Amended Commercial Paper Memorandum

Ratings
Moody's: P-1
S&P: A-1+
Fitch: F1+

$300,000,000
The Rector and Visitors of the University of Virginia

Commercial Paper General Revenue Pledge Notes

consisting of:

Commercial Paper General Revenue Pledge Notes, Series A (Tax-Exempt)

Commercial Paper General Revenue Pledge Notes, Series B (Taxable)

Offering

This Amended Commercial Paper Memorandum provides information concerning two series of commercial paper notes (collectively, the "Notes") issued by The Rector and Visitors of the University of Virginia (the "University"). The Notes consist of (i) a tax-exempt series (the "Series A Notes") and (ii) a taxable series (the "Series B Notes"). The first Notes were issued in 2003 and are issued from time to time to finance and refinance certain capital projects and cash requirements of the University. Currently, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Goldman, Sachs & Co. are serving as dealers for the Notes (the "Dealers") and The Bank of New York Mellon Trust Company is serving as Issuing and Paying Agent for the Notes. Liquidity support for the Notes is provided solely by the University. See "APPENDIX A — THE UNIVERSITY OF VIRGINIA" and the audited financial statements of the University in APPENDIX B.

The Notes

The Notes are issued in denominations of $100,000 and integral multiples of $1,000 in excess of $100,000. The Notes are exempt from registration under the Securities Act of 1933, as amended, pursuant to Section 3(a)(2) in the case of the Series A Notes and Section 3(a)(4) in the case of the Series B Notes. The Notes mature on a Business Day not more than 270 days from the date of issue. The Notes are secured by a general revenue pledge of the University and rank equally with other similarly secured obligations of the University. The Notes are issued in book-entry only form in The Depository Trust Company's ("DTC") same day funds settlement system. Under this system, no physical commercial paper

BofA Merrill Lynch **Goldman, Sachs & Co.**

Dated: February 4, 2011

notes are issued or delivered other than one master note for each series of the Notes, which is held by the Issuing and Paying Agent on behalf of DTC. Instead, each issuance and placement of the Notes is recorded by means of electronic book entry. See "APPENDIX C — BOOK-ENTRY ONLY SYSTEM."

Each Note will bear interest at the rate determined by its respective Dealer on or before the date of issuance thereof to be the minimum rate that, in the judgment of such Dealer, would enable such Dealer to sell such Note on the date of issuance at a price equal to its fair market value considering similar securities. It is understood that different interest rates may be determined for Notes maturing on the same date. The determination of the interest rates and maturity dates for Notes by the respective Dealer will be conclusive and binding on the Holders of such Notes, the University and the Issuing and Paying Agent.

Interest on Series A Notes will be calculated on the basis of the actual number of days elapsed in a year containing 365 or 366 days (as the case may be). Series A Notes may only be sold at a price equal to 100% of the principal amount thereof. Interest will be payable on the respective maturity date of the Series A Notes. Interest on Series B Notes will be calculated on the basis of the actual number of days elapsed in a year containing 360 days. Series B Notes may be sold at a price equal to the principal amount thereof less any original issue discount thereon. Series B Notes sold with original issue discount will accrue to 100% of the principal amount thereof on the respective maturity date thereof.

The principal of and interest on the Notes will be payable in any money of the United States of America that at the time of payment is legal tender for payment of public and private debts or by check payable in such money only upon presentation and surrender of such Notes at the designated office of the Issuing and Paying Agent.

Pledge of Pledged Revenues

Pursuant to the Note Resolution pursuant to which the Notes were authorized (the "Note Resolution"), the University is required to pay the principal of and interest on the Notes as they become due. Such obligation is secured, together with general revenue pledge bonds previously issued by the University and certain other obligations issued by the University and secured on a parity basis with the Notes (collectively "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 Note 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" below.

