UNIVERSITY of VIRGINIA

PRESIDENT'S REPORT 2010–11

The President's Report is a comprehensive view of the 2010–11 academic year that brings together the vast range of initiatives, studies, teaching, and research activities taking place across the Grounds. The report focuses on the people at the heart of U.Va.'s dynamic intellectual community. The portrait photography by Luca DiCecco features a small sample of these remarkable people who are addressing local, national, and global needs—the outstanding faculty members who pass on their knowledge to the next generation and the promising students who graduate as citizen-leaders equipped with the understanding, skills, and perspectives to act for the public good.

COVER PHOTO

Kiara Williams (College '11, Law '14)

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A Year of Change, A Place of Continuity

FROM THE PRESIDENT

TO REMAIN RELEVANT IN A RAPIDLY changing world, universities must continuously evolve. Thomas Jefferson knew this. In an 1804 letter he wrote, "Science is progressive. What was useful two centuries ago is now become useless … what is now deemed useful will in some of its parts become useless in another century." Mr. Jefferson was using the word science in its nineteenth-century sense to mean the entire body of knowledge. In the past year, the members of our University community have worked hard and have taken intellectual risks to ensure that the knowledge created and shared here continues to be useful, and that the University continues to meet the emerging needs of the Commonwealth, the nation, and the world.

The past year was a period of transformation in the University's executive leadership. Michael Strine became the new executive vice president and chief operating officer in July, succeeding Leonard Sandridge at the conclusion of his forty-four years of service. Michael came here from the Johns Hopkins University, where he served as vice president for finance, chief financial officer, and treasurer. As a former faculty member, a leader in state government, and an experienced financial and operational leader, Michael has a diverse background that has prepared him well for this job at U.Va.

John Simon became the University's new executive vice president and provost in September, succeeding Tim Garson. John is a chemist who came to us from Duke University, where he served for six years as vice provost for academic affairs, overseeing strategic planning and nurturing campuswide academic initiatives to connect the humanities, social sciences, and sciences. Prior to serving as vice provost, John chaired Duke's Department of Chemistry, and earlier served on the faculty at the University of California at San Diego. Together, John Simon and Michael Strine will lead a strong team of deans and vice presidents who are committed to advancing the University and its mission.

Even during a period of change, certain constancies continue to define life and learning here. When Mr. Jefferson was making plans for the University in 1821, he wrote that he wished to see its students "rising under a luminous tuition, to destinies of high promise." Today, our outstanding students work and study diligently to fulfill the destinies that Jefferson described. They regularly win awards and honors recognizing their achievements. The Class of 2011 included one Rhodes Scholar, one Udall Scholar, four Goldwater Scholars, and four winners of Davis Prizes for Peace. In September 2011, seven of our scholars—two graduate students and five recent graduates—received Fulbright awards to study abroad. During their time here, these students and their classmates participated in a rigorous education in what Jefferson called "the useful sciences" that nurtured their academic growth while also fostering their personal maturation with opportunities for self-governance, service, and leadership. This process of education and maturation produces broadly informed, well-rounded graduates who are ready to assume positions of leadership on the day they leave the Grounds.

The excellence of our students is largely attributable to the work of our faculty members, who distinguished themselves in many ways in the past year. Three professors from the College of Arts & Sciences—historian Alon Confino, Ernest H. Ern Professor of Environmental Sciences Paolo D'Odorico, and anthropologist Kath Weston—were awarded Guggenheim fellowships. Kim Hazelwood, associate professor of computer science in the School of Engineering & Applied Science, was recognized by *Technology Review* magazine as one of the world's top innovators under the age of thirty-five. Kim Tanzer, the Edward E. Elson Professor of Architecture and dean of the School of Architecture, was elected to the College of Fellows of the American Institute of Architects, the national professional association of architects. Chip Tucker, the John C. Coleman Professor of English, was elected to the American Academy of Arts and Sciences. Rita Dove, Commonwealth Professor of Poetry and former U.S. Poet Laureate, was elected to the American Academy of Arts and Letters, and was invited by President Barack Obama to read her poetry at an "Evening of Poetry" at the White House in May.

Timothy Beatley, the Teresa Heinz Professor of Sustainable Communities; and James Ryan, the William L. Matheson and Robert M. Morgenthau Distinguished Professor of Law and the F. Palmer Weber Research Professor of Civil Liberties and Human Rights, received 2011 Outstanding Faculty Awards from the State Council of Higher Education for Virginia.

U.Va. Health System physicians are recognized regularly for excellence in their areas of specialization. Forty-eight of our physicians were included in the latest edition of *America's Top Doctors*. This guide recognizes physicians who are considered to be among the top 1 percent in the nation in their medical specialties and subspecialties. The specialties of the forty-eight doctors recognized range from neonatal medicine to geriatric psychiatry. Additionally, fifteen U.Va. physicians were included in the listing for a sister publication, *American's Top Doctors for Cancer*.

Public service continued to be a hallmark of University life in the past year. Students here are strongly committed to service, and Madison House gives them many opportunities to help in our community. In the 2010–11 academic year, more than 3,400 students volunteered within nineteen program areas, at some ninety sites. Their cumulative volunteer work added up to more than 100,000 hours, with approximately 18,000 residents in the Charlottesville-Albemarle area directly affected by our students' volunteer service. Among the nineteen program areas at Madison House are an Adopt-a-Grandparent program, which allows students to provide one-on-one companionship to senior citizens living in nursing homes, adult communities, and private residences; a Big Sibling program, which matches our students with local, at-risk kids between the ages of six and twelve; an ESL tutoring program for children and adults offered through Albemarle County; and Hoos Against Hunger and Homelessness, where volunteers work with adults and children at a local homeless shelter and operate a food redistribution program.

University employees once again demonstrated their concern for the community through their participation in the 2010 Commonwealth of Virginia Campaign. Our employees contributed more than $910,000 through the campaign, the highest total of any state agency. U.Va. employees' donations made up more than 24 percent of the statewide total of $3.8 million. Since 1999, University employees have contributed more than $8 million through the Commonwealth of Virginia Campaign. In addition, U.Va. was the top state agency in total dollars contributed to the Virginia Disaster Relief Fund. This fund was established to provide financial aid to citizens of Virginia who suffered losses as a result of tornadoes, hurricanes, flooding, and an earthquake.

Despite a weak economy, we continue to make steady progress in the Campaign for the University of Virginia, with current and future support commitments totaling more than $2.47 billion as of the end of August. For the 2011 fiscal year, which ended June 30th, overall giving by alumni, parents, and friends was up $27 million (35 percent) over fiscal year 2010. This generous support enables us to sustain and strengthen the University in difficult economic times. We have begun using the theme "Heart of the Grounds" to describe the final stage of the campaign. Thomas Jefferson's Rotunda and Academical Village represent the physical heart of the Grounds, while our faculty and students personify the figurative heart of the Grounds. Preserving these literal and figurative hearts of the Grounds will be a key focus in the year ahead.

As I reflect on our progress over the past year, I recall Thomas Jefferson's view of this University as "an institution on which the fortunes of our country may depend." Our Commonwealth and our country are depending on this University now more than ever to fulfill its multifaceted mission of education, research, clinical care, and public service. This report describes our progress in pursuing these mission areas in the past year.

Teresa A. Sullivan
President

the year at a glance

Bay Game

SEPTEMBER 2010

IBM partners with the U.Va. Bay Game team to build Bay Game/Analytics, a second virtual simulation of pollution's effects on the Chesapeake Bay watershed. The massive computer power of the IBM-sponsored World Community Grid will run the new simulation.

The Board of Visitors approves a $22.9 million plan to renovate and repair the Rotunda. The work will include repairing the roof over the Dome Room and restoring the capitals on the Rotunda columns.

The Tayloe Murphy Center announces the five winners of its inaugural Resilience Awards. These are Virginia businesses that have demonstrated economic growth, job creation, and community leadership though located in economically challenged communities.

The Frank Batten School of Leadership and Public Policy hires its first five tenure-track faculty members from outside the University. Four of the five arrived on Grounds ahead of the fall semester, and three begin teaching their first U.Va. classes.

OCTOBER 2010

After ten years in the making, the South Lawn is formally dedicated. Several hundred people—including Virginia Governor Robert McDonnell and former Governor George F. Allen—attend the festivities, along with benefactors David E. Gibson (College '62, Law '65) and John L. Nau III (College '68).

Students practice sustainability where they live. Residents of the McCormick Road residence halls reduce their electric consumption 19 percent during October, as part of a first-year dorm energy challenge.

The Health System implements an electronic medical record system for more than 140 outpatient clinics across central Virginia. Inpatient areas will begin using the system in March.

In its 2011 editions, the *Princeton Review* lists the School of Law as having the No. 1 quality of life for students, No. 2 for "Best Classroom Experience," No. 4 for "Professors Rock (Legally Speaking)," No. 5 for "Toughest to Get Into," and No. 7 for "Best Career Prospects." The Darden School of Business is top-ranked for "Best Professors," second for "Best Campus Facilities," and fifth for "Best Campus Environment."

Bestselling author and sustainability expert Jeremy Rifkin speaks at the Car of the Future symposium.

Dean of the College Meredith Woo with benefactors John Nau and David Gibson attend the South Lawn dedication.

NOVEMBER 2010

The Virginia Film Festival shatters records for attendance and sales as filmgoers line up to see 132 films and events, including an opening-night sneak preview of Darren Aronofsky's *Black Swan* and a conversation with Oscar-winning film artist Peter Bogdanovich at a screening of *The Last Picture Show*.

The McIntire School of Business hosts a conference, "The Facebook Effect and the Power of Pull: How Social Media Is Reshaping Our World" to examine this powerful new force in communication.

The Family Weekend symposium "The Car of the Future/The Future of the Car," brings experts from around the world and faculty from across the Grounds to focus on the next wave of auto design and technology and discuss how next-generation electric or hydrogen cars can support a postcarbon Third Industrial Revolution.

The University celebrates International Education Week with scholarly, cultural, and education abroad events highlighting U.Va.'s global reach since making international activities a priority in its 2020 plan nine years ago. A joint initiative of the U.S. Department of State and the U.S. Department of Education, International Education Week promotes programs that prepare Americans for a global environment and attract future leaders from abroad to study in the United States.

DECEMBER 2010

Youth-Nex, U.Va.'s new research center to promote effective youth development, awards five grants to faculty to study topics that range from reducing childhood obesity in Charlottesville to teaching Russian literature to jailed youth. The awards are the first in an annual series of grants sponsored by the Curry School of Education-based research center.

After fifteen months of intense work, a new suite of software tools for faculty needs is released. The Science, Humanities, and the Arts Network of Technological Initiatives (SHANTI) version 1.0 includes tools for website creation, blogging, and managing audio, video, and photos.

Passengers on Delta Airlines will arrive at their destinations remarkably well informed, thanks to in-flight rebroadcasts of Miller Center programming. The rebroadcasts feature government officials, scholars, historians, and journalists speaking on public policy and political issues.

As part of its commitment to translational research, the University joins a biomedical development partnership with BioPontis Alliance, an organization that seeks to improve the flow of scientific discoveries into real-world medicine. This partnership gives U.Va. access to partners with financial resources, management and scientific expertise, and industry connections.

the year at a glance

Amiri Baraka

Donna Brazile

JANUARY 2011

The University presents two weeks of events in honor of civil rights leader Martin Luther King, Jr. Events include presentations by King biographer Clayborne Carson and political strategist Donna Brazile, a poetry reading by Amiri Baraka, and a showing of the film *Freedom Riders*, introduced by history professor Julian Bond and Larry Sabato, the Robert Kent Gooch Professor of Government and Foreign Affairs.

Nearly 800 undergraduates participate in January Term 2011; the nine overseas programs enrolled 175 of the total. Classes included courses such as "History, Technology and Sustainable Agriculture," "The Politics of Food," "An Irish Sense of Place: Literature, Language, Music and the Arts," and "The Dark Side of the 20th Century: Between Auschwitz and the Gulag."

Astronomers publish their discovery of a supermassive black hole in the center of a tiny low-mass galaxy. Their findings suggest that the formation of such large black holes may precede the growth of galaxies. Astronomy doctoral student Amy Reines, research associate Gregory Sivakoff, astronomy professor Kelsey Johnson, and National Radio Astronomy Observatory astronomer Crystal Brogan collaborated on the project.

FEBRUARY 2011

The University dedicates the $74 million Emily Couric Clinical Cancer Center, named for the late Virginia state senator. Her sister, Katie Couric, journalist and special news correspondent, speaks at the ceremony.

The University of Virginia is ranked No. 1 for the third year in a row among "best value" public colleges and universities, according to the *Princeton Review* and *USA Today*. *Kiplinger's Personal Finance* magazine ranks U.Va. No. 3 for the fifth time in six years.

The Board of Visitors approves a plan assessing $3,000 in differential tuition for students in the McIntire School of Commerce. Revenue generated by the tuition will help maintain and enhance McIntire's position as a global leader in business education. McIntire currently ranks second overall among the nation's best undergraduate business programs, according to the annual *Bloomberg BusinessWeek* rankings.

Henry Moore's bronze sculpture, *Seated Woman*, on loan from the Henry Moore Foundation in England, is placed on the new terrace in front of the University of Virginia Art Museum, marking the entrance to the new John and Betsy Casteen Arts Grounds.

Moore's *Seated Woman* joins Alexander Calder's *Tripes* as the second example of a modern masterpiece displayed prominently on the Grounds.

Dino Patti Djalal

MARCH 2011

Indonesia's ambassador to the United States, Dino Patti Djalal, talks about Indonesia's transformation during the last three centuries. His speech is part of the Ambassadors' Speakers Forum sponsored by the Office of the Vice Provost for International Programs. All third-year McIntire students attend the talk, which kicks off a McIntire School core course "Entry Strategies in Emerging Markets." Students create a business entry strategy for Indonesia, Turkey, Brazil, or India as part of the course.

A ten-year U.Va.-led study of urban slum children in Bangladesh results in a groundbreaking discovery of how a hormone (leptin) that prevents obesity also protects against a life-threatening diarrheal infection caused by the parasite *Entamoeba histolytica*. The findings appear in the March issue of *The Journal of Clinical Investigation*.

U.Va. employees contribute more than $910,000 to the 2010 Commonwealth of Virginia Campaign, the highest total of any state agency and easily surpassing their $725,000 goal. By the campaign's end, sixty-four departments report 100 percent participation.

APRIL 2011

President Teresa A. Sullivan announces the renovation of New Cabell Hall, thanks to the state's allocation of $64.5 million. The building will house the language, literature, and culture departments of the College and Graduate School of Arts & Sciences. The renovation will replace the building's systems and interior finishes and add meeting rooms and lounge spaces.

The three recipients of the Thomas Jefferson Foundation Medals—Virginia Supreme Court Chief Justice Cynthia Kinser, environmental designer Maya Lin, and philanthropist Peter G. Peterson—are honored at a Founder's Day luncheon in the Dome Room.

President Sullivan names Dr. Marcus Martin as vice president and chief officer for diversity and equity. Dr. Martin, a former chairman of the Department of Emergency Medicine at the U.Va. Health System, has served as interim vice president since July 2009.

Earth Week includes activities such as the Green Grounds' Green Career Fair, a Ragged Mountain hike, and a session of the U.Va. Bay Game with six other regional institutions participating. Earth Week also highlights sustainability efforts such as the creation of an interdisciplinary Global Sustainability Minor; the launch of Sustainability Partners, a volunteer network of employees who promote environmentally friendly workplace practices; and the initiation of the sustainability pledge, which reached the goal of 1,000 pledge takers by Earth Day.

The sustainability pledge encourages students and employees to make daily decisions that help the environment.

Valerie Gregory

Ethan Heil

Ishraga Eltahir

MAY 2011

A gift from Evelyn McGee Colbert (College '85) and her husband, comedian Stephen T. Colbert, helps to recruit sixteen incoming first-year students as the first beneficiaries of a new College Arts Scholars program. College Arts Scholars will have special access to the best arts resources at the University and funding for arts-intensive summer projects.

