FINANCIAL REPORT 2014-15

UNIVERSITY of VIRGINIA


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Contents

FROM THE PRESIDENT

The University of Virginia has a long-standing reputation as one of the most financially stable and effectively managed universities in the nation. In the pages of this report, you will see how we have built and maintained that reputation over time — through prudent stewardship of our resources, an intense focus on efficiency, and an aggressive approach to cost savings.

As we approach the beginning of the University's bicentennial in 2017, we have laid out strategies for UVA's future with the Cornerstone Plan. Two of the priorities in the plan are essential to that future: the recruitment and retention of a distinguished faculty for the University's third century, and the implementation of our Affordable Excellence program.

As we face a generational turnover of our faculty, recruiting and retaining the best and brightest faculty from across the nation and around the world is our top priority. Through this effort, we will shape the intellectual future of the University. At the same time, the Affordable Excellence program provides a sustainable model for us to address strategic investments in the quality of the UVA educational experience as we continue to offer more enrollment opportunities for in-state students at affordable tuition rates and reduce the student loan debt burden on low- and middle-income Virginia families.

Executive Vice President and Chief Operating Officer, Pat Hogan, provides strong leadership for the University. The commitment that he and his staff bring to their daily work has resulted in the sound financial record documented in these pages.

I am grateful to Pat and his team, just as I am grateful to our alumni, parents, friends and advocates around the world who support and strengthen the University of Virginia.

Teresa A. Sullivan
President

I am pleased to report that fiscal year 2014-15 represented another year of strong performance for the University. Through the careful stewardship of our resources over many years, UVA is widely known for its unique combination of academic excellence and financial strength. Foundational to this leadership position, the talent and dedication of our faculty and staff continue to distinguish the University of Virginia and enable us to address with confidence the challenges facing public higher education.

UVA'S EXCEPTIONAL FINANCIAL STRENGTH

By leveraging our financial strengths and building upon them, we have created a consistent record of success over the past decade. In 2005, the University's total assets were $5.5 billion. At June 30, 2015, our assets have grown to $10.5 billion and, after liabilities, net position is $7.8 billion. We have a significant and thriving endowment with consistently strong performance. As of June 30, the University's endowment was valued at $4.4 billion; when coupled with investments from the University-related foundations, the total is just over $6 billion. Thanks to a history of excellent financial management and investment results, we were able to increase our endowment distribution by 40 basis points to fund important University-wide strategic initiatives while preserving the long-term spending power of our principal. At the end of 2014-15, we recorded an annual return on the long-term pool of 7.7 percent, and our returns over the past 20 years have consistently been in the top quartile of relevant industry benchmarks.

Of course, these stellar results reflect the commitment of our alumni, parents, and friends and their strong tradition of philanthropic support. On this foundation, the University has been able to establish more than 1,000 new endowments during the past decade, more than half of them for scholarship support, created the Frank Batten School for Leadership and Public Policy, and made significant investments in the physical plant across the Grounds. We achieved $243.9 million in philanthropic cash flow in 2014-15, of which a substantial portion was allocated to faculty support and student scholarships, as well as historic preservation and renovation. New philanthropic commitments totaled $339 million for the year, including future support designations. We will begin celebrating the University's bicentennial in 2017 and are planning a significant bicentennial campaign that will be among the most ambitious ever in higher education.

As has been the case historically, the University continues to thrive as a result of its diversified revenue base. Our patient services revenue is approximately $1.4 billion or 49% of total revenues and other sources of operational funding. The Medical Center produces consistently strong operating margins, approximately 4.9% last year. Endowment spending distribution accounts for about 6% and tuition and fees make up 17% of total revenues and other sources of operational funding. Following a period of decline related to the economic downturn of 2008 and its subsequent effects on federal research programs, research funding has begun to trend upward again. Grants and contracts now comprise approximately 10% of total revenues. State appropriations account for approximately 5% of our revenues. In a macroeconomic environment where state governments face many significant challenges, funding of higher education remains a high hurdle. Our diverse revenue base has enabled the University to thrive even when public funding remains uncertain.

This past year, the University initiated measures to capitalize on the strength of the balance sheet. We completed a complex restructuring of our debt portfolio and have developed a liquidity model that is designed to optimize investment opportunities while ensuring sufficient resources to address operational needs and strategic priorities.

These factors are among the many reasons that the University is one of just three public universities in the United States with a AAA bond rating from all three rating agencies — Standard & Poor's, Fitch Ratings, and Moody's Investors Service. We have earned this distinction for more than a decade. More importantly, we have been widely recognized for using our financial strength to deliver an outstanding education at an affordable price. We have been listed among the top three public universities in the *U.S. News & World Report* rankings since they were first published in 1988. *Princeton Review* ranked UVA the best value among public universities while *Kiplinger* magazine ranked the University No. 2 among "Best Values in Public Colleges." *U.S. News* ranked the College at Wise second among top liberal arts colleges in the nation whose students graduate with a low debt load. *U.S. News* also recognized five UVA medical specialties in its "Best Hospitals" guide. These rankings, which highlight the University's strong brand relative to other universities and medical centers, are a reflection of our excellent financial position, our outstanding faculty, and our dedicated staff.

A SUSTAINED RECORD OF SUCCESSFULLY MEETING CHALLENGES AND FUNDING OUR ASPIRATIONS

American colleges and universities, especially public institutions and those with academic medical centers, have faced a daunting combination of pressures over the last decade including the changing landscape of federal and state funding, demands for greater affordability, and the generational turnover of faculty. The University of Virginia has faced these challenges head on.

Throughout the past year, University leaders worked closely with the Board of Visitors Finance Subcommittee to develop Affordable Excellence, a multi-dimensional model that ensures access and affordability to an increasingly diverse student body while sustaining excellence across the Grounds. By implementing this model, we are able to maintain our need-blind admissions policy and meet 100% of demonstrated need for in-state and out-of-state students. UVA is one of only two American public institutions to do so, a factor that helps us compete for talented students with the most elite universities across the country. Affordable Excellence lowers the net price of an undergraduate education for roughly 70% of Virginia families, reduces student indebtedness upon graduation for these families by $10,000, and creates a greater degree of predictability related to tuition and fees underscored by our new optional four-year, fixed-price base tuition contract.

At the foundation of our efforts to ensure both affordability and excellence is the multi-year financial plan, which we update annually. The plan ensures the sustainability and predictability of our financial model, improves our decision-making to keep the focus on our strategic priorities, and gives us a window into future needs. It brings renewed discipline to the University's financial and operational planning, addresses the challenges facing all of higher education, and helps us to maintain the position of strength that we have built over decades.

Innovative financial and operational management has enabled the University to make significant progress this year toward a number of goals called for in our academic and medical center strategic plans. Chief among our strategic priorities is planning for and identifying significant internal funding sources to address the generational turnover of faculty. Additionally, we awarded an average 4.75 percent salary increase to faculty for each of the last two years and in 2015-16, the average faculty salary increase is 4.5 percent. These are necessary investments that allow us to recruit and retain the best faculty in a highly competitive environment.

In the Cornerstone Plan, we have identified strategic priorities that will enrich and strengthen the University's distinctive residential culture, deliver new levels of student engagement through educational experiences, advance knowledge, and serve the public. At the College at Wise, faculty and staff remain focused on their dual mission of serving the region and promoting student success. We continue to make targeted investments to meet the evolving needs of students and faculty across the Grounds and the College at Wise as we build upon a foundation of excellence and prepare for the beginning of the University's third century.

OUR COMMITMENT TO QUALITY PATIENT CARE

Our obligation to our patients is straightforward: to deliver the highest-quality care at the right time and in the most appropriate setting. To successfully meet this obligation in the face of new reimbursement models and an aging population, institutions must differentiate themselves by the superior quality of care they offer and take a collaborative approach to building partnerships with neighboring hospitals and health systems. This year, the UVA Medical Center launched the Be Safe initiative, applying Lean organizational principles to improve the safety of patients and employees. Patients seek out medical centers with a proven record of safety, and skilled staff members choose to work in places where safety and outcomes are valued. We endeavor to be the top choice for patients and dedicated staff, and our Be Safe initiative is one way we are working toward this goal.

Equally important, community and regional providers are motivated to seek partnerships with medical centers that are known for the quality of their care. We have been intentional in the partnerships we form with such providers as Bon Secours Health System and Culpeper Regional Hospital to deliver high-quality specialty care to patients throughout the state. We aim to share our expertise and reinforce our partners' capacity to deliver more sophisticated care locally while providing greater access to the Medical Center for patients with complex and difficult-to-treat conditions. Having this critical mass is equally essential to our ability to conduct clinical trials and develop the next generation of physicians and nurses.

CONTINUED PROGRESS ON ORGANIZATIONAL EXCELLENCE

The University is constantly pursuing new, more effective and efficient ways to deliver services so that more resources can be devoted to educating and mentoring students, advancing research, and incorporating the latest innovations in health care. This is the essence of our Organizational Excellence philosophy. Our goal is to increase quality, eliminate duplication, enhance effectiveness, and promote efficiency, entrepreneurialism, and innovation.

With a focus on implementing best-in-class service models and processes to optimize resource alignment, we are targeting $150 million in savings to be reinvested in the University's core mission over the next seven years. This year, we made significant progress on our managerial reporting initiative designed to provide accurate, consistent, and accessible data and reporting to inform decision-making. We took the first steps in a major effort to reconceptualize and strengthen human resources service delivery across the entire University, and we are delivering better information to research faculty through the ResearchUVa portal, as well as streamlining research administration. In addition, we have launched initiatives to realize efficiencies and produce greater effectiveness in strategic sourcing in key procurement areas including information technology and travel and expense management.

SETTING GOALS FOR 2015-16

The current fiscal year is already shaping up to be as busy and productive as 2014-15. Along with pursuing our Organizational Excellence initiatives, improving the use of liquidity, and investing in technology that will allow us to optimize our performance, we are devoting our attention to issues of enterprise risk management and compliance. Working with the Board of Visitors, we have identified nine top institutional risk categories and laid out a framework for mitigating risk in each area.

We recruited a nationally-recognized leader to serve in the newly created post of chief audit executive, and she is focused on transforming our audit mission to align with the enterprise risk management framework. We are developing a comprehensive information technology security enhancement plan and will make critical investments over the next two years to ensure state-of-the-art cybersecurity.

Fiscal year 2015-16 marks the first full deployment of the new University Financial Model. This model promotes transparent decision-making, incentive-based allocations, and prudent stewardship of the University's resources. It empowers individual academic units to be innovative and cost-efficient, and built-in incentives encourage entrepreneurship and collaboration among deans, administrative leaders, faculty and staff.

Finally, nothing is more important than the safety and security of the University community. We made a number of important investments in safety in 2014-15 and continue to focus on these issues in the new fiscal year.

A STRONG FOUNDATION FOR FUTURE SUCCESS

Most important to our success are the dedicated staff and faculty who work together to provide the highest quality academic experience and clinical care. We continue to invest in developing leadership competency among our managers. Central to retaining a high-performing workforce, we offer our employees opportunities to develop new skills and progress along a career path at the University.

In interactions with our people at all levels, I see a widespread and heartfelt commitment to the University's mission and a determination to do whatever is necessary to meet the needs of our students, patients, and stakeholders throughout the Commonwealth and the world. The University of Virginia is positioned well to face future challenges and capitalize on opportunities, both those we know now and those that will emerge in the future. By remaining focused on innovation and continuous improvement, we will be an even stronger and better University in the coming years.

On behalf of the entire University, I am grateful to our staff, faculty, students, alumni and friends for their continued commitment to the University today and in the future.

Patrick D. Hogan

Patrick D. Hogan
Executive Vice President and Chief Operating Officer

INTRODUCTION

This discussion and analysis provide an overview of the financial position and results of activities of the University of Virginia (the University) for the year ended June 30, 2015. Comparative information for the year ended June 30, 2014, has been provided where applicable. Management has prepared this discussion, which should be read in conjunction with the financial statements and the notes that follow this section.

The University is an agency of the Commonwealth of Virginia (the Commonwealth) 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 and is included in the basic financial statements of the Commonwealth. The University's three divisions are its Academic Division, the University of Virginia Medical Center (the Medical Center), and the University of Virginia's College at Wise (College at Wise or Wise).

ACADEMIC DIVISION

A public institution of higher learning with approximately 22,800 on-Grounds students and 2,300 full-time instructional and research faculty members in eleven schools in 2014-15, the University offers a diverse range of degree programs, from baccalaureate to postdoctoral levels, including doctorates in fifty-five disciplines. The University is recognized internationally for the quality of its faculty and its commitment to the primary academic missions of instruction, research, public service, and medical care. The University consistently ranks among the nation's top public colleges and universities, both for its general academic programs and for its strengths in specific academic disciplines. Its emphasis on the student experience is extraordinary among major public institutions, and its dedication to new advances in research permeates all of its schools and colleges.

MEDICAL CENTER

The 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 licensed hospital with 612 beds in a state-designated Level 1 trauma center located in Charlottesville. The Medical Center also has a transitional care hospital with 40 beds that is located west of the Charlottesville campus. In addition, primary and specialty care are provided at convenient clinic locations throughout Central Virginia communities. The University's Medical Center has a tradition of excellence in teaching, advancement of medical science, and patient care, consistently ranking among the best health care systems in the nation.

COLLEGE AT WISE

Located in southwestern Virginia, the College at Wise is a public liberal arts college with nearly 2,037 students and 104 full-time instructional and research faculty. It offers baccalaureate degrees in thirty majors and eight preprofessional programs, including dentistry, pharmacy, engineering, forestry, law, medicine, physical therapy, and veterinary medicine.

USING THE FINANCIAL STATEMENTS

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

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

For the year ended June 30, 2015, the University implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The standard requires that a liability for pension obligations be recognized on the statement of net position of the employer (the University). Similarly, a pension expense will be recognized on the statement of revenues, expenses and changes in net position. The net pension liability as of June 30, 2015, was $459.9 million.

STATEMENT OF NET POSITION

The Statement of Net Position presents the financial position of the University at the end of the fiscal year and includes all assets, deferred outflows of resources, liabilities and deferred inflows of resources of the University. The net position is an indicator of the overall health of the University, while the change in net position reflects the current year's activities. 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 to indicate how much of an asset's value has been consumed.

The University's Statement of Net Position at June 30, 2015, and June 30, 2014, is summarized as follows:

SUMMARY OF THE STATEMENT OF NET POSITION *(in thousands)*	**2015**	**2014**	**INCREASE (DECREASE)**	
			AMOUNT	**PERCENT**
Current assets	$ 1,149,299	$ 1,119,865	$ 29,434	2.6%
Noncurrent assets				
Endowment investments	4,374,764	4,216,644	158,120	3.7%
Other long-term investments	1,580,356	1,316,835	263,521	20.0%
Capital assets, net	3,273,882	3,189,972	83,910	2.6%
Other	73,313	74,945	(1,632)	(2.2%)
Total assets	**10,451,614**	**9,918,261**	**533,353**	**5.4%**
Deferred outflows of resources	88,173	35,108	53,065	151.1%
Total assets and deferred outflows of resources	**10,539,787**	**9,953,369**	**586,418**	**5.9%**
Current liabilities	565,072	715,801	(150,729)	(21.1%)
Noncurrent liabilities	2,018,142	1,311,028	707,114	53.9%
Total liabilities	**2,583,214**	**2,026,829**	**556,385**	**27.5%**
Deferred inflows of resources	160,635	–	160,635	100.0%
Total liabilities and deferred inflows of resources	**2,743,849**	**2,026,829**	**717,020**	**35.4%**
NET POSITION	**$ 7,795,938**	**$ 7,926,540**	**$ (130,602)**	**(1.6%)**

CURRENT ASSETS AND LIABILITIES

The Statement of Net Position shows that working capital, which is current assets less current liabilities, was $584 million on June 30, 2015. Current assets consist of cash and cash equivalents, short-term investments, and accounts receivable. Current liabilities consist of accounts payable, unearned revenue, and the current portion of long-term liabilities. Decreases in accounts payable, unearned revenue, and outstanding commercial paper account for most of the decrease in current liabilities.

Current assets cover current liabilities two times, an indicator of good liquidity and the ability to weather short-term demands on working capital. This rate of coverage increased from 1.6 last year, primarily due to a significant reduction in outstanding commercial paper. Current assets cover 5.8 months of total operating expenses, excluding depreciation. For 2014–15, one month of operating expenses equaled approximately $214 million.

ENDOWMENT AND OTHER INVESTMENTS

Performance. The major portion of the University's endowment continues to be maintained in a long-term investment pool managed by the University of Virginia Investment Management Company (UVIMCO). The return for the long-term investment pool was 7.7 percent in the fiscal year 2014-15. This performance figure includes realized and unrealized gains and losses, along with cash income. Total investment income for all funds was $428 million.

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. 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 $169 million, or 4.68 percent of the June 30, 2013 market value of the endowment, the measurement date.

Endowment investments. The total of endowment investments is $4.4 billion, a $158 million increase over the prior year. In addition to new gifts, the increase results from investment returns earned during the year, reduced by the spending distribution.

From a net position perspective, earnings from the endowment are expendable; however, about two-thirds of the earnings are restricted as to use by the donors. A significant portion of the unrestricted earnings, the remaining one-third of the endowment, is internally designated by the University for scholarships, fellowships, professorships, and research activities.

Including endowment investments held by the nine related foundations reported as component units, the combined University system endowment was just over $6 billion as of June 30, 2015.

CAPITAL AND DEBT ACTIVITIES

A critical factor in sustaining the quality of the University's academic and research programs and residential life is the development and maintenance 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 major maintenance obligations.

Capital projects consist of replacement, renovation, and new construction of academic, research, and health care facilities, as well as significant investments in equipment and information systems.

