

**UNIVERSITY OF VIRGINIA
BOARD OF VISITORS
MEETING OF THE
FINANCE COMMITTEE
OCTOBER 4, 2002**

FINANCE COMMITTEE

Friday, October 4, 2002
9:00 - 11:30 a.m.
Board Room, The Rotunda

Committee Members:

William H. Goodwin, Jr., Chair

Thomas F. Farrell, II

Charles L. Glazer

Mark J. Kington

Thomas A. Saunders, III

Warren M. Thompson

John P. Ackerly, III, Ex Officio

AGENDA

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IV. EXECUTIVE SESSION

- Discussion of acquisition of real property for University purposes, where disclosure at this time would adversely affect the University's bargaining and negotiation strategy, as provided for in Section 2.2-3711 (A)(3) of the Code of Virginia.

BOARD OF VISITORS CONSENT AGENDA

I.A. CURRENT FUNDS GUIDELINES: Approves changes to the investment guidelines as recommended by the University of Virginia Investment Management Company Board. Changes to the investment guidelines are italicized in the guidelines shown on page 2.

The University has a large and stable balance in its Current Funds portfolio (including gifts and endowment income). Many of these funds are longer term in nature and might earn a higher return if invested in equities. The historical magnitude of this incremental return is estimated to be 3 percent.

The University requested and received an amendment to the Code of Virginia removing the Investment of Public Funds Act as the governing law on the investment of the University's gifts and endowment income and including these funds under Virginia Code Sections 23-76.1 (the code section governing investment of the University's endowment).

The increased investment returns on these funds will provide more financial resources for the University to meet its needs. \$220,000,000 of endowment income and gift funds was invested in the Pooled Endowment Fund effective July 1, 2002.

ACTION REQUIRED: Approval by the Finance Committee and by the Board of Visitors

APPROVAL OF AMENDMENT TO CURRENT FUNDS GUIDELINES

WHEREAS, the University of Virginia Investment Management Company Board has approved the Current Funds guidelines to include the investment of gift and endowment income funds.

RESOLVED by the Finance Committee of the Board of Visitors, that the guidelines, as shown on page 2, for Current Funds which permit gifts and endowment fund income to be invested in a portfolio of equity securities or investment vehicles that can be expected to produce equity-like returns and risks be approved.

THE UNIVERSITY OF VIRGINIA INVESTMENT MANAGEMENT COMPANY

INTERNALLY-MANAGED FUNDS

FUND OUTLINE

CURRENT FUNDS

Return Objectives:

- 1) Fixed Income Pool - To provide the maximum current income consistent with the need for safety and liquidity.
- 2) *Equity Pool - to provide long term returns higher than those available to investors in high grade fixed income securities.*

Benchmarks:

- 1) Fixed Income Pool - 60 percent 91-Day T-Bills/40 percent Merrill Lynch Governments, U.S. Treasury Short-Term Index (1.2.99 years).
- 2) *Equity Pool - Fixed Income Pool Benchmark + 3 percent per annum.*

Investment Philosophy:

- 1) Fixed Income Pool - Active portfolio management and trading will be employed to achieve the return objectives. Strict quality standards have been established to minimize credit risk. In order to protect against or capitalize on sharp fluctuations in interest rates, trading may be substantial at times. Emphasis will be placed on short-term, highly marketable securities to insure adequate liquidity.
- 2) *Equity Pool - Invest in a portfolio of equity securities or investment vehicles that can be expected to produce equity-like returns and risk.*

Investment Vehicles:

The fund may invest in the following instruments:

- 1) Fixed Income Pool - Any and all instruments specified in the Investment of Public Funds Act. The Act governs the investment of operating funds by entities of the Commonwealth of Virginia. *In addition, any endowment income or gift funds not invested within the Equity Pool may be invested consistent with either the Pooled Endowment Fund guidelines or the Investment of Public Funds Act.*

Subject to the approval of the Executive Vice President and Chief Financial Officer internal loans to University Departments and Activities to be repaid from operating and capital funds budgeted for this purpose. No more than a total of \$10 million shall be invested in internal loans at any one time.

- 2) *Equity Pool - Any investment strategy or investment manager approved by the UVIMCO Board.*

Revised by the UVIMCO Board: June 24, 2002
Approved by the Board of Visitors: November 7, 1997

BOARD OF VISITORS CONSENT AGENDA

I.B. ADDITIONAL APPOINTMENTS TO THE EMERGENCY COMMUNICATIONS CENTER MANAGEMENT BOARD: Approves Addendum #1 to the Operating Agreement as shown on pages 5-6, and authorizes the Executive Vice President and Chief Operating Officer to sign it.

The City of Charlottesville, the County of Albemarle, and the University, entered into an Operating Agreement in January of 1984 to create a joint dispatch center for all area law enforcement units, and a "911" emergency telephone system for the City, the County and the University.

The January 20, 1984, Operating Agreement was approved by the Board of Visitors. The Operating Agreement established an eight-member Management Board to oversee the Joint Dispatch Center operations. According to the Operating Agreement, University representation on the Management Board includes the University Vice President for Administration and the Director of University Police. Other representatives to the Board are the City and County police chiefs, the County Executive and the City Manager, the Chief of the Charlottesville Fire Department and a representative from the Advisory Board of the area rescue squads. Because the University no longer has a Vice President for Administration, the Executive Vice President and Chief Operating Officer has served as a member of the Management Board.

Recently, the County of Albemarle created a Chief of Fire-Rescue Department position, and asked that the position be added to the Management Board. In addition, the University asked to add a representative to the Management Board with expertise in 911 center operations and designated by the Executive Vice President and Chief Operating Officer.

A draft Amendment to the Operating Agreement that will add the two representatives mentioned above to the Management Board, and will correct titles of representatives including changing "Vice President for Administration" to "Executive Vice President and Chief Operating Officer" is shown on pages 5-6.

ACTION REQUIRED: Approval by the Finance Committee and by the Board of Visitors

APPROVAL OF ADDITIONAL APPOINTMENTS TO THE EMERGENCY
COMMUNICATIONS CENTER MANAGEMENT BOARD

RESOLVED, that the Addendum #1, as shown on pages 5-6, to the Agreement dated January 20, 1984, By and Among the City of Charlottesville, Virginia, the County of Albemarle, Virginia, and the Rector and Visitors of the University of Virginia, which Agreement is the operating agreement for the City, County and University Joint Dispatch Center and 911 Service, is approved;

RESOLVED FURTHER that the Executive Vice President and Chief Operating Officer is authorized to execute the Addendum #1 to the Agreement dated January 20, 1984.

ADDENDUM #1 TO AGREEMENT
DATED JANUARY 20, 1984 BY AND AMONG
THE CITY OF CHARLOTTESVILLE, VIRGINIA,
THE COUNTY OF ALBEMARLE, VIRGINIA
AND THE RECTOR AND VISITORS OF THE UNIVERSITY OF VIRGINIA

This Addendum #1 to the Agreement dated January 20, 1984 by and among the City of Charlottesville, Virginia, the County of Albemarle, Virginia and the Rector and Visitors of the University of Virginia (collectively referred to as the "Participants").

The Participants agree to the following modifications to the Agreement:

1. Section II (b) ("Joint Dispatch Center") is deleted and replaced with the following paragraph:

The Joint Dispatch Center shall be controlled by a Management Board consisting of ten (10) members, consisting of the Albemarle County Executive, the Charlottesville City Manager, the University of Virginia Executive Vice-President/Chief Operating Officer, the Chief of Police of Albemarle County, the Chief of Police of Charlottesville, the Director of University Police, the Chief of the Charlottesville Fire Department, the Chief of the Albemarle County Fire-Rescue Department, one (1) University representative with expertise in 911 center operations to be designated by the Executive Vice-President/Chief Operating Officer and one (1) representative from the Jefferson Country Fire and Rescue Association, any of whom may designate a subordinate to attend meetings of the Management Board and vote on his/her behalf. Members of the Management Board or their designees shall serve ex officio as representatives of their respective jurisdictions or agencies, and shall inure no individual or personal liability for actions taken by them in good faith as members of the Management Board.

2. Except as amended hereby, the Agreement remains in full force and effect and the Participants hereby ratify and confirm the provisions, terms and conditions set forth in the Agreement and any amendments or addenda thereto.

WITNESS the following signatures.

Dated: _____

COUNTY OF ALBEMARLE

By:

COUNTY EXECUTIVE

Dated: _____

CITY OF CHARLOTTESVILLE

By:

CITY MANAGER

Dated: _____

THE RECTOR AND VISITORS OF THE
UNIVERSITY OF VIRGINIA

By:

EXECUTIVE VICE PRESIDENT/
CHIEF OPERATING OFFICER

APPROVED AS TO FORM:

Albemarle County Attorney

City Attorney

University Counsel

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: October 4, 2002

COMMITTEE: Finance

AGENDA ITEM: II.A. 2003 Amendments to the 2002-2004
Biennial Budget Submission

BACKGROUND: Every two years, the University submits its requested amendments to the Biennial Budget to the Department of Planning and Budget for review by the Governor for inclusion in his amended budget presented to the General Assembly in December. Because of the budget situation we have not yet been asked to submit budget amendments. When the decision is made by the Governor's Office it is likely to be a modified process and could even preclude the submission of any amendment that requests general funds.

