to the University, contributing approximately $129 million to support the University's operations and capital projects during fiscal year 2010.

Budgeting. The University's operating expenditure budget for fiscal year 2010-11 totals $2.4 billion. This includes $1.3 billion for the Academic Division (55.7%), $1.0 billion for the Medical Center (42.9%) and $34.4 million for the College at Wise (1.4%). This budget includes $23.6 million in State Fiscal Stabilization Funds from the American Recovery and Reinvestment Act of 2009 for the Academic Division and Wise. These funds will not be available in 2011-12; additionally the University will be allocated further state general fund budget reductions of about $15 million in 2011-12.

The University submits a general fund budget request to the Governor, for approval by the legislature, every two years. Amendment requests may be made to the Governor in the off years and to the legislature in each year. The Commonwealth specifically appropriates general funds to the University and provides a sum sufficient non-general fund appropriation to the University. Gifts and endowment income are not appropriated by the Commonwealth. Under the Restructured Higher Education Financial and Administrative Operations Act (Chapters 933 and 945 of the 2005 Acts of Assembly, as amended), general funds are transferred to the University based on a regular schedule (1/24 of the appropriation, twice a month) and non-general funds are retained by the University. All unused general and non-general funds on June 30th of each year are retained by the University.

Appropriations from the Commonwealth. The percentage of Commonwealth general fund appropriations to total operating and non-operating revenues (excluding investment income) was 8.5% in fiscal year 2006; 8.0% in fiscal year 2007; 8.5% in fiscal year 2008; 7.6% in fiscal year 2009 and 7.1% in fiscal year 2010. Beginning in fiscal year 2008, the Commonwealth reduced general fund appropriations to the University.

Non-Capital Appropriations from the Commonwealth
For the Year Ended June 30,
(in thousands)

	2006	2007	2008	2009	2010
Commonwealth Appropriations	158,192	170,439	183,020	170,178	152,115

Tuition and Fees. The University generates tuition and fees from both undergraduate and graduate students attending the University. In the fiscal year ended June 30, 2010, tuition and fees prior to reduction for student financial aid provided approximately 22.3% of the University's operating revenues.

Undergraduate Tuition and Required Fees Per Student
(actual dollars)

	2007-08	2008-09	2009-10	2010-11	2011-12
In-state tuition and fees	$ 8,500	$ 9,300	$ 9,672	$ 10,628	$ 11,576
Out-of-state tuition and fees	27,750	29,600	31,672	33,574	36,570

Notes: The above table does not include first year orientation fees of $190 in FY2007-08 through 2008-09, $200 in FY2009-10 and 2010-11, and $210 in FY2011-12.

Graduate Tuition and Required Fees Per Student
(actual dollars)

	2007-08	2008-09	2009-10	2010-11	2010-11
In-State Tuition and Fees					
Darden Graduate School of Business Administration	$ 37,500	$ 40,500	$ 43,500	$ 44,500	$ 47,000
School of Law	33,500	36,800	38,800	42,500	44,600
School of Medicine	31,305	32,650	35,150	37,880	41,337
All others	11,240	12,140	12,628	13,870	15,098
Out-of-State Tuition and Fees					
Darden Graduate School of Business Administration	42,500	45,500	48,500	49,500	52,000
School of Law	38,500	41,800	43,800	47,500	49,600
School of Medicine	41,305	42,650	45,150	48,874	51,009
All others	21,240	22,140	22,628	23,866	25,094

Notes: In-State Tuition and Fees for Law and Medicine represent first-year tuition and fees which, in some years, includes a surcharge not charged to returning students.

During the 2009-10 academic year, 7,400 undergraduate students (52% of the total student body) received almost $117 million in financial assistance. Of this total, 36% of the funds were provided by the federal government, 5% by the Commonwealth, 32% by the University, 8% by the Virginia Athletics Foundation, and 19% by other sources. The total included approximately $25 million in federal loans to students, and federal work-study, and over $77.3 million in federal, state, private and institutional grants and scholarships (including athletic scholarships). In addition, the parents of 575 students borrowed almost $8 million from the Federal Parents Plus Loan program.

AccessUVa is the University of Virginia's financial aid program designed to keep a higher education affordable for all admitted students regardless of economic circumstance. Because access for every academically eligible student is a priority at the University, the University has made an annual commitment of over $27.5 million in need-based grants to undergraduates. AccessUVa offers loan free packages for low income students, caps on need based loans for all other students, and a commitment to meet 100% of need for every student. The program not only keeps education at the University of Virginia affordable for the lowest income students, but also addresses the concerns of middle income families who are challenged by the rising cost of tuition. By limiting debt or eliminating it altogether in the case of students with the most need, AccessUVa offers assurances to prospective students that if they can make the grade, they can afford to attend the University.

Grants and Contracts. The U.S. Department of Health and Human Services continued as the University's major source of grant and contract awards, accounting for 52% of the total awards in fiscal year 2010.

Grants and Contracts
For the Year Ended June 30,
(in thousands)

	2006*	2007*	2008*	2009	2010
Federal grants and contracts	$253,596	$236,750	$258,794	$266,818	$276,301
Other	42,840	42,360	43,356	50,491	50,431
Total grants and contracts	$296,436	$279,110	$302,150	$317,309	$326,732

* Certain prior year amounts have been restated to conform to current year classifications

Medical Center. The following data has been derived from annual audited financial statements of the Medical Center for the fiscal years ended June 30, 2006 - 2010.

University of Virginia Medical Center
Summary Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30,
(In thousands)

	2006	2007	2008	2009	2010
Net Patient service revenue	819,501	882,401	934,967	964,346	1,008,858
Other operating revenues	37,517	37,912	35,981	43,169	50,339
Total Operating Revenues	857,018	920,313	970,948	1,007,515	1,059,197
Operating Expenses	814,201	871,452	923,518	959,860	972,555
Income from Operations	42,817	48,861	47,430	47,655	86,642
Net non-operating Revenues (expenses)	21,106	55,622	(2,068)	(90,336)	26,383
Increase in net assets	63,923	104,483	45,362	(42,681)	113,025

Gifts and Fund Development. The University continues to benefit from the generosity of alumni and friends, foundations, and corporations. According to the Office of Development and Public Affairs, during 2009-2010, the University received $203.8 million in private gifts directly and through related foundations. $94.4 million of this total was donated by alumni, parents and other individuals with the remainder given by corporations, foundations and other organizations. The alumni participation percentage in 2009-2010 was 19.44%.

The University is in an eight-year campaign which will run until 2011 and has a goal of $3 billion. As of April 2011, 79.46% of the campaign goal had been reached, with 91.65% of the campaign time elapsed.

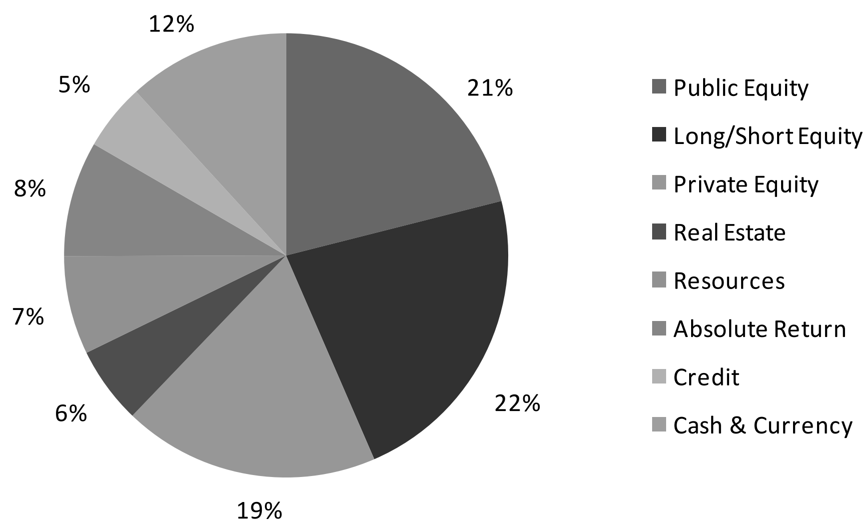
Endowment. The University of Virginia's endowment was $2.8 billion as of June 30, 2010. The unrestricted expendable portion was $896 million, or 32%, as of the same date. In accordance with the Board of Visitors' approved spending policy, the endowment contributed $136.5 million in fiscal year ending June 30, 2010 to support operations of the University. As of April 30, 2011, the University's endowment was at $3.3 billion.

Of the total endowment resources, 99% is invested in the UVIMCO Long-Term Pool, a commingled investment pool. The historic annual returns as of June 30, 2010 for the UVIMCO Long-Term Pool follow:

UVIMCO Long-Term Pool Historic Annual Returns
For the Period Ending June 30, 2010

1 Year	3 Year	5 Year	10 Year	20 Year
15.1%	1.2%	6.7%	7.1%	11.7%

All funds are managed pursuant to investment policies established by the Board of Directors of University of Virginia Investment Management Company ("UVIMCO"). The primary objective of the Long-Term Pool is to maximize long-term real returns commensurate with the risk tolerance of the University. To achieve this objective, the Long-Term Pool is managed in an attempt to achieve returns that consistently exceed the returns on a passively managed benchmark with similar asset allocation and risk. The Long-Term Pool's asset allocation is designed to meet the objectives outlined above. The asset allocation as of April 30, 2011, is provided below:



The University's Board of Visitors sets the spending rate for the endowment. The University's endowment payout policy has two objectives: (1) preserving the long-term purchasing power of the endowment principal in order to ensure continued annual distributions to support the endowed programs and (2) providing current support for programs, with increases every year to adjust for inflation or exceptional changes in endowment value. The current spending policy calls for the annual endowment distribution to be increased each year by an inflation factor unless such increase causes the spending rate to fall below 4.0 percent or above 6.0 percent of the endowment's market value. If outside of this range, the Board of Visitors' Finance Committee can recommend adjustments to the distribution formula.

UVIMCO is a University-related foundation that provides investment management services to the University, its related independent foundations and other entities affiliated with the University and operating in support of its mission. UVIMCO's formal governance began in March 1998 when the University's Board of Visitors established a subcommittee of the Finance Committee called UVIMCO. The Board charged this subcommittee with the investment and management of the endowment, and UVIMCO operated as a department of the University for several years. On July 1, 2004, UVIMCO was established as a separate 501(c) (3) Virginia non-stock corporation.

UVIMCO is governed by a board of ten directors, three of whom are appointed by the Board of Visitors and one of whom is appointed by the University's President. Daily investment management is delegated to UVIMCO's full-time staff of 27 employees. UVIMCO oversees investments totaling $5.2 billion as of April 30, 2011, including endowment assets, operating funds, charitable trusts, and other investments. The University's Endowment, managed by UVIMCO, is the University's primary source of sustainable private support for instruction, service, and research.

Indebtedness and other Obligations. As of June 30, 2010, the University had approximately $992 million in long-term debt outstanding. For a discussion of these obligations, see Note 5 in the financial statements of the University included in Appendix B.

The University has authorized a commercial paper program in an amount not to exceed $300 million. As of June 30, 2010 there was $70.7 million of commercial paper outstanding.

Long Term Debt
As of June 30, 2010
(in thousands)

Description	2010
Revenue Bonds	
Univ. of Virginia Series 2003A	82,010
Univ. of Virginia Series 2003B	105,970
Univ. of Virginia Series 2005	179,980
Univ. of Virginia Series 2008	231,365
Univ. of Virginia Series 2009	250,000
Commonwealth of Va. Bonds	16,670
Notes Payable to VCBA 2000A	8,280
Notes Payable to VCBA 2004B	36,650
Notes Payable to VCBA 2007B	10,730
Other	602
	922,257
Tax Exempt Commercial Paper	70,700
Total Debt	992,957

Subsequent to the end of fiscal year 2010, on July 28, 2010 the University issued $190,000,000 in Taxable General Revenue Pledge Build America Bonds, Series 2010.

As of May 31, 2011, there was $69.9 million of commercial paper outstanding.

Litigation

There is no litigation pending in any court or, to the best knowledge of the University, threatened, questioning the corporate existence of the University, or that would restrain or enjoin the issuance or delivery of the Bonds, or that concerns the proceeding of the University taken in connection with the Bonds or the pledge or application of the Pledged Revenues under the Bond Resolutions for their payment, or which contests the powers of the University with respect to the foregoing.

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APPENDIX B

FINANCIAL STATEMENTS FOR THE UNIVERSITY FOR FISCAL YEAR ENDED JUNE 30, 2010

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Auditor's Opinion

October 29, 2010

The Honorable Robert F. McDonnell
Governor of Virginia

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

Board of Visitors
University of Virginia

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of the University of Virginia, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2010, which collectively comprise the University of Virginia's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University of Virginia's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the component units of the University of Virginia, which are discussed in Note 1. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the component units of the University of Virginia is based on the reports of the other auditors. The prior year summarized comparative information has been derived from the University of Virginia's 2009 financial statements, and in our report dated November 20, 2009, we expressed an unqualified opinion on the respective financial statements of the University of Virginia.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and aggregate discretely presented component units of the University of Virginia as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 38 through 45 is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2010, 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

UNIVERSITY OF VIRGINIA

Statement of Net Assets *(in thousands)*

as of June 30, 2010 (with comparative information as of June 30, 2009)

	2010	2009
ASSETS		
Current assets		
Cash and cash equivalents (Note 2)	$ 365,165	$ 241,142
Restricted cash and cash equivalents (Note 2)	1	1
Short-term investments (Note 2)	862	273,257
Appropriations available	7,078	6,996
Accounts receivable, net (Note 3a)	204,531	158,658
Prepaid expenses	13,169	14,993
Inventories	21,522	21,152
Notes receivable, net (Note 3b)	4,015	4,313
Total current assets	**616,343**	**720,512**
Noncurrent assets		
Restricted cash and cash equivalents (Note 2)	30,707	30,060
Endowment investments (Note 2)	2,816,356	2,508,603
Other long-term investments (Note 2)	753,988	515,914
Deposits with bond trustee	72,633	170,354
Notes receivable, net (Note 3b)	31,324	30,202
Pledges receivable, net (Note 3c)	8,771	7,037
Capital assets—depreciable, net (Note 3d)	2,077,566	1,958,150
Capital assets—nondepreciable (Note 3d)	445,241	347,482
Goodwill (Note 3e)	12,431	12,860
Total noncurrent assets	**6,249,017**	**5,580,662**
Deferred outflow of resources (Note 6)	**13,776**	**—**
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	**$ 6,879,136**	**$ 6,301,174**
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 3f)	$ 189,334	$ 216,745
Deferred revenue (Note 3g)	94,143	100,789
Deposits held in custody for others	26,113	19,308
Commercial paper (Note 4)	70,700	56,415
Long-term debt—current portion (Note 5a)	13,427	13,512
Long-term liabilities—current portion (Note 5b)	89,818	71,579
Total current liabilities	**483,535**	**478,348**
Noncurrent liabilities		
Long-term debt (Note 5a)	926,777	940,359
Derivative instrument liability (Note 6)	13,776	—
Other noncurrent liabilities (Note 5b)	97,287	79,723
Total noncurrent liabilities	**1,037,840**	**1,020,082**
TOTAL LIABILITIES	**$ 1,521,375**	**$ 1,498,430**
NET ASSETS		
Invested in capital assets, net of related debt	$ 1,577,969	$ 1,458,203
Restricted:		
Nonexpendable	494,201	459,247
Expendable	1,938,361	1,785,372
Unrestricted	1,347,230	1,099,922
TOTAL NET ASSETS	**$ 5,357,761**	**$ 4,802,744**

Certain 2009 amounts have been restated to conform to 2010 reclassifications.
The accompanying Notes to Financial Statements are an integral part of this statement.

UNIVERSITY OF VIRGINIA

COMPONENT UNITS

Combined Statements of Financial Position *(in thousands)*

as of June 30, 2010 (with comparative information as of June 30, 2009)

		2010		2009
ASSETS				
Current assets				
Cash and cash equivalents	$	91,054	$	88,780
Receivables		96,683		77,572
Other current assets		433,406		266,784
Total current assets		**621,143**		**433,136**
Noncurrent assets				
Pledges receivable, net of current portion of $46,299		53,085		53,273
Long-term investments		4,378,165		4,032,374
Capital assets, net of depreciation		357,525		329,777
Other noncurrent assets		36,200		25,369
Total noncurrent assets		**4,824,975**		**4,440,793**
TOTAL ASSETS	**$**	**5,446,118**	**$**	**4,873,929**
LIABILITIES AND NET ASSETS				
Current liabilities				
Assets held in trust for others	$	67,229	$	58,188
Other liabilities		194,308		169,565
Total current liabilities		**261,537**		**227,753**
Noncurrent liabilities				
Long-term debt, net of current portion of $9,537		200,401		235,399
Other noncurrent liabilities		3,923,230		3,447,655
Total noncurrent liabilities		**4,123,631**		**3,683,054**
TOTAL LIABILITIES	**$**	**4,385,168**	**$**	**3,910,807**
NET ASSETS				
Unrestricted	$	236,966	$	214,420
Temporarily restricted		412,735		354,233
Permanently restricted		411,249		394,469
TOTAL NET ASSETS	**$**	**1,060,950**	**$**	**963,122**
TOTAL LIABILITIES AND NET ASSETS	**$**	**5,446,118**	**$**	**4,873,929**

Certain 2009 amounts have been restated to conform to 2010 reclassifications.
The accompanying Notes to Financial Statements are an integral part of this statement.

