

**UNIVERSITY OF VIRGINIA
BOARD OF VISITORS
MEETING OF THE
FINANCE COMMITTEE
MAY 25, 2005**

FINANCE COMMITTEE

Wednesday, May 25, 2005
9:00 a.m. - 12:00 noon
Board Room, The Rotunda

AGENDA

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BOARD OF VISITORS CONSENT AGENDA

A. INTENT TO ISSUE BONDS: At the recommendation of the Executive Vice President and Chief Operating Officer, all capital projects approved by the 2005 General Assembly that require debt financing will be presented at the May Finance Committee meeting for approval of intent-to-issue resolutions. Federal regulations require this declaration for projects that seek to utilize tax-exempt financing. An intent-to-issue resolution states the University's expectation to issue bonds so that it may reimburse itself for expenditures associated with specific, enumerated projects.

This resolution will also permit the University to provide short-term financing for the projects under the University's commercial paper program. Short-term financing will be provided only if a capital project has presented a business plan documenting its fiscal soundness and if it obtains approvals from senior management. This resolution does not authorize the University to actually issue long-term bonds for the projects. Prior to issuing and incurring long-term debt, the Board will be asked to approve a separate issuance resolution. An appropriate fiscal impact statement with comments on each project's financial considerations also will be provided.

The University is presenting six capital projects for the Board's consideration under this intent-to-issue resolution. These include:

Project	Additional Intent to Issue (in 000s)	Total Intent to Issue (in 000s)
Acquire Advanced Research & Technology Building	\$23,870	\$38,870
Arts Center	\$12,000	\$12,000
Arts Grounds Parking Garage	\$10,600	\$10,600
N. Health System Parking Garage	\$28,000	\$28,000
Medical Center -Clinical Cancer Center	\$36,995	\$36,995
Wise - Residence Hall	\$785	\$7,185

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

APPROVAL OF INTENT TO ISSUE BONDS FOR CAPITAL PROJECTS

WHEREAS, the University intends to undertake the following capital projects with bond financing as a funding source:

1. Acquisition of Advanced Research & Technology Building
2. Arts Center
3. Arts Grounds Parking Garage
4. North Health System Parking Garage
5. Medical Center - Clinical Cancer Center
6. Wise - Residence Hall

WHEREAS, the United States Department of the Treasury has promulgated final regulations in Section 1.150-2 of the Treasury Regulations governing when the allocation of bond proceeds to reimburse expenditures previously made by a borrower shall be treated as an expenditure of the bond proceeds; and

WHEREAS, the Regulations require a declaration of official intent by a borrower to provide evidence that the borrower intended to reimburse such expenditures with proceeds of its bonds; and

WHEREAS, the Board of Visitors of the University of Virginia desires to make such a declaration of official intent as required by the Regulations; and

WHEREAS, the University may be required to provide short-term financing to the projects prior to issuing long-term debt in order to implement an efficient and timely construction schedule; and

WHEREAS, the University has funding mechanisms to accommodate short-term financing needs, defined as a period of less than sixty months; and

WHEREAS, the authority for the University to enter into financing arrangements exceeding sixty months in maturity for the projects listed is not included in this resolution; and

WHEREAS, if the University arranges short-term financing for a particular project, and if the project is not ultimately completed, or if the project utilizes funding sources other than bonds, then the appropriate school or unit remains responsible for refunding the short-term obligation;

RESOLVED that, pursuant to the terms of the Treasury Regulations, the University of Virginia declares its intent to reimburse expenditures in accordance with the following:

1. The University reasonably expects to reimburse expenditures from the issuance of tax-exempt bonds to be issued by the University incurred for the projects;

2. This resolution is a declaration of official intent under Section 1.150-2 of the Regulations;

3. The maximum principal amount of bonds expected to be issued for the purpose of reimbursing expenditures relating to these projects is as follows:

a. Acquisition of the Advanced Research and Technology Building - \$38.87 million (includes \$15 million from May 2004 Intent to Issue Resolution)

b. Construction of Arts Center - \$12.0 million

c. Construction of Arts Grounds Parking Garage - \$10.6 million

d. Construction of North Health System Parking Garage - \$28.0 million

e. Construction of Clinical Cancer Center - \$37.0 million; and

f. Construction of Residence Hall at Wise - \$7.2 million (includes \$6.4 million from May 2004 Intent to Issue Resolution).

RESOLVED FURTHER, that these enumerated projects are separate enterprises independent of one another, and that the authorization for funding relates to each individually; and

RESOLVED FURTHER, funds may be borrowed for the projects on a short-term basis, but only if the following conditions are met:

1. The Board of Visitors approves the current resolution;

2. A comprehensive and detailed financial plan for the school/unit project is submitted;

3. Short-term financing shall not exceed sixty months in maturity; and

4. The school or unit remains responsible for any debt obligation incurred regardless of the status of the capital project or whether or not a bond issuance actually occurs.

UNIVERSITY OF VIRGINIA
FISCAL IMPACT STATEMENT

PROJECT/PROPOSED BOARD OF VISITORS ACTION: Approval of the intent-to-issue bonds resolution for six capital projects.

DESCRIPTION: The University intends to construct, refurbish, or acquire six capital projects that are strategically and/or operationally important. These include:

1. Advanced Research and Technology Building (acquisition)
2. Arts Center
3. Arts Grounds Parking Garage
4. Health System Parking Garage - North
5. Medical Center - Clinical Cancer Center
6. Wise - Residence Hall

The proposal before the Board of Visitors is to approve the intent-to-issue resolution for these projects. A declaration of intent is necessary under federal regulations in order to receive reimbursement for expenditures related to financing with tax-exempt bonds. Moreover, approval of this resolution will enable the projects to apply for short-term financing through the University's commercial paper program established in March 2003.

FISCAL IMPACT: For each project listed above, a business plan has been submitted for review by senior management, demonstrating its respective ability to pay debt service at the current pooled bond rate terms.

While the resolution does not permit the University to assume any long-term debt obligations, for planning purposes total bond needs are projected as indicated by the respective business plans. Even with the significant increase expected in incremental debt, the University remains within the four percent of debt service-to-projected revenues guideline.

CONCLUSION: The Board of Visitors should approve the intent to issue bonds for the construction or acquisition of these new facilities and the associated interim financing. Detailed financial analyses of each will be provided and appropriate Board approvals will be sought prior to actual long-term debt issuance.

RECOMMEND APPROVAL OF BOARD ACTION:

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

Leonard W. Sandridge
May 25, 2005

BOARD OF VISITORS CONSENT AGENDA

B. ENROLLMENT PROJECTIONS: Approval of enrollment projections through 2011-2012.

Proposed enrollment projections are brought to the Board in the spring of odd-numbered years, to coincide with the State Council of Higher Education in Virginia (SCHEV) submissions. At its March 31, 2005, meeting, the Finance Committee and the Board of Visitors approved enrollment projections through 2009-2010. The Executive Vice President and Chief Operating Officer and the Vice President and Provost met with the leadership of SCHEV on April 4, 2005, to review the University's submission and convey the Board's position on these enrollment projections. The projections were received positively by SCHEV's leadership.

The projections approved by the Board in April were based on a growth plan of 1,500 new students - 1,100 undergraduates and 400 graduate students - over the next ten years. At its 2004 Retreat, the Board of Visitors indicated its comfort with this level of growth, on which the 2009-2010 enrollment projections are based.

SCHEV has requested that we resubmit our enrollment projections, extending them out two more years, through 2011-2012, in order to coincide with the six-year academic and financial plans required by the restructuring legislation. The extended enrollment projections will be submitted to SCHEV by June 15, 2005. The proposed 2011-2012 enrollment projections are based on the same assumptions used to develop the 2009-2010 projections. The extended numbers continue two more years toward the total increases of 1,100 undergraduates and 400 graduate students by 2014-2015.

Projected Seven-Year Growth: The proposed 2011-2012 enrollment projections increase undergraduate enrollment from today's 13,140 students to 13,850 students in 2011-2012, an increase of about 710 students. Graduate enrollment is projected to increase from 4,632 to 4,982 in the same period, an increase of 350 students. Combined with no projected change in the numbers of first professional students and 154 additional Continuing and Professional Studies students, the proposal results in a total on-Grounds enrollment of 21,232 students in 2011-2012, an increase of 1,214 students over the next seven years. This rate of growth is consistent with the University's ability to accommodate 1,500 new students over the next decade.

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

APPROVAL OF REVISED ENROLLMENT PROJECTIONS

WHEREAS, the State Council of Higher Education in Virginia has requested that the University extend its existing enrollment plan, approved by the Board of Visitors in April 2005, to reflect projected increases in the undergraduate and graduate enrollment levels through 2011-2012; and

WHEREAS, the Board previously approved enrollment projections through 2009-2010, which were based on achieving enrollment growth of 1,100 undergraduate students and 400 graduate students over the next decade; and

WHEREAS, the University is committed to serving the higher education needs of the Commonwealth of Virginia and the nation;

RESOLVED that the Executive Vice President and Chief Operating Officer is authorized to develop plans with the State Council of Higher Education in Virginia which will keep the University on track to increase total enrollment by 1,500 students over the next decade; and

RESOLVED FURTHER that all undergraduate growth maintain the current mix of in-state and out-of-state students.

University of Virginia

Proposed Fall Census Headcount Enrollment Plans

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual
Undergraduate	11,199	11,304	11,306	11,371	11,392	11,502	11,949	12,040	12,296	12,440	12,463	12,489
1st-Year	2,574	2,568	2,539	2,802	2,675	2,761	2,876	2,827	2,908	2,907	2,924	2,927
New Transfers	505	539	486	469	454	479	577	558	535	577	540	494
Graduate	4,551	4,665	4,615	4,565	4,633	4,505	4,403	4,220	4,155	4,110	3,998	4,160
1st-Professional	1,694	1,693	1,685	1,668	1,683	1,697	1,703	1,699	1,680	1,652	1,645	1,607
Cont & Prof Studies	466	475	400	412	365	307	343	320	286	261	240	294
On Grounds Total	17,910	18,137	18,006	18,016	18,073	18,011	18,398	18,279	18,417	18,463	18,346	18,550
Off-Grounds	2,969	2,973	3,335	3,519	3,321	3,410	3,330	3,209	3,525	3,636	4,087	3,861

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
	Actual	Actual	Actual	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected
Undergraduate	12,595	12,748	12,907	12,875	13,140	13,275	13,350	13,425	13,565	13,700	13,850
1st-Year	2,980	2,999	3,101	3,040	3,096	3,100	3,170	3,170	3,240	3,240	3,310
New Transfers	541	508	493	535	529	514	520	520	525	525	530
Graduate	4,301	4,459	4,616	4,550	4,632	4,732	4,782	4,832	4,882	4,932	4,982
1st-Professional	1,608	1,608	1,631	1,625	1,650	1,650	1,650	1,650	1,650	1,650	1,650
Cont & Prof Studies	344	382	489	350	596	625	650	675	700	725	750
On Grounds Total	18,848	19,197	19,643	19,400	20,018	20,282	20,432	20,582	20,797	21,007	21,232
Off-Grounds	3,891	3,947	3,434	3,850	3,323	3,350	3,350	3,350	3,350	3,350	3,350

Note: The 1st-Year and New Transfer counts are included in the Undergraduate totals.