DISCUSSION: Absent any instructions from the State we recommend the following budget amendments for submission to the Governor when and if he makes a process for such requests available. At this point, with a few exceptions, we have limited the requests to adjustments in our nongeneral fund appropriation to accommodate increases in volume of activity or capital projects funded from other than tax funds. Depending on the outcome of the Governor's budget process we may want to submit these amendments, and possibly others, to the legislative session in January. Any requests not included on this list that might be submitted to the legislature will be communicated to the Board in advance of the due date with formal approval sought at the January meeting of the Board.

Operating amendments for the Academic Division (Agency 207) total \$19.4 million nongeneral funds (NGF) in year one (2003) and \$42 million NGF in year two (2004). Operating amendments for the University of Virginia's College at Wise (Agency 246) total \$335,000 NGF in 2003-2004.

AGENCY 207 - Academic Division:

OPERATING BUDGET

Adjust appropriation for Tuition and Other Revenues(\$19.1 million NGF and 26 Full-Time Equivalent (FTEs) in year one and \$39.9 million NGF and 157 FTEs in year two) - An amendment to

increase the NGF appropriation to reflect additional indirect cost recoveries from growth in research grants and contracts as well as incremental revenue generated from actual tuition increases in the current academic year and projected increases in 2003-2004.

Adjust Appropriation for Financial Aid (\$200,000 NGF in year one and \$2 million NGF in year two) - An amendment to increase the NGF financial aid appropriation to reflect increased financial aid funded from tuition.

Adjust Appropriation for College Work Study (\$150,000 NGF in year one and \$150,000 NGF in year two) - An amendment to increase the College Work Study appropriation to reflect a larger allocation from the Federal Government for this program.

Mandatory Non-E&G Fees (language only) - A language change to the Appropriation Act providing for the removal of current Appropriation Act language limiting mandatory non-educational and general fee increases. The removal of this language would provide institutions of higher education flexibility to maintain viable self-supporting enterprises to meet the demands of students.

CAPITAL BUDGET

Maintenance Reserve \$3,500,000 General Funds (GF): The maintenance reserve appropriation for 2002-04 has been reduced by 77 percent. We have a total of \$4,660,212 for the biennium which severely compromises the University's ability to address emergency repairs that are certain to occur over the next two years not to mention the continued growth in the backlog of deferred maintenance that this reduction will cause. The revised maintenance reserve appropriation for this biennium is \$665,000 less than the amount the University received in the 1988-1990 biennium.

Jordan Hall HVAC Replacement \$3,600,000 (\$1,500,000 GF and \$2,100,000 NGF): The Jordan Hall Vivarium was sited as deficient by a recent visiting team from the Association for Assessment and Accreditation of Laboratory and Animal Care(AAALAC), the accrediting agency for animal care facilities. In order to retain the University's accreditation the HVAC system in Old Jordan Hall must be brought into compliance with AAALAC standards.

Heat Plant Modifications - Planning \$2,000,000 (\$1,420,000 GF and \$580,000 NGF): This is a request for a planning authorization for improvements to the Main Heating Plant to ensure that 1) it remains compliant with federal and state Clean Air Act regulations and 2) it meets the needs of new and existing facilities. While the planning phase will determine the final project scope, the scope will most likely include new air emission control equipment, new or modified boilers, and new or modified fuel handling equipment. If the project is not funded, adverse regulatory actions including fines will result, and the heating requirements of the University will not be met.

Bice House Renovation \$7,000,000 NGF: The scope of this project includes 1) replacement of the exterior brick veneer, 2) window replacements, and 3) renovations to bathrooms and kitchens. The Bice House is a 28 year-old, multi-story building housing 300 upperclass students. The work will require that the facility be closed for a year.

New Arena and Multipurpose Facility \$7,000,000 NGF: This request increases the authorization for the Arena project from \$121 million to \$128 million. The increase is needed to accommodate practice courts, which are program elements requested by one of the donors. The project scope includes 1) a multi-purpose arena for 15,000, 2) a basketball practice facility, 3) parking for 1500 cars, and 4) the North Grounds Connector to the 250 bypass.

AGENCY 246 - University of Virginia's College at Wise:

Adjust Appropriation for Auxiliary Enterprises (\$335,000 NGF and 1.50 FTE in 2003-2004) - An amendment to increase the Auxiliary Programs appropriation to reflect growth in Auxiliary expenditures.

ACTION REQUIRED: Approval by the Finance Committee and by the Board of Visitors

APPROVAL OF 2003 AMENDMENTS TO THE 2002-2004 BIENNIAL BUDGET FOR THE ACADEMIC DIVISION AND THE UNIVERSITY OF VIRGINIA'S COLLEGE AT WISE

WHEREAS, the financial condition of the Commonwealth is such that a normal process of amending the 2002-2004 budget is not in place; and

WHEREAS, the University has the need to submit several emergency requests for general fund support for consideration by the Governor; and

WHEREAS, the University has technical amendments to increase its nongeneral fund appropriation to reflect anticipated volumes of activity;

RESOLVED that the Board of Visitors of the University of Virginia endorses and supports the 2003 amendments to the 2002-2004 biennial budget; and

RESOLVED FURTHER that the Board of Visitors understands that to the extent these initiatives are not included in the Governor's amendments to the 2002-2004 biennial budget, the Academic Division and the University of Virginia's College at Wise may want to pursue similar requests to the legislature; and

RESOLVED FURTHER that the Executive Vice President and Chief Operating Officer is authorized to transmit to the General Assembly any request not funded by the Governor as long as there are no material differences from the items already endorsed by the Board of Visitors.

UNIVERSITY OF VIRGINIA
FISCAL IMPACT STATEMENT

PROJECT/PROPOSED BOARD OF VISITORS ACTION: Approval of the 2003 amendments to the 2002-2004 biennial budget.

DESCRIPTION: In even numbered years the University has an opportunity to submit amendment requests to the current biennial budget for consideration by the Governor. As a result of the Commonwealth's current budget situation, the University has not received confirmation concerning the process or the degree to which amendment submissions will be allowed. At this point, with a few exceptions, the University has limited the requests to adjustments in the nongeneral fund appropriation to accommodate increases in volume of activity or capital projects funded from sources other than tax funds.

FISCAL IMPACT: The tables below summarize the requested budget amendments:

Agency 207 - University of Virginia

	FY2003	FY2004
Operating Budget Amendments		
Tuition and Indirect Cost Recoveries	\$19.10	\$39.90
Financial Aid	\$0.20	\$2.00
College Work Study	\$0.15	\$0.15
Mandatory Non-E&G Fees (language only)	N/A	N/A
<i>Subtotal</i>	\$19.45	\$42.05

Agency 246 - University of Virginia's College at Wise

Operating Budget Amendments		
Appropriation for Auxiliary Enterprises		\$0.34
<i>Subtotal</i>	\$0.00	\$0.34

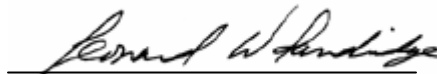
Agency 207 - University of Virginia

Capital Budget	GF	NGF	Total
Maintenance Reserve	\$3.50		\$3.50
Jordan Hall HVAC Replacement	\$1.50	\$2.10	\$3.60
Heat Plant Modifications	\$1.42	\$0.58	\$2.00
Bice House Renovation		\$7.00	\$7.00
Arena: Increase Authorization		\$7.00	\$7.00
<i>Subtotal</i>	\$6.42	\$16.68	\$23.10

The nongeneral fund modification requests are for projects and initiatives where future financing streams are known or can reasonably be assumed to occur. The few capital projects seeking increases in appropriations from general funds represent urgent infrastructure needs required to meet federal regulatory standards or accreditation standards. If these latter items are not addressed during the current biennium, due to lack of funding, they will each pose significantly higher costs later for both the University and the Commonwealth, as well as possible health and safety risks.

CONCLUSION: The Board of Visitors should authorize the submission of the 2003 amendments to the 2002-2004 biennial budget.

RECOMMEND APPROVAL OF BOARD ACTION:



Leonard W. Sandridge
October 4, 2002

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: October 4, 2002

COMMITTEE: Finance

AGENDA ITEM: II.B. Tuition Surcharge for 2002-2003

BACKGROUND: The Academic Division has reduced its general fund appropriation for the 2002-2003 fiscal year by 15.8 percent or \$25.6 million recouping approximately half this amount through increases in tuition. Faced with further reductions that could be as much as an additional \$20 million or 15 percent in the current fiscal year the University should consider implementation of a tuition surcharge in the second semester to protect the core academic mission.