Qualifying Senior Obligations and Credit Obligations

The Note 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 Notes 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 Notes, and (2) net of operating expenses for the related system or facility, and such revenues would be available to pay the Notes 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 Note 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 Notes and any other Parity Credit Obligations, but only if the Chief Operating Officer, the Chief Financial Officer or the President of the University (each, an "Authorized Officer") certifies in writing 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) such Authorized 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 during the term of such proposed Credit Obligation, (2) to the best of such Authorized Officer's knowledge, the University is not in default in the performance and observance of any of the provisions of the Note 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 Note 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 Note 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 Notes (collectively, the "Outstanding General Revenue Pledge Bonds"). The pledge securing the Notes 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 Note 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 Notes, but only if an Authorized Officer 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) such Authorized 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 during the term of such Parity Credit Obligation, and (2) to the best of such Authorized Officer's knowledge, the University is not in default in the performance and observance of any of the provisions of the Note Resolution or of any other resolution pursuant to which any Parity Credit Obligations have been issued.

THE NOTES 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 NOTES OR OTHER COSTS INCIDENT THERETO EXCEPT FROM SOURCES PLEDGED THEREFOR IN THE NOTE 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 NOTES OR OTHER COSTS INCIDENT THERETO. THE UNIVERSITY HAS NO TAXING POWER.

No Liens; Disposition of Assets

The Notes 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 an Authorized Officer of the University 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) such Authorized 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 of Virginia

APPENDIX A contains information about the University. APPENDIX B contains the audited financial statements of the University for the fiscal year ended June 30, 2010. APPENDIX B also contains 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. APPENDIX A and APPENDIX B are integral parts of this Amended Commercial Paper Memorandum and should be read in their entirety.

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 the Notes short-term ratings of "P-1," "A-1+" and "F1+," respectively, as of the date of this Amended Commercial Paper Memorandum. Purchasers of the Notes should check for the current ratings at the time of their purchase. An explanation of the significance of each such rating may be obtained from the company furnishing the rating. The ratings reflect only the views of such organizations at the time such ratings are given, and the University makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or will not be revised downward or withdrawn entirely by such rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Notes.

Tax Matters

The opinion of McGuireWoods LLP, Richmond, Virginia ("Bond Counsel") states that, under current law and assuming compliance with the Covenants (as defined below), interest on the Series A Notes (but not the Series B Notes) is excludable from gross income for purposes of federal income taxation and is not a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. However, 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 (the "Code")), interest on the Series A Notes must be included in computing adjusted current earnings. Bond Counsel will express no opinion regarding other federal tax consequences arising with respect to the Notes. The form of the opinion of Bond Counsel is attached to this Amended Commercial Paper Memorandum as APPENDIX D.

In the opinion of Bond Counsel, interest on the Notes is exempt from Virginia income taxation under current Virginia law. Each purchaser of the Notes should consult his or her own tax advisor regarding the taxable status of interest in a particular state or local jurisdiction other than Virginia.

Bond Counsel's opinion will be given in reliance upon certifications of representatives of the University as to facts material to the opinion. The University has covenanted to comply with certain provisions of the Code regarding, among other things, the use, expenditure and investment of proceeds of the Series A Notes, the arbitrage yield restrictions and rebate requirement imposed by the Code and certain other actions that would cause interest on the Series A Notes to be includable in gross income of their owners (the "Covenants"). Failure of the University to comply with the Covenants could cause interest on the Series A Notes to become includable in gross income for federal income tax purposes retroactively to their date of issue.

In addition to the matters addressed above, prospective purchasers of the Series A Notes should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to certain taxpayers including, without limitation, financial institutions, certain insurance companies, certain "S corporations," certain foreign corporations subject to the "branch profits tax," individual recipients of indebtedness to purchase or carry tax-exempt obligations and taxpayers attempting to qualify for the earned income tax credit. Prospective purchasers of the Series A Notes should consult their tax advisors as to the applicability and impact of such consequences.