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UNIVERSITY OF VIRGINIA
FISCAL IMPACT STATEMENT

PROJECT/PROPOSED BOARD OF VISITORS ACTION: Approve the revised enrollment projections extending the projections approved in April 2005 by two additional years at the request of SCHEV through academic year 2011-2012 as shown on page 9.

BACKGROUND: This fiscal impact analysis, consistent with that presented in April 2005, focuses on the educational and general (E&G) operating cost of providing an education to the increasing number of students versus incremental revenues that we project will be generated. Undoubtedly, an increased student presence will also result in increased financial aid costs, a need for additional educational facilities, as well as expanded student services for housing, dining, transportation, and recreation. This fiscal impact analysis assumes that those increases will be funded from a combination of general funds (for financial aid and capital outlay), philanthropy (financial aid and capital outlay), and student fees (housing rents, dining charges, etc.). This analysis is not a comprehensive financial assessment. A comprehensive financial assessment will be developed over the next few months in conjunction with the newly required Six Year Financial, Enrollment, and Academic Plan.

FISCAL IMPACT: Based on initial estimates of the future cost of educating students, we project the following cost requirements to educate the increased student body in 2011-2012:

	2004-05 Actual Enrollment	2011-12 Projected Enrollment	Enrollment Increase	Projected 2011-12 Cost of Education	Projected New 2011-12 Cost Requirements
Undergraduate	13,140	13,850	710	\$ 22,762	\$ 16,161,020
Graduate	4,632	4,982	350	\$ 22,762	\$ 7,966,700
1st Prof.	1,650	1,650	-		\$ -
SCPS On-Grnds.	596	750	154	\$ 7,739	\$ 1,191,806
Total	20,018	21,232	1,214		\$ 25,319,526

Based on the General Assembly's current goal to fund 67 percent of the cost of educating in-state students, we project that incremental general funds should support approximately \$9.2 million of the estimated \$25.3 million incremental cost. Based

on projections of tuition rates as shared with the Finance Committee in the Five-Year Tuition Plan discussion on February 3, 2005 and incremented by 3 percent in the last two years, we anticipate that approximately \$20.1 million in new tuition revenues will be generated in 2011-2012 from the new students. Approximately \$6.7 million of these revenues will be related to the self-supporting graduate programs which are expected to generate revenues in excess of the base adequacy cost estimates.

In summary, projected new revenues of \$29.3 million will exceed the \$25.3 million projected cost of educating the expanded student enrollment. For the traditional undergraduate, graduate, and SCPS enrollment increases, the small excess of tuition revenues, expected to be around \$570,000, will be generated from out-of-state tuition and will be allocated to financial aid. New revenues from self-supporting graduate programs are expected to generate tuition revenues of \$3.4 million in excess of the base adequacy costs (as calculated by the General Assembly) for the programs.

CONCLUSION: The Board should approve the proposed enrollment projections.

RECOMMEND APPROVAL OF BOARD ACTION:



Leonard W. Sandridge
May 25, 2005

BOARD OF VISITORS CONSENT AGENDA

C. ACQUISITION OF ENVIRONMENTAL SERVICES FOR THE MEDICAL CENTER:

The Board of Visitors must approve any procurement action wherein the annual expenditure exceeds \$5,000,000, which is the procurement amount that the Board of Visitors has authorized the Executive Vice President and Chief Operating Officer to execute without prior approval by the Board.

The University of Virginia Medical Center desires to contract with a vendor for the provision of environmental services for a five (5) year period at an estimated cost of \$7.8 million for the first year and negotiated increases or decreases thereafter based on actual need of the Medical Center. During this period, the vendor shall provide all environmental services, including but not limited to, housekeeping (custodial) services and waste management, throughout the Medical Center. The Medical Center is using a competitive procurement process to select the vendor.

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

APPROVAL OF PROCUREMENT OF ENVIRONMENTAL SERVICES FOR THE MEDICAL CENTER

RESOLVED that the Executive Vice President and Chief Operating Officer of the University is authorized to execute a contract for environmental services for the Medical Center upon the recommendation of the Vice President and Chief Executive Officer of the Medical Center, and approval of the Office of the General Counsel.

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: May 25, 2005

COMMITTEE: Finance

AGENDA ITEM: II.A. 2005-2006 Budget

BACKGROUND: At its May meeting, the Board acts on the proposed operating budgets for the Academic Division, The University of Virginia's College at Wise and the Medical Center. Since the October 2004 Board meeting, the Board has heard reports on the budget requests submitted to the state for the period 2005-2006, the preliminary budget assumptions for the 2005-2006 operating budget, and the actions of the 2005 General Assembly. At its February and April meetings, the Board approved tuition, mandatory fees, housing, and dining rates for 2005-2006, which comprise a significant revenue source for the operating budget.

DISCUSSION: The 2005-2006 expenditure budget proposal for all divisions of the University totals \$1.88 billion, representing an increase of 8 percent compared with the revised budgets of the previous fiscal year. Of this amount, \$1.04 billion relates to the Academic Division, \$26.6 million to The University of Virginia's College at Wise and \$812.6 million to the Medical Center.

Academic Division

The proposed Academic Division operating budget will increase by 6.1 percent to \$1.04 billion. This growth is driven by expected growth of 7.8 percent in tuition and fees, 7.5 percent in auxiliary enterprise revenues, five percent in sponsored programs, and five percent in state general funds. Reimbursement of direct costs plus indirect cost recoveries from grants and contracts fund 28.8 percent of the Academic Division budget, while tuition and fees account for 26.6 percent. State general funds will provide \$140 million or 13.4 percent, and private resources will contribute \$132 million or 12.7 percent of the Academic Division operating budget. Funds from auxiliary enterprise operations (15.4 percent) and other sources (3.1 percent) comprise the remainder of the budget.

Personnel costs comprise approximately 75 percent of educational and general expenditures and 61 percent of total operating expenditures in the Academic Division.

The 2005-2006 budget includes increased funding for several Board initiatives, including an additional \$3.4 million for alumni engagement, \$2.1 million for Access UVa, \$1.5 million for deferred maintenance, \$725,000 in supplemental compensation (in addition to \$6.7 million to meet state authorized increases), \$674,000 for the implementation of Diversity Commission recommendations, and a reserve for expected costs associated with hiring the first "star" under the University's research enhancement plan.

The University of Virginia's College at Wise

The proposed University of Virginia's College at Wise expenditure budget increases by \$1.6 million, or six percent, in 2005-2006, primarily related to a \$1.2 million or 11 percent increase in state general funds. Tuition revenues will increase approximately five percent, while auxiliary enterprises will generate an additional 3.1 percent in 2005-2006.

Medical Center

The Medical Center total expenditure budget is proposed to increase by \$77.5 million, or 10.5 percent, during 2005-2006, compared with the projected results for 2004-2005. Total margin is expected to be \$40.6 million or 4.8 percent. The budget reflects projected increases in expenses per adjusted discharge, medical supplies and pharmaceuticals. The budget presentation will include a proposal to increase hospital room rates and ancillary service charges between eight percent and 9.9 percent and to enhance personnel compensation packages. The pay-for-performance pool has been established at 3.5 percent of budgeted salary expenditures.

For the Medical Center, the top priority remains to provide quality patient care while continuing to earn an appropriate operating margin to fund its capital needs. Labor shortages and increases in pharmaceutical and medical device expenses will continue to place pressure on the ability to provide quality patient care. The 2005-2006 fiscal plan features the continued implementation of the Integrated Health Information Management System and the Decade Plan. The fiscal plan also includes enhanced personnel compensation packages consistent with the market, increasing surgical case volume, reducing patient length of stay, and the expansion of facilities and services at the Core Lab, the Virginia Ambulatory Services Center, the radiology imaging center, and satellite dialysis.

For a full discussion of the budget proposal as well as comparative revenue and expenditure data for the Academic Division, The University of Virginia's College at Wise and the Medical Center, please refer to the budget summary received in preparation for the May 25, 2005, Finance Committee meeting.

Pratt Fund

In April 1976, the University received funds, designated in the will of John Lee Pratt, to be used "to supplement salaries of the professors of the Departments of Biology, Chemistry, Mathematics and Physics, to purchase equipment for these departments as suggested by the heads of the departments and approved by the President and the Board of Visitors, and to provide for scholarships in these departments for outstanding students." Mr. Pratt's will provides further that these funds could be used "to support research in the School of Medicine and to provide scholarships for medical students." The will stipulates that the Pratt endowment reverts to Washington and Lee University if the University of Virginia does not comply with the provisions of the will. The original Pratt endowment has been split into two equal endowments, with 50 percent of the original principal assigned to the College of Arts and Sciences and the remaining 50 percent assigned to the School of Medicine.

In 2002-2003, the Board of Visitors approved a special Pratt allocation to be split equally between Arts & Sciences and the School of Medicine Pratt funds in the amount of \$2.33 million in 2002-2003, \$2.33 million in 2003-2004, and \$2.34 million in 2004-2005 to match an award of \$7 million from the Ivy Foundation to benefit the University's morphogenesis initiative. The first installment of \$2.33 million (\$1,166,667 from the School of Medicine Pratt Fund and \$1,166,667 from the College of Arts and Sciences Pratt Fund) was distributed. However, the grant from the Ivy Foundation was subsequently finalized at \$3 million reducing the commitment needed from the Pratt Funds to \$3 million from the initial \$7 million. In 2005-2006, the final installment of \$666,666 will be distributed from the School of Medicine Pratt Fund (\$333,333) and the College of Arts and Sciences Pratt Fund (\$333,333) to fulfill that commitment. The total \$1.5 million allocation from the School of Medicine Pratt Fund will be used to establish a \$1 million endowed professorship for biomedical research and a related \$500,000 expendable research fund. From the Arts and Sciences Pratt Fund, the \$1.5 million distribution will be used to establish an endowed professorship for biology. Both of these

allocations to match the Ivy Foundation grant are consistent with terms of the Pratt Bequest.

A distribution of \$1.3 million from each individual endowment in 2005-2006, for a total of \$2.6 million, is recommended to support the proposed projects. This distribution is made directly to the College of Arts & Sciences and the School of Medicine and is consistent with amounts distributed in the past. Committees in each of the schools developed the proposal (found on page 57) to spend the distribution in a manner consistent with previous years.

An additional annual allocation of \$500,000 from the Arts and Sciences Pratt Fund has been previously approved by the Board of Visitors for distribution to a New Faculty Start-Up Fund managed by the Vice President and Provost. For 2005-2006, the College proposes to decrease temporarily this distribution to \$363,264.

For 2005-2006, the School of Medicine proposes a second special allocation of \$4 million to continue the implementation of the Decade Plan. The funds will be used to develop new programs directly related to the implementation of the Decade Plan (\$1 million), retain and recruit outstanding faculty (\$1.5 million), and initiate new clinical, research, education and community service ventures (\$1.5 million). Expenditures from this allocation will be carefully monitored to ensure compliance with the terms of the Pratt Bequest.

Deans in each of the schools, the Vice President for Research and Graduate Studies, the Vice President and Provost and the President support these projects. The table below shows aggregate allocations; the attachment on page 57 describes the specific allocations.