DISCUSSION: It is likely we will not know the size of our budget reduction when the Board convenes in October. We ask that the Board authorize the assessment of a tuition surcharge in the second semester of the current academic year. If applied to all students; undergraduate, graduate and professional, each \$100 of surcharge would produce \$1.68 million in revenue. We plan to provide increased financial aid in cases where the surcharge will present undue hardship for a student.

ACTION REQUIRED: Approval by the Finance Committee and by the Board of Visitors

APPROVAL OF TUITION SURCHARGE FOR 2002-2003

WHEREAS, the 2002-2003 budget approved by the Board of Visitors reflects reductions in the general fund appropriation of 15.8 percent; and

WHEREAS, the Governor has informed the University that it will be expected to make further reductions in the current fiscal year; and

WHEREAS, the Governor and the University are committed to protecting core academic programs; and

WHEREAS, it may be necessary and appropriate to increase tuition in the current fiscal year to protect core academic programs;

RESOLVED that the Executive Vice President and Chief Operating Officer is authorized, with the concurrence of the Rector and the Chair of the Finance Committee and consistent with state policy to apply a mandatory surcharge on tuition for the second semester of the 2002-2003 academic year; and

RESOLVED FURTHER that the surcharge may or may not be applied in like amount to all categories of students; and

RESOLVED FURTHER that the Executive Vice President and Chief Operating Officer is authorized to amend the 2002-2003 budget to provide additional financial aid as appropriate for students demonstrating increased need as a direct result of implementing the tuition surcharge.

UNIVERSITY OF VIRGINIA
FISCAL IMPACT STATEMENT

PROJECT/PROPOSED BOARD OF VISITORS ACTION: Adopt a tuition surcharge for the second semester of the 2002-2003 academic year.

DESCRIPTION: The worsening budget crisis has made it inevitable that the Commonwealth of Virginia will further reduce the University's general fund appropriation. Exact amounts are unknown at this time, but the University has been asked to plan for up to an additional \$20 million reduction, or 15 percent, from the current fiscal year appropriation. To address this issue partially through revenue increases, the University has proposed a mid-year tuition surcharge.

FISCAL IMPACT: The incremental revenue arising per \$100 surcharge would equal \$1.68 million for fiscal year 2002-2003. The University intends to provide additional in financial aid assistance as appropriate for students demonstrating increased need as a result of implementing the tuition surcharge.

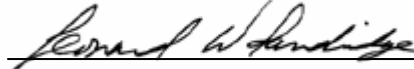
Below is a breakdown of the revenue generated per \$100 surcharge:

	<u>Revenue Generated</u>
Undergraduate	
In-State	\$847,000
Out-of-State	390,000
Graduate	
In-State	102,000
Out-of-State	147,000
Professional	
In-State	86,000
Out-of-State	74,000
Part Time Students	
In-State	19,000
Out-of-State	15,000
TOTAL	\$1,680,000

The University will address the balance of the funding shortfall through other means, principally further expense reductions.

CONCLUSION: The Board of Visitors should authorize a mid-year tuition surcharge subject to the recommendation of the Executive Vice President and Chief Operating Officer to the Rector and Chair of the Finance Committee for their concurrence.

RECOMMEND APPROVAL OF BOARD ACTION:

A handwritten signature in cursive script, reading "Leonard W. Sandridge", written in black ink.

Leonard W. Sandridge
October 4, 2002

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: October 4, 2002

COMMITTEE: Finance

AGENDA ITEM: II.C. Expansion of the Funds Available for Short-Term Internal Loans

BACKGROUND: Under current guidelines approved by the Board of Visitors, the University has available a \$10.0 million pool of funds for internal loan purposes. These monies provide funding for a variety of projects and initiatives where income streams are known and/or expected, and where short-term timing issues related to costs would otherwise cause a problem with cash flow or postponement of activity.

DISCUSSION: Within the current fiscal year the University has initiated or intends to initiate 13 capital projects authorized by the Board. Concurrently, the University has outstanding commitments for \$8.4 million of the available revolving internal loan pool of \$10.0 million. Seven of the 13 projects must address short-term cash flow issues before expected long-term external financing is received. The total required funding for these capital needs is approximately \$35.0 million. This proposal requests temporarily increasing the available pool of loanable funds by up to \$35 million. The University will repay the principal of the loan on or before June 30, 2003, with interest paid equal to the prevailing rates.

ACTION REQUIRED: Approval by the Finance Committee and the Board of Visitors

APPROVAL OF EXPANSION OF THE FUNDS AVAILABLE FOR SHORT-TERM INTERNAL LOANS

RESOLVED that the Executive Vice President and Chief Operating Officer is authorized to administer an additional temporary pool of up to \$35.0 million in internal loanable funds from existing assets to support capital projects that have been approved by the Board and to execute such documents as may be necessary to effect the transactions; and

RESOLVED FURTHER that the funds will be repaid on or before June 30, 2003, at an interest rate equal to the prevailing rates.

UNIVERSITY OF VIRGINIA
FISCAL IMPACT STATEMENT

PROJECT/PROPOSED BOARD OF VISITORS ACTION: Approves expansion of available short-term internal revolving loan funds from its current \$10.0 million cap by up to \$35.0 million to provide needed resources for certain capital projects.

DESCRIPTION: The University has, or will have, 13 capital projects in various stages of progress and completion by the end of this fiscal year. These projects are in varying stages of approval from the Board and have known funding sources. Several projects' draw schedules indicate that they will begin incurring expenses prior to receiving funds from anticipated external sources. These include:

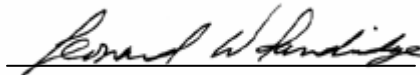
1. Emmet Street Parking Garage
2. Arts and Sciences Building
3. Health Sciences Center Parking Garage
4. Arena

In order that these projects may proceed without incurring additional costs that may arise from a potential delay, it is requested that the Board increase the permissible pool of short-term loanable funds from \$10.0 million to \$45.0 million. These additional funds will be repaid on or before June 30, 2003.

FISCAL IMPACT: Funds borrowed under this program will pay interest equal to prevailing rates. Alternative strategies for managing short-term funding needs for capital projects, including delaying design and construction, would result in potentially higher costs than this proposal.

CONCLUSION: The Board of Visitors should approve expanding the available internal revolving short-term loans from a total of \$10.0 million to up to \$45.0 million, with the understanding that this increase is temporary and will be fully satisfied before the conclusion of the current fiscal year.

RECOMMEND APPROVAL OF BOARD ACTION:



Leonard W. Sandridge
October 4, 2002

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UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: October 4, 2002

COMMITTEE: Finance

AGENDA ITEM: III.A. Vice President's Remarks

ACTION REQUIRED: None

Debt Issuance Update

At the June 1, 2002 meeting, the Board approved a resolution for the University to issue \$108 million of bonds to support six construction projects. Further, the Board resolved that in the event the total costs of financing through the Virginia College Building Authority (VCBA) Pooled Bond Program are higher than issuing bonds through the University, the Executive Committee of the Board would have the authority to approve the option of the University's issuing bonds instead of participating in the commonwealth bond pool. The limits approved by the Board for debt issuance through the VCBA will be applied to the University's bonds as well, in terms of caps on the principal, interest rate and maturity, as stated in section 4 of the June 1, 2002 resolution.

The comparative cost analysis has been performed, and the costs of issuing the debt through the University are lower for three main reasons: The state VCBA pool issues fixed-rate long-term debt, whereas the University plans to issue a more diverse portfolio to take advantage of market opportunities, e.g. the currently low variable rates. Second, interest cost is lower also because the University has a AAA rating while the state VCBA pool has a lower rating, although current spreads are quite narrow. Finally, the state is now required to allocate debt administration expenses to issuances, and this makes the University's cost of administration of its own issuance comparable, spread over the significant size of the issuance. The size of total savings will depend on the interest rates at the time of issuance. The request for proposal process for engaging a financial advisor, underwriting team and bond counsel is in progress.

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: October 4, 2002

COMMITTEE: Finance

AGENDA ITEM: III.B. Endowment Report

ACTION REQUIRED: None

Market Value and Performance as of August 31, 2002

BACKGROUND: The Rector and Visitors of the University, particularly the University of Virginia Investment Management Company (UVIMCO), oversees the major component of the endowment that benefits the University. A report on the endowment is made at each Board of Visitors meeting.