The School of Architecture launches the Center for Design and Health to pursue cross-disciplinary research to advance the design and planning of patient-centered facilities and healthy neighborhoods, towns, and cities.

The Algernon Sydney Sullivan Awards recognizing excellence of character and humanitarian service are presented to Ishraga Eltahir (College '11), Ethan Heil (Engineering '11), and Valerie H. Gregory, associate dean and director of outreach in the Office of Undergraduate Admission.

The Women's Center selects Carol S. Wood, associate vice president for public affairs, to receive the Elizabeth Zintl Leadership Award. The award honors the high degree of professionalism, creativity, and commitment that characterizes the winner's contribution to the University.

Carol S. Wood

JUNE 2011

The University creates Information Technology Services, combining the two groups that had provided technology infrastructure and support on Grounds. A unified organization will establish U.Va. as a resource for computationally intense scholarship and make information technology a strategic asset throughout the University.

Advocates for women's and children's rights in Afghanistan arrive at the Center for Politics to participate in the U.S.-Afghanistan Professional Partnership Program, part of the center's international outreach program, Global Perspectives on Democracy, launched in 2009.

Nursing professors Marianne Baernholdt and Cathy Campbell, with students Caitlin Carr and Sarah Borchelt, travel to South Africa with a Center for International Studies grant for their project, "Palliative Care Partnerships in South Africa: Research and Education." In South Africa, which has the highest number of HIV/AIDS infections in the world, they research palliative-care needs, develop care assessment tools, and train health care providers and community workers. Ms. Carr (College '11), a fifth-year master's degree student at the Batten School, is the first recipient of the Stephanie Jean-Charles Fellowship, named for the Batten student who died in the 2009 Haiti earthquake. The fellowship supports her independent research in South Africa. Sarah Borchelt (Nursing '11) received a Rodriguez Nursing Student Research and Leadership Fund award and Susan McDonald Nursing Student Research Award to fund her research.

JULY 2011

Governor Robert McDonnell appoints five new members to the Board of Visitors: Allison Cryor DiNardo (College '82, Darden '88) of Alexandria; Dr. Stephen P. Long of Richmond; George Keith Martin (College '75) of Hanover; John L. Nau III (College '68) of Houston; and Tim Robertson (College '77) of Virginia Beach. Helen E. Dragas of Virginia Beach will begin her term as the University's rector, and Mark J. Kington of Alexandria will become vice rector. Governor McDonnell also appoints Dr. Edward M. Miller of Baltimore in an ex-officio capacity. Jonathan Overdevest, a sixth-year M.D./Ph.D. candidate, serves as the board's student member.

The University receives a $2,445,000 grant from the Virginia Tobacco Commission Indemnification and Community Revitalization Commission to help transform industry in Southside Virginia utilizing housing designs created within the Architecture School. U.Va. is the lead partner on the grant to design and manufacture affordable and energy-efficient housing systems and disaster recovery structures, the results of design and research by faculty and students in the award-winning ecoMOD and Initiative reCOVER programs.

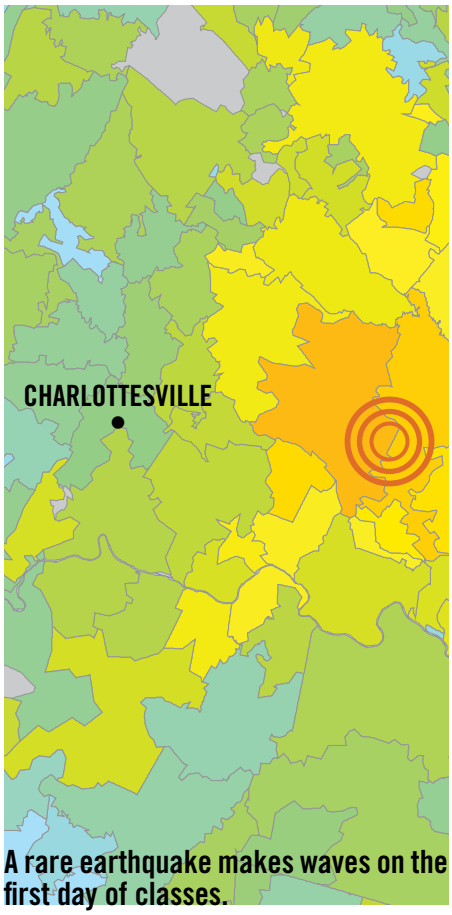
Michael Strine begins serving as the University's new executive vice president and chief operating officer, succeeding Leonard Sandridge. Mr. Strine comes to U.Va. from the Johns Hopkins University, where he was vice president for finance, chief financial officer, and treasurer.

AUGUST 2011

John D. Simon, Duke University's vice provost for academic affairs and a respected scientist, is named executive vice president and provost, effective September 1.

Richard and Leslie Gilliam of southwest Virginia pledge $8.3 million to the University of Virginia's College at Wise for a new health and wellness center and renovations to the Fred B. Greear Gymnasium to house the Healthy Appalachia Institute. Mr. Gilliam is a 1974 graduate of U.Va.-Wise. Their gift, the largest in the history of the school, will provide both an addition to its fitness center and the renovation of 5,833 square feet of the Greear Gymnasium.

On an unforgettable first day of classes, a 5.8-magnitude earthquake centered near Mineral, between Charlottesville and Richmond, shakes central Virginia. No major damage is reported by Monticello, Montpelier, or the University of Virginia.



A rare earthquake makes waves on the first day of classes.

SEPTEMBER 2011

Hunter Smith Band Building

Among public universities in the 2012 *U.S. News & World Report* rankings, the University of Virginia ties for No. 2 with UCLA, behind the University of California, Berkeley. This marks the eighth consecutive year that U.Va. has been second. The University remains ranked at No. 25 among all universities, public or private.

The Hunter Smith Band Building, made possible by longtime benefactor Hunter Smith, is dedicated. The building serves the Cavalier Marching Band, as well as its subsets, the basketball band, Olympic sports ensemble, wind ensemble, and concert band. Mrs. Smith, with her late husband, Carl W. Smith, also gave $1.5 million in 2003 to help start the marching band program. The $12.7 million facility contains three levels of rehearsal halls, practice rooms, instrument and uniform storage, and offices.

The University promotes its new "Three Plus One" (3+1) accelerated degree option to allow students to complete bachelor's and master's degrees in four years. The program's expansion is made in response to Governor Robert McDonnell's Higher Education Opportunity Act, passed in spring 2011, which calls for 100,000 more degrees to be awarded over the next fifteen years.

Funding Global Excellence

VISION

THE PRESIDENT'S COMMISSION ON THE Future of the University, formed in 2007, identified ways to distinguish the University of Virginia among its national and international peers and assessed the resources needed to support the University's aspirations to global excellence.

The commission's recommendations shaped the Campaign for the University of Virginia priorities—the student experience, research, global programs, the arts, and new facilities for teaching and learning. Private philanthropy made it possible for the University to construct new buildings for the Schools of Architecture, Arts & Sciences, Commerce, Education, Engineering and Applied Science, Medicine, and Nursing. The Frank Batten School of Leadership and Public Policy was created. Private funding also supported new facilities for scientific research and new and renovated structures for the fine arts, the Cavalier Marching Band, and drama. And the campaign has contributed to a dramatic reconfiguration and expansion of the Medical Center.

THE HEART OF THE GROUNDS

Now, in the campaign's final phase, the University seeks resources for the restoration of the Rotunda, the physical heart of the Grounds, and for students and faculty, who are the essential heart of the Grounds. Private support will enrich the experiences of those who teach and those who learn—enabling faculty to convey knowledge in more meaningful ways, inspiring students not simply to learn but also to learn to apply their knowledge, giving researchers the capacity to address more complex challenges, and increasing the ability of Health System staff to save lives and improve quality of life.

The University has already secured support for initial work on the Rotunda. In response to the University's petition, in April 2011 the Virginia General Assembly voted overwhelmingly to allocate $2.7 million for repairs to the roof of the Rotunda as part of the initial work to renovate the National Historic Landmark and UNESCO World Heritage site. In addition to the substantial roof repairs, extensive work will be done on the building's two porticos, including replacement of the column capitals. Subsequent work will include addressing changes to the Rotunda's interior infrastructure and renewal of the surrounding landscape. The total cost of the project is estimated to be $51 million.

BUILDING MOMENTUM

Despite continued economic challenges, alumni, parents, and friends are extending their generosity to the University with gifts small and large. Giving across the Grounds in 2010–11 increased. The College and Graduate School of Arts & Sciences achieved $41.7 million in new commitments for 2010–11, up from $28 million the previous year. Annual giving, representing smaller gifts, increased among several schools. The following examples illustrate major gifts to priority areas:

Mendel Rosenblum (College '84) gave $3 million to create the Marvin Rosenblum Professorship in the Department of Mathematics. The professorship honors his father, who taught in the department for forty-five years and was an internationally respected expert in operator theory and analysis.

The student-initiated interdisciplinary minor in global sustainability launched in 2011, made possible by gifts from George P. Mitchell of Houston, as well as Martin S. Brown (McIntire '60) and Margaret "Nina" Brown de Clercq (College '90) through the W. L. Lyons Brown Family Foundation.

In 2005, the Wallace H. Coulter Foundation chose U.Va as one of nine universities to each receive a five-year, $5 million grant for translation research—moving biomedical engineering projects into commercial products and clinical practices. In 2011, the foundation gave $10 million, matched by $10 million from other University endowments, to fund the U.Va. Coulter Translational Research Partnership. The partnership will continue U.Va.'s efforts to bring life-saving technologies to the marketplace.

A $5 million gift from Amy Mitchell Griffin, a former U.Va. volleyball player, has enabled the Department of Athletics to move forward with design and construction of its new track and field facility. Ms. Griffin's gift is the largest commitment ever made for an Olympic sport capital project at the University.

The campaign continues to maintain momentum. The 2011 reunion broke records, with 5,511 donors contributing more than $46.5 million, for a total alumni participation of 24 percent. The amount raised exceeded reunion giving totals in 2006 by $15.7 million and was the largest dollar amount raised in ten years.

The School of Law, Curry School of Education, University of Virginia's College at Wise, and School of Medicine/School of Nursing have exceeded their goals for the University's $3 billion campaign. The campaign total stands at more than $2.4 billion as of July 31, 2011.

Architect for the University David Neuman is overseeing the restoration of the Rotunda, the heart of the Grounds and centerpiece of Thomas Jefferson's Academical Village.

Preparing Students to Shape the Future

STUDENTS

THOMAS JEFFERSON ENVISIONED HIS university as dedicated to educating and preparing future generations for active, informed citizenship. Accordingly, at the very heart of the Grounds are U.Va.'s students. Following Mr. Jefferson's vision for the University, the current model brings the most talented students to the Grounds, places them together with inspired teachers, and, through the knowledge they transmit and the examples they provide, sets students on their course in life prepared to fulfill their aspirations.

Each class of students seems even more talented and better qualified than the last. The University received a record number of admissions applications—23,942—for the Class of 2015, a 6 percent increase over the previous year. Of the students offered admission, 94.5 percent rank in the top 10 percent of their high school graduating classes. Their median SAT score was 2,070 on a 2,400-point scale, with the middle 50 percent scoring between 1,950 and 2,210.

STUDENTS WHO CHALLENGE THEMSELVES

U.Va. gives students an expansive intellectual and ethical framework that they can use to create opportunities for professional and personal growth. The experiences of the graduating Class of 2011 illustrate this process. For instance, Katerina Bruner, the president of her sophomore, junior, and senior classes at Brooke Pointe High School in Stafford, Virginia, learned to combine her commitment to nursing with her dedication to the African-American community. Among other activities, she helped revive a floundering organization, Minorities in Nursing Today, and wrote a distinguished major thesis on the causes of obesity in African-American women.

Music major Elliott Burris, another member of the Class of 2011, chose U.Va., rather than the music academies and conservatories he also applied to, because other family members had attended the University. But Mr. Burris soon found that U.Va. was the ideal arena for exploring other interests while deepening his interest in music. He took courses in math, physics, Tibetan Buddhism, sociology, finance, accounting, and economics. A percussionist, he studied African drumming and joined the African Music and Dance Ensemble. He was also a member of the YouTube Symphony Orchestra, which presented a sold-out concert at Carnegie Hall. He has embarked on a career as a commodities trader.

Kenneth Warren, who graduated with a doctorate in educational technology, used the opportunity of a Curry School of Education course in digital storytelling to pay tribute to his great-aunt Alice Jackson Stuart. The University denied Ms. Stuart admission to graduate school in the 1930s because she was African American, and Mr. Warren created a video documenting her case. He now serves as an academic technology consultant to the humanities faculty at the University of Richmond.

Other students arrive at U.Va. with considerable experience. Rebecca Gantt came to the School of Law after five years in the U.S. Navy, where she was navigator of the Norfolk-based destroyer USS *McFaul*. A native of rural Nelson County, Virginia, she pursued her interest in environmental protection through the school's Environmental and Land Use Law Program and its Environmental Law Clinic. In the process, she earned the Jackson Walker L.L.P. Award, given to the student with the highest grade point average after four semesters. After graduation, Ms. Gantt will clerk for Judge Michael Boudin of the United States Court of Appeals for the First Circuit in Boston.

HIGH HONORS FOR STUDENT ACHIEVEMENTS

In the course of their explorations, many students show exceptional promise, as demonstrated by the honors and awards they received. A political and social thought major in the College of Arts & Sciences, Laura Nelson was one of just thirty-two students nationwide to win a Rhodes Scholarship to study at Oxford University, where she plans to study literature. Among her many contributions to the U.Va. community, Ms. Nelson was the driving force behind U.Va.'s innovative "flash seminars." Taking their cue from "flash mobs"—sudden assemblies of people brought together by social media—students organized impromptu lectures,

Katerina Bruner (Nursing '11) will continue to contribute her leadership and analytical skills in the nursing community as she focuses on helping others.

Fulbright-Hays grant recipient Jira Vinyoopongphan (College '12) chose to study Chinese and international affairs in Shanghai because of its growing influence and importance in the international arena.

Sarah Kim

Ben Wallace

tours, and presentations with faculty members, notifying interested people by e-mail. Past flash seminars included topics such as the photography of Andy Warhol and the politics of food.

Two students, Sarah Munford (College '11) and Robin Kendall (McIntire '11), both global development studies majors, won a Davis Projects for Peace grant, which will enable them to develop a business training curriculum for a trade school associated with the Seeds of Hope orphanage in São Paulo, Brazil. Ms. Munford spent four of her spring breaks working at the Seeds of Hope orphanage, and received a Jefferson Public Citizens grant for a research project with Heifer International in northern Uganda and a Community-Based Undergraduate Research Grant for her work in South Africa. Ms. Kendall received two Jefferson Public Citizens grants, a Community-Based Undergraduate Research Grant, and a Harrison Undergraduate Research Award for a series of projects in Bluefields, Nicaragua.

Other students earning national honors in 2010–11 include Sarah Kim (College '12), Ben Wallace (College '12), and Jira Vinyoopongphan (College '12). Ms. Kim, a biology major, received a Goldwater Scholarship, awarded to students who intend to pursue careers in mathematics, the natural sciences, or engineering. She is researching the effects of aging on plants, which age despite the presence of tissue that functions like stem cells.

Mr. Wallace was selected for a Truman Scholarship, given to students demonstrating leadership potential who are committed to careers in public service. A Jefferson Scholar and an Echols Scholar, he studies "grand strategy" in U.S. public policy. Mr. Wallace plans to pursue a law degree and a master's degree in public policy.

Ms. Vinyoopongphan received a Fulbright-Hays grant from the U.S. Department of Education, a rare achievement for an undergraduate. A double major in foreign affairs and Chinese language and literature, she will use the grant to study for a semester at the East China Normal University in Shanghai.