2005-2006 Pratt Fund Allocation

	<u>Equipment</u>	<u>Faculty Salaries</u>	<u>Fellowships</u>	<u>Research</u>	<u>To be allocated</u>	<u>Total</u>
Biology	\$29,669	\$54,593	\$240,738			\$325,000
Chemistry	\$170,000	\$115,000	\$40,000			\$325,000
Mathematics	\$20,000	\$252,368	\$52,632			\$325,000
Physics	\$20,000	\$236,168	\$68,832			\$325,000
New Faculty Start-Up Fund	\$363,264					\$363,264
Ivy Foundation Match		\$333,333				\$333,333
<i>Arts & Sciences Subtotal</i>	<i>\$602,933</i>	<i>\$991,462</i>	<i>\$402,202</i>	<i>\$0</i>	<i>\$0</i>	<i>\$1,996,597</i>
School of Medicine Ivy Foundation Match			\$288,000	\$1,012,000		\$1,300,000
The Decade Plan		\$1,500,000		\$333,333	\$2,500,000	\$4,000,000
<i>School of Medicine Subtotal</i>	<i>\$0</i>	<i>\$0</i>	<i>\$288,000</i>	<i>\$1,345,333</i>	<i>\$0</i>	<i>\$5,633,333</i>
TOTAL	\$602,933	\$2,491,462	\$690,202	\$1,345,333	\$2,500,000	\$7,629,930

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

APPROVAL OF THE 2005-2006 OPERATING BUDGET FOR THE ACADEMIC DIVISION

RESOLVED that the 2005-2006 Operating Budget for the Academic Division is approved, as recommended by the President and the Chief Financial Officer.

APPROVAL OF THE 2005-2006 OPERATING BUDGET FOR THE UNIVERSITY OF VIRGINIA'S COLLEGE AT WISE

RESOLVED that the 2005-2006 Operating Budget for The University of Virginia's College at Wise is approved, as recommended by the President and the Chief Financial Officer.

APPROVAL OF THE 2005-2006 OPERATING AND CAPITAL BUDGET FOR THE UNIVERSITY OF VIRGINIA MEDICAL CENTER

RESOLVED that the 2005-2006 Operating and Capital Budget for the University of Virginia Medical Center is approved, as recommended by the President, the Chief Financial Officer and the Medical Center Operating Board.

APPROVAL OF PRATT FUND DISTRIBUTION FOR 2005-2006

RESOLVED that the budget for the expenditure of funds from the Estate of John Lee Pratt be approved to supplement appropriations made by the Commonwealth of Virginia for the School of Medicine and Departments of Biology, Chemistry, Mathematics and Physics in the College of Arts and Sciences. Departmental allocations, not to exceed \$2.6 million for 2005-2006, are suggested by the department chairs and recommended by the dean of each school. The special distributions are not to exceed \$4,363,264 for 2005-2006. To the extent the annual income from the endowment is not adequate to meet the recommended distribution, the principal of the endowment will be disinvested to provide funds for the approved budgets.

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UNIVERSITY OF VIRGINIA
FISCAL IMPACT STATEMENT

PROJECT/PROPOSED BOARD OF VISITORS ACTION: Approval of distributions to the School of Medicine and to select departments within the College of Arts and Sciences from funds established by the Pratt Bequest for fiscal year 2005-2006.

DESCRIPTION: Under the proposed distributions, the College of Arts and Sciences will receive \$1,996,597 from the Pratt Fund. Of this amount, \$1.3 million is designated for equipment, faculty salaries, and fellowships within the departments of Biology, Chemistry, Mathematics, and Physics. An additional \$363,000 is targeted for new faculty "start-ups" and \$333,333 is allocated to match a grant from the Ivy Foundation.

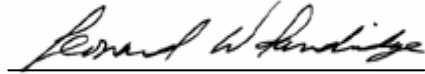
In addition to its \$1.3 million allotment for fellowships and research, the School of Medicine has requested an additional distribution to support the continued implementation of its Decade Plan (\$4.0 million) and \$333,333 to match a grant from the Ivy Foundation. The School of Medicine's total requested distribution from the Pratt Fund in 2005-2006 will be \$5,633,333.

FISCAL IMPACT: The initiatives to be funded by the proposed distribution of \$7,629,930 from the Pratt endowment are in accordance with the wishes of the Pratt Estate, the needs of the two schools, and the University's objectives concerning science and technology. The \$363,000 additional funding for faculty start-ups and the \$666,666 to support the Ivy Foundation match supports key initiatives identified by the Virginia 2020 plan for science and technology. The \$4.0 million request to the School of Medicine also supports the spirit of Virginia 2020 and other strategic efforts.

As of February 2005, the market value for the Pratt Endowment balances totaled \$48.6 million and \$54.8 million for the School of Medicine and the College of Arts and Sciences, respectively. The \$5,633,333 allocation to the School of Medicine exceeds the expected \$1.8 million distribution, requiring a \$3.8 million disinvestment of endowment balances to meet the proposed expenditures in 2005-2006. The \$1,996,597 allocation to the College of Arts and Sciences Pratt Fund is equal to the expected distribution, so there is no need to disinvest endowment funds for the College in 2005-2006.

CONCLUSION: The University of Virginia should provide \$7,629,930 from the Pratt Fund portfolio for the prescribed purposes.

RECOMMEND APPROVAL OF BOARD ACTION:

A handwritten signature in cursive script, reading "Leonard W. Sandridge", written in black ink. The signature is positioned above a horizontal line.

Leonard W. Sandridge
May 25, 2005

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: May 25, 2005

COMMITTEE: Finance

AGENDA ITEM: II.B. Expansion of Commercial Paper Program
and Issuance of General Revenue Pledge Bonds

BACKGROUND: On January 31, 2003 the Board of Visitors approved short-term financing for capital project expenses utilizing commercial paper as the financing vehicle in an amount up to \$100 million. This agenda item recommends increasing the amount available through this program up to \$175 million.

The University intends to issue bonds in the summer of 2005 to provide permanent long-term financing for projects previously approved by the Board of Visitors for construction and financing. Part of the proceeds from this issuance will repay interim financing issued through the commercial paper program for these projects; part of the proceeds will provide new financing for the remaining project costs to complete these projects according to approved plans; and, part will refund previously issued bonds to reduce the cost of borrowing including costs of issuance and capitalized interest.

The eight projects include:

- A. Construction of the new John Paul Jones Arena
- B. Construction of the Hospital Expansion project
- C. Construction of the Health System South Parking Garage
- D. Construction of the National Radio Astronomy Observatory building
- E. Construction of the new residence Hall at Wise
- F. Acquisition and fit out of the Fontaine Clinics Building
- G. Upgrades and modifications to the Main Heating Plant
- H. Construction of the Rouss Hall renovation and Commerce School addition

The total issuance amount will not exceed \$225 million. Of this total, approximately \$85 million will refund outstanding commercial paper, approximately \$54 million will be for additional project costs approved by Board of Visitors actions and authorizations received from the State and not previously financed, and approximately \$62 million will advance refund *The Rector and Visitors of the University of Virginia General*

Revenue Pledge Bonds 1998A, including capitalized interest, and costs of issuance. The table below shows the previous bond issuance and planned issuance by project, compared to the Board of Visitors and State authorization amounts.

	BOV and State Authorization <u>Amounts</u>	Bond Proceeds <u>from 2003</u>	2005 Bond <u>Issuance</u>
Arena	\$75,000,000	\$36,931,504	\$38,068,496
Hospital Expansion	85,600,000	34,795,397	24,404,603
HSC South Garage	10,800,000		8,484,000
Fontaine Clinics	17,325,000		17,325,000
NRAO	7,400,000		7,400,000
Residence Hall - Wise	7,185,000		7,185,000
Heating Plant	19,800,000		19,800,000
Rouss Hall	33,000,000		16,000,000
Refunding of Series 1998A			61,775,000
Costs of Issuance and Cap I			13,600,000
Contingency			<u>10,957,901</u>
Total			\$225,000,000

Note: Included in the third column are long-term bond obligations to replace outstanding commercial paper used to provide interim financing for projects.

DISCUSSION: The commercial paper program, established on January 31, 2003, has been a successful tool for providing cost effective interim financing for capital projects during construction prior to permanent financing. Previously, the University offered only an internal loan program with limited resources.

This action increases the maximum amount of debt available through the commercial paper program to \$175 million from \$100

million. This increased amount will permit improved management of the issuance of permanent debt, better debt consolidation opportunities, and more flexibility of the timing of issuance. The commercial paper program will continue to be used only for projects that have received Board of Visitors approval for bond issuance.

The purpose of this financing is to provide permanent financing for the capital projects listed and as approved, as indicated in the accompanying resolution.

The bonds will be secured by a general revenue pledge of the University and will not in any way be a debt of the Commonwealth nor shall create or constitute any indebtedness or obligation of the Commonwealth. The Board of Visitors authorizes the Executive committee to approve the final form and details of the bonds, in accordance with established parameters which follow.

- The maximum aggregate principal (par) amount shall not exceed \$225 million.
- The maximum true interest cost (TIC) of fixed rate bonds will not exceed 6 percent per annum.
- The maximum true interest costs (TIC) of variable rate obligations will not exceed 5 percent per annum.
- The final maturity of the bonds will not exceed 40 years from the date of issue.
- Call protection will not exceed 11 years.
- Optional redemption premiums will not exceed 2 percent.
- Fees paid to underwriters, financial advisors, and other related service providers, on negotiated and competitive transactions shall be in accordance with the contracts established and applicable to the transactions.

Each of the projects listed has been presented to the Board of Visitors for approval and discussion under intent-to-issue bonds resolutions. Under these prior resolutions, the University declared its intent to issue bonds in order to conform to Federal tax regulations. Moreover, additional provisions of the intent-to-issue bonds resolutions and other actions approved by the Board of Visitors enabled the University to issue interim financing under the institution's commercial paper authority. State authorization has also been granted for the amounts shown above.

The John Paul Jones Arena - This \$129.8 million project was granted full authority by the Board of Visitors to issue \$75.0 million in bonds to finance construction and other expenses. It does not require any additional authorization from either the Board of Visitors or the State to issue its remaining balance. The Arena has used \$36,931,504 in bond proceeds (authority granted in January 2003) and the University plans to use \$38,068,496 from the 2005 issuance for this project.

Hospital Expansion Project - The project cost is projected at \$89.6 million. The Board of Visitors has issued intent-to-issue bonds resolutions totaling \$85.6 million in debt authorization. The University plans to use bond proceeds of \$34,795,397 and plans to use \$24,404,603 from the 2005 issuance for this project.

HSC South Parking Garage - The project cost and debt authorization are approved at \$10.8 million. The University plans to use \$8,484,000 from the 2005 issuance for this project.

Fontaine Clinics Building - The total project amount and debt authorization are \$17.325 million. The Medical Center acquired this project from the University of Virginia Foundation in April 2004. The University plans to use \$17.325 million from the 2005 issuance for this project.

National Radio Astronomy Observatory Building - This project is approved for total project cost of \$8.9 million and debt authorization of \$7.4 million. The University plans to use \$7.4 million from the 2005 issuance for this project.

Wise Residence Hall - The University's College at Wise began construction on a new 120-bed facility this past fall. Total project cost and debt authorization is \$7.185 million. The University plans to use \$7.185 million from the 2005 issuance for this project.