DISCUSSION: At each fall meeting, we present a year-end endowment report as well as one updated for the current period. For the fiscal year ended June 30, 2002, the Pooled Endowment Fund returned -0.1 percent. Consistent with earlier reports this year, the reductions in investments in the traditional equity markets and increases in our hedge fund positions buffered the steep decline in the stock markets (-17.2 percent). Fixed income also contributed to the return with a positive 10.4 percent return. Emerging markets returned 12.5 percent and a large cash balance also fell into the plus column. Venture capital, real estate, international equity, as well as U.S. equity, all had significant negative returns. The UVIMCO Board met in mid-September to discuss opportunities going forward. There are no obvious candidates as emerging markets are nearing fair valuation, bonds are at all-time-low yields and hedge funds continue to be plagued by too much money and high volatility in the markets in general.

July was a continuation of the decline in all markets at the extreme. August was modestly positive. Year-to-date 2003 we have negative returns in all asset classes with the exception of fixed income. The return for the first two months is a negative 0.4 percent.

Details of the returns on the endowment through August 31, 2002, are reported on the following Investment Report.

INSERT REPORT

Report on Actions of the Board of the Investment
Management Company, September 18-19, 2002

BACKGROUND: The University of Virginia Investment Management Company (UVIMCO) Board meets quarterly and reports all of its activities at the following meeting of the Finance Committee.

DISCUSSION: The UVIMCO Board held committee meetings in June, July and August and a full Board meeting on September 18 and 19, 2002, in Charlottesville. The UVIMCO committees and full board approved investments of: \$25 million with EnCap Fund IV, \$25 million with Cherokee Investment Partners, \$50 million with Eminence Fund Ltd., \$25 million with Copper Arch Fund, an additional \$25 million with Viking Global Investors and an additional \$25 million with Bridger Capital. The Board also reaffirmed the targets for the endowment fund and approved a new benchmark for Hedge Funds consisting of 30 percent Russell 3000 and 70 percent T-Bills plus 800 basis points.

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: October 4, 2002

COMMITTEE: Finance

AGENDA ITEM: III.C. UVa Health Plan Annual Report

ACTION REQUIRED: None

BACKGROUND: The Board has asked that the Executive Vice President and Chief Operating Officer report regularly on the status of the University's self-insured health care plan.

DISCUSSION: The University, with the help of fringe benefit consultants, regularly monitors its health insurance claims and premiums, the adequacy of its reserves and the outlook for future health care costs. Health care costs increased 17 percent from 2000 to 2001, and we anticipate continued double-digit increases in the year ahead, driven by increased medical costs, pharmaceutical costs and utilization. Our reserve for claims "incurred but not reported" or paid is fully funded, as is our contingency reserve.

A detailed report will be provided during the October 4, 2002, Finance Committee meeting.

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: October 4, 2002

COMMITTEE: Finance

AGENDA ITEM: III.D. Budget Reduction Plan

ACTION REQUIRED: None

BACKGROUND: On August 19, 2002 Governor Warner announced revised revenue projections for the 2002-2004 biennium that increased the budget gap between revenues and expenditures by \$1.5 billion. The Governor also enacted quarterly spending limits and requested budget reduction plans from each state agency.

DISCUSSION: On September 1, 2002, the University became subject to a quarterly spending limit of \$200.9 million. On September 20, 2002, the University submitted three budget reduction plans - a seven percent general fund reduction (\$9.6 million), an 11 percent general fund reduction (\$15 million) and a 15 percent general fund reduction (\$20.5 million). The plans focus on protecting the core instructional mission and services to students. However, reductions in the 11 to 15 percent range make it difficult to achieve that objective. We will provide the Board with a summary of the impact of the potential reductions at the meeting on October 4, 2002.

The reduction plans are currently being reviewed by the Secretary of Education and the Governor. It is anticipated that the University will be notified of the actual 2002-2003 and 2003-2004 budget reductions by mid-October.

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: October 4, 2002

COMMITTEE: Finance

AGENDA ITEM: III.E. Resources Required for Enrollment
Growth and Pricing Policy for 2003-2004
Tuition and Required Fees

ACTION REQUIRED: None

BACKGROUND: The Board normally approves tuition and required fees at its April meeting. Members of the Board have emphasized that it is important to review pricing policy and outlook prior to the meeting at which action is taken.

The Governor's budget and General Assembly actions set the criteria and framework for the establishment of tuition and fees. Board policy and Board response to institutional requirements determine the specific tuition structure within the state-prescribed framework.

DISCUSSION: The discussion at the Board meeting will address undergraduate, graduate and professional school charges and the outlook for 2003-2004. The cap on in-state undergraduate tuition was lifted effective July 1, 2002. The Board may once again decide the appropriate pricing for its in-state undergraduate students. Today's in-state undergraduates are paying less than their counterparts paid in 1995-1996. In-state tuition and required fees at the University is \$566 less than the average charge among institutions in the State Council of Higher Education for Virginia (SCHEV) faculty peer group. It is time to consider an appropriate pricing structure that recognizes the University's quality education, the resources necessary to sustain that quality and the relationship of tuition to peer institutions, both public and private. The policy must consider the impact of tuition increases on continuing students versus those who are making the decision to attend the University for the first time. Any proposed rate increase must take into consideration additional financial aid dollars that will be required in order to continue to meet the high level of demonstrated need the University currently enjoys. Out-of-state undergraduate tuition will be priced according to market.

As mentioned in the Board's discussion of tuition policy in 2000 and 2001, the University continues to have a serious concern about its ability to compete effectively for the best graduate students. In 2002-2003, the Board approved a tuition structure that assessed a greater percentage increase to in-state graduate students, while ensuring that the differential between in-state and out-of-state tuition did not grow. For 2003-2004, we propose to continue this methodology.

Darden School and Law School tuition will continue to emphasize the self-sufficiency model. The Darden School and the University have finalized a self-sufficiency agreement that projects self-sufficiency for the School in 2003-2004, and is dependent upon three assumptions related to tuition revenue: (1) Out-of-state tuition will be increased to a level comparable with peers in the top 10 of the *Business Week* and the *US News and World Report* rankings; (2) In-state tuition will maintain the \$5,000 differential from out-of-state tuition that was achieved in 2000-2001; and, (3) The Darden School will add two sections of 60 students each in 2002-2003 and 2003-2004. Accordingly, the Darden School will propose that, in addition to normal tuition increases, out-of-state entering students will pay a \$3,000 surcharge in 2003-2004 and all in-state students will pay a tuition and fee charge that is \$5,000 less than that proposed for out-of-state students. Proposed tuition increases and surcharges may change depending upon the impact of upcoming budget reductions.

In 2001-2002, the Law School and the University finalized a self-sufficiency agreement that projects self-sufficiency for the School in 2004-2005, and is dependent upon two assumptions related to tuition revenue: (1) Out-of-state tuition will be increased to a level comparable with peers; and, (2) In-state tuition will achieve a \$5,000 differential from out-of-state tuition by 2005-2006. Accordingly, in 2003-2004, the Law School will increase out-of-state tuition to meet market rates of peers. Additionally, the Law School will continue the implementation of a third phase of surcharges (\$1,200) intended to move in-state tuition to within \$5,000 of out-of-state tuition by 2005-2006. Proposed tuition increases and surcharges may differ depending upon the impact of upcoming budget reductions. As the Law School increases in-state tuition to meet this goal, it will increase its commitment to scholarships and loan forgiveness at a percentage rate at least equal to the annual increase in Law School tuition and required fees. To assist in achieving this objective, the Law School will establish and maintain an enhanced financial aid program that

provides "loan forgiveness" to all eligible University Law graduates who enter public service and to all who enter the practice of law anywhere in the Commonwealth.

In 2003-2004, the School of Medicine plans to continue the implementation of its surcharges, which increases in-state tuition to a level comparable to other state-supported medical schools. In 2003-2004, first and second year students will be assessed a \$2,500 surcharge, while third-year medical students will be assessed a \$1,000 surcharge. Proposed tuition increases and surcharges may differ depending upon the impact of upcoming budget reductions.

Required fees, housing and dining rates will be set to address state salary requirements, approved capital projects and inflation, and will be in keeping with the state's policy on mandatory non-educational and general fees. In April 2002, the Board approved a \$37 fee increase for Athletics to continue to address recommendations of the Virginia 2020 Strategic Planning Task Force for the Department of Athletics. The analysis of the funding of the Athletics budget suggests that additional future increases will be necessary to fund the Athletics budget appropriately. Future housing fees will be influenced by the amount of renovations and modernizations required to preserve the quality of our student housing system. A significant portion of our housing system is of an age where we can expect building and infrastructure conditions to require attention.

The University of Virginia's College at Wise plans to continue the implementation of the student fee increases necessary to fund the new Student Center.

We will seek Board comments on the various strategies, alternatives and projections. The outcome of the discussions will determine the direction taken in the development of the tuition and fee structure for 2003-2004. No action will be taken at this meeting.

We will also discuss the types of resources that will be required to support enrollment growth at the University. These range from new buildings to faculty and staff positions to general operating budget support.