Two graduating students were singled out for Algernon Sydney Sullivan Awards, which are presented to recognize excellence of character and humanitarian service. Ishraga Eltahir, who graduated with degrees in political and social thought and African-American and African studies in the College's Distinguished Major Program, was cochair of the Diversity Initiatives Committee on Student Council and a leader for both the Global Development Organization and the Cultural Programming Board. Civil engineering major Ethan Heil conducted a number of projects overseas, including work on renewable energy technologies for historic workers' houses in Falmouth, Jamaica, and research on ensuring a supply of safe, filtered drinking water in rural South Africa.

WORKING TOGETHER TO ADDRESS SOCIAL ISSUES

Student self-governance is a fundamental aspect of the University experience. The University encourages students to show initiative and work collectively to tackle important issues. For example, in spring 2011 Seth Hayden and Allison Cutright, graduate students in the Counselor Education program at the Curry School, realized that there was no place at U.Va. for veterans and active-duty military to share information about resources available to them and to reflect on shared experiences. Although neither is a veteran, they formed Military Veterans@U.Va.

The growing prevalence of "bystander behavior" motivated other students to form the Get Grounded Coalition. Get Grounded's goal is to counter any expression—in the form of disrespectful speech, drug and alcohol abuse, or violence—that threatens the University's community of caring and trust. Last fall, the group trained 750 students to intervene constructively in a variety of situations, and two leaders of the group, Sharon Zanti (McIntire '11) and Kelsey Host (College '11) presented the group's accomplishments at the fall Board of Visitors meeting.

In the wake of the 2010 U.S. census, redistricting was a central issue confronting the Virginia General Assembly in 2011. As a way to understand the complicated social and political forces driving this process, two teams of U.Va. undergraduates participated in the Virginia College and University Redistricting Competition. Their charge was to produce redistricting plans that met the minimum standards required by law and that were electorally competitive. The U.Va. teams took first or second place in every category of the contest.

Other U.Va. students are finding ways to protect the environment using synthetic biology, a process by which researchers engineer novel biological systems by inserting genetic components into the DNA of a simple organism. The students constructed an environmental biosensor by adding genetic code to simple bacteria that causes fluorescent protein to be produced when the bacteria detect the presence of substances like mercury, copper, and arsenic that are toxic to fish. For their efforts, they won a bronze medal at the 2010 International Genetically Engineered Machine competition at the Massachusetts Institute of Technology. •

A Faculty That Inspires Learning

FACULTY

UNIVERSITY OF VIRGINIA FACULTY members are committed to conveying the knowledge young people need to be productive citizens in society and instilling in students an appreciation for civil discourse. Along with this commitment, they strive to inspire each student, bringing their passion and enthusiasm for intellectual inquiry into the classroom and beyond the Grounds. Society relies on University faculty researchers to generate the discoveries and tools it will use to take on modern challenges. The consistently high rankings that the University earns reflect the commitment and creativity of U.Va. faculty in meeting these responsibilities.

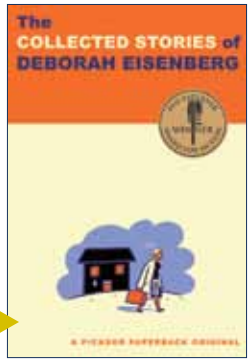
A BALANCED DISTRIBUTION OF EXCELLENCE

The level of faculty excellence that supports national rankings is both wide and deep. The long-awaited assessment of U.S. doctoral programs by the National Research Council shows a balanced distribution of high-quality scholarship across the University. More than one-quarter of the University's programs included in the assessment were in the top ten in the council's two overall rankings. The range of prestigious scholarly academies that selected U.Va. faculty members for membership confirms these results:

- Ming-Jer Chen, the Leslie E. Grayson Professor of Business Administration, was elected to the Fellows Group of the Academy of Management. He will become the academy's president in 2012.
- Eric Patashnik, professor of politics and public policy and associate dean of the Frank Batten School of Leadership and Public Policy, was made a fellow of the National Academy of Public Administration.
- Barbara A. Spellman, professor of psychology and professor of law, was named a fellow by the American Association for the Advancement of Science.

Rita Dove

Deborah Eisenberg



Dean of the School of Architecture Kim Tanzer was recognized by the American Institute of Architects for her leadership in strengthening the study of architecture through academic research and extensive service.

- Kim Tanzer, dean of the School of Architecture and the Edward E. Elson Professor of Architecture, was elected to the College of Fellows of the American Institute of Architects.
- Herbert "Chip" Tucker, the John C. Coleman Professor of English, was elected to the American Academy of Arts and Sciences.

Debra Nystrom

LEADERS IN THEIR FIELDS

Members of the University's creative writing program, considered one of the best creative writing programs in the nation, received a number of honors. In addition to her election to the American Academy of Arts and Letters, Rita Dove, Commonwealth Professor of English, was presented the Ambassador Award at Oklahoma's Celebration of Books, a Hurston/Wright Legacy Award for poetry, and an Ohioan Book Award for Poetry. These last two awards were for her 2009 book, *Sonata Mulattica*. Another poet in the creative writing program, Debra Nystrom, won the Library of Virginia Award for *Bad River Road*, her third collection. Short-story writer and MacArthur Fellow Deborah Eisenberg received the 2011 PEN/Faulkner Award for Fiction for her book *The Collected Stories of Deborah Eisenberg*.

The University's mathematicians were also singled out for accolades. Irena Lasiecka, professor of mathematics, was the first woman selected for the W. T. and Idalia Reid Prize, one of the top awards in differential equations and control theory. Two of her younger colleagues, associate professor Michael Hill and assistant professor Mikhail Ershov, were named Sloan Research Fellows for 2011.

Mathematics professors Michael Hill and Mikhail Ershov, far right, won Sloan Research Fellowships, given to early-career scientists and scholars of outstanding promise. Irena Lasiecka, to right, professor of mathematics, was selected by her peers worldwide to receive a top prize in the field of differential equations and control theory.

Scientists and engineers received their share of honors. Biologist Sarah Kucenas received the Basil O'Connor Starter Scholar Research Award from the March of Dimes. Two other young scientists, chemist Linda Columbus and physicist Austen Lamacraft, were named Cottrell Scholars by the Research Corporation for Science Advancement. Edward Botchwey, professor of biomedical engineering and orthopaedic surgery, received a Presidential Early Career Award for Scientists and Engineers.

In a time of decreased funding for individuals in the arts, humanities, and sciences, three faculty members in the College of Arts & Sciences secured Guggenheim Fellowships. They were Alon Confino, professor of history; Paolo D'Odorico, the Ernest H. Ern Professor of Environmental Sciences; and Kath Weston, professor of anthropology and director of the Studies in Women and Gender program.

HIGHLIGHTS OF FACULTY SCHOLARSHIP

A number of books by faculty members were recognized with awards. *Our South: Geographic Fantasy and the Rise of National Literature* by Jennifer Greeson, assistant professor of English, won the 2010 C. Hugh Holman Award from the Society for the Study of Southern Literature. *Apollo, Augustus, and the Poets* by John F. Miller, professor of classics and chair of the department, received the 2010 Charles J. Goodwin Award of Merit, the preeminent prize in the field of classical scholarship. *A Transnational Poetics* by Jahan Ramazani, the Edgar F. Shannon, Jr., Professor of English, won the Harry Levin Prize from the American Comparative Literature Association.

In the Department of Spanish, Italian, and Portuguese, seven of the department's eighteen faculty members completed a total of nine books, all published or about to be published. The department's graduate program also received the National Research Council's highest ranking.

Edward Botchwey

Pioneering New Models of Education

TEACHING

OUTSTANDING TEACHING HAS ALWAYS been a hallmark of the University of Virginia, and it remains so today. This year, Timothy Beatley, the Teresa Heinz Professor of Sustainable Communities; and James Ryan, the William L. Matheson and Robert M. Morgenthau Distinguished Professor of Law, were among a dozen faculty members from Virginia's public and private colleges and universities selected to receive 2011 Outstanding Faculty Awards. The State Council of Higher Education for Virginia presents the award, funded by the Dominion Foundation.

Two other professors, John L. Colley, Jr., the Almand R. Coleman Professor of Business Administration and a member of the Darden School of Business faculty for forty-three years; and Dr. Richard L. Guerrant, the Thomas Hunter Professor of Medicine and director of the Center for Global Health, were honored with 2010 Thomas Jefferson Awards. The Jefferson Award is the highest honor the University bestows on its faculty. Mr. Colley, the first Darden professor to receive the award, was also selected to live in Pavilion VIII on the Lawn, at the heart of the Academical Village.

In April 2011, President Teresa A. Sullivan hosted an annual banquet in the Dome Room of the Rotunda to honor twenty of the University's best teachers, one way of underlining the close faculty/student relationship that distinguishes U.Va. from other research universities. Each of the twenty faculty members received recognition for their mentoring or teaching during the year.

EFFORTS TO IMPROVE TEACHING AND LEARNING

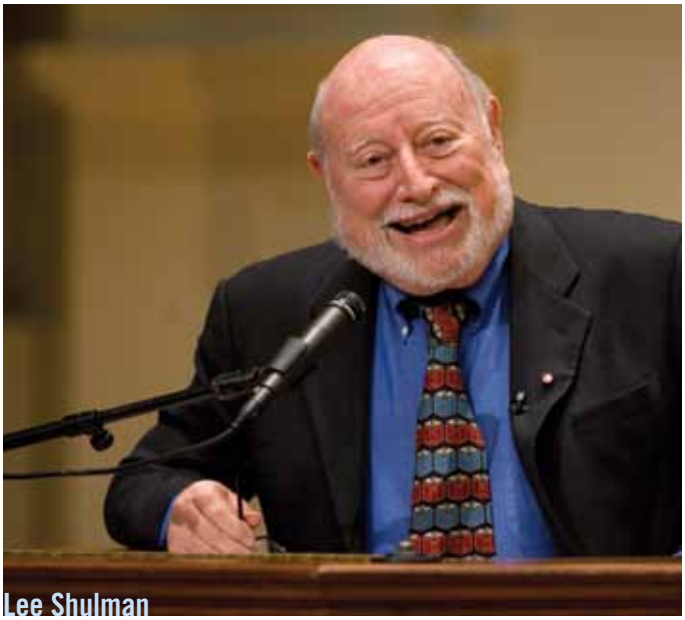
In her coauthored book, *Academically Adrift: Limited Learning on College Campuses*, Josipa Roksa, assistant professor of sociology, argues that undergraduates at many American colleges learn little during their four years. Under the leadership of Karen Kurotsuchi Inkelas, associate professor of education, the Center for Advanced Study of Teaching and Learning in Higher Education is building on the University's tradition of excellence in teaching to improve undergraduate, graduate, and professional education around the nation and at the University. The center is applying evidence-based assessment to the relationship between college teaching and student learning.

President Sullivan's inauguration week underscored the University's commitment to this approach, with the University hosting a symposium titled "Using Evidence to Improve Teaching and Learning in Higher Education." The symposium featured a keynote address by Lee S. Shulman, president emeritus of the Carnegie Foundation for the Advancement of Teaching, as well as

Josipa Roksa

Karen Kurotsuchi Inkelas

Law professor James Ryan, one of two U.Va. faculty members to receive 2011 Outstanding Faculty Awards, is recognized for his commitment to teaching and guidance of students' professional and personal development.


Lee Shulman

a wide variety of presentations on such topics as preparing graduate students for professional careers and using video to improve teaching and learning.

EDUCATION BEYOND THE CLASSROOM

Teaching highly motivated undergraduates often involves taking education beyond the classroom and working directly with them on independent projects. At the annual Undergraduate Research Opportunity Fair, for instance, scores of faculty members offered a wide array of opportunities for students, including places in their laboratories, internships, and independent study. Opportunities like these help students to take an active role in assembling the knowledge needed to meet meaningful intellectual challenges.

The University offers a growing number of competitive awards to support these student efforts:

- Two undergraduate researchers received Arnold and Mabel Beckman Foundation scholarships designed to promote research in chemistry.
- Eight pairs of undergraduate and graduate students received Double Hoo Research Grants. The program offers graduate students the rare opportunity to mentor undergraduates, while providing undergraduates with hands-on research experience.
- Twenty-four students received Harrison Undergraduate Research Awards, while two others had their research underwritten by the Stull family of Dallas and the Finger family of Houston. Projects ranged from determining the best animal models for human pancreatic cancer to China's use of soft power to acquire mineral resources in the developing world.
- Twenty students received Jefferson Public Citizens Awards to undertake public service projects in locations as near as Charlottesville and as far as Nicaragua and Zambia.
- Four students spent the summer on the Lawn, conducting research projects focusing on the Academical Village. The William R. Kenan, Jr., Endowment Fund for the Academical Village is funding their research.
- Two students received Senator John W. Warner Public Leadership Undergraduate Research Awards to study disaster management for climate change and assess the value of zero-tolerance policies in schools.

Seven students received grants from the Undergraduate Award for Arts program. Their work will include such projects as writing a novel on revolution in contemporary America, creating sculpture and prints that explore gardens and environmental change, producing a film about Shanghai, and studying the art of aerial acrobatics.

A University-wide poster competition held during inauguration week underscored the extent to which students—both undergraduate and graduate—are involved in research. The team behind the winning entry in the Biosciences and Health category—"3D Dual Modality Scanner for Breast Cancer Detection"—consisted of two physics graduate students, a biomedical engineering graduate student, and an undergraduate physics major as well an associate professor of radiology and a radiology staff member. Combined, students and faculty submitted 220 entries in seven categories, and President Sullivan distributed the awards.

The University is focusing on expanding fellowship support for graduate students, an initiative critical to the long-term well-being of the University. Graduate students help attract and retain outstanding faculty and serve as role models and mentors for undergraduates. Graduate student support of note this year included the following:

- The Faculty Senate awarded five students dissertation-year fellowships.
- The University selected its first two Humboldt Fellows, part of an exchange program with the Humboldt University in Berlin.
- Fifteen humanities students received summer subsidies, courtesy of a grant from the Andrew W. Mellon Foundation.
- The University's creative writing program received funding to establish a $300,000 endowment from the Joseph F. McCrindle Foundation to award a Henfield Prize for the best work of fiction by one of its graduate students. U.Va. is one of five universities nationwide whose creative writing programs were chosen to host the Henfield Prizes.

COLLABORATIVE FOCUS ON REAL-WORLD ISSUES

The solutions to many of the challenges facing society lie at the intersection of distinct disciplines. Faculty members are joining forces to create courses that give students the firsthand experience of working collaboratively to solve real-world problems.

In the School of Architecture, for example, faculty members developed a two-semester course that challenged students to explore Richmond's industrial East End and to imagine ways to

Architecture professor Tim Beatley, a 2011 Outstanding Faculty Award recipient, is known for his inspired teaching and ability to engage students.

transform and reinvigorate the area. During the first semester, historic preservation students in architectural history professor Daniel Bluestone's class researched the social, cultural, and political history of the East End, while landscape architecture students led by architecture professor Julie Bargmann identified ways to remediate the polluted soil and groundwater. During the second semester, architecture professor Maurice Cox and Marlon Blackwell, the Thomas Jefferson Foundation Visiting Professor of Architecture, built on this foundation as students designed a brewery, thermal bath, community center, and other projects for the area.

STRIKING OUT IN NEW DIRECTIONS

The Virginia Business Higher Education Council's Grow By Degrees campaign calls for the state's colleges and universities to award a cumulative 100,000 additional undergraduate degrees by 2025. One way the University is contributing to this effort is through a bachelor of interdisciplinary studies (BIS) degree program offered through the School of Continuing and Professional Studies. It enables adults who have completed sixty transferable hours at other institutions to transfer their credits to the University and complete their degree as part-time students. The School of Continuing and Professional Studies recently announced that it would begin offering the BIS program in the Richmond area starting in fall 2012 through new partnerships with John Tyler and J. Sargeant Reynolds Community Colleges. Currently, the program is available to students on the Grounds as well as at Tidewater Community College and Northern Virginia Community College.

