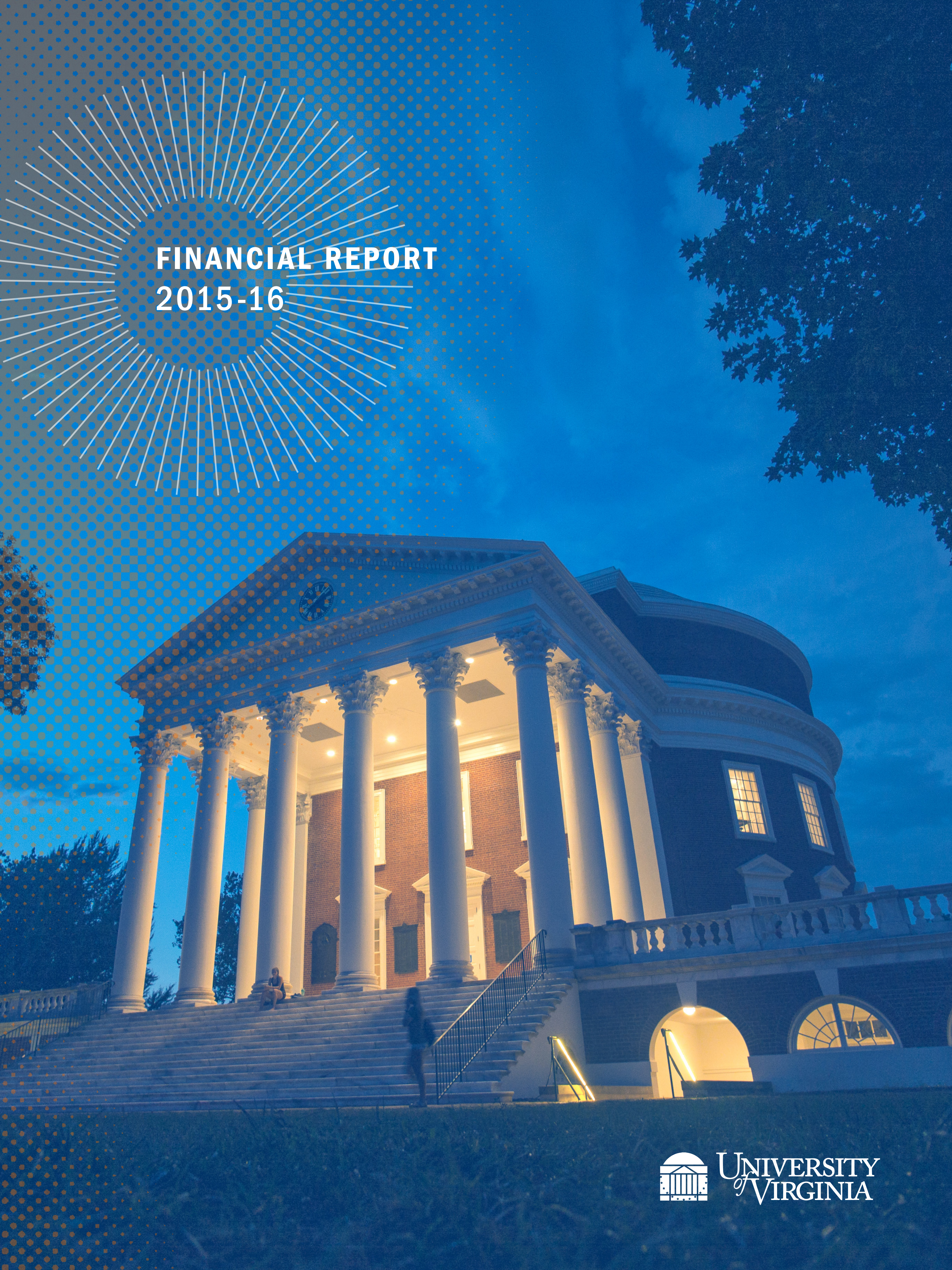
FINANCIAL REPORT
2015-16



UNIVERSITY of VIRGINIA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Contents

FROM THE PRESIDENT

The University of Virginia's financial strength enables us to pursue the priorities that make UVA one of the premier universities in the nation and the world. In the pages of this report, you will see how Executive Vice President and Chief Operating Officer Pat Hogan and his team have built and maintained our financial stability through judicious stewardship of resources, prudent investments and attention to efficiency through our Organizational Excellence program.

The Cornerstone Plan continues to guide our aspirations as we approach the beginning of UVA's third century. We take pan-University, cross-disciplinary approaches to our strategies, and this has produced remarkable results. Our Data Science Institute and new UVA Brain Institute are drawing together faculty and students from multiple schools and units to address some of the most pressing problems of our time. Our faculty cluster hires and target-of-opportunity searches (known as TOPS) have enabled us to build strength in multidisciplinary fields ranging from neuroscience to youth violence prevention. The new Strategic Investment Fund will allow us to make additional key investments to further distinguish our University.

Pat Hogan and his colleagues deserve credit and congratulations for their leadership in sustaining and strengthening UVA's financial position. I am grateful to Pat and his team, and I remain grateful to legislators who support higher education, as well as alumni, parents, friends and advocates around the world who strengthen the University of Virginia.

Teresa A. Sullivan

Teresa A. Sullivan
President

THE UNIVERSITY OF VIRGINIA: A BEACON FOR PUBLIC HIGHER EDUCATION

Since its founding, the University of Virginia has been a model for other American institutions, both public and private, in matters ranging from the recruitment of the first esteemed faculty nearly 200 years ago to the enrollment of diverse and talented students representing all 50 states and 136 countries today. Our success can be attributed in part to our ability to manage through changes and challenges affecting higher education on a national level.

Recent rankings recognize the University's continued excellence and value throughout 2015-16. *U.S. News & World Report* ranked the University No. 2 best public national university; *Kiplinger's* ranked us No. 3 best public college value; *Money Magazine* ranked us No. 3 best college value; and *The Princeton Review* put UVA at No. 7 among the Top 200 Colleges That Pay You Back. The University remains an excellent value for an excellent education.

Additionally, the University has maintained its AAA bond rating since 2003 and is one of only four public institutions to earn top ratings from all three major rating agencies. UVA is now in a stronger financial position than in its recent history with a growing endowment, a strong tradition of philanthropy, a diverse revenue base exceeding $2.5 billion annually, and increasingly efficient and effective operations. As of June 30, 2016, the University's total assets were $10.5 billion.

AN INNOVATIVE MODEL FOR FUNDING OUR ASPIRATIONS

Through strategic financial management, the University took an important step in fiscal year 2016 to solidify its leadership position in the American higher education landscape with the establishment of a Strategic Investment Fund. The creation of this fund is the culmination of a financial management plan approved by the Board of Visitors and executed in phases over several years. This work ensures the availability of resources to support priorities for the Health System and the Academic Division that were identified in the Health System Strategic Plan and the Cornerstone Plan. The University evaluated the investment required to execute the initiatives contained within both plans and subsequently developed a long-term financial plan that is updated annually. The financial plan leveraged the University's strong balance sheet to identify the necessary resources to fund its strategic priorities, with each step approved by the Board of Visitors. In February 2016, the Board of Visitors authorized and approved the creation of the Strategic Investment Fund, bringing together operating reserves and other funds that existed in separate accounts within the Academic Division and Medical Center accounting system and made possible by prudent financial management decisions over more than a decade.

In the early 2000s, University leaders partnered with legislators in the General Assembly and colleagues at Virginia Tech and the College of William and Mary to restructure the institutions' relationships with the Commonwealth. Each university remained fully committed to its public mandate to serve Virginia's citizens and worked with legislators to gain greater autonomy in several key areas related to the business of running the universities. In 2002, the General Assembly approved an amendment to the *Code of Virginia,* permitting UVA to invest endowment funds, endowment income and gifts in derivatives, options and securities. In 2006, the General Assembly granted authority for the continued investment of monies for longer-term returns. These actions laid the groundwork for the University to invest its Medical Center and Academic Division operating reserves — reserves that do not include tuition or general fund dollars — with the University of Virginia Investment Management Company (UVIMCO), the team already managing UVA's endowment with great success.

Over the last few years, the University's administrative leaders worked closely with the Board of Visitors on a series of important initiatives to make funds available to support institutional priorities. Among this work was the adoption of the Organizational Excellence program in 2013 (projected to generate $150 million in operational savings over a seven-year period), the development of the Affordable Excellence model which improved affordability for 70 percent of Virginia families, restructuring our balance sheet to achieve more efficiency in our long-term debt portfolio and liquidity practices and resetting the endowment spending rate to allow for a 40-basis point increase that generates additional funds for operations. With the Board's approval this year to create the Strategic Investment Fund, the University has set a course for advancing transformational initiatives in key areas that are essential to continued excellence in its third century.

Expanding the research enterprise is among these key areas for investment. The University has been working toward a goal of significantly growing our research enterprise and realized an 8.6 percent increase in research awards in fiscal year 2016. With ongoing support from the Strategic Investment Fund, we anticipate that the expansion of the research enterprise will have an even greater positive economic impact on the region and the Commonwealth.

Providing an affordable first-class education to Virginians remains chief among our highest priorities both at the University and at the College at Wise. We have made significant investments already and will continue to develop proposals related to the academic experience, access and affordability for the Board's review.

SERVING AND EMPOWERING A TALENTED WORKFORCE

UVA's Organizational Excellence (OE) program is guided by a philosophy that drives our employees to provide excellent service through best-in-class programs and business practices. In addition to saving money through operating efficiencies so that funds can be redirected to strategic priorities, OE initiatives focus on ensuring that our faculty and staff are using their time for mission-focused activities — teaching, research and patient care — and that they are equipped with powerful tools that enable them to make informed decisions. The University's technology leadership team plays an important role in building systems to achieve project goals and safeguarding the University's data through security enhancements.

Ufirst is the University's largest-scale OE initiative to date. This transformational project brings together human resources (HR) services in the Academic Division, Medical Center and University Physicians Group (UPG). Through the efforts of everyone involved in this work to transform HR, the University will provide the highest-quality service in all aspects of HR, including employee recruitment, retention and development, and give employees opportunities to cultivate new skills, grow as leaders and achieve their career goals. In 2016, the Ufirst project team completed the first phase of work to bring together HR services from all three organizations and began work to implement new systems and structures.

TRANSFORMING FINANCIAL PRACTICES AND SYSTEMS TO BE BEST-IN-CLASS

The UVAFinance team is spearheading several important OE projects, including development of ResearchUVA, a comprehensive enterprise-wide system and processes for proposal development, submission and award management. This new tool and accompanying changes in process will provide significant research administration time savings. By the end of fiscal year 2016, more than 650 faculty and staff members were using ResearchUVA. Our Finance group also launched a new University Business Intelligence (UBI) platform in spring 2016 to provide information and enable robust analysis in support of informed decision-making. Procurement staff launched a new comprehensive travel management program called TravelUVA in 2016 to consolidate travel expenditures and enhance service. The team is working on a new expense management system that will be launched in 2017.

UVA HEALTH SYSTEM: THE SAFEST PLACE TO RECEIVE EXCEPTIONAL CARE

We continue to make strides in our efforts to provide the highest-quality care in the right place and at the right time to the patients we serve. UVA Health System was recently rated the No. 1 hospital in Virginia by *U.S. News & World Report* and has seven specialties — four pediatric specialties and three adult specialties — ranked in the top 50 in the nation by *U.S. News.*

To better meet the needs of our patients, we broke ground on our Medical Center expansion project, which will expand the Emergency Department and enable us to convert virtually all of our inpatient beds to private rooms to serve more acute patients transferred from other hospitals. To continue building our capacity to provide specialty care across Virginia, we established a partnership to form a regional health system with Novant Health. Our financial performance continues to be strong, with the Medical Center's operating revenue of $1.6 billion and operating margin of 6.3 percent in fiscal year 2016.

POSITIONED FOR PREEMINENCE IN THE UNIVERSITY'S THIRD CENTURY

Among the highlights of the last fiscal year was the completion of work on the Rotunda in summer 2016 after a long and phased renovation. The building re-opened in mid-September and is already a favorite place for students, faculty, staff and visitors to spend time. I'm grateful to staff in the Office of the University Architect and Facilities Management, and to everyone else who was involved in the effort. This important work would not have been possible without the support of the Commonwealth of Virginia and the generosity of alumni, parents and friends. By preserving the Rotunda for future generations, we have conserved an icon of American higher education, while making it a vibrant and active part of the daily life of the University community.

A unique sense of place distinguishes UVA from other institutions. With its blend of historic and modern structures, the Grounds of the University play an important role in teaching, research and patient care. As the University has grown, its footprint has been carefully expanded with the long view in mind. Strategic property acquisitions and stewardship of real estate and financial assets by the University of Virginia Foundation have enabled the University to plan for future needs and opportunities.

On the eve of the bicentennial of the laying of the cornerstone at Pavilion VII in 1817, the University is positioned well to face future challenges, both known and unknown. Just as the Rotunda's infrastructure was shored up and improved during its multi-year renovation, the University's operations have undergone continuous improvements, and its financial strength has grown through prudent management decisions over time. The Strategic Investment Fund provides the foundation for seizing new opportunities that will arise in the University's third century.

