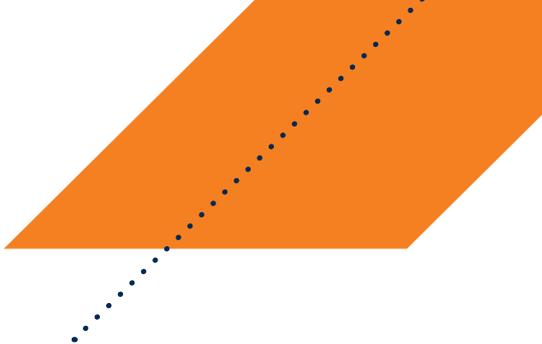


# FINANCIAL REPORT 2016-2017

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# FROM THE PRESIDENT

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**The University of Virginia** is known as one of the most financially stable and most effectively managed universities in the nation, and rightly so. To achieve this goal, Executive Vice President and Chief Operating Officer Pat Hogan and his team of leaders provide strong financial and operational stewardship for the University. The results of their commitment is on display throughout this report.

UVA has a remarkably beneficial effect on the Commonwealth of Virginia. Last year, an external research firm measured the University's economic impact in Virginia using an established methodology, and found that UVA's total impact was \$5.9 billion, driving the creation of 51,653 jobs and \$239.9 million in state and local government revenues.

UVA's College at Wise has a similar effect in Southwest Virginia, with \$84 million in economic impact and the creation of 680 jobs. UVA-Wise provides leadership in economic development for the region through activities such as Opportunity SWVA, which builds a culture of entrepreneurship by supporting nearly 400 small businesses and entrepreneurs.

Meanwhile, the UVA Health System is providing safe, high-quality health care to citizens from Virginia and beyond. This year, *U.S. News & World Report* ranked our hospital #1 in Virginia for the second consecutive year, with 10 specialty areas — six adult specialties and four pediatric specialties — ranked in the top 50 in the nation.

As we celebrate UVA's bicentennial, we are working to ensure that prudent financial stewardship will be a hallmark of this University in its third century, and that UVA will remain a force for economic growth in Virginia. I am grateful to Pat Hogan and his team for their leadership, and I remain grateful to alumni, parents, friends, and advocates around the world who strengthen the University of Virginia through their dedication and support.



**Teresa A. Sullivan**  
President

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# FROM THE EXECUTIVE VICE PRESIDENT AND CHIEF OPERATING OFFICER

Fiscal year 2017 was another year of strong performance for the University of Virginia. Our financial and operational strength supports our mission of excellence in education, research, and patient care. The University has consistently earned a spot among the finest institutions in the country. Outstanding academic quality, affordability, excellent return-on-investment, and world-class patient care continue to be the hallmarks of the University of Virginia.

U.S News & World Report most recently ranked UVA No. 3 in the nation for Best Public University and No. 2 for Best Value Public University. Kiplinger's Personal Finance ranks UVA No. 2 for Best Value Among Public Institutions. These respected rankings are indicative of the quality of the University's programs and our steadfast commitment to affordability.

## FINANCIAL STRENGTH AND STABILITY

As of June 30, 2017, the University's total assets were \$11.2 billion including the University's endowment, an essential source of permanent support. In fiscal year 2017, the University of Virginia Investment Management Company (UVIMCO) reported a healthy return of 12.4 percent on the Long Term Pool. For the 20-year period that ended June 30, 2017, the annualized return on the Long Term Pool was 11.0 percent. The collective value of the University and foundation funds invested with UVIMCO is now \$8.6 billion, having grown by almost \$1 billion during the last fiscal year. UVA's endowment ranks among the top-five largest for public institutions of higher learning and is among the top 20 of all U.S. colleges and universities. The annual endowment distribution has become a vital funding stream within our diverse revenue base. Ninety-five percent of the endowment distribution is spent each year on supporting the University's excellent student experience, which means that the University has an important alternative revenue source to tuition. The remaining 5 percent supports patient care. UVIMCO has been under the superb leadership of Larry Kochard since 2010.

Mr. Kochard is stepping down from his position as chief executive officer and chief investment officer, leaving a legacy of strong returns, excellent management, and a deep commitment to provide resources that will advance the University's priorities. Mr. Kochard will assist the UVIMCO Board in transitioning a successor.

In addition to building a large endowment, the University has designed and implemented an efficient debt structure. Our debt program is an integral piece of the University's financial management. The University is committed to maintaining a strong cash and investments/debt multiple (currently over three times) and maintaining a debt service/operating expenses percentage below the 10 percent recommended by the State. UVA's coveted AAA bond rating was reaffirmed in January 2017, and again in September 2017. We are one of only four public institutions with a AAA bond rating from all three rating agencies – Moody's Investor Services, Standard & Poor's, and Fitch Investor Services. This rating enables the University to issue debt at a low rate, resulting in savings. In February 2017, the University issued \$355 million in bonds, primarily to refinance more expensive debt. This was the largest bond issuance in the University's history at the time and was possible because of our AAA rating.

A strong tradition of philanthropy also contributes to the University's financial strength and growth of its endowment. In fiscal year 2017, the University's philanthropic cash flow was \$283.4 million, up 9 percent compared to the previous fiscal year. New commitments for fiscal year 2017 stood at \$312.4 million, an increase of 19 percent over fiscal year 2016. When combined with new future support, total new commitments reached \$359.4 million, a 14 percent increase over the previous year. In fiscal year 2017, nearly 9 percent of the Academic Division's operating budget came from annual giving and over 11 percent from the income on philanthropic gifts invested for the long-term, including the endowment.

## STRATEGIC INVESTMENTS TO SUSTAIN EXCELLENCE AND PROMOTE ACCESS AND AFFORDABILITY

Traditional business models for funding public higher education are being challenged, and leaders must seek innovative solutions to maintaining and enhancing financial strength. In fiscal year 2016, the University's Board of Visitors authorized the creation of the Strategic Investment Fund (SIF) to provide a source for transformational investments as we begin the third century. The SIF was accumulated as a result of careful stewardship of the University's resources over many years. In fiscal year 2017, the promise of the SIF was realized when the Board of Visitors awarded \$216.4 million in support of 27 projects focused on four broad areas of investment: almost \$58.9 million in research, \$21.9 million in research infrastructure, nearly \$20.6 million in the academic experience, and \$115 million for access and affordability. These initial investments are indicative of the University's commitment to investing in transformative projects and upholding its standing among the nation's finest institutions.

SIF investments in access and affordability included a \$100 million commitment over five years to create the Bicentennial Scholars Fund by matching philanthropic support for new endowed need-based and merit-based scholarships for undergraduate students. The Board also approved SIF investments in Cornerstone Grants to provide financial aid for middle-income, full-time Virginia undergraduate students and increased enrollment for in-state undergraduate students. Each of these projects enhances access and affordability for students.

## EXPANDING THE RESEARCH ENTERPRISE AT UVA

SIF awards in fiscal year 2017 support research across the University, including projects in medicine, energy, neuroscience, engineering, cyber physical systems, education, social sciences, and the humanities. The Board made additional awards to bolster the infrastructure necessary to support research, including administrative systems, computing support, librarianship, research tools, and facilities. Likewise, the University's sponsored research funding increased for the fourth consecutive year. In fiscal year 2017, sponsored research funding grew by 10 percent to a total of \$372.4 million. This sustained growth shows significant progress toward the goal of doubling the sponsored programs base from 2015 levels. UVA's new Vice President for Research Melur K. (Ram) Ramasubramanian is focused on continuing to expand the University's research enterprise to generate new knowledge that has the capacity to address complex societal issues, develop new treatments and cures for diseases, and advance the human condition.

Our research enterprise generates \$644.5 million in annual economic impact and is responsible for one in five jobs created or supported by the University. It also attracts funding, high-skilled

jobs, and potential additional R&D business to the Commonwealth. Between 2005 and 2016, over 50 UVA-related startups were launched, contributing to Charlottesville's culture of collaboration and innovation.

## UVA HEALTH SYSTEM: PROVIDING HIGH-QUALITY CARE, RESEARCH, AND EDUCATION

We continue to progress in our efforts to provide the highest-quality care to the patients we serve as well as researching breakthroughs that improve the human condition and educating the next generation of healthcare workers. We are pleased that *U.S. News and World Report* recently rated the UVA Health System the No. 1 hospital in Virginia for the second consecutive year and ranked 10 specialties among the top 50 in the nation.

In 2017, UVA Health System announced a research and education partnership with Inova Health System that will include a regional campus of the UVA School of Medicine and a research institute in Fairfax. The UVA School of Medicine also saw a dramatic increase in research funding, increasing its National Institutes of Health funding from \$101.2 million in 2015 to more than \$126 million in 2016. This boosted UVA from 40th to 35th nationally in NIH support. Our overall financial performance continues to be strong, with the Health System's consolidated operating revenue of \$2.3 billion and its operating margin of 1.7 percent in fiscal year 2017 both exceeding budget.

## A COMMITMENT TO QUALITY, CONTINUOUS IMPROVEMENT, AND INNOVATION

Another important aspect of our financial model is the University's Organizational Excellence (OE) program, guided by a philosophy focused on ensuring that our faculty and staff are using their time for mission-centric activities — teaching, research, and patient care — and that they are equipped with powerful tools that enable them to make informed decisions. Technology enhancements, process improvements, and the ongoing development of a skilled and knowledgeable workforce have contributed to a higher level of service and support for these mission-centric activities. Over the past three years, UVA has realized over \$60 million in operational efficiencies in the Academic Division alone, including dollar savings, cost avoidance and time and effort efficiencies.

Change at the University is constant, and continuous improvement is our goal. We are investing in people and systems and in the refinement of processes across Grounds with a goal of excellence in all aspects of our operations. During fiscal year 2017, we made significant progress on several major institutional initiatives including strategically sourcing goods and services; building out ResearchUVA, a system to improve research administration and put more information in the hands of faculty and research support staff; launching ExpenseUVA, a new online expense management system;

expanding the University Business Intelligence platform to provide robust information and analytics for users of large administrative data sets; and the Ufirst project, which aims to completely transform human resources across the Academic Division, Medical Center, and University Physicians Group.

In September 2016, Vice President and Chief Human Resources Officer Kelley Stuck came to the University and assumed oversight for Human Resources across the enterprise and the Ufirst project. During Ms. Stuck's first nine months at UVA, the Ufirst team reported significant achievements. Team members engaged stakeholders across the Grounds to design a new structure for human resources at UVA that would provide new levels of service both to organizations within the University and to individual employees. The organizational transformation continues in fiscal year 2018 and the team is preparing to launch Workday in July 2018, the new technical framework to support unified HR operations. Our HR operations and ongoing investments in professional development will provide our employees with an enriched workplace experience and opportunities to grow in their careers at the University.

### **SUSTAINING THE INFRASTRUCTURE AND PLANNING FOR THE FUTURE**

Along with investments in new initiatives and in the ongoing development of our workforce to meet changing needs, the University is committed to sustaining essential parts of our infrastructure – buildings, grounds, and technology – and to planning to meet future needs. We continue to invest in physical infrastructure and resources to enhance public safety. In fiscal year 2017, the University began migrating appropriate central services to “the cloud” while being particularly mindful of security and contractual complexities. We strengthened IT security and policies and continued ongoing work to modernize and strengthen IT infrastructure and support the adoption of new operational and administrative technology solutions.

In 2016-17, the University executed major land use planning studies and received Board approval of master plans for the Ivy Corridor, Ivy Mountain, and Brandon Avenue precincts, and initiated a North Grounds master plan including Athletics. We developed an aggressive action plan to work toward our sustainability goals. In addition, we reviewed and assessed University-wide space needs and expansion plans and worked to identify and acquire lands that support the University's academic, healthcare, research, and public outreach missions of the University.

### **POSITIONED FOR CONTINUED EXCELLENCE**

Reflecting on the important work and achievements of the last fiscal year deepens my appreciation for the talented people across the University who are dedicated to pursue excellence, work hard in support of institutional priorities, and make bold decisions that will sustain the University's tradition of innovation as we begin our third century. With a strong financial foundation and a remarkably committed workforce, I am confident that the University is positioned well to excel as we serve our students, patients and stakeholders in a rapidly changing world. 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 share our desire to sustain the University's role as an important contributor to the Commonwealth, to the nation, and to the world.



**Patrick D. Hogan**

Executive Vice President and Chief Operating Officer

# INTRODUCTION

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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, 2017. Comparative information for the year ended June 30, 2016, 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.

### ACADEMIC DIVISION

As a public institution of higher learning with approximately 22,400 on-Grounds students and 2,550 full-time instructional and research faculty members in 11 schools in 2016-17, the University offers a diverse range of degree programs, from baccalaureate to postdoctoral levels, including doctorates in 54 programs. 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 2,051 students and 102 full-time instructional and research faculty. It offers baccalaureate degrees in 31 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.

## 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, 2017, and June 30, 2016, is summarized as follows:

SUMMARY OF THE STATEMENT OF NET POSITION <i>(in thousands)</i>	2017	2016	INCREASE (DECREASE)	
			AMOUNT	PERCENT
Current assets	\$ 509,128	\$ 740,483	\$ (231,355)	(31.2%)
Noncurrent assets				
Endowment investments	4,444,091	4,084,301	359,790	8.8%
Other long-term investments	2,495,607	2,073,236	422,371	20.4%
Capital assets, net	3,513,428	3,359,617	153,811	4.6%
Other	107,879	105,033	2,846	2.7%
<b>Total assets</b>	<b>11,070,133</b>	<b>10,362,670</b>	<b>707,463</b>	<b>6.8%</b>
Deferred outflows of resources	133,411	92,864	40,547	43.7%
<b>Total assets and deferred outflows of resources</b>	<b>11,203,544</b>	<b>10,455,534</b>	<b>748,010</b>	<b>7.2%</b>
Current liabilities	602,493	656,098	(53,605)	(8.2%)
Noncurrent liabilities	2,308,245	2,102,897	205,348	9.8%
<b>Total liabilities</b>	<b>2,910,738</b>	<b>2,758,995</b>	<b>151,743</b>	<b>5.5%</b>
Deferred inflows of resources	87,389	111,711	(24,322)	(21.8%)
<b>Total liabilities and deferred inflows of resources</b>	<b>2,998,127</b>	<b>2,870,706</b>	<b>127,421</b>	<b>4.4%</b>
<b>NET POSITION</b>	<b>\$ 8,205,417</b>	<b>\$ 7,584,828</b>	<b>\$ 620,589</b>	<b>8.2%</b>

## CURRENT ASSETS AND LIABILITIES

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.

Current assets cover current liabilities 0.85 times, an indicator of good liquidity and the ability to weather short-term demands on working capital. Current assets cover 2.1 months of total operating expenses, excluding depreciation. For 2016-17, one month of operating expenses equaled approximately \$240 million.

## ENDOWMENT AND OTHER INVESTMENTS

**Performance.** The major portion of the University's endowment and other investments 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 12.4 percent in fiscal year 2016-17. This performance figure includes realized and unrealized gains and losses, along with cash income. Total investment income for all funds was \$728.7 million for the fiscal year ended June 30, 2017.

**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 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, 2017, the total distribution for the University's endowment was \$196.6 million, or 4.6 percent of the June 30, 2015, market value of the endowment, the measurement date.

**Other investments.** The total of other short-term and long-term investments is \$2.5 billion, a \$191.6 million increase over the prior year, which is primarily due to the strong performance of the long-term investment pool.