Main Heating Plant Modifications - Total project cost was approved at \$64.2 million. In May 2004 the Board of Visitors approved an intent-to-issue bonds resolution for this project for \$19.8 million. The University is jointly funding this project with the State and it was hoped that the latter would commit its funds to the initial phases of construction and planning costs. This is not the funding scenario in the Appropriations Act; therefore the University will fund the first portion of expenses. No short- or long-term debt has been issued to date.

Rouss Hall Addition and Renovation - The total project cost was approved at \$57 million. The State has authorized \$33.0 million in debt financing for this project. The University plans to use \$16 million from the 2005 issue for this project.

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

RESOLUTION OF THE RECTOR AND VISITORS OF THE UNIVERSITY OF VIRGINIA, AUTHORIZATION OF ISSUANCE OF UP TO \$225 MILLION OF GENERAL REVENUE PLEDGE BONDS AND AUTHORIZATION OF ISSUANCE OF UP TO \$175 MILLION OF COMMERCIAL PAPER

WHEREAS, Chapter 9, Title 23 of the Code of Virginia of 1950, as amended (the "Virginia Code"), establishes a public corporation under the name and style of The Rector and Visitors of the University of Virginia (the "University") which is governed by a Board of Visitors (the "Board"); and

WHEREAS, Chapter 3, Title 23 of the Virginia Code (the "Act") classifies the University as an educational institution, declares it to be a public body and constitutes it a governmental instrumentality for the dissemination of education; and

WHEREAS, the Act empowers the University, with the consent and approval of the General Assembly of the Commonwealth of Virginia (the "Commonwealth") and the Governor of the Commonwealth to build, construct, reconstruct, erect, extend, better, equip, and improve any building, facility, addition, extension, or improvement of a capital nature required by or convenient for the purposes of the University and to borrow money and make, issue, and sell bonds of the University for any such purposes, including the refinancing of any such facilities; and

WHEREAS, the Act further authorizes the University to pledge to the payment of the principal of and the interest on such bonds any monies available for the use of the University including, but not limited to, and subject to guidelines promulgated by the Secretary of Finance of the Commonwealth (the "Secretary of Finance"), monies appropriated to the University from the general funds of the Commonwealth or from non-general funds, without regard to the source of such monies, and which are not required by law or by previous binding contract to be devoted to some other purpose; and

WHEREAS, the Board has previously determined to facilitate the financing or refinancing from time to time of capital projects of the University on a short-term basis through the issuance of short-term commercial paper (the "Program"), and hereby determines that the aggregate outstanding principal amount of the Program at any time should not exceed \$175,000,000; and

WHEREAS, the Board anticipates that the Program will be secured by a general revenue pledge of the University and shall not be in any way a debt of the Commonwealth and shall not create or constitute any indebtedness or obligation of the Commonwealth,

either legal, moral, or otherwise; and

WHEREAS, the Board has previously approved resolutions declaring an intent to issue bonds and has authorized the issuance of debt funding for the projects, (the "Projects"), described in items A through H below:

A. The construction of a new 15,000-seat Arena and Special Events facility

- authorized project cost - \$129,800,000
- declared intent to issue bonds - \$75,000,000 (October 2001)
- authorized bond issuance amount - \$75,000,000 (January 2003)
- previously issued amount at par - \$35,289,000 (January 2003)

B. The Hospital Expansion Project, which consists of an approximately 75,000 square foot addition to the Hospital; the renovation of approximately 152,000 square feet of the existing Hospital; the inclusion of an additional chiller to serve both the Medical Center and the School of Medicine; the fit-out of an additional floor of new facility; the purchase and installation of equipment

- authorized project cost - \$89,600,000
- declared intent to issue bonds - \$54,000,000 (October 2001)
- declared intent to issue bonds - \$31,600,000 (June 2004)
- additional authorized bond issuance amount - 54,000,000 (June 2002, January 2003)
- previously issued amount at par - \$33,302,000 (January 2003)

C. The construction of a new addition to the Health Science Center South Parking garage

- authorized project cost - \$10,800,000
- declared intent to issue bonds - \$10,800,000 (October 2001)
- authorized issuance of bonds - \$10,800,000 (May 2003)

D. The acquisition of a clinics building at the Fontaine Research Park from the University of Virginia Foundation on behalf of the Medical Center; the construction and fit-out of additional space not provided by the Foundation; purchase and installation of equipment

- authorized project cost - \$17,325,000

- authorized bond issuance - \$17,325,000 (February 2004)

E. The construction of a new building on behalf of the National Radio Astronomy Observatory

- authorized project cost - \$8,900,000
- declared intent to issue bonds - \$7,400,000 (March 1999)
- authorized issuance of bonds - \$7,400,000 (May 2003)

F. The construction of a new 120-bed residential dormitory facility at the University of Virginia's College at Wise

- authorized project cost - \$7,185,000
- declared intent to issue bonds and authorized issuance of commercial paper - \$6,400,000 (June 2004)
- declared intent to issue additional bonds and authorized issuance of additional bonds - \$785,000 (May 2005)

G. The installation of environmental upgrades and the performance of other mandated maintenance work at the University's Main Heating Plant

- authorized project cost - \$64,200,000
- declared intent to issue bonds and authorized issuance of bonds - \$19,800,000 (June 2004)

H. The renovation to the existing Rouss Hall Building and the construction of approximately 125,000 square feet of additional space

- authorized project cost - \$57,000,000
- declared intent to issue bonds and authorized issuance of bonds- \$33,000,000 (June 2004)

WHEREAS, the maximum cost, authorized bond issuance amount, and amount of previously issued bonds, if any, for each Project is indicated above; and

WHEREAS, the Commonwealth has authorized the Projects and the issuance of bonds for them in the following legislation:

A. Arena and Special Events Center (207-16281): Planning authorization 1999, Chapter 935, Item C-36.76; Construction authorization 2002-2004, Chapter 899, Item C-36; Supplemental authorization 2003, Chapter 1042, Item C-36;

B. Hospital Expansion (209-16392): Initial planning authorization 2000-2002, Chapter 1073, Item C-65; Supplemental planning authorization 2001, Chapter 1073, Item 4-4.01m;

Construction authorization 2002-2004, Chapter 899, Item C-48; Supplemental construction authorization 2003, Chapter 1042, Item C-48;

C. South Parking Garage Expansion (207-16559): Planning authorization 2000-2002, Chapter 1073, Item 4-4.01m; Supplemental planning authorization 2002-2004, Chapter 899, Item C-40; Construction authorization 2002-2004, Chapter 899, Item C-40;

D. Fontaine Clinics Acquisition (209-16756): Acquisition authorization 2002-2004, Chapter 899, Item C-53.60;

E. National Radio Astronomy Observatory Building (207-16280): Planning Authorization 2000, Chapter 935, Item C-36.75; Construction Authorization 2000, Chapter 935, Item C-9;

F. Residence Hall at the College at Wise (246-16963): Construction authorization 2002-2004, Chapter 899, Item C-53.70; Supplemental authorization 2005 (administrative increase);

G. Heating Plant Modifications (207-16872): Planning authorization 2003, Chapter 1042, Item C-35.05; Construction authorization 2004-2006, Chapter 4, Item C-58;

H. Addition and Renovation to Rouss Hall (207-16747): Authorization 2002-2004, Chapter 899, Item C-47.20; Supplemental authorization 2003, Chapter 1042, Item C-47.20; Supplemental authorization 2005, Chapter 951, Item 57.10;

WHEREAS, a portion of the projects has been financed on a short-term basis through the University's commercial paper "program"; and

WHEREAS, the Board has now determined to authorize the issuance of bonds to refund all or a portion of the outstanding principal amount of the University's general revenue pledge bonds, Series 1998A; and

WHEREAS, the Board anticipates that the bonds will be secured by a general revenue pledge of the University and not be in any way a debt of the Commonwealth and shall not create or constitute any indebtedness or obligation of the Commonwealth, either legal, moral, or otherwise; and

WHEREAS, the Board authorizes the issuance of bonds for each of the Projects up to the Project authorized bond amounts described above, less the amount of any bonds previously issued and

outstanding with respect thereto, and for the refunding of all or a portion of the Series 1998A Bonds, and desires to authorize its Executive Committee (the "Executive Committee") to approve the final forms and details of the bonds, as set forth below;

RESOLVED that the University's commercial paper program will be expanded from a maximum of \$100 million to a maximum of \$175 million; and

RESOLVED FURTHER that costs associated with any capital project of the University may be financed under the Program provided that (i) such project has been authorized by appropriate legislation enacted by the Commonwealth and (ii) the incurrence of indebtedness for such project has been authorized by the Board or the Executive Committee; and

RESOLVED FURTHER that the Executive Committee or all officers of the University are authorized and directed to take all such further actions, including without limitation the designation of underwriters, paying agents, remarketing agents, trustees, and liquidity providers for the Program, and to execute all such instruments, agreements, documents, and certificates as they shall deem necessary or desirable to carry out the terms of the Program, including without limitation any liquidity facilities, swap, or other interest rate management agreements associated with the Program; and

RESOLVED FURTHER that the Executive Committee is authorized to implement the plan of finance described in the Recitals by adopting a resolution or resolutions authorizing the issuance of one or more series of bonds for the purpose of financing or refinancing any or all of the Projects and for refunding all or a portion of Series 1998A Bonds, and providing for the terms thereof, as required by Section 23-19 of the Virginia Code; and

RESOLVED FURTHER that the Executive Committee is authorized to approve the final terms of each series of bonds, including, without limitation, their original principal amounts, the specific Projects, and the refunding to be financed or refinanced, maturity dates, and amounts, redemption provisions and prices and interest rates (which may be either fixed or variable), provided that (i) the maximum aggregate principal amount of all bonds shall not exceed \$225 million; (ii) the maximum true interest cost of any series bearing interest at a fixed rate shall not exceed six percent (6 percent) per annum; (iii) the maximum initial true interest cost of any series bearing interest at a variable rate shall not exceed five percent (5 percent) per annum; (iv) the final

maturity of all bonds shall not exceed 40 years beyond issuance date; (v) call protection on the bonds shall not exceed eleven (11) years; and (vi) no optional redemption premium shall exceed two (2) percent; and

RESOLVED FURTHER that the fees paid to underwriters and financial advisors on negotiated and competitive transactions shall be in accordance with the contracts established and applicable to the transactions; and

RESOLVED FURTHER that the Executive Committee or all officers of the University are authorized and directed to take all such further actions, including without limitation the designation of underwriters, paying agents, remarketing agents, trustees, and liquidity providers for the bonds, and to execute all such instruments, agreements, documents, and certificates as they shall deem necessary or desirable to carry out the terms of the financing plans presented to this meeting, including without limitation any liquidity facilities, swap or other interest rate management agreements associated with the bonds; and

RESOLVED FURTHER, pursuant to the Section 147(f) of the Internal Revenue Code of 1986, as amended, and applicable regulations thereunder, the University designates the Vice President for Finance of the University, as the public hearing officer, to hold any public hearings required in order to ensure the tax-exempt status of interest on the bonds; and

RESOLVED FURTHER that all acts of all officers of the University which are in conformity with the purposes and intent of this Resolution and in carrying out the financing plans presented to this meeting are ratified, approved and affirmed; and

RESOLVED FURTHER that, upon approval, this action shall take effect immediately.

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UNIVERSITY OF VIRGINIA
FISCAL IMPACT STATEMENT

PROJECT/PROPOSED BOARD OF VISITORS ACTION: Approve the expansion of commercial paper program and approve the issuance of up to \$225 million in bonds.