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: October 4, 2002

COMMITTEE: Finance

AGENDA ITEM: III.F. Local State Procurement and Minority Procurement Report

ACTION REQUIRED: None

BACKGROUND: On July 2, 2002, Governor Warner issued Executive Order 29 which required state agencies to prepare a written program outlining the efforts they plan to make to facilitate the participation of small, women-owned and minority-owned (SWAM) businesses in their procurement programs. The University of Virginia has had an Office of Minority Procurement Programs (OMPP) within the Department of Procurement Services since 1991. The purpose of the OMPP is to encourage the participation of minorities and minority-owned business in the University's procurement activities.

DISCUSSION: In order to comply with Executive Order 29, the University will expand and extend the efforts currently devoted to minority-owned businesses to include small businesses and women-owned businesses. Specific strategies include the following:

Training and Educating Departmental Buyers: The University will work with the state's Department of General Services (DGS), the Department of Minority Business Enterprise (DMBE) and other organizations to obtain supplier diversity training for all employees with purchasing responsibility. The specific training and education activities in place to encourage minority procurement -- which will be expanded to cover small businesses and women-owned businesses -- include:

- Regularly scheduled visits to University departments by Procurement Services staff;
- A presentation at the monthly fiscal administrators' meeting;
- A quarterly overview session for departmental purchasers;
- A main page on the Procurement Services' website dedicated to Minority Procurement; and
- A general financial and administrative policy entitled "Minority Procurement Policy."

Solicitations: Procurement Services' buyers are fair and impartial in seeking the highest quality goods and services at the best prices. In response to Executive Order 29, Procurement Services buyers will now strive to solicit three SWAM firms for purchases in the \$5,000 to \$49,999.99 range and six SWAM firms for purchases of \$50,000 and above.

The director of the OMPP reviews all Invitation for Bids (IFBs), Request for Proposals (RFPs) and other major solicitations and alerts specific minority vendors and organizations with a minority clientele to opportunities for University business that are particularly appropriate to their area of specialization. The OMPP also facilitates contact between minority firms and Procurement Services' buyers and provides information and guidance that will help these firms compete successfully for University contracts and other business. The efforts of the OMPP on behalf of minority vendors will be expanded to include small businesses and women-owned businesses.

Subcontracting: When prime contracts are awarded to majority firms, Procurement Services makes every effort to secure subcontracting opportunities, joint ventures and partnerships for minority firms. The OMPP requests specific and up-to-date information from the University's major contractors about subcontracting opportunities and it passes this information along to minority firms. The efforts described can be extended to include small businesses and women-owned businesses in addition to minority-owned businesses.

Outreach to SWAM Vendors: A key factor in promoting supplier diversity is the ability to identify SWAM firms. At present, Procurement Services' buyers regularly search for new suppliers by consulting such resources as the Department of Minority Business Enterprise (DMBE) Vendor List and the Small Business Administration website to help identify SWAM firms for the goods and services needed. In addition, as the University implements eVA, the Commonwealth's new electronic procurement system, Procurement Services' buyers will use the data contained in the eVA vendor registration system to help identify SWAM vendors.

Measuring Results: The OMPP monitors the amount of business the University does with minority firms by requiring individual departments to submit periodic reports. Procurement Services will work on improving its ability to capture this data and will report the actual dollars spent with SWAM firms annually.

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MISCELLANEOUS FINANCIAL REPORTS
Finance Committee
University of Virginia

October 4, 2002

ACADEMIC DIVISION

FINANCIAL REPORT

ACCOUNTS AND LOANS RECEIVABLE AS OF JUNE 30, 2002

Summary of Accounts Receivable:

The University's Academic Division's total accounts receivable as of June 30, 2002, were \$15,354,000 as compared to \$16,375,000 at March 31, 2002. The major sources of receivables at June 30, 2002, were sponsored programs of \$8,562,000 and student accounts of \$3,583,000.

The past due receivables over 120 days old at June 30, 2002 were \$1,652,000 or 10.77 percent of total receivables. The University's fiscal year cumulative percentage of past due receivables over 120 days old is 4.03 percent, well below the Commonwealth's management standard of ten percent.

	<u>Student Accounts</u>	<u>Sponsored Programs</u>	<u>Other Receivables</u>	<u>Total</u>
Gross Accounts Receivable	\$3,583,000	\$8,562,000	\$3,209,000	\$15,354,000
Less: Allowance for Doubtful Accounts	<u>107,000</u>	<u>160,000</u>	<u>187,000</u>	<u>454,000</u>
Net Accounts Receivable	<u>\$3,476,000</u>	<u>\$8,402,000</u>	<u>\$3,022,000</u>	<u>\$14,900,000</u>
Accounts Receivable Greater than 120 Days Past Due	<u>\$169,000</u>	<u>\$1,142,000</u>	<u>\$341,000</u>	<u>\$1,652,000</u>

SOURCE: Student Financial Services
DATE: August 28, 2002

ACADEMIC DIVISION

FINANCIAL REPORT

ACCOUNTS AND LOANS RECEIVABLE AS OF JUNE 30, 2002

Summary of Loans Receivable:

The default rate for the Perkins Student Loan Program decreased by 0.56 percent to 5.54 percent. This is based on the cohort default rate calculation and is well below the 15 percent threshold set by federal regulations. The Health Professions Loan Program default rate decreased by 0.43 percent to zero percent. The Nursing Undergraduate Student Loan Program default rate decreased by .01 percent to 2.19 percent. All medical loan programs are well below the five percent federal threshold. The University Loan Program default rate increased by 0.08 percent to 3.83 percent.

	<u>Gross Loans Receivable</u>	<u>Current Default Rate</u>	<u>Inc./ (Dec) From Last Quarter</u>
Perkins Student Loans	\$17,352,000	5.54%	(0.56)%
Health Professions Loans	773,000	0.00%	(0.43)%
Undergraduate Nursing Loans	591,000	2.19%	(0.01)%
University Loans	10,894,000	3.83%	0.08%
Total Student Loan Outstanding	<u>\$29,610,000</u>		

SOURCE: Student Financial Services
DATE: August 28, 2002

**EXPENDITURE OF FUNDS FROM PRATT ESTATE
For Year Ended June 30, 2002**

	<u>6/30/01</u> <u>Carryforward</u>		<u>FY 02</u> <u>Allocations¹</u>		<u>Total</u> <u>Available</u>		<u>FY 01-02</u> <u>Expenditures</u>		<u>6/30/02</u> <u>Balance</u>
Arts & Sciences									
Biology									
Student Support	\$ 268,387.34	\$	0.00	\$	268,387.34	\$	304,475.88	\$	-36,088.54
Faculty Salary Support	78,000.80		0.00		78,000.80		48,425.36		29,575.44
Research & Equipment ²	<u>227,994.92</u>		0.00		<u>227,994.92</u>		<u>51,069.59</u>		<u>176,925.33</u>
	574,383.06		0.00		574,383.06		403,970.83		170,412.23
Chemistry									
Student Support	94,368.99		0.00		94,368.99		131,609.87		-37,240.88
Faculty Salary Support	62,157.67		0.00		62,157.67		49,676.38		12,481.29
Research & Equipment ²	<u>24,934.62</u>		0.00		<u>24,934.62</u>		<u>91,720.51</u>		<u>-66,785.89</u>
	181,461.28		0.00		181,461.28		273,006.76		-91,545.48
Mathematics									
Student Support	292,949.91		0.00		292,949.91		46,300.50		246,649.41
Faculty Salary Support	232,690.17		0.00		232,690.17		186,577.13		46,113.04
Research & Equipment ²	<u>115,265.64</u>		0.00		<u>115,265.64</u>		<u>16,148.98</u>		<u>99,116.66</u>
	640,905.72		0.00		640,905.72		249,026.61		391,879.11
Physics									
Student Support	133,647.36		0.00		133,647.36		78,521.76		55,125.60
Faculty Salary Support	239,504.69		0.00		239,504.69		43,872.36		195,632.33
Research & Equipment ²	<u>1,095,547.91</u>		0.00		<u>1,095,547.91</u>		<u>67,836.03</u>		<u>1,027,711.88</u>
	1,468,699.96		0.00		1,468,699.96		190,230.15		1,278,469.81
A&S Center for Biological Timing	5,648.47		0.00		5,648.47		5,648.47		0.00
Presidential Science Initiative	435,133.59		0.00		435,133.59		0.00		435,133.59
Science & Technology Initiative	500,000.00		0.00		500,000.00		0.00		500,000.00
Provost Faculty Start-Ups	1,000,000.00		0.00		1,000,000.00		80,279.05		919,720.95
School of Medicine									
Student Support	838,476.37		0.00		838,476.37		731,154.37		107,322.00
Research & Equipment ²	3,275,297.55		0.00		3,275,297.55		682,916.02		2,592,381.53
Presidential Science Initiative	0.00		0.00		0.00		0.00		0.00
Science & Technology Initiative	490,050.00		0.00		490,050.00		0.00		490,050.00
Special Distribution	200,000.00		0.00		200,000.00		0.00		200,000.00
	<u>4,803,823.92</u>		<u>0.00</u>		<u>4,803,823.92</u>		<u>1,414,070.39</u>		<u>3,389,753.53</u>
TOTALS	\$ 9,610,056.00	\$	0.00	\$	9,610,056.00	\$	2,616,232.26	\$	6,993,823.74

NOTES: 1. Allocations for 2002-2003 will be made by the Budget Office during the 2002-2003 fiscal year.