**Endowment investments.** The total of endowment investments is \$4.4 billion, a \$359.8-million increase over the prior year. Additional new gifts and strong investment earnings were the primary drivers of this increase.

From a net position perspective, earnings from the endowment are expendable; however, about two-thirds of the earnings are restricted as to use by 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 \$6.2 billion as of June 30, 2017.

## 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 as follows:

MAJOR CAPITAL PROJECTS DURING 2016-17 <i>(in thousands)</i>	PROJECTED COST	2017 ACTUAL EXPENSES
UVA Medical Center—MRI/ED/OR/Bed Tower	\$ 391,600	\$ 62,455
Gilmer Hall and Chemistry Building renovations	186,831	8,489
McCormick Road resident hall	104,700	9,246
University Medical Center 500 Ray C. Hunt Drive	35,000	9,007
UVA Medical Center HVAC renovations	28,000	1,917
UVA Medical Center levels 7 and 8 renovations	20,000	8,215
Baseball stadium expansion	16,160	1,567
Gooch Dillard residence hall renovation phase III	15,050	12,991
<b>TOTAL</b>	<b>\$ 797,341</b>	<b>\$ 113,887</b>

As infrastructure and building projects were completed or otherwise acquired during the year, the University's capital asset balances grew significantly. More than \$235 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 2016-17 <i>(in thousands)</i>	CAPITALIZED COST
Rotunda renovations phase II	\$ 49,578
UVA Wise library	36,901
UVA Medical Center Educational Resource Center	30,340
Newcomb Road chiller plant capacity replacement	11,931
Gooch Dillard residence hall renovation phase II	9,790
<b>TOTAL</b>	<b>\$ 138,540</b>

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 variable- and fixed-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 under \$1.6 billion of debt outstanding as of June 30, 2017, which included \$86 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, 2017, and June 30, 2016, is summarized below:

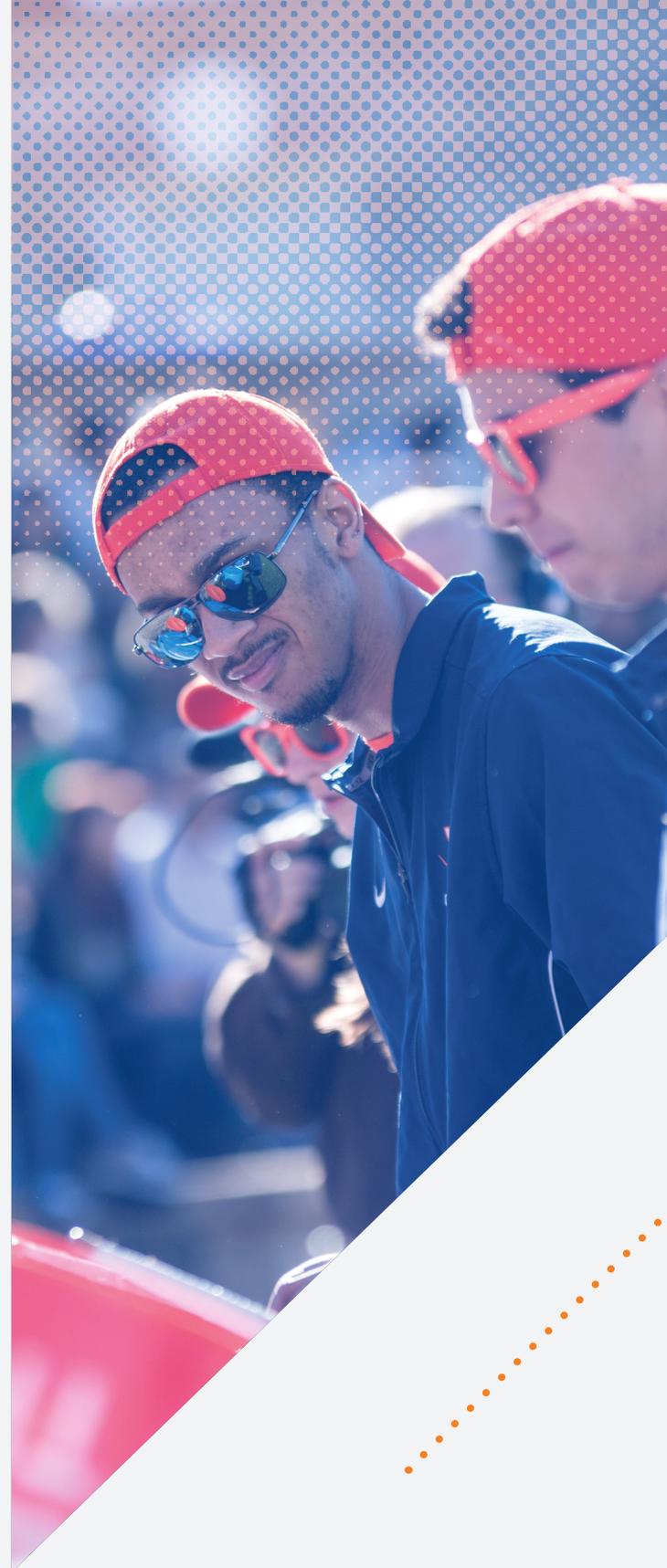
NET POSITION <i>(in thousands)</i>	2017	2016	INCREASE (DECREASE)	
			AMOUNT	PERCENT
Net investment in capital assets	\$ 1,921,181	\$ 1,880,320	\$ 40,861	2.2%
Restricted				
Nonexpendable	676,312	624,646	51,666	8.3%
Expendable	2,987,365	2,819,180	168,185	6.0%
Unrestricted	2,620,559	2,260,682	359,877	15.9%
<b>TOTAL NET POSITION</b>	<b>\$ 8,205,417</b>	<b>\$ 7,584,828</b>	<b>\$ 620,589</b>	<b>8.2%</b>

**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 \$148 million and were offset by a \$107-million increase in debt used to finance those capital assets, for a net change of \$41 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 \$47 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 increase is a result of the investment returns of 12.4 percent for the fiscal year.

**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 increase is largely a result of investment returns of 12.4 percent and the Medical Center's positive operating margin.



## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The Statement of Revenues, Expenses and Changes in Net Position presents the University's results of activities for the year. Presented below is a summarized statement for the years ended June 30, 2017, and June 30, 2016:

SUMMARY OF THE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION <i>(in thousands)</i>	2017	2016	INCREASE (DECREASE)	
			AMOUNT	PERCENT
<b>Operating revenues</b>				
Student tuition and fees, net	\$ 545,168	\$ 511,063	\$ 34,105	6.7%
Patient services, net	1,545,404	1,501,746	43,658	2.9%
Sponsored programs	321,906	301,783	20,123	6.7%
Other	240,614	214,059	26,555	12.4%
<b>Total operating revenues</b>	<b>2,653,092</b>	<b>2,528,651</b>	<b>124,441</b>	<b>4.9%</b>
<b>Operating expenses</b>	<b>3,105,487</b>	<b>2,925,473</b>	<b>180,014</b>	<b>6.2%</b>
<b>Operating loss</b>	<b>(452,395)</b>	<b>(396,822)</b>	<b>(55,573)</b>	<b>14.0%</b>
<b>Nonoperating revenues (expenses)</b>				
State appropriations	168,664	159,757	8,907	5.6%
Gifts	163,356	168,521	(5,165)	(3.1%)
Investment income (loss)	728,658	(112,633)	841,291	746.9%
Pell grants	12,485	12,489	(4)	(0.0%)
Interest on capital asset-related debt	(69,062)	(70,808)	1,746	(2.5%)
Build America Bonds (BAB) rebate	8,151	8,133	18	0.2%
Other net nonoperating expenses	(32,525)	(11,414)	(21,111)	185.0%
<b>Net nonoperating revenues</b>	<b>979,727</b>	<b>154,045</b>	<b>825,682</b>	<b>536.0%</b>
<b>Income (loss) before other revenues, expenses, gains, or losses</b>	<b>527,332</b>	<b>(242,777)</b>	<b>770,109</b>	<b>(317.2%)</b>
Capital appropriations, gifts, and grants	46,294	56,742	(10,448)	(18.4%)
Additions to permanent endowments	46,963	14,521	32,442	223.4%
<b>Total other revenues</b>	<b>93,257</b>	<b>71,263</b>	<b>21,994</b>	<b>30.9%</b>
<b>INCREASE (DECREASE) IN NET POSITION</b>	<b>620,589</b>	<b>(171,514)</b>	<b>792,103</b>	<b>(461.8%)</b>
NET POSITION — BEGINNING OF YEAR	7,584,828	7,795,938	(211,110)	(2.7%)
Net effect of prior period adjustments	-	(39,596)	39,596	100.0%
<b>NET POSITION — END OF YEAR</b>	<b>\$ 8,205,417</b>	<b>\$ 7,584,828</b>	<b>\$ 620,589</b>	<b>8.2%</b>

GASB 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 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 any one single source and allows it to adapt during difficult economic times. The University's revenues, for the years ended June 30, 2017, and June 30, 2016, are summarized below:

SUMMARY OF REVENUES <i>(in thousands)</i>	2017			2016			TOTAL INSTITUTION INCREASE (DECREASE)	
	ACADEMIC DIVISION & WISE	MEDICAL CENTER	TOTAL INSTITUTION	ACADEMIC DIVISION & WISE	MEDICAL CENTER	TOTAL INSTITUTION	AMOUNT	PERCENT
<b>Operating revenues</b>								
Student tuition and fees, net	\$ 545,168	\$ -	\$ 545,168	\$ 511,063	\$ -	\$ 511,063	\$ 34,105	6.7%
Patient services, net	-	1,545,404	1,545,404	-	1,501,746	1,501,746	43,658	2.9%
Federal, state, and local grants and contracts	263,217	-	263,217	247,718	-	247,718	15,499	6.3%
Nongovernmental grants and contracts	58,689	-	58,689	54,065	-	54,065	4,624	8.6%
Sales and services of educational departments	43,134	-	43,134	27,748	-	27,748	15,386	55.4%
Auxiliary enterprises revenue, net	137,057	-	137,057	132,583	-	132,583	4,474	3.4%
Other operating revenues	2,446	57,977	60,423	73	53,655	53,728	6,695	12.5%
<b>Total operating revenues</b>	<b>1,049,711</b>	<b>1,603,381</b>	<b>2,653,092</b>	<b>973,250</b>	<b>1,555,401</b>	<b>2,528,651</b>	<b>124,441</b>	<b>4.9%</b>
<b>Nonoperating revenues</b>								
State appropriations	168,664	-	168,664	159,757	-	159,757	8,907	5.6%
Private gifts	159,895	3,461	163,356	166,164	2,357	168,521	(5,165)	(3.1%)
Investment income (loss)	652,829	75,829	728,658	(102,513)	(10,120)	(112,633)	841,291	746.9%
Other nonoperating revenues	105,742	-	105,742	83,752	-	83,752	21,990	26.3%
<b>Total nonoperating revenues</b>	<b>1,087,130</b>	<b>79,290</b>	<b>1,166,420</b>	<b>307,160</b>	<b>(7,763)</b>	<b>299,397</b>	<b>867,023</b>	<b>289.6%</b>
<b>TOTAL REVENUES</b>	<b>\$ 2,136,841</b>	<b>\$ 1,682,671</b>	<b>\$ 3,819,512</b>	<b>\$ 1,280,410</b>	<b>\$ 1,547,638</b>	<b>\$ 2,828,048</b>	<b>\$ 991,464</b>	<b>35.1%</b>

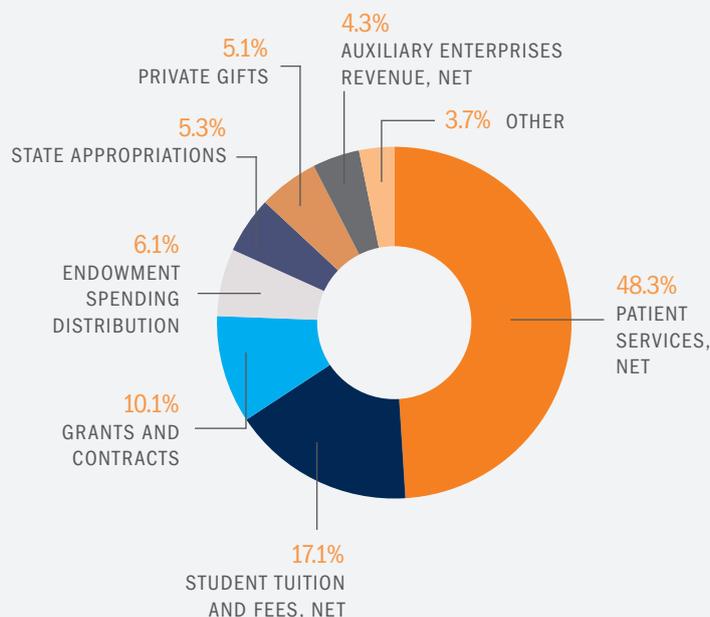
Net student tuition and fees revenue increased due to new programs, enrollment growth, and changes in tuition and fee rates. Tuition and fees revenue is reported net of scholarships and allowances provided from University sources. Net patient revenues are higher due to increased patient collections after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

## REVENUES AND OTHER SOURCES OF OPERATIONAL FUNDING

Below 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, 2017. 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 below 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. 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.

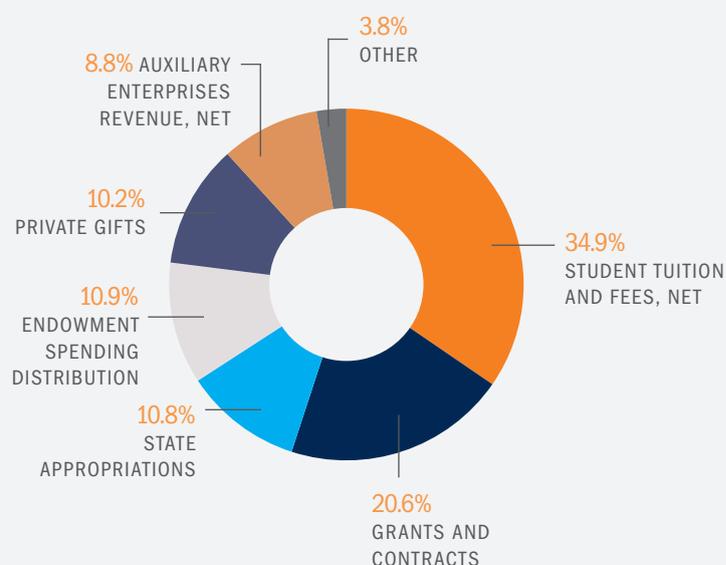
TOTAL UNIVERSITY REVENUES AND OTHER SOURCES OF OPERATIONAL FUNDING



Net student tuition and fees, and grants and contracts are the next largest revenues. Private support from endowment spending and gifts combined provides about 11 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 below. Net tuition and fees make up more than one-third of the operating revenues for the Academic Division and Wise. Contributing a combined 21 percent, private support in the form of endowment spending distribution and gifts has been, and will continue to be, essential to maintaining the University's academic excellence. External research support from grants and contracts makes up another 21 percent of operational funding.