UNIVERSITY OF VIRGINIA

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

for the year ended June 30, 2010 (with comparative information for the year ended June 30, 2009)

	2010	2009
REVENUES		
Operating revenues		
Student tuition and fees (net of scholarship allowances of $82,144 and $69,000)	$ 348,436	$ 341,881
Patient services (net of charity care of $1,610,365 and $1,388,014)	1,008,858	964,346
Federal grants and contracts	276,301	266,818
State and local grants and contracts	4,782	4,975
Nongovernmental grants and contracts	45,649	45,516
Sales and services of educational departments	18,899	18,090
Auxiliary enterprises revenue (net of scholarship allowances of $11,008 and $9,200)	118,002	119,573
Other operating revenues	30,047	27,625
TOTAL OPERATING REVENUES	**1,850,974**	**1,788,824**
EXPENSES		
Operating expenses (Note 9)		
Compensation and benefits	1,221,139	1,215,234
Supplies and other services	695,722	704,062
Student aid	55,058	62,750
Depreciation	149,332	141,338
Other	34,507	34,464
TOTAL OPERATING EXPENSES	**2,155,758**	**2,157,848**
OPERATING LOSS	**(304,784)**	**(369,024)**
NONOPERATING REVENUES (EXPENSES)		
State appropriations (Note 10)	152,115	170,178
State stabilization (ARRA)	6,657	—
Gifts	131,208	140,078
Investment income	467,024	(850,753)
Pell grants	9,695	7,024
Interest on capital asset-related debt	(34,389)	(24,251)
Losses on capital assets	(1,456)	(17,079)
Other nonoperating expenses	(6,436)	(15,627)
NET NONOPERATING REVENUES (EXPENSES)	**724,418**	**(590,430)**
INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	**419,634**	**(959,454)**
Capital appropriations	112,420	30,462
Capital grants and gifts	55,308	43,905
Additions to permanent endowments	24,844	49,212
Transfers to the Commonwealth	(57,189)	—
TOTAL OTHER REVENUES	**135,383**	**123,579**
INCREASE (DECREASE) IN NET ASSETS	**555,017**	**(835,875)**
NET ASSETS		
Net assets—beginning of year	4,802,744	5,638,619
NET ASSETS—END OF YEAR	**$ 5,357,761**	**$ 4,802,744**

Certain 2009 amounts have been restated to conform to 2010 reclassifications.
The accompanying Notes to Financial Statements are an integral part of this statement.

UNIVERSITY OF VIRGINIA

COMPONENT UNITS

Combined Statements of Activities *(in thousands)*

for the year ended June 30, 2010 (with comparative information for the year ended June 30, 2009)

	2010	2009
UNRESTRICTED REVENUES AND SUPPORT		
Contributions	$ 21,050	$ 21,998
Fees for services, rentals, and sales	290,679	272,659
Investment income	38,233	(55,961)
Net assets released from restriction	91,561	45,553
Other revenues	83,125	75,232
TOTAL UNRESTRICTED REVENUES AND SUPPORT	**524,648**	**359,481**
EXPENSES		
Program services, lectures, and special events	310,716	284,475
Scholarships and financial aid	60,240	43,194
Management and general	33,642	43,335
Other expenses	95,632	93,510
TOTAL EXPENSES	**500,230**	**464,514**
EXCESS (DEFICIENCY) OF UNRESTRICTED REVENUES AND SUPPORT OVER EXPENSES	**24,418**	**(105,033)**
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	$ 62,015	$ 34,974
Investment and other income	89,004	(162,285)
Reclassification per donor stipulation	(810)	(1,277)
Net assets released from restriction	(91,576)	(44,972)
NET CHANGES IN TEMPORARILY RESTRICTED NET ASSETS	**58,633**	**(173,560)**
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Contributions	$ 15,178	$ 12,753
Investment and other income	(1,228)	(5,967)
Reclassification per donor stipulation	825	696
NET CHANGES IN PERMANENTLY RESTRICTED NET ASSETS	**14,775**	**7,482**
CHANGE IN NET ASSETS	**97,826**	**(271,111)**
Net assets, beginning of year	963,051	1,234,160
Cumulative effect of FMV option	73	73
NET ASSETS, END OF YEAR	**$ 1,060,950**	**$ 963,122**

Certain 2009 amounts have been restated to conform to 2010 reclassifications.
The accompanying Notes to Financial Statements are an integral part of this statement.

UNIVERSITY OF VIRGINIA

Statement of Cash Flows *(in thousands)*

for the year ended June 30, 2010 (with comparative information for the year ended June 30, 2009)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 342,282	$ 339,395
Grants and contracts	323,294	308,536
Patient services	943,923	913,620
Sales and services of educational activities	5,289	15,731
Sales and services of auxiliary enterprises	117,953	118,781
Payments to employees and fringe benefits	(1,231,919)	(1,201,875)
Payments to vendors and suppliers	(630,802)	(707,406)
Payments for scholarships and fellowships	(55,057)	(62,750)
Perkins and other loans issued to students	(8,000)	(7,548)
Collection of Perkins and other loans to students	6,694	5,056
Other receipts	15,967	25,163
NET CASH USED BY OPERATING ACTIVITIES	**(170,376)**	**(253,297)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	151,320	183,612
State stabilization (ARRA)	6,657	—
Additions to true endowments	24,844	49,212
Federal Family Education Loan Program receipts	149,027	110,845
Federal Family Education Loan Program payments	(149,027)	(110,845)
Pell grants	9,695	7,024
Receipts on behalf of agencies	96,280	102,246
Payments on behalf of agencies	(96,027)	(101,873)
Deposits held in custody for others	6,805	(5,540)
Noncapital gifts and grants and endowments received	131,452	142,015
Transfers to the Commonwealth	(57,189)	—
Prior year Medical Center eliminations	(983)	—
Other net nonoperating expenses	(2,774)	(7,980)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	**270,080**	**368,716**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	94,982	33,933
Capital gifts and grants received	49,871	44,441
Proceeds from capital debt	42,060	401,330
Proceeds (loss) from sale of capital assets	1,060	104
Acquisition and construction of capital assets	(380,445)	(385,430)
Principal paid on capital debt and leases	(36,054)	(148,957)
Interest paid on capital debt and leases	(38,247)	(24,195)
Deposit with trustee	97,721	(48,575)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	**(169,052)**	**(127,349)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	298,703	518,004
Interest on investments	4,459	9,358
Purchase of investments and related fees	(147,141)	(334,494)
Other investment activities	37,997	(182,644)
NET CASH PROVIDED BY INVESTING ACTIVITIES	**194,018**	**10,224**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**124,670**	**(1,706)**
Cash and cash equivalents, July 1	271,203	272,909
CASH AND CASH EQUIVALENTS, JUNE 30	**$ 395,873**	**$ 271,203**
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss	$ (304,784)	$ (369,024)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Depreciation expense	149,332	141,338
Provision for uncollectible loans and write-offs	473	81
CHANGES IN ASSETS AND LIABILITIES:		
Receivables, net	(57,608)	(36,116)
Inventories	(370)	1,533
Other assets	11	11
Prepaid expenses	1,358	(3,019)
Notes receivable, net	(1,307)	(2,496)
Accounts payable and accrued liabilities	24,835	12,309
Due to primary government	—	—
Deferred revenue	14,944	658
Accrued vacation leave—long term	2,740	1,428
Accrued vacation leave—current	—	—
TOTAL ADJUSTMENTS	**134,408**	**115,727**
NET CASH USED BY OPERATING ACTIVITIES	**$ (170,376)**	**$ (253,297)**
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES—ACADEMIC ONLY		
Assets acquired through assumption of a liability	$ 29,482	$ 414,300
Assets acquired through a gift	5,328	2,289
Change in fair value of investments	427,726	(786,524)
Increase in receivables related to nonoperating income	4,819	10,533
Loss on disposal of capital asset	750	3,719

Certain 2009 amounts have been restated to conform to 2010 reclassifications.
The accompanying Notes to Financial Statements are an integral part of this statement.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND PURPOSE

The University of Virginia is an agency of the Commonwealth of Virginia and is governed by the University's Board of Visitors. A separate report is prepared for the Commonwealth of Virginia that includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. The University is a 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.

REPORTING ENTITY

There are currently twenty-five related foundations operating in support of the interests of the University. These related foundations are not-for-profit corporations controlled by separate boards of directors. The University determined that the following seven foundations qualify as component units because they hold significant resources for the benefit of the University. As such, they are included in the financial statements presented as of June 30, 2010:

- University of Virginia Law School Foundation
- University of Virginia Darden School Foundation
- Alumni Association of the University of Virginia
- Virginia Athletics Foundation
- University of Virginia Foundation
- University of Virginia Health Services Foundation
- University of Virginia Investment Management Company

The foundations' financial information is included in the accompanying financial statements. Condensed financial statements for each component unit are disclosed in Note 7. Information on the organization and nature of activities for each foundation is presented below.

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

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

The **Alumni Association of the University of Virginia** was established as a legally separate, tax-exempt organization to provide services to all alumni of the University of Virginia, thereby assisting the University of Virginia and all its students, faculty, and administration in attaining the University's highest priority of achieving eminence as a center of higher learning. The consolidated financial information of the Alumni Association of the University of Virginia includes the operating activities and financial position of the Alumni Association and the Jefferson Scholars Foundation. The Jefferson Scholars Foundation is an awards program affiliated with the Alumni Association and was organized as a separate legal entity in 2001. For additional information, contact the Finance and Administration Office at P.O. Box 400314, Charlottesville, Virginia 22904.

The **Virginia Student Aid Foundation, Inc., T/A Virginia Athletics Foundation**, was established as a tax-exempt organization to support intercollegiate athletic programs at the University of Virginia by providing student-athletes the opportunity to achieve academic and athletic excellence. The Foundation provides the funding for student-athlete scholarships at the University, funding for student-athlete academic advising programs at the University, operational support for various sports at the University, informational services to its members and the general public, and ancillary support to the athletic programs at the University. The Foundation has adopted December 31 as its year-end. All amounts reflected are as of December 31, 2009. 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 Health Services Foundation** was established as a nonprofit group practice health care provider organization designed to assist medical education through teaching and research within the academic environment of the Health System of the University of Virginia, and to coordinate and develop superior patient care in the Health System. The Foundation entered into an affiliation agreement with the University of Virginia for the Foundation through its member clinical departments to provide patient care at the Health System. The Foundation provides patient care services to Health System patients, and in conjunction with the care of patients, provides teaching services. The University provides space and certain administrative services to the Foundation. The Foundation reimburses the University for the salaries and fringe benefits of classified and hourly employees of the clinical departments paid by the University, and not funded by the Commonwealth of Virginia or by gifts, grants, and contracts. For additional information, contact the Finance Office at 500 Ray C. Hunt Drive, Charlottesville, Virginia 22903.

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

REPORTING BASIS

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

In accordance with GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, the University has elected to report as an entity engaged in business-type activities. Entities engaged in business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

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

Invested in capital assets, net of related debt 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 donor-imposed stipulations that they be maintained permanently by the University. Such assets include the University's permanent endowment funds.

Restricted expendable represents net assets whose use by the University is subject to stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time.

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

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

BASIS OF PRESENTATION

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

CASH AND CASH EQUIVALENTS

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

INVENTORIES

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

INVESTMENTS

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

ENDOWMENT

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

PLEDGES RECEIVABLE

The University receives pledges and bequests of financial support from corporations, foundations, and individuals. Revenue is recognized when a pledge representing an unconditional promise to pay is received and all eligibility requirements, including time requirements, have been met. In the absence of such a promise, revenue is recognized when the gift is received. Endowment pledges do not meet eligibility requirements, as defined by GASB Statement No. 33, 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 of $2,033,903 for uncollectible pledges receivable is provided based on management's judgment of potential uncollectible amounts. The determination includes such factors as prior collection history and type of gift.

CAPITAL ASSETS AND DEPRECIATION

Capital assets are stated at cost at date of acquisition, or fair market value at date of donation in the case of gifts. Capital assets are depreciated or amortized over their estimated useful lives unless they are inexhaustible, or are intangible assets with indefinite useful lives. The University capitalizes construction costs that have a value or cost in excess of $250,000 at the date of acquisition. Renovations in excess of $250,000 are capitalized if they significantly extend the useful life of the existing asset. The Academic Division capitalizes moveable equipment at a value or cost of $5,000 and an expected useful life of greater than one year.

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

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

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

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

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

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

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

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

COLLECTIONS

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

DEFERRED REVENUE

Deferred revenue consists primarily of cash received from grant and contract sponsors, which 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.

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 $4,093,538 and earned capital project interest income of $133,130 for the fiscal year ended June 30, 2010, resulting in net interest capitalized of $3,960,408.

ACCRUED COMPENSATED ABSENCES

The amount of leave earned but not taken by nonfaculty salaried employees is recorded as a liability on the Statement of Net Assets. The amount reflects, as of June 30, 2010, all unused vacation leave, and the amount payable upon termination under the Commonwealth of Virginia's sick leave payout policy. The applicable share of employer-related taxes payable on the eventual termination payments is also included.

REVENUE RECOGNITION

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

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

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

MEDICAL CENTER SALES AND SERVICE

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

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

REVENUE AND EXPENSE CLASSIFICATIONS

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

Nonoperating revenues include activities having the characteristics of nonexchange transactions, meaning revenues are received for which goods and services are not provided. Nonoperating revenues include revenues from gifts, state appropriations, investment and interest income, and other revenue sources.

SCHOLARSHIP ALLOWANCE

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowance in the Statement of Revenues, Expenses, and Changes in Net Assets. Scholarship discount and allowance is the difference between the stated charge for goods and services provided by the University and the amount paid by students and/or third parties making payments on the students' behalf. With the implementation of a new Student Information System (SIS), the scholarship allowance to students is now calculated using the direct method, as recommended by the National Association of College and University Business Officers (NACUBO). In the SIS, financial aid is applied to specific charges; therefore, the University can more accurately match up financial aid expenditures and their corresponding tuition, fees, room, board, and/or bookstore revenue.

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.

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.

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, 2009, from which the summarized information was derived. Certain amounts from the prior fiscal year have been reclassified to conform to current-year presentation.

NOTE 2: CASH, CASH EQUIVALENTS, AND INVESTMENTS

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

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

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

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 a bank failure, the University's deposits will not be honored. The University had no investments exposed to custodial credit risk as of June 30, 2010.

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 risk. Investments subject to interest rate risk at June 30, 2010, are outlined in the accompanying chart.

Credit Risk is the possibility that a loss may occur due to the failure of a counterparty to perform according to the terms of the contract. State law limits the investment of certain nonendowed assets to short-term commercial paper, certificates of deposit, asset-backed securities, and debt obligations to the top rating issued by nationally recognized statistical rating organizations (NRSROs) and requires the investment be rated by at least two NRSROs. For longer-term certificates of deposit and corporate notes, the rating must be one of the top two ratings issued by two NRSROs. Investments subject to credit risk at June 30, 2010, are outlined in the accompanying chart.

Concentration of Credit Risk is the risk of a large loss attributed to the magnitude of investment in a single issuer of fixed-income securities. The University minimizes this risk by diversifying its investments. The University does not have investments exposed to concentration of credit risk as of June 30, 2010.

Foreign Currency Risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The University has no foreign investments or deposits as of June 30, 2010.

DEPOSITS

Deposits include bank account balances and are governed by the Virginia Security of Public Deposits Act. The Act includes a cross guarantee among approved financial institutions eligible to hold public funds. In the event of a default of one of the approved financial institutions, an assessment is levied against all participating institutions to cover the uncollateralized public deposits of the defaulting entity. This cross guarantee significantly diminishes custodial credit risk. Amounts on deposit covered by the Virginia Security of Public Deposits Act totaled $59 million at June 30, 2010. Such deposits are not subject to foreign currency risk. Details of the University's investment risks are outlined in the accompanying chart.

Credit Quality and Interest Rate Risk *(in thousands)*	FAIR VALUE	CREDIT RATING	INVESTMENT MATURITIES (IN YEARS)			
			LESS THAN 1 YEAR	1–5 YEARS	6–10 YEARS	GREATER THAN 10 YEARS
CASH EQUIVALENTS						
Short-term investment pool	$ 628	Unrated				
University of Virginia Investment Management Company Aggregate Cash Pool	177,037	Unrated				
State Non-Arbitrage Program	72,633	AAAm				
STIF Government Securities	1,397	P-1				
TOTAL CASH EQUIVALENTS	**$ 251,695**					
INVESTMENTS SUBJECT TO INTEREST RATE RISK						
Endowment investments:						
Debt securities						
Demand notes due from related foundation, noninterest bearing	$ 13,433	Unrated	$ 13,433			
Note receivable, 9%	130	Unrated				$ 130
Other investments						
Federal National Mortgage Association	7,007	Aaa	7,007			
TOTAL INVESTMENTS SUBJECT TO INTEREST RATE RISK	**$ 20,570**		**$ 20,440**	**$ —**	**$ —**	**$ 130**
	100.0%		99.4%	0.0%	0.0%	0.6%

INVESTMENTS

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

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

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

Biannual distributions are made from the University's endowment to departments holding endowment accounts. The University's endowment spending policy ties annual increases to inflation as defined by the Higher Education Price Index. 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 2010, the endowment distribution was adjusted to 5.5 percent of the fund's market value at June 30, 2009. For fiscal year 2010, for endowments invested in the LTP, the total distribution was $136.5 million and the market value of the LTP endowment at June 30, 2010, was $2.7 billion.

At June 30, 2010, the University's investment in the LTP was $3.5 billion, representing 86 percent of the University's invested assets. At June 30, 2010, the University's investment in the Aggregate Cash Pool was $177 million, representing 4 percent of invested assets. These pools are not rated by nationally recognized statistical rating organizations.