DESCRIPTION: The University plans to expand the commercial paper program to \$175 million and to issue up to \$225 million of general revenue pledge bonds to finance expenses of board approved capital projects. Of this total, approximately \$68 million is new debt obligations.

FISCAL IMPACT: The University monitors its debt outstanding with two key measures.

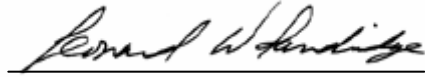
The primary measure used, the "leverage ratio", was 2.21 on June 30, 2004, significantly stronger than the policy target of 1.50 and Moody's Aaa-rated public institution median of 1.19. This ratio indicates that the University had more than two times the amount of unrestricted assets to the amount of outstanding debt. If UVa issues the full \$225 million during the summer of 2005 then the projected ratio of debt to resources may decrease to a level of 1.79 times, still significantly stronger than the indicated benchmark.

The second measure used, the "operating ratio", was 2.37 at June 30, 2004; again, significantly stronger than the policy maximum of four percent and slightly below Moody's Aaa-rated public institution median of 2.5 percent. With this issuance, the projected ratio will increase to 2.9 percent. This ratio is the proportion that aggregate debt service payments represent of operational expenditures. It measures the ability of an institution to repay debt service and the influence of debt service payments on the budget.

This is a planned issuance of debt in support of the University's debt management program. The program that has been established anticipates periodic permanent financing issuances to finance capital project expenses by repaying outstanding commercial paper obligations and by making incremental financing available to complete project expenses.

CONCLUSION: The Board of Visitors should approve the expansion of the commercial paper program and the issuance of bonds for these projects.

RECOMMEND APPROVAL OF BOARD ACTION:

A handwritten signature in cursive script, reading "Leonard W. Sandridge", written in black ink on a light-colored background.

Leonard W. Sandridge
May 25, 2005

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: May 25, 2005

COMMITTEE: Finance

AGENDA ITEM: II.C. Investment Selection and Monitoring for
the University's Retirement Plans

BACKGROUND: The University is the plan sponsor of a number of defined contribution retirement plans, including the Defined Contribution Retirement Plan for the General Faculty of the University of Virginia and the Defined Contribution Retirement Plan for Employees of the University of Virginia Medical Center.

On June 13, 1997, the Board delegated the authority to monitor the administration of the defined contribution retirement plans to the Investment Subcommittee of the Finance Committee. Such monitoring includes an annual review of investments, maintenance and revision of the University's Investment Policy Statement for retirement investing, and the identification and selection of new funds appropriate for retirement investing and the elimination of inappropriate funds.

In addition, this resolution authorized the Executive Vice President and Chief Financial Officer to contract for the services of a corporate trustee or trustees for the plan, to form an administrative committee to assist the Investment Subcommittee in carrying out its duties, and to engage outside consultants as needed to assist with the University's responsibilities as Plan Administrator and Named Fiduciary. The Executive Vice President and Chief Financial Officer of the University became the Executive Vice President and Chief Operating Officer in 1999.

Subsequent to the June 13, 1997 resolution, the Investment Subcommittee changed its name to the University of Virginia Investment Management Company (UVIMCO), which remained a subcommittee of the Finance Committee until July 1, 2004, when it became a separate related foundation.

DISCUSSION: With the separation of UVIMCO from the University and the concomitant dissolution of the Board subcommittee, the Board must change the delegations of authority initially established on June 13, 1997. This resolution delegates monitoring authority to the Finance Committee, which authority includes the annual review of the fund families and funds contained in the retirement plans.

In addition, the resolution adds some funds to the investment fund lineup and eliminates other funds. The University engaged Palmer & Cay, a consulting firm and investment fiduciary to the plans, to conduct an annual review of the investment fund lineup using criteria such as consistent performance relative to benchmark, performance relative to peer funds, style consistency, volatility relative to the Index, fund expense, and ability to complement other funds under consideration as investment options. The annual review is intended to eliminate funds that overlap in terms of style, that have performed below benchmark, that have management issues of concern to the advisors, and to add funds that enhance the diversification needs of participants.

In addition, Palmer & Cay advised the University to select a different default investment for employees who fail to elect either a vendor or investment fund, in order to improve participants' ability to meet retirement objectives. In light of the University's ongoing fiduciary duties with respect to contributions made on behalf of a participant who fails to elect either a vendor or an investment fund, Palmer & Cay has recommended that the University (1) adopt a default investment that is more likely to provide participants with adequate retirement income, and (2) track participants and contributions that fall into the default selection. Currently, the University's retirement contribution on behalf of these employees is defaulted to the TIAA-CREF Money Market Fund. The recommendation is instead to default the investment to the Fidelity Freedom Fund, which is a family of funds with varying asset mixes that take into account the current age of the employee and an assumption as to the anticipated retirement age. These funds have more conservative asset mixes the closer the employee is to retirement.

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

APPROVAL OF THE FINANCE COMMITTEE AS MONITOR OF THE DEFINED CONTRIBUTION RETIREMENT PLANS, AUTHORIZATION FOR THE EXECUTIVE VICE PRESIDENT AND CHIEF OPERATING OFFICER TO UNDERTAKE CERTAIN ACTIONS, AUTHORIZATION OF A CHANGE IN THE FUNDS AVAILABLE IN THE DEFINED CONTRIBUTION RETIREMENT PLANS, AND AUTHORIZATION OF A CHANGE IN THE DEFAULT INVESTMENT FOR EMPLOYEES

WHEREAS, the University is the plan sponsor of a number of defined contribution retirement plans; and

WHEREAS, On June 13, 1997, the Board delegated the authority to monitor the administration of the defined contribution retirement plans to the Investment Subcommittee of the Finance Committee; and

WHEREAS, subsequent to the June 13, 1997 meeting of the Board, the Investment Subcommittee of the Finance Committee became the University of Virginia Investment Management Company (UVIMCO), which then became a separate related foundation on July 1, 2004; and

WHEREAS, because UVIMCO is separate from the University, it is necessary to designate a Board entity to undertake the duties delegated to the Investment Subcommittee in the June 13, 1997 resolution; and

WHEREAS, at the June 13, 1997 meeting of the Board, the Executive Vice President and Chief Financial Officer was authorized to contract for the services of a corporate trustee or trustees, appoint an administrative committee to assist the Board in carrying out its duties with respect to the defined contribution retirement plans, and to engage outside consultants as needed; and

WHEREAS, the Executive Vice President and Chief Financial Officer became the Executive Vice President and Chief Operating Officer in 1999; and

WHEREAS, the Executive Vice President and Chief Operating Officer has contracted for the services of corporate trustees, appointed the Retirement Administrative Committee to assist the Board in carrying out its duties with respect to the retirement plans, and engaged the firm of Palmer & Cay as outside consultants on retirement plan issues; and

WHEREAS, under the Investment Policy Statement adopted by the Board on December 12, 2002, the entity charged with monitoring the retirement plans is required annually to review the investment performance and make changes to the investment funds as necessary; and

WHEREAS, the University shall remain Plan Administrator, Plan Sponsor and Named Fiduciary of the defined contribution retirement plans, with responsibility for day-to-day operations delegated to the Chief Human Resources Officer.

RESOLVED that the Finance Committee is delegated the authority to monitor the administration of the defined contribution retirement plans on behalf of the Board, including reviewing the fund families and the funds included in the plans.

RESOLVED FURTHER that the Board affirms the authority of the Executive Vice President and Chief Operating Officer to contract for the services of a corporate trustee or trustees; to form an administrative committee to assist the Finance Committee in carrying out its duties; and to engage outside consultants as needed to assist with the University's responsibilities as Plan Administrator and Named Fiduciary.

RESOLVED FURTHER that the following changes to the existing investment lineup of the defined contribution retirement plans shall be made as soon as practicable:

Action	Fidelity	TIAA-CREF	Vanguard
Additions	• American Beacon Small Cap Value Index	• TIAA-CREF Small Cap Equity	• Small Cap Value Plan
	• American Century Large Cap Value	• TIAA-CREF International Equity	• Developed Markets Index
Deletions	• Janus Mid-Cap Value • Fidelity Growth & Income		

RESOLVED FURTHER that the default investment for University-sponsored retirement plans shall be changed from the TIAA-CREF Money Market Fund to the Fidelity Freedom Fund appropriate for the employee's age and years to retirement.

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: May 25, 2005

COMMITTEE: Finance

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

ACTION REQUIRED: None

BACKGROUND: The Executive Vice President and Chief Operating Officer will inform the Board of recent events that do not require formal action, but of which it should be made aware.

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: May 25, 2005

COMMITTEE: Finance

AGENDA ITEM: III.B. Endowment Report

ACTION REQUIRED: None

Market Value and Performance as of March 31, 2005

BACKGROUND: The Rector and Visitors of the University, and specifically the UVIMCO Board, 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: Details of the returns on the endowment through March 31, 2005, are listed in the following Investment Report.

Summary

World equity markets posted mixed results for the quarter ending March 31, 2005. The US equity market fell 2.2 percent, as measured by the Russell 3000 Index. Within the domestic market, small caps were down over five percent for the quarter, as measured by the Russell 2000 Index, and value significantly outperformed growth across the capitalization spectrum. International equity markets were up a modest 0.3 percent for the quarter, as measured by the MSCI All Country World ex. US Index. The currency translation muted stronger local market returns as the dollar rallied against many foreign currencies.

Emerging markets continued their dominance over developed markets rising 1.9 percent during the first quarter, as measured by the MSCI Emerging Markets Free Index, despite a significant correction in March.

Domestic bonds fell in the face of rising interest rates with long-term government bonds down 1.1 percent for the quarter, as measured by the Merrill Lynch 7-10 Year Government Bond Index.

The Pooled Endowment Fund returned 2.4 percent for the quarter and 11.0 percent fiscal year-to-date. These returns outpaced the target benchmark, up 0.6 percent for the quarter and 9.6 percent fiscal year-to-date, and exceeded spending plus inflation, at 2.1 percent for the quarter and 4.7 percent for the

fiscal year-to-date. Each of the broad subportfolios exceeded its benchmark in the quarter, with the exceptions of real assets, where short-term performance comparisons are less meaningful, and cash. During the quarter, the allocation to cash fell to 8.1 percent of the Pooled Endowment Fund from 10.8 percent at year-end 2004.

Domestic Equity

The domestic equity portfolio continues to perform well relative to the market, down 0.6 percent for the quarter, bringing the fiscal year-to-date return to 11.1 percent, significantly better than the market. Each of the three managers in the portfolio has performed well. The 30 percent allocation to Shapiro Capital Management represents a substantial overweight exposure to smaller capitalization stocks within the portfolio at a time when the small versus large valuation gap is not compelling. A relatively concentrated portfolio, however, coupled with good stock selection has allowed Shapiro to turn in results that are significantly different from the market, up 0.2 percent for the quarter and 15.5 percent fiscal year-to-date. Lone Cascade, Lone Pine Capital's long-only portfolio, got off to a good start, up one percent for the quarter.