Some of the largest new or ongoing projects expensed for construction during the year are listed below:

MAJOR CAPITAL PROJECT EXPENSES DURING 2014-15 *(in thousands)*		
Alderman Road Residences - Building 6	$	19,314
Rotunda renovations		16,159
UVA College at Wise Library		10,865
McCormick Road Utility Tunnel		5,073
Gilmer Hall and Chemistry Building		4,976
VOIP Phone System		4,536
TOTAL	**$**	**60,923**

As infrastructure and building projects were completed or otherwise acquired during the year, the University's capital asset balances grew significantly. More than $387 million of completed projects were added to depreciable capital assets during the fiscal year. The largest building projects completed and placed into service are listed below:

MAJOR PROJECTS COMPLETED OR ACQUIRED DURING 2014-15 *(in thousands)*	**CAPITALIZED COST**	
Medical Center Battle Building	$	146,236
New Cabell Hall renovation		61,032
Ruffner Hall renovation		19,538
North Grounds Mechanical Plant		13,589
O'Neil Hall		10,205
Gooch Dillard Residence Hall renovation		3,490
TOTAL	**$**	**254,090**

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

The University's debt portfolio contains a strategic mix of maturity structures and both variable- and fixed-rate obligations. The University achieves this mix through issuing a combination of fixed- and variable-rate debt, including commercial paper. It also adjusts its debt mix through the use of interest rate swaps executed according to its Board-approved interest rate risk management policy. The University had just over $1.4 billion of debt outstanding as of June 30, 2015, which included $51 million of short-term commercial paper.

NET POSITION

The four net position categories represent the net interest in the University's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted. The University's net position on June 30, 2015, and June 30, 2014, is summarized below:

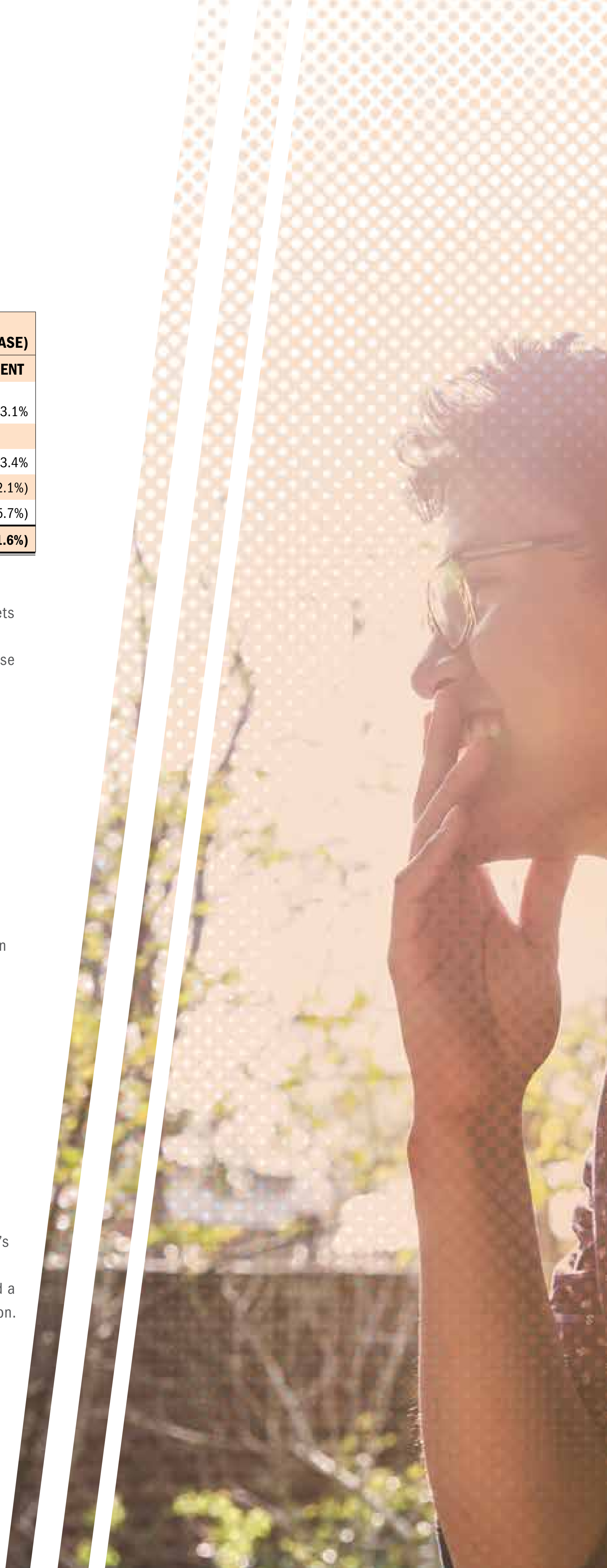
NET POSITION *(in thousands)*	**2015**	**2014**	**INCREASE (DECREASE) AMOUNT**	**INCREASE (DECREASE) PERCENT**
Net investment in capital assets	$ 1,837,901	$ 1,782,053	$ 55,848	3.1%
Restricted				
Nonexpendable	608,894	588,627	20,267	3.4%
Expendable	2,997,184	3,062,089	(64,905)	(2.1%)
Unrestricted	2,351,959	2,493,771	(141,812)	(5.7%)
TOTAL NET POSITION	**$ 7,795,938**	**$ 7,926,540**	**$ (130,602)**	**(1.6%)**

Net investment in capital assets 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. Capitalized assets increased by $84 million and were offset by a $26 million increase in debt used to finance those capital assets, for a net change of $58 million.

Restricted nonexpendable net position consists of the University's permanent endowments, which cannot be expended due to donor restrictions. The increase in nonexpendable net position included new gifts of $18 million.

Restricted expendable net position includes spendable earnings on permanent and quasi-endowments, gifts, grants and contracts, and loan funds that are subject to externally imposed restrictions governing their use. An increase in the restricted expendable net position is usually related to investment returns. As a result of the University's implementation of GASB Statement No. 68, restricted expendable net position decreased by $65 million. The new accounting pronouncement required a beginning balance adjustment to restricted expendable net position of $111 million. Without this adjustment, restricted expendable net position would have increased $46 million.

Unrestricted net position includes all other activities that are both spendable and not subject to externally imposed restrictions. The majority of the University's unrestricted net position has been internally designated for the core mission activities of instruction, research, and health services programs and initiatives, and capital projects that align with the University's highest priorities. As a result of the University's implementation of GASB Statement No. 68, unrestricted net position decreased by $142 million. The new accounting pronouncement required a beginning balance adjustment to unrestricted net position of $408 million. Without this adjustment, unrestricted net position would have increased $266 million from investment performance and the Medical Center's positive operating margin.



STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

The Statement of Revenues, Expenses, and Changes in Net Position presents the University's results of activities for the year. Presented below is a summarized statement for the years ended June 30, 2015 and 2014:

SUMMARY OF THE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION *(in thousands)*	**2015**	**2014**	**INCREASE (DECREASE)**	
			AMOUNT	**PERCENT**
Operating revenues				
Student tuition and fees, net	$ 491,027	$ 459,166	$ 31,861	6.9%
Patient services, net	1,428,736	1,237,157	191,579	15.5%
Sponsored programs	278,433	267,962	10,471	3.9%
Other	215,140	197,544	17,596	8.9%
Total operating revenues	**2,413,336**	**2,161,829**	**251,507**	**11.6%**
Operating expenses	**2,778,405**	**2,521,306**	**257,099**	**10.2%**
Operating loss	**(365,069)**	**(359,477)**	**(5,592)**	**1.6%**
Nonoperating revenues (expenses)				
State appropriations	152,841	161,641	(8,800)	(5.4%)
Gifts	171,705	153,561	18,144	11.8%
Investment income	428,406	869,910	(441,504)	(50.8%)
Pell grants	12,957	12,619	338	2.7%
Interest on capital asset-related debt	(59,440)	(49,449)	(9,991)	20.2%
Build America Bonds (BAB) rebate	8,116	7,200	916	12.7%
Other net nonoperating expenses	(36,825)	(22,593)	(14,232)	63.0%
Net nonoperating revenues	**677,760**	**1,132,889**	**(455,129)**	**(40.2%)**
Income before other revenues, expenses, gains, or losses	**312,691**	**773,412**	**(460,721)**	**(59.6%)**
Capital appropriations, gifts, and grants	57,583	65,065	(7,482)	(11.5%)
Additions to permanent endowments	17,907	11,738	6,169	52.6%
Total other revenues	**75,490**	**76,803**	**(1,313)**	**(1.7%)**
INCREASE IN NET POSITION	**388,181**	**850,215**	**(462,034)**	**(54.3%)**
NET POSITION — BEGINNING OF YEAR	7,926,540	7,076,325	850,215	12.0%
Net effect of change in accounting principle and reporting entity	(518,783)	–	(518,783)	(100.0%)
NET POSITION — END OF YEAR	**$ 7,795,938**	**$ 7,926,540**	**$ (130,602)**	**(1.6%)**

GASB accounting principles determine the categorization of revenues and expenses as either operating or nonoperating activities. Because GASB Statement No. 34 requires that revenues from state appropriations, Pell grants, and gifts be considered nonoperating while the expenses funded from these revenues are categorized as operating, the University will nearly always demonstrate an operating loss on its Statement of Revenues, Expenses, and Changes in Net Position.

REVENUES

The University maintains a diverse stream of revenues, which decreases its dependence on specific revenue sources and allows it to adapt during difficult economic times. The University's revenues, for the years ended June 30, 2015, and June 30, 2014, are summarized below:

SUMMARY OF REVENUES (in thousands)	2015			2014			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	$ 491,027	$ -	$ 491,027	$ 459,166	$ -	$ 459,166	$ 31,861	6.9%
Patient services	-	1,428,736	1,428,736	-	1,237,157	1,237,157	191,579	15.5%
Federal, state, and local grants and contracts	230,019	-	230,019	223,144	-	223,144	6,875	3.1%
Nongovernmental grants and contracts	48,414	-	48,414	44,818	-	44,818	3,596	8.0%
Sales and services of educational departments	26,309	-	26,309	21,434	-	21,434	4,875	22.7%
Auxiliary enterprises revenue, net	129,855	-	129,855	124,922	-	124,922	4,933	3.9%
Other operating revenues	12,517	46,459	58,976	2,015	49,173	51,188	7,788	15.2%
Total operating revenues	**938,141**	**1,475,195**	**2,413,336**	**875,499**	**1,286,330**	**2,161,829**	**251,507**	**11.6%**
Nonoperating revenues								
State appropriations	152,841	-	152,841	161,641	-	161,641	(8,800)	(5.4%)
Private gifts	147,131	24,574	171,705	147,328	6,233	153,561	18,144	11.8%
Investment income	381,569	46,837	428,406	782,887	87,023	869,910	(441,504)	(50.8%)
Other nonoperating revenues	88,447	-	88,447	89,422	-	89,422	(975)	(1.1%)
Total nonoperating revenues	**769,988**	**71,411**	**841,399**	**1,181,278**	**93,256**	**1,274,534**	**(433,135)**	**(34.0%)**
TOTAL REVENUES	**$ 1,708,129**	**$ 1,546,606**	**$ 3,254,735**	**$ 2,056,777**	**$ 1,379,586**	**$ 3,436,363**	**$(181,628)**	**(5.3%)**

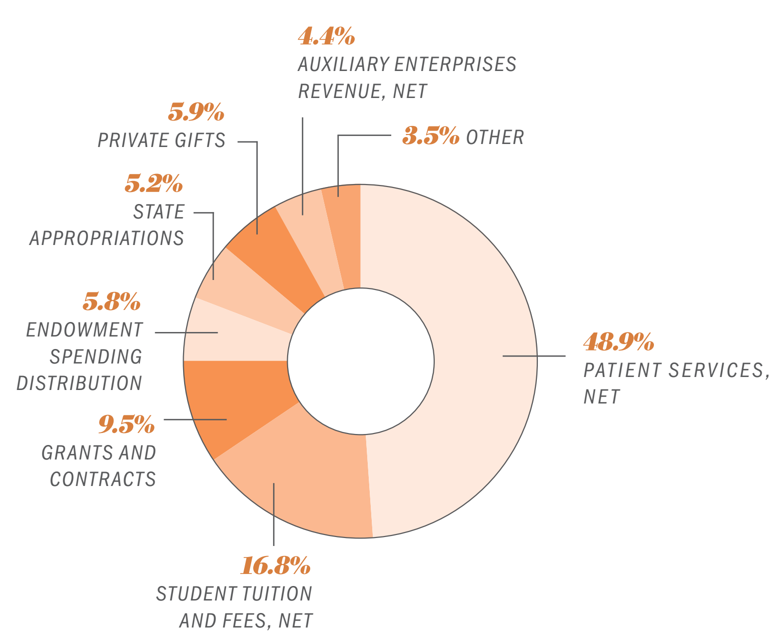
Net student tuition and fees revenue increased due to new programs, enrollment growth and changes in tuition and fee rates. Tuition and fees revenue is reported net of scholarships and allowances provided from University sources. Net patient revenues are higher due to increased patient collections after write-offs. Grant and contract activity, including direct research and the recovery of indirect facilities and administrative costs, increased slightly in an environment of ongoing pressure and uncertainty at the federal level. The decrease in nonoperating revenues is attributable to the decrease in the market return on the University's long-term investments which declined by $442 million.

REVENUES AND OTHER SOURCES OF OPERATIONAL FUNDING

To the right is a chart of revenues by source (both operating and nonoperating). These revenues were used to fund the University's operating activities for the fiscal year ended June 30, 2015. As noted earlier, GASB requires state appropriations, current gifts, and Pell grants to be treated as nonoperating revenues. Endowment spending is not current-year revenue, but a distribution of previously recognized investment income revenue. However, it is an important funding source for current operations and is included in the chart to the right to present a more accurate picture of the University's funding of current operations.

Patient services revenues accounted for nearly one-half of the University's revenues and operational funding sources. Net student tuition and fees, and grants and contracts are the next largest revenues. Private support from endowment spending and gifts combined provides about 12 percent of the University's funding. State appropriations accounted for just five percent of funding for operations. With ongoing economic pressures on state revenues and increasing consideration of affordability, funding from private sources continues to be vitally important to the University's operations.

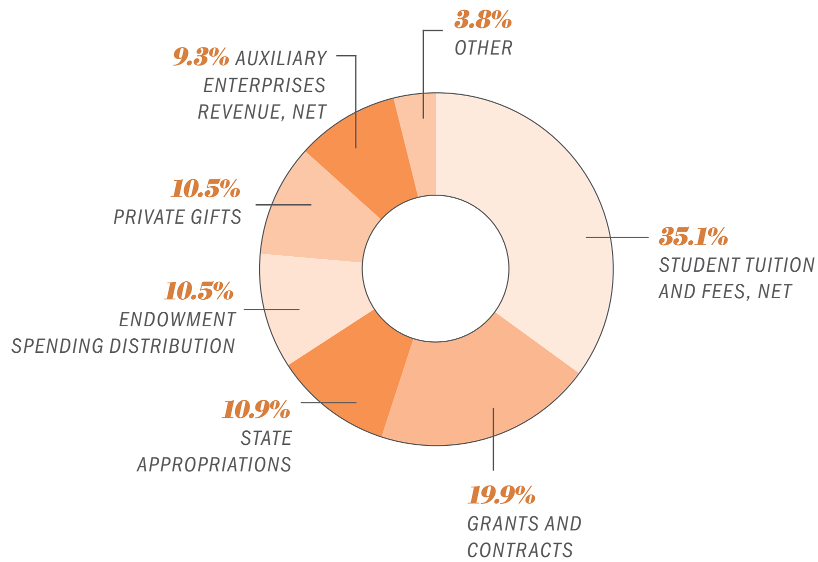
TOTAL UNIVERSITY REVENUES AND OTHER SOURCES OF OPERATIONAL FUNDING



ACADEMIC AND WISE REVENUES AND OTHER SOURCES OF OPERATIONAL FUNDING

A clearer picture of the academic and research mission revenue stream emerges when the Medical Center's data is excluded, as it is in the chart to the right. Net tuition and fees make up more than one-third of the operating revenues for the Academic Division and Wise. Contributing a combined 21 percent, private support in the form of endowment spending distribution and gifts has been, and will continue to be, essential to maintaining the University's academic excellence. External research support from grants and contracts makes up another 20 percent of operational funding.