#### ACADEMIC AND WISE REVENUES AND OTHER SOURCES OF OPERATIONAL FUNDING



#### EXPENSES

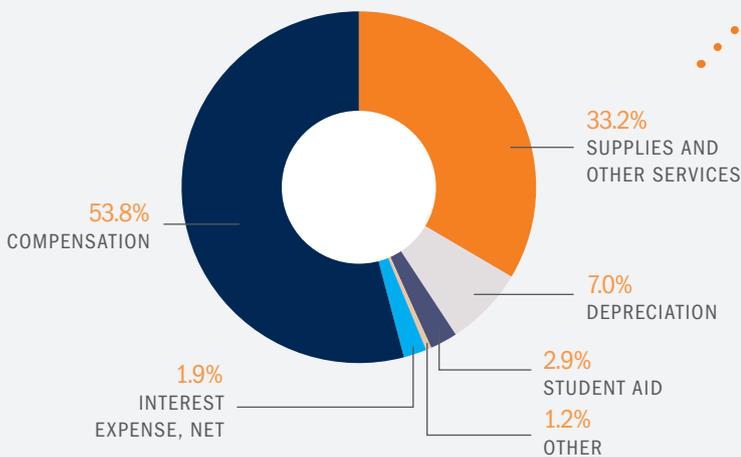
The University's expenses for the years ended June 30, 2017, and June 30, 2016, are summarized as follows:

SUMMARY OF EXPENSES (in thousands)	2017			2016			TOTAL INSTITUTION INCREASE (DECREASE)	
	ACADEMIC DIVISION & WISE	MEDICAL CENTER	TOTAL INSTITUTION	ACADEMIC DIVISION & WISE	MEDICAL CENTER	TOTAL INSTITUTION	AMOUNT	PERCENT
<b>Operating expenses</b>								
Compensation	\$ 1,043,897	\$ 675,721	\$ 1,719,618	\$ 941,240	\$ 680,281	\$ 1,621,521	\$ 98,097	6.0%
Supplies and other services	388,280	674,975	1,063,255	308,351	695,969	1,004,320	58,935	5.9%
Student aid	92,691	-	92,691	75,808	-	75,808	16,883	22.3%
Depreciation	127,780	97,467	225,247	121,797	97,886	219,683	5,564	2.5%
Other operating expenses	4,676	-	4,676	4,141	-	4,141	535	12.9%
<b>Total operating expenses</b>	<b>1,657,324</b>	<b>1,448,163</b>	<b>3,105,487</b>	<b>1,451,337</b>	<b>1,474,136</b>	<b>2,925,473</b>	<b>180,014</b>	<b>6.2%</b>
<b>Nonoperating expenses and other</b>								
Interest expense (net of BAB rebate)	43,055	17,856	60,911	42,118	20,557	62,675	(1,764)	(2.8%)
Gain (loss) on capital assets	1,281	2,285	3,566	1,142	(13,032)	(11,890)	15,456	130.0%
Other nonoperating expense	23,568	5,391	28,959	7,985	15,319	23,304	5,655	24.3%
<b>Total nonoperating expenses</b>	<b>67,904</b>	<b>25,532</b>	<b>93,436</b>	<b>51,245</b>	<b>22,844</b>	<b>74,089</b>	<b>19,347</b>	<b>26.1%</b>
<b>TOTAL EXPENSES</b>	<b>\$ 1,725,228</b>	<b>\$ 1,473,695</b>	<b>\$ 3,198,923</b>	<b>\$ 1,502,581</b>	<b>\$ 1,496,981</b>	<b>\$ 2,999,562</b>	<b>\$ 199,361</b>	<b>6.6%</b>

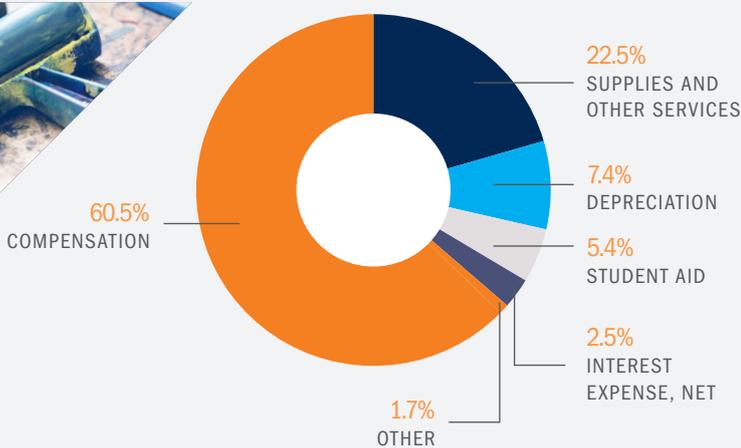
Increases in operating expenses are primarily driven by the increase in compensation and benefits (including the Virginia Retirement System (VRS) pension accrual). The University is committed to recruiting and retaining outstanding faculty and staff, and the compensation package is one way to successfully compete with peer institutions and nonacademic employers. The 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, 2017:

**TOTAL UNIVERSITY EXPENSES**

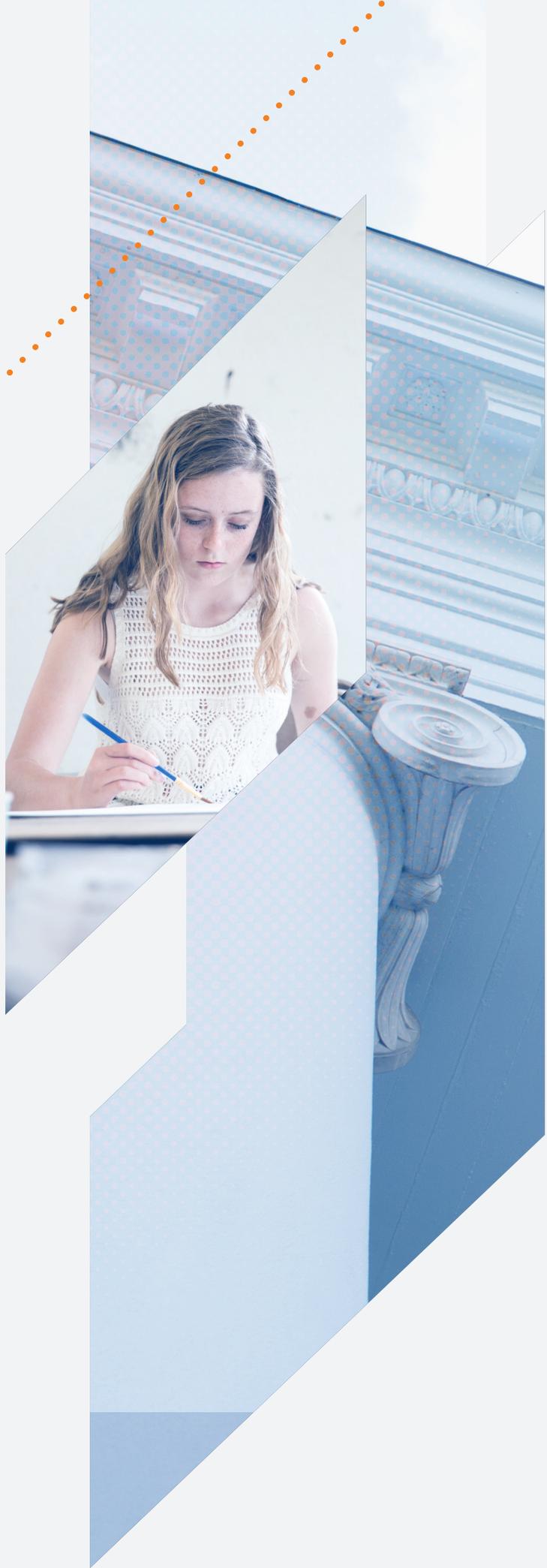


**ACADEMIC AND WISE EXPENSES**



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 71 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 a similar economic outlook as 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.

The University began the commemoration of its bicentennial on October 6, 2017 by celebrating and exploring its history, while charting a course for its third century that sustains academic, research and health care excellence. The University is also coming from a position of strength related to the impending leadership transition. President Teresa Sullivan announced in January 2017 her intention to retire as president. In

September 2017, the Board of Visitors appointed James E. Ryan, Dean of the Harvard Graduate School of Education, UVA Law graduate and former professor, as the next president of the University. A sustained and stable transition will support our financial outlook as President-elect Ryan joins the University in fall 2018.

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

Moody's Investors Service's 2017 annual report on higher education projects a stable outlook, with revenue growth from diverse sources, strong demand and steady enrollment. Among the expected trends are modest increases in tuition revenue with a continued emphasis on affordability, minimally higher state appropriations, stable research funding, and continued positive performance for academic medical centers. Moody's cites uncertainty about federal policy potentially impacting higher education.

Federal policy impacts several of the core University activities. The federal fiscal year 2018 budget request proposed reductions to several key federal agencies that fund research. However, Congress has remained supportive and rejected many of the proposals. It is anticipated that the 2019 budget request will also include proposed reductions, but Congressional support for research is expected to remain steady. Recently, both the House and Senate have released competing tax reform proposals that include provisions with an impact on educational benefits especially to graduate students, the deductibility of charitable giving, endowments (focused primarily on private institutions at the time of publication), and unrelated business income tax. The University is carefully monitoring proceedings related to the reauthorization of the Higher Education Act.

The Commonwealth remains committed to diversifying the state economy through increased focus on job creation, workforce development, and business investments and with less dependence on federal spending. As a result, general fund revenue collections increased 3.6 percent in fiscal year 2017 – slightly above the forecast. The impact for fiscal year 2019 to the University's general fund appropriation will be clearer after the 2018 General Assembly Session. Long-term, the University's diverse revenue base and commitment to organizational efficiencies, as well as the fact that state appropriations make up only 5 percent of the

University's total revenues and others sources of operational funding, ensure that the University remains in good position to withstand unpredictability of future state support.

The University's health system has continued to produce positive financial results. Medical Center volume growth is driven by patients with complex medical needs. Specific emerging growth strategies include transplant, oncology, heart and vascular, and orthopedics. Looking forward, the Medical Center maintains its strategic goal of providing exceptional clinical care. The health system has developed a long-range financial plan to support these goals within the context of a rapidly changing health care industry. Similar to other hospitals across the country, we are experiencing continued growth in demand for outpatient services, increasing costs associated with pharmaceuticals and medical supplies, challenges of recruitment and retention of frontline health care workers, and a growing compliance burden. As a state hospital, we also have a continued responsibility to care for the medically underserved in Virginia.

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 7, 2017

*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, 2017. 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,*

Handwritten signature of Melody S. Bianchetto in black ink.

Melody S. Bianchetto  
Vice President for Finance

Handwritten signature of Gerald E. Burke in black ink.

Gerald E. Burke  
Assistant Vice President for Financial Operations



# Commonwealth of Virginia

## Auditor of Public Accounts

Martha S. Mavredes, CPA  
Auditor of Public Accounts

P.O. Box 1295  
Richmond, Virginia 23218

November 7, 2017

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, 2017, 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 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 of Virginia as of June 30, 2017, 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.

### **Other Matters**

#### Prior-Year Summarized Comparative Information

We have previously audited the University of Virginia's 2016 financial statements, and we expressed an unmodified audit opinion on the respective financial statements in our report dated November 10, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, 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 65 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 7, 2017 on our consideration of the University'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.



**AUDITOR OF PUBLIC ACCOUNTS**

**UNIVERSITY OF VIRGINIA**  
**STATEMENT OF NET POSITION** *(in thousands)*

AS OF JUNE 30, 2017 (WITH COMPARATIVE INFORMATION AS OF JUNE 30, 2016)

	2017	2016
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents (Note 2)	\$ 97,751	\$ 129,683
Short-term investments (Note 2)	68	230,886
Appropriations available	4,380	5,320
Accounts receivable, net (Note 3a)	343,415	315,565
Prepaid expenses	28,707	28,907
Inventories	28,275	24,997
Notes receivable, net (Note 3b)	6,532	5,125
<b>Total current assets</b>	<b>509,128</b>	<b>740,483</b>
<b>Noncurrent assets</b>		
Cash and cash equivalents (Note 2)	13,237	11,680
Long-term investments (Note 2)	2,495,607	2,073,236
Endowment (Note 2)	4,444,091	4,084,301
Notes receivable, net (Note 3b)	62,865	67,820
Pledges and other receivables, net (Note 3c)	14,037	12,226
Derivative instruments (Note 6)	-	3,634
Capital assets – depreciable, net (Note 3d)	3,127,018	3,026,277
Capital assets – nondepreciable (Note 3d)	386,410	333,340
Goodwill (Note 3e)	17,740	9,673
<b>Total noncurrent assets</b>	<b>10,561,005</b>	<b>9,622,187</b>
<b>DEFERRED OUTFLOWS OF RESOURCES (Note 3f)</b>	<b>133,411</b>	<b>92,864</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 11,203,544</b>	<b>\$ 10,455,534</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (Note 3g)	\$ 310,267	\$ 303,314
Unearned revenue (Note 3h)	105,726	100,271
Deposits held in custody for others	4,459	14,626
Commercial paper (Note 4)	86,295	153,045
Long-term debt – current portion (Note 5a)	10,333	6,558
Long-term liabilities – current portion (Note 5b)	85,413	78,284
<b>Total current liabilities</b>	<b>602,493</b>	<b>656,098</b>
<b>Noncurrent liabilities</b>		
Long-term debt (Note 5a)	1,507,280	1,352,333
Derivative instrument liability (Note 6)	31,620	43,042
Net pension liability (Note 11)	551,786	507,590
Other noncurrent liabilities (Note 5b)	217,559	199,932
<b>Total noncurrent liabilities</b>	<b>2,308,245</b>	<b>2,102,897</b>
<b>DEFERRED INFLOWS OF RESOURCES (Note 3i)</b>	<b>87,389</b>	<b>111,711</b>
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	<b>\$ 2,998,127</b>	<b>\$ 2,870,706</b>
<b>NET POSITION</b>		
Net investment in capital assets	\$ 1,921,181	\$ 1,880,320
Restricted:		
Nonexpendable	676,312	624,646
Expendable	2,987,365	2,819,180
Unrestricted	2,620,559	2,260,682
<b>TOTAL NET POSITION</b>	<b>\$ 8,205,417</b>	<b>\$ 7,584,828</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	<b>\$ 11,203,544</b>	<b>\$ 10,455,534</b>

Certain 2016 amounts have been restated to conform to 2017 classifications.