International Equity

The concentration in the emerging markets (versus developed) continues to pay off for the international equity portfolio, which is up 2.1 percent for the quarter and 28.9 percent for the fiscal year-to-date, versus 0.3 percent and 17.0 percent, respectively, for the international market as measured by the MSCI AC World Free ex. US. The portfolio of emerging market managers slightly outperformed the index for the quarter but has modestly underperformed for the fiscal year-to-date. An overweight position to emerging Asia explains the bulk of the underperformance this fiscal year. Longer-term, we like the overweight allocation to emerging Asia.

Hedge Funds

The hedge fund portfolio returned 2.6 percent for the quarter and 10.4 percent for the fiscal year-to-date, while maintaining a net long exposure of approximately 40 percent (longs minus shorts) and a gross exposure of 120 percent (longs plus shorts). Of the 40 percent net long, approximately 50 percent is US, 20 percent emerging and 30 percent international developed. Gross exposure is more heavily skewed toward domestic with the split at roughly

70 percent US, ten percent emerging and 20 percent developed. Given the market returns for the quarter and fiscal year-to-date, the skew toward international and emerging within the net long exposure has been beneficial to the portfolio. However, simply holding these exposures would have produced a return of -0.3 percent for the quarter and five percent for the fiscal year-to-date, significantly worse than the returns generated by the portfolio of managers.

The group of managers classified as long-short equity represents 76 percent of the hedge fund portfolio and returned 2.8 percent for the quarter and 10.4 percent to date this fiscal year. For the quarter and fiscal year-to-date, most of the managers have been successful in adding significant value through bottom up long/short stock selection. The worst performers in the group have been the healthcare sector funds, Argus Partners and Rx Capital. The trading dynamics within healthcare have been difficult due to a rapidly changing environment for the drug approval process and the market's reaction to this uncertainty.

Opportunity usually follows uncertainty and we have therefore not shifted assets out of these two experienced healthcare managers. The poor performance continues to test our conviction. International has been the best performing group for the quarter and fiscal year-to-date, up 3.3 percent and 20.8 percent, respectively. The bulk of the returns are due to the strong performance of TCI, a concentrated long-biased fund, up nine percent for the quarter and 32 percent for the fiscal year-to-date. Sierra Europe, the other significant allocation within international, was down four percent for the quarter and up ten percent for the fiscal year-to-date. Much of the volatility in that fund's return is due to the currency translation. The Euro is down over four percent against the dollar for the quarter, and up over six percent for the fiscal year-to-date, leaving a smaller portion of the returns explained by stock selection.

Returns to the macro and absolute return managers have been modest for the quarter and fiscal year-to-date. Choppy, trendless markets have made it difficult to profit on the macro trading front. Within arbitrage, K Capital's very negative stance on the markets finally paid off during the quarter, as credit spreads widened. However, the market environment that was beneficial to K Capital proved to be a more difficult environment for others, muting portfolio returns.

Private Equity

The private equity portfolio returned 0.4 percent in the quarter. Combined with the effects of December 31, 2004 manager financial statements received in the quarter, this pushed the private equity fiscal year-to-date return to 11.5 percent. Domestic buyouts climbed to 15.7 percent fiscal year-to-date, benefiting from sizable unrealized gains in the fourth quarter of 2004 in private investments held by WLR Recovery II, EnCap IV, Spectrum IV, and ABRY Mezzanine funds, as well as year-end mark-to-market increases in the value of public securities held by WCAS IX, Integral Capital V, and OCM Opportunities II. In addition, distributions from Sun Capital III and TIFF Secondary in the first quarter of 2005 were significant contributors to performance.

International buyouts rose to 15.3 percent fiscal year-to-date, largely as a result of fourth quarter 2004 unrealized gains in APAX Europe V, which more than offset the decline in the Euro this quarter. The venture capital portfolio remained roughly flat for the quarter and stands at 0.5 percent fiscal year-to-date. Significant influences included gains in Battery V and Battery VI and writedowns in Accel Europe's portfolio.

Real Estate

The real estate portfolio returned -0.8 percent in the quarter as a result of the sale of the last property held in Shorenstein II, which was sold at a profit but for less than its carrying value. Nonetheless, the fiscal year-to-date return climbed to 19.3 percent as a result of a large 4Q04 gain in the firm's predecessor fund, Shorenstein I, which similarly sold its one remaining asset. Shorenstein I and II were concluded with final since-inception net IRRs of 17.1 percent and 13.2 percent, respectively, and will no longer appear on our performance reports. As noted in prior reports, the portfolio's FYTD return includes a 10.6 percent increase resulting from the July 1, 2004 change in our valuation policy.

Fixed Income

The fixed income portfolio returned -0.5 percent for the quarter, beating the benchmark return of -1.1 percent. Fiscal year-to-date, fixed income has returned 3.3 percent, slightly trailing the benchmark return of 3.6 percent.

PRELIMINARY

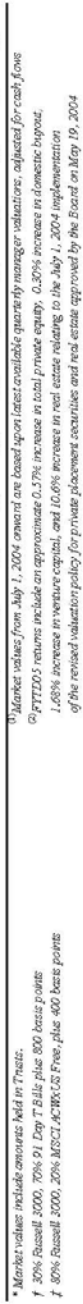
**UNIVERSITY OF VIRGINIA INVESTMENT REPORT
SUMMARY PERFORMANCE REPORT - March 31, 2005**

	MKT VAL ¹ (\$000's)	Asset Allocation		Current					Historical					Annualized		
		Fund	Target	MO	3MO	CYTD	FYTD	FY04	FY03	FY02	3Y	5Y	10Y			
DOMESTIC EQUITY	218,278	8.4%	5.0%	(0.9)	(0.6)	(0.6)	11.1	24.0	4.0	(12.0)	8.4	5.4	11.4			
<i>Russell 3000</i>				(1.7)	(2.2)	(2.2)	5.7	20.5	0.8	(17.2)	3.7	(2.5)	10.8			
INTERNATIONAL EQUITY	261,129	10.1%	10.0%	(6.0)	2.1	2.1	28.9	35.1	7.6	(7.7)	20.3	5.6	10.1			
EMERGING MARKETS	261,129	10.1%	10.0%	(6.0)	2.1	2.1	28.9	35.1	7.6	12.5	20.5	11.8	9.4			
<i>MSCI AC World Free Ex-US</i>				(2.7)	0.3	0.3	17.0	32.5	(4.2)	(8.2)	13.1	(0.1)	6.0			
<i>MSCI Emerging Markets Free</i>				(6.6)	1.9	1.9	29.4	33.5	7.0	1.3	19.2	4.5	4.9			
HEDGE FUNDS	1,434,928	55.3%	57.5%	(0.3)	2.6	2.6	10.4	10.8	9.8	7.7	10.4	10.1	12.4			
LONG/SHORT	1,083,940	41.7%		0.1	2.8	2.8	10.4	10.4								
INTERNATIONAL	125,048	4.8%		(1.9)	3.3	3.3	20.8	20.3								
MACRO	105,658	4.1%		(3.1)	0.9	0.9	6.6	9.6								
ABSOLUTE RETURN	116,472	4.5%		0.6	1.4	1.4	5.7	12.7								
LIQUIDATING FUNDS	3,810	0.1%														
<i>Uva Hedge Fund Blended Index †</i>				0.1	1.1	1.1	6.9	12.4	4.1	(5.9)	5.6	2.1	10.2			

PRIVATE EQUITY⁽¹⁾⁽²⁾	302,457	11.6%	10.5%	0.5	0.4	0.4	11.5	16.0	11.1	(0.7)	11.5	2.1	24.7
DOMESTIC BUYOUTS	169,822	6.5%	12.0%	1.3	2.0	2.0	15.7	25.5	37.3	(0.5)	24.8	12.9	14.2
INTERNATIONAL BUYOUTS	58,517	2.3%	2.5%	(1.1)	(3.4)	(3.4)	15.3	11.0	1.8	21.5	12.7		
VENTURE CAPITAL	74,117	2.9%	5.0%	(0.0)	(0.0)	(0.0)	0.5	(5.9)	(27.9)	(27.6)	(14.4)	(18.5)	26.6
<i>Uva Private Equity Blended Index †</i>				(1.3)	(0.7)	(0.7)	11.0	26.7	3.7	(11.5)	9.6	2.1	13.9
<i>Russell 3000 + 400 bp</i>				(1.4)	(1.2)	(1.2)	8.7	24.5	4.8	(13.2)	7.8	1.6	14.9
<i>MSCI AC World ex. US. Free + 400 bp</i>				(2.4)	1.3	1.3	20.0	36.0	(0.6)	(4.4)	16.7	3.7	9.7

REAL ASSETS⁽¹⁾⁽²⁾	50,889	2.0%	3.0%	0.7	(0.8)	(0.8)	19.3	27.0	(8.2)	(12.6)	12.1	6.5	10.7
REAL ESTATE/TIMBER	50,889	2.0%	3.0%	0.7	(0.8)	(0.8)	19.3	27.0	(8.2)	(19.4)	12.1	4.8	9.9
<i>91 Day T-Bills + 300 bp</i>				0.7	1.8	1.8	5.2	6.0	6.6	7.6	6.5	7.8	9.1
FIXED INCOME	115,692	4.5%	5.0%	(0.1)	(0.5)	(0.5)	3.3	2.9	17.1	10.4	8.6	8.1	8.0
<i>M.E. 7-10 Yr Gov</i>				(0.5)	(1.1)	(1.1)	3.6	(2.5)	14.0	9.7	6.7	7.4	7.4

CASH	210,296	8.1%	--	0.2	0.3	0.3	1.3	2.0	2.1	--	1.8	3.4	3.2
<i>91 Day T-Bills</i>				0.2	0.6	0.6	1.4	1.0	1.5	2.6	1.5	2.8	4.0
UVA Managed	2,907	0.1%											
TOTAL FUND	2,596,576	100%		(0.2)	2.4	2.4	11.0	12.7	9.2	(0.1)	10.7	7.6	14.6
<i>Target Benchmark</i>				(1.0)	0.6	0.6	9.6	15.2	4.2	(6.2)	7.3	3.5	9.4
<i>Spending + Inflation</i>				0.6	2.1	2.1	4.7	8.5	7.0	5.6	7.3	7.1	7.1



* Monitor values include amounts held in Trusts.
† 30% Russell 3000, 70% 91 Day T-Bills plus 80 basis points
‡ 80% Russell 3000, 20% MSCI AC/EXUS Free, plus 400 basis points
§ Monitor values from July 1, 2004 amount are based upon latest available quarterly manager valuations, adjusted for cash flows
¶ PFT2005 returns include an approximate 0.57% increase in total private equity, 0.30% increase in domestic buyout, 1.66% increase in venture capital, and 16.0% increase in real estate relating to the July 1, 2004 implementation of the revised valuation policy for private placement securities and real estate approved by the Board on May 19, 2004