The Note Resolution established a program of commercial paper to be issued within the 18-month period beginning on the first date of issuance of such commercial paper or to refinance Notes previously issued pursuant to the Note Resolution. The Note Resolution provides for the establishment, from time to time, of new programs to succeed the initial program or a subsequent program (a "Subsequent Program"). Notes may be issued in Subsequent Programs, from time to time ("Subsequent Program Notes"), subject to the satisfaction of conditions set forth in the Note Resolution, including receipt of an opinion of Bond Counsel substantially similar to the one described above and reflecting the same limitations described above. Subject to the satisfaction of certain conditions, including but not limited to, the receipt by Bond Counsel of representations and certifications of the University acceptable to Bond Counsel with respect to the use and investment of proceeds of each issue of Subsequent Program Notes, Bond Counsel expects to be able to deliver on the earliest delivery date of Subsequent Program Notes such an opinion. New legislation, new court decisions, new rulings or new regulations that are enacted, promulgated or interpreted after the date hereof may prevent Bond Counsel from rendering such opinion, otherwise affect the substance of such opinion or diminish the value of or otherwise affect the federal or Commonwealth of Virginia income tax treatment of the interest on Subsequent Program Notes. Prospective purchasers are encouraged to consult their tax advisors with respect to any such changes.

Absence of 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 Notes, or that concerns the proceedings of the University taken in connection with the Notes or the pledge or application of the Pledged Revenues under the Note Resolution for their payment, or which contests the powers of the University with respect to the foregoing.

Available Information

In accordance with Rule 15c2-12 promulgated by the Securities and Exchange Commission, the University has undertaken to provide certain financial information and operating data and its annual audited financial statements to nationally recognized municipal securities information repositories ("NRMSIRs"). This Amended Commercial Paper Memorandum incorporates by reference the information regarding the University filed with any NRMSIR.

For further information, please contact the Office of the University Vice President and Chief Financial Officer, at (434) 924-0716.

Miscellaneous

No dealer, broker, salesman or other person has been authorized to give any information or to make any representation other than as contained in this Amended Commercial Paper Memorandum in connection with the offering described herein and, if given or made, such other information or representation must not be relied upon as having been authorized. This Amended Commercial Paper Memorandum does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the Notes, nor shall there be any offer or solicitation of an offer or sale of the Notes, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. Neither the delivery of this Amended Commercial Paper Memorandum nor the sale of any of the Notes implies that the information herein is correct as of any time subsequent to the date hereof.

THE INFORMATION CONTAINED HEREIN HAS BEEN OBTAINED FROM THE UNIVERSITY. ADDITIONAL COPIES OF THIS AMENDED COMMERCIAL PAPER MEMORANDUM MAY BE REQUESTED FROM YOUR DEALER REPRESENTATIVE OR FROM MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED, NEW YORK OFFICE AT (212) 449-5544 OR FROM GOLDMAN, SACHS, NEW YORK OFFICE AT (212) 902-1026 OR (212) 902-6639.

Approved: February 4, 2011

THE RECTOR AND VISITORS
OF THE UNIVERSITY OF VIRGINIA

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

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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*
Sheila C. Johnson, *The Plains*	CEO and Founder, *Salamander Hospitality, 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*

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
Arthur Garson, Jr.	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 has announced his intention to retire in June 2011. During the following year, Mr. Sandridge plans to serve as a part-time consultant to President Sullivan.

Arthur Garson, Jr. Tim Garson became the Executive Vice President and Provost of the University in July 2007. He is responsible for the planning and operations of the University's 11 schools, as well as academic planning. Dr. Garson came to the University in 2002 when he was appointed Vice President and Dean of the University of Virginia's School of Medicine. During his tenure as dean, the School of Medicine started a Master of Public Health program, the Academy of Distinguished Educators, the Center on Health Care Disparities, the Patient Education Institute, the Medical Education Research Institute, and the Virginia Institute for Clinical and Translational Research (a joint effort among several schools). He is the author of more than 450 publications including 8 books. While at Duke University (1992-1995) he was the Associate Vice Chancellor for Health Affairs and served as Medical Director of Government Relations for the Medical Center. In 1995, he became the Baylor College of Medicine's Dean for Academic Operations. He was also Vice President of Texas Children's Hospital. In 1999-2000, Dr. Garson served as President of the American College of Cardiology. In addition, he has served on the White House panel on Health Policy; and as Chair of the American College of Cardiology's task force on the uninsured, leading a broad coalition of physician and patient groups working on legislation for the uninsured. Dr. Garson will leave the University in May 2011 to become Senior Vice President for Health Policy and Health Systems at the University of Texas Health Science Center at Houston. Additionally, Dr. Garson will be the director of the New York-based Dreyfus Health Foundation, a nonprofit with programs in more than 20 countries, including the United States, that aims to improve health by empowering people to improve their environments.