As we reflect on our progress in recent years, my team and I remain committed to our work to align our resources in support of identified priorities, to preserve the best of what the University offers and to advance new strategic directions. We embrace the opportunity to make bold management decisions that will ensure continued excellence and sustain the University's tradition of innovation. I am honored to work with a group of talented leaders at all levels across the Grounds who are dedicated to serving our students, patients and stakeholders. All of us are grateful for the support of loyal alumni, parents and friends around the globe, and for the partnership of legislators in Richmond who understand the importance of the University to the Commonwealth, to the nation and to the world.

Patrick D. Hogan

Patrick D. Hogan

Executive Vice President and Chief Operating Officer

INTRODUCTION

This discussion and analysis provides an overview of the financial position and results of activities of the University of Virginia (the University) for the year ended June 30, 2016. Comparative information for the year ended June 30, 2015, 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

As a public institution of higher learning with approximately 22,000 on-Grounds students and 2,350 full-time instructional and research faculty members in 11 schools in 2015-16, the University offers a diverse range of degree programs, from baccalaureate to postdoctoral levels, including doctorates in 55 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 600 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 2,052 students and 102 full-time instructional and research faculty. It offers baccalaureate degrees in 30 majors and eight pre-professional 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, 2016, and June 30, 2015, was $507.6 million and $459.9 million, respectively.

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 prudent utilization of financial resources and 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, 2016, and June 30, 2015, is summarized as follows:

SUMMARY OF THE STATEMENT OF NET POSITION *(in thousands)*			**INCREASE (DECREASE)**	
	2016	**2015**	**AMOUNT**	**PERCENT**
Current assets	$ 740,483	$ 1,149,299	$ (408,816)	(35.6%)
Noncurrent assets				
Endowment	4,117,446	4,374,764	(257,318)	(5.9%)
Other long-term investments	2,073,236	1,580,356	492,880	31.2%
Capital assets, net	3,359,617	3,273,882	85,735	2.6%
Other	71,888	73,313	(1,425)	(1.9%)
Total assets	**10,362,670**	**10,451,614**	**(88,944)**	**(0.9%)**
Deferred outflows of resources	92,864	88,173	4,691	5.3%
Total assets and deferred outflows of resources	**10,455,534**	**10,539,787**	**(84,253)**	**(0.8%)**
Current liabilities	656,098	565,072	91,026	16.1%
Noncurrent liabilities	2,102,897	2,018,142	84,755	4.2%
Total liabilities	**2,758,995**	**2,583,214**	**175,781**	**6.8%**
Deferred inflows of resources	111,711	160,635	(48,924)	(30.5%)
Total liabilities and deferred inflows of resources	**2,870,706**	**2,743,849**	**126,857**	**4.6%**
NET POSITION	**$ 7,584,828**	**$ 7,795,938**	**$ (211,110)**	**(2.7%)**

CURRENT ASSETS AND LIABILITIES

The Statement of Net Position shows that working capital, which is current assets less current liabilities, was $84.4 million on June 30, 2016. 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. Increases in unearned revenue and in outstanding commercial paper account for most of the increase in current liabilities.

Current assets cover current liabilities 1.13 times, an indicator of good liquidity and the ability to weather short-term demands on working capital. This rate of coverage decreased from 2.0 times last year, primarily due to a significant increase in outstanding commercial paper. Current assets cover 3.3 months of total operating expenses, excluding depreciation. For 2015-16, one month of operating expenses equaled approximately $225 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 negative 1.5 percent in the fiscal year 2015-16. This performance figure includes realized and unrealized gains and losses, along with cash income. Total investment income for all funds was a negative $112.6 million for the fiscal year ended June 30, 2016.

Distribution. The University uses its endowment funds to support operations by distributing 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. For the year ended June 30, 2016, the Board of Visitors authorized an additional 40 basis points be added to the fiscal year 2016 endowment spending distribution. The total distribution for the University's endowment was $191.3 million, or 4.62 percent of the June 30, 2014, market value of the endowment, the measurement date.

Endowment investments. The total of endowment investments is $4.1 billion, a $257.3 million decrease over the prior year. Additional new gifts were offset by investment losses and the spending distribution resulting in the decrease.

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 under $6 billion as of June 30, 2016.

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 during the year are listed to the right:

MAJOR CAPITAL PROJECTS DURING 2015-16 *(in thousands)*		
UVA Medical Center expansion	$	391,600
Gilmer Hall and Chemistry Building renovations		186,831
McCormick Road resident hall		104,700
Rotunda renovations Phase II		45,733
UVA Wise Library		37,169
UVA Medical Center HVAC renovations		28,000
UVA Medical Center Educational Resource Center		25,125
UVA Medical Center levels 7 and 8 renovations		20,000
Newcomb Road Chiller Plant capacity replacement		14,800
TOTAL	**$**	**853,958**

As infrastructure and building projects were completed or otherwise acquired during the year, the University's capital asset balances grew significantly. More than $146 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 2016-16 *(in thousands)*	**CAPITALIZED COST**	
Gibbons House Alderman Road	$	32,357
McCormick Road utilities tunnel		13,377
UVA Medical Center HVAC replacement		12,764
VOIP telephone replacement		8,595
Facilities Management shop and office building renovations		5,673
UVA Wise dam restoration		2,207
TOTAL	**$**	**74,973**

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 four 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, backed by a general revenue pledge, to provide interim financing for its capital improvements and provide a source of short-term liquidity. Outstanding commercial paper is typically converted to long-term debt financing as appropriate, within the normal course of business.

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 $1.5 billion of debt outstanding as of June 30, 2016, which included $153 million of short-term commercial paper.

NET POSITION

The four net position categories represent the residual 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, 2016, and June 30, 2015, is summarized below:

NET POSITION *(in thousands)*			**INCREASE (DECREASE)**	
	2016	**2015**	**AMOUNT**	**PERCENT**
Net investment in capital assets	$ 1,880,320	$ 1,837,901	$ 42,419	2.3%
Restricted				
Nonexpendable	624,646	608,894	15,752	2.6%
Expendable	2,819,180	2,997,184	(178,004)	(5.9%)
Unrestricted	2,260,682	2,351,959	(91,277)	(3.9%)
TOTAL NET POSITION	**$ 7,584,828**	**$ 7,795,938**	**$ (211,110)**	**(2.7%)**

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 $86 million and were offset by a $44 million increase in debt used to finance those capital assets, for a net change of $42 million.

Restricted nonexpendable net position represents the historical value (corpus) of the University's permanent endowments, which cannot be expended due to donor restrictions. The increase in nonexpendable net position included new gifts of $15 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. The decrease of $178 million is a result of the negative investment returns of 1.5 percent and the increase in GASB mandated pension liability of nearly $48 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, health services programs and initiatives, and capital projects that align with the University's highest priorities. The decrease of $91 million is largely a result of the negative investment returns of 1.5 percent and the increase in the GASB mandated pension liability of nearly $48 million, which offset the 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, 2016, and June 30, 2015:

SUMMARY OF THE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION *(in thousands)*			**INCREASE (DECREASE)**	
	2016	**2015**	**AMOUNT**	**PERCENT**
Operating revenues				
Student tuition and fees, net	$ 511,063	$ 491,027	$ 20,036	4.1%
Patient services, net	1,501,746	1,428,736	73,010	5.1%
Sponsored programs	301,794	278,433	23,361	8.4%
Other	214,059	215,140	(1,081)	(0.5%)
Total operating revenues	**2,528,662**	**2,413,336**	**115,326**	**4.8%**
Operating expenses	**2,925,473**	**2,778,405**	**147,068**	**5.3%**
Operating loss	**(396,811)**	**(365,069)**	**(31,742)**	**8.7%**
Nonoperating revenues (expenses)				
State appropriations	159,757	152,841	6,916	4.5%
Gifts	168,521	171,705	(3,184)	(1.9%)
Investment (loss) income	(112,633)	428,406	(541,039)	(126.3%)
Pell grants	12,478	12,957	(479)	(3.7%)
Interest on capital asset-related debt	(70,808)	(59,440)	(11,368)	19.1%
Build America Bonds (BAB) rebate	8,133	8,116	17	0.2%
Other net nonoperating expenses	(11,414)	(36,825)	25,411	(69.0%)
Net nonoperating revenues	**154,034**	**677,760**	**(523,726)**	**(77.3%)**
(Loss) income before other revenues, expenses, gains, or losses	**(242,777)**	**312,691**	**(555,468)**	**(177.6%)**
Capital appropriations, gifts, and grants	56,742	57,583	(841)	(1.5%)
Additions to permanent endowments	14,521	17,907	(3,386)	(18.9%)
Total other revenues	**71,263**	**75,490**	**(4,227)**	**(5.6%)**
(DECREASE) INCREASE IN NET POSITION	**(171,514)**	**388,181**	**(559,695)**	**(144.2%)**
NET POSITION — BEGINNING OF YEAR	7,795,938	7,926,540	(130,602)	(1.6%)
Net effect of prior period adjustments	(39,596)	(518,783)	479,187	(92.4%)
NET POSITION — END OF YEAR	**$ 7,584,828**	**$ 7,795,938**	**$ (211,110)**	**(2.7%)**

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, with the exception of interest on capital debt which remains in nonoperating, 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 student tuition and fees and allows it to adapt during difficult economic times. The University's revenues, for the years ended June 30, 2016, and June 30, 2015, are summarized below:

SUMMARY OF REVENUES *(in thousands)*	**2016**			**2015**			**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	$ 511,063	$ -	$ 511,063	$ 491,027	$ -	$ 491,027	$ 20,036	4.1%
Patient services, net	-	1,501,746	1,501,746	-	1,428,736	1,428,736	73,010	5.1%
Federal, state, and local grants and contracts	247,729	-	247,729	230,019	-	230,019	17,710	7.7%
Nongovernmental grants and contracts	54,065	-	54,065	48,414	-	48,414	5,651	11.7%
Sales and services of educational departments	27,748	-	27,748	26,309	-	26,309	1,439	5.5%
Auxiliary enterprises revenue, net	132,583	-	132,583	129,855	-	129,855	2,728	2.1%
Other operating revenues	73	53,655	53,728	12,517	46,459	58,976	(5,248)	(8.9%)
Total operating revenues	**973,261**	**1,555,401**	**2,528,662**	**938,141**	**1,475,195**	**2,413,336**	**115,326**	**4.8%**
Nonoperating revenues								
State appropriations	159,757	-	159,757	152,841	-	152,841	6,916	4.5%
Private gifts	166,164	2,357	168,521	147,131	24,574	171,705	(3,184)	(1.9%)
Investment (loss) income	(102,513)	(10,120)	(112,633)	381,569	46,837	428,406	(541,039)	(126.3%)
Other nonoperating revenues	83,741	-	83,741	88,447	-	88,447	(4,706)	(5.3%)
Total nonoperating revenues	**307,149**	**(7,763)**	**299,386**	**769,988**	**71,411**	**841,399**	**(542,013)**	**(64.4%)**
TOTAL REVENUES	**$ 1,280,410**	**$ 1,547,638**	**$ 2,828,048**	**$ 1,708,129**	**$ 1,546,606**	**$ 3,254,735**	**$(426,687)**	**(13.1%)**

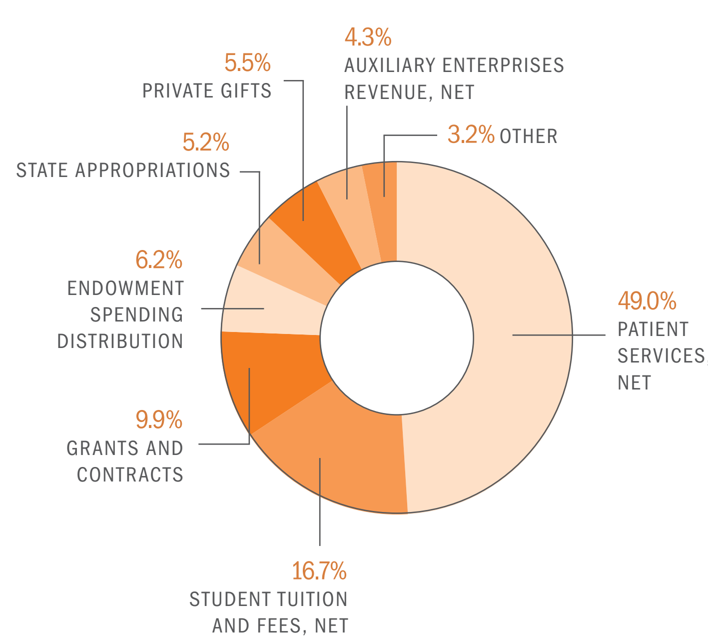
Net student tuition and fees revenue increased due to new programs, enrollment growth, and changes in tuition and fee rates. Tuition and fees revenue is reported net of scholarships and allowances provided from University sources. Net patient revenues are higher due to increased patient collections after 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 negative market return on the University's long-term investments.

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, 2016. 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. 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 are principally generated within the University's Medical Center under contractual arrangements with governmental payers and private insurers and accounted for nearly one-half of the University's revenues and operational funding sources. Patient services revenue increased approximately 5 percent in fiscal year 2016, primarily from growth in outpatient volume and higher acuity. As part of the Medical Center's Strategic Plan, there has been a focused effort to grow patient activity throughout central Virginia. The Medical Center continues to negotiate annual payment increases with managed care companies and receives annual payment updates from the Medicare program.