2. School of Medicine Research & Equipment includes a one-time special allocation of \$2.5 million for the Vivaria project.

SOURCE: Financial Analysis

DATE: August 20, 2002

UNIVERSITY OF VIRGINIA
INTEGRATED SYSTEMS PROJECT IMPLEMENTATION STATUS

(Per October 1999 Board of Visitors resolution requesting that the Executive Vice President provide reports to the Finance Committee not less frequently than semi-annually describing progress on the project and compliance with the business plan.)

BACKGROUND: The Board approved the initiation of the Integrated Systems Project at the October 1999 meeting. The Board requested that progress reports be provided at each subsequent meeting.

DISCUSSION: The Integrated Systems Project Executive Committee decided the first week of June to postpone the Oracle HR/Payroll implementation until September 26, 2002, to allow the ISP, University Human Resources staff, and schools and departments to test and learn how to operate the Oracle applications more fully.

ISP completed an integration test of the applications during the month of July. University Human Resources followed the same test scripts in August.

Refresher training classes were offered throughout the month of August.

Data conversion is scheduled to begin on September 26, and users are expected to begin entering transactions on October 3.

The Fixed Assets Application was deployed on July 1, 2002. Full data conversion was completed the week of August 12.

Production Management

Oracle Corp. specialists made an on-site visit to address some of the most pressing issues with the Grants Management application. Many long-standing problems were corrected. The Integrated System Application Support Center continues to work with Oracle Corp. and others to improve the performance of the live financial system.

SOURCE: Integrated System Project
DATE: September 13, 2002

**INTERNAL LOANS TO UNIVERSITY DEPARTMENTS AND ACTIVITIES
As of June 30, 2002**

(Per January 1990 Board of Visitors resolution changing Current Funds Guidelines to include investments in internal loans and the June 1994 Board of Visitors resolution authorizing internal loans to be made in the discretionary collateral account lending program [security lending program], both subject to approval by the Executive Vice President and Chief Operating Officer)

PROJECT	PURPOSE (INT PROJECT)	DATE OF LOAN	INTEREST RATE	ORIGINAL LOAN AMOUNT	PRINCIPAL PAYMENTS MADE TO DATE	OUTSTANDING PRINCIPAL	APPROXIMATE FINAL PAYMENT
103807	CVC Football Facility (102331) ¹	12/22/98	Fed. Funds+60 pts.	3,000,000.00	1,043,217.55	1,956,782.45	Jun 2009
100391	Mail Services (100391)	05/14/98	Fed. Funds+60 pts.	150,000.00	150,000.00	-	May 2002
103947	WTJU(102005)	06/01/00	Fed. Funds+60 pts.	120,000.00	48,000.00	72,000.00	May 2005
	ITC-Cincom	02/01/02	Fed. Funds+60 pts.	950,000.00	-	950,000.00	Jul 2005
	ITC-Disk Hardware	02/01/02	Fed. Funds+60 pts.	130,000.00	-	130,000.00	Jul 2004
	Keck Center	06/26/02	Fed. Funds+60 pts.	50,000.00	-	50,000.00	Jun 2005
	Gilmer Hall	06/26/02	Fed. Funds+60 pts.	45,147.96	-	45,147.96	Jun 2005
	Baseball Stadium	06/14/02	Fed. Funds+60 pts.	1,525,000.00	-	1,525,000.00	Jun 2003
Total Internal Loans Subject to \$10M Limit Established by BOV				\$5,970,147.96	\$1,241,217.55	\$4,728,930.41	
Other Internal Loans:							
	Scott Stadium Internal Construction Loan ²	04/26/01	Fed. Funds+60 pts.	10,259,807.85	-	10,259,807.85	Apr 2006
	Integrated Systems Project ³	06/25/02	Fed. Funds+60 pts.	6,900,000.00	-	6,900,000.00	Jun 2010

- NOTES: 1. Per April 2001 Board of Visitors resolution approving the extension of the loan from December 2002 to June 2009.
2. Per April 2001 Board of Visitors resolution approving short-term construction loans of up to \$13 million.
3. Per June 2001 Board of Visitors resolution approving short-term loans of up to \$20 million.

SOURCE: Investment and Tax Services
DATE: August 20, 2002

MEDICAL CENTER
REPORT ON WRITE-OFF OF BAD DEBTS
AND INDIGENT CARE

(Per February 6, 1993, Board of Visitors resolution granting the Executive Vice President and Chief Operating Officer authorization to approve the write-off of bad debts and free service for the Medical Center)

INDIGENT CARE: Indigent care charges totaling \$26.5 million for the period March 1, 2002 through June 30, 2002 have been written off. For the fiscal year ended June 30, 2002, \$70.6 million has been written off. Recoveries during this period amounted to \$3.3 million.

The estimated cost of indigent care in FY 2000-01 amounted to \$43.9 million of which 92 percent was funded through the Medicaid special disproportionate share payments. The cost of indigent care for fiscal year 2001-02 is estimated to be \$55.0 million of which 74 percent will be funded through the Medicaid special disproportionate share payments.

BAD DEBT:

Bad debt charges totaling \$12.4 million for the period March 1, 2002 through June 30, 2002 have been written off (including \$1.3 million because of noncompliance with insurance information requirements). For the fiscal year ended June 30, 2002 charges worth \$31.2 million were written off. During this same period, \$11.0 million was recovered through suits, collection agencies and Virginia refund set-off.

SOURCE: Medical Center Finance
DATE: August 19, 2002

MEDICAL CENTER
 ACCOUNTS COMMITTEE REPORT
 (Dollars in Thousands)

<u>INDIGENT CARE (IC)</u>	Annual Activity	
	Estimated 7/1/01-6/30/02	Actual 2000-2001
Charge Write-Offs	\$70,565	
Recoveries	(\$3,336)	
Net Charge Write-Off	\$67,229	\$55,070
% of Net Write-Offs to Revenue	8.23%	8.33%
Net IC Charges Factored to Cost ¹	\$60,118	\$50,239
Medicaid Unreimbursed Cost	(\$5,137)	(\$6,317)
Total Indigent Care (TIC) Cost	\$54,981	\$43,922
State Appropriation	\$0	\$0
Medicaid Special DSA* Payment ^{1&2}	\$40,615	\$40,615
TIC Funding	\$40,615	\$40,615
TIC Funding as % of TIC Cost	74%	92%
Unfunded Indigent Cost (UIC)	\$14,366	\$3,307

<u>BAD DEBT</u>	Annual Activity	
	Estimated 7/1/01-6/30/02	Actual 2000-2001
Charge Write-Offs	\$31,227	\$21,982
Recoveries	(\$10,994)	(\$9,495)
Net Charge Write-Offs	\$20,233	\$12,487
% of Net Write-Offs to Revenue	2.48%	1.84%

SOURCE: Medical Center
 DATE: August 20, 2002

¹ Both years include the additional \$1.3 million payment which was transferred to the School of Medicine and the additional \$4.15 million which was transferred to the School of Medicine. These amounts have been exactly offset in the Total Indigent Care Cost line.

² DSA - Disproportionate Share Adjustment.

QUARTERLY BUDGET REPORT

As of June 30, 2002

This report compares, on a quarterly basis, the approved budget with year-to-date actual revenues and expenditures for the Academic Division. The report as of the year ended June 30, 2002 follows.

At the end of the fourth quarter of fiscal year 2001-02 revenues collected totaled 101.3 percent of budgeted revenues; actual expenditures totaled 101.0 percent of budgeted expenditures.

A definition of terms is included to explain the sources of revenues and the purposes of expenditures.