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 2009 semester, the University employed 9,240 full-time and 1,512 part-time permanent staff, including approximately 5,038 full-time equivalent salaried 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 22,124 completed applications were received for the 2010-11 academic year to fill a target of approximately 3,244 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

	2006-07	2007-08	2008-09	2009-10	2010-11
Completed Applications					
In-state	6,492	7,090	7,370	7,637	7,803
Out-of-state	9,594	10,708	10,993	13,471	14,321
Total	16,086	17,798	18,363	21,108	22,124
Applications Accepted*	37%	35%	37%	32%	33%
In-state	45%	47%	47%	45%	45%
Out-of-state	32%	27%	30%	25%	26%
Offers Accepted**	51%	52%	48%	48%	45%
In-state	68%	67%	63%	65%	62%
Out-of-state	36%	34%	33%	31%	29%

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

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

	2006-07	2007-08	2008-09	2009-10*	2010-11*	
Undergraduate	13,353	13,636	13,762	14,297	14,456	
Graduate	4,791	4,830	4,904	6,598	6,599	
First-Professional	1,699	1,724	1,725			
Unclassified	554	644	666			
Total Headcount	20,397	20,834	21,057	20,895	21,055	
Full Time Equivalent	20,062	20,398	20,592	20,734	20,885	est.

* Beginning in 2009-10, Graduate and 1st-Professional students have been included in one category called "Graduate." Previously unclassified students have been included in the undergraduate and graduate categories.

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 25th to 75th 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 its debt service.

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,

	2006	2007	2008	2009	2010
Average Daily Census	466	472	483	479	458
Length of Stay (days)	5.8	5.7	5.9	6.1	6.2
Discharges	29,452	30,145	29,922	28,575	27,049
Outpatient Visits	662,425	630,201	642,777	644,015	683,750

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)

	2006-07	2007-08	2008-09	2009-10	2009-10
In-state tuition and fees	$ 7,845	$ 8,500	$ 9,300	$ 9,672	$ 10,628
Out-of-state tuition and fees	25,945	27,750	29,600	31,672	33,574

Notes: The above table does not include first year orientation fees of $190 in FY2006-07 through 2008-09 and $200 in FY2009-10 and 2010-11.

Graduate Tuition and Required Fees Per Student
(actual dollars)

	2006-07	2007-08	2008-09	2009-10	2010-11
In-State Tuition and Fees					
Darden Graduate School of Business Administration	$ 35,000	$ 37,500	$ 40,500	$ 43,500	$ 44,500
School of Law	30,700	33,500	36,800	38,800	42,500
School of Medicine	30,100	31,305	32,650	35,150	37,880
All others	10,550	11,240	12,140	12,628	13,870
Out-of-State Tuition and Fees					
Darden Graduate School of Business Administration	40,000	42,500	45,500	48,500	49,500
School of Law	35,700	38,500	41,800	43,800	47,500
School of Medicine	40,100	41,305	42,650	45,150	48,874
All others	20,550	21,240	22,140	22,628	23,866

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 September 2010, 73.85% of the campaign goal had been reached, with 84.39% of the campaign time elapsed.