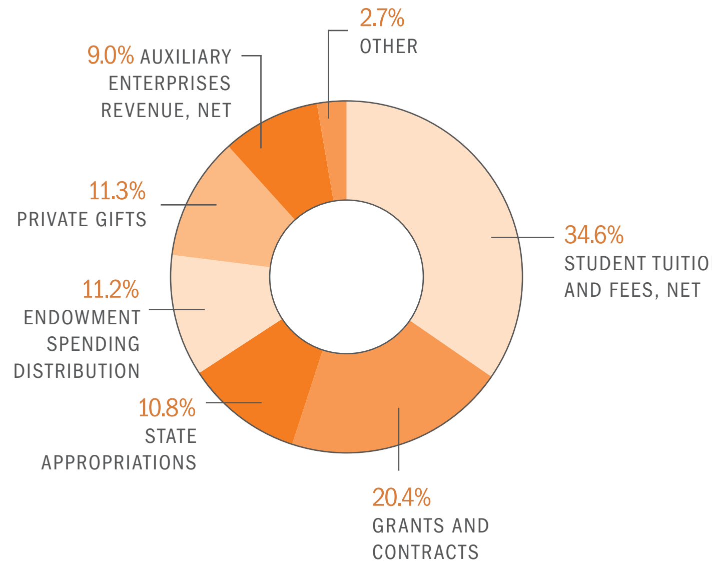
TOTAL UNIVERSITY REVENUES AND OTHER SOURCES OF OPERATIONAL FUNDING



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 accounts for just 5 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.

The University measures its performance both for the University as a whole and for the University without its Medical Center and other clinical activities. A clearer picture of the academic and research mission revenue stream emerges when the Medical Center's data are excluded, as presented 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 22.5 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

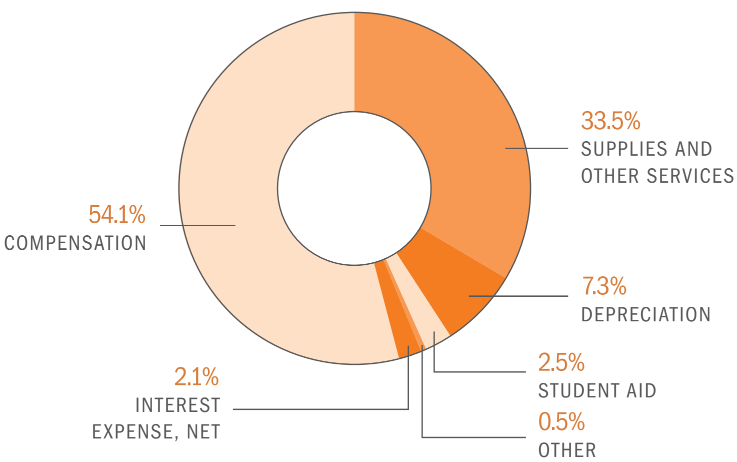
The University's expenses for the years ended June 30, 2016, and June 30, 2015, are summarized as follows:

SUMMARY OF EXPENSES *(in thousands)*	2016			2015			TOTAL INSTITUTION INCREASE (DECREASE)	
	ACADEMIC DIVISION & WISE	MEDICAL CENTER	TOTAL INSTITUTION	ACADEMIC DIVISION & WISE	MEDICAL CENTER	TOTAL INSTITUTION	AMOUNT	PERCENT
Operating expenses								
Compensation	$ 941,240	$ 680,281	$ 1,621,521	$ 913,887	$ 620,369	$ 1,534,256	$ 87,265	5.7%
Supplies and other services	308,351	695,969	1,004,320	301,690	648,216	949,906	54,414	5.7%
Student aid	75,808	-	75,808	74,527	-	74,527	1,281	1.7%
Depreciation	121,797	97,886	219,683	120,356	95,816	216,172	3,511	1.6%
Other operating expenses	4,141	-	4,141	3,544	-	3,544	597	16.8%
Total operating expenses	**1,451,337**	**1,474,136**	**2,925,473**	**1,414,004**	**1,364,401**	**2,778,405**	**147,068**	**5.3%**
Nonoperating expenses and other								
Interest expense (net of BAB rebate)	42,118	20,557	62,675	30,875	20,449	51,324	11,351	22.1%
Loss (gain) on capital assets	1,142	(13,032)	(11,890)	1,722	(150)	1,572	(13,462)	(856.4%)
Other nonoperating expense	7,985	15,319	23,304	9,461	25,792	35,253	(11,949)	(33.9%)
Total nonoperating expenses	**51,245**	**22,844**	**74,089**	**42,058**	**46,091**	**88,149**	**(14,060)**	**(16.0%)**
TOTAL EXPENSES	**$ 1,502,582**	**$ 1,496,980**	**$ 2,999,562**	**$ 1,456,062**	**$ 1,410,492**	**$ 2,866,554**	**$ 133,008**	**4.6%**

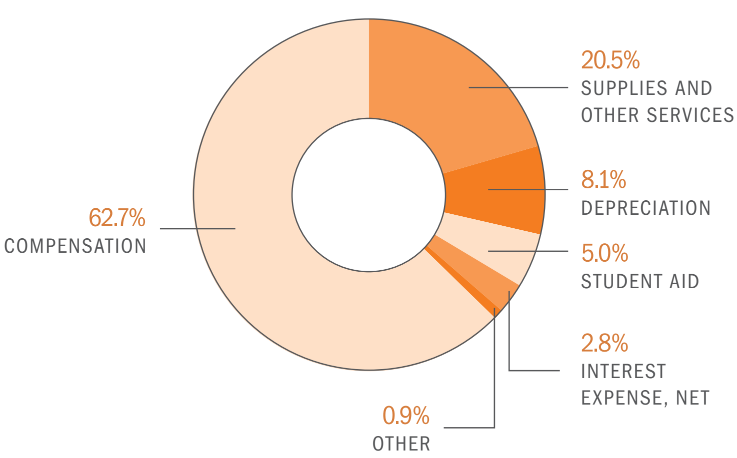
Increases in operating expenses are primarily driven by the Medical Center's $60 million increase and the Academic Division and Wise's $27 million increase in compensation and benefits. The University is committed to recruiting and retaining outstanding faculty and staff, and the compensation package is one way to successfully compete with peer institutions and nonacademic employers. The $54 million increase in supplies and other services is 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.

The following are graphic illustrations of expenses (both operating and nonoperating) for the fiscal year ended June 30, 2016.

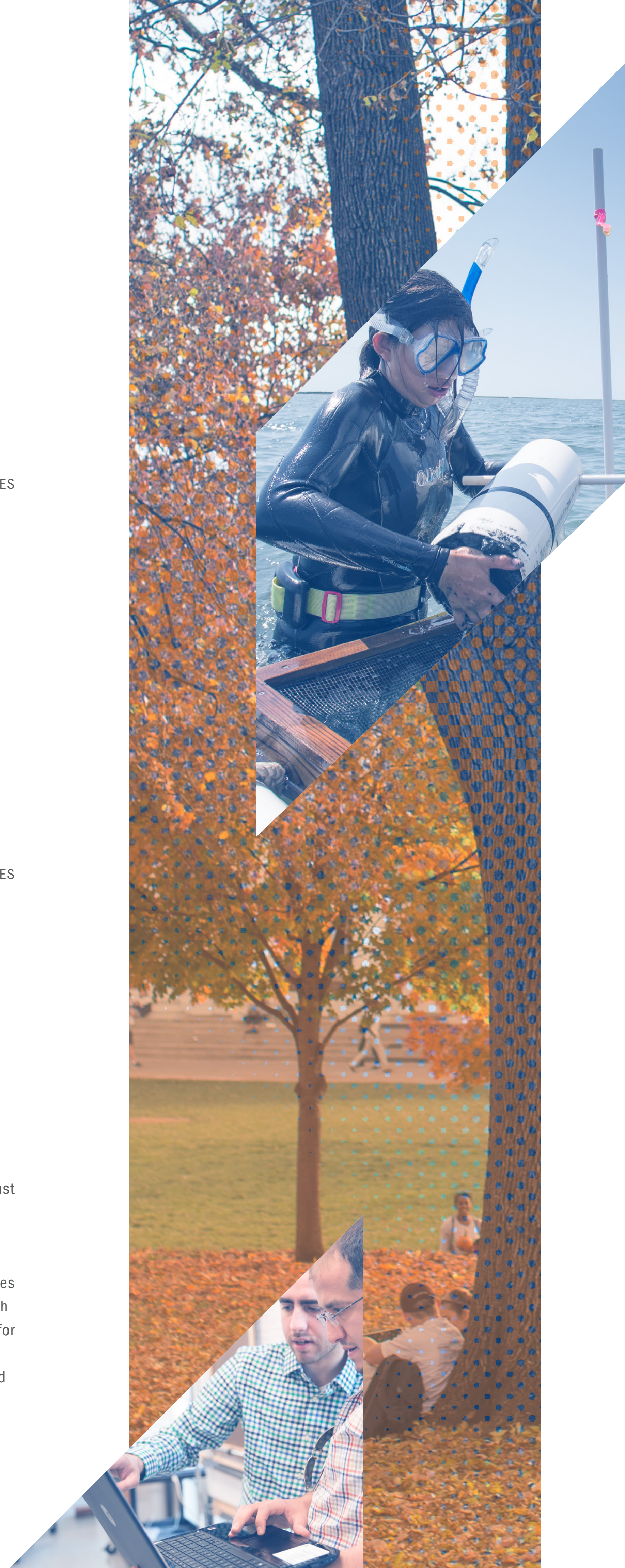
TOTAL UNIVERSITY EXPENSES



ACADEMIC AND WISE EXPENSES



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 74 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

The University of Virginia, as a public institution of higher education, faces many of the economic challenges facing the Commonwealth of Virginia and the nation. Higher education remains a focus of attention at the state and national levels, particularly in terms of access, affordability and student outcomes. Due to its diverse revenue base, strong endowment, broad and generous philanthropic support, and a commitment to organizational excellence, the University is well positioned to meet these challenges.

To address the challenges facing higher education, the Board of Visitors of the University endorsed the Cornerstone Plan, which sets out five pillars to serve as areas of strategic emphasis. Significant accomplishments have been achieved to date, with specific strategic priorities for 2016-17 that include: piloting a new general education curriculum in the College of Arts and Sciences; advancing information technology and high-performance computing to expand and support faculty research; continuing to expand student participation in study abroad and professional development programs for faculty and academic leadership; and investing in programs that enhance the University's academic and research standing.

The University's multi-year financial plan supports strategic priorities, serves as a framework for achieving new levels of excellence, and puts the University on a sustainable path to achieving its goals and realizing its vision for the 21st century. The guiding principles for the 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.

Moody's Investors Service published its 2016 Outlook for U.S. Higher Education in December 2015, which indicated that moderate revenue growth is expected to support stability for the sector. Revenue streams from patient care, investment income, student charges and philanthropy are all expected to grow modestly. Research funding has bottomed out and is expected to increase modestly. Although state funding has been stable, recent negative revenue forecasts could adversely impact it going forward. Universities must pursue cost containment and efficiencies in order to manage constrained revenue growth. Balance sheet reserves have rebounded due to positive investment returns, providing some flexibility to manage through current investment volatility.

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 the University's financial outlook. Due to the uncertainty from the outcome of the federal elections, it is difficult to project the impact to higher education. On September 29th, President Obama signed a 10-week stopgap federal spending bill. Passing temporary legislation that funds the government through early December allows lawmakers to take Election Day outcomes into consideration as they decide how to proceed on fiscal year 2017 spending. Recently, the House Ways and Means Oversight Committee held hearings on college endowments and affordability and the rising costs of higher education and tax policy. It is expected that the public and policymakers will continue to raise questions about how institutions are using their endowments to help students and families meet college costs. With increased public scrutiny over rising sticker prices and student debt, a newly elected Congress could be eager to show voters that they are taking action as they work on tax reform and reauthorization of the Higher Education Act in 2017.

The University has a strong focus on these issues. Due to the strength of its financial resources, the University developed its Affordable Excellence program, a multi-dimensional model that ensures access and affordability to its diverse student body. UVA is one of only two public universities meeting 100 percent of demonstrated financial need for all students and is perennially ranked as one of the best values among public universities.

The Commonwealth is currently facing a budget shortfall, largely due to lower-than-expected revenue from payroll and sales taxes. Announced actions by the Commonwealth to address the current year's budget shortfall include canceling pay raises for state classified staff, trimming the state's payroll, implementing targeted budget reductions across state agencies and using the state's rainy day fund. The University will remit just over $5 million to the state related to the fiscal year 2017 adjustments. The impact to fiscal year 2018 will be clearer after the 2017 General Assembly session. 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. While operating adjustments will be necessary to address the reduction in state support, the University is in a good position to weather the Commonwealth's budget shortfall in the long-term. This is due to the University's diverse revenue base and commitment to organizational efficiencies, as well as to the fact that state appropriations make up only 5 percent of the University's revenues and other sources of operational funding.

Although it is possible that the Federal Reserve will increase interest rates in the near-term, interest rates will likely stay low and fluctuate within a narrow range for some time to come. Due to the low interest rate environment and the University's high credit ratings, the University expects to be able to finance its investment in infrastructure at favorable terms over the next fiscal year.

The ongoing commitment to organizational excellence enables the University to pursue new, more effective and efficient ways to deliver services. Examples include the consolidated Gift Processing Services for the University and its foundations; enhanced ResearchUVA, a comprehensive, enterprise-wide system and process for proposal development, submission and award management; Ufirst, a multi-year transformational project that will deliver customer-centric Human Resources services across the Academic Division and Health System; and Strategic Sourcing, which has delivered significant realized annual cost savings.