PRELIMINARY

UNIVERSITY OF VIRGINIA INVESTMENT REPORT
SUMMARY ENDOWMENT REPORT - March 31, 2005

	MKT VAL (\$000's)			Current			Historical			Annualized		
	MO	3MO	CYTD	FYTD	FY04	FY03	FY02	3Y	5Y	10Y		
CURRENT FUNDS												
Investment in Aggregate Cash	(0.1)	1.3	1.3	5.9	6.5	5.7	4.8	7.2	7.6	6.7		
Investment in Endowment Cash	0.2	0.2	0.2	1.3	1.5	3.1	4.8	3.3	5.2	5.5		
PEF Investment	(0.2)	2.4	2.4	11.0	12.7	9.2	--	--	--	--		
AGGREGATE CASH												
Current Funds	0.2	0.3	0.3	1.3	--	--	--	--	--	--		
Endowment Cash Reserves**	0.2	0.2	0.2	1.3	1.5	3.1	4.8	3.3	5.2	5.5		
Medical Insurance Fund	0.2	0.3	0.3	1.3	2.0	2.1	--	1.8	3.4	3.2		
	0.2	0.3	0.3	1.3	1.6	4.4	4.2	2.4	4.0	--		
<i>Current Fund Blend*</i>	0.1	0.2	0.2	1.1	0.8	2.8	4.2	2.0	3.5	4.6		
<i>91 Day T Bills</i>	0.2	0.6	0.6	1.4	1.0	1.5	2.6	1.5	2.8	4.0		

CHARITABLE REMAINDER TRUSTS										
Non-Pool Trust Assets	38,315									
UVA Pooled Endowment Fund	2,814									
UVA Core Equity Fund	704									
UVA Bond Fund	27,268									
	7,529	(0.2)	2.4	11.0	12.7	9.2	--	--	--	--
		(1.0)	2.2	13.3	13.3	9.8	(0.3)	11.6	5.7	11.3
		(0.2)	(1.0)	3.7	3.0	15.0	10.5	8.8	8.8	7.7

TOTAL FUND	
Current Funds (Agg. cash)	2,596,576
Medical Insurance Fund (Agg. cash)	166,664
UVA Administered Endowment	24,965
Non-Pool Trust Assets	16,138
Pending Funds	2,814
TOTAL ASSETS MANAGED	2,808,868

TOTAL FUND	
Pending Funds	2,596,576
Less: Liabilities & Current Funds	1,710
Less: Trusts	(439,835)
	(35,501)
POOLED ENDOWMENT FUND	2,122,950
UVA Administered Endowment	16,138
TOTAL ENDOWMENT	2,139,088

Endowment Cash Reserves	
Pending Investments	217,004
Income	0
	(6,707)
TOTAL FUND CASH	210,296
UNITIZATION	MV Per Share
3/31/2005	\$3,268.36

* 60% 91 Day T Bills, 40% Merrill Lynch 1-3 Year Treasuries
** Cash balance plus manager cash and income cash

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MISCELLANEOUS FINANCIAL REPORTS

Finance Committee
University of Virginia

May 25, 2005

ACADEMIC DIVISION

FINANCIAL REPORT

ACCOUNTS AND LOANS RECEIVABLE AS OF MARCH 31, 2005

Summary of Accounts Receivable:

The University's Academic Division's total accounts receivable at March 31, 2005 were \$15,985,000 as compared to \$75,900,000 at December 31, 2004. The major sources of receivables at March 31, 2005 were sponsored programs of \$10,545,000 and other receivables of \$4,000,000.

The past due receivables over 120 days old were \$1,361,000 at March 31, 2005, or 8.52 percent of total receivables, 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	\$1,440,000	\$10,545,000	\$4,000,000	\$15,985,000
Less: Allowance for Doubtful Accounts	<u>75,000</u>	<u>500,000</u>	<u>231,000</u>	<u>806,000</u>
Net Accounts Receivable	<u>\$1,365,000</u>	<u>\$10,045,000</u>	<u>\$3,769,000</u>	<u>\$15,179,000</u>
Accounts Receivable Greater than 120 Days Past Due	<u>\$ 86,000</u>	<u>\$ 771,000</u>	<u>\$ 504,000</u>	<u>\$ 1,361,000</u>

SOURCE: Revenue & Collections
DATE: May 9, 2005

ACADEMIC DIVISION

ACCOUNTS AND LOANS RECEIVABLE AS OF MARCH 31, 2005

Summary of Loans Receivable:

The default rate for the Perkins Student Loan Program increased by 0.88 percent to 5.15 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 increased from 0.00 percent to 0.11 percent. The Nursing Undergraduate Student Loan Program default rate decreased by 0.11 percent to 1.84 percent. All medical loan programs are well below the five percent federal threshold. The University Loan Program default rate decreased by 0.07 percent to 4.65 percent.

	<u>Gross Loans Receivable</u>	<u>Current Default Rate</u>	<u>Inc./ (Dec) From Last Quarter</u>
Perkins Student Loans	\$20,060,000	5.154%	0.88%
Health Professions Loans	206,000	0.11%	0.11%
Undergraduate Nursing Loans	707,000	1.84%	(0.11)%
University Loans	8,600,000	4.65%	(0.07)%
Total Student Loan Outstanding	\$29,573,000		

SOURCE: Student Financial Services
DATE: May 9, 2005

REPORT ON WRITE-OFF OF NON-PATIENT
BAD DEBT FOR FISCAL YEAR 2004-2005

Report on Write-offs of Non-Patient Bad Debts:

Each May, the University writes off its uncollectible accounts receivables for non-patient services. The University's write-off of non-patient bad debts for May 2005 is \$381,556. This year's write-off increased by \$54,453 over last year. These write-offs do not constitute a compromise, settlement or discharge of the debts. For the past ten years, the University has collected approximately 32 percent of the accounts written off.

	<u>FY</u> <u>2004-2005</u>	<u>FY</u> <u>2003-2004</u>	<u>FY</u> <u>2002-2003</u>	<u>FY</u> <u>2001-2002</u>	<u>FY</u> <u>2000-2001</u>
Tuition and Fees	\$132,638	\$112,511	\$ 95,352	\$ 92,309	\$ 66,381
Auxiliary Service Fines and Charges	111,555	78,380	84,926	66,344	81,450
Library Fines and Charges	25,480	28,765	25,776	34,407	814
University Student Loans	17,011	15,170	20,879	13,976	7,318
Other Charges	33,876	30,282	57,310	46,498	69,151
UVa's College at Wise	20,717	61,994	-	96,485	152,538
Uncollected Salary Payments to Former Employees	40,280	-	-	-	-
TOTAL	\$381,556	\$327,103	\$284,243	\$350,019	\$377,652

SOURCE: Financial Administration
DATE: May 9, 2005

QUARTERLY BUDGET REPORT

As of March 31, 2005

This report compares the actual results for the sources and uses to the Academic Division annual budget (excluding the Medical Center and the University of Virginia's College at Wise). At the end of the third quarter of 2004-05, 85.3 percent of the budget has been collected due to the collection of tuition, the allotment of general fund appropriations at the beginning of each semester, and the auxiliary enterprise collections. The remaining sources of available funds are recognized as expended. As of the end of the third quarter, 75.7 percent of the budget has been expended.

The operating budget is developed using differing rules and conventions from the audited financial statements, which are developed in accordance with generally accepted accounting principles (GAAP). In some cases, similar descriptions are used in both reports even though the precise definitions and the specific amounts are not identical. However, both sets of figures are accurate for their particular purposes, and both are drawn from the University's financial applications. Outlined below are several of the differing conventions used in the operating budget and the actual results presented on the accompanying statement:

- The operating budget is prepared on a cash basis.
- The operating budget presents tuition and fees as gross income and the full amount of student aid as an expense.
- In the operating budget, depreciation is not funded and non-capital outlay purchases are recognized as expensed rather than spread over the useful life of the purchase. Debt service, major repair or renovation expenditures occur within the capital outlay accounts - and off the operating budget; however, the operating budget does include the annual transfers from auxiliary enterprise operations to the capital outlay accounts and reserves.
- In the operating budget, the source of expenditures is shown rather than actual revenues recognized. Unrestricted income, including gifts and indirect cost recoveries, is shown only as it is to be expended. Endowment

distributions are included only to the extent that expenditures are anticipated.

- Direct lending is excluded from the operating budget.
- Fringe benefit expenditures are included in the operating budget using pooled benefit rates.

A definition of terms is included to explain the categories for the sources and uses of funds.

SOURCE: Budget Office
DATE: May 9, 2005

University of Virginia Academic Division
 2003-2004 Operating Budget vs. Actual Results
 As of March 31, 2005
 (in thousands)

	2004-05 Revised Budget	3/31/05 Actual Results	Variance	3/31/05 Percentage of Budget
Sources of Available Funds				
Tuition & Fees	\$256,541	\$251,495	\$5,046	98.0%
State General Fund Appropriations	132,866	128,609	4,257	96.8%
Sponsored Research Direct & Indirect Costs	285,340	207,191	78,149	72.6%
Endowment Distributions Expended	66,305	41,695	24,610	62.9%
Private Gifts Expended	62,622	50,703	11,919	81.0%
Sales, Investment & Other Revenues	28,683	19,514	9,169	68.0%
Auxiliary Enterprises	149,220	137,607	11,613	92.2%
Total Sources of Available Funds	\$981,577	\$836,814	\$144,763	85.3%
Uses of Available Funds				
Direct Instruction	237,747	174,098	63,649	73.2%
Research and Public Service	273,123	176,894	96,229	64.8%
Library, Information Tech., & Academic Administration	100,535	81,209	19,326	80.8%
Student Services	18,796	17,509	1,287	93.2%
General Administration	56,678	45,916	10,762	81.0%
Operation & Maintenance of Physical Plant	48,096	37,930	10,166	78.9%
Scholarships, Fellowships, and Other Graduate Support	97,381	90,551	6,830	93.0%
Total Educational & General and Student Aid	832,356	624,107	208,249	75.0%
Auxiliary Enterprises				
Athletics	29,077	26,912	2,165	92.6%
University Bookstores	31,388	25,589	5,799	81.5%
Housing	16,649	11,856	4,793	71.2%
Other Auxiliary Enterprises	44,051	35,281	8,770	80.1%
Auxiliary Operating Uses	121,165	99,638	21,527	82.2%
Transfers to reserves for renewal, replacement & debt	27,462	19,067	8,395	69.4%
Total Auxiliary Enterprise Uses	148,627	118,705	29,922	79.9%
Reserve for Salary Increases	-	-	-	0.00%
Reserve for Base Operating Needs and Contingencies	-	-	-	0.00%
Total Uses of Available Funds	\$980,983	\$742,812	\$238,171	75.7%
Surplus	\$594	\$94,002 (\$93,408)		n/a

DEFINITION OF TERMS

Sponsored Research Direct and Indirect Costs -- primarily research projects, but also includes activities restricted to institutional and service programs.

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

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

Research -- includes expenditures for activities such as support for research faculty and sponsored research. Activities include the Center for Public Service, 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.

Library, Information Technology and Academic Administration -- encompasses the libraries, the activities of the deans of the schools, and other related expenditures.

Student Services -- activities that support and contribute to students' emotional and physical well-being and to their intellectual, cultural, and social development outside the classroom.

General Administration -- includes the financial, administrative, logistical, and development activities of the University.

Operation and Maintenance of Physical 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.