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

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

AS OF JUNE 30, 2017 (WITH COMPARATIVE INFORMATION AS OF JUNE 30, 2016)

	2017	2016
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 92,945	\$ 75,697
Receivables	136,404	139,852
Other current assets	291,630	479,832
<b>Total current assets</b>	<b>520,979</b>	<b>695,381</b>
<b>Noncurrent assets</b>		
Pledges receivable, net of current portion of \$39,006 and \$35,712	65,609	55,330
Long-term investments	8,788,412	7,843,703
Capital assets, net of depreciation	428,405	357,146
Other noncurrent assets	29,910	33,944
<b>Total noncurrent assets</b>	<b>9,312,336</b>	<b>8,290,123</b>
<b>TOTAL ASSETS</b>	<b>\$ 9,833,315</b>	<b>\$ 8,985,504</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current liabilities</b>		
Assets held in trust for others	\$ 103,083	\$ 91,945
Other liabilities	252,940	154,134
<b>Total current liabilities</b>	<b>356,023</b>	<b>246,079</b>
<b>Noncurrent liabilities</b>		
Long-term debt, net of debt issuance cost and current portion of \$6,675 and \$27,053	163,846	222,342
Other noncurrent liabilities	7,336,575	6,735,682
<b>Total noncurrent liabilities</b>	<b>7,500,421</b>	<b>6,958,024</b>
<b>TOTAL LIABILITIES</b>	<b>\$ 7,856,444</b>	<b>\$ 7,204,103</b>
<b>NET ASSETS</b>		
Unrestricted	\$ 397,442	\$ 341,997
Temporarily restricted	847,054	751,715
Permanently restricted	732,375	687,689
<b>TOTAL NET ASSETS</b>	<b>\$ 1,976,871</b>	<b>\$ 1,781,401</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 9,833,315</b>	<b>\$ 8,985,504</b>

*Certain 2016 amounts have been restated to conform to 2017 classifications.  
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, 2017 (WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)

	2017	2016
<b>REVENUES</b>		
<b>Operating revenues</b>		
Student tuition and fees, net of scholarship allowances of \$113,061 and \$115,705	\$ 545,168	\$ 511,063
Patient services, net of charity care of \$3,658,619 and \$3,470,187	1,545,404	1,501,746
Federal grants and contracts	256,145	241,568
State and local grants and contracts	7,072	6,150
Nongovernmental grants and contracts	58,689	54,065
Sales and services of educational departments	43,134	27,748
Auxiliary enterprises revenue, net of scholarship allowances of \$19,355 and \$19,284	137,057	132,583
Other operating revenues	60,423	53,728
<b>TOTAL OPERATING REVENUES</b>	<b>2,653,092</b>	<b>2,528,651</b>
<b>EXPENSES</b>		
<b>Operating expenses (Note 9)</b>		
Compensation and benefits	1,719,618	1,621,521
Supplies and other services	1,063,255	1,004,320
Student aid	92,691	75,808
Depreciation	225,247	219,683
Other	4,676	4,141
<b>TOTAL OPERATING EXPENSES</b>	<b>3,105,487</b>	<b>2,925,473</b>
<b>OPERATING LOSS</b>	<b>(452,395)</b>	<b>(396,822)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations (Note 10)	168,664	159,757
Gifts	163,356	168,521
Investment income (loss)	728,658	(112,633)
Pell grants	12,485	12,489
Interest on capital asset-related debt	(69,062)	(70,808)
Build America Bonds rebate	8,151	8,133
Gains (losses) on capital assets	(3,566)	11,890
Other net nonoperating expenses	(28,959)	(23,304)
<b>NET NONOPERATING REVENUES</b>	<b>979,727</b>	<b>154,045</b>
<b>INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES</b>	<b>527,332</b>	<b>(242,777)</b>
Capital appropriations	15,691	32,555
Capital grants and gifts	30,603	24,187
Additions to permanent endowments	46,963	14,521
<b>TOTAL OTHER REVENUES</b>	<b>93,257</b>	<b>71,263</b>
<b>INCREASE (DECREASE) IN NET POSITION</b>	<b>620,589</b>	<b>(171,514)</b>
<b>NET POSITION</b>		
Net position – beginning of year	7,584,828	7,795,938
Net effect of prior period adjustments (Note 1)	-	(39,596)
<b>NET POSITION – BEGINNING OF YEAR AS RESTATED</b>	<b>7,584,828</b>	<b>7,756,342</b>
<b>NET POSITION – END OF YEAR</b>	<b>\$ 8,205,417</b>	<b>\$ 7,584,828</b>

Certain 2016 amounts have been restated to conform to 2017 classifications.

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

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

FOR THE YEAR ENDED JUNE 30, 2017 (WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)

	<b>2017</b>	<b>2016</b>
<b>UNRESTRICTED REVENUES AND SUPPORT</b>		
Contributions	\$ 30,785	\$ 29,807
Fees for services, rentals and sales	429,017	403,020
Investment loss	42,067	(7,145)
Net assets released from restriction	134,780	108,489
Other income	155,021	157,177
<b>TOTAL UNRESTRICTED REVENUES AND SUPPORT</b>	<b>791,670</b>	<b>691,348</b>
<b>EXPENSES</b>		
Program services, lectures and special events	510,259	515,865
Scholarships and financial aid	93,128	73,241
Management and general	41,209	36,667
Other expenses	91,948	110,424
<b>TOTAL EXPENSES</b>	<b>736,544</b>	<b>736,197</b>
<b>DEFICIENCY OF UNRESTRICTED REVENUES AND SUPPORT OVER EXPENSES</b>	<b>55,126</b>	<b>(44,849)</b>
<b>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS</b>		
Contributions	81,199	74,249
Investment and other income (loss)	149,429	(20,122)
Reclassification per donor stipulation	203	-
Net assets released from restriction	(135,173)	(111,865)
<b>NET CHANGES IN TEMPORARILY RESTRICTED NET ASSETS</b>	<b>95,658</b>	<b>(57,738)</b>
<b>CHANGES IN PERMANENTLY RESTRICTED NET ASSETS</b>		
Contributions	45,068	25,501
Investment and other income (loss)	(1,066)	(2,821)
Reclassification per donor stipulation	291	-
Net assets released from restriction	393	3,376
<b>NET CHANGES IN PERMANENTLY RESTRICTED NET ASSETS</b>	<b>44,686</b>	<b>26,056</b>
<b>CHANGE IN NET ASSETS</b>	<b>195,470</b>	<b>(76,531)</b>
Net assets – beginning of year	1,781,401	1,857,932
<b>NET ASSETS – END OF YEAR</b>	<b>\$ 1,976,871</b>	<b>\$ 1,781,401</b>

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, 2017 (WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Tuition and fees	\$ 547,718	\$ 513,187
Grants and contracts	312,868	308,929
Patient services	1,551,066	1,442,817
Sales and services of educational activities	41,851	26,357
Sales and services of auxiliary enterprises	134,619	134,955
Payments to employees and fringe benefits	(1,725,883)	(1,616,893)
Payments to vendors and suppliers	(1,070,098)	(973,276)
Payments for scholarships and fellowships	(92,691)	(75,808)
Perkins and other loans issued to students	(62,984)	(17,609)
Collection of Perkins and other loans to students	61,862	18,277
Other receipts	63,598	60,364
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b>(238,074)</b>	<b>(178,700)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State appropriations	169,545	162,166
Additions to permanent endowments	46,963	14,521
Federal Direct Loan Program receipts	127,239	123,592
Federal Direct Loan Program payments	(127,239)	(123,592)
Pell grants	12,485	12,478
Deposits held in custody for others	(10,041)	8,499
Noncapital gifts and grants and endowments received	153,334	170,454
Repayments from noncapital debt	(25,000)	25,000
Other net nonoperating expenses	333	40,902
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<b>347,619</b>	<b>434,020</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital appropriations	14,000	31,216
Capital gifts and grants received	30,468	24,321
Proceeds from capital debt	392,986	94,168
Proceeds from sale of capital assets	-	691
Acquisition and construction of capital assets	(368,289)	(393,406)
Principal paid on capital debt and leases	(265,412)	(45,176)
Interest paid on capital debt and leases	(74,211)	(61,821)
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(270,458)</b>	<b>(350,007)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments	711,518	375,377
Interest on investments	21,116	(2,442)
Purchase of investments and related fees	(567,045)	(665,249)
Other investment activities	(35,051)	(61,864)
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<b>130,538</b>	<b>(354,178)</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		
	<b>(30,375)</b>	<b>(448,865)</b>
Cash and cash equivalents — beginning of year	141,363	590,228
<b>CASH AND CASH EQUIVALENTS — END OF YEAR</b>	<b>\$ 110,988</b>	<b>\$ 141,363</b>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating loss	\$ (452,395)	\$ (396,811)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation expense	225,247	219,683
Provision for uncollectible loans and write-offs	1,786	699
Changes in assets and liabilities:		
Receivables, net	3,941	(42,809)
Inventories	(1,942)	983
Prepaid expenses	(1,136)	1,832
Notes receivable, net	1,765	708
Capital assets, net	-	2,173
Deferred outflows of resources	(35,725)	(10,225)
Accounts payable and accrued liabilities	(19,383)	26,925
Unearned revenue	3,147	11,916
Accrual for compensated absences	6,922	6,662
Net pension liability	54,206	47,641
Deferred inflows of resources	(24,507)	(48,077)
<b>TOTAL ADJUSTMENTS</b>	<b>214,321</b>	<b>218,111</b>
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b>\$ (238,074)</b>	<b>\$ (178,700)</b>

Certain 2016 amounts have been restated to conform to the 2017 classifications.  
The accompanying Notes to Financial Statements are an integral part of this statement.

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

FOR THE YEAR ENDED JUNE 30, 2017 (WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)

	2017	2016
<b>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES</b>		
Assets acquired through assumption of a liability	\$ 8,970	\$ 365
Assets acquired through a gift	9,284	2,589
Change in fair value of investments	613,384	(99,481)
Increase in receivables related to nonoperating income	2,758	2,588
Gain (loss) on disposal of capital assets	1,004	11,890
Net loss on investments in affiliated companies	23,149	(2,319)
Goodwill reclassification	8,717	-
Change in non-controlling interest in subsidiary	1,260	-
VRS and VaLORS Special Revenue Allocation	13,576	-
Revaluation of investment	(5,968)	-
Amortization of bond premium	11,948	-

*Certain 2016 amounts have been restated to conform to the 2017 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 two controlled subsidiary companies – University of Virginia Imaging, LLC and Community Medicine, LLC – 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

As required by generally accepted accounting principles in the United States of America (U.S. GAAP), the financial reporting entity includes both the University and all of its component units. The University's component units are either blended or discretely presented in the University's financial statements. The blended component units, although legally separate, are, in substance, part of the University's operations and, therefore, are reported as if they were part of the University. Discretely presented component units' financial data are reported in separate financial statements because of their use of different GAAP reporting models and to emphasize their legal separateness.

#### BLENDING COMPONENT UNITS

**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.

#### DISCRETELY PRESENTED COMPONENT UNITS

The University has 25 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, 2017.

- 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, 2016. 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 devise 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 to provide, through its member clinical departments, 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.

## 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 90 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 UVMCO 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 UVMCO are in the Long-Term Pool (LTP), which is a unitized investment pool. The LTP commingles endowment, charitable trusts and other funds of the University and the Foundations. Assets of the LTP are pooled on a fair value basis in accordance with U.S. GAAP and unitized monthly. Deposits and withdrawals are also processed monthly. Each depositor subscribes to or disposes of units on the basis of the value per unit at fair value as calculated on the last calendar day of the month in which a deposit or redemption request is received by UVMCO. LTP transactions are subject to the notification requirements and caps set forth in the deposit and management agreement between the University and UVMCO. 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 3 percent of its investment in the pool at the previous month-end or \$15 million. Withdrawal requests in excess of an amount greater than 1 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, 2017, was \$131,039.

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	5-20
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, as of June 30, 2017, reflects 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.

## DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources are an acquisition of assets that are 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 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

Operating activities as reported on the Statement of Revenues, Expenses and Changes in Net Position, are generally the 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 the Medical Center, 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, 2016, from which the summarized information was derived. Certain amounts from the prior fiscal year have been reclassified to conform to current-year presentation.

### CHANGES IN FINANCIAL ACCOUNTING & REPORTING

For the fiscal year ended June 30, 2017, the University implemented the following pronouncements issued by the Governmental Accounting Standards Board. The implementation did not have a material impact on the University's financial statements.

GASB Statement No. 82, *Pension Issues*. This Statement addresses certain issues with respect to Statements No. 67 (*Financial Reporting for Pension Plans*), No. 68 (*Accounting and Financial Reporting for Pensions*), and No. 73 (*Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*). Specifically, Statement No. 82 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.

## 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 \$70.9 million on June 30, 2017.

### 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.

Restricted cash and cash equivalents totaled \$13.2 million and \$11.6 million on June 30, 2017, and June 30, 2016, 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 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, 2017.

**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, 2017, 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, 2017, 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, 2017, 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 5 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, 2017.



Details of the University's investment risks as of June 30, 2017, are outlined below:

CREDIT QUALITY AND INTEREST RATE RISK <i>(in thousands)</i>	BALANCE AT <i>June 30, 2017</i>	CREDIT RATING	INVESTMENT MATURITIES (IN YEARS)			
			LESS THAN 1 YEAR	1 - 5 YEARS	6 - 10 YEARS	GREATER THAN 10 YEARS
<b>CASH AND CASH EQUIVALENTS</b>						
Cash on hand	\$ 297	Not Applicable	NA	NA	NA	NA
Cash deposits	81,104	Not Applicable	NA	NA	NA	NA
University of Virginia Aggregate Cash Pool	29,445	Not Applicable	29,445	-	-	-
State Non-Arbitrage Program	142	AAAm	142	-	-	-
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<b>\$ 110,988</b>		<b>\$ 29,587</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>SHORT-TERM INVESTMENTS</b>						
Cash deposits	\$ 47	Not Applicable	\$ NA	NA	NA	NA
Other investments not subject to credit or interest rate risk	21	Not Applicable	NA	NA	NA	NA
<b>TOTAL SHORT-TERM INVESTMENTS</b>	<b>\$ 68</b>		<b>\$ -</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>LONG-TERM INVESTMENTS</b>						
UVIMCO LTP	\$ 2,403,961	Not Rated	NA	NA	NA	NA
Other investments not subject to credit or interest rate risk	91,646	Not Applicable	NA	NA	NA	NA
<b>TOTAL LONG-TERM INVESTMENTS</b>	<b>\$ 2,495,607</b>		<b>\$ -</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>ENDOWMENT</b>						
Cash and cash equivalents	\$ 1,546	Not Applicable	\$ 1,546	-	-	-
UVIMCO LTP	4,429,230	Not Rated	NA	NA	NA	NA
Other investments not subject to credit or interest rate risk	13,315	Not Applicable	NA	NA	NA	NA
<b>TOTAL ENDOWMENT</b>	<b>\$ 4,444,091</b>		<b>\$ 1,546</b>	<b>-</b>	<b>-</b>	<b>-</b>

## INVESTMENTS

UVIMCO administers and manages the majority of the University's investments in its unitized investment pool. From time to time, the University also invests its operating funds with a number of other asset managers. At June 30, 2017, the University's investment in the LTP was \$6.8 billion representing 97 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, 2017:

INVESTMENTS AND DERIVATIVE INSTRUMENTS MEASURED AT FAIR VALUE <i>(in thousands)</i>	BALANCE AT JUNE 30, 2017	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS	SIGNIFICANT OTHER OBSERVABLE INPUTS	SIGNIFICANT UNOBSERVABLE INPUTS	INVESTMENTS MEASURED AT NAV*	AMOUNTS NOT MEASURED AT FAIR VALUE
		(LEVEL 1)	(LEVEL 2)	(LEVEL 3)		
<b>SHORT-TERM INVESTMENTS</b>						
Cash deposits	\$ 47	\$ -	\$ -	\$ -	\$ -	\$ 47
Equity securities	21	10	-	11	-	-
<b>TOTAL SHORT-TERM INVESTMENTS</b>	<b>\$ 68</b>	<b>\$ 10</b>	<b>\$ -</b>	<b>\$ 11</b>	<b>\$ -</b>	<b>\$ 47</b>
<b>LONG-TERM INVESTMENTS</b>						
Life insurance contracts**	\$ 4,167	\$ -	\$ -	\$ -	\$ -	\$ 4,167
Investments in affiliates	87,472	-	-	-	-	87,472
Equity securities	7	-	-	7	-	-
UVIMCO LTP	2,403,961	-	-	-	2,403,961	-
<b>TOTAL LONG-TERM INVESTMENTS</b>	<b>\$ 2,495,607</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 7</b>	<b>\$ 2,403,961</b>	<b>\$ 91,639</b>
<b>ENDOWMENT</b>						
Cash and cash equivalents	\$ 1,546	\$ -	\$ 855	\$ -	\$ -	\$ 691
Equity securities	977	942	-	35	-	-
UVIMCO LTP	4,429,230	-	-	-	4,429,230	-
Exchange traded funds	12,338	12,338	-	-	-	-
<b>TOTAL ENDOWMENT</b>	<b>\$ 4,444,091</b>	<b>\$ 13,280</b>	<b>\$ 855</b>	<b>\$ 35</b>	<b>\$ 4,429,230</b>	<b>\$ 691</b>
<b>INVESTMENT DERIVATIVE INSTRUMENTS***</b>						
Fixed-receiver interest rate swaps	\$ (557)	\$ -	\$ (557)	\$ -	\$ -	\$ -
Fixed-payer interest rate swaps	(31,063)	-	(31,063)	-	-	-
<b>TOTAL INVESTMENT DERIVATIVE INSTRUMENTS</b>	<b>\$ (31,620)</b>	<b>\$ -</b>	<b>\$ (31,620)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

\* 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.