The University's health system has continued to produce positive financial results. Medical Center volume growth is focused on high acuity patients and the clinical areas of cancer, the neurosciences, heart and vascular, and orthopedics. 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. The ongoing impact is expected to be decreased reimbursements from government payors despite increasing costs of medical delivery and an industry-wide erosion of pricing power with private payors.

UVA is not immune to the pressures facing higher education. However, due to its effective and attentive leadership, strong financial resources and commitment to its mission, the University is well positioned to meet the challenges it faces.

Management Responsibility

November 10, 2016

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, 2016. 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, which 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, 2016

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable Robert D. Orrock, Sr.
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, 2016, 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, 2016, 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

Correction of 2015 Financial Statements

As discussed in Note 1 of the accompanying financial statements, the fiscal year 2015 financial statements have been restated to correct a misstatement related to reporting for irrevocable split-interest agreements. 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 2015 financial statements, and we expressed an unmodified audit opinion on the respective financial statements in our report dated November 10, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

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 16, 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 63 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, 2016, 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

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UNIVERSITY OF VIRGINIA

STATEMENT OF NET POSITION *(in thousands)*

AS OF JUNE 30, 2016 (WITH COMPARATIVE INFORMATION AS OF JUNE 30, 2015)

	2016	2015
ASSETS		
Current assets		
Cash and cash equivalents (Note 2)	$ 129,683	$ 580,128
Short-term investments (Note 2)	230,886	181,213
Appropriations available	5,320	5,257
Accounts receivable, net (Note 3a)	315,565	318,976
Prepaid expenses	28,907	30,900
Inventories	24,997	25,818
Notes receivable, net (Note 3b)	5,125	7,007
Total current assets	**740,483**	**1,149,299**
Noncurrent assets		
Cash and cash equivalents (Note 2)	11,680	10,100
Long-term investments (Note 2)	2,073,236	1,580,356
Endowment (Note 2)	4,117,446	4,374,764
Notes receivable, net (Note 3b)	34,675	34,202
Pledges and other receivables, net (Note 3c)	12,226	16,333
Derivative instruments (Note 6)	3,634	-
Capital assets – depreciable, net (Note 3d)	3,026,277	3,067,227
Capital assets – nondepreciable (Note 3d)	333,340	206,655
Goodwill (Note 3e)	9,673	12,678
Total noncurrent assets	**9,622,187**	**9,302,315**
Deferred outflows of resources (Note 3f)	**92,864**	**88,173**
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**$ 10,455,534**	**$ 10,539,787**
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 3g)	$ 303,312	$ 323,227
Unearned revenue (Note 3h)	100,273	86,057
Deposits held in custody for others	14,626	6,254
Commercial paper (Note 4)	153,045	50,645
Long-term debt – current portion (Note 5a)	6,558	7,563
Long-term liabilities – current portion (Note 5b)	78,284	91,326
Total current liabilities	**656,098**	**565,072**
Noncurrent liabilities		
Long-term debt (Note 5a)	1,352,333	1,365,312
Derivative instrument liability (Note 6)	43,042	29,521
Net pension liability (Note 11)	507,590	459,949
Other noncurrent liabilities (Note 5b)	199,932	163,360
Total noncurrent liabilities	**2,102,897**	**2,018,142**
Deferred inflows of resources (Note 3i)	**111,711**	**160,635**
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	**$ 2,870,706**	**$ 2,743,849**
NET POSITION		
Net investment in capital assets	$ 1,880,320	$ 1,837,901
Restricted:		
Nonexpendable	624,646	608,894
Expendable	2,819,180	2,997,184
Unrestricted	2,260,682	2,351,959
TOTAL NET POSITION	**$ 7,584,828**	**$ 7,795,938**
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	**$ 10,455,534**	**$ 10,539,787**

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, 2016 (WITH COMPARATIVE INFORMATION AS OF JUNE 30, 2015)

	2016	2015
ASSETS		
Current assets		
Cash and cash equivalents	$ 75,697	$ 73,384
Receivables	139,852	137,511
Other current assets	479,832	576,449
Total current assets	**695,381**	**787,344**
Noncurrent assets		
Pledges receivable, net of current portion of $35,712 and $39,099	55,330	55,932
Long-term investments	7,843,703	7,510,249
Capital assets, net of depreciation	357,146	361,836
Other noncurrent assets	34,209	52,481
Total noncurrent assets	**8,290,388**	**7,980,498**
TOTAL ASSETS	**$ 8,985,769**	**$ 8,767,842**
LIABILITIES AND NET ASSETS		
Current liabilities		
Assets held in trust for others	$ 91,945	$ 96,539
Other liabilities	154,134	189,560
Total current liabilities	**246,079**	**286,099**
Noncurrent liabilities		
Long-term debt, net of current portion of $27,318 and $15,118	222,607	240,441
Other noncurrent liabilities	6,735,682	6,383,370
Total noncurrent liabilities	**6,958,289**	**6,623,811**
TOTAL LIABILITIES	**$ 7,204,368**	**$ 6,909,910**
NET ASSETS		
Unrestricted	$ 341,997	$ 386,622
Temporarily restricted	751,715	809,676
Permanently restricted	687,689	661,634
TOTAL NET ASSETS	**$ 1,781,401**	**$ 1,857,932**
TOTAL LIABILITIES AND NET ASSETS	**$ 8,985,769**	**$ 8,767,842**

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, 2016 (WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2015)

	2016	2015
REVENUES		
Operating revenues		
Student tuition and fees (net of scholarship allowances of $115,705 and $105,681)	$ 511,063	$ 491,027
Patient services (net of charity care of $3,470,187 and $3,196,694)	1,501,746	1,428,736
Federal grants and contracts	241,579	225,466
State and local grants and contracts	6,150	4,553
Nongovernmental grants and contracts	54,065	48,414
Sales and services of educational departments	27,748	26,309
Auxiliary enterprises revenue (net of scholarship allowances of $19,284 and $16,792)	132,583	129,855
Other operating revenues	53,728	58,976
TOTAL OPERATING REVENUES	**2,528,662**	**2,413,336**
EXPENSES		
Operating expenses (Note 9)		
Compensation and benefits	1,621,521	1,534,256
Supplies and other services	1,004,320	949,906
Student aid	75,808	74,527
Depreciation	219,683	216,172
Other	4,141	3,544
TOTAL OPERATING EXPENSES	**2,925,473**	**2,778,405**
OPERATING LOSS	**(396,811)**	**(365,069)**
NONOPERATING REVENUES (EXPENSES)		
State appropriations (Note 10)	159,757	152,841
Gifts	168,521	171,705
Investment (loss) income	(112,633)	428,406
Pell grants	12,478	12,957
Interest on capital asset–related debt	(70,808)	(59,440)
Build America Bonds rebate	8,133	8,116
Gains (losses) on capital assets	11,890	(1,572)
Other net nonoperating expenses	(23,304)	(35,253)
NET NONOPERATING REVENUES	**154,034**	**677,760**
(LOSS) INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	**(242,777)**	**312,691**
Capital appropriations	32,555	37,907
Capital grants and gifts	24,187	19,676
Additions to permanent endowments	14,521	17,907
TOTAL OTHER REVENUES	**71,263**	**75,490**
(DECREASE) INCREASE IN NET POSITION	**(171,514)**	**388,181**
NET POSITION		
Net position — beginning of year	7,795,938	7,926,540
Net effect of prior period adjustments (Note 1)	(39,596)	(518,783)
NET POSITION — BEGINNING OF YEAR AS RESTATED	**7,756,342**	**7,407,757**
NET POSITION — END OF YEAR	**$ 7,584,828**	**$ 7,795,938**

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, 2016 (WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2015)

	2016	2015
UNRESTRICTED REVENUES AND SUPPORT		
Contributions	$ 29,807	$ 29,613
Fees for services, rentals and sales	403,020	388,186
Investment loss	(7,145)	(8,229)
Net assets released from restriction	108,489	104,046
Other income	157,177	148,951
TOTAL UNRESTRICTED REVENUES AND SUPPORT	**691,348**	**662,567**
EXPENSES		
Program services, lectures and special events	515,865	470,480
Scholarships and financial aid	73,241	73,936
Management and general	36,667	36,840
Other expenses	110,424	90,219
TOTAL EXPENSES	**736,197**	**671,475**
DEFICIENCY OF UNRESTRICTED REVENUES AND SUPPORT OVER EXPENSES	**(44,849)**	**(8,908)**
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	74,249	67,634
Investment and other (loss) income	(20,122)	90,741
Reclassification per donor stipulation	-	(186)
Net assets released from restriction	(111,865)	(104,331)
NET CHANGES IN TEMPORARILY RESTRICTED NET ASSETS	**(57,738)**	**53,858**
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Contributions	25,501	27,469
Investment and other (loss) income	(2,821)	2,492
Reclassification per donor stipulation	-	(325)
Net assets released from restriction	3,376	285
NET CHANGES IN PERMANENTLY RESTRICTED NET ASSETS	**26,056**	**29,921**
CHANGE IN NET ASSETS	**(76,531)**	**74,871**
Net assets — beginning of year	1,857,932	1,661,586
Net effect of change in reporting entity	-	121,475
NET ASSETS — END OF YEAR	**$ 1,781,401**	**$ 1,857,932**

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, 2016 (WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2015)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 513,187	$ 492,356
Grants and contracts	308,929	280,811
Patient services	1,442,817	1,420,743
Sales and services of educational activities	26,357	26,909
Sales and services of auxiliary enterprises	134,955	196,738
Payments to employees and fringe benefits	(1,616,893)	(1,517,469)
Payments to vendors and suppliers	(973,276)	(963,916)
Payments for scholarships and fellowships	(75,808)	(74,527)
Perkins and other loans issued to students	(17,609)	(19,485)
Collection of Perkins and other loans to students	18,277	19,262
Other receipts	60.364	40.209
NET CASH USED BY OPERATING ACTIVITIES	**(178,700)**	**(98,369)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	162,166	152,008
Additions to permanent endowments	14,521	17,907
Federal Direct Loan Program receipts	123,592	122,941
Federal Direct Loan Program payments	(123,592)	(122,941)
Pell grants	12,478	12,957
Deposits held in custody for others	8,499	(7,554)
Noncapital gifts and grants and endowments received	170,454	145,847
Proceeds from noncapital debt	25,000	-
Other net nonoperating expenses	40,902	(8,325)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	**434,020**	**312,840**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	31,216	37,907
Capital gifts and grants received	24,321	20,969
Proceeds from capital debt	94,168	344,337
Proceeds from sale of capital assets	691	165,159
Acquisition and construction of capital assets	(393,406)	(473,804)
Principal paid on capital debt and leases	(45,176)	(320,153)
Interest paid on capital debt and leases	(61,821)	(47,435)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	**(350,007)**	**(273,020)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	375,377	352,981
Interest on investments	(2,442)	1,807
Purchase of investments and related fees	(665,249)	(390,921)
Other investment activities	(61,864)	48,877
NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES	**(354,178)**	**12,744**
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(448,865)**	**(45,805)**
Cash and cash equivalents — beginning of year	590,228	636,033
CASH AND CASH EQUIVALENTS — END OF YEAR	**$ 141,363**	**$ 590,228**
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	$ (396,811)	$ (365,069)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation expense	219,683	216,172
Pension expense	34,705	28,917
Provision for uncollectible loans and write-offs	699	220
Changes in assets and liabilities:		
Receivables, net	(42,809)	(25,533)
Inventories	983	(9,346)
Prepaid expenses	1,832	(2,015)
Notes receivable, net	708	216
Capital assets, net	2,173	-
Deferred outflows of resources	(44,930)	(38,279)
Accounts payable and accrued liabilities	26,925	15,799
Unearned revenue	11,916	5,650
Accrual for compensated absences	6,662	21,858
Net pension liability	47,641	-
Deferred inflows of resources	(48,077)	53,041
TOTAL ADJUSTMENTS	**218,111**	**266,700**
NET CASH USED BY OPERATING ACTIVITIES	**$ (178,700)**	**$ (98,369)**
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Assets acquired through assumption of a liability	$ 102,765	$ 5,906
Assets acquired through a gift	2,589	5,088
Change in fair value of investments	(99,481)	404,847
Increase in receivables related to nonoperating income	2,588	21,289
Gain (loss) on disposal of capital assets	11,890	(1,572)
Net loss on investments in affiliated companies	(2,319)	-

Certain 2015 amounts have been restated to conform to 2016 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 three controlled subsidiary companies — University of Virginia Imaging, LLC; Community Medicine, LLC; and Hematology Oncology Patient Enterprises, Inc. — 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, 2016.

- 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 follows.

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, 2015. 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.

In July 2014, **UVA Global, LLC**, a 100 percent controlled subsidiary of the University, 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. UVA Global, LLC is a blended component of the University.

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.

FAIR VALUE MEASUREMENTS

The University follows the guidance in GASB Statement No. 72, *Fair Value Measurement and Application*, which defines fair value and establishes guidelines and a framework for measuring fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The University categorizes its fair value measurements within the fair value hierarchy established by Statement No. 72. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels:

Level 1 – Inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets as of the reporting date.

Level 2 – Inputs are observable, for example, for quoted prices for similar assets or liabilities in active markets or for identical assets or liabilities in inactive markets.

Level 3 – Inputs are unobservable, reflecting the assumptions of management and are significant to the fair value measurement.

The University establishes the fair value of its investments in investment funds that do not have a readily determinable fair value by using net asset value (NAV) per share (or its equivalent) as reported by the external fund manager when NAV per share is calculated as of the measurement date in a manner consistent with the FASB's measurement principles for investment companies. These investments are not reported in the fair value hierarchy.