A number of the schools, including the School of Medicine and the Darden School of Business, are revising their curricula to better prepare students for the challenges they will face on graduation. The Darden School, for instance, conducted an eighteen-month top-to-bottom review of its full-time MBA program and has already made more than a dozen changes to its program. These have included a complete makeover of the required first-year schedule to better coordinate classroom and related outside activities and to improve the postgraduation job recruitment process for Darden students.

The growing emphasis on the Grounds on programs with an international focus highlights new directions in education. The Darden School launched a new Global Executive MBA program, while the School of Architecture introduced an interdisciplinary minor in global sustainability.

The University also promotes extensive international exchange programs. There are 2,700 international students at U.Va., as well as 372 international scholars, 230 international faculty, and 377 international professional and classified staff. The University sends about 2,000 students abroad a year, studying in sixty-two countries. All together, about 40 percent of the University's four-year students study abroad.

Research That Serves Society

RESEARCH

RESEARCH AND THE DRIVE TOWARD innovation are shaping the University in the twenty-first century. The passion for discovery is shared by all—faculty in the sciences and the humanities, postdoctoral students, professional students, graduate students, and undergraduates. Any discovery that expands knowledge of the world in which we live enriches society, but at times like these, the efforts of University researchers—in areas such as health, the environment, and education—are particularly valuable.

FOCUSING ON HEALTH AND A HEALTHY ENVIRONMENT

The work of Robert Grainger, the W. L. Lyons Brown Professor of Biology, may ultimately promote the regeneration of human organs and tissues. With $3.4 million in funding from the National Institutes of Health, he leads the Developmental and Regenerative Center, which uses *Xenopus*, a genus of frog, to understand the sequence of genetic events that allows it to regenerate organs after they become damaged. Because of *Xenopus*'s similarities to the human genome, this knowledge may give physicians the ability to manipulate genes to replace tissue damaged during a heart attack or to produce a new lens for people with cataracts.

Jacquelyn Shuman and Hank Shugart

Other researchers are gaining a more detailed understanding of climate change. Using satellite data, Hank Shugart, the W. W. Corcoran Professor of Environmental Sciences; and postdoctoral research associate Jacquelyn Shuman (Graduate Arts & Sciences '10) found that Russia's northern boreal forest—the largest continuous expanse of forest in the world—is undergoing an accelerating shift in vegetation as the climate warms. Tree species that are more tolerant of warmer weather are advancing northward as species that are less tolerant are declining in number. Larch trees drop needles in fall, allowing the vast snow-covered ground to reflect sunlight and heat back into space and help keep the region's climate very cold. But evergreen conifers, which retain needles year-round, absorb sunlight and cause ground-level heat retention. This creates ideal conditions for evergreen proliferation, to the detriment of the leaf-dropping larches. The shift itself is likely to produce additional climate change. Mr. Shugart and Ms. Shuman have received $987,000 from NASA to continue their studies.

Additional projects focus on cutting greenhouse gases by reducing reliance on petroleum. Robert J. Davis, the Earnest Jackson Oglesby Professor of Engineering and Applied Science; and Matthew Neurock, the Alice M. and Guy A. Wilson Professor of Chemical Engineering and professor of chemistry, are exploring the use of gold and other metals as catalysts to produce an array of commodity chemicals from biorenewable carbon feedstocks rather than petroleum.

EVIDENCE-BASED EDUCATION

Researchers are also playing a major role in a number of statewide and national initiatives to improve the quality of education. Randy Bell, associate professor in the Curry School of Education, is the co-principal investigator of a $34 million grant to implement and study the effectiveness of the Virginia Initiative for Science, Teaching, and Achievement program to enhance science education throughout the Commonwealth.

Robert Grainger is the principal investigator of an NIH grant that helps fund a center at the Marine Biological Laboratory in Woods Hole, Massachusetts, where researchers study the frog genus, *Xenopus*. Noted for its regenerative abilities, this type of frog is a key research tool in genetics.

The Classroom Assessment Scoring System, developed at the Center for Advanced Study of Teaching and Learning (CASTL) will be used to measure teacher quality in all 50,000 of the nation's Head Start classrooms. Robert Pianta, dean of the Curry School, Novartis U.S. Foundation Professor, and director of CASTL; and Bridget Hamre, senior scientist, are part of a $40 million effort to improve teaching and learning at Head Start.

THE DIGITAL TRANSFORMATION IN THE HUMANITIES

Computers have transformed research in the humanities as well as the sciences, enabling investigators to answer in a few hours or days questions that once would have taken a lifetime. An Andrew W. Mellon Foundation grant is allowing faculty and graduate students from the Department of French to compare digitized versions of manuscripts by the late-fourteenth-century poet and composer Guillaume de Machaut, which are currently scattered in libraries across the world. They are creating an electronic research environment that will give grant participants a uniform set of tools to study these manuscripts simultaneously.

A similar initiative was completed for the Chaco Research Archive, an online resource devoted to New Mexico's Chaco Canyon, the center of ancient Pueblo civilization. Led by Stephen Plog, the David A. Harrison III Professor of Historical Archaeology, and Worthy Martin, associate professor of computer science and codirector of the Institute for Advanced Technology in the Humanities, the archive enables researchers to compare artifacts and records held at nineteen museums, federal agencies, universities, and libraries.

Bernard Frischer, professor of classics and art history, with National Science Foundation (NSF) funding, will add a fourth dimension to "Rome Reborn," a 3-D navigable model of Rome in A.D. 320. He is also adding avatars representing historical characters to his re-creation of Hadrian's Villa, which supported more than 3,000 people on 200 acres. This simulation is a teaching tool that enables students to assume the roles of historical residents so they can learn how the complex villa functioned and residents interacted.

ACCELERATING RESEARCH IN THE SCIENCES

Having mapped the genome of hundreds of organisms, including humans, scientists are now studying the significance of genetic differences from one organism to another. Jason Papin, associate professor of biomedical engineering, is part of an international research team that has developed an improved method of determining how differences in genomes lead to differences in cell function. They compared the harmless bacteria *Pseudomonas putida* with its relative *Pseudomonas aeruginosa*, which is responsible for 10 percent of hospital-acquired infections. This research is an important first step in uncovering the genetic source of the pathogen's toxicity and in making hospitals safer.

Curry School dean Bob Pianta and research scientist Bridget Hamre are part of a team measuring teacher quality in the nation's Head Start classrooms. Education professor Randy Bell collaborates with science educators to address effective professional development needs for elementary and secondary science teachers.

Engineering professor Scott Acton, working with Barry Condron, associate professor of biology, developed an algorithm that allows computers to represent accurately the shape of neurons, a key characteristic that determines how neurons function. This breakthrough is a fundamental part of an effort to create a detailed picture of the central nervous system. A $483,000 NSF grant will support this project over the next three years.

Computers have also made this a golden age for astronomical research, and the Department of Astronomy is a leader in infrared analysis. The Apache Point Observatory Galactic Evolution Experiment (APOGEE) will survey more than 100,000 stars with a high-resolution, infrared-sensitive spectrograph largely designed and built at U.Va. The goal is to gain new insight into how the Milky Way formed and evolved. Astronomy professor Steven Majewski is the project's lead scientist. APOGEE is one of four major experiments of the Sloan Digital Sky Survey III.

U.Va. astronomers helped confirm that NASA's $320 million Wide-field Infrared Survey Explorer observatory had identified its first cool brown dwarf, a tiny ultracold star. Michael Skrutskie, professor of astronomy, is part of the team that planned and designed the observatory.

STRENGTHENING THE DIGITAL INFRASTRUCTURE

In addition to facilitating unprecedented advances in research, computers support day-to-day activities. They fly aircraft, manage the electrical grid, and enable the flow of trillions of dollars that support the global economy. The software for these systems has grown in proportion to the complexity of their functions. Accordingly, much of this software is developed modularly. Computer science professors Jack Davidson and John Knight are part of a $13 million research project, funded through the Office of the Director of National Intelligence, to reduce the risk of vulnerabilities and bugs introduced through this process. They are developing automated methods to monitor and analyze the software in its idle state and during execution.

Westley Weimer, assistant professor of computer science, works with a group that is taking cues from biology to help create software that can teach itself how to thwart cyber attacks and recover from them. A $3.2 million grant from the Defense Advanced Research Projects Agency funds this program.

U.Va. engineers are also at the forefront of efforts to improve computer hardware. The University partnered with the College of William & Mary and Old Dominion University to launch the

Virginia Nanoelectronics Center. The center will explore and develop advanced materials as well as new devices and circuits at nanoscale dimensions, setting the stage for the next generation of microelectronics.

Faculty members are also keen observers of the Internet's effects on daily life. Siva Vaidhyanathan, Robertson Professor of Media Studies, has published *The Googlization of Everything (And Why We Should Worry)*, a critical examination of how Google is reshaping the way we live and work.

Siva Vaidhyanathan

PARTNERSHIPS FOR THE PUBLIC GOOD

The University serves society directly as well as through its research. The School of Law received a $150,000 grant from the Jessie Ball DuPont Fund to develop the Access to Justice Partnership. This partnership with the local bar association, the Legal Aid Justice Center, and the Central Virginia Legal Aid Society will strive to meet the legal needs of low-income residents in central Virginia. Some seventy-five private attorneys and seventy-five law students are expected to provide pro bono services through the Access to Justice Partnership.

In another partnership, the Tayloe Murphy Center at the Darden School and the School of Continuing and Professional Studies teamed with the Danville Regional Foundation to offer a Certificate in Entrepreneurship program. Using the Darden School's case study method, the five-day course highlights the issues faced by successful Virginia-based businesses. There are plans to offer the program in Wise, Virginia. •

Drawing on their expertise in three-dimensional image analysis techniques and biology, engineering professor Scott Acton and biology professor Barry Condron give researchers a more detailed view of the brain's functioning.

Preparing for the Future of Health Care

HEALTH SYSTEM

THE U.VA. HEALTH SYSTEM IS WELL positioned for 2012 and beyond. In 2010–11, the Health System opened several new facilities, offering patients advanced treatments in settings that reflect a holistic approach to care. The Health System also devised more innovative ways to deliver high-quality care to patients who live at a distance, while introducing technologies that bridge the gap between a patient's home and the doctor's office.

At the same time, Health System researchers contributed to the global effort to produce a more accurate and detailed understanding of the human body and used this information to produce more effective treatments. The Schools of Medicine and Nursing capitalized on new and renovated facilities to launch bold educational reforms that will better integrate this growing body of knowledge with the clinical experience.

These buildings, renovations, research, and educational and patient care initiatives all support what is always the highest priority at the U.Va. Health System—people, including the patients who seek treatment and the professional staff who make that treatment possible.

A COMMUNITY DEVOTED TO BETTER HEALTH

At the heart of these changes is a committed, creative, and highly skilled staff. In this era of limited funding, members of the Health System are determined to achieve ever better empirical outcomes by pushing the limits of medical technology, building closer relationships with patients and their families, and finding new ways to collaborate.

Faculty members recently singled out for special recognition exemplify this dedication:

- Kathryn Laughon, associate professor of nursing, was elected a fellow of the American Academy of Nursing. Currently the Robert Wood Johnson Foundation Nurse Faculty Scholar, she has been testing a computerized intervention to improve health and safety for battered women seeking protective orders.
- The American Academy of Nursing also inducted Pamela Kulbok, professor of nursing. Ms. Kulbok's research focus is drug, tobacco, and alcohol prevention in adolescents.
- Kodi S. Ravichandran, the Harrison Distinguished Teaching Professor of Microbiology, was named one of four Virginia

Kodi Ravichandran

Boris Kovatchev

Nursing professors Kathryn Laughon and Pamela Kulbok were elected fellows of the American Academy of Nursing, which includes the nation's top nurse researchers, policymakers, scholars, executives, and practitioners.

Outstanding Scientists in 2011. Acknowledging his international recognition for research on the mechanisms that clear dying cells from the body, the University named Mr. Ravichandran a distinguished scientist.

- Dr. David A. Peura, emeritus professor of medicine, was presented the 2011 Julius Friedenwald Medal, the highest honor awarded by the American Gastroenterological Association. Dr. Peura conducted clinical research on acid peptic disorders, particularly peptic ulcer disease.
- The University of Virginia Patent Foundation selected Internationally renowned diabetes technology scientist Boris P. Kovatchev for its top honor: the Edlich-Henderson Inventor of the Year award. The honor recognizes a U.Va. inventor or team of inventors whose research discoveries have proven to be of notable value to society.

In addition, forty-eight physicians were included in the latest edition of *America's Top Doctors*, which recognizes physicians who are considered among the top 1 percent in the nation in their specialties. The Health System also had 195 physicians listed in the Best Doctors in America survey, the most ever for U.Va. Only about 5 percent of U.S. doctors are selected for the Best Doctors list, issued every two years.

CREATING A MORE RESPONSIVE ENVIRONMENT FOR CARE

In April 2011, the U.Va. Medical Center opened the Emily Couric Clinical Cancer Center. Named for the late Virginia state Senator Emily Couric, who died of pancreatic cancer in 2001, the designers of the $74 million cancer center carefully planned the building to meet the needs of patients and their families and make treatment more convenient. Its designers thoughtfully designated

Molecular physiology and biological physics professor Lukas Tamm is part of a research effort studying the mechanism of neurotransmitter release—the molecular pathways that allow neural cells to pass chemicals from cell to cell.

space in its clinics for nurses coordinating clinical trials, providing patients with easier access to investigational treatments in a warm, inviting, and invigorating space designed for the needs of patients and their families.

The Couric Center also houses cutting-edge cancer-fighting technology. The center is the first in the United States and only the second in the world to offer TomoHD, a system that can deliver a radiation beam that conforms extremely closely to the irregular contours of cancer tissue. Because it is so accurate, radiologists can optimize the radiation dose, reducing the number of treatments.

The University also broke ground on the Battle Building at U.Va. Children's Hospital. Named for Bill and Barry Battle, two longtime advocates for children's health care, the Battle Building will centralize outpatient health care for children that is currently scattered across the Health System. The $141 million facility will house general and specialist pediatric care, along with therapeutic and educational areas, in a 200,000-square-foot, seven-story complex. There will be seventy-five examination rooms and "treatment neighborhoods" that group related services together, all in a welcoming environment. The facility is scheduled to be completed in 2014, with approximately $10 million still to be raised.

In addition, the University dedicated the Transitional Care Hospital, an important element in the Health System's strategy of making the most appropriate use of the University Hospital. The Transitional Care Hospital specializes in treating patients with complex medical conditions that require long stays, such as patients on ventilators or waiting for or recovering from transplants.

The opening of a hybrid operating room that includes leading-edge imaging technology as well as standard operating room technology is another indication of the Medical Center's determination to ready itself for the future of health care. Designed for use by heart patients, the hybrid OR is the first of its kind in central Virginia and one of only a few in the nation. Both imaging and surgery can be performed in one room, enabling physicians to monitor patients during procedures. For patients, this means safer surgeries, fewer corrective surgeries, and shorter hospital stays.

The Medical Center also updated its electronic infrastructure this year, integrating medical records that had been divided among paper and electronic files. Within the space of a year, the Medical Center conducted a sequenced launch of the Epic electronic medical record system at more than 140 ambulatory clinics across central Virginia, in the cancer center, and finally at University Hospital. No other major medical center in the U.S. has conducted such a comprehensive launch with such an ambitious timeline. Successful implementation required thousands of people in the Health System to collaborate to design, build, and test the new system.

The benefits to both patients and providers are substantial. Integrating medical records in a single electronic system gives

the Medical Center the power to provide care that is more timely, more appropriate, less duplicative, and, above all, safer. In addition, having a single system enables physicians to see their patients more clearly, both as individuals and in the aggregate. It also gives the Health System a platform to evaluate the care it provides and make systematic and systemic changes to improve quality. Nearly $122 million has been budgeted to develop, implement, and refine the electronic medical records system over a five-year period.