ACADEMIC AND WISE REVENUES AND OTHER SOURCES OF OPERATIONAL FUNDING



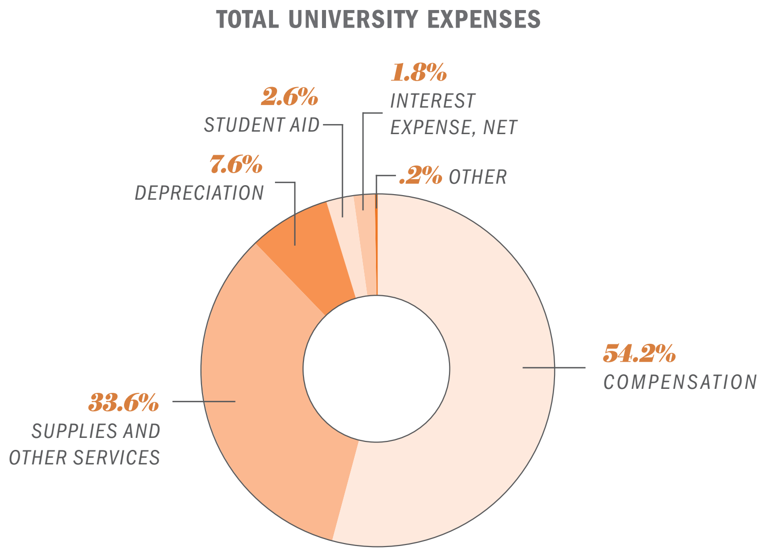
EXPENSES

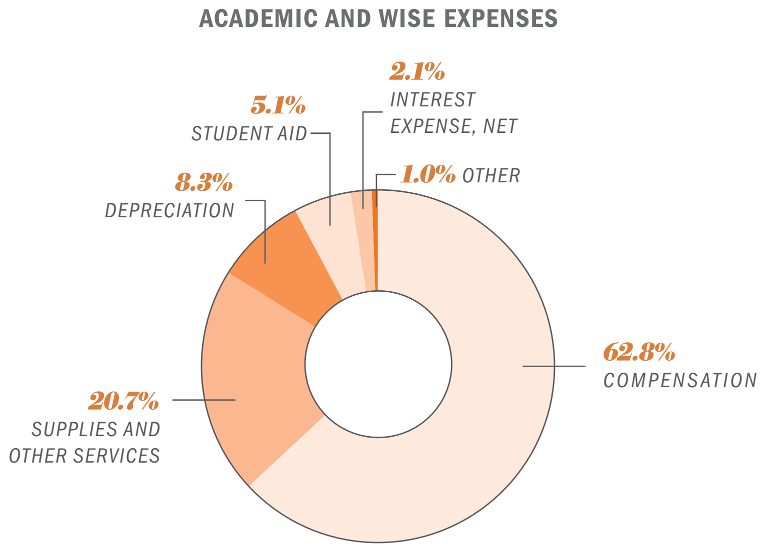
The University's expenses for the years ended June 30,2015, and June 30, 2014, are summarized as follows:

SUMMARY OF EXPENSES *(in thousands)*	2015			2014			TOTAL INSTITUTION INCREASE (DECREASE)	
	ACADEMIC DIVISION & WISE	MEDICAL CENTER	TOTAL INSTITUTION	ACADEMIC DIVISION & WISE	MEDICAL CENTER	TOTAL INSTITUTION	AMOUNT	PERCENT
Operating expenses								
Compensation	$ 913,887	$ 620,369	$ 1,534,256	$ 852,095	$ 537,177	$ 1,389,272	$ 144,984	10.4%
Supplies and other services	301,690	648,216	949,906	280,513	574,680	855,193	94,713	11.1%
Student aid	74,527	-	74,527	73,802	-	73,802	725	1.0%
Depreciation	120,356	95,816	216,172	115,928	83,260	199,188	16,984	8.5%
Other operating expenses	3,544	-	3,544	3,851	-	3,851	(307)	(8.0%)
Total operating expenses	**1,414,004**	**1,364,401**	**2,778,405**	**1,326,189**	**1,195,117**	**2,521,306**	**257,099**	**10.2%**
Nonoperating expenses and other								
Interest expense (net of BAB rebate)	30,875	20,449	51,324	27,597	14,652	42,249	9,075	21.5%
Loss on capital assets	1,722	(150)	1,572	1,136	3,343	4,479	(2,907)	(64.9%)
Other nonoperating expenses	9,461	25,792	35,253	18,114	-	18,114	17,139	94.6%
Total nonoperating expenses	**42,058**	**46,091**	**88,149**	**46,847**	**17,995**	**64,842**	**23,307**	**35.9%**
TOTAL EXPENSES	**$ 1,456,062**	**$ 1,410,492**	**$ 2,866,554**	**$ 1,373,036**	**$ 1,213,112**	**$ 2,586,148**	**$ 280,406**	**10.8%**

Increases in operating expenses are primarily driven by the Medical Center's $85 million increase and the Academic Division and Wise's $62 million increase in compensation and benefits and the $94 million increase in supplies and other services. These increases are primarily related to the Medical Center's strategic initiatives, ongoing relationships with other health systems, contractual increases with pharmaceutical suppliers, the opening of new clinics and the continuing collaborative effort to increase staffing levels to meet patient demand and to adjust employee compensation to remain market competitive.

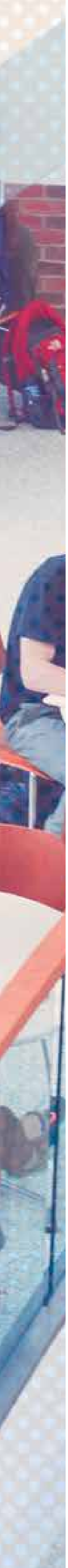
The following are graphic illustrations of expenses (both operating and nonoperating) for the fiscal year ended June 30, 2015.





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. 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 Note 9 of the Notes to the Financial Statements. Expenses for core mission functions of patient services, instruction, and research account for 72 percent of total operating expenses. The remainder is for support costs of these core mission functions and includes academic support, libraries, student services, institutional support services, and operation and maintenance of facilities.



FUTURE ECONOMIC OUTLOOK

Overall, the University remains financially strong with a diverse revenue base, a strong endowment, a tradition of broad and generous philanthropic support, and a commitment to organizational excellence. With a changing health care environment, the Commonwealth of Virginia's budgetary pressures and increasing scrutiny on the federal budget, the University has responded well and continues to hold a unique position among public higher education institutions. The value delivered to our students is strong with graduation rates among the highest in the country while student indebtedness levels are among the lowest.

Higher education remains a focus of attention at the state and national levels, particularly in terms of access, affordability, and student outcomes. Preserving the University's excellent academic reputation and rigor is equally crucial among students and alumni. To address these issues, the Board of Visitors of the University endorsed the Cornerstone Plan in November 2013, which sets out five pillars to serve as areas of strategic emphasis over the next five years. For 2015-16, the Cornerstone Plan contains specific strategic priorities that include student diversity-related activities, Data Science faculty fellowships, short courses, and graduate degree programs, a Total Advising Center in Clemons Library, competitive faculty salaries, and ongoing organizational excellence initiatives.

To support strategic priorities, the University developed a multi-year financial plan, which will serve as a framework for achieving new levels of excellence and bring a renewed discipline to the University's financial and operational planning. Creation of the multi-year financial plan puts the University on a sustainable path to achieving its goals and realizing its vision for the twenty-first century. The guiding principles for this plan include:

- Keeping the University affordable and accessible
- Investing in our students, faculty, and staff
- Pursuing targeted savings opportunities to ensure the highest and best use of resources
- Seeking solutions to provide the highest level of operational effectiveness
- Remaining good stewards of resources and maintaining our AAA bond rating

The plan effectively utilizes endowment spending, the strength of the balance sheet, an efficient debt structure, a commitment to philanthropy, targeted operational efficiencies, and a tuition and financial aid model to improve affordability and predictability.

With the majority of the University's research funding coming from federal grants, as well as its impact on federally funded student grants and loans, the federal budget remains a key consideration of our financial outlook. On November 2nd, President Obama signed the *Bipartisan Budget Act of 2015* into law, which stabilizes federal spending for the near future by alleviating sequestration for fiscal years 2016 and 2017 and extending the nation's debt limit until March 2017.

The budget agreement includes an $8 billion increase in discretionary spending over two years, which will enable the House and Senate to increase funding for federal science agencies and education programs, including student aid. At the University, federal research awards increased over 6% in 2015. It remains a top priority of the University to continue to increase proposals and awards with the strategic recruitment of highly productive faculty aligned with research priorities. The University will continue to pursue partnerships with industrial sponsors to diversify its institutional research portfolio and directly support key research and scholarship elements of the Cornerstone Plan. This will create new external sources of funding for research and opportunities for our faculty and students, such as new domestic and global internships, access to real-world problem sets, and the expansion of our global footprint.

The Commonwealth's current budget reflects that state revenue collections will remain fairly flat in fiscal year 2016, but recent trends suggest that the economy continues to strengthen in Virginia and nationwide. The state's general fund revenue collections increased 8.1% in fiscal year 2015 (well above the forecasted 4.7% growth), and forecasts for fiscal year 2016 and the next biennium are being reevaluated in preparation for the next biennial budget. The Commonwealth remains committed to diversifying the state economy and building a new Virginia economy with increased focus on job creation and business investments and less dependence on federal spending.

The University's health system has continued to produce positive financial results. Looking forward, the health system's top strategic planning goal remains becoming a top decile provider of clinical care among academic medical centers. Leadership has developed a long-range financial plan to achieve this goal within the context of an increasingly changing health care industry. Within the industry, there will be continued downward pressure on inpatient utilization and growth in demand for outpatient service; increasing costs associated with medical supply, pharmaceutical, and medical device expenses; a growing compliance burden; a shortage of health care workers; and continued responsibility to care for the medically underserved in Virginia. The Patient Protection and Affordable Care Act signed into law in March 2010, continues to affect the health care industry as new substantive provisions were implemented this year. The impact will be decreased reimbursements from government payors despite increasing costs of medical delivery and an industry-wide erosion of pricing power with private payors. Medical Center volume growth is focused on high acuity patients and the clinical areas of cancer, the neurosciences, heart and vascular, and orthopedics.

Effective and attentive leadership, historical commitment to financial excellence, and a diversified approach will all help the University continue to succeed and excel in the future. While it is impossible to predict the ultimate results, management continues to believe that the University's financial condition will remain strong.

Management Responsibility

November 10, 2015

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, 2015. 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. The 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 of 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, Compliance and Risk 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,

Melody S. Bianchetto
Vice President for Finance

David J. Boling
Assistant Vice President for Finance and University Comptroller

Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

November 10, 2015

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable John C. Watkins
Chairman, Joint Legislative Audit and Review Commission

Board of Visitors
The University of Virginia

Independent Auditor's Report

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, 2015, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility For The Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units of the University, which are discussed in Note 1. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the component units of the University, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the component units of the University that were audited by other auditors upon whose reports we are relying were audited in accordance with auditing standards generally accepted in the United States of America, but not in accordance with Government Auditing Standards.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also

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includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinions.

Opinion

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 as of June 30, 2015, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis Of Matter

The University of Virginia's basic financial statements for the year ended June 30, 2015, reflect the provisions of the Governmental Accounting Standards Board's (GASB) Statements No. 68 and No. 71, related to pension accounting and financial reporting for employers. The University of Virginia implemented the requirements of GASB Statements No. 68 and No. 71 in accordance with their required effective date. See Note 1 in the accompanying financial statements for the impact of the standard's implementation. Our opinion is not modified with respect to this matter.

Other Matters

Prior-Year Summarized Comparative Information

We have previously audited the University of Virginia's 2014 financial statements, and we expressed an unmodified audit opinion on the respective financial statements in our report dated November 5, 2014. In our opinion, while the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived, it does not include the necessary adjustments for the 2014 financial statements to be comparative with the 2015 financial statements as described in Note 1.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 7 through 15, the Schedule of the University of Virginia's Share of Net Pension Liability, the Schedule of Employer Contributions, the Notes to Required Supplementary Information and the Funding Progress for Other Postemployment Benefit Plans on page 62 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 10, 2015, 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 in considering the University's internal control over financial reporting and compliance.

Martha S. Mavredes

AUDITOR OF PUBLIC ACCOUNTS

UNIVERSITY OF VIRGINIA

STATEMENT OF NET POSITION *(in thousands)*

AS OF JUNE 30, 2015 (WITH COMPARATIVE INFORMATION AS OF JUNE 30, 2014)

	2015	2014
ASSETS		
Current assets		
Cash and cash equivalents (Note 2)	$ 580,128	$ 612,001
Short-term investments (Note 2)	181,213	180,336
Appropriations available	5,257	6,758
Accounts receivable, net (Note 3a)	318,976	269,427
Prepaid expenses	30,900	23,062
Inventories	25,818	22,296
Notes receivable, net (Note 3b)	7,007	5,985
Total current assets	**1,149,299**	**1,119,865**
Noncurrent assets		
Cash and cash equivalents (Note 2)	10,100	24,032
Endowment investments (Note 2)	4,374,764	4,216,644
Other long-term investments (Note 2)	1,580,356	1,316,835
Notes receivable, net (Note 3b)	34,202	35,664
Pledges and other receivables, net (Note 3c)	16,333	4,566
Capital assets — depreciable, net (Note 3d)	3,067,227	2,848,728
Capital assets — nondepreciable (Note 3d)	206,655	341,244
Goodwill (Note 3e)	12,678	10,683
Total noncurrent assets	**9,302,315**	**8,798,396**
Deferred outflows of resources (Note 3f)	**88,173**	**35,108**
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**$ 10,539,787**	**$ 9,953,369**
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 3g)	$ 323,227	$ 292,411
Unearned revenue (Note 3h)	86,057	98,326
Deposits held in custody for others	6,254	13,807
Commercial paper (Note 4)	50,645	205,893
Long-term debt — current portion (Note 5a)	7,563	13,303
Long-term liabilities — current portion (Note 5b)	91,326	92,061
Total current liabilities	**565,072**	**715,801**
Noncurrent liabilities		
Long-term debt (Note 5a)	1,365,312	1,178,213
Derivative instrument liability (Note 6)	29,521	20,448
Net pension liability (Note 11)	459,949	–
Other noncurrent liabilities (Note 5b)	163,360	112,367
Total noncurrent liabilities	**2,018,142**	**1,311,028**
Deferred inflows of resources (Note 3i)	**160,635**	**–**
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	**$ 2,743,849**	**$ 2,026,829**
NET POSITION		
Net investment in capital assets	$ 1,837,901	$ 1,782,053
Restricted:		
Nonexpendable	608,894	588,627
Expendable	2,997,184	3,062,089
Unrestricted	2,351,959	2,493,771
TOTAL NET POSITION	**$ 7,795,938**	**$ 7,926,540**
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	**$ 10,539,787**	**$ 9,953,369**

Certain 2014 amounts have been restated to conform to the 2015 classifications.

The accompanying Notes to Financial Statements are an integral part of this statement.

UNIVERSITY OF VIRGINIA
COMPONENT UNITS, COMBINED STATEMENT OF FINANCIAL POSITION *(in thousands)*

AS OF JUNE 30, 2015 (WITH COMPARATIVE INFORMATION AS OF JUNE 30, 2014)

	2015	2014
ASSETS		
Current assets		
Cash and cash equivalents	$ 73,384	$ 57,466
Receivables	137,511	100,555
Other current assets	576,449	362,222
Total current assets	**787,344**	**520,243**
Noncurrent assets		
Pledges receivable, net of current portion of $39,099 and $27,773	55,932	42,718
Long-term investments	7,510,249	7,156,032
Capital assets, net of depreciation	361,836	376,087
Other noncurrent assets	52,481	44,873
Total noncurrent assets	**7,980,498**	**7,619,710**
TOTAL ASSETS	**$ 8,767,842**	**$ 8,139,953**
LIABILITIES AND NET ASSETS		
Current liabilities		
Assets held in trust for others	$ 96,539	$ 95,209
Other liabilities	189,560	188,721
Total current liabilities	**286,099**	**283,930**
Noncurrent liabilities		
Long-term debt, net of current portion of $15,118 and $30,889	240,441	236,389
Other noncurrent liabilities	6,383,370	5,958,048
Total noncurrent liabilities	**6,623,811**	**6,194,437**
TOTAL LIABILITIES	**$ 6,909,910**	**$ 6,478,367**
NET ASSETS		
Unrestricted	$ 386,622	$ 392,105
Temporarily restricted	809,676	708,855
Permanently restricted	661,634	560,626
TOTAL NET ASSETS	**$ 1,857,932**	**$ 1,661,586**
TOTAL LIABILITIES AND NET ASSETS	**$ 8,767,842**	**$ 8,139,953**

The accompanying Notes to Financial Statements are an integral part of this statement.

UNIVERSITY OF VIRGINIA

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

FOR THE YEAR ENDED JUNE 30, 2015 (WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2014)

	2015	2014
REVENUES		
Operating revenues		
Student tuition and fees (net of scholarship allowances of $105,681 and $99,386)	$ 491,027	$ 459,166
Patient services (net of charity care of $3,196,694 and $2,741,511)	1,428,736	1,237,157
Federal grants and contracts	225,466	218,394
State and local grants and contracts	4,553	4,750
Nongovernmental grants and contracts	48,414	44,818
Sales and services of educational departments	26,309	21,434
Auxiliary enterprises revenue (net of scholarship allowances of $16,792 and $13,325)	129,855	124,922
Other operating revenues	58,976	51,188
TOTAL OPERATING REVENUES	**2,413,336**	**2,161,829**
EXPENSES		
Operating expenses (Note 9)		
Compensation and benefits	1,534,256	1,389,272
Supplies and other services	949,906	855,193
Student aid	74,527	73,802
Depreciation	216,172	199,188
Other	3,544	3,851
TOTAL OPERATING EXPENSES	**2,778,405**	**2,521,306**
OPERATING LOSS	**(365,069)**	**(359,477)**
NONOPERATING REVENUES (EXPENSES)		
State appropriations (Note 10)	152,841	161,641
Gifts	171,705	153,561
Investment income	428,406	869,910
Pell grants	12,957	12,619
Interest on capital asset-related debt	(59,440)	(49,449)
Build America Bonds rebate	8,116	7,200
Losses on capital assets	(1,572)	(4,479)
Other nonoperating expenses	(35,253)	(18,114)
NET NONOPERATING REVENUES	**677,760**	**1,132,889**
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	**312,691**	**773,412**
Capital appropriations	37,907	42,414
Capital grants and gifts	19,676	22,651
Additions to permanent endowments	17,907	11,738
TOTAL OTHER REVENUES	**75,490**	**76,803**
INCREASE IN NET POSITION	**388,181**	**850,215**
NET POSITION		
Net position — beginning of year	7,926,540	7,076,325
Net effect of change in accounting and reporting entity (Note 1)	(518,783)	-
NET POSITION — BEGINNING OF YEAR AS RESTATED	**7,407,757**	**7,076,325**
NET POSITION — END OF YEAR	**$ 7,795,938**	**$ 7,926,540**

Certain 2014 amounts have been restated to conform to the 2015 classifications.

The accompanying Notes to Financial Statements are an integral part of this statement.

UNIVERSITY OF VIRGINIA

COMPONENT UNITS,COMBINED STATEMENT OF ACTIVITIES *(in thousands)*

FOR THE YEAR ENDED JUNE 30, 2015 (WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2014)

	2015	2014
UNRESTRICTED REVENUES AND SUPPORT		
Contributions	$ 29,613	$ 25,914
Fees for services, rentals and sales	388,186	372,387
Investment (loss) income	(8,229)	46,944
Reclassification per donor stipulation	-	(105)
Net assets released from restriction	104,046	105,205
Other revenues	148,951	137,715
TOTAL UNRESTRICTED REVENUES AND SUPPORT	**662,567**	**688,060**
EXPENSES		
Program services, lectures and special events	470,480	421,339
Scholarships and financial aid	73,936	81,788
Management and general	36,840	33,415
Other expenses	90,219	89,468
TOTAL EXPENSES	**671,475**	**626,010**
(DEFICIENCY) EXCESS OF UNRESTRICTED REVENUES AND SUPPORT OVER EXPENSES	**(8,908)**	**62,050**
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	67,634	49,964
Investment and other income	90,741	176,901
Reclassification per donor stipulation	(186)	(6,094)
Net assets released from restriction	(104,331)	(105,207)
NET CHANGES IN TEMPORARILY RESTRICTED NET ASSETS	**53,858**	**115,564**
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Contributions	27,469	30,168
Investment and other income	2,492	5,550
Reclassification per donor stipulation	(325)	4,450
Net assets released from restriction	285	2
NET CHANGES IN PERMANENTLY RESTRICTED NET ASSETS	**29,921**	**40,170**
CHANGE IN NET ASSETS	**74,871**	**217,784**
Net assets – beginning of year	1,661,586	1,443,659
Net effect of change in reporting entity and other activity	121,475	143
NET ASSETS – END OF YEAR	**$ 1,857,932**	**$ 1,661,586**

The accompanying Notes to Financial Statements are an integral part of this statement.