For the year ended June 30, 2010, 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	$ 163,969	$ 187,169	$ 5,501	$ 356,639
Contributions to permanent endowment	24,844	—	—	24,844
Other gifts	—	—	1,795	1,795
Spending distribution	(63,744)	(72,803)	—	(136,547)
Transfers in/(out) *	300	63,613	(2,899)	61,014
TOTAL CHANGE IN ENDOWMENT FUNDS	**$ 125,369**	**$ 177,979**	**$ 4,397**	**$ 307,745**

**Transfers in to 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, 2010, is summarized as follows:

Accounts Receivable *(in thousands)*	
Patient care	$ 342,922
Grants and contracts	39,358
Student payments	17,809
Pledges	14,621
Institutional loans	1,248
Equipment Trust Fund reimbursement	6,621
Auxiliary	4,003
Related foundation	1,967
Other	4,862
Less: Allowance for doubtful accounts	(228,880)
TOTAL	**$ 204,531**

b. Notes receivable: The composition of notes receivable at June 30, 2010, is summarized as follows:

Notes Receivable *(in thousands)*	
Perkins	$ 20,149
Nursing	1,362
Institutional	15,176
Fraternity loan	758
House Staff loan	15
Less: Allowance for doubtful accounts	(2,121)
Total notes receivable, net	**35,339**
Less: Current portion, net of allowance	(4,015)
TOTAL NONCURRENT NOTES RECEIVABLE	**$ 31,324**

c. Pledges: The composition of pledges receivable at June 30, 2010, is summarized as follows:

Pledges *(in thousands)*	
GIFT PLEDGES OUTSTANDING	
Operations	$ 8,023
Capital	18,425
TOTAL GIFT PLEDGES OUTSTANDING	**26,448**
Less:	
Allowance for uncollectible pledges	(2,034)
Unamortized discount to present value	(2,180)
Total pledges receivable, net	**22,234**
Less: Current portion, net of allowance	(13,463)
TOTAL NONCURRENT PLEDGES RECEIVABLE	**$ 8,771**

d. Capital assets: The capital assets activity for the year ended June 30, 2010, is summarized as follows:

Investment in Plant— Capital Assets *(in thousands)*	BEGINNING BALANCE JULY 1, 2009	ADDITIONS	DISPOSITIONS	ADJUSTMENTS	ENDING BALANCE JUNE 30, 2010
NONDEPRECIABLE CAPITAL ASSETS					
Land	$ 37,972	$ 3,230	$ —	$ (315)	$ 40,887
Construction in process	296,055	330,398	—	(222,244)	404,209
Software in development	13,455	1,525	—	(14,835)	145
TOTAL NONDEPRECIABLE CAPITAL ASSETS	**347,482**	**335,153**	**—**	**(237,394)**	**445,241**
DEPRECIABLE CAPITAL ASSETS					
Buildings	2,202,610	10,773	113	147,302	2,360,572
Equipment	616,418	51,895	22,614	7,776	653,475
Infrastructure	325,335	—	—	30,594	355,929
Improvements other than buildings	139,384	5	—	683	140,072
Capitalized software	41,269	1,520	498	14,835	57,126
Library books	108,497	3,735	434	—	111,798
Total depreciable capital assets	**3,433,513**	**67,928**	**23,659**	**201,190**	**3,678,972**
Less accumulated depreciation for:					
Buildings	(760,361)	(72,795)	(110)	4,728	(828,318)
Equipment	(402,133)	(56,197)	(22,215)	26	(436,089)
Infrastructure	(122,158)	(6,307)	—	(4,713)	(133,178)
Improvements other than buildings	(78,968)	(6,140)	—	(4)	(85,112)
Capitalized software	(26,979)	(3,783)	(498)	—	(30,264)
Library books	(84,764)	(4,116)	(435)	—	(88,445)
Total accumulated depreciation	**(1,475,363)**	**(149,338)**	**(23,258)**	**37**	**(1,601,406)**
TOTAL DEPRECIABLE CAPITAL ASSETS, NET	**1,958,150**	**(81,410)**	**401**	**201,227**	**2,077,566**
TOTAL	**$ 2,305,632**	**$ 253,743**	**$ 401**	**$ (36,167)**	**$ 2,522,807**

e. Goodwill: In May 2000, the Medical Center acquired from Augusta Health Care, Inc., the kidney dialysis assets in a transaction accounted for as a purchase. An additional $800,000 was recorded as goodwill for a noncompetition agreement and was amortized over its ten-year life, which ended in April 2010.

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

f. Accounts payable and accrued liabilities: The composition of accounts payable at June 30, 2010, is summarized as follows:

Accounts Payable and Accrued Liabilities *(in thousands)*	
Accounts payable	$ 86,062
Accrued salaries and wages payable	53,847
Other payables	49,425
TOTAL	**$ 189,334**

g. Deferred revenue: The composition of deferred revenue at June 30, 2010, is summarized as follows:

Deferred Revenue *(in thousands)*	
Grants and contracts	$ 49,988
Student payments	27,892
Medical Center unearned revenues	16,897
Other deferred revenues	(634)
TOTAL	**$ 94,143**

NOTE 4: SHORT-TERM DEBT

Short-term debt at June 30, 2010, is summarized as follows:

Short-Term Debt *(in thousands)*	BEGINNING BALANCE JULY 1, 2009	ADDITIONS	REDUCTIONS	ENDING BALANCE JUNE 30, 2010
Commercial paper, tax-exempt	$ 56,415	$ 19,112	$ 4,827	$ 70,700
TOTAL COMMERCIAL PAPER	**$ 56,415**	**$ 19,112**	**$ 4,827**	**$ 70,700**

The University has a combined taxable and tax-exempt commercial paper program that provides for bridge financing for capital projects up to a board-approved limit. The University Board of Visitors approved the current commercial paper program limit of $300,000,000 in April 2008. In fiscal year 2010, interest rates on commercial paper ranged from 0.1 to 0.4 percent.

NOTE 5: LONG-TERM OBLIGATIONS

a. Long-term debt: The composition of long-term debt at June 30, 2010, is summarized as follows:

Long-Term Debt *(in thousands)*	INTEREST RATES	FINAL MATURITY	BEGINNING BALANCE JULY 1, 2009	ADDITIONS	REDUCTIONS	ENDING BALANCE JUNE 30, 2010
BONDS AND NOTES PAYABLE						
Revenue bonds						
University of Virginia Series 2003A (9d)	0.14% to 0.24%	2034	$ 82,010	$ —	$ —	$ 82,010
University of Virginia Series 2003B (9d)	4.0% to 5.0%	2033	108,450	—	2,480	105,970
University of Virginia Series 2005 (9d)	4.0% to 5.0%	2037	182,795	—	2,815	179,980
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
Commonwealth of Virginia bonds (9c)	3.8% to 9.3%	2021	20,845	368	4,543	16,670
Notes payable to VCBA 1999A (9d)	3.5% to 6.0%	2020	1,490	—	1,490	—
Notes payable to VCBA 2000A (9d)	3.5% to 5.8%	2021	10,375	—	2,095	8,280
Notes payable to VCBA 2004B (9d)	3.0% to 5.0%	2020	36,990	—	340	36,650
Notes payable to VCBA 2007B (9d)	4.0% to 4.25%	2020	10,755	—	25	10,730
Other	various	2009	221	515	134	602
TOTAL BONDS AND NOTES PAYABLE			**$ 935,296**	**$ 883**	**$ 13,922**	**$ 922,257**
Less current portion of debt			(13,512)	85	—	(13,427)
Bond premium			22,874	—	1,025	21,849
Deferred loss on early retirement of debt			(4,299)	—	(397)	(3,902)
NET LONG-TERM DEBT			**$ 940,359**	**$ 968**	**$ 14,550**	**$ 926,777**

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

During the fiscal year ended June 30, 2010, the Commonwealth of Virginia, on behalf of the University of Virginia, issued bonds of $368,203 to refund $350,000 of series 2001A bonds. The refunding reduced the aggregate debt service paid by the University on this series by $16,755, representing a net present value savings of $16,131, and an accounting loss of $18,203. The proceeds of the bonds have been deposited in an irrevocable escrow account and will be used to pay all future debt service payments on the bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the University's financial statements. At June 30, 2010, $350,000 of the defeased bonds was outstanding.

The University of Virginia has a revolving credit agreement with a maximum principal amount of $82,010,000 to provide liquidity for its General Revenue Pledge Bonds, and another revolving credit agreement with a maximum principal amount of $167,990,000 to provide liquidity for all other variable-rate obligations of the University. There were no advances outstanding under either credit agreement as of June 30, 2010.

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
2011	$ 13,427	$ 39,201
2012	12,963	39,231
2013	13,485	37,881
2014	12,955	37,236
2015	13,560	36,586
2016–2020	69,284	172,807
2021–2025	41,313	159,522
2026–2030	28,905	151,712
2031–2035	145,235	143,861
2036–2040	571,130	98,744
TOTAL	**$ 922,257**	**$ 916,781**

PRIOR YEAR REFUNDINGS

In previous fiscal years, bonds and notes were issued to refund a portion of previously outstanding bonds and notes payable. Funds relating to the refundings were deposited into irrevocable trusts with escrow agents to provide for future debt service on the refunded bonds. The trust account assets and liabilities for the defeased bonds are not included in the University's financial statements. At June 30, 2010, the outstanding balance of the prior years' in-substance defeased bonds and notes totaled $46,953,000.

b. Long-term liabilities: The composition of long-term liabilities at June 30, 2010, is summarized as follows:

Long-Term Liabilities *(in thousands)*	**BEGINNING BALANCE JULY 1, 2009**	**ADDITIONS**	**REDUCTIONS**	**ENDING BALANCE JUNE 30, 2010**
Investments held for related entities	$ 12,699	$ 1,419	$ 1,394	$ 12,724
Accrual for compensated absences	52,974	63,175	59,904	56,245
Perkins loan program	15,962	392	—	16,354
Investment in Culpeper Regional Hospital	37,697	9,767	9,772	37,692
Other postemployment benefits	7,633	6,479	—	14,112
Accrual for overtime labor claims	—	10,102	—	10,102
Accrual for GE lawsuit contingency	—	17,900	—	17,900
Other	24,337	19,818	22,179	21,976
Subtotal	**151,302**	**129,052**	**93,249**	**187,105**
Less current portion of long-term liabilities	(71,579)	(18,239)	—	(89,818)
NET LONG-TERM LIABILITIES	**$ 79,723**	**$ 110,813**	**$ 93,249**	**$ 97,287**

NOTE 6: DERIVATIVES

The University implemented GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, for the fiscal year ended June 30, 2010. At June 30, 2010, the University had two fixed-payer interest rate swaps totaling $100 million in notional amount. The swaps are used as cash flow hedges by the University in order to provide a hedge against changes in interest rates on a similar amount of the University's variable-rate debt. The University's objective is to hedge the cash flow variability of a portion of its variable-rate debt. The underlying index for the swaps is the Securities Industry and Financial Markets Municipal Swap Index (SIFMA). The swaps were entered into in January 2007 and February 2007 and both swaps mature June 1, 2038. The swaps were entered into at a zero market value and no payments were made or received when they were initiated.

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, 2010, the $100 million notional amount of swaps outstanding had a negative market value, net of any posted collateral and netting agreements, of approximately $13.5 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 $6.5 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, 2010, the University had no credit risk related to its swaps. As of June 30, 2010, the University's swap counterparties were rated A by Standard & Poor's and A2 by Moody's Investors Service. To mitigate credit risk, the University limits market value exposure and requires the posting of collateral based on the credit rating of the counterparty. All counterparties are required to have at least an A-/A3 rating by Standard & Poor's and Moody's, respectively. As of June 30, 2010, no collateral was required to be posted by the counterparties.

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

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

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

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

NOTE 7: AFFILIATED COMPANIES

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

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

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

Community Medicine commenced operations on July 1, 2001, and as of June 30, 2010, the Medical Center's investment totaled $1,810,000.

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

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

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

VALIANCE HEALTH, L.L.C. • In November 1997, the Medical Center became a participant with Rockingham Memorial Hospital and Augusta Health Care, Inc., in Valiance Health, L.L.C. (Valiance), a joint venture integrating and coordinating the delivery of health care services in central and western Virginia. The Medical Center contributed $100,000 in initial capital, which entitles it to a pro-rata distribution of any profits and losses of Valiance. As of June 30, 2010, the Medical Center's investment totaled $500,000.

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

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

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

As of June 30, 2010 *(in thousands)*	COMMON STOCK AND EQUITY CONTRIBUTIONS	SHARE OF ACCUMULATED INCOME (LOSS)	NET INVESTMENT
UVA Imaging, L.L.C.	$ 687	$ 2,066	$ 2,753
Community Medicine, L.L.C.	1,810	(4,253)	(2,443)
Central Virginia Health Network, Inc.	232	(41)	191
HEALTHSOUTH, L.L.C.	27	8,040	8,067
Valiance, L.L.C.	—	1,276	1,276
University HealthSystem Consortium	—	647	647
Culpeper Regional Hospital	41,248	1,590	42,838

HEALTHCARE PARTNERS, INC. • In May 1995, HealthCare Partners, Inc. (HealthCare Partners), a nonstock, nonprofit corporation, was established to support networking, external business relationships with neighboring hospitals and physicians groups, and expansion of primary care activities. The Medical Center and the Health Services Foundation are the primary contributors to the funding of the corporation. The corporation is governed by a board of directors composed of Health System staff, community members, and University Board of Visitors appointees.

NOTE 8: COMPONENT UNITS

Summary financial statements and additional disclosures are presented below.

Statement of Financial Position *(in thousands)* *as of June 30, 2010*	UNIVERSITY OF VIRGINIA LAW SCHOOL FOUNDATION	UNIVERSITY OF VIRGINIA DARDEN SCHOOL FOUNDATION	ALUMNI ASSOCIATION OF THE UNIVERSITY OF VIRGINIA	VIRGINIA ATHLETICS FOUNDATION*	UNIVERSITY OF VIRGINIA FOUNDATION	UNIVERSITY OF VIRGINIA HEALTH SERVICES FOUNDATION	UNIVERSITY OF VIRGINIA INVESTMENT MANAGEMENT COMPANY	COMPONENT UNITS SUBTOTAL	ELIMINATIONS	COMPONENT UNITS TOTAL
ASSETS										
Current assets										
Total current assets	**$ 25,050**	**$ 27,712**	**$ 64,310**	**$ 37,594**	**$ 12,570**	**$ 77,470**	**$ 376,437**	**$ 621,143**	**$ —**	**$ 621,143**
Noncurrent assets										
Long-term investments	253,642	181,139	292,330	54,385	60,925	138,462	4,191,940	5,172,823	(794,658)	4,378,165
Capital assets, net, and other assets	12,730	91,834	41,827	26,360	228,826	44,406	827	446,810	—	446,810
Total noncurrent assets	**266,372**	**272,973**	**334,157**	**80,745**	**289,751**	**182,868**	**4,192,767**	**5,619,633**	**(794,658)**	**4,824,975**
TOTAL ASSETS	**$ 291,422**	**$ 300,685**	**$ 398,467**	**$ 118,339**	**$ 302,321**	**$ 260,338**	**$4,569,204**	**$6,240,776**	**$ (794,658)**	**$ 5,446,118**
LIABILITIES AND NET ASSETS										
Current liabilities										
Total current liabilities	**$ 294**	**$ 9,816**	**$ 68,701**	**$ 2,129**	**$ 73,854**	**$ 105,284**	**$ 1,459**	**$ 261,537**	**$ —**	**$ 261,537**
Noncurrent liabilities										
Long-term debt, net of current portion of $9,537	—	45,729	18,000	—	99,457	37,215	—	200,401	—	200,401
Other noncurrent liabilities	642	—	22,955	644	55,797	77,939	4,559,911	4,717,888	(794,658)	3,923,230
Total noncurrent liabilities	**642**	**45,729**	**40,955**	**644**	**155,254**	**115,154**	**4,559,911**	**4,918,289**	**(794,658)**	**4,123,631**
TOTAL LIABILITIES	**$ 936**	**$ 55,545**	**$ 109,656**	**$ 2,773**	**$ 229,108**	**$ 220,438**	**$4,561,370**	**$ 5,179,826**	**$ (794,658)**	**$4,385,168**
NET ASSETS										
Unrestricted	$ 45,632	$ 73,390	$ 38,987	$ 31,594	$ 2,350	$ 37,179	$ 7,834	$ 236,966	$ —	$ 236,966
Temporarily restricted	135,141	63,761	96,000	59,025	56,087	2,721	—	412,735	—	412,735
Permanently restricted	109,713	107,989	153,824	24,947	14,776	—	—	411,249	—	411,249
TOTAL NET ASSETS	**290,486**	**245,140**	**288,811**	**115,566**	**73,213**	**39,900**	**7,834**	**1,060,950**	**—**	**1,060,950**
TOTAL LIABILITIES AND NET ASSETS	**$ 291,422**	**$ 300,685**	**$ 398,467**	**$ 118,339**	**$ 302,321**	**$ 260,338**	**$4,569,204**	**$6,240,776**	**$ (794,658)**	**$ 5,446,118**

**December 31, 2009, 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 **Health Services Foundation** does not accept gifts. Unconditional promises to give at June 30, 2010, are as follows:

Summary Schedule of Pledges Receivable *(in thousands)* *as of June 30, 2010*	UNIVERSITY OF VIRGINIA LAW SCHOOL FOUNDATION	UNIVERSITY OF VIRGINIA DARDEN SCHOOL FOUNDATION	ALUMNI ASSOCIATION OF THE UNIVERSITY OF VIRGINIA	VIRGINIA ATHLETICS FOUNDATION*	UNIVERSITY OF VIRGINIA FOUNDATION	UNIVERSITY OF VIRGINIA HEALTH SERVICES FOUNDATION	UNIVERSITY OF VIRGINIA INVESTMENT MANAGEMENT COMPANY	COMPONENT UNITS TOTAL
Total pledges receivable	**$ 10,979**	**$ 21,914**	**$ 17,130**	**$ 64,903**	**$ —**	**$ —**	**$ —**	**$ 114,926**
Less allowance for uncollectible accounts	(644)	(1,353)	(1,329)	(5,812)	—	—	—	(9,138)
Less effect of discounting to present value	(301)	(2,565)	(1,823)	(1,715)	—	—	—	(6,404)
Net pledges receivable	**10,034**	**17,996**	**13,978**	**57,376**	**—**	**—**	**—**	**99,384**
Less current pledges	(5,280)	(5,042)	(3,706)	(32,271)	—	—	—	(46,299)
TOTAL NONCURRENT PLEDGES RECEIVABLE	**$ 4,754**	**$ 12,954**	**$ 10,272**	**$ 25,105**	**$ —**	**$ —**	**$ —**	**$ 53,085**

**December 31, 2009, year-end*

The **University of Virginia Law School Foundation** has received bequest intentions and certain other conditional promises to give of approximately $18 million at June 30, 2010. 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, 2010, for the component units are as follows:

Summary Schedule of Investments *(in thousands)* *as of June 30, 2010*	UNIVERSITY OF VIRGINIA LAW SCHOOL FOUNDATION	UNIVERSITY OF VIRGINIA DARDEN SCHOOL FOUNDATION	ALUMNI ASSOCIATION OF THE UNIVERSITY OF VIRGINIA	VIRGINIA ATHLETICS FOUNDATION*	UNIVERSITY OF VIRGINIA FOUNDATION	UNIVERSITY OF VIRGINIA HEALTH SERVICES FOUNDATION	UNIVERSITY OF VIRGINIA INVESTMENT MANAGEMENT COMPANY	COMPONENT UNITS TOTAL
Private placements and limited partnerships	$ 3,070	$ —	$ 12,881	$ 171	$ 8,790	$ 5,628	$ 1,622,913	$ 1,653,453
University of Virginia Investment Management Co.	179,546	176,867	295,579	53,853	52,135	36,680	—	794,660
Equities	40	4,273	8,599	50	—	30,134	438,873	481,969
Other	90,607	812	—	704	5,343	71,674	2,502,852	2,671,992
Total investments	**$ 273,263**	**$ 181,952**	**$ 317,059**	**$ 54,778**	**$ 66,268**	**$ 144,116**	**$4,564,638**	**$5,602,074**
Less amounts shown in current assets	(19,621)	(812)	(24,729)	(393)	(5,343)	(5,655)	(372,698)	(429,251)
Less eliminations	(179,546)	(176,867)	(295,579)	(53,852)	(52,135)	(36,679)	—	(794,658)
LONG-TERM INVESTMENTS	**$ 74,096**	**$ 4,273**	**$ (3,249)**	**$ 533**	**$ 8,790**	**$ 101,782**	**$4,191,940**	**$4,378,165**

**December 31, 2009, 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 $1,822,684,789 (40 percent of investments held for others) at June 30, 2010. 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, 2010, capital assets consisted of (in thousands):

Property, Furnishings, and Equipment *(in thousands)* *as of June 30, 2010*	UNIVERSITY OF VIRGINIA FOUNDATION	UNIVERSITY OF VIRGINIA DARDEN SCHOOL FOUNDATION
Land	$ 74,793	$ —
Buildings and improvements	199,400	103,834
Furnishings and equipment	21,793	1,372
Total	**295,986**	**105,206**
Less accumulated depreciation	(72,987)	(29,704)
NET CAPITAL ASSETS	**$ 222,999**	**$ 75,502**

NOTES PAYABLE

The **University of Virginia Foundation** has established a line of credit with Wachovia Bank in the amount of $34 million. The outstanding balance at June 30, 2010, was $14 million. The Foundation has a second line of credit with Bank of America in the amount of $40 million. The outstanding balance on this line was $20 million at June 30, 2010. In addition, the Foundation established a line of credit with U.S. Bank National Association in the amount of $25 million on March 8, 2010. The outstanding balance at June 30, 2010, 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, 2010, the Foundation had borrowed $13 million of these funds to acquire properties on behalf of the University. These notes payable are noninterest bearing and due on demand.

LONG-TERM DEBT

The following table summarizes the long-term obligations of the **University of Virginia Darden School Foundation**, the **University of Virginia Foundation**, and the **University of Virginia Health Services Foundation** at June 30, 2010 (in thousands):

Long-Term Debt *(in thousands)* *as of June 30, 2010*	UNIVERSITY OF VIRGINIA DARDEN SCHOOL FOUNDATION	UNIVERSITY OF VIRGINIA FOUNDATION	UNIVERSITY OF VIRGINIA HEALTH SERVICES FOUNDATION
University of Virginia Phase I and II Darden School Facilities	$ 49,347	$ —	$ —
1997 Industrial Development Authority revenue bonds - Louisa	—	4,698	—
1998 Refunding bonds	—	—	13,090
1999 Mortgage note payable	—	6,225	—
2000 Industrial Development Authority revenue bonds - Louisa	—	—	4,460
2001 Refinancing demand bonds	—	39,615	—
2004 Refinancing note payable	—	9,744	—
2006 Refinancing demand bonds	—	41,660	—
2009 Economic Development Authority revenue bonds - Albemarle	—	—	23,100
Total	**49,347**	**101,942**	**40,650**
Less portion due within one year	(3,618)	(2,484)	(3,435)
LONG-TERM DEBT, NET OF CURRENT PORTION	**$ 45,729**	**$ 99,458**	**$ 37,215**

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

Maturities *(in thousands)* *as of June 30, 2010*	UNIVERSITY OF VIRGINIA DARDEN SCHOOL FOUNDATION	UNIVERSITY OF VIRGINIA FOUNDATION	UNIVERSITY OF VIRGINIA HEALTH SERVICES FOUNDATION
Year ended June 30, 2011	$ 3,617	$ 2,484	$ 3,435
Year ended June 30, 2012	3,822	3,695	1,315
Year ended June 30, 2013	4,032	12,949	1,375
Year ended June 30, 2014	4,242	7,733	1,440
Year ended June 30, 2015	4,460	3,292	1,515
Years ended June 30, 2016–2034	29,174	71,789	31,570
TOTAL	**$ 49,347**	**$ 101,942**	**$ 40,650**

Statement of Activities *(in thousands)* *for the year ended June 30, 2010*	UNIVERSITY OF VIRGINIA LAW SCHOOL FOUNDATION	UNIVERSITY OF VIRGINIA DARDEN SCHOOL FOUNDATION	ALUMNI ASSOCIATION OF THE UNIVERSITY OF VIRGINIA	VIRGINIA ATHLETICS FOUNDATION*	UNIVERSITY OF VIRGINIA FOUNDATION	UNIVERSITY OF VIRGINIA HEALTH SERVICES FOUNDATION	UNIVERSITY OF VIRGINIA INVESTMENT MANAGEMENT COMPANY	COMPONENT UNITS TOTAL
UNRESTRICTED REVENUES AND SUPPORT								
Contributions	$ 3,306	$ 3,081	$ 664	$ 13,999	$ —	$ —	$ —	$ 21,050
Fees for services, rentals, and sales	—	24,897	2,308	712	40,731	209,610	12,421	290,679
Other revenues	29,020	17,301	51,034	16,511	2,325	95,387	1,341	212,919
TOTAL UNRESTRICTED REVENUES AND SUPPORT	**32,326**	**45,279**	**54,006**	**31,222**	**43,056**	**304,997**	**13,762**	**524,648**
EXPENSES								
Program services, lectures, and special events	13,576	40,851	45,230	11,747	—	251,566	7,986	370,956
Other expenses	4,226	4,007	4,655	23,551	44,261	44,549	4,025	129,274
TOTAL EXPENSES	**17,802**	**44,858**	**49,885**	**35,298**	**44,261**	**296,115**	**12,011**	**500,230**
EXCESS (DEFICIENCY) OF UNRESTRICTED REVENUES AND SUPPORT OVER EXPENSES	**14,524**	**421**	**4,121**	**(4,076)**	**(1,205)**	**8,882**	**1,751**	**24,418**
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS								
Contributions	6,114	5,619	22,749	$ 27,333	—	200	—	62,015
Other	5,324	8,035	(8,660)	(7,941)	2,995	(3,135)	—	(3,382)
NET CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	**11,438**	**13,654**	**14,089**	**19,392**	**2,995**	**(2,935)**	**—**	**58,633**
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS								
Contributions	7,006	636	6,821	715	—	—	—	15,178
Other	1,110	—	456	156	(2,125)	—	—	(403)
NET CHANGE IN PERMANENTLY RESTRICTED NET ASSETS	**8,116**	**636**	**7,277**	**871**	**(2,125)**	**—**	**—**	**14,775**
CHANGE IN NET ASSETS	**34,078**	**14,711**	**25,487**	**16,187**	**(335)**	**5,947**	**1,751**	**97,826**
Net assets, beginning of year	256,408	230,429	263,324	99,306	73,548	33,953	6,083	963,051
Cumulative effect of FMV option	—	—	—	73	—	—	—	73
NET ASSETS, END OF YEAR	**$ 290,486**	**$ 245,140**	**$ 288,811**	**$ 115,566**	**$ 73,213**	**$ 39,900**	**$ 7,834**	**$1,060,950**

**December 31, 2009, 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, 2010, totaled $1 million. This amount includes gift transfers, payment for facilities and services, and other support for University activities.

The **University of Virginia Health Services Foundation** has contracted with the University to provide certain professional and technical services. Payments received for these services were approximately $53 million for the year ended June 30, 2010. Approximately $16 million of the fiscal year payments received relates to disproportionate share funds paid for indigent patients served by the Foundation. The **University of Virginia Health Services Foundation** contributed $16 million to the University in support of various academic programs, equipment, teaching, and research for the year ended June 30, 2010.

NOTE 9: EXPENSE CLASSIFICATION MATRIX

Operating Expenses by Functional Classification *(in thousands)* *for the year ended June 30, 2010*	COMPENSATION AND BENEFITS	SUPPLIES, UTILITIES, AND OTHER SERVICES	STUDENT AID	DEPRECIATION	OTHER	TOTAL
Instruction	$ 281,947	$ 27,477	$ 4,799	$ —	$ 841	$ 315,064
Research	171,421	99,603	17,118	—	464	288,606
Public service	14,885	12,680	397	—	498	28,460
Academic support	86,446	28,628	584	—	293	115,951
Student services	24,868	8,687	126	—	125	33,806
Institutional support	79,730	18,039	17	—	578	98,364
Operation of plant	68,792	1,506	1	—	129	70,428
Student aid	617	4,537	31,982	—	120	37,256
Auxiliary	64,613	69,656	34	—	509	134,812
Depreciation	—	—	—	95,280	—	95,280
Patient services	425,790	441,187	—	54,052	30,948	951,977
Other	2,030	320	—	—	2	2,352
Central services recoveries	—	(16,598)	—	—	—	(16,598)
TOTAL	**$ 1,221,139**	**$ 695,722**	**$ 55,058**	**$ 149,332**	**$ 34,507**	**$ 2,155,758**

NOTE 10: APPROPRIATIONS

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

A summary of state appropriations received by the University and the University's College at Wise, including all supplemental appropriations and reversions for the year ended June 30, 2010, is provided in the chart below.

Appropriations *(in thousands)*	
Original legislative appropriation per Chapter 872	$ 164,127
Adjustments	
Financial Aid—General Fund	11,278
2010 Budget Reduction	(32,998)
Eminent Scholars	1,597
SWVA Public Education Consortium	207
Allotment for Engineering Telecommunications Project	775
Financial Assistance for educational and general	3,105
Employee benefits	(1,482)
Miscellaneous educational and general	5,506
TOTAL	**$ 152,115**

During fiscal year 2010, the University remitted several amounts to the Commonwealth totaling $57.1 million. The University participated in a cash-for-debt swap with the Commonwealth in which the University transferred funds to the Commonwealth in exchange for Commonwealth debt proceeds totaling $48.9 million. Those proceeds were received by the University as capital appropriations revenue. The University also transferred funds for the Virginia Sickness and Disability Program, the Virginia Retirement System, State Furlough Day, eVA rate reduction, motor pool cost savings, Virginia Information Technology Agency savings, health care credits, and life insurance totaling $8.2 million.

NOTE 11: RETIREMENT PLANS

Employees of the University are employees of the Commonwealth. Substantially all (96 percent) of salaried classified and University staff employees, 11 percent of faculty, and 20 percent of Medical Center employees participate in a defined-benefit pension plan administered by the Virginia Retirement System (VRS). 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, 2010. The Commonwealth, not the University, has overall responsibility for contributions to this plan.

Eighty-nine percent of teaching, research, and administrative faculty, 4 percent of University staff, and 80 percent of Medical Center employees participate in Optional Retirement Plans. The Optional Retirement Plan is a defined-contribution plan to which the University contributes an amount established by statute. Participants are fully vested immediately. The Medical Center Retirement Plan is a defined-contribution plan to which the University contributes an amount determined by the Board of Visitors. Medical Center employees are fully vested after one or two years of employment, depending on their date of hire.

Total pension costs under the Optional Retirement Plans were approximately $46.5 million, and contributions were calculated using base salaries of $539.6 million, for the year ended June 30, 2010. The contribution percentage amounted to 8.6 percent.

State employees may elect to participate in the Commonwealth's Deferred Compensation Plan. Participating employees can contribute to the plan each pay period, with the Commonwealth matching up to $20 per pay period. This dollar amount match can change depending on the funding available in the Commonwealth's budget. The Deferred Compensation Plan is a qualified defined-contribution plan under section 457 of the Internal Revenue Code. The employer matching portion falls under section 401(a) of the Internal Revenue Code. Contributions under the Deferred Compensation Plan were approximately $8.6 million in employee contributions and $4.2 million in employer contributions for the fiscal year ended June 30, 2010.

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.

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, calls for the measurement and recognition of the cost of other postemployment benefits (OPEB) during the periods when employees render their services. The statement also establishes more comprehensive disclosure for OPEB obligations. OPEB refers to postemployment benefits other than pension benefits and includes postemployment health care benefits and other types of postemployment benefits if provided separately from a pension plan. The University implemented GASB 45 prospectively as of June 30, 2008, with a zero net OPEB obligation at transition.

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

The contribution requirements of plan members and the University are based on projected pay-as-you-go financing requirements. For fiscal year 2010, the University contributed $3,159,621 to the plan for retiree claims. Retirees receiving benefits contributed $3,414,119, or approximately 52 percent, of the total premiums through their required contribution of $454 per month for retiree-only coverage and $923 per month for retiree-and-spouse coverage.

The University's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The total cost of providing postemployment benefits is projected, taking into account assumptions about demographics, turnover, mortality, disability, retirement, health care trends, and other actuarial assumptions. This amount is discounted to determine the actuarial present value of total projected benefits. The actuarial accrued liability (AAL) is the portion of the present value of the total projected benefits allocated to years of employment prior to the measurement date. The unfunded actuarial accrued liability (UAAL) is the difference between the AAL and actuarial value of assets in the plan.

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

Summary of Valuation Results *(in thousands)*	
Actuarial accrued liability by category	
Current retirees, beneficiaries, dependents, and terminated vested members	$ 9,175
Current active members	38,120
Adjust to June 30, 2010	30,665
Total actuarial accrued liability as of June 30, 2010	**77,960**
Annual required contribution (ARC)	
ARC for June 30, 2009	9,780
Interest on net OPEB obligation	344
ARC adjustment to June 30, 2010	(485)
Actual contributions	(3,160)
Net increase in ARC for June 30, 2010	**6,479**
Actual ARC July 1, 2009	7,633
Total annual required contribution as of June 30, 2010	**$ 14,112**

As of June 30, 2010, 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, 2010, 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 85 percent initially, reduced by decrements to an ultimate rate of 5 percent after seven years and a drug cost trend rate of 8 percent, reduced by decrements to an ultimate rate of 5 percent after six years. All rates include a 4 percent inflation assumption. The UAAL is being amortized as a level percentage of projected payrolls on an open basis over a rolling thirty-year period.

NOTE 13: SELF-INSURANCE

All University employees have the option to participate in the University's self-funded, comprehensive medical care benefits program. The cost of medical care is paid out of employee and employer contributions. The market value of investments at June 30, 2010, was $44 million. The estimated liability for outstanding claims at June 30, 2010, was $13 million. The University has contracted with several third-party claims administrators: Southern Health Services, Inc., for its medical claims; United Concordia for its dental claims; and CVS/Caremark 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, boiler and machinery, crime, employee bond (employee dishonesty), general (tort) liability, professional liability (includes medical malpractice), aviation and watercraft coverage, and automobile liability. The University is self-insured for the first $100,000 of each property and boiler and machinery loss, and for physical damage on all vehicles valued up to $20,000. The University also maintains excess crime/employee dishonesty insurance and insurance for physical damage on vehicles valued in excess of $20,000. Separate insurance coverage is maintained as appropriate on subsidiary organizations owned by the Health System, such as Community Medicine University of Virginia, L.L.C.

NOTE 14: FUNDS HELD IN TRUST BY OTHERS

Assets of funds held by trustees for the benefit of the University are not reflected in the accompanying Statement of Net Assets. The University has irrevocable rights to all or a portion of the income of these funds, but the assets of the funds are not under the management of the University. The market value of the funds held by trustees for the benefit of the University at June 30, 2010, was $112 million and income received totaled $5.5 million.