The determination to provide the best possible care in the best setting is one reason that the U.Va. Medical Center received special recognition in 2010–11. For the second time in three years, the National Research Council named it a Consumer Choice Winner. In addition, *U.S. News & World Report* ranked five medical specialties in its 2011–12 survey of "Best Hospitals," including diabetes and endocrinology (13); neurology and neurosurgery (35); ear, nose and throat (39); gynecology (44); and cancer (48). The Medical Center is also known for its cardiovascular care. For the seventh time, Thomson Reuters recognized the Medical Center as one of the nation's top fifty hospitals for inpatient cardiovascular care.

INVENTING THE FUTURE OF HEALTH CARE

The Health System is not simply incorporating advanced treatments into patient care. In many areas, it is at the forefront of developing new approaches to care. In 2011, a team of researchers led by Dr. Quanjun Cui, an assistant professor of orthopaedic surgery, received a $100,000 grant from the Orthopaedic Research and Education Foundation to take the next steps in developing an innovative treatment for complex fractures. By combining gene therapy and adult stem cell therapy, Dr. Cui and his colleagues are harnessing the body's regenerative powers to restore lost bone.

The Medical Center is also taking part in a clinical trial to evaluate a new treatment for aortic valve replacement. Surgeons deliver the replacement valve via a catheter, sparing patients open-heart surgery. This approach offers hope to the elderly and other high-risk populations. Dr. Irving L. Kron, the S. Hurt Watts Professor of Surgery; and Dr. Scott Lim are principal investigators of the trial at U.Va.

With a $6 million grant from the Department of Defense, U.Va. researchers are developing better imaging techniques to diagnose traumatic brain injury in soldiers exposed to bomb blasts. The improved techniques include a hand-held ultrasound machine that could assess brain injuries on the battlefield. Knowledge gained from these assessments will also be used to develop equipment that better protects soldiers. Dr. James Stone, assistant professor of radiology and medical imaging; and Dr. Greg Helm, professor of clinical neurological surgery and biomedical engineering, are leading the research.

Understanding how neurotransmitters move from one cell to the next is a critical first step in developing targeted drugs for neurological diseases. In 2011, a team of U.Va. researchers received a $6 million grant renewal from the National Institutes of Health (NIH) to continue work on neurotransmitters. This brings the total NIH support for the project to $11 million. Lukas Tamm, the Harrison Distinguished Teaching Professor of Molecular Physiology and Biological Physics, is the lead investigator on the project.

INNOVATIONS IN GLOBAL HEALTH

Researchers are also playing a role in bringing basic advances in health care to people around the world. In 2011 the School of Medicine received a number of grants from the Bill & Melinda Gates Foundation to improve global health. Dr. William A. Petri, Jr., the Wade Hampton Frost Professor of Medicine, received a $14.7 million grant from the Gates Foundation to determine why oral vaccines for paralytic polio and life-threatening rotavirus work less well for children in poorer countries than for those in the more developed world.

The Gates Foundation also awarded a $3.9 million grant to support the work of Dr. Eric Houpt, an associate professor of infectious diseases, who is creating a molecular diagnostic tool capable of detecting pathogens that cause diarrheal illness in children in less than six hours. Dr. Houpt plans to test the diagnostic tools at five sites—in Nepal, Tanzania, Pakistan, Gambia, and Bangladesh.

Finally, John C. Herr, professor of cell biology, received a $100,000 Grand Challenges Explorations Grant from the Gates Foundation to develop a new approach to female contraception. The foundation created the Grand Challenge Explorations Program to encourage researchers to pursue novel solutions to persistent health and development challenges.

EDUCATION THAT UNITES FUTURE DOCTORS AND NURSES

As part of the new curricula for doctors and physicians, Dr. Steven T. DeKosky, vice president and dean of the School of Medicine; and Dorrie K. Fontaine, dean of the School of Nursing, have partnered to establish interprofessional educational experiences for medical and nursing students. Their goal is to encourage collaborative patient care by cultivating shared knowledge and attitudes through course work, clinical training, and community service projects.

One workshop, for example, immerses nursing and medical students in the difficult conversations surrounding end-of-life care. Students learn the importance of team-based care as they participate in mock cases that replicate the dilemmas that families face.

In May 2011, the Josiah Macy Jr. Foundation awarded the Schools of Medicine and Nursing a $746,000 grant to introduce

Emily Hauenstein

teamwork training in additional simulated clinical settings. Led by Dr. Valentina Brashers, professor of nursing, the grant will also support the development and implementation of new faculty training programs, simulated cases and course work, and new assessment tools for evaluating interprofessional education competencies.

Such innovative programs are, in part, responsible for the Schools of Medicine and Nursing moving up in the *U.S. News & World Report* rankings of graduate schools. The School of Medicine's ranking in research moved up three spots, to twenty-second place, while its primary care program rose to twentieth. The School of Nursing's graduate program is now ranked fifteenth in the nation, its Ph.D. program ranked tenth, and its clinical nursing specialist program in psychiatric/mental health was ranked eighth.

Both the School of Medicine and the School of Nursing have opened new facilities that advance their educational goals. In October 2010, the School of Medicine dedicated the Claude Moore Medical Education Building, the most technologically advanced medical education facility in the nation. The five-story, 58,000-square-foot structure serves as the nucleus of the new Next Generation curriculum, which integrates basic and clinical sciences with an increased focus on clinical performance.

Now that the Claude Moore Nursing Education Building has opened, the School of Nursing has turned its attention to renovating McLeod Hall, which was built in 1972. In the summer of 2010, the school completed McLeod's first-floor renovations, with updated classrooms, a conference room, café, and offices for the Center for Nursing Historical Inquiry.

CONNECTING COMMUNITIES AND CAREGIVERS

The U.Va. Health System is dedicated to overcoming the obstacles to good health in southwest Virginia. For more than a decade, it has sent hundreds of volunteers to support the Remote Area Medical (RAM) clinic in Wise, Virginia, and has worked diligently to convert this contact into regular care. This year, the Health System, School of Nursing and School of Medicine collaborated with the Healthy Appalachia Institute and U.Va.'s College at Wise to procure a HRSA grant to help the Health Wagon, a local clinic and community organizer for the RAM clinic, expand and strengthen its services. This grant enabled the Health Wagon to install an electronic medical record system, hire a social worker and nurse educator, and increase its capacity by 25 percent. The grant also provides support to the Health Wagon as a community training site for undergraduate and graduate nursing students. U.Va. continues its collaboration throughout the year through telemedicine consults and specialty clinics as well as providing support for outcomes evaluation for the Health Wagon grant.

Emily Hauenstein, a professor of nursing and director of U.Va.'s Southeastern Rural Mental Health Center received a $693,000 grant from the National Institute of Mental Health to test a prototype program that uses digital storytelling to ease depression, a serious issue for women living in small rural communities.

U.Va.'s Office of Telemedicine is applying expertise gained in deploying its telemedicine network in southwest Virginia closer to home. Thanks to an unprecedented partnership with Habitat for Humanity of Greater Charlottesville, the U.Va. Health System is now implementing the use of in-home medical monitoring to dramatically transform how individuals with chronic diseases manage their health. Widely deployed, such systems could save the nation billions of dollars annually in health care costs. The Health House, two residences in Habitat for Humanity's recently completed mixed-income community, has an easy-to-use monitoring system developed by Intel and with broadband communications donated by Comcast.

The University partnership with Habitat for Humanity was supported by the University community through the Commonwealth of Virginia Campaign, which helped raise needed funds. U.Va. volunteers also contributed more than 1,600 hours of service to make the Health House a reality.

A Well-Balanced Athletics Program

Robby Andrews (College '13) was the second Virginia athlete ever to win an individual national title in the 800-meter when he claimed the title at the NCAA Outdoor Track and Field Championships. He was also named the ACC Freshman of the Year in March 2011.

ATHLETICS

AT THE UNIVERSITY OF VIRGINIA, THE TERM "student-athlete" is a distinction that retains its meaning. Track and field star Stephanie Garcia is a case in point. A three-time All-American, she holds the all-time Atlantic Coast Conference (ACC) record in the steeplechase and won two ACC steeplechase titles during her career. A double major in English and government who is now pursuing graduate studies at U.Va., Ms. Garcia also received All-Academic honors from the United States Track & Field and Cross Country Coaches Association.

Third-year pitcher Danny Hultzen is another example of an athlete who has maintained high standards in competition and in the classroom. A history major, he was named a Capital One First-Team Academic All-American. This year, after twelve wins and a 1.37 ERA, he became the first Virginia baseball player to earn first-team All-America honors three times. Mr. Hultzen is also U.Va.'s all-time career leader in wins and strikeouts and was selected by the Seattle Mariners with the second overall pick in the Major League Baseball First-Year Player Draft—the highest draft selection in U.Va. baseball history.

FIELDING CHAMPIONSHIP TEAMS

While encouraging students to find the proper balance between academic and athletic performance, the University also strives to sustain excellence across all sports. Its standing in the Learfield Sports Directors' Cup competition is a direct indicator of a university's success in promoting such a balanced program. This year, U.Va. placed seventh in the Directors' Cup standings, thanks in part to top-ten performances in several sports.

The highlight of the year was the men's lacrosse team's victory over the Maryland Terrapins in the NCAA Championship. Virginia entered the tournament seeded just seventh, but steadily advanced, beating Bucknell, Cornell, and Denver. The victory marked the fifth time Virginia has taken home the lacrosse NCAA title. Other program-best finishes in NCAA postseason competition were second place by the men's tennis team, a tie for third by the baseball team, fourth by the women's golf team, and eighth by the men's swimming and diving team. The field hockey team reached the NCAA tournament's semifinals for the second consecutive year, and the women's rowing team finished sixth at the NCAA Championships.

The Cavaliers chalked up a similarly impressive record in ACC play. Virginia won five ACC Championships in 2010–11: baseball, women's rowing, men's swimming and diving, women's swimming and diving, and men's tennis. The Cavaliers have now won forty-seven ACC Championships in the last nine years, more than any other conference school during that period. In some sports, the Cavaliers have built dynasties. The women's rowing team has been the ACC champion eleven times in the last twelve years, while men's swimming and diving finished first twelve times in the last thirteen seasons.

Stephanie Garcia

HONORED FOR INDIVIDUAL ACHIEVEMENTS

Individual athletes also earned national championships. A year after capturing the NCAA 800-meter indoor crown, runner Robby Andrews took the 800-meter outdoor title at the NCAA Outdoor Track and Field Championships at Drake University. Using his trademark kick during the final 200 meters, Mr. Andrews edged out Charles Jock of the University of California at Irvine, by four-hundredths of a second.

Virginia swimmer Matt McLean also won an NCAA Championship, taking first place in the 500-freestyle. He won decisively, outdistancing the runner-up, Stanford's Bobby Bollier, by more than three seconds. His was just the fourth individual NCAA swimming title in Virginia history.

Other individual student-athletes received prestigious postseason honors:

- Danny Hultzen of the baseball team received the John Olerud Two-Way Player Award.
- The men's tennis team's Michael Shabaz was the ITA/Farnsworth National Senior Player of the Year. His teammate Alex Domijan was the ITA National Rookie of the Year, while Sanam Singh received the ITA/Rafael Osuna Sportsmanship Award.
- Steele Stanwick won the Tewaaraton Trophy as the nation's top men's lacrosse player.
- Tyler Wilson received the Lowe's Senior CLASS Award as the most outstanding senior student-athlete in Division I baseball.

COACHING THAT CHANGES LIVES

Coaches are mentors, motivators, and teachers, inspiring athletes to hone their skills constantly, commit themselves to long hours of practice, and give their utmost in competition. These habits of mind continue to serve athletes long after their playing days are over. As a result, coaches' statistics can be seen as indicators, not only of success in competition but also of the impact they can have on a student-athlete's postgraduate career.

Considered in this light, Debbie Ryan, who stepped down this year as head coach of the women's basketball team, is one of the most influential coaches in Virginia history. It is not simply that she was U.Va.'s longest serving head coach, coaching for thirty-four years, but rather that she encouraged generations of young women to excel. Her teams compiled an overall record of 739-324 and participated in the NCAA Tournament twenty-four times. They reached the NCAA Tournament's Final Four three times, and the Sweet Sixteen twelve times, while winning three ACC Tournament titles and eleven ACC regular-season championships. Named ACC Coach of the Year seven times, Ms. Ryan is a member of the Women's Basketball Hall of Fame.

Joanne Boyle, the head coach at the University of California at Berkeley the last six years, has taken over the U.Va. women's basketball program. Her statistics are similarly impressive. In nine years as a collegiate head coach, including three years at the University of Richmond, her teams have compiled an overall record of 204-93 and participated in postseason play every year.

Men's and women's swimming and diving coach Mark Bernardino and men's lacrosse coach Dom Starsia are clearly following in Ms. Ryan's footsteps. Now in his thirty-fourth season, Mr. Bernardino is a thirty-one-time winner of ACC Coach of the Year honors, having earned the award eighteen times for the men's team and thirteen times for the women's squad. He won both awards this year.

Mr. Starsia's lacrosse teams have won 329 games during his head coaching career, more than any other Division I men's lacrosse head coach. His nineteen Virginia teams have compiled an overall record of 228-72, with the 2011 championship the program's fourth NCAA Championship under his guidance. Mr. Starsia is a member of the National Lacrosse Hall of Fame.

Dom Starsia

Four coaches earned a total of five ACC Coach of the Year Awards in 2010–11. In addition to Mr. Bernardino, ACC Coach of the Year awards went to men's tennis coach Brian Boland, baseball coach Brian O'Connor, and rowing coach Kevin Sauer. In addition, Mr. Boland, Mr. O'Connor, and women's tennis coach Mark Guilbeau were named Atlantic Region Coach of the Year in their respective sports, and Brian Bailie was recognized as the National Golf Coaches Association's Assistant Women's Coach of the Year.

UNIVERSITY of VIRGINIA

FINANCIAL REPORT 2010–11

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A New Leader for the University

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The governor and other key policy leaders value the University's role in preparing a highly qualified workforce, creating jobs, contributing to economic growth, and improving the health and welfare of citizens. The University has demonstrated its commitment to the goals of the Commonwealth by our willingness to grow the number of students, especially in fields of science, technology, engineering, math, and health fields; our consideration of new and creative ways to educate our students; and the diversification of our research agenda. For the University to fulfill these commitments, however, the state will need to provide

its share of funding to support faculty and student services. State financial support is a vital component to achieving excellence. The Virginia Higher Education Opportunity Act legislation provides a strong framework for the Commonwealth and public higher education institutions to work together to advance the good of the Commonwealth and its citizens.

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

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

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

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

Management's Discussion and Analysis *(Unaudited)*

INTRODUCTION

This discussion and analysis provides an overview of the financial position and results of activities of the University of Virginia for the year ended June 30, 2011. Comparative information for the year ended June 30, 2010, has been provided where applicable. This discussion has been prepared by management and should be read in conjunction with the financial statements and the footnotes that follow this section.

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

ACADEMIC DIVISION

A public institution of higher learning with 21,049 students and 2,125 full-time instructional and research faculty members in eleven separate schools in 2010–11, the University offers a diverse range of degree programs, from baccalaureate to graduate levels including doctorates in fifty-five disciplines. The University is recognized internationally for the quality of its graduates and faculty and its commitment to the primary academic missions of instruction, research, public service, and medical care. The University consistently ranks among the nation's top public colleges and universities, both for its general academic programs and for its strengths in specific academic disciplines. Its emphasis on the student experience is extraordinary among major public institutions, and its dedication to advances in research permeates all of its schools and colleges.