\*\* Investments in life insurance contracts are measured at cash surrender value.

\*\*\* 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:

<b>INVESTMENTS MEASURED AT NET ASSET VALUE (NAV)</b> <i>(in thousands)</i>	<b>BALANCE AT</b> <i>June 30, 2017</i>	<b>UNFUNDED COMMITMENTS</b>	<b>REDEMPTION FREQUENCY (IF CURRENTLY ELIGIBLE)</b>	<b>REDEMPTION NOTICE PERIOD</b>
UVIMCO LTP	6,833,191	-	Monthly	(a)
<b>TOTAL INVESTMENTS MEASURED AT NAV</b>	<b>\$ 6,833,191</b>	<b>\$ -</b>		

(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, 2017, was \$4.4 billion. Biannual distributions are made from the University's endowment to departments holding endowment accounts. The University's endowment spending policy ties annual increases to inflation as defined by the Higher Education Price Index. The current inflation factor in use by the University is 2.2 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 2017, the endowment spending distribution of \$196.6 million, excluding agency funds, equaled 4.6 percent of the fiscal year 2015 ending market value. Since the results fell within the range, no further action by the Board was needed.

For the year ended June 30, 2017, the University had the following endowment-related activities:

<b>SUMMARY OF ENDOWMENT ACTIVITY</b> <i>(in thousands)</i>	<b>TYPE OF ENDOWMENT FUND</b>				<b>TOTAL</b>
	<b>DONOR-RESTRICTED</b>	<b>QUASI</b>	<b>TRUSTS</b>	<b>AGENCY</b>	
Investment earnings	\$ 213,360	\$ 236,544	\$ 8,510	\$ 2,184	\$ 460,598
Contributions to permanent endowments	46,963	-	-	-	46,963
Other gifts	-	-	1,427	-	1,427
Spending distribution	(92,794)	(103,801)	-	(844)	(197,439)
Transfers in (out)*	5,171	50,113	(6,989)	(54)	48,241
Reclass of demand notes due from related foundation, noninterest bearing**	-	(33,145)	-	-	(33,145)
<b>TOTAL CHANGE IN ENDOWMENT FUNDS</b>	<b>\$ 172,700</b>	<b>\$ 149,711</b>	<b>\$ 2,948</b>	<b>\$ 1,286</b>	<b>\$ 326,645</b>

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

\*\* Demand notes due from related foundation, noninterest bearing, were reclassified to Notes Receivable in fiscal year 2017. See Note 3 for further information.



### NOTE 3: STATEMENT OF NET POSITION DETAILS

**a. Accounts receivable:** The composition of accounts receivable at June 30, 2017, is summarized as follows:

<b>ACCOUNTS RECEIVABLE</b> <i>(in thousands)</i>	
Patient care	\$ 668,074
Grants and contracts	50,261
Student payments	19,285
Pledges	2,374
Institutional loans	1,914
Build America Bonds rebate	907
Bond requisitions	89
Equipment Trust Fund reimbursement	15,898
Auxiliary	1,991
Related foundation	18,473
Service concession arrangements	10,034
Other	41,257
Less: Allowance for doubtful accounts	(487,142)
<b>TOTAL ACCOUNTS RECEIVABLE</b>	<b>\$ 343,415</b>

**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, 2017, is summarized as follows:

<b>NOTES RECEIVABLE</b> <i>(in thousands)</i>	
Perkins	\$ 16,229
Nursing	1,323
Institutional	19,985
Fraternity loan	643
Demand notes due from related foundation, noninterest bearing	33,145
Other	8
Less: Allowance for doubtful accounts	(1,936)
<b>Total notes receivable, net</b>	<b>69,397</b>
Less: Current portion, net of allowance	(6,532)
<b>TOTAL NONCURRENT NOTES RECEIVABLE</b>	<b>\$ 62,865</b>

**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 \$7.2 million and \$8.5 million at June 30, 2017, and June 30, 2016, 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, 2017, is summarized as follows:

<b>PLEDGES AND OTHER RECEIVABLES</b> <i>(in thousands)</i>	
<b>PLEDGES AND OTHER RECEIVABLES OUTSTANDING</b>	
Gift pledges – Operations	\$ 5,881
Gift pledges – Capital	3,230
Service concession arrangements	20,543
<b>Total pledges and other receivables outstanding</b>	<b>29,654</b>
Less:	
Allowance for uncollectible amounts	(1,418)
Unamortized discount to present value	(2,538)
<b>Total pledges and other receivables, net</b>	<b>25,698</b>
Less: Current portion, net of allowance	(11,661)
<b>TOTAL NONCURRENT PLEDGES AND OTHER RECEIVABLES</b>	<b>\$ 14,037</b>

**d. Capital assets:** The capital assets activity for the year ended June 30, 2017, is summarized as follows:

<b>CAPITAL ASSETS</b> <i>(in thousands)</i>	<b>BEGINNING BALANCE JULY 1, 2016</b>	<b>INCREASES</b>	<b>DECREASES</b>	<b>ENDING BALANCE JUNE 30, 2017</b>
<b>NONDEPRECIABLE CAPITAL ASSETS</b>				
Land	\$ 57,202	\$ 7,824	\$ -	\$ 65,026
Construction in progress	272,199	263,618	(230,785)	305,032
Software in development	3,939	12,413	-	16,352
<b>TOTAL NONDEPRECIABLE CAPITAL ASSETS</b>	<b>333,340</b>	<b>283,855</b>	<b>(230,785)</b>	<b>386,410</b>
<b>DEPRECIABLE CAPITAL ASSETS</b>				
Buildings	3,766,540	213,290	(1,788)	3,978,042
Equipment	868,510	86,994	(51,072)	904,432
Infrastructure	497,773	21,031	(61)	518,743
Improvements other than buildings	165,155	1,323	(85)	166,393
Capitalized software	182,000	7,771	(227)	189,544
Library books	122,097	996	-	123,093
<b>Total depreciable capital assets</b>	<b>5,602,075</b>	<b>331,405</b>	<b>(53,233)</b>	<b>5,880,247</b>
Less: Accumulated depreciation for:				
Buildings	(1,391,039)	(112,198)	1,287	(1,501,950)
Equipment	(600,588)	(67,374)	41,855	(626,107)
Infrastructure	(208,510)	(14,716)	-	(223,226)
Improvements other than buildings	(123,591)	(6,726)	53	(130,264)
Capitalized software	(144,690)	(16,294)	227	(160,757)
Library books	(107,380)	(3,545)	-	(110,925)
<b>Total accumulated depreciation</b>	<b>(2,575,798)</b>	<b>(220,853)</b>	<b>43,422</b>	<b>(2,753,229)</b>
<b>TOTAL DEPRECIABLE CAPITAL ASSETS, NET</b>	<b>3,026,277</b>	<b>110,552</b>	<b>(9,811)</b>	<b>3,127,018</b>
<b>TOTAL CAPITAL ASSETS, NET</b>	<b>\$ 3,359,617</b>	<b>\$ 394,407</b>	<b>\$ (240,596)</b>	<b>\$ 3,513,428</b>

**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 40 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 20 years.

In April 2017, Hematology Oncology Patient Enterprises, Inc. (HOPE) was absorbed into the Medical Center's normal outpatient clinical operations. The remaining investment in HOPE was reclassified to Goodwill and will be amortized over a period of 15 years.

**f. Deferred outflows of resources:** The composition of deferred outflows of resources on June 30, 2017, is summarized as follows:

<b>DEFERRED OUTFLOWS OF RESOURCES</b> <i>(in thousands)</i>	
Deferred loss on early retirement of debt	\$ 42,655
Pension	90,756
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 133,411</b>

**g. Accounts payable and accrued liabilities:** The composition of accounts payable on June 30, 2017, is summarized as follows:

<b>ACCOUNTS PAYABLE AND ACCRUED LIABILITIES</b> <i>(in thousands)</i>	
Accounts payable	\$ 110,276
Accrued salaries and wages payable	80,714
Due to related foundations	46,110
Due to third party payors	62,494
Other payables	10,673
<b>TOTAL ACCOUNTS PAYABLE AND ACCRUED LIABILITIES</b>	<b>\$ 310,267</b>

**h. Unearned revenue:** The composition of unearned revenue on June 30, 2017, is summarized as follows:

<b>UNEARNED REVENUE</b> <i>(in thousands)</i>	
Grants and contracts	\$ 64,713
Student payments	16,562
Medical Center unearned revenues	912
Other unearned revenues	23,539
<b>TOTAL UNEARNED REVENUE</b>	<b>\$ 105,726</b>

**i. Deferred inflows of resources:** The composition of deferred inflows of resources on June 30, 2017, is summarized as follows:

<b>DEFERRED INFLOWS OF RESOURCES</b> <i>(in thousands)</i>	
Deferred gain on early retirement of debt	\$ 472
Service concession arrangements	68,473
Pension	18,444
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>\$ 87,389</b>

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, 2017, the University has accrued a \$18.8 million receivable, a \$12.0 million liability and a \$68.5 million deferred inflow of resources related to the service concession arrangement.

#### NOTE 4: SHORT-TERM DEBT

Short-term debt at June 30, 2017, is summarized as follows:

<b>SHORT-TERM DEBT</b> <i>(in thousands)</i>	<b>BEGINNING BALANCE JULY 1, 2016</b>	<b>ADDITIONS</b>	<b>REDUCTIONS</b>	<b>ENDING BALANCE JUNE 30, 2017</b>
<b>COMMERCIAL PAPER</b>				
Taxable	\$ 37,745	\$ -	\$ 25,000	\$ 12,745
Tax-exempt	115,300	95,800	137,550	73,550
<b>TOTAL COMMERCIAL PAPER</b>	<b>\$ 153,045</b>	<b>\$ 95,800</b>	<b>\$ 162,550</b>	<b>\$ 86,295</b>

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 2017, interest rates on commercial paper ranged from 0.40 to 0.95 percent.

## NOTE 5: LONG-TERM OBLIGATIONS

a. Long-term debt: The composition of long-term debt at June 30, 2017, is summarized as follows:

LONG-TERM DEBT (in thousands)	INTEREST RATES	FINAL MATURITY	BEGINNING BALANCE JULY 1, 2016	ADDITIONS	REDUCTIONS	ENDING BALANCE JUNE 30, 2017	CURRENT PORTION
<b>BONDS AND NOTES PAYABLE</b>							
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	66,640	-	2,655	63,985	2,790
University of Virginia Series 2013A (9d)	2.0% to 5.0%	2043	164,750	-	3,080	161,670	3,135
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	-
University of Virginia Series 2017A (9d)	4.0% to 5.0%	2047	-	231,780	-	231,780	-
University of Virginia Series 2017B (9d)	4.0% to 5.0%	2046	-	123,440	-	123,440	-
Commonwealth of Virginia bonds (9c)	3.8% to 9.3%	2021	2,549	-	613	1,936	623
Notes payable to VCBA 2007B (9d)	4.0% to 4.25%	2020	10,560	-	35	10,525	3,605
Notes payable to VCBA 2010B (9d)	2.0% to 5.0%	2021	3,435	-	-	3,435	-
Other	various	2029	2,593	-	175	2,418	180
<b>TOTAL BONDS AND NOTES PAYABLE</b>			<b>\$ 1,275,127</b>	<b>\$ 355,220</b>	<b>\$ 237,923</b>	<b>\$ 1,392,424</b>	<b>\$ 10,333</b>
Less: Current portion of debt			(6,558)	(3,775)	-	(10,333)	
Bond premium			83,764	53,373	11,948	125,189	
<b>NET LONG-TERM DEBT</b>			<b>\$ 1,352,333</b>	<b>\$ 404,818</b>	<b>\$ 249,871</b>	<b>\$ 1,507,280</b>	

\*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.



On February 22, 2017, the University of Virginia issued Series 2017A Bonds of \$231.78 million to refund \$45.44 million of tax-exempt commercial paper and advance refund \$209.21 million of Series 2008 Bonds. The refunding reduced the aggregate debt service by \$35.28 million, representing a net present value savings of \$25.1 million. The Series 2017 bonds were issued with a premium of \$36.99 million and an accounting loss, representing the difference between the par value of the refunding debt and the defeasance amount of the refunded debt, of \$12.97 million.

On February 22, 2017, the University of Virginia issued Series 2017B Bonds of \$123.44 million to refund \$92.01 million of tax-exempt commercial paper, advance refund \$22.16 million of Series 2008 Bonds, and provide \$23.58 million cash proceeds to the University. The refunding reduced the aggregate debt service by \$4.58 million, representing a net present value savings of \$3.09 million. The bonds were issued with a premium of \$16.39 million and an accounting loss, representing the difference between the par value of the refunding debt and the defeasance amount of the refunded debt, of \$1.41 million.

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, 2017.

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, 2017.