NOTE 15: COMMITMENTS

As of June 30, 2010, the University had outstanding construction contracts commitments of approximately $221 million.

The University has entered into numerous agreements to rent, lease, and maintain land, buildings, and equipment. With some of these agreements, the University is committed under various operating leases for equipment and space. 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. The total expense for the year ended June 30, 2010, was approximately $28 million.

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**
2011	$ 13,739
2012	9,642
2013	6,579
2014	5,481
2015	4,720
2016–2020	10,961
2021–2025	2,781
2026–2030	823
2031–2035	823
2036–2040	823
2041–2045	823
2046–2050	659
TOTAL	**$ 57,854**

LITIGATION

The University is a defendant in a number of legal actions. While the final outcome cannot be determined at this time, management is of the opinion that the liability, if any, for these legal actions will not have a material effect on the University's financial position.

NOTE 16: SUBSEQUENT EVENTS

On July 28, 2010, the University of Virginia issued $190,000,000 par amount of Taxable General Revenue Pledge Bonds, Series 2010. The Series 2010 Bonds were issued to refund $19,701,500 of the University's outstanding commercial paper and fund new construction on the Grounds of the University. The Series 2010 Bonds were issued as Build America Bonds for purposes of the American Recovery and Reinvestment Act of 2009 with a coupon rate of 5.00 percent. The University will receive a 35 percent interest subsidy payment from the U.S. Treasury on the amount of each interest payment made on the Series 2010 Bonds, resulting in an effective yield to the University of 3.2 percent.

Management's Discussion and Analysis

(Unaudited)

INTRODUCTION

This discussion and analysis provides an overview of the financial position and results of activities of the University of Virginia for the year ended June 30, 2010. Comparative information for the year ended June 30, 2009, has been provided where applicable. This overview 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 20,895 students and 2,159 full-time instructional and research faculty members in eleven separate schools in 2009–10, the University offers a diverse range of degree programs, 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 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 570-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.

College at Wise

Located in southwestern Virginia, the College at Wise is a public liberal arts college with 1,986 students and 90 full-time instructional and research faculty. It offers thirty majors and six 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, 2010:

- The University received a 15.1 percent return on its endowment during 2009–10. Overall, the endowment assets increased by $308 million. The University made a 5.5 percent spending distribution to its departments, totaling $136.5 million.
- Through June 30, 2010, the University had been awarded $67 million of funding from federal stimulus (ARRA) grants. Of that total, $58.7 million was awarded during fiscal year 2009–10. $21.8 million of those awards was expended in 2009–10.
- In addition to ARRA grants, the University received $6.7 million in federal stimulus funding that came from the Commonwealth of Virginia, as part of the State Fiscal Stabilization Funds program. That funding was used to offset reductions in state appropriations.
- In June 2010, the University transferred $57.1 million of operational funds to the Commonwealth. Out of that total, $49 million was given in exchange for proceeds of Commonwealth of Virginia debt, and are included as part of capital appropriations revenue. The remainder included remittances to the Commonwealth for suspended VRS payments, and the University's expense for a state furlough day, imposed by the Commonwealth.
- During fiscal year 2009–10, the University surpassed the $2 billion mark of its $3 billion campaign. As of June 30, 2010, the campaign total stood at $2.18 billion.
- As of July 1, 2009, the University's F&A (Facilities and Administrative) rate increased from 51.5 percent to 54.0 percent. The rate increase results from an earlier negotiated agreement with the federal government. That agreement is in effect for fiscal years 2009–10 and 2010–11, after which a new agreement will be negotiated.

The University's net assets increased by $555 million, or 11.6 percent. Some of the contributing factors to this increase are outlined in the summary table below.

Summary of the Change in Net Assets *(in thousands)*	**2010**	**2009**	**INCREASE**	
			AMOUNT	**PERCENT**
Total revenues before investment income	$ 2,343,221	$ 2,229,683	$ 113,538	5.1%
Total expenses	2,255,228	2,214,805	40,423	1.8%
Increase in net assets before investment income	87,993	14,878	73,115	491.4%
Investment income	467,024	(850,753)	1,317,777	154.9%
TOTAL CHANGE IN NET ASSETS	**$ 555,017**	**$ (835,875)**	**$ 1,390,892**	**166.4%**

- When net assets change significantly in a given year, either up or down, the predominant factor is the change in market value of investments. That is the case this year, as investment income was a positive $467 million, compared to the unusually high negative investment income of $851 million in fiscal year 2008–09. The University's long-term investments earned a 15 percent positive return for the fiscal year, compared to the abnormally high 21 percent loss in fiscal year 2008–09.
- Revenues before investment income and total expenses increased by a 5.1 and a modest 1.8 percent, respectively.

Overall, the primary factor in the University's net asset growth or decline continues to be the performance of the endowment and its resultant investment income.

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 the University's foundations identified under guidance from GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, 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 and liabilities of the University. The difference between total assets and total liabilities—net assets—is one indicator of the current financial condition of the University, while the change in net assets is an indicator of whether the overall financial condition has improved or worsened during the year. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation. A summary of the University's assets, liabilities, and net assets at June 30, 2010, and June 30, 2009 (restated), follows.

Summary of the Statement of Net Assets *(in thousands)*	2010	2009	INCREASE (DECREASE) AMOUNT	INCREASE (DECREASE) PERCENT
Current assets	**$ 616,343**	**$ 720,512**	**$ (104,169)**	**(14.5%)**
Noncurrent assets				
Endowment and other long-term investments	3,584,120	3,024,517	559,603	18.5%
Capital assets, net	2,522,807	2,305,632	217,175	9.4%
Other	155,866	250,513	(94,647)	(37.8%)
Total assets	**6,879,136**	**6,301,174**	**577,962**	**9.2%**
Current liabilities	**483,535**	**478,348**	**5,187**	**1.1%**
Noncurrent liabilities	**1,037,840**	**1,020,082**	**17,758**	**1.7%**
Total liabilities	**1,521,375**	**1,498,430**	**22,945**	**1.5%**
NET ASSETS	**$ 5,357,761**	**$ 4,802,744**	**$ 555,017**	**11.6%**

CURRENT ASSETS AND LIABILITIES

Current assets, which totaled $616 million as compared with the previous year's $721 million, consist primarily 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 just $5 million, or 1.1 percent. While the net change in current liabilities was small, some of the individual components had more sizeable changes. Accounts payable was approximately $27 million less in 2009–10, while the commercial paper and current portion of long-term liabilities increased by $14 million and $18 million, respectively. Later cutoffs for June payables explain the decrease in accounts payable. Increases in accrued leave and accrued overtime pay account for the increase to the current portion of long-term liabilities.

From a liquidity perspective, current assets cover current liabilities 1.3 times, an indicator of good liquidity and the ability to weather short-term demands on working capital. This rate of coverage decreased slightly from 1.5 last year. Current assets cover 3.4 months of total operating expenses, including depreciation. For 2009–10, one month of operating expenses is approximately $180 million.

ENDOWMENT AND OTHER INVESTMENTS

Performance. At June 30, 2010, 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 annual return for the long-term investment pool this year was a positive 15.1 percent, compared to a 21.0 percent decline 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 $467 million. That represents a substantial recovery from the negative investment income of $851 million sustained in 2008–09.

Distribution. The University distributes endowment earnings in a way that balances the annual funding needed to support the endowed programs against the requirement to preserve 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 $136.5 million, a decrease of $27 million from last year's distribution of $163.5 million. To mitigate the severe decline in market value of the endowment since 2008, the Board of Visitors raised the distribution percentage from 5.0 percent to 5.5 percent for the 2009–10 distribution. This was the first time in the University's history that it saw a drop in the distribution between years; however, the $136.5 million is still the second highest distribution ever.

Endowment investments. The total for endowment investments on the Statement of Net Assets is $2.8 billion, a $300 million increase over the prior year total of $2.5 billion. Most of that increase is attributable to the significant recovery in the investment markets during the year.

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 endowment funds, only $896 million, or 32 percent, is classified as unrestricted net assets. From this unrestricted endowment, a significant portion of the income is internally designated by the University for scholarships, fellowships, professorships, and research activities.

Including endowment investments held by the seven related foundations reported as component units, the combined University system endowment was approximately $3.8 billion as of June 30, 2010.

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 technology.

A number of major capital projects were completed or acquired during 2010. They amounted to $158 million for buildings, and $31 million for infrastructure. The University also added $59 million for capital equipment. The largest project coming to fruition during the year was the South Lawn Arts & Sciences project, which includes a number of buildings. The South Lawn Arts & Sciences Building was still under construction at the end of the fiscal year and will be completed in 2010–11, while both the Gibson and Nau buildings, as well as the Terrace Crossing, were completed during the year. Major renovation projects completed included Jordan Hall, Brown/Withers Hall, and the Carter-Harrison Medical Research Building. Additions to utilities infrastructure included projects for multiple chilled water plants. The University's College at Wise added three new buildings to its campus. They were the Drama Building, Science and Engineering Building, and Residence Hall #3.

There were a number of large projects in progress at June 30, 2010, as the University invested more than $330 million on capital construction in fiscal year 2009–10. Some of the largest projects in progress include the Claude Moore Medical Education Building, the Bavaro Hall School of Education Building, the Medical Center bed expansion and infrastructure project, the Rice Hall Information Technology and Engineering Building, the Physical and Life Sciences Research Building, and the Alderman Road (replacement) residence halls. The College at Wise has the new Dining Hall, Multi-purpose Building, and Smiddy Hall renovation projects under construction.

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 and Poor's (AAA/A-1+), and Fitch Ratings (AAA/F1+). These ratings were reaffirmed in July 2010 in conjunction with the University's issuance of its Series 2010 General Revenue Pledge Bonds. The University of Virginia is one of only two public institutions with the highest long-term debt ratings from all three agencies. Besides being an official acknowledgment of the University's financial strength, these ratings enable the University to obtain future debt financing at optimum pricing. 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 both variable- and fixed-rate obligations. The University achieves this mix through issuing a combination of fixed- and variable-rate debt, including commercial paper. It also adjusts its debt mix through the use of interest rate swaps executed according to its board-approved interest rate risk management policy. The seven foundations reported as component units held $192 million of long-term debt outstanding at June 30, 2010.

NET ASSETS

The four net asset categories represent the residual interest in the University's assets after liabilities are deducted. The University's net assets at June 30, 2010, and 2009 (restated), are summarized below.

Net Assets *(in thousands)*	2010	2009	INCREASE AMOUNT	INCREASE PERCENT
Invested in capital assets, net of related debt	$ 1,577,969	$ 1,458,203	$ 119,766	8.2%
Restricted				
Nonexpendable	494,201	459,247	34,954	7.6%
Expendable	1,938,361	1,785,372	152,989	8.6%
Unrestricted	1,347,230	1,099,922	247,308	22.5%
TOTAL NET ASSETS	**$ 5,357,761**	**$ 4,802,744**	**$ 555,017**	**11.6%**

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 $1.6 billion at June 30, 2010. It increased by $119.8 million, or 8.2 percent, in the current fiscal year compared with 3.6 percent growth in the previous year. This increase reflects the ongoing and unprecedented investment by the University in buildings and infrastructure. Capitalized assets increased by over $200 million, while related debt increased by almost $100 million, as the University makes strategic use of its debt capacity to fund new assets.

Restricted nonexpendable net assets comprise the University's permanent endowment funds. This category totaled $494 million at June 30, 2010. Overall, nonexpendable net assets increased by nearly $35 million. New gifts of $25 million account for most of the increase. An additional $10 million of increase occurred as a write-up in value of a number of endowments whose market value had fallen below their historic dollar value during the 2008 market decline.

Restricted expendable net assets are subject to externally imposed restrictions governing their use. This category of net assets includes permanent endowment fund earnings that can be spent, but only in accordance with restrictions imposed by external parties. It totaled $1.9 billion at June 30, 2010. These net assets increased by $153 million, or 8.6 percent. The increase is attributable to the 15.1 percent investment returns on the University's endowment and other investments. That increase is offset by reductions for endowment spending distribution of 5.5 percent, as well as expenditures of previously recorded gifts for 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 $1.3 billion at June 30, 2010. They increased by $247 million, or 22.5 percent. As with restricted funds, much of the increase results from the 15.1 percent return in market value on long-term investments. In addition, the Medical Center realized a significant positive operating margin of about $75 million that contributed to the increase.

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, 2010, and 2009 (restated).

Summary of the Statement of Revenues, Expenses, and Changes in Net Assets *(in thousands)*	2010	2009	INCREASE (DECREASE)	
			AMOUNT	PERCENT
Operating revenues	**$ 1,850,974**	**$ 1,788,824**	**$ 62,150**	**3.5%**
Operating expenses	**2,155,758**	**2,157,848**	**(2,090)**	**(0.1%)**
Operating loss	**(304,784)**	**(369,024)**	**64,240**	**(17.4%)**
Nonoperating revenues (expenses)				
State appropriations	152,115	170,178	(18,063)	(10.6%)
State stabilization (ARRA)	6,657	—	6,657	100.0%
Gifts	131,208	140,078	(8,870)	(6.3%)
Investment income	467,024	(850,753)	1,317,777	154.9%
Pell grants	9,695	7,024	2,671	38.0%
Interest on capital asset related debt	(34,389)	(24,251)	(10,138)	41.8%
Other net nonoperating expenses	(7,892)	(32,706)	24,814	(75.9%)
Net nonoperating revenues (expenses)	**724,418**	**(590,430)**	**1,314,848**	**222.7%**
Income before other revenues, expenses, gains or losses	**419,634**	**(959,454)**	**1,379,088**	**143.7%**
Capital appropriations, gifts, and grants	167,728	74,367	93,361	125.5%
Additions to permanent endowments	24,844	49,212	(24,368)	(49.5%)
Transfers to Commonwealth	(57,189)	—	(57,189)	100.0%
Total other	**135,383**	**123,579**	**11,804**	**9.6%**
Increase (decrease) in net assets	**555,017**	**(835,875)**	**1,390,892**	**166.4%**
Net assets—beginning of year	4,802,744	5,638,619	(835,875)	(14.8%)
NET ASSETS—END OF YEAR	**$ 5,357,761**	**$ 4,802,744**	**$ 555,017**	**11.6%**

Under GASB principles, revenues and expenses are categorized as either operating or nonoperating. Significant recurring sources of the University's revenues, including state appropriations, state stabilization from ARRA funds, and gifts, are considered nonoperating, as defined by GASB Statement No. 34. Consequently, the operating loss of $305 million occurs before the appropriation of these important revenue sources. Adding these revenue sources, which total $290 million for the fiscal year, negates most of the operating loss, and results in an adjusted income amount of negative $15 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

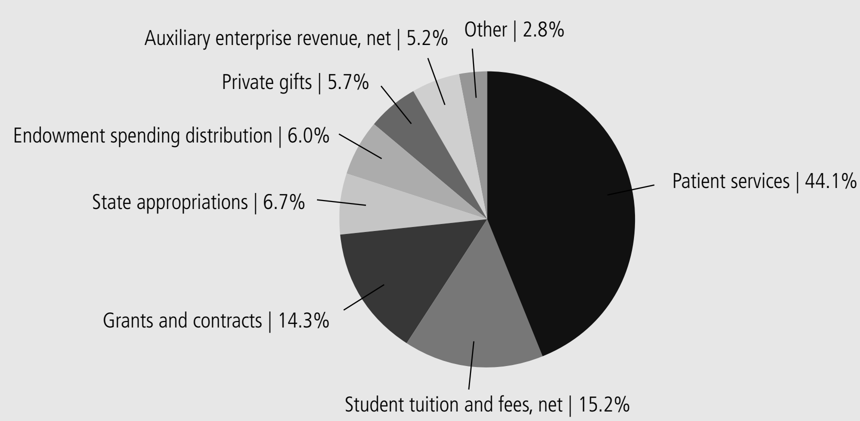
The University's revenues, for the years ended June 30, 2010, and 2009 (restated), are summarized as follows:

Summary of Revenues *(in thousands)*	2010			2009			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	$ 348,436	$ —	$ 348,436	$ 341,881	$ —	$ 341,881	$ 6,555	1.9%
Patient services	—	1,008,858	1,008,858	—	964,346	964,346	44,512	4.6%
Federal, state, and local grants and contracts	281,083	—	281,083	271,793	—	271,793	9,290	3.4%
Nongovernmental grants and contracts	45,649	—	45,649	45,516	—	45,516	133	0.3%
Sales and services of educational departments	18,898	—	18,898	18,090	—	18,090	808	4.5%
Auxiliary enterprises revenue, net	118,002	—	118,002	119,573	—	119,573	(1,571)	(1.3%)
Other operating revenues	—	30,048	30,048	—	27,625	27,625	2,423	8.8%
Total operating revenues	**$ 812,068**	**$1,038,906**	**$1,850,974**	**$ 796,853**	**$ 991,971**	**$1,788,824**	**$ 62,150**	**3.5%**
Nonoperating revenues:								
State appropriations	$ 152,115	$ —	$ 152,115	$ 170,178	$ —	$ 170,178	$ (18,063)	(10.6%)
State stabilization (ARRA)	6,657	—	6,657	—	—	—	6,657	100.0%
Private gifts	130,563	645	131,208	139,312	766	140,078	(8,870)	(6.3%)
Investment income	423,206	43,818	467,024	(788,267)	(62,486)	(850,753)	1,317,777	154.9%
Other nonoperating revenues	140,144	62,123	202,267	130,603	—	130,603	71,664	54.9%
Total nonoperating revenues	**$ 852,685**	**$ 106,586**	**$ 959,271**	**$(348,174)**	**$ (61,720)**	**$(409,894)**	**$1,369,165**	**334.0%**
TOTAL REVENUES	**$1,664,753**	**$1,145,492**	**$2,810,245**	**$ 448,679**	**$ 930,251**	**$1,378,930**	**$1,431,315**	**103.8%**

REVENUES AND OTHER SOURCES OF OPERATIONAL FUNDING

Below is a graph 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, 2010. As noted earlier, GASB Statement No. 34 requires state appropriations, state stimulus, current gifts, and other significant revenues to be treated as nonoperating revenues. Endowment spending distribution is not current-year revenue, but an appropriation of previously recognized 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)
$2,287,196



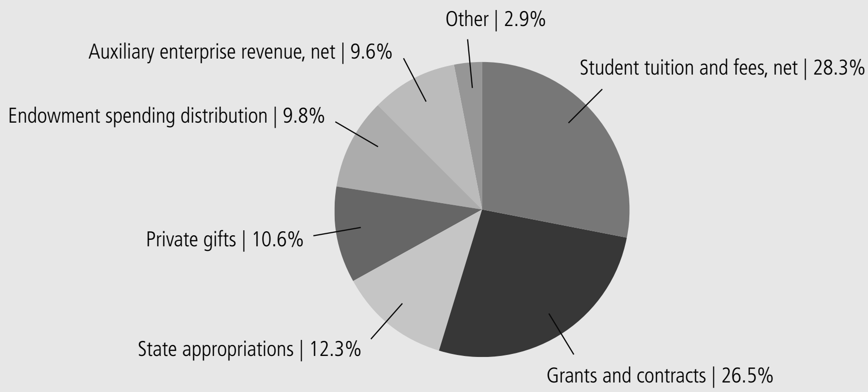
For purposes of this chart, the Medical Center is treated like a self-supporting auxiliary. Patient services revenues accounted for 44.1 percent of the University's revenues and operational funding sources. Student tuition and fees, and grants and contracts, which represent 15.2 percent and 14.3 percent, respectively, are the next largest revenues. After these three sources, the percentage of the total for the remaining sources drops off significantly. State appropriations now account for just 6.7 percent of funding for operations, followed closely by endowment spending distribution and private gifts, at 6.0 percent and 5.7 percent, respectively.