MEDICAL CENTER

The University of Virginia Medical Center is an integrated network of primary and specialty care services ranging from wellness programs and routine checkups to the most technologically advanced care. The hub of the Medical Center is a 619-bed hospital in a state-designated Level 1 trauma center located in Charlottesville. In addition, primary and specialty care are provided at convenient clinic locations throughout central Virginia communities. The University's Health System has a tradition of excellence in teaching, advancement of medical science, and patient care, consistently ranking among the best health care systems in the nation.

COLLEGE AT WISE

Located in southwestern Virginia, the College at Wise is a public liberal arts college with 2,067 students and eighty-eight full-time instructional and research faculty. It offers thirty majors and seven preprofessional programs, including dentistry, forestry, law, medicine, physical therapy, and veterinary medicine. Degrees include the bachelor of arts, the bachelor of science, and the bachelor of science in nursing.

FINANCIAL HIGHLIGHTS

For the fiscal year ended June 30, 2011:

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

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

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

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

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

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

USING THE FINANCIAL STATEMENTS

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

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

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

STATEMENT OF NET ASSETS

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

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

CURRENT ASSETS AND LIABILITIES

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

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

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

ENDOWMENT AND OTHER INVESTMENTS

PERFORMANCE. At June 30, 2011, the major portion of the University's endowment was maintained in a long-term investment pool managed by the University of Virginia Investment Management Company (UVIMCO). The return for the long-term investment pool year was a positive 24.3 percent in fiscal year 2010–11, compared with a 15.1 percent increase experienced last year. This performance figure includes realized and unrealized gains and losses, along with cash income. With this return, total investment income for all funds was positive $833 million, compared with $467 million in the prior year.

DISTRIBUTION. The University distributes endowment earnings with the objective of balancing the annual funding needed to support the endowed programs against the preservation of the future purchasing power of the endowment. The endowment spending-rate policy is approved by the Board of Visitors and is based on total return, not just cash earnings. The total distribution for the University's endowment was $144.1 million, which was about 5.3 percent of the June 30, 2010, market value of the endowment. It also represents an increase of $7.6 million over last year's distribution of $136.5 million.

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

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

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

CAPITAL AND DEBT ACTIVITIES

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

Capital additions primarily consist of replacement, renovation, and new construction of academic, research, and health care facilities, as well as significant investments in equipment, including information systems. The University invested nearly $318 million for new capital construction in fiscal year 2010–11. This included amounts for infrastructure and buildings. Of the total, the Academic, Medical Center, and U.Va.-Wise Divisions expended $197 million, $101 million, and $20 million, respectively. Some of the largest amounts expensed during the year for construction, for both new and ongoing projects, are listed below:

MAJOR CAPITAL PROJECT EXPENSES DURING 2010–11 *(in thousands)*

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

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

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

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

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

The University's debt portfolio contains a strategic mix of maturity structures and both variable- and fixed-rate obligations. The University achieves this mix through issuing a combination of fixed- and variable-rate debt, including commercial paper. It also adjusts its debt mix through the use of interest rate swaps executed according to its board-approved interest rate risk management policy. The seven foundations reported as component units held $205 million of long-term debt outstanding at June 30, 2011.

NET ASSETS

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

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

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

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

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

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

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

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

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

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

REVENUES

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

SUMMARY OF REVENUES, TOTAL UNIVERSITY

The University's revenues, for the years ended June 30, 2011, and 2010 (restated), are summarized as follows:

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

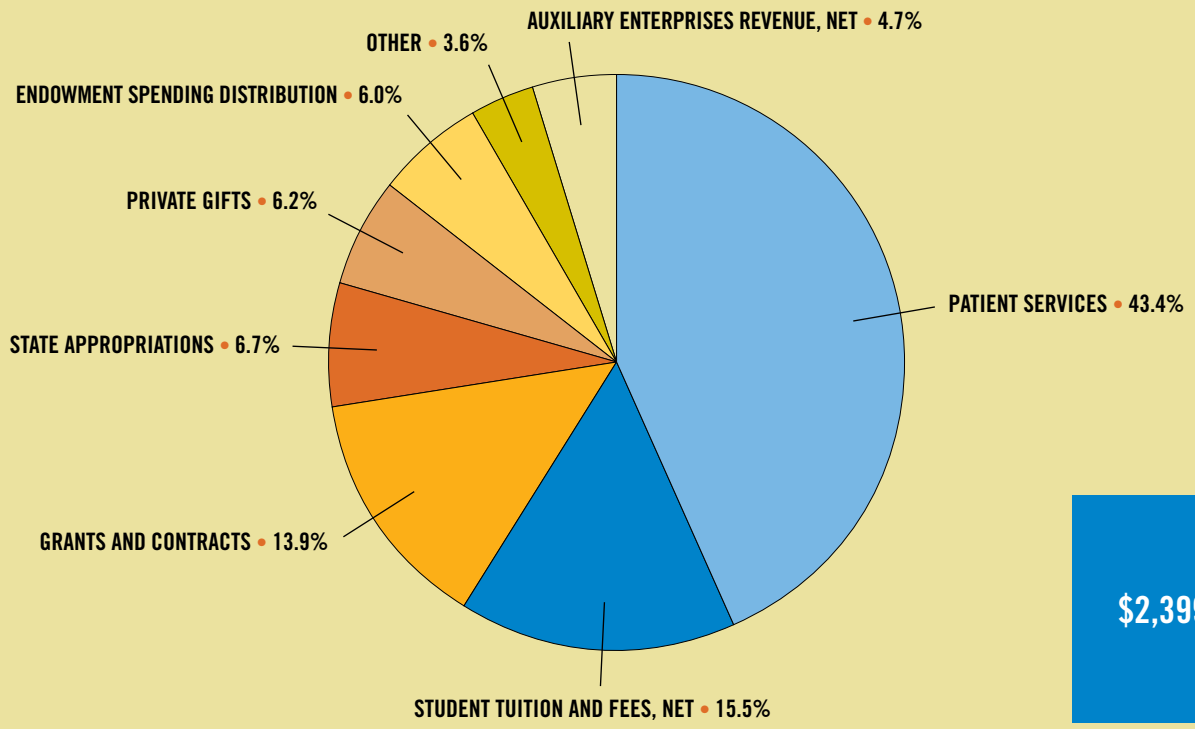
Total revenues increased by 12.8 percent. Operating revenues increased by a modest 2.6 percent, with $33 million of the $49 million increase coming from patient services. The two largest operating revenue sources, net student tuition and fees, and net patient revenues, both increased, by 3.7 percent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

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

REVENUES AND OTHER SOURCES OF OPERATIONAL FUNDING

Below is a pie chart of revenues by source (both operating and nonoperating), which were used to fund the University's operating activities for the fiscal year ended June 30, 2011. As noted earlier, GASB requires state appropriations, state stimulus, current gifts, Pell grants, and other significant revenues to be treated as nonoperating revenues. Endowment spending distribution is not current-year revenue, but an appropriation of previously recognized investment income revenue. Nonetheless, it is an important funding source for current operations and is included in the chart below to present a more accurate picture of the University's funding of current operations.

TOTAL UNIVERSITY REVENUES AND OTHER SOURCES OF OPERATIONAL FUNDING *(in thousands)*



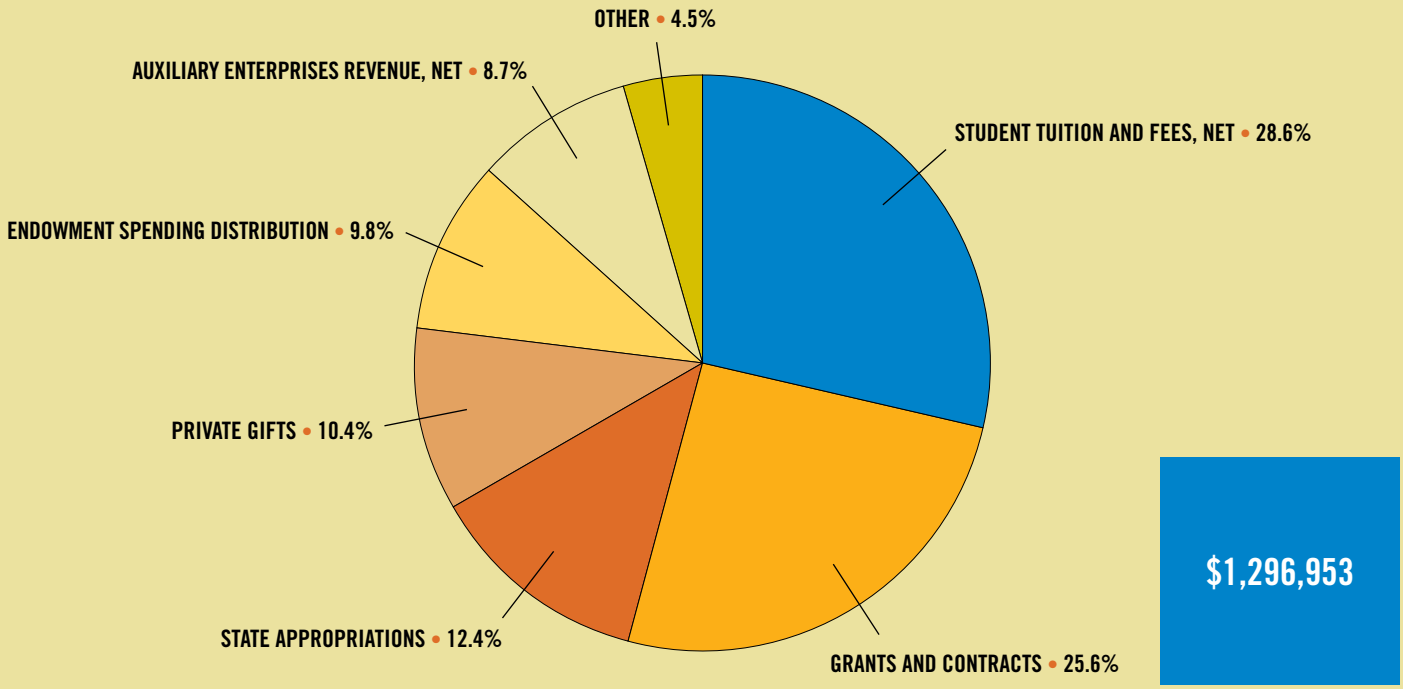
$2,399,614

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

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

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

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



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

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

EXPENSES

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

SUMMARY OF EXPENSES, TOTAL UNIVERSITY

The University's expenses, for the years ended June 30, 2011, and 2010 (restated), are summarized as follows:

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

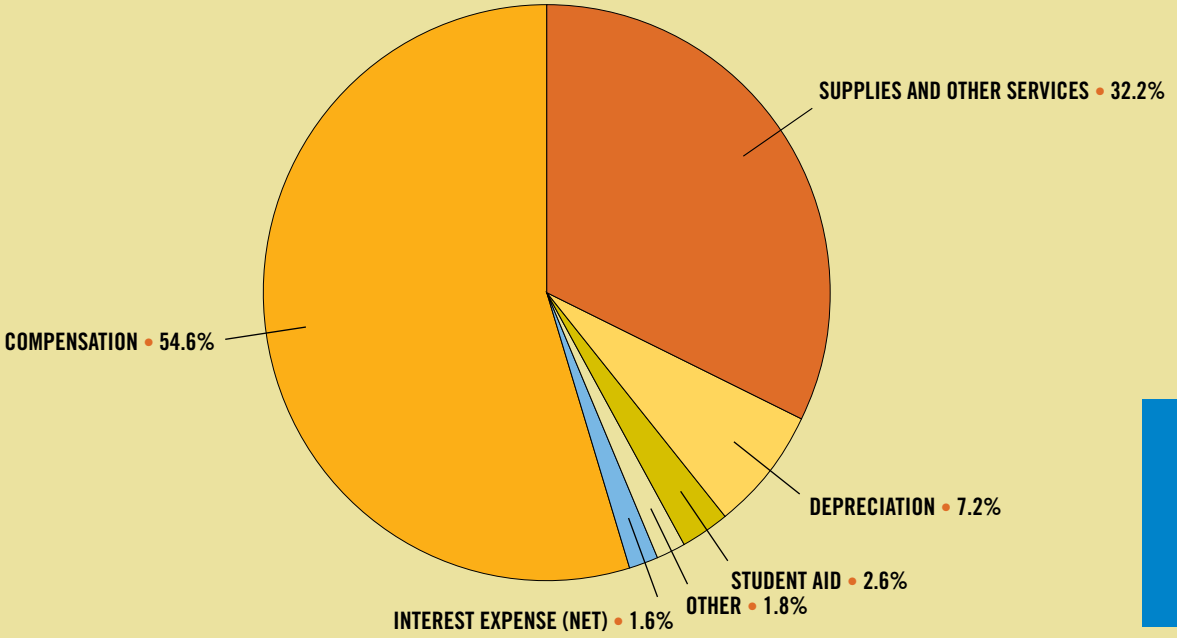
The University's total expenses were nearly $2.3 billion, but increased by just $7 million, which is less than 1 percent. Operating expenses account for 98 percent of total expenses, and they increased by $58 million, or 2.7 percent. Compensation and benefits expenses increased by just $18 million, or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

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

On the nonoperating side, net interest expense increased by $2.7 million, or 8 percent, to $37.1 million. This increase in debt service was expected, because the University issued $250 million and $190 million of new debt in fiscal years 2009 and 2010, respectively. Both were issued as part of the federal government's BAB program. Under that program, the University receives an interest rebate from the federal government, reducing its effective interest rate in the process. The rebate for fiscal year 2010–11 was $8.5 million, and in effect, netted down the gross interest expense of $45.6 million to a net interest expense of $37.1 million.

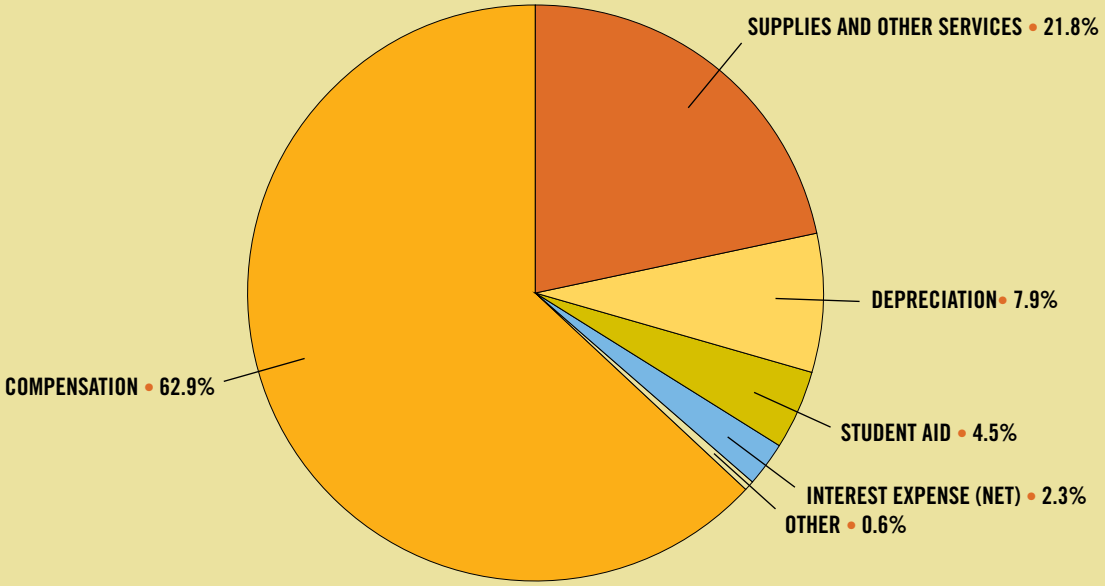
Following are graphic illustrations of expenses (both operating and nonoperating) for the fiscal year ended June 30, 2011.