UNIVERSITY OF VIRGINIA
STATEMENT OF CASH FLOWS *(in thousands)*

FOR THE YEAR ENDED JUNE 30, 2015 (WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2014)

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 492,356	$ 460,826
Grants and contracts	280,811	272,717
Patient services	1,420,743	1,249,671
Sales and services of educational activities	26,909	41,648
Sales and services of auxiliary enterprises	196,738	125,785
Payments to employees and fringe benefits	(1,517,469)	(1,368,619)
Payments to vendors and suppliers	(963,916)	(854,823)
Payments for scholarships and fellowships	(74,527)	(73,802)
Perkins and other loans issued to students	(19,485)	(20,274)
Collection of Perkins and other loans to students	19,262	16,828
Other receipts	40,209	55,811
NET CASH USED BY OPERATING ACTIVITIES	**(98,369)**	**(94,232)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	152,008	161,204
Additions to permanent endowments	17,907	11,738
Federal Direct Loan Program receipts	122,941	123,554
Federal Direct Loan Program payments	(122,941)	(123,554)
Pell grants	12,957	12,619
Deposits held in custody for others	(7,554)	(18,006)
Noncapital gifts and grants and endowments received	145,847	159,590
Other net nonoperating expenses	(8,325)	(913)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	**312,840**	**326,232**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	37,907	42,551
Capital gifts and grants received	20,969	23,570
Proceeds from capital debt	344,337	101,741
Proceeds from sale of capital assets	165,159	18,585
Acquisition and construction of capital assets	(473,804)	(327,818)
Principal paid on capital debt and leases	(320,153)	(47,284)
Interest paid on capital debt and leases	(47,435)	(43,026)
Deposit with trustee	-	21
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	**(273,020)**	**(231,660)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	352,981	318,782
Interest on investments	1,807	4,230
Purchase of investments and related fees	(390,921)	(218,333)
Other investment activities	48,877	(5,014)
NET CASH PROVIDED BY INVESTING ACTIVITIES	**12,744**	**99,665**
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(45,805)**	**100,005**
Cash and cash equivalents — beginning of year	636,033	536,028
CASH AND CASH EQUIVALENTS — END OF YEAR	**$ 590,228**	**$ 636,033**
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	$ (365,069)	$ (359,477)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation expense	216,172	199,188
Pension expense	28,917	-
Provision for uncollectible loans and write-offs	220	2,645
Changes in assets, deferred outflows, liabilities and deferred inflows:		
Receivables, net	(25,533)	(15,162)
Inventories	(9,346)	(4,129)
Prepaid expenses	(2,015)	(521)
Notes receivable, net	216	(3,808)
Deferred outflows of resources	(38,279)	-
Accounts payable and accrued liabilities	15,799	57,760
Unearned revenue	5,650	20,297
Accrual for compensated absences	21,858	8,975
Deferred inflows of resources	53,041	–
TOTAL ADJUSTMENTS	**266,700**	**265,245**
NET CASH USED BY OPERATING ACTIVITIES	**$ (98,369)**	**$ (94,232)**
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES — ACADEMIC ONLY		
Assets acquired through assumption of a liability	$ 5,906	$ 82,105
Assets acquired through a gift	5,088	2,557
Change in fair value of investments	375,387	790,193
Increase in receivables related to nonoperating income	21,289	4,671
Loss on disposal of capital assets	1,722	1,135

Certain 2014 amounts have been restated to conform to the 2015 classifications.

The accompanying Notes to Financial Statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND PURPOSE

The University of Virginia (the University) is an agency of the Commonwealth of Virginia (the Commonwealth) and is governed by the University's Board of Visitors (the Board). A separate report is prepared for the Commonwealth that includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or can exercise oversight authority. The University is a discretely presented component unit of the Commonwealth and is included in its basic financial statements. The University consists of three divisions. The Academic Division and the University of Virginia's College at Wise (the College at Wise) generate and disseminate knowledge in the humanities, arts, and scientific and professional disciplines through instruction, research and public service. The Medical Center Division (the Medical Center), along with its four controlled subsidiary companies — University of Virginia Imaging, LLC; Community Medicine, LLC; Hematology Oncology Patient Enterprises, Inc.; and Culpeper Regional Hospital — provides routine and ancillary patient services through a full-service hospital and clinics.

INCOME TAX STATUS

The University is an agency of the Commonwealth 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. Certain activities may be subject to taxation as unrelated business income per Internal Revenue Code requirements.

FINANCIAL REPORTING ENTITY

The University has twenty-five legally separate, tax-exempt related foundations operating in support of the interests of the University (the Foundations). These related foundations are not-for-profit corporations controlled by separate boards of directors. The University determined that the following nine foundations qualify as component units of the University because of the nature and significance of their relationship with the University, including their ongoing financial support of the University. As such, they are presented discretely in the financial statements as of and for the year ended June 30, 2015.

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

The component units' combined 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 component unit is presented below.

The **University of Virginia Law School Foundation (Law School Foundation)** was established as a tax-exempt organization to foster the study and teaching of law at the University and to receive and administer funds for that purpose. It 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, VA 22903.

The **College Foundation of the University of Virginia (College Foundation)** was formed to further the purposes and aspirations of the College and Graduate School of Arts and Sciences (the College) of the University. It accomplishes its purposes through fundraising and funds management efforts to benefit the College, its programs, and other areas of the University. For additional information, contact the College Foundation at P.O. Box 5527, Charlottesville, VA 22905.

The **University of Virginia Darden School Foundation (Darden School Foundation)** was established as a nonstock corporation created under the laws of the Commonwealth. 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 and to provide education for business executives. For additional information, contact the Darden School Foundation at P.O. Box 400321, Charlottesville, VA 22904.

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

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

The **Virginia Student Aid Foundation, Inc., T/A Virginia Athletics Foundation (VAF)**, was established as a tax-exempt organization to support intercollegiate athletic programs at the University by providing student-athletes the opportunity to achieve academic and athletic excellence. It provides funding for student-athlete scholarships, funding for student-athlete academic advising programs, operational support for various sports, informational services to its members and the general public, and ancillary support to the athletic programs. VAF has adopted December 31 as its year end. All amounts reflected are as of December 31, 2014. For additional information, contact the Gift Accounting Office at P.O. Box 400833, Charlottesville, VA 22904.

The **University of Virginia Foundation (UVAF)**, 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 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, VA 22904.

The **University of Virginia Physicians Group (UPG)** 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. It also strives to coordinate and develop superior patient care in the Health System. UPG entered into an affiliation agreement with the University for UPG, through its member clinical departments, to provide patient care at the Health System. UPG 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 UPG, which 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 or by gifts, grants and contracts. For additional information, contact the Finance Office at 4105 Lewis & Clark Drive, Charlottesville, VA 22911.

The **University of Virginia Investment Management Company (UVIMCO)** was established to provide investment management services to the University and University foundations. For additional information, contact UVIMCO at P.O. Box 400215, Charlottesville, VA 22904.

During the year ended June 30, 2015, the University consolidated the grants awarded to the Virginia Foundation for the Humanities resulting in a decrease to beginning net position of $353,894.

REPORTING BASIS AND MEASUREMENT FOCUS

The University prepares its financial statements in conformity with U.S. generally accepted accounting principles (U.S. GAAP). As a public institution, the University adheres to standards promulgated by the Governmental Accounting Standards Board (GASB). In accordance with GASB Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments*, the University has elected to report as an entity engaged in business-type activities. Entities engaged in business-type activities are financed in whole or in part by fees charged to external parties for goods and services. Statement No. 34 establishes standards for external financial reporting for public colleges and universities.

The accompanying financial statements use the economic resources measurement focus and the full accrual basis of accounting. Revenues, including all exchange and nonexchange transactions, are recorded when earned, and expenses are recorded when incurred and measurable, regardless of when the related cash flows take place. In accordance with GASB requirements, revenues from 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.

The component units included herein follow the pronouncements of the Financial Accounting Standards Board (FASB). Their financial statements are presented in accordance with those standards and use the full accrual basis of accounting.

CASH AND CASH EQUIVALENTS

In addition to cash on deposit in commercial bank accounts, petty cash, and undeposited receipts, cash and cash equivalents include 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 Federal Deposit Insurance Corporation (FDIC) insurance limits.

INVENTORIES

Inventories, consisting primarily of supplies and merchandise for resale, are valued at the lower of cost (generally determined on the weighted average method) or market value.

INVESTMENTS

The University invests with UVIMCO and other asset managers. Investments in corporate stocks and marketable bonds are recorded at market value. 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.

Investments with UVIMCO are in the Short-Term Pool (STP) and the Long-Term Pool (LTP) which are unitized investment pools. The STP commingles LTP cash, certain UVIMCO funds and short-term funds of the University and the Foundations. The LTP commingles endowment, charitable trust and other funds of the University and the Foundations. Assets of the STP and LTP are pooled on a fair value basis in accordance with U.S. GAAP and unitized daily for the STP and monthly for the LTP. Deposits and withdrawals are processed weekly for the STP and monthly for the LTP. Each depositor subscribes to or disposes of units on the basis of the value per unit at fair value as of the trade date for the STP and as calculated on the last calendar day of the month in which a deposit or redemption request is received by UVIMCO for the LTP.

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 standards, 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 determined based on management's judgment of potentially uncollectible amounts. The determination includes such factors as prior collection history and the type of gift.

CAPITAL ASSETS AND DEPRECIATION

Capital assets are recorded at cost on the date of acquisition, or, if donated, at the appraised value on the 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 on 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 and the College at Wise capitalize moveable equipment at a value or cost of $5,000 and an expected useful life of greater than one year.

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

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 Position are classified as Construction in Progress.

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 standards, 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.

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 estimated useful lives of capital assets are as follows:

ASSETS	YEARS
Buildings, improvements other than buildings, and infrastructure	10-50
Equipment	1-20
Intangible assets	1-40
Library books	10

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 by any means. Accordingly, such collections are not recognized or capitalized for financial statement purposes.

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources are the consumption of assets applicable to a future reporting period and increase net position similar to assets.

UNEARNED REVENUE

Unearned 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 and fees and for housing and dining services fees.

DEPOSITS

Deposits held in custody for 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.

COMPENSATED ABSENCES

The amount of leave earned but not taken by nonfaculty salaried employees is recorded as a liability on the Statement of Net Position. The amount reflects, as of June 30, 2015, all unused vacation leave, and the amount payable upon termination under the Commonwealth's sick leave payout policy. The applicable share of employer-related taxes payable on the eventual termination payments is also included.

LONG-TERM DEBT AND DEBT ISSUANCE COSTS

Long-term debt on the Statement of Net Position is reported net of related discounts and premiums, which are amortized over the life of the debt. Debt issuance costs, except portions related to prepaid insurance, are expensed as nonoperating expenses.

PENSIONS

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Virginia Retirement System (VRS) State Employee Retirement Plan and the Virginia Law Officers' Retirement System (VaLORS) Retirement Plan; and the additions to/deductions from the VRS State Employee Retirement Plan's and the VaLORS Retirement Plan's net fiduciary position have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments held by VRS are reported at fair value.

DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources are an acquisition of assets that is applicable to a future reporting period and decrease net position similar to liabilities.

NET POSITION

The University's net position is required to be classified for accounting and reporting purposes into the following categories:

Net Investment in Capital Assets. This category represents all of the University's capital assets, net of accumulated depreciation, reduced by outstanding debt attributable to the acquisition, construction, or improvement of those assets.

Restricted. The University classifies the net position resulting from transactions with purpose restrictions as restricted net position until the specific resources are used for the required purpose, or for as long as the provider requires the resources to remain intact.

Nonexpendable. The net position subject to externally imposed restrictions, which must be retained in perpetuity by the University, is classified as nonexpendable net position. This includes 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.

Expendable. The University's net position subject to externally imposed restrictions that can be fulfilled by actions of the University pursuant to those restrictions or that expire by the passage of time is classified as expendable net position. This includes net appreciation of the University's permanent endowment funds that has not been stipulated by the donor to be reinvested permanently.

Unrestricted. The net position that is neither restricted nor invested in capital assets, net of related debt, is classified as unrestricted net position. The University's unrestricted net position may be designated for specific purposes by the Board. Substantially all of the University's unrestricted net position is allocated for academic and research initiatives or programs, for capital programs, or for other purposes.

Expenses are charged to either restricted or unrestricted net position based on a variety of factors, including consideration of prior and future revenue sources, the type of expenditure incurred, the University's budgetary policies surrounding the various revenue sources, and whether the expense is a recurring cost.

STUDENT TUITION AND FEES

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

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 Position 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. Laws and regulations governing Medicare and Medicaid are complex and subject to interpretation.

REVENUE AND EXPENSE CLASSIFICATIONS

The University's policy for defining operating activities as reported on the Statement of Revenues, Expenses, and Changes in Net Position 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 from medical centers, net of charity care allowances; educational activities and auxiliary enterprises, net of scholarship discounts and allowances; and federal, state, local, and nongovernmental grants and contracts. With the exception of interest expense and losses on the disposal of capital assets, all expense transactions are classified as operating expenses.

Certain significant revenues relied on and budgeted for fundamental operational support of the core institutional mission of the University are mandated by GASB requirements to be recorded as nonoperating revenues. Nonoperating revenues and expenses include state educational appropriations, state financing appropriations, state fiscal stabilization funds, federal Pell grants, private gifts for other than capital purposes, investment income, net unrealized appreciation or depreciation in the fair value of investments, interest expense, and gain or loss on the disposal of assets.

ELIMINATIONS

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 Position to avoid inflating revenues and expenses.

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 U.S. GAAP. Accordingly, the prior-year information should be read in conjunction with the University's financial statements as of and for the year ended June 30, 2014, from which the summarized information was derived. Certain amounts from the prior fiscal year have been reclassified to conform to current-year presentation. Also, the summarized comparative information presented does not include the necessary adjustments related to the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, for the 2014 financial statements to be comparative with the 2015 financial statements. The information needed to make these adjustments is not available for prior years.

NEW ACCOUNTING PRONOUNCEMENTS

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which requires governments that participate in defined benefit pension plans to report in their statement of net position a net pension liability, which is the difference between the total pension liability and the assets set aside to pay pension benefits. Statement No. 68 also requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost-sharing plan. Statement No. 68 was effective for the University for the year ended June 30, 2015. Additionally, in November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date — an amendment of GASB Statement No. 68*, to address an issue regarding application of the transition provisions of Statement No. 68. The provisions of Statement No. 71 are effective simultaneously with the provisions of Statement No. 68. The effect of implementation of Statements No. 68 and No. 71 on the University's financial statements was a decrease to beginning net position of approximately $518.4 million.

In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which requires mergers that do not involve an exchange of consideration to be accounted for using the carrying values of assets. Acquisitions are accounted for using acquisition values. The statement also provides guidance on reporting disposals of government operations. Statement No. 69 was effective for the University for the year ended June 30, 2015, and did not have a material impact to the University's financial statements.

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*, which establishes general principles for measuring fair value and standards of accounting and financial reporting for assets and liabilities measured at fair value. Statement No. 72 is effective for periods beginning after June 15, 2015. The University is currently assessing the impact that implementation of Statement No. 72 will have on the University's financial statements.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which establishes standards for recognizing and measuring liabilities, deferred outflows and inflows of resources, and expense. For defined benefit other postemployment benefits (OPEB), the Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. Statement No. 75 is effective for fiscal years beginning after June 15, 2017. The University is currently assessing the impact that implementation of Statement No. 75 will have on the University's financial statements.

NOTE 2: CASH, CASH EQUIVALENTS AND INVESTMENTS

CASH

The University deposits cash 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. This 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 $175.8 million on June 30, 2015.

CASH EQUIVALENTS

The University maintains an investment policy approved by the Board that governs its investment of operating funds. As part of this policy, the University complies with the provisions set forth in the Investment of Public Funds Act (the Act), Sections 2.2-4500 through 2.2-4518 of the *Code of Virginia*. It is the policy of the University to comply with the Act when investing tuition and educational fees that are used or required for day-to-day operations, as permitted under the *Code of Virginia* Section 23-76.1. Authorized investments under the Act include U.S. Treasury and agency securities, corporate debt securities of domestic corporations, asset-backed securities, mortgage-backed securities, AAA-rated obligations of foreign governments, bankers' acceptances and bank notes, negotiable certificates of deposit, repurchase agreements, and money market funds.

The University considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. 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.

The short-term investments of the University are valued on a daily basis by the custodian banks. Deposits and withdrawals may be processed daily, except for the portion invested in UVIMCO's STP, which may be processed weekly.

Restricted cash and cash equivalents totaled $10.1 million and $23.0 million on June 30, 2015, and 2014, respectively, which is restricted in accordance with applicable debt or other contractual requirements.

RISK

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

Custodial Credit Risk is the risk that, in the event of the failure of a depository financial institution or financial counterparty, the agency will not be able to recover the value of its deposits or investments or recover collateral securities that are in the possession of an outside third party. The University had an immaterial exposure to custodial credit risk as of June 30, 2015.

Interest Rate Risk results if changes in interest rates adversely affect the fair market value of an investment. The longer the duration of an investment, the greater the interest rate risks. Investments subject to interest rate risk at June 30, 2015, 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, 2015, are outlined in the accompanying chart.

Concentration of Credit Risk is the risk of a large loss attributed to the magnitude of investment in a single issuer of fixed-income securities. The University minimizes this risk by diversifying its investments. As of June 30, 2015, the University does not have investments in any one issuer (excluding investments issued or explicitly guaranteed by the U.S. government and mutual fund or pool investments) representing five percent or more of its total investments.

Foreign Currency Risk is the risk that investments denominated in foreign currencies may lose value due to adverse fluctuations in the value of the U.S. dollar relative to foreign currencies. The University has no foreign investments or deposits as of June 30, 2015.