State appropriations decreased by $18 million, and were nearly 11 percent less than last year. The decrease results from additional budget cuts imposed by the state government, as it continues to deal with the sluggish economy. Net tuition and fees increased by $6.6 million, or 1.9 percent. In addition to the Board of Visitors' efforts to minimize tuition increases, the relatively small increase in net tuition and fee revenues is attributable to a significant increase in the scholarship allowance amount. 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.

With the implementation of a new Student Information System (SIS), the scholarship allowance to students is now calculated using the direct method, which resulted in an increase of approximately $13 million, or almost 19 percent.

Excluding the Medical Center's data helps provide a clearer picture of the academic revenue streams. Major sources include net tuition and fees at 28.3 percent; grants and contracts at 26.5 percent; state appropriations at 12.3 percent; private gifts at 10.6 percent; and endowment spending distribution at 9.8 percent. Excluding patient revenue, tuition and fees revenue comprises the single largest source of revenue to the University. The ratio of tuition and fees revenue to state appropriations was 2.3 in 2010, compared to a ratio of 2.0 in 2009. At 10.6 percent and 9.8 percent, respectively, private gifts and endowment spending distribution continue to be critical private sources of funding for University operations.

Academic and Wise Revenues and Other Sources of Operational Funding *(in thousands)*
$1,231,952



The University continues to emphasize revenue diversification, 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 $131 million in 2010, a decrease of $8.9 million, or 6.3 percent 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 $2.18 billion as of June 30, 2010. An endowment spending distribution of $136.5 million was made during fiscal year 2009–10. Although that was less than the $163.5 million distribution of the previous year, it was still the second highest ever total distribution.

Revenues for all sponsored programs increased this year by $9 million, or 3.0 percent, to a total of $327 million. However, this total includes $19.3 million in ARRA grants revenue. If that is excluded, then overall sponsored programs revenue would have declined to $308 million, or 2.8 percent less than last year's total of $317 million. The $327 million total includes $71.1 million of Facilities and Administrative (F&A) recoveries. That amount is $5 million more and 7.8 percent higher than last year, and reflects the increase in the University's negotiated F&A rate from 51.5 percent to 54.0 percent, effective July 1, 2009.

EXPENSES

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

SUMMARY OF EXPENSES, TOTAL UNIVERSITY

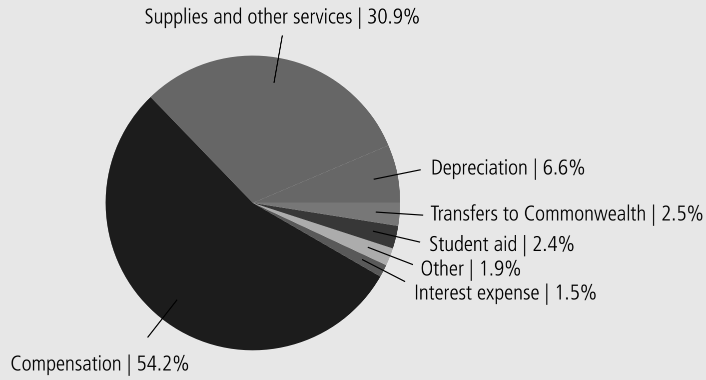
The University's expenses, for the years ended June 30, 2010, and 2009 (restated), are summarized as follows:

Summary of Expenses *(in thousands)*	2010			2009			TOTAL INSTITUTION INCREASE (DECREASE)	
	ACADEMIC DIVISION & WISE	MEDICAL CENTER	TOTAL INSTITUTION	ACADEMIC DIVISION & WISE	MEDICAL CENTER	TOTAL INSTITUTION	AMOUNT	PERCENT
Operating expenses:								
Compensation	$ 795,348	$ 425,791	$ 1,221,139	$ 794,065	$ 421,169	$ 1,215,234	$ 5,905	0.5%
Supplies and other services	254,535	441,187	695,722	265,138	438,924	704,062	(8,340)	(1.2%)
Student aid	55,058	—	55,058	62,750	—	62,750	(7,692)	(12.3%)
Depreciation	95,280	54,052	149,332	89,025	52,313	141,338	7,994	5.7%
Other operating expense	3,559	30,948	34,507	3,653	30,811	34,464	43	0.1%
Total operating expenses	**1,203,780**	**951,978**	**2,155,758**	**1,214,631**	**943,217**	**2,157,848**	**(2,090)**	**(0.1%)**
Nonoperating expenses and other:								
Interest expense	26,976	7,413	34,389	16,574	7,677	24,251	10,138	41.8%
Loss on capital assets	749	706	1,455	3,719	13,360	17,079	(15,624)	(91.5%)
Other nonoperating expense	288	6,149	6,437	7,179	8,448	15,627	(9,190)	(58.8%)
Transfers to Commonwealth	13,755	43,434	57,189	—	—	—	57,189	100.0%
Total nonoperating expenses	**41,768**	**57,702**	**99,470**	**27,472**	**29,485**	**56,957**	**42,513**	**74.6%**
TOTAL UNIVERSITY EXPENSES	**$1,245,548**	**$1,009,680**	**$2,255,228**	**$1,242,103**	**$ 972,702**	**$2,214,805**	**$ 40,423**	**1.8%**

Following is a graphic illustration of expenses (both operating and nonoperating) for the fiscal year ended June 30, 2010.

Total University Expenses
Fiscal Year 2010
(in thousands)

TOTAL EXPENSES *(in thousands)*
$2,255,228

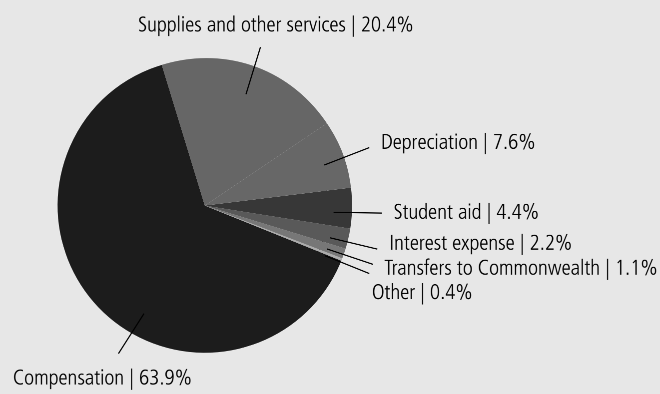


The University's total expenses increased just 1.8 percent or $40 million in 2009–10, reaching almost $2.3 billion. Compensation expenses increased just 0.5 percent, and totaled about $1.2 billion. The University has been able to navigate the state budget cuts without layoffs, instead strategically leaving vacant positions open. At the same time, the Board of Visitors remains committed to its long-term goal of raising faculty, staff, and health care employees' compensation to meet market conditions. This is a critically important issue following three years of no salary increases.

Student aid is reported net of scholarship discount. While gross student aid expense (before discount) increased by $7 million, net student aid expense (after discount) decreased by $8 million. The $15 million difference is accounted for by the change in the estimate for the discount amount, which went from $78 million in 2008–09 to $93 million in 2009–10. Implementation of a new student system enabled a more accurate methodology this year for calculating the estimated scholarship discount. The University's commitment to providing financial aid support to students continues, as evidenced by the growing costs of the AccessUVa program. On the nonoperating side, interest expense increased by $10.1 million, or 42 percent, to $34.4 million. This increase in debt service was expected, because the University issued $250 million of revenue bonds in 2009. An increase in depreciation expense was also expected, given the large dollar amount of recently completed building and infrastructure projects. Depreciation expense was up $8 million, or 5.7 percent.

Academic and Wise Expenses
Fiscal Year 2010
(in thousands)

TOTAL EXPENSES *(in thousands)*
$1,245,548



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 44.2 percent, 14.6 percent, 13.4 percent, and 1.3 percent, respectively, of total operating expenses. When combined, these core mission functions account for 73.5 percent of total operating expenses. The remainder is for costs incurred in support of these core mission functions, including academic support, libraries, student services, institutional support services, and operation and maintenance of facilities.

FUTURE ECONOMIC OUTLOOK

This past year was one of unprecedented change for the University of Virginia. As the University navigates its way through these difficult financial times, it is also seeing a dramatic change in its leadership. The University loses President John Casteen, who has led the University for the last twenty years. In the months to come, both Executive Vice President and Chief Operating Officer Leonard Sandridge and Executive Vice President and Provost Tim Garson will step down from their positions. The remarkable leadership they provided for so long will be difficult to replace. But they leave for the new leadership a University of Virginia that is solidly positioned. In August 2010, the University welcomed Teresa A. Sullivan as its eighth president. She was most recently the provost at the University of Michigan. She has served at some of the best universities in the country. She has been a teacher, a researcher, and in her own words "a mom who's had two sons go through college, so I understand what a college education looks like from the other side too." Her broad experience will serve the University well. President Sullivan faces many challenges, and has set as her top priority the replacement of the two executive vice presidents. Some of her long-term goals are detailed below, in the Long Term section of the Management's Discussion and Analysis.

Short Term

State Budget Crisis. Like most states, the Commonwealth continues to face revenue shortfalls, and the University has absorbed its share of the state's budget reductions. Over the past three years, the University has sustained $36.8 million in budget cuts, which equates to a 25 percent reduction in state appropriations revenue. For the first time in four years, the University does not anticipate a reduction in state appropriations for the 2010–11 fiscal year. However, an additional reduction of $14.8 million has been approved for 2011–12, with further cuts possible.

AccessUVa. Rated in 2010 by the *Princeton Review* as the best financial aid program among public institutions, AccessUVa continues to provide critical need-based financial aid. Since AccessUVa began, we have seen a major increase in the percentage of students qualifying for aid. This factor, along with tuition increases to compensate partially for state budget cuts, causes the cost of AccessUVa to continue to grow. The projected 2010–11 cost of AccessUVa will be around $80 million, which is about $10 million higher than the previous year. To help offset the rising costs, the AccessUVa program has been identified as one of the top institutional priorities for philanthropic support.

American Recovery and Reinvestment Act (ARRA). As of June 30, 2010, the University had been awarded $67 million in ARRA research grants. At September 30, 2010, this amount had risen to $71 million. The receipt of these funds has helped to offset what otherwise would be a decrease in sponsored programs awards. However, with the requirement to spend these funds over the next year or so, the University will face a decrease in research funding by fiscal year 2011–12. In addition to ARRA research grants, the University received $6.7 million in ARRA state stabilization funds. This funding from the Commonwealth helped to partially offset the reduction in state appropriations in fiscal year 2009–10. An additional $21.9 million in state stabilization funding will be received in 2010–11, and will be used for financial aid, to help offset tuition increases. ARRA funding is short-term, and most of it will be spent in 2010–11. Without other funding to replace it, fiscal year 2011–12 will be a very difficult year financially.

Build America Bonds/Debt. In July 2010, the University issued $190 million of new bonds to fund new construction on the Grounds of the University. The Series 2010 Bonds were issued as Build America Bonds (BAB) for purposes of the American Recovery and Reinvestment Act of 2009 with a coupon rate of 5.00 percent. The University will receive a 35 percent interest subsidy payment from the U.S. Treasury on the amount of each interest payment made on the Series 2010 Bonds, resulting in an effective yield to the University of 3.2 percent. This is the second issuance of Build America Bonds by the University. The earlier series of $250 million was issued in 2009 as the first benchmark-sized BAB issued by any entity. By taking advantage of the BAB opportunities, the University has been able to accelerate construction and reduce future interest expense. It is unclear whether the BAB program will extend beyond December 2010.

Endowment and Spending Distribution. With a return of 15 percent, the University's endowment recovered two-thirds of the 21 percent loss it sustained in fiscal year 2008–09. The fiscal year 2009–10 spending distribution of $136.5 million accounted for 6.3 percent of the University's $2.2 billion of operating expenses. At its September 2010 meeting, the University's Board of Visitors approved the fiscal year 2010–11 spending distribution. The board's spending policy calls for an increase in the previous year's distribution by an inflationary factor, as long as the result is between 4 percent on the low end, and 6 percent on the high end, of the market value. In accordance with the policy, the 2010–11 spending distribution will be 3.8 percent higher than the 2009–10 spending amount. Apart from the impact of new gifts and divestments, this will result in an estimated $142 million of spending distribution in fiscal year 2010–11, or about 5.2 percent of the June 30, 2010 endowment market value.

Long Term

New Leadership. President Sullivan joins the University at a time of tremendous financial pressures. The slow economic recovery has resulted in a continued decline in state support that will likely continue into fiscal year 2011–12, if not beyond. President Sullivan and the University's Board of Visitors will focus, in part, on attaining more predictable revenue streams, as they look to develop a "financial model for the future." The president has also launched an initiative to explore a new University budget model. She would like to build a resource allocation model that will allow the deans to plan strategically, that will incorporate incentives to reward good stewardship of resources, and provide accountability for program success and cost management. President Sullivan will also make fund-raising a priority, including a successful conclusion of the ongoing campaign. She has emphasized the need to broaden the base of annual support, which is frequently the source of funding that provides for the most urgent current needs of the deans and schools.

Governor's Commission. Governor Robert McDonnell formed the Commission on Higher Education Reform, Innovation and Investment, an initiative that will look at how the Commonwealth can produce more degrees at affordable prices for citizens of Virginia. Increasing the number of graduates in science and engineering will be especially targeted. While the governor has recently called on the legislature to boost higher education funding, cost containment will be a primary goal of the commission. At its July retreat, the University's Board of Visitors began to consider strategically these issues, and to contemplate a new funding model for the future, focusing in particular on two major sources of revenue, tuition and private funds.

Capital Construction. The University continues to invest in additional buildings and infrastructure. In fiscal year 2009–10, the University added more than $89 million of newly completed buildings, and more than $28 million in completed infrastructure projects. As of June 30, 2010, the University had more than $400 million of capital projects under construction. Several projects have already been or will be completed during the 2010–11 fiscal year, including the Curry School's Bavaro Hall, the Claude Moore Medical Education Building, the Physical and Life Sciences Research Building, the remainder of the South Lawn Arts & Sciences complex, and new Alderman residence halls.

Management Responsibility

October 29, 2010

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, 2010. 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,

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

YSReynolds

Yoke San L. Reynolds
Vice President and Chief Financial Officer

APPENDIX C

DEFINITIONS AND SUMMARY OF BOND RESOLUTION

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APPENDIX C

DEFINITIONS AND SUMMARY OF BOND RESOLUTION

In addition to making provision for the issuance and terms of the 2003A Bonds, as described in **"THE 2003A BONDS"** and **"SECURITY FOR THE 2003A BONDS"** in this Remarketing Circular, the Bond Resolution also contains other provisions and covenants of the University relating to the 2003A Bonds. These provisions and covenants are briefly described in this Appendix C, but do not purport to be either comprehensive or definitive. This Appendix C reflects certain amendments being made to the Bond Resolution simultaneously with the Mode Change, including the removal of provisions requiring the University to maintain a depreciation reserve fund with respect to certain hospital assets. All references to the Bond Resolution in this Appendix C are qualified in their entirety by reference to such documents.

While the Bond Resolution provides that the 2003A Bonds may, under certain circumstances, be converted to the Daily Mode, the Weekly Mode, the ARS Mode and the Term Rate Mode, this Remarketing Circular, including this Appendix C, describes the 2003A Bonds only during the period in which they bear interest at the Commercial Paper Mode. The 2003A Bonds are subject to mandatory tender upon the occurrence of any Mode Change Date.