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

<b>MATURITIES</b> <i>(in thousands)</i>	<b>PRINCIPAL</b>	<b>INTEREST</b>	<b>BUILD AMERICA BONDS INTEREST REBATE</b>	<b>NET INTEREST EXPENSE</b>
2018*	\$ 10,333	\$ 70,115	\$ (8,146)	\$ 61,969
2019	9,581	69,722	(8,146)	61,576
2020	9,656	69,276	(8,146)	61,130
2021	9,889	68,814	(8,146)	60,668
2022	113,302	65,863	(8,146)	57,717
2023-27	27,547	312,203	(40,731)	271,472
2028-32	29,603	305,705	(40,731)	264,974
2033-37	115,360	295,216	(40,731)	254,485
2038-42	654,825	198,732	(23,461)	175,271
2043-47	412,328	52,946	-	52,946
<b>TOTAL</b>	<b>\$ 1,392,424</b>	<b>\$ 1,508,592</b>	<b>\$ (186,384)</b>	<b>\$ 1,322,208</b>

\* Fiscal year 2017 represents a 6.8 percent reduction in the credit interest payment for September 1, 2016, and a 6.9 percent reduction in the credit interest payment for March 1, 2017. The 6.9 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, 2017, 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, 2017, is summarized as follows:

<b>LONG-TERM LIABILITIES</b> <i>(in thousands)</i>	<b>BEGINNING BALANCE JULY 1, 2016</b>	<b>ADDITIONS</b>	<b>REDUCTIONS</b>	<b>ENDING BALANCE JUNE 30, 2017</b>
Investments held for related entities	\$ 16,711	\$ 3,743	\$ 2,694	\$ 17,760
Accrual for compensated absences	77,421	105,274	99,262	83,433
Perkins loan program	12,563	-	1,708	10,855
Investment in Culpeper Regional Hospital	45,000	-	-	45,000
Other postemployment benefits	55,740	8,330	-	64,070
Irrevocable split-interest agreements	38,266	1,829	-	40,095
Service concession arrangement	13,739	-	1,654	12,085
Other	18,776	20,981	10,083	29,674
<b>Total</b>	<b>278,216</b>	<b>140,157</b>	<b>115,401</b>	<b>302,972</b>
Less: Current portion of long-term liabilities	(78,284)	-	7,129	(85,413)
<b>NET LONG-TERM LIABILITIES</b>	<b>\$ 199,932</b>	<b>\$ 140,157</b>	<b>\$ 122,530</b>	<b>\$ 217,559</b>

## 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 or loss on the Statement of Revenues, Expenses and Changes in Net Position. On June 30, 2017, the University held the following derivative instruments:

<i>(in thousands)</i>						
EFFECTIVE DATE	MATURITY DATE	RATE PAID	RATE RECEIVED	NOTIONAL AMOUNT	FAIR VALUE ASSET (LIABILITY)	CHANGE IN FAIR VALUE
<b>INVESTMENT DERIVATIVE INSTRUMENTS – FIXED-RECEIVER INTEREST RATE SWAPS:</b>						
4/8/2015	8/1/2021	SIFMA*	1.20%	\$ 64,000	\$ (279)	\$ (2,089)
4/8/2015	8/1/2021	SIFMA*	1.20%	64,000	(278)	(2,102)
<b>INVESTMENT DERIVATIVE INSTRUMENTS – FIXED-PAYER INTEREST RATE SWAPS:</b>						
6/1/2008	6/1/2038	4.15%	SIFMA*	50,000	(15,860)	6,018
6/1/2008	6/1/2038	4.07%	SIFMA*	50,000	(15,203)	5,961
<b>TOTAL</b>				<b>\$ 228,000</b>	<b>\$ (31,620)</b>	<b>\$ 7,788</b>

\*Securities Industry and Financial Markets Municipal Swap Index

The fair value of the interest-rate swaps was determined by using the quoted Securities Industry and Financial Markets Association (SIFMA) index curve at the time of market valuation. 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 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. 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 or loss in the Statement of Revenues, Expenses and Changes in Net Position.

## 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, 2017, the University's swap counterparties were rated at least BBB+ from Standard & Poor's or Baa1 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, 2017, no collateral was required to be posted by the counterparties.

**Interest-rate risk** is the risk that an investment's value will change due to a change of interest rates. The University is exposed to interest-rate risk on its interest-rate swaps, as the fair value of this instrument is highly sensitive to interest-rate changes. See Note 2 for additional interest-rate risk disclosures.

**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 swap'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 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: 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, 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. In October 2003, the Medical Center contributed an additional \$400,000 in capital to Valiance, bringing the Medical Center’s total investment to \$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 and stereotactic body radiotherapy, offered in partnership with the Medical Center. By collaborating with nationally recognized leaders in stereotactic radiosurgery, this advanced nonsurgical 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 the University of Virginia Physicians Group 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, 2017, is summarized below:

<b>INVESTMENT IN AFFILIATED COMPANIES</b> <i>(in thousands)</i>	<b>CAPITAL CONTRIBUTIONS</b>	<b>SHARE OF ACCUMULATED INCOME (LOSS)</b>	<b>NET INVESTMENT</b>
Central Virginia Health Network, Inc.	\$ 5	\$ (41)	\$ (36)
HEALTHSOUTH, LLC	-	17,420	17,420
Valiance Health, LLC	-	249	249
University Health System Consortium	-	4,087	4,087
PACE	245	(445)	(200)
Valley Regional Health	-	5	5
Novant	94,041	(28,708)	65,333

## NOTE 8: COMPONENT UNITS

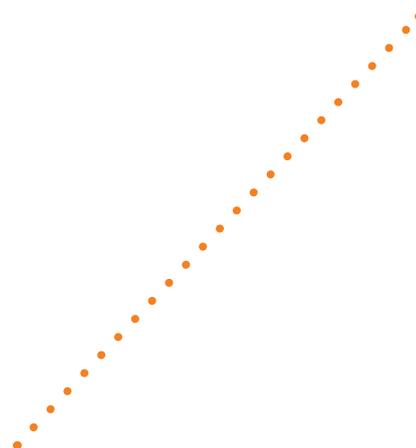
Summary financial statements and additional disclosures for the University's discretely presented component units are presented below.

STATEMENT OF FINANCIAL POSITION (in thousands) as of June 30, 2017	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
<b>ASSETS</b>											
<b>Current assets</b>											
Total current assets	\$ 2,416	\$ 20,133	\$ 28,172	\$ 51,917	\$ 17,039	\$ 24,734	\$ 7,303	\$ 126,146	\$ 243,119	\$ -	\$ 520,979
<b>Noncurrent assets</b>											
Long-term investments	479,300	101,154	324,750	283,302	340,331	68,949	95,926	232,419	8,421,778	(1,559,497)	8,788,412
Capital assets, net and other assets	22,380	20,151	66,933	11,553	36,836	18,320	314,158	33,268	325	-	523,924
Total noncurrent assets	501,680	121,305	391,683	294,855	377,167	87,269	410,084	265,687	8,422,103	(1,559,497)	9,312,336
<b>TOTAL ASSETS</b>	<b>\$ 504,096</b>	<b>\$ 141,438</b>	<b>\$ 419,855</b>	<b>\$ 346,772</b>	<b>\$ 394,206</b>	<b>\$ 112,003</b>	<b>\$ 417,387</b>	<b>\$ 391,833</b>	<b>\$ 8,665,222</b>	<b>\$ (1,559,497)</b>	<b>\$ 9,833,315</b>
<b>LIABILITIES AND NET ASSETS</b>											
<b>Current liabilities</b>											
Total current liabilities	\$ 502	\$ 559	\$ 7,297	\$ 104,604	\$ 12,062	\$ 928	\$ 143,942	\$ 80,155	\$ 5,974	\$ -	\$ 356,023
<b>Noncurrent liabilities</b>											
Long-term debt, net of debt issuance cost and current portion of \$6,675	-	-	8,678	-	22,500	-	129,163	3,505	-	-	163,846
Other noncurrent liabilities	488	-	-	2,966	22,919	-	28,328	200,160	8,641,211	(1,559,497)	7,336,575
Total noncurrent liabilities	488	-	8,678	2,966	45,419	-	157,491	203,665	8,641,211	(1,559,497)	7,500,421
<b>TOTAL LIABILITIES</b>	<b>\$ 990</b>	<b>\$ 559</b>	<b>\$ 15,975</b>	<b>\$ 107,570</b>	<b>\$ 57,481</b>	<b>\$ 928</b>	<b>\$ 301,433</b>	<b>\$ 283,820</b>	<b>\$ 8,647,185</b>	<b>\$ (1,559,497)</b>	<b>\$ 7,856,444</b>
<b>NET ASSETS</b>											
Unrestricted	\$ 70,128	\$ 1,814	\$ 91,655	\$ 72,554	\$ (21,570)	\$ 28,213	\$ 28,598	\$ 108,013	\$ 18,037	\$ -	\$ 397,442
Temporarily restricted	269,399	60,058	156,014	99,651	146,651	42,701	72,580	-	-	-	847,054
Permanently restricted	163,579	79,007	156,211	66,997	211,644	40,161	14,776	-	-	-	732,375
<b>TOTAL NET ASSETS</b>	<b>\$ 503,106</b>	<b>\$ 140,879</b>	<b>\$ 403,880</b>	<b>\$ 239,202</b>	<b>\$ 336,725</b>	<b>\$ 111,075</b>	<b>\$ 115,954</b>	<b>\$ 108,013</b>	<b>\$ 18,037</b>	<b>\$ -</b>	<b>\$ 1,976,871</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 504,096</b>	<b>\$ 141,438</b>	<b>\$ 419,855</b>	<b>\$ 346,772</b>	<b>\$ 394,206</b>	<b>\$ 112,003</b>	<b>\$ 417,387</b>	<b>\$ 391,833</b>	<b>\$ 8,665,222</b>	<b>\$ (1,559,497)</b>	<b>\$ 9,833,315</b>

\* December 31, 2016, year-end

<b>STATEMENT OF ACTIVITIES</b> <i>(in thousands)</i> <i>for the year ended June 30, 2017</i>	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
<b>UNRESTRICTED REVENUES AND SUPPORT</b>										
Contributions	\$ 3,272	\$ 5,678	\$ 5,761	\$ 1,011	\$ 227	\$ 14,836	\$ -	\$ -	\$ -	\$ 30,785
Fees for services, rentals, and sales	-	-	22,548	3,951	-	981	52,967	328,532	20,038	429,017
Other income (loss)	27,144	11,203	20,991	67,869	18,127	14,825	6,102	164,656	951	331,868
<b>TOTAL UNRESTRICTED REVENUES AND SUPPORT</b>	<b>30,416</b>	<b>16,881</b>	<b>49,300</b>	<b>72,831</b>	<b>18,354</b>	<b>30,642</b>	<b>59,069</b>	<b>493,188</b>	<b>20,989</b>	<b>791,670</b>
<b>EXPENSES</b>										
Program services, lectures, and special events	20,183	15,885	42,527	64,391	16,549	28,396	31,028	368,919	15,509	603,387
Other expenses	4,737	1,397	7,982	2,349	1,430	3,318	23,314	84,752	3,878	133,157
<b>TOTAL EXPENSES</b>	<b>24,920</b>	<b>17,282</b>	<b>50,509</b>	<b>66,740</b>	<b>17,979</b>	<b>31,714</b>	<b>54,342</b>	<b>453,671</b>	<b>19,387</b>	<b>736,544</b>
<b>EXCESS (DEFICIENCY) OF UNRESTRICTED REVENUES AND SUPPORT OVER EXPENSES</b>	<b>5,496</b>	<b>(401)</b>	<b>(1,209)</b>	<b>6,091</b>	<b>375</b>	<b>(1,072)</b>	<b>4,727</b>	<b>39,517</b>	<b>1,602</b>	<b>55,126</b>
<b>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS</b>										
Contributions	4,366	5,290	11,096	38,956	5,054	16,437	-	-	-	81,199
Other	20,610	516	15,551	(32,349)	18,283	(11,691)	3,539	-	-	14,459
<b>NET CHANGE IN TEMPORARILY RESTRICTED NET ASSETS</b>	<b>24,976</b>	<b>5,806</b>	<b>26,647</b>	<b>6,607</b>	<b>23,337</b>	<b>4,746</b>	<b>3,539</b>	<b>-</b>	<b>-</b>	<b>95,658</b>
<b>CHANGES IN PERMANENTLY RESTRICTED NET ASSETS</b>										
Contributions	9,249	3,134	6,262	4,726	20,935	762	-	-	-	45,068
Other	(2,083)	(305)	-	807	837	362	-	-	-	(382)
<b>NET CHANGE IN PERMANENTLY RESTRICTED NET ASSETS</b>	<b>7,166</b>	<b>2,829</b>	<b>6,262</b>	<b>5,533</b>	<b>21,772</b>	<b>1,124</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>44,686</b>
<b>CHANGE IN NET ASSETS</b>	<b>37,638</b>	<b>8,234</b>	<b>31,700</b>	<b>18,231</b>	<b>45,484</b>	<b>4,798</b>	<b>8,266</b>	<b>39,517</b>	<b>1,602</b>	<b>195,470</b>
Net assets — beginning of year	465,468	132,645	372,180	220,971	291,241	106,277	107,688	68,496	16,435	1,781,401
<b>NET ASSETS — END OF YEAR</b>	<b>\$ 503,106</b>	<b>\$ 140,879</b>	<b>\$ 403,880</b>	<b>\$ 239,202</b>	<b>\$ 336,725</b>	<b>\$ 111,075</b>	<b>\$ 115,954</b>	<b>\$ 108,013</b>	<b>\$ 18,037</b>	<b>\$ 1,976,871</b>

\* December 31, 2016, year-end



## PLEDGES RECEIVABLE

Unconditional promises to give (pledges) are recorded as receivables and revenues and are assigned to net asset categories based on the presence or absence of donor-imposed restrictions. Pledges expected to be collected within one year are recorded at net realizable value. Pledges that are expected to be collected in future years are recorded at the net present value of their estimated future cash flows. The discounts on these amounts are computed using risk-free interest rates applicable to the years in which the promise was received and then remain consistent throughout the pledge's life. The component units record an allowance against pledges receivable for estimated uncollectible amounts. The University of Virginia Physicians Group does not accept gifts. Unconditional promises to give at June 30, 2017, 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
<b>Total pledges receivable</b>	\$ 10,762	\$ 35,021	\$ 20,725	\$ 9,980	\$ 17,998	\$ 27,923	\$ 122,409
Less:							
Allowance for uncollectible accounts	(345)	(3,841)	(1,975)	(968)	(745)	(1,710)	(9,584)
Unamortized discount to present value	(1,457)	(4,385)	(1,082)	(315)	(708)	(263)	(8,210)
<b>Total pledges receivable, net</b>	<b>8,960</b>	<b>26,795</b>	<b>17,668</b>	<b>8,697</b>	<b>16,545</b>	<b>25,950</b>	<b>104,615</b>
Less: Current portion, net of allowance	(2,195)	(10,691)	(9,208)	(2,212)	(5,901)	(8,799)	(39,006)
<b>TOTAL NONCURRENT PLEDGES RECEIVABLE</b>	<b>\$ 6,765</b>	<b>\$ 16,104</b>	<b>\$ 8,460</b>	<b>\$ 6,485</b>	<b>\$ 10,644</b>	<b>\$ 17,151</b>	<b>\$ 65,609</b>

\* December 31, 2016, year-end

The Law School Foundation has received bequest intentions and certain other conditional promises to give of approximately \$5.5 million as of June 30, 2017. 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.