Details of the University's investment risks are outlined below:

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 AND CASH EQUIVALENTS						
Cash on hand	$ 291	Not Applicable	$ 291	–	–	–
Cash deposits	470,502	Not Applicable	470,502	–	–	–
University of Virginia Aggregate Cash Pool	119,415	Not Applicable	119,415	–	–	–
State Non-Arbitrage Program	20	AAAm	20	–	–	–
TOTAL CASH AND CASH EQUIVALENTS	**$ 590,228**		**$ 590,228**	**–**	**–**	**–**
SHORT-TERM INVESTMENTS						
Cash deposits	$ 85	Not Applicable	$ 85	–	–	–
Money market mutual funds	1,560	AAAm	1,560	–	–	–
U.S. government and agency bonds	83,999	AA+/Aaa	45,288	38,711	–	–
Commercial paper	15,492	A-1/P-1	11,492	4,000	–	–
UVIMCO STP	80,077	Not Rated	NA	NA	NA	NA
TOTAL SHORT-TERM INVESTMENTS	**$ 181,213**		**$ 58,425**	**42,711**	**–**	**–**
ENDOWMENT INVESTMENTS						
Cash and cash equivalents	$ 2,166	Not Applicable	$ 2,166	–	–	–
Demand notes due from related foundation, noninterest bearing	33,145	Not Rated	33,145	–	–	–
UVIMCO LTP	4,323,217	Not Rated	NA	NA	NA	NA
Other investments not subject to credit or interest rate risk	16,236	Not Applicable	NA	NA	NA	NA
TOTAL ENDOWMENT INVESTMENTS	**$ 4,374,764**		**$ 35,311**	**–**	**–**	**–**
OTHER LONG-TERM INVESTMENTS						
UVIMCO LTP	$ 1,547,596	Not Rated	NA	NA	NA	NA
Other investments not subject to credit or interest rate risk	32,760	Not Applicable	NA	NA	NA	NA
TOTAL OTHER LONG-TERM INVESTMENTS	**$ 1,580,356**		**–**	**–**	**–**	**–**

INVESTMENTS

UVIMCO administers and manages the majority of the University's investments in its unitized investment pools. The University also invests its operating funds with a number of other asset managers. At June 30, 2015, the University's investment in the LTP and STP was $5.9 billion and $80.1 million, respectively, representing 88 percent of the University's invested assets. These pools are not rated by NRSROs.

UVIMCO's primary investment objective for the LTP is to maximize long-term real return commensurate with the risk tolerance of the University. To obtain this objective, UVIMCO actively manages the LTP in an attempt to achieve returns that consistently exceed the returns on a passively investable benchmark with similar asset allocation and risk. UVIMCO is governed by a board of directors, three of whom are appointed by the Board and one of whom is appointed by the University's president. The University receives and monitors periodic reports on the long-term investment policy as executed by UVIMCO.

UVIMCO invests primarily in investment funds that allow the LTP to gain exposure to a broad array of financial instruments and markets. UVIMCO classifies LTP investments as public equity, long/short equity, buyout, growth equity, venture capital, real estate, resources, fixed income or marketable alternatives and credit according to the investment strategy of the underlying manager. These investments are subject to a variety of risks, including market risk, manager risk, and liquidity risk. UVIMCO closely manages and monitors the LTP's exposure to these risks.

The risks may be influenced by a number of factors, including the size, composition, and diversification of positions held, fund manager actions, and market volatility.

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

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

ENDOWMENT

The market value of the endowment on June 30, 2015, was $4.4 billion. 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 1.8 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 may recommend increasing or decreasing the spending rate. For the fiscal year 2015, the spending distribution of $169.4 million, excluding agency, equaled 4.68 percent of the fiscal year 2013 ending market value. Since the result fell within the range, no further action by the Board was needed.

For the year ended June 30, 2015, the University had the following endowment-related activities:

SUMMARY OF ENDOWMENT ACTIVITY *(in thousands)*	**TYPE OF ENDOWMENT FUND**				
	DONOR-RESTRICTED	**QUASI**	**TRUSTS**	**AGENCY**	**TOTAL**
Investment earnings	$ 129,343	$ 145,470	$ 4,066	$ 1,242	$ 280,121
Contributions to permanent endowments	17,907	-	-	-	17,907
Other gifts	-	-	2,799	-	2,799
Spending distribution	(79,485)	(89,900)	-	(529)	(169,914)
Transfers in (out)*	3,730	31,558	(7,916)	(165)	27,207
TOTAL CHANGE IN ENDOWMENT FUNDS	**$ 71,495**	**$ 87,128**	**$ (1,051)**	**$ 548**	**$ 158,120**

** 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 POSITION DETAILS

a. Accounts receivable: The composition of accounts receivable at June 30, 2015, is summarized as follows:

ACCOUNTS RECEIVABLE *(in thousands)*	
Patient care	$ 581,778
Grants and contracts	29,059
Student payments	22,691
Pledges	3,160
Institutional loans	709
Build America Bonds rebate	895
Bond requisitions	2,502
Equipment Trust Fund reimbursement	12,869
Auxiliary	1,663
Related foundation	25,482
Service concession arrangements	7,600
Other	44,451
Less: Allowance for doubtful accounts	(413,883)
TOTAL ACCOUNTS RECEIVABLE	**$ 318,976**

b. Notes receivable: The principal repayment and interest rate terms of federal and University loans vary considerably. The allowance for doubtful accounts 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, 2015, is summarized as follows:

NOTES RECEIVABLE *(in thousands)*	
Perkins	$ 19,221
Nursing	1,074
Institutional	20,510
Fraternity loan	1,868
House Staff loan	4
Less: Allowance for doubtful accounts	(1,468)
Total notes receivable, net	**41,209**
Less: Current portion, net of allowance	(7,007)
TOTAL NONCURRENT NOTES RECEIVABLE	**$ 34,202**

c. Pledges and other receivables: As discussed in Note 1, permanent endowment pledges do not meet eligibility requirements, as defined by GASB requirements, until the related gift is received. Accordingly, permanent endowment pledges totaling $13.9 million and $16.2 million at June 30, 2015, and June 30, 2014, 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 and other receivables at June 30, 2015, is summarized as follows:

PLEDGES AND OTHER RECEIVABLES *(in thousands)*	
PLEDGES AND OTHER RECEIVABLES OUTSTANDING	
Gift pledges – Operations	$ 4,571
Gift pledges – Capital	3,896
Service concession arrangements	23,050
TOTAL PLEDGES AND OTHER RECEIVABLES	**31,517**
Less:	
Allowance for uncollectible amounts	(981)
Unamortized discount to present value	(3,909)
Total pledges and other receivables, net	**26,627**
Less: Current portion, net of allowance	(10,294)
TOTAL NONCURRENT PLEDGES AND OTHER RECEIVABLES	**$ 16,333**

d. Capital assets: The capital assets activity for the year ended June 30, 2015, is summarized as follows:

CAPITAL ASSETS *(in thousands)*	**BEGINNING BALANCE JULY 1, 2014**	**INCREASES**	**DECREASES**	**ENDING BALANCE JUNE 30, 2015**
NONDEPRECIABLE CAPITAL ASSETS				
Land	$ 54,863	$ 1,490	$ –	$ 56,353
Construction in progress	285,657	161,676	(297,428)	149,905
Software in development	724	243	(570)	397
TOTAL NONDEPRECIABLE CAPITAL ASSETS	**341,244**	**163,409**	**(297,998)**	**206,655**
DEPRECIABLE CAPITAL ASSETS				
Buildings	3,404,216	261,082	(1,921)	3,663,377
Equipment	761,152	197,889	(25,775)	933,266
Infrastructure	445,766	17,827	–	463,593
Improvements other than buildings	159,083	154	(524)	158,713
Capitalized software	164,750	10,180	(2)	174,928
Library books	120,521	4,006	(1,103)	123,424
Total depreciable capital assets	**5,055,488**	**491,138**	**(29,325)**	**5,517,301**
Less: Accumulated depreciation for:				
Buildings	(1,177,686)	(108,445)	1,333	(1,284,798)
Equipment	(522,469)	(128,676)	29,884	(621,261)
Infrastructure	(181,071)	(13,151)	–	(194,222)
Improvements other than buildings	(110,788)	(6,379)	25	(117,142)
Capitalized software	(114,359)	(14,585)	–	(128,944)
Library books	(100,387)	(4,423)	1,103	(103,707)
Total accumulated depreciation	**(2,206,760)**	**(275,659)**	**32,345**	**(2,450,074)**
TOTAL DEPRECIABLE CAPITAL ASSETS, NET	**2,848,728**	**215,479**	**3,020**	**3,067,227**
TOTAL CAPITAL ASSETS, NET	**$ 3,189,972**	**$ 378,888**	**$ (294,978)**	**$ 3,273,882**

e. Goodwill: In July 2004, the Medical Center purchased Virginia Ambulatory Surgery Center, now known as Virginia Outpatient Surgery Center. As a result of the purchase, the Medical Center recorded $6.9 million 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 $3.4 million and $4.0 million, respectively. The goodwill is to be amortized over a period of twenty years.

f. Deferred outflows of resources: The composition of deferred outflows of resources on June 30, 2015, is summarized as follows:

DEFERRED OUTFLOWS OF RESOURCES *(in thousands)*	
Interest rate swap derivative	$ 648
Deferred loss on early retirement of debt	48,979
Pension	38,546
TOTAL DEFERRED OUTFLOWS OF RESOURCES	**$ 88,173**

g. Accounts payable and accrued liabilities: The composition of accounts payable on June 30, 2015, is summarized as follows:

ACCOUNTS PAYABLE AND ACCRUED LIABILITIES *(in thousands)*	
Accounts payable	$ 73,347
Accrued salaries and wages payable	84,300
Due to related foundations	30,999
Other payables	134,581
TOTAL ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	**$ 323,227**

During the year ended June 30, 2015, the University offered an early retirement incentive program for the Academic Division and College at Wise staff employees who met certain age and state service requirements. Program benefits included cash severance and health care subsidy payments for retirements occurring through October 1, 2015. One hundred seventy-seven employees elected to participate in the program. The cost of the termination benefits was approximately $10.3 million which is included in accrued salaries and wages payable.

h. Unearned revenue: The composition of unearned revenue on June 30, 2015, is summarized as follows:

UNEARNED REVENUE *(in thousands)*		
Grants and contracts	$	45,691
Student payments		14,945
Medical Center unearned revenues		3,291
Other unearned revenues		22,130
TOTAL UNEARNED REVENUE	**$**	**86,057**

i. Deferred inflows of resources: The composition of deferred inflows of resources on June 30, 2015, is summarized as follows:

DEFERRED INFLOWS OF RESOURCES *(in thousands)*		
Service concession arrangements	$	72,970
Pension		87,665
TOTAL DEFERRED INFLOWS OF RESOURCES	**$**	**160,635**

During the year ended June 30, 2015, the University entered into an agreement with Aramark Educational Services, LLC (Aramark) for Aramark to provide dining services to the University. In return for use of University facilities, Aramark is required to make certain payments to the University and the University is required to provide certain repair and maintenance services related to the facilities during the term of the agreement. In accordance with GASB requirements, as of June 30, 2015, the University has accrued a $19.9 million receivable, a $13.5 million liability and a $73.0 million deferred inflow of resources related to the service concession arrangement.

NOTE 4: SHORT-TERM DEBT

Short-term debt on June 30, 2015, is summarized as follows:

SHORT-TERM DEBT *(in thousands)*		BEGINNING BALANCE JULY 1, 2014		ADDITIONS		REDUCTIONS		ENDING BALANCE JUNE 30, 2015
COMMERCIAL PAPER								
Taxable	$	11,292	$	19,668	$	18,215	$	12,745
Tax-exempt		194,601		43,000		199,701		37,900
TOTAL COMMERCIAL PAPER	**$**	**205,893**	**$**	**62,668**	**$**	**217,916**	**$**	**50,645**

The University has a combined taxable and tax-exempt commercial paper program that provides for bridge financing primarily for capital projects up to a Board-approved limit. The Board approved the current commercial paper program limit of $300 million in April 2008. In fiscal year 2015, interest rates on commercial paper ranged from 0.03 to 0.15 percent.

NOTE 5: LONG-TERM OBLIGATIONS

a. Long-term debt: The composition of long-term debt at June 30, 2015, is summarized as follows:

LONG-TERM DEBT *(in thousands)*	INTEREST RATES	FINAL MATURITY	BEGINNING BALANCE JULY 1, 2014	ADDITIONS	REDUCTIONS	ENDING BALANCE JUNE 30, 2015	CURRENT PORTION
BONDS AND NOTES PAYABLE							
Revenue bonds:							
University of Virginia Series 2003A (9d)	0.05% to 0.27%	2034	$ 78,639	$ -	$ 78,639	$ -	$ -
University of Virginia Series 2005 (9d)	4.0% to 5.0%	2037	36,005	-	36,005	-	-
University of Virginia Series 2008 (9d)	5.0%	2040	231,365	-	-	231,365	-
University of Virginia Series 2009 (9d)	4.48%*	2040	250,000	-	-	250,000	-
University of Virginia Series 2010 (9d)	3.62%**	2041	190,000	-	-	190,000	-
University of Virginia Series 2011 (9d)	4.0% to 5.0%	2033	71,625	-	2,435	69,190	2,550
University of Virginia Series 2013A (9d)	2.0% to 5.0%	2043	168,300	-	535	167,765	3,015
University of Virginia Series 2013B (9d)	5.0%	2037	61,595	-	-	61,595	-
University of Virginia Series 2015A-1 (9d)	4.0%	2045	-	86,995	-	86,995	-
University of Virginia Series 2015A-2 (9d)	3.57% to 5.0%	2045	-	97,735	-	97,735	-
University of Virginia Series 2015B (9d)	2.0% to 5.0%	2022	-	106,910	-	106,910	-
Commonwealth of Virginia bonds (9c)	3.8% to 9.3%	2021	5,848	-	1,500	4,348	1,798
Notes payable to VCBA 2004B (9d)	3.0% to 5.0%	2020	23,280	-	23,280	-	-
Notes payable to VCBA 2007B (9d)	4.0% to 4.25%	2020	10,620	-	30	10,590	30
Notes payable to VCBA 2010B (9d)	2.0% to 5.0%	2021	3,435	-	-	3,435	-
Other	various	2029	2,981	-	220	2,761	170
TOTAL BONDS AND NOTES PAYABLE			**$ 1,133,693**	**$ 291,640**	**$ 142,644**	**$ 1,282,689**	**$ 7,563**
Less: Current portion of debt			(13,303)	-	(5,740)	(7,563)	
Bond premium			57,823	37,560	5,197	90,186	
NET LONG-TERM DEBT			**$ 1,178,213**	**$ 329,200**	**$ 142,101**	**$ 1,365,312**	

** The University of Virginia Series 2009 (9d) revenue bonds are Build America Bonds, issued at 6.2%. The University receives an interest credit from the United States Treasury for a portion of the interest it pays on the bonds. On issuance of the bonds, the University received an interest credit of 35%. This amount has been reduced as noted in the footnote below. With the current credit, the effective interest rate on the bonds is reduced to 4.48%.*

*** The University of Virginia Series 2010 (9d) revenue bonds are Build America Bonds, issued at 5.0%. The University receives an interest credit from the United States Treasury for a portion of the interest it pays on the bonds. On issuance of the bonds, the University received an interest credit of 35%. This amount has been reduced as noted in the footnote below. With the current credit, the effective interest rate on the bonds is reduced to 3.62%.*

On November 10, 2014, the University of Virginia issued $18.2 million of taxable commercial paper to refund $18.2 million of VCBA Series 2004B bonds.

On April 8, 2015, the University of Virginia issued Series 2015A-1 bonds of $87.0 million and Series 2015A-2 bonds of $97.7 million to refund $199.7 million of tax-exempt commercial paper. The Series 2015A-1 bonds were issued with a premium of $4.4 million and the Series 2015A-2 bonds were issued with a premium of $11.6 million.

On April 8, 2015, the University of Virginia issued Series 2015B bonds of $106.9 million to refund $78.6 million of Series 2003A bonds, $31.0 million of Series 2005 bonds, and $18.2 million of taxable commercial paper. The refunding reduced the aggregate debt service by $23.9 million representing a net present value savings of $17.3 million. The bonds were issued with a premium of $21.6 million and an accounting gain, representing the difference between the par value of the refunding debt and the defeasance amount of the refunded debt, of $581,775.

The University of Virginia has three revolving credit agreements from three different banks in the aggregate amount of $200 million to provide liquidity for its variable rate debt obligations. There were no advances outstanding under any credit agreements as of June 30, 2015.