Definitions

In addition to words and terms elsewhere defined in this Remarketing Circular, the following words and terms when used in connection with the 2003A Bonds shall have the following meanings, unless some other meaning is plainly intended:

"Alternate Rate" means the Securities Industry and Financial Markets Association Municipal Swap Index, formerly the BMA Municipal Swap Index of Municipal Market Data (the "SIFMA Rate") most recently available as of the date of determination, or if such index is no longer available, or if the SIFMA Rate is no longer published, (a) the Kenny Index (as such term is defined in the 1992 ISDA U.S. Municipal Counterparty Definitions) with respect to 2003A Bonds which are in the Daily Mode, Weekly Mode or a Commercial Paper Mode with an interest period relating to such mode of 30 days or less, (b) with respect to 2003A Bonds which are in a Commercial Paper Mode with an interest period relating to such mode of greater than 30 days but less than or equal to 180 days, the yield evaluation period for the Index shall be 180-day U.S. Treasury Bills, and (c) with respect to 2003A Bonds which are in the Term Rate Mode or a Commercial Paper Mode with an interest period relating to such mode of greater than 180 days, the yield evaluation period for the Index shall be one-year U.S. Treasury Bills.

"ARS Bonds" means any 2003A Bond while in an ARS Mode.

"ARS Mode" means the mode during which the 2003A Bonds bear interest at an auction reset security rate determined as provided in the Bond Resolution.

"Authorized Denominations" means with respect to 2003A Bonds (i) in a Short-Term Mode, \$100,000 and any integral multiple of \$5,000 in excess of \$100,000 (ii) in an ARS Mode, \$25,000 and any integral multiple of \$25,000 and (iii) in a Term Rate Mode, \$5,000 and any integral multiple thereof; provided, however, that if as a result of the change in the Mode of the 2003A Bonds it is not possible to deliver all the 2003A Bonds required or permitted to be outstanding in a denomination permitted above, 2003A Bonds may be delivered, to the extent necessary, in different denominations determined by the University.

"Bank Bond" means any 2003A Bond during any period commencing on the day such 2003A Bond is owned by or held on behalf of any Liquidity Facility issuer or its successors and assigns under the reimbursement agreement relating to such Liquidity Facility as a result of such 2003A Bond having been purchased from the proceeds of an advance under any Liquidity Facility and ending when such 2003A Bond is, pursuant to the provisions of the applicable reimbursement agreement related to such Liquidity Facility, no longer deemed to be a Bank Bond.

"Board" means the Board of Visitors of the University or, if such Board is abolished, the board or body succeeding to the principal functions thereof.

"Bondholder" means the registered owner of any 2003A Bond.

"Business Day" means any day except (i) a Saturday, Sunday or other day on which commercial banks in the City of New York, New York, or any other city in which is located the office of the Paying Agent or any of (as applicable) the Tender Agent, the Remarketing Agent, any Liquidity Facility issuer, the auction agent, as designated in the Bond Resolution, or the broker-dealer, as designated in the Bond Resolution, are authorized by law to close or (ii) a day on which the New York Stock Exchange is closed.

"Commercial Paper Mode" means the mode with an interest period of at least one day and not more than 270 days during which the interest rates for 2003A Bonds are determined by the Remarketing Agent pursuant to the Bond Resolution.

"Commercial Paper Rate Bond" means any 2003A Bond while in a Commercial Paper Mode.

"Commonwealth" means the Commonwealth of Virginia.

"Credit Obligation" of the University means any indebtedness incurred or assumed by the University for borrowed money and any other financing obligation of the University that, in accordance with generally accepted accounting principles consistently applied, is shown on the liability side of a balance sheet; provided, however, that Credit Obligation shall not include any portion of any capitalized lease payment directly appropriated from general funds of the Commonwealth or reasonably expected to be so appropriated as certified by the Chief Financial Officer, but only to the extent such appropriation is restricted by the Commonwealth to the payment of such capitalized lease obligation.

"Daily Mode" means the mode with an interest period of one day's duration during which the Series 2003A Bonds bear interest at a Daily Rate.

"Daily Rate" means an interest rate for 2003A Bonds in the Daily Mode determined pursuant to the Bond Resolution.

"DTC Participant" means each Participant for which DTC holds securities.

"Fiscal Year" means the period commencing on the first day of July and ending on the last day of June of the following year.

"Government Obligations" means certificates or interest-bearing notes or obligations of the United States, or those for which the full faith and credit of the United States are pledged for the payment of principal and interest, and investments in any of the following obligations provided such obligations are backed by the full faith and credit of the United States (a) direct obligations or fully guaranteed certificates of beneficial interest of the Export-Import Bank of the United States, (b) debentures of the Federal Housing Administration, (c) guaranteed mortgage backed bonds of the Government National

Mortgage Association, (d) certificates of beneficial interest of the Farmers Home Administration, (e) obligations of the Federal Financing Bank or (f) project notes and local authority bonds of the Department of Housing and Urban Development.

"Hospitals" means, collectively (i) the University of Virginia Hospital in the City of Charlottesville, Virginia, including the East Hospital, the West Hospital Complex and the Primary Care Center, (ii) the Kluge Children's Rehabilitation Center in Albemarle County, Virginia, (iii) Northridge primary and specialty care clinics, Fontaine clinics and offices, McCue Center, Forrest Lakes primary care center, and Moser Radiation Oncology Center, all located in Albemarle County or the City of Charlottesville and (iv) any facilities used by the University in the future for the delivery of health care and any additions, extensions and improvements to any of the facilities described in subsections (i), (ii) or (iii) above.

"Liquidity Facility" means any standby bond purchase agreement, letter of credit or other liquidity enhancement in the amount of the required liquidity amount delivered after issuance of the 2003A Bonds to the Paying Agent or the Tender Agent for the purpose of making payments on the 2003A Bonds, provided that if such Liquidity Facility is surrendered for cancellation, or if the purchase or other funding obligations of the Liquidity Facility issuer under the Liquidity Facility are otherwise terminated (in accordance with the express terms of such Liquidity Facility) in connection with the provision of an alternate Liquidity Facility, then such alternate Liquidity Facility shall thereafter be the "Liquidity Facility."

"Mandatory Purchase Date" means (i) the Purchase Date of 2003A Bonds in the Commercial Paper Mode or the Term Rate Mode, (ii) any Mode Change Date, and (iii) except as provided in the Bond Resolution, the Substitution Date.

"Maximum Rate" means, with respect to 2003A Bonds not in an ARS Mode, fifteen percent (15%) per annum; provided that the Maximum Rate may be increased by the University to a higher rate, not to exceed twenty percent (20%) per annum, if there shall have been delivered to the University (a) a favorable opinion of Bond Counsel, and (b) if a Liquidity Facility is in effect, a new or amended Liquidity Facility in an amount equal to the liquidity requirement calculated using the new Maximum Rate; provided further, that the Maximum Rate shall never exceed the highest lawful rate as advised by counsel to the University.

"Mode" means each of the Commercial Paper Mode, the Daily Mode, the Weekly Mode, the Term Rate Mode and the ARS Mode.

"Mode Change Date" means the date one Mode terminates and another Mode begins.

"Owners" means the registered owners of 2003A Bonds or the duly authorized attorney in fact, representative or assign thereof; the term "Owners" shall include the Liquidity Facility issuer or its assignee, if appropriate.

"Participants" means those broker-dealers, banks and other financial institutions from time to time for which DTC holds 2003A Bonds as securities depository.

"Rate Determination Date" means any date on which the interest rate on any 2003A Bonds that are not Bank Bonds or ARS Bonds is required to be determined, being: (i) in the case of any Commercial Paper Rate Bond, the first day of each interest period related to the Commercial Paper Mode therefor; (ii) in the case of 2003A Bonds in the Daily Mode, each Business Day; (iii) in the case of any 2003A Bonds in the Weekly Mode, the Business Day immediately preceding the respective date on which the 2003A

Bonds are first issued, sold and delivered or the Mode Change Date, and for other interest periods, each Tuesday or, if such Tuesday is not a Business Day, the Business Day next succeeding such Tuesday; and (iv) in the case of any 2003A Bonds in the Term Rate Mode, a Business Day prior to the first day of the applicable interest period.

"Registrar" means The Bank of New York Mellon Trust Company, N.A., and any successor Registrar appointed pursuant to the Bond Resolution.

"Short-Term Bonds" means any 2003A Bond while in a Short-Term Mode, i.e., the Daily Mode, the Weekly Mode or the Commercial Paper Mode.

"Substitution Date" means the date on which a Liquidity Facility is to become effective, or the date an alternate Liquidity Facility is to become effective in substitution for Liquidity Facility, or the date a Liquidity Facility will expire or terminate when no alternate Liquidity Facility is to become effective, all pursuant to the Bond Resolution.

"Term Rate" means the interest rate for Term Rate Bonds determined pursuant to the Bond Resolution.

"Term Rate Bonds" means any 2003A Bonds while in a Term Rate Mode.

"Term Rate Mode" means the mode of greater than 270 days during which the 2003A Bonds bear interest at a Term Rate.

"University Bonds" means any 2003A Bonds of which the University is the registered holder including any such 2003A Bonds pledged to any third party by the University.

"Weekly Mode" means the mode with an interest period of seven days' duration during which the 2003A Bonds bear interest at a Weekly Rate.

"Weekly Rate" means the interest rate for 2003A Bonds in the Weekly Mode determined pursuant to the Bond Resolution.

Creation of Debt Service Fund

The Bond Resolution established a Debt Service Fund, with a principal and interest subaccount and a redemption subaccount, for the 2003A Bonds to be held by the Paying Agent. All accrued interest, if any, received from the purchasers of the 2003A Bonds shall be deposited in the Debt Service Fund. No later than the day before each interest payment date or principal payment date (a "Payment Date"), the University shall transfer or cause to be transferred sufficient funds to the Paying Agent for deposit in the Debt Service Fund of an amount sufficient to cause the Debt Service Fund to contain adequate funds to pay the amounts due on such 2003A Bonds on such payment date.

Moneys in the appropriate subaccounts of the Debt Service Fund shall be withdrawn by the Paying Agent at times appropriate to make payment on each Payment Date and the Paying Agent shall pay or cause the same to be paid to the bondholders on the due date.

Any moneys held in the Debt Service Fund and set aside for the purpose of paying any of the 2003A Bonds which shall remain unclaimed by the holders of such 2003A Bonds for a period of five years after the date on which such 2003A Bonds shall have become due and payable, shall be disposed of by the Paying Agent in accordance with The Virginia Uniform Disposition of Unclaimed Property Act.

The moneys in the Debt Service Funds are to be held in trust and applied as provided in the Bond Resolution and, pending such application, are subject to a lien and charge in favor of the holders of the 2003A Bonds.

Construction Fund

The Bond Resolution established the Construction Fund (the "Construction Fund"), to the credit of which there was deposited a portion of the proceeds of the 2003A Bonds. As of the date of the Mode Change, no funds will remain in the Construction Fund.

Covenants Regarding Payment of Principal and Interest; Pledge of Pledged Revenues

The University covenants to pay the principal of and the interest on the 2003A Bonds in the manner provided in the Bond Resolution and in such 2003A Bonds, and any premium required for the retirement of such 2003A Bonds, payable solely from Pledged Revenues. The University pledges the Pledged Revenues to the payment of such principal, interest and any premium and to the payment of any Parity Credit Obligations issued by the University. The 2003A Bonds and the interest thereon shall not be deemed to constitute any debt or liability of the Commonwealth. Neither the University nor the Commonwealth shall be obligated to pay the principal of or interest on the 2003A Bonds, any related premium, or other costs incident thereto except from the Pledged Revenues, and neither the faith and credit nor the taxing power of the Commonwealth are pledged to the payment of the principal of or interest on the 2003A Bonds, any related premium, or other costs incident thereto.

Covenants Regarding Additional Indebtedness and Encumbrances

Except as described in **"SECURITY FOR THE 2003A BONDS"** in this Remarketing Circular, the Bond Resolution does not limit the right of the University to incur other Credit Obligations. As described in such section, however, the Bond Resolution does limit the University's right to incur Parity Credit Obligations and Qualifying Senior Obligations and to pledge any portion of the Pledged Revenues.

Other Covenants of the University

In the Bond Resolution, the University covenants that it will carry or maintain an adequate program of commercial insurance or self-insurance for its properties and other risks. The University further covenants that it will keep accurate records and accounts of all items of cost and expenditures relating to the Pledged Revenues and the application of the Pledged Revenues and that it will cause to be filed not later than the end of the seventh month following the close of each Fiscal Year and to be mailed to all Bondholders who shall have filed their names and addresses with the Secretary of the Board for such purpose a report, signed by the Chief Financial Officer and by the Virginia Auditor of Public Accounts or by an independent certified public accountant (or firm thereof) approved by the Virginia Auditor of Public Accounts, setting forth for the preceding Fiscal Year, in reasonable detail, the financial condition of the University, including its balance sheet as of the end of the preceding Fiscal Year and the related statements of changes and fund balances and current funds, revenues, expenditures and other changes for the preceding Fiscal Year. The University further covenants in the Bond Resolution that it will not convey, sell or otherwise dispose of any its property unless (a) such conveyance, sale or encumbrance is in the ordinary course of business, or (b) the Chief Financial Officer delivers a certificate to the effect that, taking into account the conveyance, sale or other disposition of such property (i) the University will have sufficient funds to meet all of its financial obligations, including its obligations to pay principal of and interest on all Credit Obligations, for all Fiscal Years to and including the second full Fiscal Year after such conveyance, sale or other disposition and (ii) the Chief Financial Officer has no reason to believe that the University will not have sufficient funds to pay all amounts due under all indebtedness of the University then outstanding. The University further covenants in the Bond Resolution to do and perform all acts and things permitted by law and the Bond Resolution which are necessary or desirable in order to assure that the interest paid on the 2003A Bonds will be excludable from gross income from federal income tax purposes and to take no action that would result in such interest not being excludable from gross income for federal income tax purposes.

Events of Default

The following events are "Events of Default" under the Bond Resolution:

(a) due and punctual payment of the principal, purchase price, or redemption premium, if any, of the 2003A Bonds authorized by the Bond Resolution is not made when the same become due and payable, either at maturity or by proceedings for purchase, redemption or otherwise;

(b) due and punctual payment of any interest due on the 2003A Bonds is not made when the same becomes due and payable;

(c) the University is for any reason rendered incapable of fulfilling it obligations under the Bond Resolution;

(d) an order or decree is entered, with the consent or acquiescence of the University, appointing a receiver or receivers of the University or any part thereof or of the revenues thereof, or if such order or decree, having been entered without the consent or acquiescence of the University, is not vacated or discharged or stayed on appeal within sixty (60) days after the entry thereof;

(e) any proceeding is instituted, with the consent or acquiescence of the University, for the purpose of effecting a composition between the University and its creditors or for the purpose of adjusting the claims of such creditors pursuant to any federal or state statute now or hereafter enacted; or

(f) the University defaults in the due and punctual performance of any other of the covenants, conditions, agreements and provisions contained in the 2003A Bonds or in the Bond Resolution on the part of the University to be performed, and such default continues for thirty (30) days after written notice specifying such default and requiring same to be remedied is given to the Board by any bondholder, provided that if such default is such that it can be corrected but cannot be corrected within such thirty (30) day period, it shall not constitute an Event of Default if corrective action is instituted by the University within such period and is diligently pursued until the default is corrected.

Remedies Upon Default

The Bond Resolution provides that, upon an Event of Default thereunder, the holders of not less than 25% in aggregate principal amount of the 2003A Bonds may appoint a trustee to represent the holders of the 2003A Bonds for the purposes in the Bond Resolution and in the Act provided.

Such trustee may, and upon written request of the holders of not less than 25% in principal amount of the 2003A Bonds then outstanding shall, in its own name:

(a) By mandamus or other suit, action or proceeding at law or in equity enforce all rights of the holders of the 2003A Bonds, including the right to require the University and its Board to collect fees, rents, charges or other revenues adequate to carry out any agreement as to, or pledge of, such revenues, and to require the University and Board to carry out any other agreements with the holders of such series of the 2003A Bonds and to perform it and their duties under the Act;

(b) Bring suit upon the 2003A Bonds;

(c) By action or suit in equity, require the University to account as if it were the trustee of an express trust for the holders of the 2003A Bonds; or

(d) By action or suit in equity, enjoin any acts or things which may be unlawful or in violation of the rights of the holders of the 2003A Bonds.

Any such trustee, whether or not all the 2003A Bonds have been declared due and payable, shall be entitled as of right to the appointment of a receiver who may enter and take possession of any property of the University any of the revenues from which are pledged for the security of the 2003A Bonds and operate and maintain the same and collect and receive all fees, rents, charges and other revenues thereafter arising therefrom in the same manner as the University itself might do and shall deposit all such moneys in a separate account and apply the same in such manner as the court appointing such receiver shall direct. In any suit, action or proceeding by the trustee the fees, counsel fees and expenses of the trustee and of the receiver, if any, shall constitute taxable costs and disbursements and all costs and disbursements allowed by the court shall be a first charge on any fees, rents, charges and other revenues of the University pledged for the security of the 2003A Bonds.

Such trustee shall, in addition to the foregoing, have and possess all of the powers necessary or appropriate for the exercise of any functions specifically set forth herein or incident to the general representation of the holders of the 2003A Bonds in the enforcement and protection of their rights.

To the extent permitted by law, in addition to the foregoing rights and remedies, upon an Event of Default under the Bond Resolution, any bondholder may proceed to protect and enforce the rights of the holders of the 2003A Bonds by a suit, action or special proceeding in equity or at law, either for the specific performance of any covenant or agreement contained in the Bond Resolution or in aid or execution of any power granted therein or for the enforcement of any proper legal or equitable remedy. Any such proceedings at law or in equity shall be instituted, had and maintained for the equal benefit of all holders of the 2003A Bonds.