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 is concentrated in accounts in which balances exceed Federal Deposit Insurance Corporation (FDIC) insurance limits.

INVESTMENTS

The University invests with UVIMCO and other asset managers. Investments 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. LTP transactions are subject to the notification requirements and caps set forth in the deposit and management agreement between the University and UVIMCO. Under the agreement, an annual withdrawal cap exists equal to the sum of 10 percent of the previous fiscal year-end market value plus 10 percent of the current fiscal year's deposits. Additionally, the University is subject to a monthly withdrawal cap of the greater of three percent of its investment in the pool at the previous month-end or $15 million. Withdrawal requests in excess of an amount greater than one percent of its investment in the pool as of the previous month-end require 30 days' written notice. Withdrawal requests for lesser amounts must be received in writing on or before the trade date.

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.

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 acquisition value 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. Net interest capitalized for the fiscal year ended June 30, 2016, was $740,439.

The estimated useful lives of capital assets are as follows:

ASSETS	YEARS
Buildings, improvements other than buildings and infrastructure	10-50
Equipment	3-20
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 fees for housing and dining services.

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, 2016, 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

The Virginia Retirement System (VRS) State Employee Retirement Plan and the Virginia Law Officers' System (VaLORS) Retirement Plan are single employer pension plans that are treated like cost-sharing plans for financial reporting purposes. 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 VRS State Employee Retirement Plan and the 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.

IRREVOCABLE SPLIT-INTEREST AGREEMENTS

The University serves as the trustee for gift assets where there is a requirement that an annual distribution is made to specified beneficiaries. The University reports the fair value of the trust assets in long-term investments and a liability for the obligation to the beneficiaries in long-term liabilities with the difference between the asset and liability recognized as gift revenue. Changes in actuarial assumptions, revaluations of the present value of trust assets, adjustments to discount amortization, etc. are reflected in the Statement of Revenues, Expenses and Changes in Net Position in other nonoperating revenue or expenses. An adjustment to beginning net position was made in the amount of $39.6 million to record the University's obligation to beneficiaries as of June 30, 2015, which was not recognized in the financial statements in previous years.

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, 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, 2015, from which the summarized information was derived. Certain amounts from the prior fiscal year have been reclassified to conform to current-year presentation.

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 were 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 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 was effective for the University for the year ended June 30, 2016, and did not have a material impact to 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 its financial statements.

In December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*, which establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The Statement also establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Statement No. 79 was effective for the University for the year ended June 30, 2016, and did not have a material impact to the University's financial statements.

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*, which requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. Statement No. 80 is effective for fiscal years beginning after June 15, 2016. The University is currently assessing the impact that implementation of Statement No. 80 will have on its financial statements.

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which establishes accounting and financial reporting standards for irrevocable split-interest agreements created through trusts in which a donor irrevocably transfers resources to an intermediary. The intermediary administers these resources for the unconditional benefit of a government and at least one other beneficiary. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts and life-interests in real estate. The Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, the Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. The Statement requires that a government recognize revenue when the resources become applicable to the reporting period. Statement No. 81 is effective for periods beginning after December 15, 2016, and should be applied retroactively. The University is currently assessing the impact that implementation of Statement No. 81 will have on its financial statements.

In March 2016, the GASB issued Statement No. 82, *Pension Issues*. The Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. Statement No. 82 is effective for reporting periods beginning after June 30, 2016, and is not expected to have a material impact to the University's financial statements.

NOTE 2: CASH, CASH EQUIVALENTS, INVESTMENTS AND ENDOWMENT

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 significantly diminishes 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 $130.5 million on June 30, 2016.

CASH EQUIVALENTS

The University maintains an investment policy approved by the Board that governs its short-term investments. 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 $11.6 million and $10.1 million on June 30, 2016, and 2015, 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 a very limited exposure to custodial credit risk as of June 30, 2016.

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, 2016, 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, 2016, 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, 2016, 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, 2016.

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	$ 289	Not Applicable	NA	NA	NA	NA
Cash deposits	140,557	Not Applicable	NA	NA	NA	NA
University of Virginia Aggregate Cash Pool	420	Not Applicable	420	–	–	–
State Non-Arbitrage Program	97	AAAm	97	–	–	–
TOTAL CASH AND CASH EQUIVALENTS	**$ 141,363**		**$ 517**	**–**	**–**	**–**
SHORT-TERM INVESTMENTS						
Cash deposits	$ 116	Not Applicable	$ NA	NA	NA	NA
UVIMCO STP	230,754	Not Rated	NA	NA	NA	NA
Other investments not subject to credit or interest rate risk	16	Not Applicable	NA	NA	NA	NA
TOTAL SHORT-TERM INVESTMENTS	**$ 230,886**		**$ –**	**–**	**–**	**–**
LONG-TERM INVESTMENTS						
UVIMCO LTP	$ 1,951,290	Not Rated	NA	NA	NA	NA
Other investments not subject to credit or interest rate risk	121,946	Not Applicable	NA	NA	NA	NA
TOTAL LONG-TERM INVESTMENTS	**$ 2,073,236**		**$ –**	**–**	**–**	**–**
ENDOWMENT						
Cash and cash equivalents	$ 2,173	Not Applicable	$ 2,173	–	–	–
UVIMCO LTP	4,069,196	Not Rated	NA	NA	NA	NA
Other investments not subject to credit or interest rate risk	12,932	Not Applicable	NA	NA	NA	NA
Demand notes due from related foundation, noninterest bearing	33,145	Not Rated	NA	NA	NA	NA
TOTAL ENDOWMENT	**$ 4,117,446**		**$ 2,173**	**–**	**–**	**–**

INVESTMENTS

UVIMCO administers and manages the majority of the University's investments in its unitized investment pools. From time to time, the University also invests its operating funds with a number of other asset managers. At June 30, 2016, the University's investment in the LTP and STP was $6.0 billion and $230.8 million, respectively, representing 95 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.

The University categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The University had the following recurring fair value measurements as of June 30, 2016:

INVESTMENTS AND DERIVATIVE INSTRUMENTS MEASURED AT FAIR VALUE *(in thousands)*	BALANCE AT JUNE 30, 2016	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	INVESTMENTS MEASURED AT (NAV[1])	AMOUNTS NOT MEASURED AT FAIR VALUE
SHORT-TERM INVESTMENTS						
Cash deposits	$ 116	$ –	$ –	$ –	$ –	$ 116
UVIMCO STP	230,754	–	–	–	230,754	–
Equity securities	16	5	–	11	–	–
TOTAL SHORT-TERM INVESTMENTS	**$ 230,886**	**$ 5**	**$ –**	**$ 11**	**$ 230,754**	**$ 116**
LONG-TERM INVESTMENTS						
Life insurance contracts[2]	$ 3,907	$ –	$ –	$ –	$ –	$ 3,907
Investments in affiliates	118,034	–	–	–	–	118,034
Equity securities	5	–	–	5	–	-
UVIMCO LTP	1,951,290	–	–	–	1,951,290	–
TOTAL LONG-TERM INVESTMENTS	**$ 2,073,236**	**$ –**	**$ –**	**$ 5**	**$ 1,951,290**	**$ 121,941**
ENDOWMENT						
Cash and cash equivalents	$ 2,173	$ –	$ 1,482	$ –	$ –	$ 691
Equity securities	1,353	1,303	–	50	-	-
UVIMCO LTP	4,069,196	-	–	–	4,069,196	-
Exchange traded funds	11,579	11,579	–	–	-	-
Demand notes due from related foundation, noninterest bearing[3]	33,145	-	–	–	-	33,145
TOTAL ENDOWMENT	**$ 4,117,446**	**$ 12,882**	**$ 1,482**	**$ 50**	**$ 4,069,196**	**$ 33,836**
INVESTMENT DERIVATIVE INSTRUMENTS[4]						
Fixed-receiver interest rate swaps	$ 3,634	$ –	$ 3,634	$ –	$ –	$ –
Fixed-payer interest rate swaps	(43,042)	–	(43,042)	–	–	–
TOTAL INVESTMENT DERIVATIVE INSTRUMENTS	**$ (39,408)**	$ –	**$ (39,408)**	**$ –**	**$ –**	**$ –**

[1] Certain investments that are measured at fair value using the NAV per share (or its equivalent) have not been categorized in the fair value hierarchy. The amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the Statement of Net Position.

[2] Investments in life insurance contracts are measured at cash surrender value.

[3] Demand notes due from related foundation, noninterest bearing, are measured at the carrying value.

[4] Derivative instruments classified in Level 2 of the fair value hierarchy are valued using a market approach that considers benchmark interest rates.

The valuation method for investments measured at NAV per share or its equivalent is presented on the following table.

INVESTMENTS MEASURED AT NET ASSET VALUE (NAV) *(in thousands)*	**FAIR VALUE**	**UNFUNDED COMMITMENTS**	**REDEMPTION FREQUENCY (IF CURRENTLY ELIGIBLE)**	**REDEMPTION NOTICE PERIOD**
UVIMCO STP	$ 230,754	$ -	Weekly	2 days
UVIMCO LTP	6,020,486	-	Monthly	(a)
TOTAL INVESTMENTS MEASURED AT NAV	**$ 6,251,240**	**$ -**		

(a) Subject to the notification requirements and caps set forth in the deposit and management agreement between the University and UVIMCO as discussed in Note 1.

ENDOWMENT

The market value of the endowment on June 30, 2016, was $4.1 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 1.9 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 fiscal year 2016, the Board of Visitors authorized an additional 40 basis points be added to the fiscal year 2016 endowment spending distribution. This resulted in a spending distribution equal to 4.62 percent of the fiscal year 2014 ending market value, the measurement date. The fiscal year 2016 endowment spending distribution totaled $190.5 million, excluding agency funds.

For the year ended June 30, 2016, 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	$ (45,226)	$ (52,439)	$ (456)	$ (316)	$ (98,437)
Contributions to permanent endowments	14,521	-	-	-	14,521
Other gifts	-	-	6,419	-	6,419
Spending distribution	(89,344)	(101,172)	-	(787)	(191,303)
Transfers in (out)*	18,826	335	(7,792)	113	11,482
TOTAL CHANGE IN ENDOWMENT FUNDS	**$ (101,223)**	**$ (153,276)**	**$ (1,829)**	**$ (990)**	**$ (257,318)**

** 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, 2016, is summarized as follows:

ACCOUNTS RECEIVABLE *(in thousands)*	
Patient care	$ 647,060
Grants and contracts	36,175
Student payments	19,612
Pledges	3,141
Institutional loans	2,227
Build America Bonds rebate	910
Bond requisitions	30
Equipment Trust Fund reimbursement	14,208
Auxiliary	1,912
Related foundation	27,429
Service concession arrangements	10,093
Other	31,260
Less: Allowance for doubtful accounts	(478,492)
TOTAL ACCOUNTS RECEIVABLE	**$ 315,565**

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, 2016, is summarized as follows:

NOTES RECEIVABLE *(in thousands)*	
Perkins	$ 18,060
Nursing	1,188
Institutional	20,542
Fraternity loan	1,827
House Staff loan	3
Less: Allowance for doubtful accounts	(1,820)
Total notes receivable, net	**39,800**
Less: Current portion, net of allowance	(5,125)
TOTAL NONCURRENT NOTES RECEIVABLE	**$ 34,675**

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 $8.5 million and $13.9 million at June 30, 2016, and June 30, 2015, 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, 2016, is summarized as follows:

PLEDGES AND OTHER RECEIVABLES *(in thousands)*	
PLEDGES AND OTHER RECEIVABLES OUTSTANDING	
Gift pledges — Operations	$ 4,430
Gift pledges — Capital	3,523
Service concession arrangements	20,543
Total pledges and other receivables outstanding	**28,496**
Less:	
Allowance for uncollectible amounts	(1,384)
Unamortized discount to present value	(2,562)
Total pledges and other receivables, net	**24,550**
Less: Current portion, net of allowance	(12,324)
TOTAL NONCURRENT PLEDGES AND OTHER RECEIVABLES	**$ 12,226**

d. Capital assets: The capital assets activity for the year ended June 30, 2016, is summarized as follows:

CAPITAL ASSETS *(in thousands)*	BEGINNING BALANCE JULY 1, 2015	INCREASES	DECREASES	ENDING BALANCE JUNE 30, 2016
NONDEPRECIABLE CAPITAL ASSETS				
Land	$ 56,353	$ 1,356	$ (507)	$ 57,202
Construction in progress	149,905	281,436	(159,142)	272,199
Software in development	397	4,080	(538)	3,939
TOTAL NONDEPRECIABLE CAPITAL ASSETS	**206,655**	**286,872**	**(160,187)**	**333,340**
DEPRECIABLE CAPITAL ASSETS				
Buildings	3,663,377	106,257	(3,094)	3,766,540
Equipment	933,266	67,511	(132,267)	868,510
Infrastructure	463,593	34,180	-	497,773
Improvements other than buildings	158,713	6,442	-	165,155
Capitalized software	174,928	7,321	(249)	182,000
Library books	123,424	896	(2,223)	122,097
Total depreciable capital assets	**5,517,301**	**222,607**	**(137,833)**	**5,602,075**
Less: Accumulated depreciation for:				
Buildings	(1,284,798)	(108,490)	2,249	(1,391,039)
Equipment	(621,261)	(65,838)	86,511	(600,588)
Infrastructure	(194,222)	(14,309)	21	(208,510)
Improvements other than buildings	(117,142)	(6,449)	–	(123,591)
Capitalized software	(128,944)	(15,983)	237	(144,690)
Library books	(103,707)	(3,721)	48	(107,380)
Total accumulated depreciation	**(2,450,074)**	**(214,790)**	**89,066**	**(2,575,798)**
TOTAL DEPRECIABLE CAPITAL ASSETS, NET	**3,067,227**	**7,817**	**(48,767)**	**3,026,277**
TOTAL CAPITAL ASSETS, NET	**$ 3,273,882**	**$ 294,689**	**$ (208,954)**	**$ 3,359,617**