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	BUILD AMERICA BONDS INTEREST REBATE	NET INTEREST EXPENSE
2016*	$ 7,563	$ 63,817	$ (8,111)	$ 55,706
2017	6,558	64,665	(8,111)	56,554
2018	10,333	64,360	(8,111)	56,249
2019	9,581	63,965	(8,111)	55,854
2020	9,655	63,520	(8,111)	55,409
2021-25	141,043	293,994	(40,556)	253,438
2026-30	26,757	279,562	(40,556)	239,006
2031-35	53,685	273,021	(40,556)	232,465
2036-40	555,430	231,026	(38,042)	192,984
2041-45	462,084	57,541	(1,541)	56,000
TOTAL	**$ 1,282,689**	**$ 1,455,471**	**$ (201,806)**	**$ 1,253,665**

** FY2015 represents a 7.3% reduction in the credit interest payment for September 1, 2014 and 7.3% reduction in the credit interest payment for March 1, 2015. The 7.3% sequestration reduction rate will be all future years unless and until a law is enacted that cancels or otherwise impacts the sequester, at which time the sequestration reduction rate is subject to change.*

Prior Year Refundings. As of June 30, 2015, 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, 2015, is summarized as follows:

LONG-TERM LIABILITIES *(in thousands)*	BEGINNING BALANCE JULY 1, 2014	ADDITIONS	REDUCTIONS	ENDING BALANCE JUNE 30, 2015
Investments held for related entities	$ 17,521	$ 2,093	$ 1,909	$ 17,705
Accrual for compensated absences	67,750	97,400	90,839	74,311
Perkins loan program	12,563	-	-	12,563
Investment in Culpeper Regional Hospital	23,397	144,247	117,690	49,954
Other postemployment benefits	40,681	6,524	-	47,205
Service concession arrangement	-	13,459	-	13,459
Other	42,516	10,157	13,184	39,489
Total	**204,428**	**273,880**	**223,622**	**254,686**
Less: Current portion of long-term liabilities	(92,061)	-	(735)	(91,326)
NET LONG-TERM LIABILITIES	**$ 112,367**	**$ 273,880**	**$ 222,887**	**$ 163,360**

NOTE 6: DERIVATIVES

The University recognizes all derivative instruments as either assets or liabilities on the Statement of Net Position at their respective fair values. Changes in fair values of hedging derivative instruments are reported as either deferred inflows or deferred outflows in the Statement of Net Position. Changes in fair values of investment derivative instruments, including derivative instruments that are determined to be ineffective, are reported as investment income on the Statement of Revenues, Expenses and Changes in Net Position. On June 30, 2015, the University held the following derivative instruments:

(in thousands)

EFFECTIVE DATE	MATURITY DATE	RATE PAID	RATE RECEIVED	NOTIONAL AMOUNT	FAIR VALUE ASSET (LIABILITY)	CHANGE IN FAIR VALUE
HEDGING DERIVATIVE INSTRUMENTS — FIXED-RECEIVER INTEREST RATE SWAPS:						
4/8/2015	8/1/2021	SIFMA*	1.20%	$ 64,000	$ (324)	$ (324)
4/8/2015	8/1/2021	SIFMA*	1.20%	64,000	(324)	(324)
INVESTMENT DERIVATIVE INSTRUMENTS — FIXED-PAYER INTEREST RATE SWAPS:						
6/1/2008	6/1/2038	4.15%	SIFMA*	50,000	(14,817)	(4,210)
6/1/2008	6/1/2038	4.07%	SIFMA*	50,000	(14,056)	(4,215)
TOTAL				**$ 228,000**	**$ (29,521)**	**$ (9,073)**

*Securities Industry and Financial Markets Municipal Swap Index

The fair value of the interest rate swaps was determined by using the quoted SIFMA index curve at the time of market valuation. The swaps were established as cash flow hedges to provide a hedge against changes in interest rates on a similar amount of the University's debt. The University's fixed-receiver hedges serve to hedge its fixed-rate Series 2015B bonds maturing in August, 2021. Future net cash flows for these hedging derivatives are as follows:

(in thousands)	PRINCIPAL	FIXED INTEREST	DERIVATIVE INSTRUMENTS, NET	TOTAL
2016	$ -	$ 4,171	$ (1,210)	$ 2,961
2017	-	5,125	(1,210)	3,915
2018	-	5,125	(1,210)	3,915
2019	-	5,125	(1,210)	3,915
2020	-	5,125	(1,210)	3,915
2021-2022	106,910	7,688	(1,311)	113,287
TOTAL	**$ 106,910**	**$ 32,359**	**$ (7,361)**	**$ 131,908**

As discussed in Note 5, during the year ended June 30, 2015, the University refunded the associated variable-rate debt for the fixed-payer swaps. As such, the fixed-payer interest rate swaps are no longer effective hedges. In accordance with GASB standards, the University terminated hedge accounting at the time of the refunding and the $38.2 million deferred outflow balance was included in the net carrying amount of the refunded debt for purposes of calculating the economic gain or loss resulting from the transaction. Subsequent changes in fair value are reported as investment income in the Statement of Revenues, Expenses and Changes in Net Position.

In February 2011, the University entered into an interest-sharing arrangement with 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 that 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, 2015, the interest-sharing arrangement between the University and UVAF had a $0 market value.

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. The University would be exposed to the credit risk of its swap counterparties any time the swaps had a positive market value. As of June 30, 2015, the University had no credit risk related to its swaps. As of June 30, 2015, the University's swap counterparties were rated at least A- from Standard & Poor's or A3 by Moody's Investors Service. To mitigate credit risk, the University limits market value exposure and requires the posting of collateral based on the credit rating of the counterparty. As of June 30, 2015, no collateral was required to be posted by the counterparties.

Interest rate risk for the University's hedges 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. See Note 2 for interest rate risk disclosures related to the University's investment derivative instruments.

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 interest rate swap hedging derivative instruments are deemed to be effective hedges of its 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 (the 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 Investors Service, 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.

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

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

NOTE 7: AFFILIATED COMPANIES

CULPEPER REGIONAL HOSPITAL

Culpeper Regional Hospital is a 60-bed community hospital providing primary care, as well as specialty services in orthopedics, cardiology and cancer. On December 31, 2008, the 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 used the equity method of consolidation to reflect the Medical Center's investment in Culpeper Regional Hospital until September 30, 2014.

On October 1, 2014, the Medical Center acquired the remaining 41 percent of Culpeper Regional Hospital for $45.0 million, providing Culpeper and surrounding communities a new level of care that includes expanded services and greater access to specialty providers. Effective October 1, 2014, the Medical Center accounts for Culpeper Regional Hospital using the consolidation method of accounting.

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, VA 23206.

UNIVERSITY OF VIRGINIA / HEALTHSOUTH, LLC

The Medical Center entered into a joint venture with HEALTHSOUTH Corporation to establish an acute rehabilitation facility, located at the Fontaine Research Park in Charlottesville, Virginia, to provide patient services to the region. The Medical Center made a capital contribution of $2.2 million 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, VA 23294.

VALIANCE HEALTH, LLC

In November 1997, the Medical Center became a participant with Rockingham Memorial Hospital and Augusta Health Care, Inc., in Valiance Health, LLC (Valiance), a joint venture integrating and coordinating the delivery of health care services in central and western Virginia. The Medical Center contributed $100,000 in initial capital, which entitles it to a pro rata distribution of any profits and losses of Valiance. As of June 30, 2015, the Medical Center's investment totaled $500,000. As of June 30, 2015, Valiance Health, LLC has been dissolved.

UNIVERSITY HEALTH SYSTEM CONSORTIUM

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

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

CHARLOTTESVILLE PROGRAM OF ALL-INCLUSIVE CARE FOR THE ELDERLY

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

VALLEY REGIONAL HEALTH AND UNIVERSITY OF VIRGINIA RADIOSURGERY CENTER, LLC

During the year ended June 30, 2014, the Medical Center entered into a 10 percent minority interest partnership with Winchester Medical Center. Winchester Medical Center expanded its cancer program with the addition of stereotactic radiosurgery (SRS) and stereotactic body radiotherapy (SBRT), offered in partnership with the Medical Center. By collaborating with nationally recognized leaders in SRS, this advanced non-surgical technology is available to patients in the Winchester and surrounding areas, who would have otherwise had to travel to receive care.

HEALTHCARE PARTNERS, INC.

In May 1995, HealthCare Partners, Inc., 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 UPG are the primary contributors to the funding of the corporation. The corporation is governed by a board of directors composed of Medical Center staff, UPG representatives, community members, and University Board appointees.

UVA GLOBAL, LLC

In July 2014, UVA Global, LLC, was organized to serve as the parent company to a wholly foreign-owned enterprise (the WFOE) in Shanghai, China. The purpose of UVA Global, LLC and its subsidiary, the WFOE, is to help promote and orchestrate the University's academic activities and operations in China in compliance with the legal structures permitted by the host country. Subsequently, an authorized representative has been appointed to act on behalf of the parent company and the University. As of June 30, 2015, the University's investment in the UVA Global, LLC totaled $500,000.

Details of the University's net investment in affiliated companies as of June 30, 2015, is summarized below:

INVESTMENT IN AFFILIATED COMPANIES *(in thousands)*	**CAPITAL CONTRIBUTIONS**	**SHARE OF ACCUMULATED INCOME (LOSS)**	**NET INVESTMENT**
Central Virginia Health Network, Inc.	$ 233	$ (41)	$ 192
HEALTHSOUTH, LLC	-	14,791	14,791
Valiance Health, LLC	-	249	249
University Health System Consortium	-	784	784
PACE	245	(229)	16
Valley Regional Health	-	5	5
UVA Global, LLC	500	-	500

NOTE 8: COMPONENT UNITS

Summary financial statements and additional disclosures for the University's discretely presented component units are presented below.

STATEMENT OF FINANCIAL POSITION *(in thousands)* *as of June 30, 2015*	**UNIVERSITY OF VIRGINIA LAW SCHOOL FOUNDATION**	**THE COLLEGE FOUNDATION OF THE UNIVERSITY OF VIRGINIA**	**UNIVERSITY OF VIRGINIA DARDEN SCHOOL FOUNDATION**	**ALUMNI ASSOCIATION OF THE UNIVERSITY OF VIRGINIA**	**JEFFERSON SCHOLARS FOUNDATION**	**VIRGINIA ATHLETICS FOUNDATION***	**UNIVERSITY OF VIRGINIA FOUNDATION**	**UNIVERSITY OF VIRGINIA PHYSICIANS GROUP**	**UNIVERSITY OF VIRGINIA INVESTMENT MANAGEMENT COMPANY**	**ELIMINATIONS**	**COMPONENT UNITS TOTAL**
ASSETS											
Current assets											
Total current assets	**$ 4,383**	**$ 22,659**	**$ 24,840**	**$ 48,356**	**$ 16,212**	**$ 19,896**	**$ 7,131**	**$ 122,050**	**$ 521,817**	**$ –**	**$ 787,344**
Noncurrent assets											
Long-term investments	455,974	91,846	314,135	264,922	308,715	68,690	96,862	219,263	7,116,166	(1,426,324)	7,510,249
Capital assets, net and other assets	21,028	23,199	70,186	10,092	33,171	15,263	234,474	62,101	735	–	470,249
Total noncurrent assets	**477,002**	**115,045**	**384,321**	**275,014**	**341,886**	**83,953**	**331,336**	**281,364**	**7,116,901**	**(1,426,324)**	**7,980,498**
TOTAL ASSETS	**$ 481,385**	**$ 137,704**	**$ 409,161**	**$ 323,370**	**$ 358,098**	**$ 103,849**	**$ 338,467**	**$ 403,414**	**$ 7,638,718**	**$ (1,426,324)**	**$ 8,767,842**
LIABILITIES AND NET ASSETS											
Current liabilities											
Total current liabilities	**$ 690**	**$ 788**	**$ 6,695**	**$ 97,508**	**$ 8,577**	**$ 1,185**	**$ 19,737**	**$ 146,266**	**$ 4,653**	**$ –**	**$ 286,099**
Noncurrent liabilities											
Long-term debt, net of current portion of $30,889	–	–	13,812	–	22,500	–	175,894	28,235	–	–	240,441
Other noncurrent liabilities	480	–	–	2,794	23,543	136	30,109	131,975	7,620,657	(1,426,324)	6,383,370
Total noncurrent liabilities	**480**	**–**	**13,812**	**2,794**	**46,043**	**136**	**206,003**	**160,210**	**7,620,657**	**(1,426,324)**	**6,623,811**
TOTAL LIABILITIES	**$ 1,170**	**$ 788**	**$ 20,507**	**$ 100,302**	**$ 54,620**	**$ 1,321**	**$ 225,740**	**$ 306,476**	**$ 7,625,310**	**$ (1,426,324)**	**$ 6,909,910**
NET ASSETS											
Unrestricted	$ 65,933	$ 2,585	$ 96,774	$ 69,869	$ (16,547)	$ 32,520	$ 25,142	$ 96,938	$ 13,408	$ –	$ 386,622
Temporarily restricted	268,508	61,468	144,935	94,693	134,977	32,286	72,809	–	–	–	809,676
Permanently restricted	145,774	72,863	146,945	58,506	185,048	37,722	14,776	–	–	–	661,634
TOTAL NET ASSETS	**$ 480,215**	**$ 136,916**	**$ 388,654**	**$ 223,068**	**$ 303,478**	**$ 102,528**	**$ 112,727**	**$ 96,938**	**$ 13,408**	**$ –**	**$ 1,857,932**
TOTAL LIABILITIES AND NET ASSETS	**$ 481,385**	**$ 137,704**	**$ 409,161**	**$ 323,370**	**$ 358,098**	**$ 103,849**	**$ 338,467**	**$ 403,414**	**$ 7,638,718**	**$ (1,426,324)**	**$ 8,767,842**

* *December 31, 2014, year-end*

STATEMENT OF ACTIVITIES *(in thousands)* *for the year ended June 30, 2015*	**UNIVERSITY OF VIRGINIA LAW SCHOOL FOUNDATION**	**THE COLLEGE FOUNDATION OF THE UNIVERSITY OF VIRGINIA**	**UNIVERSITY OF VIRGINIA DARDEN SCHOOL FOUNDATION**	**ALUMNI ASSOCIATION OF THE UNIVERSITY OF VIRGINIA**	**JEFFERSON SCHOLARS FOUNDATION**	**VIRGINIA ATHLETICS FOUNDATION***	**UNIVERSITY OF VIRGINIA FOUNDATION**	**UNIVERSITY OF VIRGINIA PHYSICIANS GROUP**	**UNIVERSITY OF VIRGINIA INVESTMENT MANAGEMENT COMPANY**	**COMPONENT UNITS TOTAL**
UNRESTRICTED REVENUES AND SUPPORT										
Contributions	$ 3,989	$ 4,822	$ 5,427	$ 971	$ 160	$ 14,244	$ -	$ -	$ -	$ 29,613
Fees for services, rentals, and sales	-	-	23,335	2,601	-	880	47,318	300,907	13,145	388,186
Other revenues	15,728	11,079	14,380	47,948	13,213	16,162	4,650	121,088	520	244,768
TOTAL UNRESTRICTED REVENUES AND SUPPORT	**19,717**	**15,901**	**43,142**	**51,520**	**13,373**	**31,286**	**51,968**	**421,995**	**13,665**	**662,567**
EXPENSES										
Program services, lectures, and special events	12,124	15,543	36,440	46,334	16,518	27,566	29,132	346,945	13,814	544,416
Other expenses	4,193	999	5,785	2,261	1,240	3,348	20,927	84,687	3,619	127,059
TOTAL EXPENSES	**16,317**	**16,542**	**42,225**	**48,595**	**17,758**	**30,914**	**50,059**	**431,632**	**17,433**	**671,475**
EXCESS (DEFICIENCY) OF UNRESTRICTED REVENUES AND SUPPORT OVER EXPENSES	**3,400**	**(641)**	**917**	**2,925**	**(4,385)**	**372**	**1,909**	**(9,637)**	**(3,768)**	**(8,908)**
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS										
Contributions	2,772	18,931	831	30,123	3,559	11,418	-	-	-	67,634
Other	10,414	(4,624)	7,275	(25,768)	5,843	(8,922)	2,121	(115)	-	(13,776)
NET CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	**13,186**	**14,307**	**8,106**	**4,355**	**9,402**	**2,496**	**2,121**	**(115)**	**-**	**53,858**
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS										
Contributions	3,332	2,088	4,558	9,265	4,737	3,489	-	-	-	27,469
Other	2,288	(313)	-	369	(787)	895	-	-	-	2,452
NET CHANGE IN PERMANENTLY RESTRICTED NET ASSETS	**5,620**	**1,775**	**4,558**	**9,634**	**3,950**	**4,384**	**-**	**-**	**-**	**29,921**
CHANGE IN NET ASSETS	**22,206**	**15,441**	**13,581**	**16,914**	**8,967**	**7,252**	**4,030**	**(9,752)**	**(3,768)**	**74,871**
Net assets — beginning of year	458,009	-	375,073	206,154	294,511	95,276	108,697	106,690	17,176	1,661,586
Net effect of change in reporting entity	-	121,475	-	-	-	-	-	-	-	121,475
NET ASSETS — END OF YEAR	**$ 480,215**	**$ 136,916**	**$ 388,654**	**$ 223,068**	**$ 303,478**	**$ 102,528**	**$ 112,727**	**$ 96,938**	**$ 13,408**	**$ 1,857,932**

** December 31, 2014, year-end*

In accordance with GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, the University determined that the **College Foundation** should be included in the financial reporting entity as a component unit for the year ended June 30, 2015, due to the nature and significance of its relationship with the University, including its ongoing financial support of the University. The effect of including the College Foundation as a component unit was an increase of approximately $121.5 million to beginning net assets on the Component Units Combined Statement of Activities for the year ended June 30, 2015.

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 record an allowance against pledges receivable for estimated uncollectible amounts. UPG does not accept gifts. Unconditional promises to give at June 30, 2015, are as follows:

PLEDGES RECEIVABLE *(in thousands) as of June 30, 2015*	UNIVERSITY OF VIRGINIA LAW SCHOOL FOUNDATION	THE COLLEGE FOUNDATION OF THE UNIVERSITY OF VIRGINIA	UNIVERSITY OF VIRGINIA DARDEN SCHOOL FOUNDATION	ALUMNI ASSOCIATION OF THE UNIVERSITY OF VIRGINIA	JEFFERSON SCHOLARS FOUNDATION	VIRGINIA ATHLETICS FOUNDATION*	COMPONENT UNITS TOTAL
Total pledges receivable	**$ 8,247**	**$ 37,273**	**$ 15,275**	**$ 9,519**	**$ 14,810**	**$ 27,417**	**$ 112,541**
Less:							
Allowance for uncollectible accounts	(428)	(4,070)	(1,430)	(1,015)	(840)	(2,388)	(10,171)
Unamortized discount to present value	(204)	(4,385)	(1,718)	(296)	(522)	(214)	(7,339)
Total pledges receivable, net	**7,615**	**28,818**	**12,127**	**8,208**	**13,448**	**24,815**	**95,031**
Less: Current portion, net of allowance	(4,086)	(10,688)	(5,719)	(1,833)	(5,840)	(10,933)	(39,099)
TOTAL NONCURRENT PLEDGES RECEIVABLE	**$ 3,529**	**$ 18,130**	**$ 6,408**	**$ 6,375**	**$ 7,608**	**$ 13,882**	**$ 55,932**

** December 31, 2014, year-end*

The **Law School Foundation** has received bequest intentions and certain other conditional promises to give of approximately $3.4 million as of June 30, 2015. 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 facility improvements.