**ACADEMIC DIVISION
2001-2002 REVENUE BUDGET SUMMARY**

	2001-2002 Revised Budget*	06/30/02 Actual Revenues	Uncollected Budget Balance	06/30/02 Percentage Collected	06/30/01 Percentage Collected
Educational & General					
Tuition & Fees	\$161,977,175	\$161,705,562	\$271,613	99.8%	98.5%
State Appropriations	161,625,571	157,364,691	4,260,880	97.4%	100.1%
Endowment Income	35,578,636	35,590,346	(11,710)	100.0%	100.1%
Gifts	49,113,394	49,448,853	(335,459)	100.7%	98.7%
Spons. Pgms & Ind. Cost Recoveries	197,647,200	203,962,402	(6,315,202)	103.2%	96.0%
Sales, Services & Other	18,229,350	19,914,411	(1,685,061)	109.2%	149.5%
Total Educational and General	624,171,326	627,986,265	(3,814,939)	100.6%	99.7%
Student Financial Assistance					
State Appropriations	5,544,065	5,560,160	(16,095)	100.3%	101.5%
Transfer from Tuition	22,453,753	23,821,600	(1,367,847)	106.1%	102.3%
Spons. Pgms & Ind. Cost Recoveries	13,132,800	13,324,087	(191,287)	101.5%	100.0%
Gifts & Endowment Income	33,351,592	32,392,670	958,922	97.1%	97.6%
Other Income	430,608	407,106	23,502	94.5%	106.8%
Total Student Financial Assistance	74,912,818	75,505,623	(592,805)	100.8%	99.6%
Auxiliary Enterprises					
Athletics & Related Activities	27,731,966	31,060,452	(3,328,486)	112.0%	119.2%
Dining Services	3,863,000	3,937,268	(74,268)	101.9%	125.1%
Housing	20,910,600	20,204,389	706,211	96.6%	99.1%
Newcomb Hall & Related Activities	4,099,051	4,597,396	(498,345)	112.2%	99.2%
University Bookstores	29,619,600	31,780,772	(2,161,172)	107.3%	104.7%
Parking & Transportation	11,077,000	10,514,624	562,376	94.9%	100.1%
Student Health	6,046,600	6,316,902	(270,302)	104.5%	87.3%
Other Auxiliary Activities	23,586,734	24,512,496	(925,762)	103.9%	98.0%
Total Auxiliary Enterprises	126,934,551	132,924,299	(5,989,748)	104.7%	105.8%
TOTAL REVENUES	\$826,018,695	836,416,187	(10,397,492)	101.3%	100.5%

**ACADEMIC DIVISION
2001-2002 EXPENDITURE BUDGET SUMMARY**

	2001-2002 Revised Budget*	06/30/02 Actual Expenditures	Unexpended Budget Balance	06/30/02 Percentage Expended	06/30/01 Percentage Expended
<u>Educational & General</u>					
Instruction	\$221,093,606	\$211,216,242	\$9,877,364	95.5%	101.1%
Research	28,035,404	28,556,148	(520,744)	101.9%	97.9%
Public Services	13,115,150	13,987,431	(872,281)	106.7%	79.1%
Academic Support	97,730,433	98,245,340	(514,907)	100.5%	74.8%
Student Services	17,181,892	18,726,232	(1,544,340)	109.0%	110.2%
Institutional Support	44,806,018	49,757,711	(4,951,693)	111.1%	100.6%
Oper. & Maintenance of Physical Plant	50,804,823	47,724,827	3,079,996	93.9%	113.3%
Sponsored Programs	151,404,000	157,077,325	(5,673,325)	103.7%	92.9%
<u>Total Educational & General</u>	624,171,326	625,291,256	(1,119,930)	95.4%	94.9%
<u>Student Financial Assistance</u>	74,912,818	79,354,873	(4,442,055)	105.9%	98.0%
<u>Auxiliary Enterprises</u>					
Athletics & Related Activities	27,632,442	29,491,354	(1,858,912)	106.7%	120.7%
Dining Services	3,855,000	4,199,647	(344,647)	108.9%	100.5%
Housing	20,823,499	20,796,063	27,436	99.9%	101.8%
Newcomb Hall & Related Activities	4,099,051	4,456,984	(357,933)	108.7%	98.8%
University Bookstores	29,369,800	29,674,419	(304,619)	101.0%	109.3%
Parking & Transportation	11,077,000	10,346,915	730,085	93.4%	101.0%
Student Health	6,012,700	6,227,869	(215,169)	103.6%	87.6%
Other Auxiliary Activities	24,196,169	24,360,426	(164,257)	100.7%	93.0%
Total Auxiliary Enterprises	127,065,661	129,553,677	(2,488,016)	102.0%	106.6%
TOTAL EXPENDITURES	\$826,149,805	834,199,806	(8,050,001)	101.0%	96.6%

*Certain 2001-2002 Revised Budget items have been restated for gift and endowment income activity.

DEFINITION OF TERMS

Educational and General - those activities which embrace the three programs directly related to the higher education mission: (1) instruction, (2) research and (3) public service. These activities also encompass support programs: academic support, institutional support and maintenance and operation of physical plant; and sponsored programs associated with instruction, research and public service.

Student Financial Assistance - those activities which promote student accessibility to the University through scholarships and fellowships. Student loans, student wages and aid from third parties is not included.

Auxiliary Enterprises - those activities which are supported entirely though fees charged to users, such as housing, athletics, dining services, the telephone system and the bookstore.

Sponsored Programs and Indirect Cost Recoveries - primarily research projects, but also includes activities restricted to institutional and service programs.

Instruction - expenditures for the primary mission of the University, including teaching faculty, support staff, instructional equipment and related routine operating costs.

Research - encompasses expenditures for activities such as support for research faculty, but does not include sponsored research. Activities include the Center for Public Service, the Office of the State Climatologist and the Center for Liberal Arts.

Public Service - includes activities such as the Miller Center of Public Affairs, the Virginia Foundation for the Humanities and Public Policy and that portion of the medical school's clinical physicians' salaries and fringe benefits related to patient care.

Academic Support - the program which encompasses the libraries, the activities of the deans of the schools and other related expenditures.

Student Services - activities whose primary purpose is to contribute to the students' emotional and physical well being

and to their intellectual, cultural and social development outside the classroom.

Institutional Support - primarily includes the financial, administrative, logistical and development activities of the University.

Operation and Maintenance of Plant - includes expenditures for activities related to the operation and maintenance of the physical plant, net of amounts charged to auxiliary enterprises and the Medical Center.

UNIVERSITY OF VIRGINIA
QUASI-ENDOWMENT ACTIONS

April 1, 2002 - June 30, 2002

(Per October 1990 and June 1996 Board of Visitors resolutions granting the Executive Vice President and Chief Operating Officer authority to approve selected quasi-endowment transactions, including establishments and disinvestments, less than \$2,000,000.)

Per the delegated authority from the Executive Vice President and Chief Operating Officer, the Vice President for Management and Budget has approved the additions, divestments and capitalizations of the quasi-endowments listed below.

<u>Additions</u>	<u>Amount</u>
Dulaney, Paul S. Memorial Fund	\$ 54.00
Pediatrics Operational Quasi-Endowment Fund	167,356.56
Plavnick, Robert L. Outstanding Student Award	400.00
University Quasi-Endowment Fund ¹	319,792.17
University of Virginia Bookstore Quasi-Endowment for Excellence	<u>250,000.00</u>

Total Additions to Quasi-Endowments	\$737,602.73
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<u>Divestments</u>	
Bristol Laboratories Quasi Endowment - Hecht	75,000.00
Thaler, Myles H. Quasi-Endowment for HIV Research	11,308.00

Total Divestments from Quasi-Endowments	\$86,308.00
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<u>Endowment Income Capitalizations</u>	
Antrim, Lottie C. Income Capitalization	1,855.72
Bogges, Margaret F. Memorial Fund for Radiology	10,034.60
Bristol Laboratories Quasi-Endowment - Hecht	3,449.65
Chrysler, W. P. Fund for Engineering Library	791.35
Class Affiliation Endowment Fund	300,000.00
Class of 1955 Endowment Fund	630.19
Class of 1956 Endowment Fund	2,145.33
Class of 1957 Endowment Fund	1,667.90
Class of 1958 Endowment Fund	2,120.47
Class of 1959 Endowment Fund	2,478.87
Class of 1960 Endowment Fund	2,089.48
Class of 1961 Endowment Fund	1,887.22
Class of 1962 Endowment Fund	2,754.49
Class of 1963 Endowment Fund	852.43
Class of 1964 Endowment Fund	1,677.79

<u>Endowment Income Capitalizations (Cont.)</u>	
Class of 1965 Endowment Fund	512.10
Commonwealth Fund Quasi Endowment ²	1,500,000.00
Dermatology General Investment Fund	10,078.11
Difazio, Cosmo A. Professorship in Anesthesiology Quasi-Endowment	3,729.74
Eminent Scholars Income Stabilization Endowment	500,000.00
Hecht -- Cruachem Chemistry Quasi-Endowment	3,107.42
Hecht -- Cruachem Chemistry Quasi-Endowment #2	2,811.48
Hecht -- Cruachem Chemistry Quasi-Endowment #3	1,179.37
Hughes Quasi-Endowment Income Capitalization	1,326.93
Kennan, William R., Jr. Professorship Quasi-Endowment ²	750,000.00
McIntyre, Howard Quasi-Endowment in Neurology	9,995.28
Miller, Mae W. Cancer Research Quasi-Endowment	1,955.98
Moyston Quasi-Endowment for Ophthalmology	4,273.78
Phase II CHE Building Unrestricted Quasi-Endowment	16,295.87
Plastic Surgery Quasi-Endowment Fund	41,227.88
Radiology Fund Special Diagnostic	1,420.34
Ross, William & Harriet Diabetes Restricted Quasi- Endowment	1,446.75
School of Medicine Quasi-Endowment	26,181.24
Taylor, Henry N. Fund	104.60
Virginia Quarterly Review Anonymous	180.81
 Total Endowment Income Capitalizations	 \$3,210,263.17

NOTES:

1. Includes current unrestricted gifts to the University that, under a standing Board of Visitors resolution, are required to be added to the University's Unrestricted Endowment Fund.
2. Quasi-endowment newly established or originally funded since March 31, 2002.