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, 2016, is summarized as follows:

DEFERRED OUTFLOWS OF RESOURCES *(in thousands)*	
Deferred loss on early retirement of debt	$ 41,495
Pension	51,369
TOTAL DEFERRED OUTFLOWS OF RESOURCES	**$ 92,864**

g. Accounts payable and accrued liabilities: The composition of accounts payable on June 30, 2016, is summarized as follows:

ACCOUNTS PAYABLE AND ACCRUED LIABILITIES *(in thousands)*	
Accounts payable	$ 77,274
Accrued salaries and wages payable	95,325
Due to related foundations	50,117
Other payables	80,596
TOTAL ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	**$ 303,312**

h. Unearned revenue: The composition of unearned revenue on June 30, 2016, is summarized as follows:

UNEARNED REVENUE *(in thousands)*	
Grants and contracts	$ 59,746
Student payments	15,829
Medical Center unearned revenues	963
Other unearned revenues	23,735
TOTAL UNEARNED REVENUE	**$ 100,273**

i. Deferred inflows of resources: The composition of deferred inflows of resources on June 30, 2016, is summarized as follows:

DEFERRED INFLOWS OF RESOURCES *(in thousands)*	
Deferred gain on early retirement of debt	$ 533
Service concession arrangements	70,161
Pension	41,017
TOTAL DEFERRED INFLOWS OF RESOURCES	**$ 111,711**

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, 2016, the University has accrued a $18.5 million receivable, a $13.7 million liability and a $70.2 million deferred inflow of resources related to the service concession arrangement.

NOTE 4: SHORT-TERM DEBT

Short-term debt on June 30, 2016, is summarized as follows:

SHORT-TERM DEBT *(in thousands)*	BEGINNING BALANCE JULY 1, 2015	ADDITIONS	REDUCTIONS	ENDING BALANCE JUNE 30, 2016
COMMERCIAL PAPER				
Taxable	$ 12,745	$ 25,000	$ –	$ 37,745
Tax-exempt	37,900	77,400	–	115,300
TOTAL COMMERCIAL PAPER	**$ 50,645**	**$ 102,400**	$ –	**$ 153,045**

The University has a $300 million combined taxable and tax-exempt commercial paper program that is primarily used to bridge finance capital projects and, from time to time, fund operations. The Board approved the current commercial paper program limit of $300 million in April 2008. In fiscal year 2016, interest rates on commercial paper ranged from 0.01 to 0.48 percent.

NOTE 5: LONG-TERM OBLIGATIONS

a. Long-term debt: The composition of long-term debt at June 30, 2016, is summarized as follows:

LONG-TERM DEBT (in thousands)	INTEREST RATES	FINAL MATURITY	BEGINNING BALANCE JULY 1, 2015	ADDITIONS	REDUCTIONS	ENDING BALANCE JUNE 30, 2016	CURRENT PORTION
BONDS AND NOTES PAYABLE							
Revenue bonds:							
University of Virginia Series 2008 (9d)	5.0%	2040	$ 231,365	$ -	$ -	$ 231,365	$ -
University of Virginia Series 2009 (9d)	4.18%*	2040	250,000	-	-	250,000	-
University of Virginia Series 2010 (9d)	3.37%**	2041	190,000	-	-	190,000	-
University of Virginia Series 2011 (9d)	4.0% to 5.0%	2033	69,190	-	2,550	66,640	2,655
University of Virginia Series 2013A (9d)	2.0% to 5.0%	2043	167,765	-	3,015	164,750	3,080
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	4,348	-	1,799	2,549	612
Notes payable to VCBA 2007B (9d)	4.0% to 4.25%	2020	10,590	-	30	10,560	35
Notes payable to VCBA 2010B (9d)	2.0% to 5.0%	2021	3,435	-	-	3,435	-
Other	various	2029	2,761	-	168	2,593	176
TOTAL BONDS AND NOTES PAYABLE			**$ 1,282,689**	$ **-**	**$ 7,562**	**$ 1,275,127**	**$ 6,558**
Less: Current portion of debt			(7,563)	-	(1,005)	(6,558)	
Bond premium			90,186	-	6,422	83,764	
NET LONG-TERM DEBT			**$ 1,365,312**	$ **-**	**$ 12,979**	**$ 1,352,333**	

** The University of Virginia Series 2009 (9d) revenue bonds are Build America Bonds, issued at 6.2 percent. 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 percent. 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 4.18 percent.*

*** The University of Virginia Series 2010 (9d) revenue bonds are Build America Bonds, issued at five percent. 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 percent. 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 3.37 percent.*

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 these credit agreements as of June 30, 2016.

The University entered into $300 million of operating lines of credit in January 2016 from four different banks to provide liquidity for operating expenses. There were no advances outstanding under these credit agreements as of June 30, 2016.

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**
2017*	$ 6,558	$ 64,665	$ (8,155)	$ 56,510
2018	10,333	64,359	(8,155)	56,204
2019	9,581	63,965	(8,155)	55,810
2020	9,656	63,520	(8,155)	55,365
2021	9,889	63,057	(8,155)	54,902
2022-26	135,896	287,353	(40,775)	246,578
2027-31	28,131	278,275	(40,775)	237,500
2032-36	83,690	270,482	(40,775)	229,707
2037-41	709,310	195,505	(31,641)	163,864
2042-46	272,083	40,486	-	40,486
TOTAL	**$ 1,275,127**	**$ 1,391,667**	**$ (194,741)**	**$ 1,196,926**

* *FY2016 represents a 7.3 percent reduction in the credit interest payment for September 1, 2015, and a 6.8 percent reduction in the credit interest payment for March 1, 2016. The 6.8 percent sequestration reduction rate will be applied to 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, 2016, 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, 2016, is summarized as follows:

LONG-TERM LIABILITIES *(in thousands)*	**BEGINNING BALANCE JULY 1, 2015**	**ADDITIONS**	**REDUCTIONS**	**ENDING BALANCE JUNE 30, 2016**
Investments held for related entities	$ 17,705	$ 1,534	$ 2,528	$ 16,711
Accrual for compensated absences	74,311	118,806	115,696	77,421
Perkins loan program	12,563	-	-	12,563
Investment in Culpeper Regional Hospital	49,954	11,990	16,944	45,000
Other postemployment benefits	47,205	8,535	-	55,740
Irrevocable split-interest agreements*	39,596	-	1,330	38,266
Service concession arrangement	13,459	280	-	13,739
Other	39,489	10,742	31,455	18,776
Total	**294,282**	**151,887**	**167,953**	**278,216**
Less: Current portion of long-term liabilities	(91,326)	13,042	-	(78,284)
NET LONG-TERM LIABILITIES	**$ 202,956**	**$ 164,929**	**$ 167,953**	**$ 199,932**

* *Beginning balance was adjusted for the impact of a prior period restatement. See Note 1.*

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, 2016, 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
INVESTMENT DERIVATIVE INSTRUMENTS — FIXED-RECEIVER INTEREST RATE SWAPS:						
4/8/2015	8/1/2021	SIFMA*	1.20%	$ 64,000	$ 1,810	$ 2,134
4/8/2015	8/1/2021	SIFMA*	1.20%	64,000	1,824	2,148
INVESTMENT DERVIATIVE INSTRUMENTS — FIXED-PAYER INTEREST RATE SWAPS:						
6/1/2008	6/1/2038	4.15%	SIFMA*	50,000	(21,878)	(7,061)
6/1/2008	6/1/2038	4.07%	SIFMA*	50,000	(21,164)	(7,108)
TOTAL				**$ 228,000**	**$ (39,408)**	**$ (9,887)**

*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 fixed-payer 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. As of June 30, 2015, the University's fixed-receiver swaps were identified as hedges to its fixed-rate Series 2015B bonds maturing in August, 2021. The swaps were re-evaluated as of June 30, 2016, and determined to no longer be effective hedges. The deferred outflow balance of $648,468 was reported within investment income upon reclassification. 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 for both the fixed-receiver and fixed-payer swaps. 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 was for a notional amount of $50 million and expired on February 1, 2016. The University was not required to provide limited financial support prior to expiration of the arrangement.

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, 2016, the University's swap counterparties were rated at least AA- from Standard & Poor's or Aa2 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, 2016, 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. The hedges and the hedged items are subject to interest rate risk in that a change in interest rates will impact the market value of the hedges and hedged items. Conversely, the collective effect of changes in interest rates on the hedges and the hedged items serves to reduce overall cash flow or market value variability among these items. See Note 2 for additional interest rate risk disclosures related to the University's investment derivative instruments.

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.

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 / NOVANT HEALTH UNIVERSITY OF VIRGINIA HEALTH SYSTEM

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 51 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 accounted for Culpeper Regional Hospital using the consolidation method of accounting.

On December 31, 2015, the Medical Center entered into a joint operating agreement with Novant Health to form a new joint operating company named, Novant Health University of Virginia Health System (Novant). As part of the agreement, the Medical Center contributed Culpeper Regional Hospital to the joint operating company for a 40 percent investment in the new joint operating company, recognizing a $12.9 million gain as a result of the transfer. Effective January 1, 2016, the Medical Center used the equity method of consolidation in order to reflect the Medical Center's investment in the joint operating company.

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. Valiance Health, LLC has been dissolved pending receipt of the final dissolution settlement.

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 / MARY WASHINGTON HOSPITAL / UNIVERSITY OF VIRGINIA RADIOSURGERY CENTER, LLC

The Medical Center has entered into 10 percent minority interest partnerships with Winchester Medical Center and Mary Washington Hospital. Winchester Medical Center and Mary Washington Hospital have expanded their cancer programs 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 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.

During the May 2014 Board Meeting for HealthCare Partners, Inc., a resolution was passed for HealthCare Partners to acquire a 15 percent membership interest in BroadAxe Care Coordination, LLC., without imposing any obligations on the part of the UPG, for $599,925. On October 30, 2015, this transaction was processed, and is considered an equity contribution by the Medical Center and HealthCare Partners. BroadAxe, also known as Locus-Health Broad Axe, is a remote patient monitoring system used by the Medical Center to manage reduction with readmissions.

Details of the University's net investment in affiliated companies accounted for using the equity method of accounting as of June 30, 2016, 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	-	15,988	15,988
Valiance Health, LLC	-	249	249
University Health System Consortium	-	4,087	4,087
PACE	245	(368)	(123)
Valley Regional Health	-	5	5
Novant	94,041	(5,622)	88,419

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, 2016*	**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	**$ 3,711**	**$ 20,675**	**$ 25,406**	**$ 51,857**	**$ 15,537**	**$ 22,187**	**$ 5,890**	**$ 135,865**	**$ 414,253**	**$ –**	**$ 695,381**
Noncurrent assets											
Long-term investments	442,041	90,321	297,774	254,415	302,092	69,241	90,848	223,991	7,482,717	(1,409,737)	7,843,703
Capital assets, net and other assets	20,788	22,317	67,731	10,802	32,009	16,375	235,886	40,132	645	–	446,685
Total noncurrent assets	**462,829**	**112,638**	**365,505**	**265,217**	**334,101**	**85,616**	**326,734**	**264,123**	**7,483,362**	**(1,409,737)**	**8,290,388**
TOTAL ASSETS	**$ 466,540**	**$ 133,313**	**$ 390,911**	**$ 317,074**	**$ 349,638**	**$ 107,803**	**$ 332,624**	**$ 399,988**	**$ 7,897,615**	**$ (1,409,737)**	**$ 8,985,769**
LIABILITIES AND NET ASSETS											
Current liabilities											
Total current liabilities	**$ 570**	**$ 668**	**$ 7,326**	**$ 93,443**	**$ 10,211**	**$ 1,526**	**$ 14,355**	**$ 113,255**	**$ 4,725**	**$ –**	**$ 246,079**
Noncurrent liabilities											
Long-term debt, net of current portion of $27,318	–	–	11,405	–	22,500	–	181,077	7,625	–	–	222,607
Other noncurrent liabilities	502	–	–	2,660	25,686	–	29,504	210,612	7,876,455	(1,409,737)	6,735,682
Total noncurrent liabilities	**502**	**–**	**11,405**	**2,660**	**48,186**	**–**	**210,581**	**218,237**	**7,876,455**	**(1,409,737)**	**6,958,289**
TOTAL LIABILITIES	**$ 1,072**	**$ 668**	**$ 18,731**	**$ 96,103**	**$ 58,397**	**$ 1,526**	**$ 224,936**	**$ 331,492**	**$ 7,881,180**	**$ (1,409,737)**	**$ 7,204,368**
NET ASSETS											
Unrestricted	$ 64,631	$ 2,215	$ 92,864	$ 66,464	$ (21,945)	$ 29,285	$ 23,552	$ 68,496	$ 16,435	$ –	$ 341,997
Temporarily restricted	244,423	54,252	129,367	93,044	123,314	37,955	69,360	–	–	–	751,715
Permanently restricted	156,414	76,178	149,949	61,463	189,872	39,037	14,776	–	–	–	687,689
TOTAL NET ASSETS	**$ 465,468**	**$ 132,645**	**$ 372,180**	**$ 220,971**	**$ 291,241**	**$ 106,277**	**$ 107,688**	**$ 68,496**	**$ 16,435**	**$ –**	**$ 1,781,401**
TOTAL LIABILITIES AND NET ASSETS	**$ 466,450**	**$ 133,313**	**$ 390,911**	**$ 317,074**	**$ 349,638**	**$ 107,803**	**$ 332,624**	**$ 399,988**	**$ 7,897,615**	**$ (1,409,737)**	**$ 8,985,769**