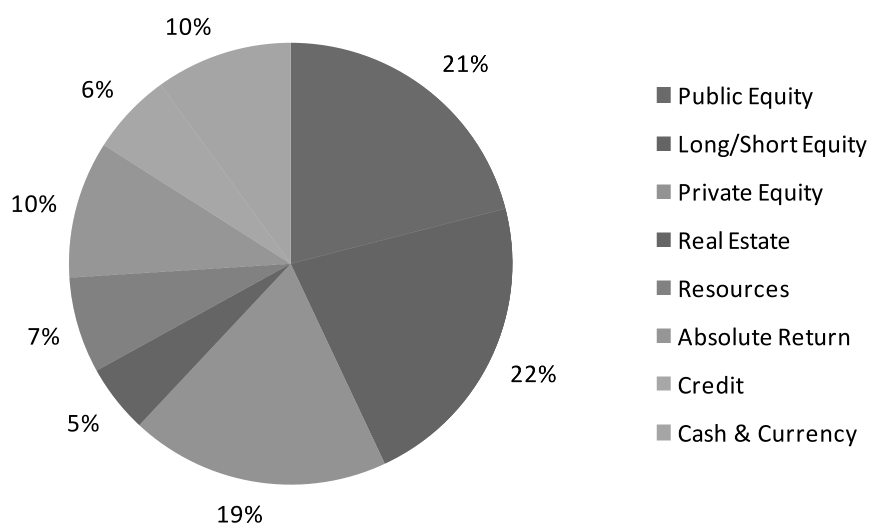
Endowment. The University of Virginia's endowment was $2.8 billion as of June 30, 2010. The unrestricted expendable portion was $896 million, or 32%, as of the same date. In accordance with the Board of Visitors' approved spending policy, the endowment contributed $136.5 million in fiscal year ending June 30, 2010 to support operations of the University. As of August 31, 2010, the University's endowment was at $2.9 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 August 31, 2010, 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 25 employees. UVIMCO oversees investments totaling $4.6 billion as of August 31, 2010, 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 December 31, 2010, there was $60.2 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 THE FISCAL YEAR ENDED JUNE 30, 2010

and

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE 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	INCREASE 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)*			INCREASE (DECREASE)	
	2010	2009	AMOUNT	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

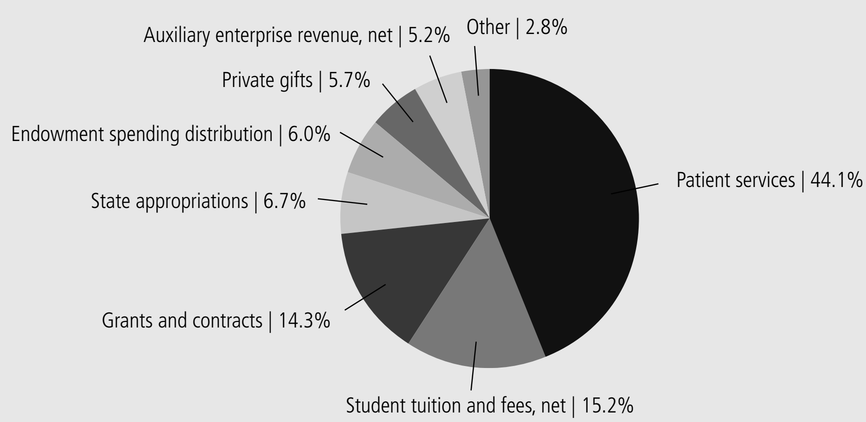
The University's revenues, for the years ended June 30, 2010, and 2009 (restated), are summarized as follows:

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



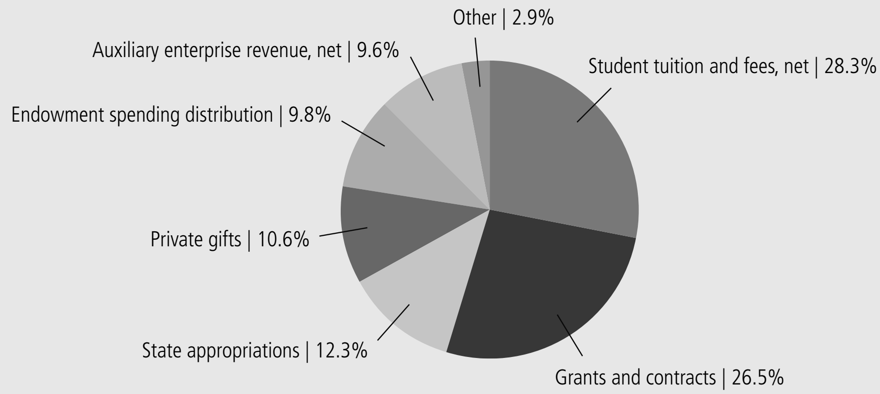
For purposes of this chart, the Medical Center is treated like a self-supporting auxiliary. Patient services revenues accounted for 44.1 percent of the University's revenues and operational funding sources. Student tuition and fees, and grants and contracts, which represent 15.2 percent and 14.3 percent, 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