## INVESTMENTS

Investments are recorded at market value, which is determined by readily available quotes on the stock exchange or as quoted by UVMCO. 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, 2017, 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	\$ 64	\$ -	\$ 10,807	\$ 23,867	\$ 2,642	\$ -	\$ -	\$ 97,336	\$ 4,674,402	\$ -	\$ 4,809,118
University of Virginia Investment Management Company	334,082	101,154	294,434	269,251	313,226	68,730	93,682	84,938	-	(1,559,497)	-
Mutual and money market funds	48,875	980	27,654	1,626	1,956	-	1,057	54,130	94,542	-	230,820
Other	96,279	-	-	17,158	22,507	219	2,955	6,302	3,890,143	-	4,035,563
<b>Total investments</b>	<b>479,300</b>	<b>102,134</b>	<b>332,895</b>	<b>311,902</b>	<b>340,331</b>	<b>68,949</b>	<b>97,694</b>	<b>242,706</b>	<b>8,659,087</b>	<b>(1,559,497)</b>	<b>9,075,501</b>
Less: Amounts shown in current assets	-	(980)	(8,145)	(28,600)	-	-	(1,768)	(10,287)	(237,309)	-	(287,089)
<b>LONG-TERM INVESTMENTS</b>	<b>\$ 479,300</b>	<b>\$ 101,154</b>	<b>\$ 324,750</b>	<b>\$ 283,302</b>	<b>\$ 340,331</b>	<b>\$ 68,949</b>	<b>\$ 95,926</b>	<b>\$ 232,419</b>	<b>\$ 8,421,778</b>	<b>\$ (1,559,497)</b>	<b>\$ 8,788,412</b>

\* December 31, 2016, 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 \$6.4 billion (74 percent of investments held for others) on June 30, 2017. 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, 2017, capital assets consisted of the following:

CAPITAL ASSETS <i>(in thousands)</i>	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	\$ 4,242	\$ -	\$ 95,874	\$ 1,243	\$ -	\$ 102,144
Buildings and improvements	914	105,250	8,167	19,905	-	311,134	37,339	1,567	484,276
Furnishings and equipment	349	1,751	2,032	1,370	68	27,948	25,108	1,400	60,026
Collections	-	101	-	51	-	-	-	-	152
Construction in progress	-	-	-	701	-	-	1,471	-	2,172
<b>Total</b>	<b>1,415</b>	<b>107,102</b>	<b>10,832</b>	<b>26,269</b>	<b>68</b>	<b>434,956</b>	<b>65,161</b>	<b>2,967</b>	<b>648,770</b>
Less: Accumulated depreciation	(399)	(49,108)	(5,883)	(5,722)	(60)	(123,561)	(32,990)	(2,642)	(220,365)
<b>NET CAPITAL ASSETS</b>	<b>\$ 1,016</b>	<b>\$ 57,994</b>	<b>\$ 4,949</b>	<b>\$ 20,547</b>	<b>\$ 8</b>	<b>\$ 311,395</b>	<b>\$ 32,171</b>	<b>\$ 325</b>	<b>\$ 428,405</b>

\* December 31, 2016, year-end

### SHORT-TERM DEBT

The foundations listed below had the following lines of credit available and outstanding on June 30, 2017:

LINES OF CREDIT <i>(in thousands)</i>	AVAILABLE	OUTSTANDING BALANCE
<b>UVAF</b>		
Wells Fargo Bank	\$ 34,000	\$ 28,000
Bank of America	100,000	89,756
U.S. Bank	25,000	10,000
<b>Darden School Foundation</b>		
Suntrust	\$ 3,000	\$ -
<b>UPG</b>		
Virginia National Bank	\$ 3,000	\$ -
<b>TOTAL</b>	<b>\$ 165,000</b>	<b>\$ 127,756</b>



## LONG-TERM DEBT

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, 2017, 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, 2017, is summarized as follows:

<b>LONG-TERM DEBT</b> <i>(in thousands)</i>	<b>UNIVERSITY OF VIRGINIA DARDEN SCHOOL FOUNDATION</b>	<b>JEFFERSON SCHOLARS FOUNDATION</b>	<b>UNIVERSITY OF VIRGINIA FOUNDATION</b>	<b>UNIVERSITY OF VIRGINIA PHYSICIANS GROUP</b>	<b>COMPONENT UNITS TOTAL</b>
University of Virginia Phase I and II Darden School Facilities	\$ 11,405	\$ -	\$ -	\$ -	\$ 11,405
Bank bond SunTrust Bank	-	4,500	-	-	4,500
Notes payable Bank of America	-	-	23,935	-	23,935
Recovery Zone Facility Bond	-	-	8,503	-	8,503
1997 Industrial Development Authority revenue bonds — Louisa	-	-	2,262	-	2,262
1998 Refunding bonds	-	-	-	-	-
2000 Industrial Development Authority revenue bonds — Louisa	-	-	-	3,660	3,660
Notes payable Wells Fargo	-	-	26,720	-	26,720
2004 Refinancing note payable	-	-	6,760	-	6,760
2009 Economic Development Authority revenue bonds — Albemarle	-	-	-	-	-
2011 Refinancing demand bonds	-	18,000	32,113	-	50,113
Notes payable University of Virginia	-	-	33,145	-	33,145
<b>Total</b>	<b>11,405</b>	<b>22,500</b>	<b>133,438</b>	<b>3,660</b>	<b>171,003</b>
Less: Current portion	(2,727)	-	(4,034)	(155)	(6,916)
<b>NET LONG-TERM DEBT</b>	<b>\$ 8,678</b>	<b>\$ 22,500</b>	<b>\$ 129,404</b>	<b>\$ 3,505</b>	<b>\$ 164,087</b>

Principal maturities of long-term debt obligations on June 30, 2017, are as follows:

<b>MATURITIES</b> <i>(in thousands)</i>	<b>UNIVERSITY OF VIRGINIA DARDEN SCHOOL FOUNDATION</b>	<b>JEFFERSON SCHOLARS FOUNDATION</b>	<b>UNIVERSITY OF VIRGINIA FOUNDATION</b>	<b>UNIVERSITY OF VIRGINIA PHYSICIANS GROUP</b>	<b>COMPONENT UNITS TOTAL</b>
2018	\$ 2,727	\$ -	\$ 4,034	\$ 155	\$ 6,916
2019	2,840	-	5,352	170	8,362
2020	2,958	-	26,235	180	29,373
2021	2,880	-	3,118	195	6,193
2022	-	-	3,202	215	3,417
Thereafter	-	22,500	91,497	2,745	116,742
<b>TOTAL</b>	<b>\$ 11,405</b>	<b>\$ 22,500</b>	<b>\$ 133,438</b>	<b>\$ 3,660</b>	<b>\$ 171,003</b>

During the fiscal year 2017, the UVAF retrospectively adopted FASB Accounting Standards Update No. 2015-03 to present debt issuance cost as a reduction of the carrying amount of the debt rather than as an asset. Unamortized debt issuance cost as of June 30, 2017, and June 30, 2016, were \$240,858 and \$265,111, respectively.

## 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, 2017, there were outstanding student loan balances under the program of approximately \$29.2 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, 2017, the reserve account balances totaled \$369,519. 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, 2017, totaled \$2.9 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 \$81.6 million for the year ended June 30, 2017. Approximately \$13.8 million of the fiscal-year payments were provided through the Medical Center for the purpose of treating indigent and Medicaid patients. UPG contributed approximately \$33.1 million to the University in support of various academic programs, equipment, teaching and research for the year ended June 30, 2017.

### NOTE 9: EXPENSE CLASSIFICATION MATRIX

The composition of the University's operating expenses by functional classification for the year ended June 30, 2017, is as follows:

<b>OPERATING EXPENSES BY FUNCTIONAL CLASSIFICATION</b> <i>(in thousands)</i>	<b>COMPENSATION AND BENEFITS</b>	<b>SUPPLIES, UTILITIES, AND OTHER SERVICES</b>	<b>STUDENT AID</b>	<b>DEPRECIATION</b>	<b>OTHER</b>	<b>TOTAL</b>
Instruction	\$ 379,306	\$ 45,432	\$ 5,167	\$ -	\$ 1,309	\$ 431,214
Research	199,747	113,918	16,671	-	732	331,068
Public service	26,036	29,699	626	-	971	57,332
Academic support	131,053	39,895	425	-	231	171,604
Student services	35,550	13,461	273	-	231	49,515
Institutional support	102,720	41,537	419	-	272	144,948
Operation of plant	91,867	34,532	-	-	160	126,559
Student aid	1,540	4,050	68,727	-	133	74,450
Auxiliary	76,081	89,722	383	-	636	166,822
Depreciation	-	-	-	127,780	-	127,780
Patient services	675,721	674,975	-	97,467	-	1,448,163
Other	(2)	(2,503)	-	-	-	(2,505)
Central services recoveries	-	(21,463)	-	-	-	(21,463)
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 1,719,619</b>	<b>\$ 1,063,255</b>	<b>\$ 92,691</b>	<b>\$ 225,247</b>	<b>\$ 4,675</b>	<b>\$ 3,105,487</b>

### 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, 2017, is provided in the following chart:

<b>APPROPRIATIONS</b> <i>(in thousands)</i>	
Original legislative appropriation per Chapter 780	\$ 144,276
<b>Adjustments:</b>	
Financial aid — General Fund	14,225
Financial assistance for educational and general	10,182
Miscellaneous educational and general	(19)
<b>TOTAL STATE APPROPRIATIONS</b>	<b>\$ 168,664</b>

**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
<p><b>About Plan 1</b></p> <p>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.</p>	<p><b>About Plan 2</b></p> <p>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.</p>	<p><b>About the Hybrid Retirement Plan</b></p> <p>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").</p> <ul style="list-style-type: none"> <li>· The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.</li> <li>· 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.</li> <li>· 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.</li> </ul>

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Eligible Members</b></p> <p>Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p> <p><b>Hybrid Opt-In Election</b></p> <p>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.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>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.</p>	<p><b>Eligible Members</b></p> <p>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.</p> <p><b>Hybrid Opt-In Election</b></p> <p>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.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>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.</p>	<p><b>Eligible Members</b></p> <p>Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> <li>· State employees*</li> <li>· 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.</li> </ul> <p><b>*Non-Eligible Members</b></p> <p>Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> <li>· Members of the Virginia Law Officers' Retirement System (VaLORS)</li> </ul> <p>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.</p>
<p><b>Retirement Contributions</b></p> <p>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.</p>	<p><b>Retirement Contributions</b></p> <p>State employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction.</p>	<p><b>Retirement Contributions</b></p> <p>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.</p>



RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Creditable Service</b></p> <p>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.</p>	<p><b>Creditable Service</b></p> <p>Same as Plan 1.</p>	<p><b>Creditable Service</b></p> <p><b>Defined Benefit Component:</b></p> <p>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.</p> <p><b>Defined Contributions Component:</b></p> <p>Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p>



RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Vesting</b></p> <p>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.</p> <p>Members are always 100% vested in the contributions that they make.</p>	<p><b>Vesting</b></p> <p>Same as Plan 1.</p>	<p><b>Vesting</b></p> <p><b>Defined Benefit Component:</b></p> <p>Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit.</p> <p>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.</p> <p><b>Defined Contribution Component:</b></p> <p>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.</p> <p>Members are always 100% vested in the contributions that they make.</p> <p>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.</p> <ul style="list-style-type: none"> <li>· After two years, a member is 50% vested and may withdraw 50% of employer contributions.</li> <li>· After three years, a member is 75% vested and may withdraw 75% of employer contributions.</li> <li>· After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.</li> </ul> <p>Distribution is not required by law until age 70½.</p>
<p><b>Calculating the Benefit</b></p> <p>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.</p> <p>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.</p>	<p><b>Calculating the Benefit</b></p> <p>See definition under Plan 1.</p>	<p><b>Calculating the Benefit</b></p> <p><b>Defined Benefit Component:</b></p> <p>See definition under Plan 1.</p> <p><b>Defined Contribution Component:</b></p> <p>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.</p>

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Average Final Compensation</b></p> <p>A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>	<p><b>Average Final Compensation</b></p> <p>A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>	<p><b>Average Final Compensation</b></p> <p>Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>
<p><b>Service Retirement Multiplier</b></p> <p><b>VRS:</b> 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%.</p> <p><b>VaLORS:</b> The retirement multiplier for VaLORS employees is 1.70% or 2.00%.</p>	<p><b>Service Retirement Multiplier</b></p> <p><b>VRS:</b> 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.</p> <p><b>VaLORS:</b> The retirement multiplier for VaLORS employees is 2.00%.</p>	<p><b>Service Retirement Multiplier</b></p> <p><b>Defined Benefit Component:</b></p> <p><b>VRS:</b> The retirement multiplier for the defined benefit component is 1.00%.</p> <p>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.</p> <p><b>VaLORS:</b> Not applicable.</p> <p><b>Defined Contribution Component:</b></p> <p>Not applicable.</p>
<p><b>Normal Retirement Age</b></p> <p><b>VRS:</b> Age 65.</p> <p><b>VaLORS:</b> Age 60.</p>	<p><b>Normal Retirement Age</b></p> <p><b>VRS:</b> Normal Social Security retirement age.</p> <p><b>VaLORS:</b> Same as Plan 1.</p>	<p><b>Normal Retirement Age</b></p> <p><b>Defined Benefit Component:</b></p> <p><b>VRS:</b> Same as Plan 2.</p> <p><b>VaLORS:</b> Not applicable.</p> <p><b>Defined Contribution Component:</b></p> <p>Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p><b>Earliest Unreduced Retirement Eligibility</b></p> <p><b>VRS:</b> Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.</p> <p><b>VaLORS:</b> Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p>	<p><b>Earliest Unreduced Retirement Eligibility</b></p> <p><b>VRS:</b> Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p><b>VaLORS:</b> Same as Plan 1.</p>	<p><b>Earliest Unreduced Retirement Eligibility</b></p> <p><b>Defined Benefit Component:</b></p> <p><b>VRS:</b> Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p><b>VaLORS:</b> Not applicable.</p> <p><b>Defined Contribution Component:</b></p> <p>Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p><b>Earliest Reduced Retirement Eligibility</b></p> <p><b>VRS:</b> Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.</p> <p><b>VaLORS:</b> 50 with at least five years of creditable service.</p>	<p><b>Earliest Reduced Retirement Eligibility</b></p> <p><b>VRS:</b> Age 60 with at least five years (60 months) of creditable service.</p> <p><b>VaLORS:</b> Same as Plan 1.</p>	<p><b>Earliest Reduced Retirement Eligibility</b></p> <p><b>Defined Benefit Component:</b></p> <p><b>VRS:</b> Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p> <p><b>VaLORS:</b> Not applicable.</p> <p><b>Defined Contribution Component:</b></p> <p>Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b></p> <p>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%.</p> <p><b>Eligibility:</b></p> <p>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.</p> <p>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.</p> <p><b>Exceptions to COLA Effective Dates:</b></p> <p>The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> <li>· The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.</li> <li>· The member retires on disability.</li> <li>· The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).</li> <li>· 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.</li> <li>· 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.</li> </ul>	<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b></p> <p>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%.</p> <p><b>Eligibility:</b></p> <p>Same as Plan 1.</p> <p><b>Exceptions to COLA Effective Dates:</b></p> <p>Same as Plan 1.</p>	<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b></p> <p><b>Defined Benefit Component:</b></p> <p>Same as Plan 2.</p> <p><b>Defined Contribution Component:</b></p> <p>Not applicable.</p> <p><b>Eligibility:</b></p> <p>Same as Plan 1 and Plan 2.</p> <p><b>Exceptions to COLA Effective Dates:</b></p> <p>Same as Plan 1 and Plan 2.</p>

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Disability Coverage</b></p> <p>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.</p> <p>Most state employees are covered under the Virginia Sickness and Disability Program (VSDP) and are not eligible for disability retirement.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non work-related disability benefits.</p>	<p><b>Disability Coverage</b></p> <p>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.</p> <p>Most state employees are covered under the Virginia Sickness and Disability Program (VSDP) and are not eligible for disability retirement.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non work-related disability benefits.</p>	<p><b>Disability Coverage</b></p> <p>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.</p> <p>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.</p>
<p><b>Purchase of Prior Service</b></p> <p>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.</p>	<p><b>Purchase of Prior Service</b></p> <p>Same as Plan 1.</p>	<p><b>Purchase of Prior Service</b></p> <p><b>Defined Benefit Component:</b></p> <p>Same as Plan 1, with the following exceptions:</p> <ul style="list-style-type: none"> <li>Hybrid Retirement Plan members are ineligible for ported service.</li> <li>The cost of purchasing refunded service is the higher of 4% of creditable compensation or average final compensation.</li> <li>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.</li> </ul> <p><b>Defined Contribution Component:</b></p> <p>Not applicable.</p>



**Contributions**

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Employees are required to contribute 5 percent of their compensation toward their retirement. Prior to July 1, 2012, the 5-percent member contribution was paid by the employer. Beginning July 1, 2012, state employees were required to pay the 5-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, 2017, was 13.49 percent of covered employee compensation for employees in the VRS State Employee Retirement Plan. For employees in the VaLORS Retirement Plan, the contribution rate was 21.05 percent of covered employee compensation. These rates were based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The contribution rate for the VRS State Employee Retirement Plan also reflects the transfer in June 2016 of \$162.4 million as an accelerated payback of the deferred contribution in the 2010-12 biennium. The contribution rate for the VaLORS Retirement Plan also reflects the transfer in June 2016 of \$16.5 million as an accelerated payback of the deferred contribution in the 2010-12 biennium. 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. Contributions from the University to the VRS State Employee Retirement Plan were \$46.2 million and \$44.9 million for the years ended June 30, 2017, and June 30, 2016, respectively. Contributions from the University to the VaLORS Retirement Plan were \$665,471 and \$570,054 for the years ended June 30, 2017, and June 30, 2016, respectively.