** December 31, 2015, year-end*

STATEMENT OF ACTIVITIES *(in thousands)* *for the year ended June 30, 2016*	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	$ 3,890	$ 5,516	$ 5,533	$ 809	$ 204	$ 13,855	$ -	$ -	$ -	$ 29,807
Fees for services, rentals, and sales	-	-	25,954	3,154	-	1,000	47,452	304,496	20,964	403,020
Other income (loss)	14,393	14,445	12,721	40,872	10,326	13,378	2,953	149,507	(74)	258,521
TOTAL UNRESTRICTED REVENUES AND SUPPORT	**18,283**	**19,961**	**44,208**	**44,835**	**10,530**	**28,233**	**50,405**	**454,003**	**20,890**	**691,348**
EXPENSES										
Program services, lectures, and special events	15,176	19,095	41,103	45,922	14,672	28,099	28,907	381,691	14,441	589,106
Other expenses	4,408	1,235	7,014	2,319	1,256	3,369	23,314	100,754	3,422	147,091
TOTAL EXPENSES	**19,584**	**20,330**	**48,117**	**48,241**	**15,928**	**31,468**	**52,221**	**482,445**	**17,863**	**736,197**
EXCESS (DEFICIENCY) OF UNRESTRICTED REVENUES AND SUPPORT OVER EXPENSES	**(1,301)**	**(369)**	**(3,909)**	**(3,406)**	**(5,398)**	**(3,235)**	**(1,816)**	**(28,442)**	**3,027**	**(44,849)**
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS										
Contributions	3,395	8,071	2,817	38,266	6,417	15,283	-	-	-	74,249
Other	(27,481)	(15,288)	(18,386)	(39,915)	(18,080)	(9,614)	(3,223)	-	-	(131,987)
NET CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	**(24,086)**	**(7,217)**	**(15,569)**	**(1,649)**	**(11,663)**	**5,669**	**(3,223)**	-	**-**	**(57,738)**
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS										
Contributions	7,820	3,661	3,004	3,645	5,975	1,396	-	-	-	25,501
Other	2,820	(346)	-	(687)	(1,151)	(81)	-	-	-	555
NET CHANGE IN PERMANENTLY RESTRICTED NET ASSETS	**10,640**	**3,315**	**3,004**	**2,958**	**4,824**	**1,315**	**-**	**-**	**-**	**26,056**
CHANGE IN NET ASSETS	**(14,747)**	**(4,271)**	**(16,474)**	**(2,097)**	**(12,237)**	**3,749**	**(5,039)**	**(28,442)**	**3,027**	**(76,531)**
Net assets — beginning of year	480,215	136,916	388,654	223,068	303,478	102,528	112,727	96,938	13,408	1,857,932
NET ASSETS — END OF YEAR	**$ 465,468**	**$ 132,645**	**$ 372,180**	**$ 220,971**	**$ 291,241**	**$ 106,277**	**$ 107,688**	**$ 68,496**	**$ 16,435**	**$ 1,781,401**

** December 31, 2015, 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, 2016, are as follows:

PLEDGES RECEIVABLE *(in thousands)*	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	**$ 6,563**	**$ 36,653**	**$ 14,189**	**$ 9,716**	**$ 14,475**	**$ 25,717**	**$ 107,313**
Less:							
Allowance for uncollectible accounts	(467)	(4,001)	(1,418)	(922)	(743)	(1,860)	(9,411)
Unamortized discount to present value	(111)	(4,402)	(1,368)	(270)	(479)	(230)	(6,860)
Total pledges receivable, net	**5,985**	**28,250**	**11,403**	**8,524**	**13,253**	**23,627**	**91,042**
Less: Current portion, net of allowance	(3,535)	(10,447)	(5,120)	(1,842)	(6,223)	(8,545)	(35,712)
TOTAL NONCURRENT PLEDGES RECEIVABLE	**$ 2,450**	**$ 17,803**	**$ 6,283**	**$ 6,682**	**$ 7,030**	**$ 15,082**	**$ 55,330**

** December 31, 2015, year-end*

The **Law School Foundation** has received bequest intentions and certain other conditional promises to give of approximately $5.2 million as of June 30, 2016. 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, 2016, for the component units are as follows:

SUMMARY SCHEDULE OF INVESTMENTS *(in thousands)*	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	$ 149	$ -	$ 9,467	$ 23,185	$ 4,924	$ -	$ -	$ 95,914	$ 4,545,950	$ -	$ 4,679,589
University of Virginia Investment Management Company	297,905	90,321	271,410	241,387	272,958	68,857	85,713	81,186	-	(1,409,737)	-
Mutual and money market funds	59,562	956	25,822	1,719	4	-	890	40,861	87,861	-	217,675
Other	84,425	-	-	16,989	24,206	384	5,842	10,999	3,258,158	-	3,401,003
Total investments	**442,041**	**91,277**	**306,699**	**283,280**	**302,092**	**69,241**	**92,445**	**228,960**	**7,891,969**	**(1,409,737)**	**8,298,267**
Less: Amounts shown in current assets	-	(956)	(8,925)	(28,865)	-	-	(1,597)	(4,969)	(409,252)	-	(454,564)
LONG-TERM INVESTMENTS	**$ 442,041**	**$ 90,321**	**$ 297,774**	**$ 254,415**	**$ 302,092**	**$ 69,241**	**$ 90,848**	**$ 223,991**	**$ 7,482,717**	**$ (1,409,737)**	**$ 7,843,703**

** December 31, 2015, 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 (75 percent of investments held for others) on June 30, 2016. 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, 2016, capital assets consisted of the following:

CAPITAL ASSETS *(in thousands)*	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	$ -	$ 79,454	$ 2,121	$ -	$ 85,239
Buildings and improvements	914	105,033	7,101	19,873	-	248,340	45,594	1,567	428,422
Furnishings and equipment	349	1,699	1,859	1,354	68	23,105	22,968	1,338	52,740
Collections	-	101	-	41	-	-	-	-	142
Construction in progress	-	179	-	109	-	-	5,756	-	6,044
Total	**1,415**	**107,012**	**9,593**	**24,256**	**68**	**350,899**	**76,439**	**2,905**	**572,587**
Less: Accumulated depreciation	(301)	(46,428)	(5,575)	(4,922)	(55)	(118,197)	(37,703)	(2,260)	(215,441)
NET CAPITAL ASSETS	**$ 1,114**	**$ 60,584**	**$ 4,018**	**$ 19,334**	**$ 13**	**$ 232,702**	**$ 38,736**	**$ 645**	**$ 357,146**

** December 31, 2015, year-end*

LONG-TERM DEBT

UVAF had the following lines of credit outstanding on June 30, 2016:

LINES OF CREDIT *(in thousands)*	AVAILABLE	OUTSTANDING BALANCE
Wells Fargo Bank, N.A.	$ 34,000	$ 16,450
Bank of America, N.A.	40,000	25,080
U.S. Bank, N.A.	25,000	5,000
TOTAL	**$ 99,000**	**$ 46,530**

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, 2016, 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, 2016, is summarized as follows:

LONG-TERM DEBT *(in thousands)*	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	$ 13,812	$ -	$ -	$ -	$ 13,812
Notes payable SunTrust Bank	-	4,500	-	-	4,500
Notes payable Bank of America	-	-	24,475	-	24,475
Recovery Zone Facility Bond	-	-	9,005	-	9,005
1997 Industrial Development Authority revenue bonds — Louisa	-	-	2,610	-	2,610
1998 Refunding bonds	-	-	-	4,520	4,520
2000 Industrial Development Authority revenue bonds — Louisa	-	-	-	3,800	3,800
2001 Refinancing demand bonds	-	-	28,905	-	28,905
2004 Refinancing note payable	-	-	7,280	-	7,280
2009 Economic Development Authority revenue bonds — Albemarle	-	-	-	20,325	20,325
2011 Refinancing demand bonds	-	18,000	33,018	-	51,018
Notes payable University of Virginia	-	-	33,145	-	33,145
Lines of credit	-	-	46,530	-	46,530
Total	**13,812**	**22,500**	**184,968**	**28,645**	**249,925**
Less: Current portion	(2,407)	-	(3,891)	(21,020)	(27,318)
NET LONG-TERM DEBT	**$ 11,405**	**$ 22,500**	**$ 181,077**	**$ 7,625**	**$ 222,607**

Principal maturities of long-term debt obligations on June 30, 2016, are as follows:

MATURITIES *(in thousands)*	UNIVERSITY OF VIRGINIA DARDEN SCHOOL FOUNDATION	JEFFERSON SCHOLARS FOUNDATION	UNIVERSITY OF VIRGINIA FOUNDATION	UNIVERSITY OF VIRGINIA PHYSICIANS GROUP	COMPONENT UNITS TOTAL
2017	$ 2,407	$ -	$ 3,891	$ 21,020	$ 27,318
2018	2,727	-	57,913	740	61,380
2019	2,840	-	4,832	785	8,457
2020	2,958	-	25,715	820	29,493
2021	2,880	-	2,598	870	6,348
Thereafter	-	22,500	90,019	4,410	116,929
TOTAL	**$ 13,812**	**$ 22,500**	**$ 184,968**	**$ 28,645**	**$ 249,925**

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, 2016, there were outstanding student loan balances under the program of approximately $27.4 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, 2016, the reserve account balances totaled $760,763. 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, 2016, totaled $1.7 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 $80.3 million for the year ended June 30, 2016. Approximately $10.0 million of the fiscal year payments were provided through the Medical Center for the purpose of treating indigent and Medicaid patients. UPG contributed approximately $28.2 million to the University in support of various academic programs, equipment, teaching and research for the year ended June 30, 2016.

NOTE 9: EXPENSE CLASSIFICATION MATRIX

The composition of the University's operating expenses by functional classification for the year ended June 30, 2016, is as follows:

OPERATING EXPENSES BY FUNCTIONAL CLASSIFICATION *(in thousands)*	COMPENSATION AND BENEFITS	SUPPLIES, UTILITIES, AND OTHER SERVICES	STUDENT AID	DEPRECIATION	OTHER	TOTAL
Instruction	$ 355,200	$ 37,009	$ 3,956	$ -	$ 1,372	$ 397,537
Research	182,828	92,878	16,521	-	613	292,840
Public service	27,084	22,008	591	-	615	50,298
Academic support	110,870	34,626	342	-	227	146,065
Student services	32,260	11,369	259	-	177	44,065
Institutional support	72,940	37,796	66	-	283	111,085
Operation of plant	80,109	7,563	3	-	144	87,819
Student aid	1,005	3,942	53,780	-	122	58,849
Auxiliary	77,375	83,083	290	-	587	161,335
Depreciation	-	-	-	121,797	-	121,797
Patient services	680,281	695,969	-	97,886	-	1,474,136
Other	1,569	(1,821)	-	-	1	(251)
Central services recoveries	-	(20,102)	-	-	-	(20,102)
TOTAL OPERATING EXPENSES	**$ 1,621,521**	**$ 1,004,320**	**$ 75,808**	**$ 219,683**	**$ 4,141**	**$ 2,925,473**

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, 2016, is provided in the following chart.

APPROPRIATIONS *(in thousands)*	
Original legislative appropriation per Chapter 665	$ 138,579
Adjustments:	
Financial aid — General Fund	13,019
Financial assistance for educational and general	7,928
Miscellaneous educational and general	231
TOTAL STATE APPROPRIATIONS	**$ 159,757**

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. 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 through 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.

<table>
<tr><th colspan="3">RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE</th></tr>
<tr><th>PLAN 1</th><th>PLAN 2</th><th>HYBRID RETIREMENT PLAN</th></tr>
<tr><td>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.</td><td>Vesting

Same as Plan 1.</td><td>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.</td></tr>
<tr><td>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.</td><td>Calculating the Benefit

See definition under Plan 1.</td><td>Calculating the Benefit
Defined Contribution 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.</td></tr>
</table>

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. **Defined Contribution Component:** 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 credible service. **VaLORS:** Same as Plan 1.	**Earliest Reduced 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 For 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** For 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 five percent of their compensation toward their retirement. Prior to July 1, 2012, the five percent member contribution was paid by the employer. Beginning July 1, 2012, state employees were required to pay the five percent 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, 2016, was 12.33 percent of covered employee compensation for employees in the VRS State Employee Retirement Plan for July 2015, 13.28 percent for August 2015 and 14.22 percent for September 2015 through June 2016. For employees in the VaLORS Retirement Plan, the contribution rate was 17.67 percent of covered employee compensation for July 2015, 18.34 percent for August 2015 and 19.0 percent for September 2015 through June 2016. 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 percent, and the actuarial rate for VaLORS Retirement Plan was 21.06 percent. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees 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 percent of the actuarial rate and the contributions for the VaLORS Retirement Plan were funded at 83.88 percent of the actuarial rate for the year ended June 30, 2016. Additional funding provided by the General Assembly moved the contribution rates to 90 percent of the actuarial rate by September 2015 and for the remainder of fiscal year 2016. Contributions from the University to the VRS State Employee Retirement Plan were $44.9 million and $37.8 million for the years ended June 30, 2016, and June 30, 2015, respectively. Contributions from the University to the VaLORS Retirement Plan were $570,054 and $497,740 for the years ended June 30, 2016, and June 30, 2015, respectively.