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



$2,271,949

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



$1,284,535

The first chart presents information for the total University including the Medical Center, while the second chart presents information for just the Academic and Wise Divisions. Given the different missions of the Medical Center and the Academic and Wise Divisions, it is sometimes useful to view them separately. There are significant differences between the two charts. Compensation accounts for nearly 55 percent of total University expenses in the first chart, but nearly 63 percent of expenses for the Academic and Wise Divisions, in the second chart. Compensation includes salaries and wages, as well as fringe benefits. In the second chart, of the 62.9 percent for compensation expenses, approximately 49 percent is for salaries and wages, while the other 13 percent is for fringe benefits. The breakout is similar in the first chart. On the other hand, supplies and other services are 32.2 percent of total University expenses in the first chart, but just 21.8 percent of Academic and Wise expenses in the second chart. The difference highlights the Medical Center's stronger reliance on supplies, services, and equipment for its operations, as compared to the Academic and Wise Divisions.

In addition to their natural (object) classification, it is also informative to review operating expenses by function. A complete matrix of expenses, natural versus functional, is contained in the notes to the financial statements. Expenses for patient services, instruction, research, and public service account for 43.7 percent, 14.7 percent, 13.1 percent, and 1.2 percent, respectively, of total operating expenses. When combined, these core mission functions account for nearly 73 percent of total operating expenses. The remainder is for costs incurred in support of these core mission functions, including academic support, libraries, student services, institutional support services, and operation and maintenance of facilities.

FUTURE ECONOMIC OUTLOOK

EXTERNAL FORCES

The future of health care reform is still fraught with uncertainties, but we expect continued impact on the University's Health System. Because patient revenues for the hospital alone (without considering physicians' practice revenues) amount to 47 percent of total operating expenses, we are carefully monitoring developments on health policy in the nation's capital and in Richmond. Federal funding for sponsored research and financial aid is also under challenge as Congress and President Obama struggle to reduce the country's budget deficit but at the same time spur economic recovery. The Commonwealth's dependence on federal funding makes the University's reliance on state funding more precarious. In addition to the end of one-time state stabilization funding, the University will incur a reduction of $14.7 million in its general fund appropriation from the state in 2011–12. This will be the fifth round of state budget reductions in five years, resulting in $51.5 million in total reductions, which equates to a 32 percent reduction in state general fund appropriation in the last five years. As a result, the University will have to rely even more heavily on tuition and private gift revenue. However, parents and donors have not been unaffected in the slow and stumbling recovery.

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

UNIVERSITY'S RESPONSE

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

REVENUE MANAGEMENT

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

VALUE FROM USE OF RESOURCES

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

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

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

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

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

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

- Finally, the University is examining the allocation of debt capacity as another scarce resource, and will develop a policy within the next twelve months. This would be the first step in doing strategic balance-sheet planning to support the academic mission and ensure long-term financial health through the appropriate use of leverage. As evidence of the University's effective stewardship, the University has received the highest long-term and short-term debt ratings from all three major rating agencies, including Moody's Investors Service (Aaa/P-1), Standard and Poor's (AAA/A-1+), and Fitch Ratings (AAA/F1+). These ratings were affirmed in June 2011 in conjunction with the University's interest rate mode change of its Series 2003A and in September 2011 for the refunding of the Series 2003B General Revenue Pledge Bonds. The University of Virginia is one of only two public institutions with the highest long-term debt ratings from all three agencies. Besides being an official acknowledgment of the University's financial strength, these ratings enable the University to obtain future debt financing at optimum pricing.

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MANAGEMENT RESPONSIBILITY

October 31, 2011

To the President and Board of Visitors of the University of Virginia:

We are pleased to submit the annual Financial Report of the University of Virginia for the year ended June 30, 2011. Management is responsible for the objectivity and integrity of the accompanying financial statements, which have been prepared in conformance with the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*. The financial statements, of necessity, included management's estimates and judgments relating to matters not concluded by year-end. Financial information contained elsewhere in the annual Financial Report is consistent with that included in the financial statements.

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

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

Respectfully submitted,

David J. Boling
Deputy Comptroller for Financial Reporting and Analysis

Yoke San L. Reynolds
Vice President and Chief Financial Officer

Commonwealth of Virginia

Auditor of Public Accounts

Walter J. Kucharski
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

October 31, 2011

The Honorable Robert F. McDonnell | *Governor of Virginia*
The Honorable Charles J. Colgan | *Chairman, Joint Legislative Audit and Review Commission*
Board of Visitors | *University of Virginia*

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

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

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

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

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

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

Walter J. Kucharski
Auditor of Public Accounts

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

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

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

COMPONENT UNITS
COMBINED STATEMENTS OF FINANCIAL POSITION *(in thousands)*

as of June 30, 2011 (with comparative information as of June 30, 2010)

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

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

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

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

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

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

COMPONENT UNITS
COMBINED STATEMENTS OF ACTIVITIES *(in thousands)*

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

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

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

STATEMENT OF CASH FLOWS *(in thousands)*

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

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

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

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND PURPOSE

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

INCOME TAX STATUS

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

REPORTING ENTITY

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

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

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

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

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

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

The **Virginia Student Aid Foundation, Inc., T/A Virginia Athletics Foundation**, was established as a tax-exempt organization to support intercollegiate athletic programs at the University of Virginia by providing student-athletes the opportunity to achieve academic and athletic excellence. The Foundation provides the funding for student-athlete scholarships at the University, funding for student-athlete academic advising programs at the University, operational support for various sports at the University, informational services to its members and the general public, and ancillary support to the athletic programs at the University. The Foundation has adopted December 31 as its year end. All amounts reflected are as of December 31, 2010. For additional information, contact the Gift Accounting Office at P.O. Box 400833, Charlottesville, Virginia 22904.

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

The **University of Virginia Physicians Group** (formerly known as the **University of Virginia Health Services Foundation**) was established as a nonprofit group practice health care provider organization designed to assist medical education through teaching and research within the academic environment of the Health System of the University of Virginia, and to coordinate and develop superior patient care in the Health System. The Foundation entered into an affiliation agreement with the University of Virginia for the Foundation through its member clinical departments to provide patient care at the Health System. The Foundation provides patient care services to Health System patients, and in conjunction with the care of patients, provides teaching services. The University provides space and certain administrative services to the Foundation. The Foundation reimburses the University for the salaries and fringe benefits of classified and hourly employees of the clinical departments paid by the University, and not funded by the Commonwealth of Virginia or by gifts, grants, and contracts. For additional information, contact the Finance Office at 500 Ray C. Hunt Drive, Charlottesville, Virginia 22903.

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

REPORTING BASIS

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

In accordance with GASB, the University has elected to report as an entity engaged in business-type activities. Entities engaged in business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

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

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

Restricted nonexpendable represents net assets subject to externally imposed stipulations that they be maintained permanently by the University. Such assets include the corpus portion (historical value) of gifts to the University's permanent endowment funds and certain investment earnings stipulated by the donor to be reinvested.

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

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are recorded when earned and expenses are recorded when incurred and measurable, regardless of when the related cash flows take place. Operating activities as reported on the Statement of Revenues, Expenses, and Changes in Net Assets are those that generally result from exchange transactions such as payments received for providing services and payments made for services or goods received. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenues as specified by GASB, including state appropriations, gifts, and investment income. In accordance with GASB, revenues from these nonexchange transactions are recognized in the fiscal year in which all eligibility requirements (resource provider conditions) have been satisfied, if measurable and probable of collection.

CASH AND CASH EQUIVALENTS

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

INVENTORIES

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

INVESTMENTS

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

ENDOWMENT

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

PLEDGES RECEIVABLE

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

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the estimated future cash flows. The discounts on these amounts are computed using risk-free interest rates applicable to the years in which the promises are made, commensurate with expected future payments. An allowance for uncollectible pledges receivable is provided based on management's judgment of potential uncollectible amounts. The determination includes such factors as prior collection history and type of gift.

CAPITAL ASSETS AND DEPRECIATION

Capital assets are recorded at cost at date of acquisition, or, if donated, at the appraised value at date of donation. Capital assets are depreciated or amortized on a straight-line basis over their estimated useful lives unless they are inexhaustible, or are intangible assets with indefinite useful lives. The University capitalizes construction costs that have a value or cost in excess of $250,000 at the date of acquisition. Renovations in excess of $250,000 are capitalized if they significantly extend the useful life of the existing asset. The Academic Division capitalizes movable equipment at a value or cost of $5,000 and an expected useful life of greater than one year.

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

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

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

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

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

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

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

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

COLLECTIONS

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

DEFERRED REVENUE

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

DEPOSITS

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

INTEREST CAPITALIZATION

Interest expense incurred during the construction of capital assets is capitalized, if material, net of interest income earned on resources set aside for this purpose. The University incurred capital project interest expense of $8.4 million and earned capital project interest income of $3.1 million for the fiscal year ended June 30, 2011, resulting in net interest capitalized of $5.3 million.

ACCRUED COMPENSATED ABSENCES

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

REVENUE RECOGNITION

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

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

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

MEDICAL CENTER SALES AND SERVICE

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

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

REVENUE AND EXPENSE CLASSIFICATIONS

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

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

SCHOLARSHIP ALLOWANCE

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

DISCOUNTS, PREMIUMS, AND BOND ISSUANCE COSTS

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

COMPARATIVE DATA

The University presents its financial information on a comparative basis. The basic financial statements include certain prior-year summarized comparative information in total, but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, the prior-year information should be read in conjunction with the University's financial statements for the year ended June 30, 2010, from which the summarized information was derived. Certain amounts from the prior fiscal year have been reclassified to conform to current-year presentation.

NOTE 2: CASH, CASH EQUIVALENTS, AND INVESTMENTS

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

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

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

CASH EQUIVALENTS

The University considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. Pursuant to Section 2.2-1800, et seq., Code of Virginia, all state funds of the University are maintained by the Treasurer of Virginia, who is responsible for the collection, disbursement, custody, and investment of state funds. Cash deposits held by the University are maintained in commercial banking accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400, et seq., Code of Virginia. The Virginia Security for Public Deposits Act eliminates any custodial risk on the University's banking deposits. Cash equivalents include short-term money market investments in mutual funds, overnight collective funds, or other short-term, highly liquid investments registered as securities held by the University.

RISK

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

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

Interest Rate Risk is when the fair market value is adversely affected by changes in interest rates. The longer the duration of an investment, the greater the interest rate risks. Investments subject to interest rate risk at June 30, 2011, are outlined in the accompanying chart.

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

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

Foreign Currency Risk is the risk that investments denominated in foreign currencies may lose value due to adverse fluctuations in the value of the U.S. dollar relative to foreign currencies. The University has no foreign investments or deposits as of June 30, 2011.

DEPOSITS

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

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

INVESTMENTS

The investment policy of the University is established by the Board of Visitors and monitored by the board's Finance and Audit Committee. Authorized investments are set forth in the Investment of Public Funds Act, Sections 2.2-4500 through 2.2-4516 Code of Virginia. Authorized investments include U.S. Treasury and agency securities, corporate debt securities of domestic corporations, asset-backed securities, mortgage-backed securities, AAA-rated obligations of foreign governments, bankers' acceptances and bank notes, negotiable certificates of deposit, repurchase agreements, and money market funds.

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

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

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

Biannual distributions are made from the University's endowment to departments holding endowment accounts. The University's endowment spending policy ties annual increases to inflation as defined by the Higher Education Price Index. The current inflation factor in use by the University is 3.8 percent. If the increase causes the endowment distribution to fall outside a range defined as 4.0 percent to 6.0 percent of the market value of the endowment, then the Finance Committee of the Board of Visitors may recommend increasing or decreasing the spending rate. For fiscal year 2011, the spending distribution of $144.1 million equaled 5.3 percent of the prior year ending market value. Since the result fell within the range, no further action by the board was needed. For fiscal year 2011, the market value of the endowment invested in the LTP at June 30, 2011, was $3.3 billion.

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

For the year ended June 30, 2011, the University had the following endowment-related activities:

SUMMARY OF ENDOWMENT ACTIVITY *(in thousands)*	TYPE OF ENDOWMENT FUND			
	DONOR-RESTRICTED	QUASI	TRUSTS	TOTAL
Investment earnings	$ 295,846	$ 339,090	$ 10,473	$ 645,409
Contributions to permanent endowment	27,778	—	—	27,778
Other gifts	—	—	5,090	5,090
Spending distribution	(67,176)	(76,900)	—	(144,076)
Transfers in/(out) *	1,950	35,645	(3,851)	33,744
TOTAL CHANGE IN ENDOWMENT FUNDS	**$ 258,398**	**$ 297,835**	**$ 11,712**	**$ 567,945**

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

NOTE 3: STATEMENT OF NET ASSETS DETAILS

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

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

b. Notes receivable: The principal repayment and interest rate terms of federal and University loans vary considerably. The allowance for doubtfully collectible notes only applies to University-funded notes and the University portion of federal student loans, as the University is not obligated to fund the federal portion of uncollected student loans. Federal loan programs are funded principally with federal advances to the University under the Perkins and various other loan programs. The composition of notes receivable at June 30, 2011, is summarized as follows:

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

c. Pledges: As discussed in Note 1, permanent endowment pledges do not meet eligibility requirements, as defined by GASB, until the related gift is received. Accordingly, permanent endowment pledges totaling $5,179,749 and $6,312,401 at June 30, 2011, and 2010, respectively, are not recognized as assets in the accompanying financial statements. In addition, bequest intentions and other conditional promises are not recognized as assets until the specified conditions are met because of uncertainties with regard to their realizability and valuation. The composition of pledges receivable at June 30, 2011, is summarized as follows:

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

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

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

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

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

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

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

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

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

NOTE 4: SHORT-TERM DEBT

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

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

The University has a combined taxable and tax-exempt commercial paper program that provides for bridge financing for capital projects up to a board-approved limit. The University Board of Visitors approved the current commercial paper program limit of $300,000,000 in April 2008. In fiscal year 2011, interest rates on commercial paper ranged from 0.05 to 0.27 percent.

NOTE 5: LONG-TERM OBLIGATIONS

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

LONG-TERM DEBT *(in thousands)*	INTEREST RATES	FINAL MATURITY	BEGINNING BALANCE JULY 1, 2010	ADDITIONS	REDUCTIONS	ENDING BALANCE JUNE 30, 2011
BONDS AND NOTES PAYABLE						
Revenue bonds						
University of Virginia Series 2003A (9d)	0.05% to 0.27%	2034	82,010	—	—	82,010
University of Virginia Series 2003B (9d)	4.0% to 5.0%	2033	105,970	—	2,605	103,365
University of Virginia Series 2005 (9d)	4.0% to 5.0%	2037	179,980	—	2,920	177,060
University of Virginia Series 2008 (9d)	5.0%	2040	231,365	—	—	231,365
University of Virginia Series 2009 (9d)	4.04%*	2040	250,000	—	—	250,000
University of Virginia Series 2010 (9d)	3.2%**	2041	—	190,000	—	190,000
Commonwealth of Virginia bonds (9c)	3.8% to 9.3%	2021	16,670	—	3,568	13,102
Notes payable to VCBA 2000A (9d)	3.5% to 5.8%	2021	8,280	—	8,280	—
Notes payable to VCBA 2004B (9d)	3.0% to 5.0%	2020	36,650	—	1,925	34,725
Notes payable to VCBA 2007B (9d)	4.0% to 4.25%	2020	10,730	—	25	10,705
Notes payable to VCBA 2010B (9d)	0.0%	2020	—	5,525	—	5,525
Other	various	2009	602	—	174	428
TOTAL BONDS AND NOTES PAYABLE			**$ 922,257**	**$ 195,525**	**$ 19,497**	**$ 1,098,285**
Less current portion of debt			(13,427)	709	—	(12,718)
Bond premium			21,849	3,640	1,163	24,326
Deferred loss on early retirement of debt			(3,902)	—	(397)	(3,505)
NET LONG-TERM DEBT			**$ 926,777**	**$ 199,874**	**$ 20,263**	**$ 1,106,388**

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

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

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

The University of Virginia has three revolving credit agreements from three different banks in the aggregate amount of $250 million to provide liquidity for its variable-rate obligations. There were no advances outstanding under any credit agreements as of June 30, 2011.