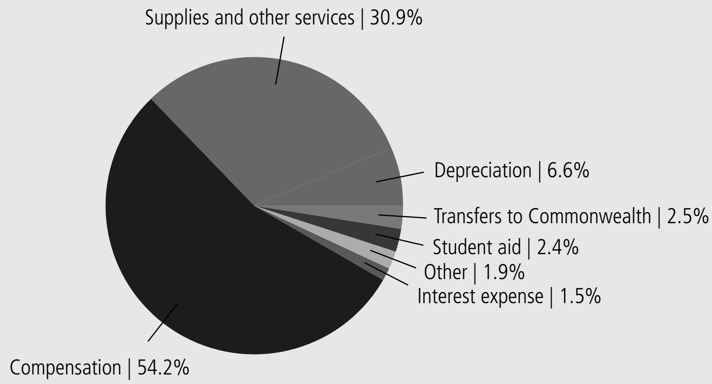
The University's expenses, for the years ended June 30, 2010, and 2009 (restated), are summarized as follows:

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

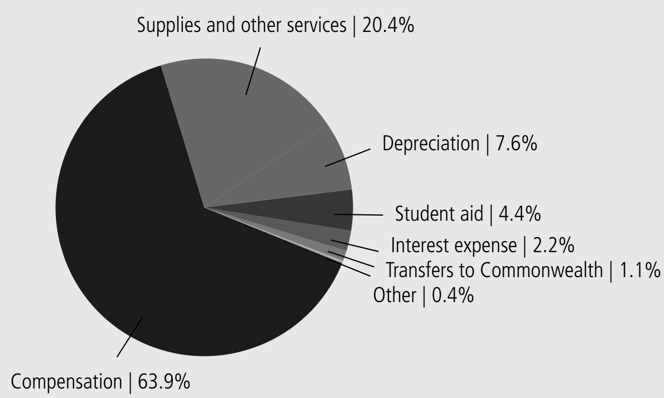


The University's total expenses increased just 1.8 percent or $40 million in 2009–10, reaching almost $2.3 billion. Compensation expenses increased just 0.5 percent, and totaled about $1.2 billion. The University has been able to navigate the state budget cuts without layoffs, instead strategically leaving 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

BOOK-ENTRY ONLY SYSTEM

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APPENDIX C

BOOK-ENTRY ONLY SYSTEM

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Notes. The Notes will be issued as fully-registered securities 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 Note certificate will be issued for each Series of the Notes, each in the aggregate principal amount of such Series, and will be deposited with DTC.

DTC, the world's largest 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, 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 Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Notes on DTC's records. The ownership interest of each actual purchaser of each Note ("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 Notes 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 the Notes, except in the event that use of the book-entry system for the Notes is discontinued.

To facilitate subsequent transfers, all Notes 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 Notes 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 Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such Notes 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. Beneficial Owners of Notes may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Notes, such as tenders, defaults, and proposed amendments to the Note documents. For example, Beneficial Owners of Notes may wish to ascertain that the nominee holding the Notes for their benefit has agreed to obtain and transmit notices to Beneficial Owners.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Notes 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 Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Notes 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 Issuing and 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 nor its nominee, the University or the Issuing and Paying Agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the University or the Issuing and Paying Agent, 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 Notes at any time by giving reasonable notice to the University or the Issuing and Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Note certificates are required to be printed and delivered.

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

The information in this Appendix C concerning DTC and DTC's book-entry system has been obtained from sources that the University believes to be reliable, but the University takes no responsibility for the accuracy thereof.

APPENDIX D

PROPOSED FORM OF BOND COUNSEL OPINION

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APPENDIX D

PROPOSED FORM OF BOND COUNSEL OPINION

Set forth below is the form of the opinion of McGuireWoods LLP, Bond Counsel.