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

At June 30, 2016, the University reported a liability of $501.4 million for its proportionate share of the VRS State Employee Retirement Plan Net Pension Liability (NPL) and a liability of $6.1 million for its proportionate share of the VaLORS Retirement Plan NPL. The NPL was measured as of June 30, 2015, and the total pension liability used to calculate the NPL was determined by an actuarial valuation as of that date. The University's proportion of the NPL was based on the University's actuarially determined employer contributions to the pension plan for the year ended June 30, 2015, relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2015, the University's proportion of the VRS State Employee Retirement Plan was 8.19 percent as compared to 8.12 percent at June 30, 2014. At June 30, 2015, the University's proportion of the VaLORS Retirement Plan was 0.86 percent as compared to 0.79 percent at June 30, 2014.

For the year ended June 30, 2016, the University recognized pension expense of $34.6 million for the VRS State Employee Retirement Plan and $701,000 for the VaLORS Retirement Plan. Since there was a change in proportionate share between June 30, 2014, and June 30, 2015, 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, 2016, 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	$ 3,609	$ 29
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	36,330
Changes in proportion and differences between Employer contributions and proportionate share of contributions	2,265	4,658
Employer contributions subsequent to the measurement date	45,495	-
TOTAL	**$ 51,369**	**$ 41,017**

Deferred outflows of resources related to pensions resulting from the University's contributions subsequent to the measurement date of $45.5 million will be recognized as a reduction of the NPL in the year ended June 30, 2017. 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)*	
2017	$ (14,423)
2018	(14,157)
2019	(12,928)
2020	6,365
TOTAL	**$ (35,143)**

Actuarial Assumptions: VRS State Employee Retirement Plan

The total pension liability for the VRS State Employee Retirement Plan was based on an actuarial valuation as of June 30, 2014, 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, 2015.

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 percentage of the market value of assets for the last experience study were found to be approximately 0.06 percent 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 percent. However, since the difference was minimal, and a more conservative 7.0 percent 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 percent 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 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, 2014, 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

Actuarial Assumptions: VaLORS Retirement Plan

The total pension liability for the VaLORS Retirement Plan was based on an actuarial valuation as of June 30, 2014, 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, 2015.

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 percentage of the market value of assets for the last experience study were found to be approximately 0.06 percent 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 percent. However, since the difference was minimal, and a more conservative 7.0 percent 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 percent 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 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, 2014 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
- Decrease service related disability rate from 60% to 50%

Net Pension Liability

The 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, 2015, 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	$ 22,521,130	$ 1,902,051
Plan fiduciary net position	16,398,575	1,191,353
EMPLOYERS' NET PENSION LIABILITY	**$ 6,122,555**	**$ 710,698**
Plan fiduciary net position as a percentage of the total pension liability	72.81%	62.64%

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 NPL 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 7.0 percent. 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 percent 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 NPL and the VaLORS Retirement Plan NPL using the discount rate of 7.0 percent, as well as what the University's proportionate share of the NPL would be if it were calculated using a discount rate that is one percentage point lower (6.0 percent) or one percentage point higher (8.0 percent) 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	$ 720,246	$ 501,446	$ 317,981
The University's proportionate share of the VaLORS Retirement Plan net pension liability	8,354	6,144	4,326
TOTAL NET PENSION LIABILITY	**$ 728,600**	**$ 507,590**	**$ 322,307**

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 2015 Comprehensive Annual Financial Report (CAFR). A copy of the 2015 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2015-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, 2016, was approximately $2.5 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 five 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 $57.9 million and were calculated using base salaries of $765.7 million, for the year ended June 30, 2016. The contribution percentage amounted to 7.6 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, 2016.

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 $3.5 million for the year ended June 30, 2016.

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 2016, the University contributed $2.4 million to the plan for retiree claims. Retirees receiving benefits contributed $4.6 million, or approximately 66 percent of the total premiums, through their required contributions, ranging from $500 to $2,553 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, 2016, 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, 2016			
Current retirees, beneficiaries, dependents and terminated vested members			$ 16,994
Current active members			76,403
TOTAL ACTUARIAL ACCRUED LIABILITY			**$ 93,397**
Covered payroll			$ 445,000
Actuarial accrued liability as percentage of covered payroll			21.0%
	2016	**2015**	**2014**
NET OPEB OBLIGATION AS OF JUNE 30			
Annual required contribution (ARC)	$ 12,889	$ 11,270	$ 10,571
Interest on net OPEB obligation	2,124	1,831	1,562
Adjustment to the ARC	(3,277)	(2,752)	(2,291)
Annual OPEB cost	11,736	10,349	9,842
Actual contributions	(3,201)	(3,825)	(3,867)
Net increase in net OPEB obligation	8,535	6,524	5,975
Net OPEB obligation — beginning of year	47,205	40,681	34,706
NET OPEB OBLIGATION — END OF YEAR	**$ 55,740**	**$ 47,205**	**$ 40,681**
Percentage of annual OPEB cost contributed	27.3%	37.0%	39.3%

As of June 30, 2016, 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, 2016, 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 7.25 percent for the fiscal year ended June 30, 2016, grading to five percent for the fiscal year ending June 30, 2026, and thereafter. All rates include a four percent inflation assumption. Past service liability is amortized over a closed 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, 2016, was $52.9 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, 2016, was $13.8 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 administered by the Virginia Department of the Treasury, Division of Risk Management. The Division of Risk Management program includes property, mechanical breakdown, crime, employee bond (employee dishonesty), general (tort) liability, professional liability (includes medical malpractice), aviation, network security and privacy insurance (response and regulatory), automobile liability and auto physical damage for vehicles valued in excess of $20,000. The University is self-insured for the first $100,000 ($5,000 for the College at Wise) 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 and employee dishonesty insurance and a special contingency risk insurance policy. Separate insurance coverage is maintained as appropriate for individual departments and subsidiary organizations owned by the University and the Medical Center, such as Community Medicine, LLC and UVA Global, 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, 2016, was $117.8 million and income received totaled $5.4 million.

NOTE 15: COMMITMENTS AND CONTINGENCIES

Authorized expenditures for construction and other projects unexpended as of June 30, 2016, were approximately $81.3 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 $26.0 million for the year ended June 30, 2016.

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
2017	$ 14,655
2018	11,616
2019	8,167
2020	7,318
2021	5,689
2022-26	9,716
2027-31	4,083
2032-36	2,301
2037-41	823
2042-46	823
2047-51	521
TOTAL	**$ 65,712**

In August 2015, the Medical Center was informed that the federal government's Center for Medicare Services (CMS) issued notices to Virginia's Department of Medical Assistance Services (DMAS) disallowing $40.8 million in Disproportionate Share Hospital (DSH) adjustment payments to DMAS for fiscal years 2006 through 2011. Based on the receipt of final settlements in the years in question, the Medical Center's portion of the loss would be $26.3 million. CMS contends that DMAS inappropriately applied payments against subsequent year allotments. DMAS has appealed this disallowance and any repayment is deferred, pending the appeals resolution. In fiscal year 2016, Medical Center management changed its estimate to probable that the Medical Center will be liable for $15.5 million, the amount management believes the Medical Center has not already returned to CMS. A liability has been booked in the University's financial statements for this amount as of June 30, 2016. On August 8, 2016, CMS issued an adverse decision against Virginia Commonwealth University and the UVA Medical Center for the entire $40.8 million. As noted above, $15.5 million is the amount that the Medical Center has not paid back in other settlements. The Medical Center believes another $10.8 million has been paid back as part of the fiscal year 2011 and fiscal year 2012 Medicaid DSH audits. The Appeal Board did not express an opinion on whether they agreed that the Medical Center had paid back those amounts and referred the issue to CMS to determine. The Medical Center is planning on appealing both amounts but believes the chances of a positive outcome are diminished.

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

The Medical Center entered into a real estate purchase agreement with UPG to purchase the Northridge Medical Office building. The purchase price is $18.4 million. The Medical Center made an earnest money deposit of $9.0 million on July 29, 2016. An estimated closing date of April 2017 is expected.

The Medical Center purchased from Grove Street Properties, LLC seven parcels of land situated in the City of Charlottesville. The purchase price was $8.7 million and closed on August 26, 2016.

The Medical Center entered into a membership interest purchase agreement with Mary Washington Hospital, Inc., where Mary Washington Hospital agreed to purchase the Medical Center's 20 units of ownership for $268,254. The Medical Center received payment on August 11, 2016.

On July 19, 2016, UVAF acquired a 649-bedroom apartment complex for $60 million. As part of this transaction, two single-member limited liability companies were formed, Old Ivy Gardens of Charlottesville, LLC and Ivy Gardens of Charlottesville, LLC. Also in connection with this transaaction, UVAF increased the line of credit with Bank of America, N.A. from $40 million to $100 million.

VIRGINIA RETIREMENT SYSTEM PENSION PLANS

SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY FOR THE YEAR ENDED JUNE 30, 2016* *(in thousands)*	VRS STATE EMPLOYEE RETIREMENT PLAN		VaLORS RETIREMENT PLAN	
	2016	2015	2016	2015
Employer's proportion of the net pension liability	8.19%	8.12%	0.86%	0.79%
Employer's proportionate share of the net pension liability	$ 501,446	$ 454,655	$ 6,144	$ 5,294
Employer's covered-employee payroll	$ 331,784	$ 314,268	$ 3,036	$ 3,088
Employer's proportionate share of the net pension liability as a percentage of its covered-employee payroll	151.14%	144.67%	202.37%	171.44%
Plan fiduciary net position as a percentage of the total pension liability	72.81%	74.28%	62.64%	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, 2016 *(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	2016	$ 44,925	$ 44,925	$ -	$ 342,683	13.11%
	2015	37,781	37,781	-	331,784	11.39%
VaLORS Retirement Plan	2016	$ 570	$ 570	$ -	$ 3,085	18.48%
	2015	498	498	-	3,036	16.40%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Changes of benefit terms — There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014, and not covered by enhanced hazardous duty benefits. Because this was a new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2015, are not material.

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 percent 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 percent to 50 percent

POSTEMPLOYMENT BENEFIT PLANS OTHER THAN PENSIONS

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

VALUATION DATE	ACTUARIAL VALUE OF ASSETS (a)	ACTUARIAL ACCRUED LIABILTY (AAL) (b)	UNFUNDED AAL (UAAL) (b-a)	FUNDED RATIO (a/b)	COVERED PAYROLL (c)	UAAL AS A PERCENTAGE OF COVERED PAYROLL (b-a)/(c)
6/30/2016	$ -	$ 93,397	$ 93,397	0%	$ 445,000	21.0%
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%		

Financial Report 2015-16

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*

An online version of this report is available at virginia.edu/financialreport

The University of Virginia does not discriminate on the basis of age, color, disability, gender identity, marital status, national or ethnic origin, political affiliation, race, religion, sex (including pregnancy), sexual orientation, veteran status, and family and genetic information, in its programs and activities as required by Title IX of the Education Amendments of 1972, the Americans with Disabilities Act of 1990, as amended, Section 504 of the Rehabilitation Act of 1973, Titles VI and VII of the Civil Rights Act of 1964, the Age Discrimination Act of 1975, the Governor's Executive Order Number One (2014), and other applicable statutes and University policies. The University of Virginia prohibits sexual and gender-based harassment, including sexual assault, and other forms of interpersonal violence.

The following person has been designated to handle inquiries regarding the Americans with Disabilities Act, the Rehabilitation Act, and related statutes and regulations: Melvin Mallory, ADA Coordinator, Office for Equal Opportunity and Civil Rights, O'Neil Hall, 445 Rugby Road, Room 027, P.O. Box 400211, Charlottesville, VA 22904, (434) 924-3295, ADACoordinator@virginia.edu.

The following person has been designated to handle inquiries regarding non-discrimination policies: Catherine Spear, Assistant Vice President, Office for Equal Opportunity and Civil Rights, P.O. Box 400219, Washington Hall, Charlottesville, VA 22904, (434) 924-3200, UVaEOCR@virginia.edu.

The following person has been designated to serve as the overall coordinator for purposes of Title IX compliance: Catherine Spear, Acting Title IX Coordinator, O'Neil Hall, Room 037, (434) 924-7179, TitleIXCoordinator@virginia.edu.

The following individuals have been designated as Deputy Title IX Coordinators to assist the Title IX Coordinator and conduct investigations: Akia Haynes, O'Neil Hall, Room 036, (434) 297-7988, aah6n@virginia.edu; and Christopher Tate, O'Neil Hall, Room 034, (434) 297-7988, crt2b@virginia.edu. Complaints of discrimination, harassment, and retaliation may be directed to the Office for Equal Opportunity and Civil Rights at UVaEOCR@virginia.edu. Complaint procedures may be found at http://eocr.virginia.edu/file-complaint.

Complaints may also be filed with the Department of Education Office for Civil Rights, Equal Employment Opportunity Commission, Commonwealth of Virginia Division of Human Rights, and the Department of Human Resources Management.

University of Virginia