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

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

PRIOR YEAR REFUNDINGS

As of June 30, 2011, prior years' in-substance defeased bonds and notes had no outstanding balances.

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

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

NOTE 6: DERIVATIVES

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

In February 2011, the University entered into an interest-sharing arrangement with the University of Virginia Foundation (UVAF). Under the arrangement, UVAF agreed to make five annual fixed-premium payments to the University in exchange for limited financial support in the event the one-month London Interbank Offered Rate (LIBOR) falls within a certain range. The arrangement is for a notional amount of $50 million and expires on February 1, 2016, and may be terminated at any time by the mutual consent of the University and UVAF. As of June 30, 2011, the market value of the interest-sharing arrangement between the University and UVAF, representing the amount the University would pay if the arrangement was terminated, was approximately $1.4 million.

RISK

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

Credit risk is the risk that a counterparty will not settle an obligation in full, either when due or at any time thereafter. As of June 30, 2011, the $100 million notional amount of swaps outstanding had a negative market value, net of any posted collateral and netting agreements, of approximately $11.7 million, representing the amount the University would pay if the swaps were terminated on that date. The market value of the swaps has fallen by approximately $1.8 million over the reporting period.

The fair value was determined by using the quoted SIFMA index curve at the time of market valuation. The University would be exposed to the credit risk of its swap counterparties any time the swaps had a positive market value. At June 30, 2011, the University had no credit risk related to its swaps. As of June 30, 2011, the University's swap counterparties were rated A from Standard & Poor's and A2 by Moody's. To mitigate credit risk, the University limits market value exposure and requires the posting of collateral based on the credit rating of the counterparty. All counterparties are required to have at least an A-/A3 rating by Standard & Poor's and Moody's, respectively. As of June 30, 2011, no collateral was required to be posted by the counterparties.

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

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

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

Rollover risk arises when a derivative associated with a hedged item does not extend all the way to the maturity date of the hedged item, thereby creating a gap in the protection otherwise afforded by the derivative. The University's hedges serve to hedge all $82.01 million of its variable-rate Series 2003A Bonds maturing in June 2034. The remaining $19.99 million of hedges serve to hedge the University's outstanding commercial paper, which may have various maturities of no greater than 270 days each.

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

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

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

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

NOTE 7: AFFILIATED COMPANIES

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

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

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

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

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

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

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

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

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

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

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

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

HEALTHCARE PARTNERS, INC.

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

NOTE 8: COMPONENT UNITS

Summary financial statements and additional disclosures are presented below.

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

**December 31, 2010, year-end*

PLEDGES RECEIVABLE

Unconditional promises to give (pledges) are recorded as receivables and revenues and are assigned to net asset categories based on the presence or absence of donor-imposed restrictions. Pledges expected to be collected within one year are recorded at net realizable value. Pledges that are expected to be collected in future years are recorded at the net present value of their estimated future cash flows. The discounts on these amounts are computed using risk-free interest rates applicable to the years in which the promise was received and then remain consistent throughout the pledge's life. The component units recorded an allowance against pledges receivable for estimated uncollectible amounts. The **University of Virginia Physicians Group** does not accept gifts. Unconditional promises to give at June 30, 2011, are as follows:

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

**December 31, 2010, year-end*

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

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

INVESTMENTS

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

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

**December 31, 2010, year-end*

UVIMCO has investments in limited partnership hedge funds, private equity and venture capital investments, or similar private investment vehicles. These investments do not actively trade through established exchange mechanisms and are valued at estimated fair market value, based on **UVIMCO**'s interest in the investee as determined and reported by the external manager of the investment. Such investments represent $2,029,769,811 (37 percent of investments held for others) at June 30, 2011. Because of the inherent uncertainty of such valuations, these estimated values may differ from the values that would have been used had a ready market for the investments existed, and such differences could be material.

PROPERTY, FURNISHINGS, AND EQUIPMENT

The property, furnishings, and equipment of the **University of Virginia Foundation** and the **University of Virginia Darden School Foundation** are recorded at cost, except donated property, which is recorded at fair market value at the date of the gift. Depreciation is taken over estimated useful lives of five to thirty-nine years using the straight-line method. As of June 30, 2011, capital assets consisted of (in thousands):

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

NOTES PAYABLE

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

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

LONG-TERM DEBT

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

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

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

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

STATEMENT OF ACTIVITIES *(in thousands)* *as of June 30, 2011*	UNIVERSITY OF VIRGINIA LAW SCHOOL FOUNDATION	UNIVERSITY OF VIRGINIA DARDEN SCHOOL FOUNDATION	ALUMNI ASSOCIATION OF THE UNIVERSITY OF VIRGINIA	VIRGINIA ATHLETICS FOUNDATION*	UNIVERSITY OF VIRGINIA FOUNDATION	UNIVERSITY OF VIRGINIA PHYSICIANS GROUP	UNIVERSITY OF VIRGINIA INVESTMENT MANAGEMENT COMPANY	COMPONENT UNITS TOTAL
UNRESTRICTED REVENUES AND SUPPORT								
Contributions	$ 2,919	$ 5,097	$ 782	$ 11,612	$ —	$ —	$ —	$ 20,410
Fees for services, rentals, and sales	—	25,894	2,343	796	42,033	214,553	13,686	299,305
Other revenues	17,615	19,911	61,152	25,564	4,674	119,588	1,942	250,446
TOTAL UNRESTRICTED REVENUES AND SUPPORT	**20,534**	**50,902**	**64,277**	**37,972**	**46,707**	**334,141**	**15,628**	**570,161**
EXPENSES								
Program services, lectures, and special events	8,557	38,586	49,323	12,135	—	260,548	9,731	378,880
Other expenses	4,219	3,876	4,836	24,939	47,467	44,085	2,799	132,221
TOTAL EXPENSES	**12,776**	**42,462**	**54,159**	**37,074**	**47,467**	**304,633**	**12,530**	**511,101**
EXCESS (DEFICIENCY) OF UNRESTRICTED REVENUES AND SUPPORT OVER EXPENSES	**7,758**	**8,440**	**10,118**	**898**	**(760)**	**29,508**	**3,098**	**59,060**
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS								
Contributions	8,751	3,994	26,416	6,019	—	—	—	45,180
Other	40,387	23,914	16,424	(17,042)	5,941	(2,606)	—	67,018
NET CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	**49,138**	**27,908**	**42,840**	**(11,023)**	**5,941**	**(2,606)**	**—**	**112,198**
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS								
Contributions	6,995	4,350	9,277	4,186	—	—	—	24,808
Other	2,312	—	(648)	1,080	—	—	—	2,744
NET CHANGE IN PERMANENTLY RESTRICTED NET ASSETS	**9,307**	**4,350**	**8,629**	**5,266**	**—**	**—**	**—**	**27,552**
CHANGE IN NET ASSETS	**66,203**	**40,698**	**61,587**	**(4,859)**	**5,181**	**26,902**	**3,098**	**198,810**
Net assets, beginning of year	290,486	242,400	288,811	115,566	73,213	39,900	7,834	1,058,210
NET ASSETS, END OF YEAR	**$ 356,689**	**$ 283,098**	**$ 350,398**	**$ 110,707**	**$ 78,394**	**$ 66,802**	**$ 10,932**	**$1,257,020**

**December 31, 2010, year-end*

SIGNIFICANT TRANSACTIONS WITH THE UNIVERSITY OF VIRGINIA

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

Direct payments to the University from the **Alumni Association of the University of Virginia** for the year ended June 30, 2011, totaled $871,000. This amount includes gift transfers, payment for facilities and services, and other support for University activities.

The **University of Virginia Physicians Group** has contracted with the University to provide certain professional and technical services. Payments received for these services were approximately $59 million for the year ended June 30, 2011. Approximately $16 million of the fiscal year payments received relates to disproportionate share funds paid for indigent patients served by the Foundation. The **University of Virginia Physicians Group** contributed $16 million to the University in support of various academic programs, equipment, teaching, and research for the year ended June 30, 2011.

NOTE 9: EXPENSE CLASSIFICATION MATRIX

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

NOTE 10: APPROPRIATIONS

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

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

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

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

NOTE 11: RETIREMENT PLANS

Essentially all regular employees of the University are eligible to enroll in the defined-benefit pension plan administered by the Virginia Retirement System (VRS). Substantially all (95 percent) of salaried classified and University staff employees, 12 percent of faculty, and 18 percent of Medical Center employees participate in this defined-benefit pension plan. The VRS does not measure assets and pension benefit obligations separately for individual state institutions. Information relating to this plan is available at the statewide level only in the Commonwealth of Virginia's *Comprehensive Annual Financial Report* (CAFR). The CAFR provides disclosure of the Commonwealth's unfunded pension benefit obligation at June 30, 2011. The Commonwealth, not the University, has overall responsibility for contributions to this plan.

Eighty-eight percent of teaching, research, and administrative faculty, 5 percent of University staff, and 82 percent of Medical Center employees participate in Optional Retirement Plans offered through TIAA-CREF; Fidelity Investments, Inc.; and Vanguard. The Optional Retirement Plan is a defined-contribution plan to which the University contributes an amount established by statute. Beginning July 1, 2010, there are two defined-contribution plans for eligible Academic employees. Plan 1 is for employees hired prior to July 1, 2010, and retirement benefits received are based upon the employer's 10.4 percent contributions, plus interest and dividends. Plan 2 is for employees hired on or after July 1, 2010, and retirement benefits received are based upon the employer's 8.9 percent contribution and the employee's 5.0 percent contribution, plus interest and dividends. Participants are fully vested immediately. The Medical Center Optional Retirement Plan is a defined-contribution plan where the retirement benefits received are based upon the employer and employee contributions, all of which are paid by the Medical Center, plus interest and dividends. Medical Center employees are fully vested after one or two years of employment, depending on their date of hire.

Total pension costs under the Optional Retirement Plans were approximately $47.1 million, and contributions were calculated using base salaries of $550.3 million, for the year ended June 30, 2011. The contribution percentage amounted to 8.6 percent.

State employees may elect to participate in the Commonwealth's Deferred Compensation Plan or the University's 403(b) Plan. Participating employees can contribute to either plan each pay period, with the Commonwealth matching at 50 percent up to $10 per pay period or $20 per month. This dollar amount match can change depending on the funding available in the Commonwealth's budget. The Employer Matching Plan falls under section 401(a) of the Internal Revenue Code. Employer contributions for University employees to the 401(a) plan were $1.3 million and employee contributions were $8.7 million for the fiscal year ended June 30, 2011.

The Deferred Compensation plan for the University Medical Center employees hired on or after September 30, 2002, allows employee contributions up to 4 percent of their salary and an employer match of 50 percent of the employee's 4 percent deferral amount, not to exceed 2 percent of their salary. Employer contributions under this plan were approximately $1.3 million for fiscal year 2011.

NOTE 12: POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

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

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

The University's annual postemployment benefits expense is actuarially determined in accordance with the parameters established by GASB, which calls for the measurement and recognition of the cost of other postemployment benefits (OPEB) during the periods when employees render their services. The statement also establishes more comprehensive disclosure for OPEB obligations. OPEB refers to postemployment benefits other than pension benefits and includes postemployment health care benefits and other types of postemployment benefits if provided separately from a pension plan.

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

The contribution requirements of plan members and the University are based on projected pay-as-you-go financing requirements. For fiscal year 2011, the University contributed $2,600,134 to the plan for retiree claims. Retirees receiving benefits contributed $4,142,107 or approximately 61 percent of the total premiums through their required contribution of $499 per month for retiree-only coverage and $1,015 per month for retiree-and-spouse coverage.

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

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

SUMMARY OF VALUATION RESULTS *(in thousands)*

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

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

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

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

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

NOTE 13: SELF-INSURANCE

All University employees have the option to participate in the University's self-funded, comprehensive medical care benefits program. The cost of medical care is paid out of employee and employer contributions. The market value of investments at June 30, 2011, was $54 million. Claims and expenses are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Those losses include an estimate of claims that have been incurred but not reported and the future costs of handling claims. The estimated liability for outstanding claims at June 30, 2011, was $13 million. The University has contracted with several third-party claims administrators: Aetna for its medical claims; United Concordia for its dental claims; and CatalystRx for its pharmacy claims.

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

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

NOTE 14: FUNDS HELD IN TRUST BY OTHERS

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

NOTE 15: COMMITMENTS AND CONTINGENCIES

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

The University has entered into numerous operating lease agreements to rent, lease, and maintain land, buildings, and equipment that expire at various dates through 2050. In most cases, the University has renewal options on the leased assets for another similar term, and expects that, in the normal course of business, these leases will be replaced by similar leases. Operating lease expense totaled approximately $26 million for the year ended June 30, 2011.

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

YEARS ENDING JUNE 30 *(in thousands)*	LEASE OBLIGATION
2012	$ 12,694
2013	7,698
2014	6,088
2015	4,830
2016	3,676
2017–2021	10,396
2022–2026	1,180
2027–2031	823
2032–2036	823
2037–2041	823
2042–2046	823
2047–2051	494
TOTAL	**$ 50,348**

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

LITIGATION

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

NOTE 16: SUBSEQUENT EVENTS

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

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UNIVERSITY ADMINISTRATION, 2010–11

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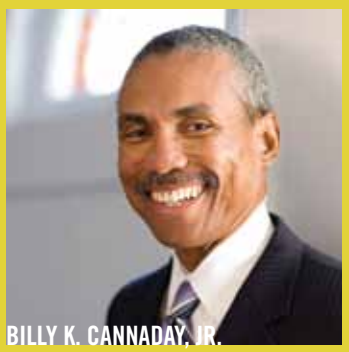
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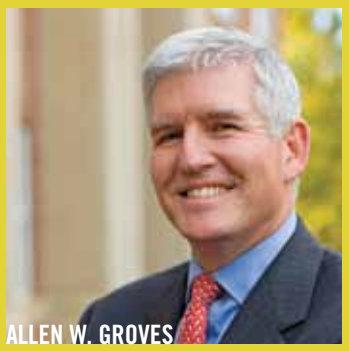
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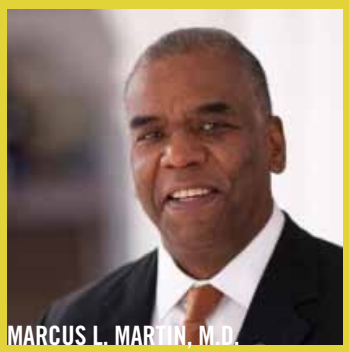
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INTERNAL AUDIT

Barbara J. Deily | *Chief Audit Executive*

UNIVERSITY OF VIRGINIA PRESIDENT'S REPORT

Produced by the Office of Public Affairs
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The map on page 9 is courtesy of the U.S. Geological Survey.

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The University of Virginia is committed to equal employment opportunity and affirmative action. To fulfill this commitment, the University administers its programs, procedures, and practices without regard to age, color, disability, marital status, national or ethnic origin, political affiliation, race, religion, sex (including pregnancy), sexual orientation or veteran status, and family medical or genetic information, and operates both affirmative action and equal opportunity programs, consistent with resolutions of the Board of Visitors and with federal and state requirements, including the Governor's Executive Order on Equal Opportunity. The University's policies on "Preventing and Addressing Discrimination and Harassment" and "Preventing and Addressing Retaliation" implement this statement. The Office of Equal Opportunity Programs has complaint procedures available to address alleged violations of these policies. The ADA coordinator and the Section 504 coordinator is Melvin Mallory, Office of Equal Opportunity Programs, 434-924-3295. The Title IX coordinator is Darlene Scott-Scurry, director, Office of Equal Opportunity Programs, 434-924-3200. The Office of Equal Opportunity Programs is in Washington Hall, East Range, P.O. Box 4004219, Charlottesville, VA 22904-4219.

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