SOURCE: Financial Administration
DATE: August 20, 2002

Endowment/Investments for UVA and Related Foundations*
June 30, 2002
(In Thousands)

	R & V Funds Invested by UVIMCO	Related Foundation Funds Invested by UVIMCO	Related Foundation Funds Invested by Direction of Foundation Board	Funds Invested by Alumni Assoc	Total
The University of Virginia Medical School and related foundations	\$380,722	\$6,060	\$16,369	\$4,287	\$407,438
Darden School and related foundation	71,505	20,000	148,336	0	239,841
The College of Arts and Sciences and related foundations	196,218	7,715	611	3,367	207,911
The University of Virginia Law School and related foundation	27,909	15,788	99,782	0	143,479
School of Engineering and related foundation	47,562	0	0	2,219	49,781
The McIntire School of Commerce and related foundation	24,037	0	0	17,497	41,534
Graduate School of Arts and Sciences	26,717	0	0	0	26,717
School of Nursing	19,922	0	0	1,398	21,320
University of Virginia's College at Wise and related foundation	15,976	386	110	1,697	18,169
Curry School of Education and related foundation	7,050	4,741	956	37	12,784
School of Architecture	8,974	0	0	346	9,320
School of Continuing and Professional Studies	47	0	0	0	47
Alumni Association**	0	0	0	196,564	196,564
Athletics and related foundation	23,189	16,746	17,277	282	57,494
Miller Center and related foundation	34,585	2,424	0	0	37,009
Alumni Board of Trustees	0	0	31,436	0	31,436
University of Virginia Foundation and UVA Real Estate Foundation	0	17,914	0	0	17,914
All Other	838,776	13,711	0	0	852,487
	<u>\$1,723,189</u>	<u>\$105,485</u>	<u>\$314,877</u>	<u>\$227,694</u>	<u>\$2,371,245</u>

Notes:

* Excludes security lending.

** Includes funds on deposit for other areas/schools not individually listed.

Source: Financial Administration

Date: August 30, 2002

UNIVERSITY OF VIRGINIA
SALARY AND COMPENSATION FOR FULL-TIME FACULTY
AT AAU AND SCHEV PEER GROUP INSTITUTIONS

These reports provide average compensation and salary figures for institutions included in the Association of American Universities (AAU), and average salary figures for the University's peer institutions, as established by SCHEV. These figures include instructional faculty paid on a full-time basis; all medical faculty have been excluded. Salary figures for those faculty with eleven- or twelve-month duties have been converted to nine-month figures by multiplying the total salaries by 9/11. The source for these figures is "The Annual Report on the Economic Status of the Profession, 2001-2002," Academe, March-April, 2002, the bulletin of the American Association of University Professors.

SOURCE: Institutional Assessment and Studies
DATE: August 20, 2002

UNIVERSITY OF VIRGINIA FACULTY SALARY AVERAGES

Salary at AAU Institutions:

- AAU salary data includes all sources of funds.
- The 59 institutions included in this year's rankings are only the U.S. institutions. Two Canadian institutions, the University of Toronto and McGill University, have been excluded.
- The UVa average in each of the years displayed represents the salary average as of Dec. 1 of that year and reflects the merit increase of that date. The 1996-97 average does not include the increases from endowment funds that were made in early 1997 retroactive to December 1996. That retroactive increase from the endowment, along with the December 1997 installment from the endowment and five percent increase from the state, are represented in the 1997-98 figures.
- The UVa percent increase between 2000-01 and 2001-02 was 0.85 percent. This was well below the median for the AAU (3.63 percent) causing the University's rank position of 21st in 2000-01 to drop to 23rd in 2001-02.
- In 1989-90, before the first round of the Wilder budget cuts, UVa ranked 18th (69th percentile) in the AAU. Since then our ranking has varied, never rising above 18th, dropping as low as 32nd in 1996-97, and now stands at 23rd (62nd percentile) in 2001-02. During that 12-year period our average salary increased from \$54,100 in 1989-90 to \$82,700 in 2001-02 (a total increase of 53 percent, which is the equivalent of a 3.6 percent raise each year).

Compensation at AAU Institutions:

- As in the case of the average salary, average compensation was reported as of December 1 of those years.
- The UVa percent increase between 2000-01 and 2001-02 was 0.40 percent. This also was well below the median for the AAU (3.35 percent) and resulted in a three-position drop in our compensation ranking (from 25th to 28th).

- In 1989-90 UVA ranked 20th (65th percentile) in compensation. Since then our ranking has varied, never rising above 20th, dropping as low as 31st in 1996-97, and now stands at 28th (53rd percentile) in 2001-02. During that 12-year period our average compensation increased from \$66,800 in 1989-90 to \$100,900 in 2001-02 (a total increase of 51 percent, which is the equivalent of a 3.50 percent raise each year).

State Salary at SCHEV Peer Institutions:

- In the spring of 1997, SCHEV approved a new sample of peer institutions for the University. Again, the UVA state salary average represents the salary average as of December 1 each year. The state salary average excludes all endowment funds.
- The UVA percent increase between 2000-01 and 2001-02 was zero percent. The mean increase for the peer group was 3.43 percent, which resulted in a drop in our ranking from 11th to 15th.
- In 1989-90, UVA ranked 10th in our previous state peer group of 25. In the newly constituted group, the University began in 1996-97 at position 16 (27th percentile), and has risen to position 15 (36th percentile) by 2001-02.

SOURCE: Institutional Assessment and Studies
DATE: August 20, 2002

SALARY FOR FULL-TIME FACULTY AT AAU INSTITUTIONS - 1989 - 2001

COMPENSATION FOR FULL-TIME FACULTY AT AAU INSTITUTIONS - 1993 - 2001

SUMMARY OF SPONSORED PROGRAMS RESTRICTED GRANTS & CONTRACTS

July 1, 2001 - June 30, 2002

For the year ended June 30, 2002, the University received sponsored program awards totaling \$257 million, representing a 14 percent increase from June 30, 2001. The Department of Health and Human Services continued as the University's major source of awards, accounting for 49 percent of the total. The Medical School received approximately 60 percent of fiscal year awards, followed by Arts & Sciences at 18 percent, and Engineering at 14 percent. Awards received included \$52 million for Facilities & Administrative (indirect) cost, a nine percent increase from 2001.

SOURCE: Office of Sponsored Programs
DATE: August 22, 2002

RESTRICTED GRANTS & CONTRACTS

For the period July 1, 2001 - June 30, 2002
(In \$ Millions)

School	DE	DOD	DOE	Non Federal	DHHS	NASA	NSF	Other Federal	State	Total 01 - 02	Total 00 - 01	% Inc./ Dec.
Architecture				0.43				0.12	0.32	0.87	0.55	58%
Arts & Sciences	1.28	2.52	3.27	6.25	14.65	2.07	8.63	6.95	0.28	45.90	41.91	10%
Education	2.03			2.37	1.26		0.22	0.01	1.89	7.78	5.62	38%
Engineering	0.17	7.22	0.87	12.94	1.45	2.16	5.50	2.45	2.84	35.60	35.85	-1%
Law				1.54						1.54	1.23	25%
Medicine		4.17	0.24	34.60	108.64	0.39	0.89	2.75	3.60	155.28	127.13	22%
Nursing				0.21	1.10			0.19		1.50	1.25	20%
Other *	3.76		0.03	2.55	0.04	0.01	0.12	0.53	1.56	8.60	11.18	-23%
Total 01-02	7.24	13.91	4.41	60.89	127.14	4.63	15.36	13.00	10.49	257.07	224.72	14%
Total 00-01	9.49	11.34	3.57	50.04	109.87	4.74	18.73	9.41	7.53	224.72		
% Inc./Dec.	-24%	23%	24%	22%	16%	-2%	-18%	38%	39%	14%		

Note:

* Includes Alderman Library, Vice Provost for Research and Public Service, Vice President and Provost, University Police, Vice President for Student Affairs, UVA's College at Wise, Continuing Education, Financial Aid, Cooper Center for Public Service, Health Sciences Library, Miller Center, Student Health, University Press of Virginia and the Women's Center.

SOURCE: Office of Sponsored Programs

DATE: August 22, 2002