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

At June 30, 2017, the University reported a liability of \$545.6 million for its proportionate share of the VRS State Employee Retirement Plan Net Pension Liability (NPL) and a liability of \$6.2 million for its proportionate share of the VaLORS Retirement Plan NPL. The NPL was measured as of June 30, 2016, 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, 2016, relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2016, the University's proportion of the VRS State Employee Retirement Plan was 8.28 percent as compared to 8.19 percent at June 30, 2015. At June 30, 2016, the University's proportion of the VaLORS Retirement Plan was 0.80 percent as compared to 0.86 percent at June 30, 2015.

For the year ended June 30, 2017, the University recognized pension expense of \$43.4 million for the VRS State Employee Retirement Plan and \$633,000 for the VaLORS Retirement Plan. Since there was a change in proportionate share between June 30, 2015, and June 30, 2016, 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, 2017, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<i>(in thousands)</i>	<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<b>DEFERRED INFLOWS OF RESOURCES</b>
Differences between expected and actual experience	\$ 2,361	\$ 14,876
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	35,038	-
Changes in proportion and differences between Employer contributions and proportionate share of contributions	6,476	3,568
Employer contributions subsequent to the measurement date	46,881	-
<b>TOTAL</b>	<b>\$ 90,756</b>	<b>\$ 18,444</b>

Deferred outflows of resources related to pensions resulting from the University's contributions subsequent to the measurement date of \$46.9 million will be recognized as a reduction of the NPL in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>YEAR ENDING JUNE 30</b>	
<i>(in thousands)</i>	
2018	\$ (4,022)
2019	(2,795)
2020	17,920
2021	14,328
<b>TOTAL</b>	<b>\$ 25,431</b>



**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, 2015, 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, 2016.

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, 2015, 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 percent 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, 2015, 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, 2016.

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*

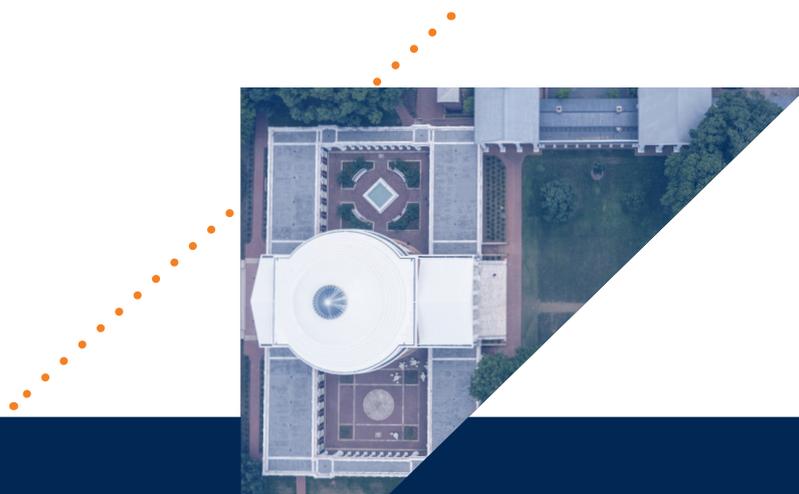
\*Administrative expenses as a percentage of the market value of assets for the last experience study were found to be approximately 0.06 percent of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0 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, 2015 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 percent to 50 percent



**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, 2016, NPL amounts for the VRS State Employee Retirement Plan and the VaLORS Retirement Plan are as follows:

<i>(in thousands)</i>	<b>STATE EMPLOYEE RETIREMENT PLAN</b>	<b>VaLORS RETIREMENT PLAN</b>
Total pension liability	\$ 22,958,593	\$ 1,985,618
Plan fiduciary net position	16,367,842	1,211,446
<b>EMPLOYER’S NET PENSION LIABILITY</b>	<b>\$ 6,590,751</b>	<b>\$ 774,172</b>
Plan fiduciary net position as a percentage of the total pension liability	71.29%	61.01%

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:

<b>ASSET CLASS (STRATEGY)</b>	<b>TARGET ALLOCATION</b>	<b>ARITHMETIC LONG-TERM EXPECTED RATE OF RETURN</b>	<b>WEIGHTED AVERAGE LONG-TERM EXPECTED RATE OF RETURN</b>
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%)
<b>TOTAL</b>	<b>100.00%</b>		<b>5.83%</b>
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 percent 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 percent, including expected inflation of 2.50 percent.

**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:

<i>(in thousands)</i>	<b>1.00% DECREASE (6.00%)</b>	<b>CURRENT DISCOUNT RATE (7.00%)</b>	<b>1.00% INCREASE (8.00%)</b>
The University's proportionate share of the VRS State Employee Retirement Plan net pension liability	\$ 767,777	\$ 545,568	\$ 358,985
The University's proportionate share of the VaLORS Retirement Plan net pension liability	8,321	6,218	4,485
<b>TOTAL NET PENSION LIABILITY</b>	<b>\$ 776,098</b>	<b>\$ 551,786</b>	<b>\$ 363,470</b>

### 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 2016 Comprehensive Annual Financial Report (CAFR). A copy of the 2016 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2016-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, 2017, was approximately \$1.2 million for legally required contributions into the plans.

### OPTIONAL RETIREMENT PLANS

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

There are two defined contribution plans for eligible academic employees. Plan 1 is for employees hired prior to July 1, 2010, and retirement benefits received are based on the employer's 10.4-percent contributions, plus interest and dividends. Plan 2 is for employees hired on or after July 1, 2010, and retirement benefits received are based on the employer's 8.9-percent contributions and the employee's 5-percent contributions, plus interest and dividends. For employees hired before July 1, 2014, individual contracts issued under these plans provide for full and immediate vesting of both the University's and the employees' contributions. Employees hired after July 1, 2014, are fully vested in the UVA contributions after two years of continuous employment.

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 \$59.7 million and were calculated using base salaries of \$795.2 million, for the year ended June 30, 2017. The contribution percentage amounted to 7.5 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 \$2.5 million for the year ended June 30, 2017.

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 \$3.9 million for the year ended June 30, 2017.

The University of Virginia provides executive deferred compensation retirement benefits for certain officers and executives of the University and University Medical Center. The University makes contributions on behalf of each participant as determined by the Board of Visitors. For the year ended June 30, 2017, the University contributed \$1.4 million to these accounts.

## NOTE 12: POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

The University participates in postemployment benefit programs that are sponsored by the Commonwealth and administered by the Virginia Retirement System. These programs include the Group Life Insurance Program, Virginia Sickness and Disability Program, Retiree Health Insurance Credit Program, and Line of Duty Act Program.

The Group Life Insurance Program provides members basic group life insurance upon employment. In addition to benefits provided to active members during employment, the Virginia Sickness and Disability Program provides inactive members with long-term disability and long-term care benefits. The Retiree Health Insurance Credit Program provides members health insurance credits to offset the monthly health insurance premiums for retirees who have at least 15 years of service. The Line of Duty Act Program provides death and health insurance reimbursement benefits to eligible state employees, such as campus police, who die or become disabled as a result of the performance of their duties as a public safety officer. The University is required to contribute to the costs of participating in these programs. Additional information related to all of these plans is available at the state-wide level in the Commonwealth's CAFR.

The University provides several Other Postemployment Benefits (OPEB) that are not part of the Commonwealth-provided OPEB plans. 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'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 OPEB during the periods when employees render their services. The statement also establishes comprehensive disclosures for OPEB obligations. 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 2017, the University contributed \$2.6 million to the plan for retiree claims. Retirees receiving benefits contributed \$4.4 million, or approximately 63 percent of the total premiums, through their required contributions, ranging from \$903 to \$2,945 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 AAL (or funding excess) over a period not to exceed 30 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.

<b>SUMMARY OF VALUATION RESULTS</b> (in thousands)			
<b>ACTUARIAL ACCRUED LIABILITY BY CATEGORY AS OF JUNE 30, 2016</b>			
Current retirees, beneficiaries, dependents and terminated vested members	\$		16,994
Current active members			76,403
<b>TOTAL ACTUARIAL ACCRUED LIABILITY</b>	<b>\$</b>		<b>93,397</b>
Covered payroll	\$		445,000
Actuarial accrued liability as percentage of covered payroll			21.0%
	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>NET OPEB OBLIGATION AS OF JUNE 30</b>			
Annual required contribution (ARC)	\$ 13,852	\$ 12,889	\$ 11,270
Interest on net OPEB obligation	2,508	2,124	1,831
Adjustment to the ARC	(3,979)	(3,277)	(2,752)
Annual OPEB cost	12,381	11,736	10,349
Actual contributions	(4,050)	(3,201)	(3,825)
Net increase in net OPEB obligation	8,331	8,535	6,524
Net OPEB obligation — beginning of year	55,740	47,205	40,681
<b>NET OPEB OBLIGATION — END OF YEAR</b>	<b>\$ 64,071</b>	<b>\$ 55,740</b>	<b>\$ 47,205</b>
Percentage of annual OPEB cost contributed	32.7%	27.3%	37.0%

As of June 30, 2017, 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, 2017, was \$36.3 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, 2017, was \$14.4 million. The University has contracted with several third-party claims administrators: Aetna for its medical claims, United Concordia for its dental claims and CatalystRx for its pharmacy claims.

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

The University's Office of Property and Liability Risk Management manages all property and casualty insurance programs for the University, including the Medical Center and the College at Wise. At present, most insurance coverages are obtained through participation in the state risk management self-insurance plans 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, 2017, was \$136.5 million and income received totaled \$5.7 million.

**NOTE 15: COMMITMENTS AND CONTINGENCIES**

Authorized expenditures for construction and other projects unexpended as of June 30, 2017, were approximately \$96.5 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 \$26.9 million for the year ended June 30, 2017.

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

In June 2017, the Medical Center was advised that Palmetto GBA, LLC had overpaid renal outlier payments for fiscal years 2014-2017 by \$7.5 million. A liability has been booked in the University's financial statements for this amount as of June 30, 2017. The issue remains unresolved, but the Medical Center believes it is probable that the amount will have to be refunded.

**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.

<b>YEARS ENDING JUNE 30</b> <i>(in thousands)</i>	<b>LEASE OBLIGATION</b>
2018	\$ 16,685
2019	12,471
2020	10,534
2021	6,587
2022	2,870
2023-27	8,245
2028-32	3,382
2033-37	2,057
2038-42	823
2043-47	823
2048-52	357
<b>TOTAL</b>	<b>\$ 64,834</b>

**NOTE 16: SUBSEQUENT EVENTS**

At its June 2017 meeting, the University's Board of Visitors approved a shelf registration program for issuing up to \$500 million in bonds in fiscal year 2017-18 at fixed coupon rates up to 5.50 percent.

On September 28, 2017, under the shelf registration, the University of Virginia issued \$300 million in taxable General Revenue Pledge Bonds, Series 2017C. The 2017C Series was issued to advance fund capital projects on the Grounds of the University of Virginia. The bonds were issued with a coupon rate of 4.179 percent.

On August 1, 2017, UVAF entered into a Line of Credit with Branch Banking and Trust Company (BB&T) in the amount of \$35 million. This transaction provides the Foundation funds for future acquisitions and development projects and further diversifies its source of bank funding.

## REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

### VIRGINIA RETIREMENT SYSTEM PENSION PLANS

SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY* (in thousands)	VRS STATE EMPLOYEE RETIREMENT PLAN			VaLORS RETIREMENT PLAN		
	2017	2016	2015	2017	2016	2015
Employer's proportion of the net pension liability	8.28%	8.19%	8.12%	0.80%	0.86%	0.79%
Employer's proportionate share of the net pension liability	\$ 545,568	\$ 501,446	\$ 454,655	\$ 6,218	\$ 6,144	\$ 5,294
Covered payroll	\$ 332,184	\$ 318,920	\$ 314,268	\$ 3,085	\$ 3,036	\$ 3,088
Employer's proportionate share of the net pension liability as a percentage of its covered payroll	164.24%	157.23%	144.67%	201.56%	202.37%	171.44%
Plan fiduciary net position as a percentage of the total pension liability	71.29%	72.81%	74.28%	61.01%	62.64%	63.05%

SCHEDULE OF EMPLOYER CONTRIBUTIONS* (in thousands)		CONTRACTUALLY REQUIRED CONTRIBUTION	CONTRIBUTIONS IN RELATION TO CONTRACTUALLY REQUIRED CONTRIBUTION	CONTRIBUTION DEFICIENCY	COVERED PAYROLL	CONTRIBUTIONS AS A % OF COVERED PAYROLL
PLAN	YEAR					
VRS State Employee Retirement Plan	2017	\$ 46,238	\$ 46,238	\$ -	\$ 352,873	13.11%
	2016	44,925	44,925	-	332,184	13.52%
	2015	37,781	37,781	-	318,920	11.85%
VaLORS Retirement Plan	2017	\$ 643	\$ 643	\$ -	\$ 3,255	19.75%
	2016	570	570	-	3,085	18.48%
	2015	498	498	-	3,036	16.40%

\* Schedule is intended to show information for 10 years. Since 2017 is the third year for this presentation, only three years of data are presented. However, additional years will be included as they become available.

### 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, 2016, 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 10 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 10 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	ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED AAL (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
	(a)	(b)	(b-a)	(a/b)	(c)	(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 2016-17**

### **FINANCIAL STAFF**

**Melody S. Bianchetto** Vice President for Finance  
**James S. Matteo** Associate Vice President and Treasurer  
**Gerald E. Burke** Assistant Vice President for Financial Operations  
**Randall B. Ellis** Senior Associate Comptroller  
**Thomas C. Schneeberger** Director of Financial Reporting

### **INTERNAL AUDIT**

**Carolyn Devine Saint** Chief Audit Executive

An online version of this report is available at [virginia.edu/financialreport](http://virginia.edu/financialreport)

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*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 medical or 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, 2015 Ivy Road, Room 321, Dynamics Building, P.O. Box 400144, Charlottesville, VA 22904, (434) 924-3295, ADACoordinator@virginia.edu.*

*The following person has been designated to handle inquiries regarding non-discrimination policies: Catherine Spear, Associate 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: Emily Babb, Assistant Vice President for Title IX Compliance/Title IX Coordinator, O'Neil Hall, Room 037, (434) 297-7643, ecb6y@virginia.edu or TitleIXCoordinator@virginia.edu.*

*The following person has been designated as Deputy Title IX Coordinator to assist the Title IX Coordinator and conduct investigations: Akia Haynes, O'Neil Hall, Room 027, (434) 924-1696, aah6n@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.*