INVESTMENTS

Investments are recorded at market value, which is determined by readily available quotes on the stock exchange or as quoted by 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 on June 30, 2015, for the component units are as follows:

SUMMARY SCHEDULE OF INVESTMENTS *(in thousands) as of June 30, 2015*	UNIVERSITY OF VIRGINIA LAW SCHOOL FOUNDATION	THE COLLEGE FOUNDATION OF THE UNIVERSITY OF VIRGINIA	UNIVERSITY OF VIRGINIA DARDEN SCHOOL FOUNDATION	ALUMNI ASSOCIATION OF THE UNIVERSITY OF VIRGINIA	JEFFERSON SCHOLARS FOUNDATION	VIRGINIA ATHLETICS FOUNDATION*	UNIVERSITY OF VIRGINIA FOUNDATION	UNIVERSITY OF VIRGINIA PHYSICIANS GROUP	UNIVERSITY OF VIRGINIA INVESTMENT MANAGEMENT COMPANY	ELIMINATIONS	COMPONENT UNITS TOTAL
Common stocks, corporate notes, bonds, limited partnerships, and agency securities	$ 7,580	$ -	$ 10,295	$ 24,473	$ 6,102	$ 66	$ -	$ 90,110	$ 4,604,145	$ -	$ 4,742,771
University of Virginia Investment Management Company	307,285	91,846	287,185	250,564	283,188	68,180	69,190	68,886	-	(1,426,324)	-
Mutual and money market funds	30,839	2,734	27,059	795	-	-	883	53,612	360,146	-	476,068
Other	110,270	-	-	18,531	23,734	444	28,378	12,567	2,669,598	-	2,863,522
Total investments	**455,974**	**94,580**	**324,539**	**294,363**	**313,024**	**68,690**	**98,451**	**225,175**	**7,633,889**	**(1,426,324)**	**8,082,361**
Less: Amounts shown in current assets	-	(2,734)	(10,404)	(29,441)	(4,309)	-	(1,589)	(5,912)	(517,723)	-	(572,112)
LONG-TERM INVESTMENTS	**$ 455,974**	**$ 91,846**	**$ 314,135**	**$ 264,922**	**$ 308,715**	**$ 68,690**	**$ 96,862**	**$ 219,263**	**$ 7,116,166**	**$ (1,426,324)**	**$ 7,510,249**

** December 31, 2014, year-end*

UVIMCO has investments in limited partnership hedge funds, private equity, venture capital investments, and 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 $5.7 billion (76 percent of investments held for others) on June 30, 2015. 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.

CAPITAL ASSETS

Capital assets are recorded at cost, except donated property, which is recorded at fair market value at the date of the gift. Depreciation is taken over the estimated useful lives of the assets using the straight-line method. As of June 30, 2015, capital assets consisted of the following:

CAPITAL ASSETS *(in thousands) as of June 30, 2015*	UNIVERSITY OF VIRGINIA LAW SCHOOL FOUNDATION	UNIVERSITY OF VIRGINIA DARDEN SCHOOL FOUNDATION	ALUMNI ASSOCIATION OF THE UNIVERSITY OF VIRGINIA	JEFFERSON SCHOLARS FOUNDATION	VIRGINIA ATHLETICS FOUNDATION*	UNIVERSITY OF VIRGINIA FOUNDATION	UNIVERSITY OF VIRGINIA PHYSICIANS GROUP	UNIVERSITY OF VIRGINIA INVESTMENT MANAGEMENT COMPANY	COMPONENT UNITS TOTAL
Land	$ 152	$ -	$ 633	$ 2,879	$ -	$ 77,353	$ 2,121	$ -	$ 83,138
Buildings and improvements	914	105,033	6,630	19,800	-	241,225	47,629	1,567	422,798
Furnishings and equipment	365	1,622	1,699	1,290	68	22,746	22,487	1,155	51,432
Collections	-	75	-	41	-	-	-	-	116
Construction in progress	-	-	-	138	-	-	4,279	-	4,417
Total	**1,431**	**106,730**	**8,962**	**24,148**	**68**	**341,324**	**76,516**	**2,722**	**561,901**
Less: Accumulated depreciation	(241)	(43,725)	(5,324)	(4,232)	(51)	(109,432)	(35,073)	(1,987)	(200,065)
NET CAPITAL ASSETS	**$ 1,190**	**$ 63,005**	**$ 3,638**	**$ 19,916**	**$ 17**	**$ 231,892**	**$ 41,443**	**$ 735**	**$ 361,836**

** December 31, 2014, year-end*

LONG-TERM DEBT

UVAF had the following lines of credit outstanding on June 30, 2015:

LINES OF CREDIT *(in thousands) as of June 30, 2015*	AVAILABLE	OUTSTANDING BALANCE
Wells Fargo Bank, N.A.	$ 21,000	$ 3,450
Wells Fargo Bank, N.A.	13,000	13,000
Bank of America, N.A.	40,000	21,010
U.S. Bank, N.A.	25,000	5,000
TOTAL	**$ 99,000**	**$ 42,460**

The University has allocated up to $37.8 million of its quasi-endowment funds for use by **UVAF** to acquire and develop real estate. As of June 30, 2015, UVAF had borrowed $33.1 million of these funds to acquire properties on behalf of the University. These notes payable are noninterest bearing and due on demand.

The composition of the long-term debt of the component units on June 30, 2015, is summarized as follows:

LONG-TERM DEBT *(in thousands)* *as of June 30, 2014*	UNIVERSITY OF VIRGINIA DARDEN SCHOOL FOUNDATION	JEFFERSON SCHOLARS FOUNDATION	UNIVERSITY OF VIRGINIA FOUNDATION	UNIVERSITY OF VIRGINIA PHYSICIANS GROUP	COMPONENT UNITS TOTAL
University of Virginia Phase I and II Darden School Facilities	$ 16,245	$ -	$ -	$ -	$ 16,245
Notes payable SunTrust Bank	-	4,500	-	-	4,500
Notes payable Bank of America	-	-	25,000	-	25,000
Recovery Zone Facility Bond	-	-	9,495	-	9,495
Note payable Augusta Professional Park	-	-	-	1,291	1,291
1997 Industrial Development Authority revenue bonds — Louisa	-	-	2,958	-	2,958
1998 Refunding bonds	-	-	-	5,050	5,050
2000 Industrial Development Authority revenue bonds — Louisa	-	-	-	3,930	3,930
2001 Refinancing demand bonds	-	-	30,965	-	30,965
2004 Refinancing note payable	-	-	7,800	-	7,800
2009 Economic Development Authority revenue bonds — Albemarle	-	-	-	20,835	20,835
2011 Refinancing demand bonds	-	18,000	33,885	-	51,885
Notes payable University of Virginia	-	-	33,145	-	33,145
Lines of credit	-	-	42,460	-	42,460
Total	**16,245**	**22,500**	**185,708**	**31,106**	**255,559**
Less: Current portion	(2,433)	-	(9,814)	(2,871)	(15,118)
NET LONG-TERM DEBT	**$ 13,812**	**$ 22,500**	**$ 175,894**	**$ 28,235**	**$ 240,441**

Principal maturities of long-term debt obligations are on June 30, 2015, as follows:

MATURITIES *(in thousands)* *as of June 30, 2015*	UNIVERSITY OF VIRGINIA DARDEN SCHOOL FOUNDATION	JEFFERSON SCHOLARS FOUNDATION	UNIVERSITY OF VIRGINIA FOUNDATION	UNIVERSITY OF VIRGINIA PHYSICIANS GROUP	COMPONENT UNITS TOTAL
2016	$ 2,433	$ -	$ 9,814	$ 2,871	$ 15,118
2017	2,407	-	26,017	1,205	29,629
2018	2,727	-	27,904	1,265	31,896
2019	2,840	-	4,911	1,340	9,091
2020	2,958	-	5,136	1,400	9,494
Thereafter	2,880	22,500	111,926	23,025	160,331
TOTAL	**$ 16,245**	**$ 22,500**	**$ 185,708**	**$ 31,106**	**$ 255,559**

SIGNIFICANT TRANSACTIONS WITH THE UNIVERSITY

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

The University has entered into agreements with the **Darden School Foundation** in which the University has committed to reimburse the Darden School Foundation for any defaults the Darden School Foundation is required to pay under its student loan guarantee programs with three banks. As of June 30, 2015, there were outstanding student loan balances under the program of approximately $25.7 million. At the inception of the agreements with the banks, origination fees were used to fund reserve accounts that are to be used to cover subsequent student loan defaults. As of June 30, 2015, the reserve account balances totaled $679,398. No payments have been made to the Darden School Foundation related to student loan guarantee program defaults.

Direct payments to the University from the **Alumni Association** for the year ended June 30, 2015, totaled $1.2 million. This amount includes gift transfers, payment for facilities and services, and other support for University activities.

UPG has contracted with the University to provide certain professional and technical services. Payments received for these services were approximately $82.6 million for the year ended June 30, 2015. Approximately $21.2 million of the fiscal year payments received relate to disproportionate share funds paid for indigent patients served by UPG, which contributed $23.8 million to the University in support of various academic programs, equipment, teaching and research for the year ended June 30, 2015.

NOTE 9: EXPENSE CLASSIFICATION MATRIX

OPERATING EXPENSES BY FUNCTIONAL CLASSIFICATION *(in thousands)* *for the year ended June 30, 2015*	**COMPENSATION AND BENEFITS**	**SUPPLIES, UTILITIES, AND OTHER SERVICES**	**STUDENT AID**	**DEPRECIATION**	**OTHER**	**TOTAL**
Instruction	$ 338,581	$ 37,698	$ 3,504	$ -	$ 1,055	$ 380,838
Research	157,520	88,916	15,339	-	570	262,345
Public service	24,410	21,440	1,008	-	530	47,388
Academic support	112,039	35,414	292	-	168	147,913
Student services	33,345	12,067	175	-	149	45,736
Institutional support	89,775	36,473	82	-	130	126,460
Operation of plant	84,027	7,399	-	-	233	91,659
Student aid	495	4,258	53,845	-	124	58,722
Auxiliary	72,621	85,261	282	-	596	158,760
Depreciation	-	-	-	120,356	-	120,356
Patient services	620,369	648,216	-	95,816	-	1,364,401
Other	1,074	(8,696)	-	-	(11)	(7,633)
Central services recoveries	-	(18,540)	-	-	-	(18,540)
TOTAL OPERATING EXPENSES	**$ 1,534,256**	**$ 949,906**	**$ 74,527**	**$ 216,172**	**$ 3,544**	**$ 2,778,405**

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, 2015, is provided in the following chart.

APPROPRIATIONS *(in thousands)*	
Original legislative appropriation per Chapter 806	$ 137,544
Adjustments:	
Financial aid — General Fund	12,774
Financial assistance for educational and general	6,928
Miscellaneous educational and general	(4,405)
TOTAL STATE APPROPRIATIONS	**$ 152,841**

NOTE 11: RETIREMENT PLANS

VIRGINIA RETIREMENT SYSTEM

Plan Description

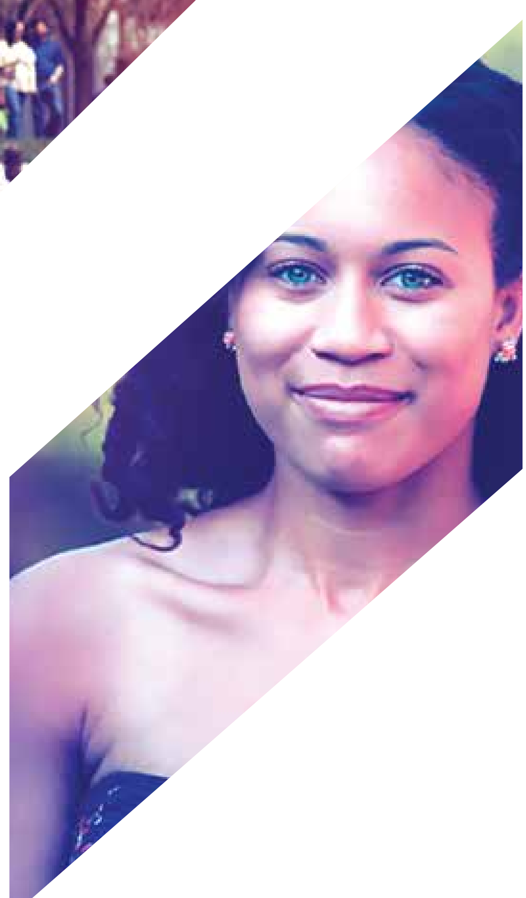
All full-time, salaried permanent employees of state agencies and higher education institutions are automatically covered by the VRS State Employee Retirement Plan or the VaLORS Retirement Plan upon employment. These plans are administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. They are single-employer plans treated as cost-sharing plans for financial reporting purposes. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The System administers three different benefit structures for covered employees in the VRS State Employee Retirement Plan – Plan 1, Plan 2, and Hybrid and two different benefit structures for covered employees in the VaLORS Retirement Plan – Plan 1 and Plan 2. Each of these benefit structures has a different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.	**About Plan 2** Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.	**About the Hybrid Retirement Plan** The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014, are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (See "Eligible Members") · The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. · The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. · In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013. **Hybrid Opt-In Election** VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.	**Eligible Members** Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013. **Hybrid Opt-In Election** Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.	**Eligible Members** Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes: · State employees* · Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1 – April 30, 2014; the plan's effective date for opt-in members was July 1, 2014. ***Non-Eligible Members** Some employees are not eligible to participate in the Hybrid Retirement Plan. They include: · Members of the Virginia Law Officers' Retirement System (VaLORS) Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.
Retirement Contributions State employees, excluding state elected officials, and optional retirement plan participants, contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.	**Retirement Contributions** State employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction.	**Retirement Contributions** A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.	**Creditable Service** Same as Plan 1.	**Creditable Service** **Defined Benefit Component:** Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit. **Defined Contributions Component:** Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.



RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLA**
Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.	**Vesting** Same as Plan 1.	**Vesting** **Defined Benefit Component:** Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component. **Defined Contribution Component:** Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. · After two years, a member is 50% vested and may withdraw 50% of employer contributions. · After three years, a member is 75% vested and may withdraw 75% of employer contributions. · After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.
Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.	**Calculating the Benefit** See definition under Plan 1.	**Calculating the Benefit** **Defined Benefit Component:** See definition under Plan 1. **Defined Contribution Component:** The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier **VRS:** The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%. **VaLORS:** The retirement multiplier for VaLORS employees is 1.70% or 2.00%.	**Service Retirement Multiplier** **VRS:** Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013. **VaLORS:** The retirement multiplier for VaLORS employees is 2.00%.	**Service Retirement Multiplier** **Defined Benefit Component:** **VRS:** The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. **VaLORS:** Not applicable.
Normal Retirement Age **VRS:** Age 65. **VaLORS:** Age 60.	**Normal Retirement Age** **VRS:** Normal Social Security retirement age. **VaLORS:** Same as Plan 1.	**Normal Retirement Age** **Defined Benefit Component:** **VRS:** Same as Plan 2. **VaLORS:** Not applicable. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Unreduced Retirement Eligibility **VRS:** Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service. **VaLORS:** Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.	**Earliest Unreduced Retirement Eligibility** **VRS:** Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90. **VaLORS:** Same as Plan 1.	**Earliest Unreduced Retirement Eligibility** **Defined Benefit Component:** **VRS:** Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. **VaLORS:** Not applicable. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Reduced Retirement Eligibility **VRS:** Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service. **VaLORS:** 50 with at least five years of creditable service.	**Earliest Reduced Retirement Eligibility** **VRS:** Age 60 with at least five years (60 months) of creditable service. **VaLORS:** Same as Plan 1.	**Earliest Unreduced Retirement Eligibility** **Defined Benefit Component:** **VRS:** Age Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service. **VaLORS:** Not applicable. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.	**Cost-of-Living Adjustment (COLA) in Retirement** The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.	**Cost-of-Living Adjustment (COLA) in Retirement** **Defined Benefit Component:** Same as Plan 2. **Defined Contribution Component:** Not applicable.
Eligibility: For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.	**Eligibility:** Same as Plan 1.	**Eligibility:** Same as Plan 1 and Plan 2.
Exceptions to COLA Effective Dates: The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances: · The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. · The member retires on disability. · The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). · The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. · The member dies in service and the member's survivor, or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.	**Exceptions to COLA Effective Dates:** Same as Plan 1.	**Exceptions to COLA Effective Dates:** Same as Plan 1 and Plan 2.

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted. Most state employees are covered under the Virginia Sickness and Disability Program (VSDP) and are not eligible for disability retirement. VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.	**Disability Coverage** Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted. Most state employees are covered under the Virginia Sickness and Disability Program (VSDP) and are not eligible for disability retirement. VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.	**Disability Coverage** State employees (including Plan 1 and Plan 2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VSDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.
Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.	**Purchase of Prior Service** Same as Plan 1.	**Purchase of Prior Service** **Defined Benefit Component:** Same as Plan 1, with the following exceptions: · Hybrid Retirement Plan members are ineligible for ported service. · The cost of purchasing refunded service is the higher of 4% of creditable compensation or average final compensation. · Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost. **Defined Contribution Component:** Not applicable.

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, the 5.00% member contribution was paid by the employer. Beginning July 1, 2012, state employees were required to pay the 5.00% member contribution and the employer was required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. Each state agency's contractually required contribution rate for the year ended June 30, 2015, was 12.33% of covered employee compensation for employees in the VRS State Employee Retirement Plan and 17.67% of covered employee compensation for employees in the VaLORS Retirement Plan. These rates were based on an actuarially determined rate from an actuarial valuation as of June 30, 2013. The actuarial rate for the VRS State Employee Retirement Plan was 15.80%, and the actuarial rate for VaLORS Retirement Plan was 21.06%. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by an employee during the year, with an additional amount to finance any unfunded accrued liability. Based on the provisions of §51.1-145 of the *Code of Virginia*, as amended, the contributions for the VRS State Employee Retirement Plan were funded at 78.02% of the actuarial rate and the contributions for the VaLORS Retirement Plan were funded at 83.88% of the actuarial rate for the year ended June 30, 2015. Contributions from the University to the VRS State Employee Retirement Plan were $37.8 million and $26.3 million for the years ended June 30, 2015, and June 30, 2014, respectively. Contributions from the University to the VaLORS Retirement Plan were $497,740 and $418,953 for the years ended June 30, 2015, and June 30, 2014, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the University reported a liability of $454.7 million for its proportionate share of the VRS State Employee Retirement Plan Net Pension Liability and a liability of $5.3 million for its proportionate share of the VaLORS Retirement Plan Net Pension Liability. The Net Pension Liability was measured as of June 30, 2014, and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. The University's proportion of the Net Pension Liability was based on the University's actuarially determined employer contributions to the pension plan for the year ended June 30, 2014, relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2014, the University's proportion of the VRS State Employee Retirement Plan was 8.12% as compared to 8.24% at June 30, 2013. At June 30, 2014 and 2013, the University's proportion of the VaLORS Retirement Plan was 0.79%.