December 28, 2010

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

**The Rector and Visitors of the University of Virginia
Commercial Paper General Revenue Pledge Notes,
Series A (Tax-Exempt) and Series B (Taxable)
Program A-5 and B-5**

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 above referenced general revenue pledge notes issued as of this date (the "Series A-5 Notes" and the "Series B-5 Notes", and together, the "Notes"). The Notes are issued pursuant to Title 23, Chapter 3 of the Code of Virginia of 1950, as amended (Bonds and other Obligations), and Title 23, Chapter 4.10 of the Code of Virginia of 1950, as amended (Restructured Higher Education Financial and Administrative Operations Act) (together, "Act"). The Notes are issued under that certain Amended and Restated Resolution Authorizing and Securing Commercial Paper General Revenue Pledge Notes Series A (Tax-Exempt) and Series B (Taxable), adopted on February 9, 2007 by the Board of Visitors of the University, as supplemented and amended from time to time (the "Resolution"), which authorizes up to $300,000,000 principal amount of commercial paper to be outstanding at any time. We have examined certified copies of proceedings and other papers relating to the issuance of the Notes, and have also examined the Constitution and the statutes of the Commonwealth of Virginia, including the Act, and a specimen of the Notes. Unless otherwise defined, each capitalized term used in this opinion should have the meaning given in Article I of the Resolution.

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 Resolution 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 the use of the proceeds of the Notes, 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 Resolution, issue the Notes and apply the proceeds from the issuance and sale of the Notes as set forth in the Resolution.

3. The Resolution has been duly and validly adopted by the Board of Visitors, is binding upon the University and is enforceable in accordance with its terms.

4. The Notes have been duly authorized, executed and delivered in accordance with the Act and the Resolution and constitute valid and binding limited obligations of the University, payable solely from the Pledged Revenues and other property pledged therefor under the Resolution. Except as provided in the Resolution, the Notes 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 Notes do not create or constitute a pledge of the faith and credit of the Commonwealth of Virginia.

5. As permitted by the Act, the Resolution validly and legally pledges the Pledged Revenues to the payment of the Notes. We point out, however, that under the Resolution (i) the University has previously issued and may issue Parity Credit Obligations secured by Pledged Revenues on a parity basis with the Notes 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 Notes and the Resolution 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. Certain indemnity provisions may be unenforceable pursuant to court decisions invalidating such indemnity agreements on grounds of public policy.

7. Interest on the Series A-5 Notes (but not the Series B-5 Notes) is excludable 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. Additionally, 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 Series A-5 Notes is not included in computing adjusted current earnings.

In providing the opinions set forth in this paragraph 7, we are assuming continuing compliance with the Covenants (as hereinafter defined) by the University. The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied after the issuance of the Series A-5 Notes in order for interest on the Series A-5 Notes to be and remain excludable from gross income for purposes of federal income taxation. These requirements include, by way of example and not limitation, restrictions on the use, expenditure and investment of the proceeds of the Series A-5 Notes and the use of the property financed or refinanced by the Series A-5 Notes, limitations on the source of the payment of and the security for the Series A-5 Notes, and the obligation to rebate certain excess earnings on the gross proceeds of the Series A-5 Notes to the United States Treasury. The Resolution and the University's tax certificate for the Series A-5 Notes (the "Tax Certificate") contain covenants (the "Covenants") under which the University has agreed to comply with such requirements. Failure by the University to comply with the Covenants could cause interest on the Series A-5 Notes to become includable in gross income for federal income tax purposes retroactively to their date of issue. In the event of noncompliance with the Covenants, the available enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent interest on the Series A-5 Notes from becoming includable in gross income for federal income tax purposes. We have no responsibility to monitor compliance with the Covenants after the date of issue of the Series A-5 Notes.

Certain requirements and procedures contained, incorporated or referred to in the Resolution and Tax Certificate, including the Covenants, may be changed and certain actions may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents.

8. The income from the Notes, including any profit made on their sale, is exempt from taxation by the Commonwealth of Virginia and any of its political subdivisions.

Our services as Bond Counsel to the University have been limited to rendering the foregoing opinions based on our review of such legal proceedings and other documents as we deem necessary to approve the validity of the Notes and tax-exempt status of the interest on them and the enforceability of the Resolution. The foregoing opinions are in no respect an opinion as to the business or financial resources of the University or the ability of the University to provide for the payment of the Notes or the accuracy or completeness of any information, including the University's Amended Commercial Paper Memorandum related to the Notes, that anyone may have relied upon in making the decision to purchase the Notes.

Very truly yours,

McGuireWoods LLP

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