The Bond Resolution further provides for the pro rata application of available moneys to the payment of the principal of and interest on the 2003A Bonds and any Parity Credit Obligations.

Supplemental Bond Resolutions Without Bondholder Consent

The University may, from time to time and at any time adopt such supplemental Bond Resolutions as shall not be inconsistent with the terms and provisions of the Bond Resolution:

(a) to cure any ambiguity or formal defect or omission or to correct any inconsistent provisions in the Bond Resolution or in any supplemental Bond Resolutions,

(b) to provide for the issuance of certificated 2003A Bonds or to obtain or maintain a rating on the 2003A Bonds,

(c) to grant to or confer upon the bondholders any additional rights, remedies, powers, authority or security (including liquidity facilities) that may lawfully be granted to or conferred upon the bondholders,

(d) to add new conditions, limitations and restrictions on the issuance of other Credit Obligations by the University,

(e) to add to the covenants and agreements of the Board in the Bond Resolution other covenants and agreements thereafter to be observed by the Board or to surrender any right or power therein reserved to or conferred upon the Board,

(f) to comply with any proposed, temporary or permanent regulations regarding arbitrage rebate requirements,

(g) to make any amendment relating to redemption provisions as contemplated in the Bond Resolution,

(h) to modify, alter, amend, add to or rescind, in any particular, any of the terms or provisions contained in the Bond Resolution, if such supplemental Bond Resolutions shall not adversely affect or prejudice the interests of the bondholders, or

(i) to implement a conversion of the interest rate on all of the 2003A Bonds to a Term Rate, including, but not limited to, modifying, amending or supplementing the form of 2003A Bond to reflect, among other things, a change in the designated title of the 2003A Bonds, the fixing of an annual rate of interest and, the termination of the rights of any owner of 2003A Bonds to tender such 2003A Bonds for purchase.

At least thirty (30) days prior to the adoption of any supplemental Bond Resolution for any of the above purposes, the Secretary of the Board shall cause a notice of the proposed adoption of such supplemental Bond Resolutions to be mailed, postage prepaid, to all registered owners the 2003A Bonds at their addresses as they appear on the registration books. Such notice shall briefly set forth the nature of the proposed supplemental Bond Resolution and shall state that copies thereof are on file at the office of the Secretary of the Board for inspection by all Bondholders. A failure on the part of the Secretary of the Board to mail such notice shall not affect the validity of such supplemental Bond Resolutions.

Supplemental Resolutions Requiring Bondholder Consent

Subject to the terms and provisions contained in the Bond Resolution, and not otherwise, the holders of not less than a majority in aggregate outstanding principal amount of the 2003A Bonds shall have the right, from time to time, anything contained in the Bond Resolution to the contrary notwithstanding, to consent to and approve the adoption of the Bond Resolution or Bond Resolutions supplemental to the Bond Resolution as shall be deemed necessary or desirable by the Board for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Bond Resolution or in any supplemental Bond Resolutions; provided, however, that nothing contained in the Bond Resolution permits, or be construed as permitting, (a) without the approval of all of the holders of the 2003A Bonds, (i) an extension of the maturity of the principal of or the interest on the 2003A Bonds, (ii) a reduction in the principal amount of any of the 2003A Bonds or the redemption premium or the rate of interest thereon, (iii) except as otherwise provided in the Bond Resolution, a preference or priority of any of the 2003A Bond over any other 2003A Bond, or (iv) except as provided in the Bond Resolution, the release or subordination of the lien created by the Bond Resolution with respect to any Pledged Revenues, or (b) without the approval of all of the holders of the Series 2003A Bonds, a reduction in the aggregate principal amount of the 2003A Bonds required for consent to such supplemental Bond Resolutions.

If at any time the Board shall determine that it is necessary or desirable to adopt any supplemental Bond Resolutions for any of the above purposes, the Secretary of the Board shall cause notice of the proposed adoption of such supplemental Bond Resolutions to be mailed, not less than thirty (30) nor more than sixty (60) days prior to the date of such adoption, postage prepaid, to all registered owners of the

2003A Bonds at their addresses as they appear on the registration books held by the Registrar. Such notice shall briefly set forth the nature of the proposed supplemental Bond Resolutions and shall state that copies thereof are on file at the office of the Secretary of the Board for inspection by all bondholders. The Board shall not, however, be subject to any liability to any bondholder by reason of its failure to cause such notice to be mailed and any such failure shall not affect the validity of such supplemental Bond Resolutions when consented to and approved as provided above.

Whenever, at any time within one year after the date of such notice, the Board shall deliver an instrument or instruments in writing purporting to be executed by the holders of not less than a majority or all, as appropriate, in aggregate principal amount of the 2003A Bonds then outstanding, which instrument or instruments shall refer to the proposed supplemental Bond Resolutions described in such notice and shall specifically consent to and approve the adoption thereof in substantially the form of the copy thereof referred to in such notice, thereupon, but not otherwise, the Board may adopt such supplemental Bond Resolutions in substantially such form, without liability or responsibility to any holder of any 2003A Bond, whether or not such holder shall have consented thereto.

If the holders of not less than a majority or all, as appropriate, in aggregate principal amount of the 2003A Bonds outstanding at the time of the adoption of such supplemental Bond Resolutions shall have consented to and approved the adoption thereof as herein provided, no holder of any 2003A Bond shall have any right to object to the adoption of such supplemental Bond Resolutions, or to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question the propriety of the adoption thereof, or to enjoin or restrain the Board from adopting the same or from taking any action pursuant to the provisions thereof.

Upon the adoption of any supplemental Bond Resolutions pursuant to the provisions set forth above, the Bond Resolution shall be and be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Bond Resolution of the University, the Board, and all holders of the 2003A Bonds then outstanding shall thereafter be determined, exercised and enforced in all respects under the provisions of the Bond Resolution as so modified and amended.

Defeasance

The University shall pay or provide for the payment of the entire indebtedness on all or particular outstanding 2003A Bonds in any one or more of the following ways:

(a) by paying or causing to be paid the principal of (including redemption premium, if any) and interest, calculated at the Maximum Rate, on such outstanding 2003A Bonds, as and when the same become due and payable;

(b) by depositing with the Paying Agent, in trust, at or before maturity, moneys in an amount sufficient to pay or redeem (when redeemable) such outstanding 2003A Bonds (including the payment of premium, if any, and interest, at the Maximum Rate payable on such 2003A Bonds to the maturity or redemption date thereof), provided that such moneys, if invested, shall be invested in noncallable Government Obligations in an amount, without consideration of any income or increment to accrue thereon, sufficient to pay or redeem (when redeemable) and discharge the indebtedness on such 2003A Bonds at or before their maturity date, assuming interest in the future at the Maximum Rate, it being understood that the investment income on such Government Obligations may be used for any lawful purpose;

(c) by delivering to the Paying Agent, for cancellation, such outstanding 2003A Bonds; or

(d) by depositing with the Paying Agent, in trust, noncallable Government Obligations in such amount as will, together with the income or increment to accrue thereon, without consideration of any reinvestment thereof, be fully sufficient to pay or redeem (when redeemable) and discharge the indebtedness on such outstanding 2003A Bonds at or before their maturity date as an independent certified public accountant shall certify to the Paying Agent's satisfaction.

Upon deposit with the Paying Agent, in trust, of money or Government Obligations in the necessary amount to pay or redeem all outstanding 2003A Bonds and compliance with the other payment provisions of the Bond Resolution, the Bond Resolution may be discharged in accordance with the provisions thereof but the University's liability in respect of the 2003A Bonds shall continue, provided that the holders thereof shall thereafter be entitled to payment only out of the moneys and the Government Obligations deposited with the Paying Agent as indicated above.

APPENDIX D

FORM OF ORIGINAL OPINION OF BOND COUNSEL
AND PROPOSED FORM OF CONVERSION OPINION OF BOND COUNSEL

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APPENDIX D

FORM OF ORIGINAL OPINION OF BOND COUNSEL

Set forth below is the Opinion of Bond Counsel delivered upon the issuance of the 2003A Bonds. It is not updated or reissued in connection with the remarketing of the 2003A Bonds.

[Letterhead of McGuireWoods LLP]

March 19, 2003

The Rector and Visitors of
the University of Virginia
Charlottesville, Virginia

The Rector and Visitors of the University of Virginia
General Revenue Pledge Bonds, Series 2003A

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance by The Rector and Visitors of the University of Virginia ("University") of the referenced general revenue pledge bonds delivered as of this date (collectively, the "Bonds"). The Bonds are issued pursuant to Title 23, Chapter 3 of the Code of Virginia of 1950, as amended ("Act"), and certain resolutions (the "Resolutions") adopted by the Executive Committee of the Board of Visitors of the University ("Executive Committee") on March 5, 2003. We refer you to the Bonds and the Resolutions for the definitions of capitalized terms not otherwise defined herein, and for a description of the purposes for which the Bonds are issued and the security therefor. We have examined certified copies of proceedings and other papers relating to the issuance of the Bonds, and have also examined the Constitution and the statutes of the Commonwealth of Virginia, including the Act, and a specimen of the Bonds.

As to questions of fact material to this opinion, we have relied upon (a) representations of and compliance with covenants by the University and certain of its affiliates contained in the Resolutions and certain other documents and certificates delivered this date, and (b) certificates of representatives of the University and other parties, including, without limitation, representations, covenants and certifications as to certain prior tax-exempt bond issues, the use of the proceeds of the Bonds, compliance with the arbitrage reporting and rebate requirements and other factual matters which are relevant to the opinions expressed in paragraph 7, in each case without undertaking any independent verification. We have assumed that all signatures on documents, certificates and instruments examined by us are genuine, all documents, certificates and instruments submitted to us as originals are authentic, and all documents, certificates and instruments submitted to us as copies conform to the originals. In addition, we have assumed that all documents, certificates and instruments relating to this financing have been duly authorized, executed and delivered by all parties thereto other than the University, and we have further assumed the due organization, existence and powers of all parties other than the University.

Based on the foregoing, it is our opinion that:

1. The University is a duly organized and validly existing public body constituted as a governmental instrumentality of the Commonwealth of Virginia, having the powers and authority, among others, set forth in the Act and in Title 23, Chapter 9 of the Code of Virginia of 1950, as amended.

2. The University has the requisite power and authority to adopt the Resolutions, issue the Bonds and apply the proceeds from the issuance and sale of the Bonds as set forth in the Resolutions.

3. The Resolutions have been duly and validly adopted by the Executive Committee, are binding upon the University and are enforceable in accordance with their terms.

4. The Bonds have been duly authorized, executed and delivered in accordance with the Act and the Resolutions and constitute valid and binding limited obligations of the University, payable solely from the Pledged Revenues and other property pledged therefor under the Resolutions. Except as provided in the Resolutions, the Bonds are not payable from the funds of the University, nor do they constitute a legal or equitable pledge, charge, lien or encumbrance upon any of the properties of the University or upon its income, receipts or revenues. The Bonds do not create or constitute a pledge of the faith and credit of the Commonwealth of Virginia.

5. As permitted by the Act, the Resolutions validly and legally pledge the Pledged Revenues to the payment of the Bonds. We point out, however, that under the Resolutions (i) the University has previously issued and may issue Parity Credit Obligations secured by Pledged Revenues on a parity basis with the Bonds and (ii) Pledged Revenues excludes certain revenues previously or subsequently pledged to the payment of Qualifying Senior Obligations or necessary to pay operating or other expenses related to facilities or systems financed in whole or in part with Qualifying Senior Obligations.

6. The obligations of the University under the Bonds and the Resolutions are subject to the provisions of applicable bankruptcy, insolvency, reorganization, moratorium and similar laws, now or hereafter in effect, relating to or affecting the enforcement of creditors' rights generally. Such obligations are also subject to usual equitable principles, which may limit the specific enforcement of certain remedies but which do not affect the validity of the obligations.

7. Interest on the Bonds is excluded from gross income for federal income tax purposes and will not be a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. It should be noted, that for purposes of the alternative minimum tax imposed on corporations (as defined for federal income tax purposes) under Section 56 of the Internal Revenue Code of 1986, as amended ("Code"), interest on the Bonds must be included in computing adjusted current earnings.

The opinions set forth in this paragraph 7 are subject to the condition that the University and certain of its affiliates comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds so that interest on the Bonds is and continues to be excluded from gross income for federal income tax purposes. The University and certain of its affiliates have covenanted to comply with each such requirement. Failure to comply with certain requirements may cause interest on all or a portion of the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of such Bonds. We express no opinion regarding other federal tax consequences arising with respect to ownership of the Bonds.

We advise you that upon the occurrence of certain events the method of determining the interest rate on the Bonds may be changed, a new interest rate period may be established, or a Substitution Date or certain other events may occur which are subject to, among other things, delivery of an opinion of Bond Counsel (which may or may not be this firm) substantially to the effect that the rate change or other events will not adversely affect the exclusion of interest on the Bonds from gross income for purposes of federal income taxation or from income taxation by the Commonwealth of Virginia. The opinions expressed in this letter speak only as of its date, and nothing should be interpreted or construed to express or imply any opinion concerning the effect of such other events on the exclusion of interest on the Bonds from gross income for purposes of federal income taxation or from income taxation by the Commonwealth of Virginia. The availability of such an opinion will depend upon the facts and law existing at the time the opinion is sought.

8. Interest on the Bonds is exempt from income taxation by the Commonwealth of Virginia and any political subdivision thereof.

Our services as Bond Counsel to the University have been limited to rendering the foregoing opinion based on our review of such legal proceedings as we deem necessary to approve the validity of the Bonds and the tax-exempt status of the interest thereon. The foregoing opinion is in no respect an opinion as to the financial condition of the University or the sufficiency of the Pledged Revenues to provide for payment of the Bonds or the accuracy or completeness of any information that may have been relied upon by any owner of the Bonds in making such owner's decision to purchase the Bonds.

Very truly yours,

PROPOSED FORM OF CONVERSION OPINION OF BOND COUNSEL

Set forth below is the proposed form of Conversion Opinion of Bond Counsel.
It is preliminary and subject to change prior to the Remarketing Date.

[Letterhead of McGuireWoods LLP]

[Date of Remarketing]

The Rector and Visitors
of the University of Virginia
Charlottesville, Virginia

$82,010,000
The Rector and Visitors of the University of Virginia
General Revenue Pledge Bonds, Series 2003A

Ladies and Gentlemen:

We served as Bond Counsel in connection with the issuance by The Rector and Visitors of the University of Virginia (the "University") of the above-referenced general revenue pledge bonds (the "Bonds"). The Bonds were issued pursuant to Title 23, Chapter 3 of the Code of Virginia of 1950, as amended ("Act"), and the resolution adopted March 5, 2003 by the Executive Committee of the Board of Visitors of the University (as supplemented and amended, the "Resolution"). Unless otherwise defined, each capitalized term used herein shall have the meaning given such term in the Resolution.

On the date of issuance of the Bonds, we delivered our opinion as Bond Counsel to the effect that under then current law, interest on the Bonds (a) was excluded from gross income for purposes of federal income taxation and (b) was not a specific item of tax preference for purposes of the federal alternative minimum income tax imposed on individuals and corporations. We have assumed the continued validity of that opinion and have made no further investigation and express no further opinion as to the current status of interest on the Bonds for purposes of federal income taxation.

We understand that the University has elected to convert the Mode on the Bonds from the current Weekly Mode to a Commercial Paper Mode commencing on the date hereof (the "Conversion"). In that regard, we have been requested by the University to render our opinion as to whether the Conversion (1) is permitted under the Act and the Resolution and (2) in and of itself, will adversely affect (a) the excludability of interest on the Bonds from gross income for federal income tax purposes and (b) the exemption of interest on the Bonds from income taxation under the laws of the Commonwealth of Virginia (the "Commonwealth").

In rendering portions of this opinion, we have assumed that the tax exempt status of the Bonds has not changed since the date of their original issuance and, except as may be otherwise set forth herein, have undertaken no investigation to determine whether any event has occurred or action has been taken that would have any adverse effect on the tax exempt status of the Bonds, including without limitation the failure by the University to make periodic filings required by the Internal Revenue Code of 1986, as amended, or otherwise to perform its obligations under the documents related to the Bonds. As to questions of fact material to our opinion, we have relied upon (a) representations of and compliance with covenants by the University and certain of its affiliates contained in the Resolution and certain other documents, (b) certificates of public officials furnished to us, and (c) certificates of representatives of the University and other parties.

Based solely upon the foregoing, we are of the opinion that, on and as of the date hereof, the Conversion (1) is permitted under the Act and the Resolution and (2) will not, in and of itself, adversely affect (a) the excludability of interest on the Bonds from gross income for federal income tax purposes or (b) the exemption of interest on the Bonds from income taxation under the laws of the Commonwealth.

We express no opinion with respect to other matters, including any actions that the University or its affiliates may have taken or omitted to take that had or may have had an adverse effect on (1) the excludability of interest on the Bonds from gross income for federal income tax purposes or (2) the exemption of interest on the Bonds from income taxation under the laws of the Commonwealth. This opinion is not intended to be an update of our opinion as Bond Counsel regarding the Bonds that was rendered by our firm on March 19, 2003. In addition, nothing contained herein shall be construed as an opinion as to any tax consequences relating to the Bonds other than as specified above.

This opinion is delivered solely for the benefit of the addressee hereof. It may not be relied upon by any other person, in whole or in part, or filed with any governmental agency without our prior written consent. In connection with this opinion, we do not undertake to advise you of any changes in the opinion expressed herein resulting from matters that may hereafter be brought to our attention.

Very truly yours,

UNIVERSITY *of* VIRGINIA

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