For the year ended June 30, 2015, the University recognized pension expense of $28.4 million for the VRS State Employee Retirement Plan and $474,000 for the VaLORS Retirement Plan. Since there was a change in proportionate share between June 30, 2013, and June 30, 2014, a portion of the pension expense was related to deferred amounts from changes in proportion and differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2015, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

(in thousands)	**DEFERRED OUTFLOWS OF RESOURCES**	**DEFERRED INFLOWS OF RESOURCES**
Differences between expected and actual experience	$ -	$ -
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	81,701
Changes in proportion and differences between Employer contributions and proportionate share of contributions	268	5,964
Employer contributions subsequent to the measurement date	38,278	-
TOTAL	**$ 38,546**	**$ 87,665**

$38.3 million reported as deferred outflows of resources related to pensions resulting from the University's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

YEAR ENDING JUNE 30 *(in thousands)*	
2016	$ (22,412)
2017	(22,409)
2018	(22,147)
2019	(20,429)
TOTAL	**$ (87,397)**

Actuarial Assumptions

The total pension liability for the VRS State Employee Retirement Plan was based on an actuarial valuation as of June 30, 2013, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

Inflation	2.5 percent
Salary increases, including inflation	3.5 percent – 5.35 percent
Investment rate of return	7.0 percent, net of pension plan investment expense, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates:

Pre-Retirement:	RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward two years and females were set back three years.
Post-Retirement:	RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with females set back one year.
Post-Disablement:	RP-2000 Disability Life Mortality Table Projected to 2020 with males set back three years and no provision for future mortality improvement.

The actuarial assumptions used in the June 30, 2013, valuation were based on the results of an actuarial experience study for the period from July 1, 2008, through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

– Update mortality table
– Decrease in rates of service retirement
– Decrease in rates of withdrawals for less than ten years of service
– Decrease in rates of male disability retirement
– Reduce rates of salary increase by 0.25% per year

The total pension liability for the VaLORS Retirement Plan was based on an actuarial valuation as of June 30, 2013, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

Inflation	2.5 percent
Salary increases, including inflation	3.5 percent – 4.75 percent
Investment rate of return	7.0 percent, net of pension plan investment expense, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates:

Pre-Retirement:	RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward five years and females were set back three years.
Post-Retirement:	RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with females set back one year.
Post-Disablement:	RP-2000 Disability Life Mortality Table Projected to 2020 with males set back three years and no provision for future mortality improvement.

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from July 1, 2008, through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

– Update mortality table
– Adjustments to the rates of service retirement
– Decrease in rates of withdrawals for females under ten years of service
– Increase in rates of disability

Net Pension Liability

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB Statement No. 67, *Financial Reporting for Pension Plans,* less that system's fiduciary net position. As of June 30, 2014, NPL amounts for the VRS State Employee Retirement Plan and the VaLORS Retirement Plan are as follows:

(in thousands)	STATE EMPLOYEE RETIREMENT PLAN	VaLORS RETIREMENT PLAN
Total pension liability	$ 21,766,933	$ 1,824,577
Plan fiduciary net position	16,168,535	1,150,450
EMPLOYERS' NET PENSION LIABILITY	**$ 5,598,398**	**$ 674,127**
Plan fiduciary net position as a percentage of the total pension liability	74.28%	63.05%

The total pension liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net pension liability is disclosed in accordance with the requirements of GASB Statement No. 67 in the System's notes to the financial statements and required supplementary information.

Long-Term Expected Rate of Return

The long-term expected rate of return on pension System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

ASSET CLASS (STRATEGY)	TARGET ALLOCATION	ARITHMETIC LONG-TERM EXPECTED RATE OF RETURN	WEIGHTED AVERAGE LONG-TERM EXPECTED RATE OF RETURN
U.S. equity	19.50%	6.46%	1.26%
Developed non-U.S. equity	16.50%	6.28%	1.04%
Emerging market equity	6.00%	10.00%	0.60%
Fixed income	15.00%	0.09%	0.01%
Emerging debt	3.00%	3.51%	0.11%
Rate sensitive credit	4.50%	3.51%	0.16%
Non-rate sensitive credit	4.50%	5.00%	0.23%
Convertibles	3.00%	4.81%	0.14%
Public real estate	2.25%	6.12%	0.14%
Private real estate	12.75%	7.10%	0.91%
Private equity	12.00%	10.41%	1.25%
Cash	1.00%	-1.50%	-0.02%
TOTAL	**100.00%**		**5.83%**
Inflation			2.50%
Expected arithmetic nominal return*			8.33%

* *Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons the volatility declines significantly and provides a median return of 7.44%, including expected inflation of 2.50%.*

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the University for the VRS State Employee Retirement Plan and the VaLORS Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, all agencies are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the University's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the University's proportionate share of the VRS State Employee Retirement Plan net pension liability and the VaLORS Retirement Plan net pension liability using the discount rate of 7.00%, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

(in thousands)	**1.00% DECREASE (6.00%)**	**CURRENT DISCOUNT RATE (7.00%)**	**1.00% INCREASE (8.00%)**
The University's proportionate share of the VRS State Employee Retirement Plan net pension liability	$ 666,012	$ 454,655	$ 277,416
The University's proportionate share of the VaLORS Retirement Plan net pension liability	7,233	5,294	3,699
TOTAL NET PENSION LIABILITY	**$ 673,245**	**$ 459,949**	**$ 281,115**

Pension Plan Fiduciary Net Position

Detailed information about the VRS State Employee Retirement Plan's Fiduciary Net Position or the VaLORS Retirement Plan's Fiduciary Net Position is available in the separately issued VRS 2014 Comprehensive Annual Financial Report (CAFR). A copy of the 2014 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2014-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Payables to the Pension Plan

The amount of payables outstanding to the VRS State Employee Retirement Plan and the VaLORS Retirement Plan at June 30, 2015, was $3.8 million for legally required contributions into the plans.

OPTIONAL RETIREMENT PLANS

Full-time faculty and certain administrative staff may participate in Optional Retirement Plans, as authorized by the *Code of Virginia,* rather than the VRS retirement plans. The Optional Retirement Plans are defined contribution plans to which the University contributes an amount established by statute.

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 on 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 on the employer's 8.9 percent contributions and the employee's 5.0 percent contributions, plus interest and dividends. Individual contracts issued under these plans provide for full and immediate vesting of both the University's and the employees' contributions.

Medical Center employees hired after July 1, 1999, cannot participate in Plan 1 or Plan 2 noted above, but have the option of participating in the Medical Center's Optional Retirement Plan. This is a defined contribution plan where the retirement benefits received are based on 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 $53.9 million and were calculated using base salaries of $698.4 million, for the year ended June 30, 2015. The contribution percentage amounted to 7.7 percent.

DEFERRED COMPENSATION PLANS

State employees may elect to participate in the Commonwealth's Deferred Compensation 457 Plan or the University's 403(b) Plan. Participating employees can contribute to either plan each pay period, with the Commonwealth matching at 50 percent up to $20 per pay period, or $40 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 approximately $2.6 million for the year ended June 30, 2015.

The Deferred Compensation Plan for the University Medical Center employees hired on or after September 30, 2002, allows employee contributions up to four percent of their salary and an employer match of 50 percent of the employee's four percent deferral amount, not to exceed two percent of the employee's salary. Employer contributions under this plan were approximately $2.9 million for the year ended June 30, 2015.

NOTE 12: POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

The University participates in the Commonwealth-sponsored VRS-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.

The University's annual postemployment benefits expense is actuarially determined in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* 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 comprehensive disclosures for OPEB obligations. OPEB refers to postemployment benefits other than pension benefits and includes postemployment health care benefits and other types of postemployment benefits if provided separately from a pension plan. The University implemented GASB Statement No. 45 prospectively as of June 30, 2008, with a zero net OPEB obligation at transition.

PLAN DESCRIPTION AND FUNDING POLICY

Optional Retirement Retiree Life Insurance Plans. University faculty who participate in the Optional Retirement Plans 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 these plans are established and maintained by the University under the authority of the Board. The University pays the total cost of the insurance. The Optional Retirement Retiree Life Insurance Plans are single-employer plans administered by the University. The University does not issue stand-alone financial statements for the plans.

Retiree Health 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 eligible for Medicare. At that time, University retirees can participate in the Commonwealth's Medicare Supplement Plan. Benefit provisions for the Retiree Health Plan are established and maintained by the University under the authority of the Board. It is a single-employer plan administered by the University. The University does not issue stand-alone financial statements for this plan.

The contribution requirements of plan members and the University are based on projected pay-as-you-go financing requirements. For fiscal year 2015, the University contributed $3.4 million to the plan for retiree claims. Retirees receiving benefits contributed $4.5 million, or approximately 57 percent of the total premiums, through their required contributions, ranging from $500 to $2,185 per month.

ANNUAL OPEB COST AND FUNDED STATUS

The University's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The total cost of providing postemployment benefits is projected, taking into account assumptions about demographics, turnover, mortality, disability, retirement, health care trends, and other actuarial assumptions. This amount is discounted to determine the actuarial present value of total projected benefits. The actuarial accrued liability (AAL) is the portion of the present value of the total projected benefits allocated to years of employment prior to the measurement date. The unfunded actuarial accrued liability (UAAL) is the difference between the AAL and actuarial value of assets in the plan.

Once the UAAL is determined, the ARC is determined as the normal cost and the amortization of the UAAL. This ARC is compared to actual contributions made and any difference is reported as the net OPEB obligation. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows information on the actuarial accrued liability as of June 30, 2014, the most recent valuation of the plan. It also shows, for the current year and two preceding years, the components of the University's annual OPEB costs, the amount actually contributed to the plans, and changes in the net OPEB obligation for the Optional Retirement Plans Retiree Life and the Retiree Health Plan.

SUMMARY OF VALUATION RESULTS *(in thousands)*	
ACTUARIAL ACCRUED LIABILITY BY CATEGORY AS OF JUNE 30, 2014	
Current retirees, beneficiaries, dependents and terminated vested members	$ 20,641
Current active members	67,722
TOTAL ACTUARIAL ACCRUED LIABILITY	**$ 88,363**
Covered payroll	$ 415,500
Actuarial accrued liability as percentage of covered payroll	21.3%

	2015	**2014**	**2013**
NET OPEB OBLIGATION AS OF JUNE 30			
Annual required contribution (ARC)	$ 11,270	$ 10,571	$ 11,766
Interest on net OPEB obligation	1,831	1,562	849
Adjustment to the ARC	(2,752)	(2,291)	(1,246)
Annual OPEB cost	10,349	9,842	11,369
Actual contributions	(3,825)	(3,867)	(1,990)
Net increase in net OPEB obligation	6,524	5,975	9,379
Net OPEB obligation – beginning of year	40,681	34,706	25,327
NET OPEB OBLIGATION – END OF YEAR	**$ 47,205**	**$ 40,681**	**$ 34,706**
Percentage of annual OPEB cost contributed	37.0%	39.3%	17.5%

As of June 30, 2015, the University has not funded these postemployment benefit plans.

ACTUARIAL METHODS AND ASSUMPTIONS

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability 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. The schedule of funding progress presented as required supplementary information following the Notes to the Financial Statements presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plans (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 projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. 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, 2014 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 investments calculated based on the funded level of the plan at the valuation date, and an annual health care cost trend rate and a drug cost trend rate of 8.0 percent for the fiscal year ended June 30, 2014, grading to 5.0 percent for the fiscal year ending June 30, 2026, and thereafter. All rates include a 4.0 percent inflation assumption. Past service liability is amortized over an open thirty-year period as a level dollar amount.

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 on June 30, 2015, was $58.9 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 on June 30, 2015, was $13.4 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'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 Property and Liability Risk Management manages all property and casualty insurance programs for the University, including the Medical Center and the College at Wise. At present, most insurance coverages are obtained through participation in the state risk management self-insurance plans, which the Virginia Department of the Treasury, Division of Risk Management, administers. 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 mechanical breakdown loss, and for physical damage to all vehicles valued up to $20,000. The University also maintains excess crime/employee dishonesty insurance, network security and privacy insurance (response and regulatory), 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 Medical Center, such as the Community Medicine, LLC.

NOTE 14: FUNDS HELD IN TRUST BY OTHERS

Assets of funds held by trustees for the benefit of the University are not reflected in the accompanying Statement of Net Position. 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 on June 30, 2015, was $122.2 million and income received totaled $6.0 million.

NOTE 15: COMMITMENTS AND CONTINGENCIES

Authorized expenditures for construction and other projects unexpended as of June 30, 2015, were approximately $121.6 million.

The University has entered into numerous operating lease agreements to rent, lease, and maintain land, buildings, and equipment, which expire on various dates. 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 $26.5 million for the year ended June 30, 2015.

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
2016	$ 13,798
2017	9,812
2018	9,151
2019	6,188
2020	5,230
2021-25	11,785
2026-30	4,543
2031-35	2,878
2036-40	823
2041-45	823
2046-50	659
TOTAL	**$ 65,690**

LITIGATION

The University is a party to various legal actions and other claims in the normal course of business. While the 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 30, 2015, the Rector and Board of Visitors of the University of Virginia, on behalf of the Medical Center, and Novant Health, Inc. (Novant) entered into an agreement to form a joint operating company effective January, 2016 to operate Culpeper Regional Hospital, Novant Health Haymarket Medical Center, Novant Health Prince William Medical Center, Novant Health Cancer Center at Lake Manassas and other Novant assets as one entity. The joint operating company has two members, Novant and the Medical Center. The equity in the joint operating company will be owned 60% and 40% by Novant and the Medical Center, respectively.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

VIRGINIA RETIREMENT SYSTEM (VRS) PENSION PLANS

SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY FOR THE YEAR ENDED JUNE 30, 2015* *(in thousands)*	**VRS STATE EMPLOYEE RETIREMENT PLAN**	**VaLORS RETIREMENT PLAN**
Employer's proportion of the net pension liability	8.12%	0.79%
Employer's proportionate share of the net pension liability	$ 454,655	$ 5,294
Employer's covered-employee payroll	$ 314,268	$ 3,088
Employer's proportionate share of the net pension liability as a percentage of its covered-employee payroll	144.67%	171.44%
Plan fiduciary net position as a percentage of the total pension liability	74.28%	63.05%

* *The amounts presented have a measurement date of the previous fiscal year end.*

SCHEDULE OF EMPLOYER CONTRIBUTIONS FOR THE YEAR ENDED JUNE 30, 2015 *(in thousands)* **PLAN**	**CONTRACTUALLY REQUIRED CONTRIBUTION**	**CONTRIBUTIONS IN RELATION TO CONTRACTUALLY REQUIRED CONTRIBUTION**	**CONTRIBUTION DEFICIENCY**	**EMPLOYER'S COVERED EMPLOYEE PAYROLL**	**CONTRIBUTIONS AS A % OF COVERED EMPLOYEE PAYROLL**
VRS State Employee Retirement Plan	$ 37,781	$ 37,781	$ -	$ 339,396	11.13%
VaLORS Retirement Plan	$ 498	$ 498	$ -	$ 3,416	14.58%

NOTES TO VRS REQUIRED SUPPLEMENTARY INFORMATION

Changes of benefit terms – There have been no significant changes to the System benefit provisions since the prior actuarial valuation. A hybrid plan with changes to the defined benefit plan structure and a new defined contribution component were adopted in 2012. The hybrid plan applies to most new employees hired on or after January 1, 2014, and not covered by enhanced hazardous duty benefits.

The liabilities presented do not reflect the hybrid plan since it covers new members joining the System after the valuation date of June 30, 2013, and the impact on the liabilities as of the measurement date of June 30, 2014 are minimal.

Changes of assumptions – The following changes in actuarial assumptions were made for the VRS State Employee Retirement Plan effective June 30, 2013, based on the most recent experience study of the System for the four-year period ending June 30, 2012:

– Update mortality table
– Decrease in rates of service retirement
– Decrease in rates of withdrawals for less than ten years of service
– Decrease in rates of male disability retirement
– Reduce rates of salary increase by 0.25% per year

The following changes in actuarial assumptions were made for the VaLORS Retirement Plan effective June 30, 2013, based on the most recent experience study of the System for the four-year period ending June 30, 2012:

– Update mortality table
– Adjustments to the rates of service retirement
– Decrease in rates of withdrawals for females under ten years of service
– Increase in rates of disability
– Decrease service related disability rate from 60% to 50%

POSTEMPLOYMENT BENEFIT PLANS OTHER THAN PENSIONS

FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFIT PLANS *(in thousands)*

VALUATION DATE	ACTUARIAL VALUE OF ASSETS (a)	ACTUARIAL ACCRUED LIABILITY (AAL) (b)	UNFUNDED AAL (UAAL) (b-a)	FUNDED RATIO (a/b)	COVERED PAYROLL (c)	UAAL AS A PERCENTAGE OF COVERED PAYROLL (b-a)/c
6/30/2014	$ -	$ 88,363	$ 88,363	0%	$ 415,500	21.3%
6/30/2012	-	72,090	72,090	0%		
6/30/2010	-	76,440	76,440	0%		

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FINANCIAL STAFF

Melody S. Bianchetto *Vice President for Finance*
James S. Matteo *Associate Vice President and Treasurer*
David J. Boling *Assistant Vice President for Finance and University Comptroller*
Randall B. Ellis *Senior Associate Comptroller*
Karyn A. Tancredi *Director of Financial Reporting*

INTERNAL AUDIT

Carolyn Devine Saint *Chief Audit Executive*

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, gender identity, marital status, national or ethnic origin, political affiliation, race, religion, sex (including pregnancy), sexual orientation, 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 Number One (2014).

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, Washington Hall, East Range, P.O. Box 400219, University of Virginia, Charlottesville, VA 22904-4219, (434) 924-3295. The Title IX Coordinator is Darlene Scott-Scurry, Director, Office of Equal Opportunity Programs, Washington Hall, East Range, P.O. Box 400219, University of Virginia, Charlottesville, VA 22904-4219, (434) 924-3200.

UNIVERSITY of VIRGINIA