ENDOWMENT/INVESTMENTS FOR UVA AND RELATED FOUNDATIONS*
March 31, 2005
(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
University of Virginia Medical School and related foundations	\$517,314	\$ 5,854	\$ 21,378	\$ 3,524	\$ 548,070
Darden School and related foundation	87,283	52,399	134,791	0	274,473
College of Arts and Sciences and related Foundations	244,215	10,484	13,689	4,097	272,485
University of Virginia Law School and related foundation	33,883	94,139	104,852	0	232,874
School of Engineering and related foundation	61,235	0	967	2,233	64,435
McIntire School of Commerce and related foundation	29,688	0	389 *	26,066	56,143
Graduate School of Arts and Sciences	36,343	0	0	0	36,343
School of Nursing	26,125	0	0	1,546	27,671
University of Virginia's College at Wise and related foundation	24,216	622	501	1,769	27,108
Curry School of Education and related foundation	9,905	5,859	50	16	15,830
School of Architecture	12,303	0	31	355	12,689
School of Continuing and Professional Studies	58	0	0	60	118
Alumni Association**	0	0	0	234,485	234,485
Athletics and related foundation	32,379	40,573	2,926	317	76,195
Miller Center and related foundation	41,441	2,803	0	0	44,244
Alumni Board of Trustees	0	0	30,663	8,997	39,660
University of Virginia Foundation and UVa Real Estate Foundation	0	42,416	499	0	42,915
University of Virginia Medical Center and related foundation	110,627	5,171	39,921 ***		155,719
All Other	909,823	15,765	0	0	925,588
	<u>\$2,176,838</u>	<u>\$276,085</u>	<u>\$350,657</u>	<u>\$283,465</u>	<u>\$3,087,045</u>

Notes:

* Information as of February 28, 2005.

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

*** Excludes approximately \$21 million of board designated pension funds.

SOURCE: Financial Administration

DATE: May 9, 2005

QUASI-ENDOWMENT ACTIONS

January 1, 2005 - March 31, 2005

(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 on the quasi-endowments listed below.

Additions	Amount
Darden, Barbara B. Endowed Scholarship	55,000.00
Dean's Discretionary Research Fund for Infectious Disease	52,348.03
Ohrstrom Family Foundation Scholarship Quasi-Endowment Fund	500.00
Nursing Legacy Scholarship Fund Quasi-Endowment	8,353.07
Pediatrics Operational Quasi-Endowment Fund	516,756.25
Research Activities Quasi-Endowment Fund*	500,000.00
Sorensen Institute - Hall Estate Quasi-Endowment*	450,000.00
South Atlantic Humanities Center Quasi-Endowment #2*	175,000.00
UVA Medical Center Professorship in Nursing - Restricted Quasi	250,000.00
UVAW Foreign Travel Endowment	100.00
University Quasi Endowment Fund (1)	<u>197,235.45</u>
Total Additions to Quasi Endowments	2,205,292.80

Divestments	
Total Divestments from Quasi Endowments	0.00

Endowment Income Capitalizations	
Antrim, Lottie C. Income Capitalization Quasi-Endowment	2,719.04
Athletics General Operations Quasi-Endowment	66,619.79
AT&T Professorship in Engineering Quasi-Endowment	17,700.42
Bogges, Margaret F. Memorial Fund	12,587.68
Bristol Laboratories Quasi Endowment - Hecht	3,412.83
Capital Renewal Program Quasi-Endowment	24,373.57
Chrysler, W.P. Fund for Engineering Library	918.12
Class Of 1955 Fund	790.53
Class Of 1956 Fund	2,691.16

Endowment Income Capitalizations (continued)

Class Of 1957 Fund	2,092.25
Class Of 1958 Fund	2,659.98
Class Of 1959 Fund	3,109.57
Class Of 1960 Fund	2,621.08
Class Of 1961 Fund	2,367.38
Class Of 1962 Fund	3,455.30
Class Of 1963 Fund	1,069.31
Class Of 1964 Fund	2,104.66
Class Of 1965 Fund	642.39
Dermatology General Investment Fund	12,642.27
Hamilton, Janet S. and John D. Quasi-Endowment	26,898.11
Hecht-Cruachem Chemistry Quasi Endowment	3,898.04
Hecht-Cruachem Chemistry Quasi Endowment #2	3,526.81
Hecht-Cruachem Chemistry Quasi Endowment #3	1,479.61
Honor System Quasi-Unrestricted Endowment Fund	6,069.02
Horton, Charles E. Professorship in International Plastic Surgery Quasi-Endowment	6,063.19
Hughes Endowment Income Capitalization Quasi-Endowment	1,664.51
Jordan, Harvey E. Lectureship	579.19
Kenan, William R. Jr. Professorship Quasi-Endowment	343,463.52
McIntire, Howard Quasi Endowment In Neurology	11,215.92
Miller, Mae W. Cancer Research Quasi Endowment	2,453.65
Moyston Quasi-Endowment for Ophthalmology	10,182.31
Pediatrics Operational Quasi-Endowment Fund	25,023.83
Phase II Chemistry Building Unrestricted Quasi Endowment	20,441.97
Plastic Surgery Quasi-Endowment Fund	15,678.59
Radiology Fund Special Diagnostic	1,781.70
Residential Improvement Fund	1,999,999.00
School Of Medicine Quasi Endowment	21,899.54
Swortzel, Thelma R. Research Quasi-Endowment	11,787.81
Taylor, Henry N. Fund	131.22
Vaughan, Joseph L. Chair Restricted Quasi-Endowment	33,576.91
Virginia Quarterly Review Anonymous	226.81
Total Endowment Income Capitalizations	2,712,618.59

* Quasi-endowment newly established or originally funded since January 1, 2005.

(1) Includes current unrestricted gifts to the University, which, under a standing Board of Visitors resolution, are required to be added to the University's Unrestricted Endowment Fund.

SOURCE: Investment & Tax Services
DATE: May 9, 2005

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ATTACHMENT

2005-2006 PRATT FUND ALLOCATIONS

ARTS AND SCIENCES – \$1,300,000

Biology - The Biology Department proposes to allocate \$240,738 for fellowships. Over the past several years, Pratt funds have supplemented at least five presidential fellows and two National Science Foundation (NSF) pre-doctoral fellows. This year the department proposes to use Pratt funds to supplement one holder of a Presidential Fellowship, one holder of a prestigious Jefferson Scholar Fellowship, and four other top candidates. The department proposes to allocate \$39,593 for faculty salary support at Mountain Lake Biological Station (MLBS). MLBS is of fundamental importance to research excellence in Biology. The department proposes to allocate \$29,669 to partially fund equipment purchases for two recent hires, Drs. Provencio and Wijnen. These hires contribute to maintaining a leadership position in the area of biological timing. The department requests that \$15,000 be transferred to the Arts and Sciences Pratt Special Account in partial payment of funds made available in 2002-2003 to support the hiring of Mario Geysen as the Alfred Burger Professor of Chemistry.

Chemistry - The Chemistry Department proposes that \$20,000 be allocated to provide Undergraduate Summer Fellowships. This allocation will be used to provide part of the matching funding for the NSF-REU (Research Experience for Undergraduates) program. The department proposes to allocate \$20,000 for graduate fellowships, which have proven instrumental in recruiting strong graduate students in a competitive environment. The department proposes to allocate \$70,000 to provide summer salary for new faculty recruits Carthene Bazemore-Walker, Jason Chruma, and Jill Vinton. Bazemore-Walker has already established a research program in proteomics focusing on lupus, Chruma is a classically trained synthetic chemist focusing on therapeutic endpoints, and Vinton is an electrochemist focusing on topics in neuroscience. The department requests \$170,000 for equipment for start-up commitments to the newly recruited faculty. The department requests that \$45,000 be transferred to the Arts and Sciences Pratt Special Account in partial payment of funds made available in 2002-2003 to support the hiring of Mario Geysen as the Alfred Burger Professor of Chemistry.

Mathematics - The Mathematics Department proposes to allocate \$118,690 to support its Whyburn Postdoctoral Fellowship program. Internationally recognized for its excellence, the Whyburn Program brings new PhD recipients in mathematics to the University for three years of teaching and research. The department proposes to allocate \$15,996 to provide summer salaries and start-up funds for new Assistant Professors Bux and Mitrea. The department proposes to allocate \$92,682 to support its "visitor program" for 2005-2006. It is essential for the best mathematics departments to be able to bring short-term visitors from universities around the world to the University to work with its faculty and graduate students. The department requests \$10,000 for the Institute of Mathematical Science (IMS). The IMS supports pure mathematics, but also encourages interdisciplinary activity in the mathematical sciences, such as a series of high-level lectures throughout the coming year on mathematical biology. The department proposes to allocate \$20,000 for multimedia computer equipment. The department proposes to allocate \$52,632 for graduate student support, allowing the department to compete for the best applicants. The department requests that \$15,000 be transferred to the Arts and Sciences Pratt Special Account in partial payment of funds made available in 2002-2003 to support the hiring of Mario Geysen as the Alfred Burger Professor of Chemistry.

Physics - The Physics Department proposes to allocate \$221,168 for summer support for new faculty members Keith Williams, Seung-Hun Lee, Victor Galitski, and the postdoctoral fellows they will hire. All three are exceptional condensed matter physicists; Williams and Galitski are engaged in research that lies near the intellectual center of the 2020 Nanoscience initiative. The department proposes to allocate \$68,832 in fellowship support to attract the most highly qualified science graduate students. The department proposes that \$20,000 be allocated for cost share of a Low Energy Electron Microscope (LEEM). This funding will leverage an outside grant of \$1 million; the LEEM will be revolutionary in facilitating discovery science in the department. The department requests that \$15,000 be transferred to the Arts and Sciences Pratt Special Account in partial payment of funds made available in 2002-2003 to support the hiring of Mario Geysen as the Alfred Burger Professor of Chemistry.

SCHOOL OF MEDICINE - \$1,300,000

Support and Training of Student Researchers - \$288,000

Graduate students and post-doctoral fellows are central to a successful biomedical research program. A modest institutional share from the Pratt Bequest supplements funds from federal government training programs and charitable foundations to attract superlative students. These individuals are critical in enhancing the quality of research in the Ph.D. and M.D./Ph.D. programs at the University. The success of these programs has a direct impact on the quality of faculty research at the School of Medicine.

Core Facility Support - \$1,012,000

Core facilities - including, but not limited to, the Small Animal Multimodality Imaging Core, Advanced Microscopy Facility, Tissue Culture Facility, and Bio-molecular Research Facility - provide access to large, expensive equipment and techniques that otherwise would not be available to individual investigators. They also provide essential services that help researchers conduct assays, obtain specialized samples and reduce expenses. Each core serves investigators from a diverse group of departments and centers. These facilities operate on a fee-for-service basis, and, after development costs and other expenses, average a cost recovery of 60-80 percent, with the differential funded by Pratt allocations. These resources provide a competitive advantage to the University's research programs, provide flexibility to acquire emerging technologies, and are critical to the School of Medicine's recruitment and retention success.

SPECIAL DISTRIBUTION

An additional annual allocation of \$500,000 from the Arts and Sciences Pratt Fund has been previously approved by the Board of Visitors for distribution to a New Faculty Start-Up Fund managed by the Vice President and Provost. For 2005-06, the College proposes to temporarily decrease this distribution to \$363,264.

The final distribution on a previously approved match of the Ivy Foundation grant will be allocated in 2005-2006. Equal contribution of \$333,333 will be allocated from both the Arts and Sciences Pratt Fund and the School of Medicine Pratt Fund.

The School of Medicine proposes a special distribution of \$4 million to continue implementation of the Decade Plan. The funds will be used to develop new programs directly related to

the implementation of the Decade Plan (\$1 million), retain and recruit outstanding faculty (\$1.5 million), and initiate new clinical, research, education and community service ventures (\$1.5 million).