

**UNIVERSITY OF VIRGINIA
BOARD OF VISITORS
MEETING OF THE
FINANCE COMMITTEE
SEPTEMBER 10, 2009**

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V. EXECUTIVE SESSION

- Review and discussion of endowment investment strategy and evaluation of performance oversight by responsible University representatives as provided for in Section 2.2-3711 (A) (1) and (6) of the Code of Virginia.

BOARD OF VISITORS CONSENT AGENDA

APPROVAL OF STATE OPERATING BUDGET REQUEST FOR THE 2010-2012 BIENNIUM: Approves 2010-2012 biennial budget requests and authorizes the Executive Vice President and Chief Operating Officer to transmit the requests not funded by the Governor to the General Assembly.

Every two years, the University submits its biennial budget requests to the Department of Planning and Budget for review by the Governor for inclusion in his budget proposal, which will be presented to the General Assembly in December 2009. The 2010-2016 Capital Plan, approved by the Board of Visitors on April 14, 2009, was submitted to the Commonwealth on June 1, 2009.

Due to the state's financial situation, budget amendments for the 2010-2012 biennium were required to be submitted to the Governor on September 1, 2009. The University submitted the following amendment requests, reflecting only its most critical operating needs, pending approval by the Board of Visitors. If there are any requests the Board of Visitors wishes to withdraw, we will do so immediately. Issues that cut across higher education - such as faculty and staff salary increases, base budget adequacy, operations and maintenance for new facilities, and undergraduate financial aid - will be addressed by the state for all institutions and are not to be included in individual institutional requests.

Depending on the outcome of the Governor's budget process the University may want to submit these amendments, and possibly others, to the legislative session in January. Any requests not included on this list that might be submitted to the General Assembly will be communicated to the Board of Visitors in advance of the due date. Formal approval by the Board of Visitors will be sought at its February 2010 meeting.

Operating amendments for the Academic Division (Agency 207) total \$2.0 million general funds (GF) in year one and \$2.0 million GF in year two. There are no operating amendments for the University of Virginia's College at Wise.

AGENCY 207 - Academic Division:

Fund UVa Health Plan Cost Increases (\$2.0 million GF in year one and \$2.0 million GF in year two)- The University requests ongoing support to maintain the state's funding of the University-sponsored health care plan at a comparable level to

the state funding provided for other state-sponsored health plans.

Reimburse Capital Pre-planning Costs at Start of Construction (Language Only) - Language was included by the 2009 General Assembly to allow the University to use non-general funds to complete pre-planning for New Cabell Hall and Ruffner Hall, with the advance to be reimbursed from state debt proceeds at the conclusion of the construction project. The amendment will provide for the reimbursement to come as soon as the construction funds are authorized, rather than at the end of the project.

Reimburse Capital Construction Costs for New Cabell Hall Terrace Connector (Language Only) - Language was included by the 2009 General Assembly to authorize the University to use up to \$3 million of non-general funds to fund the terrace connector for New Cabell Hall. This \$3 million budget item is within the state-funded \$80 million project; however, language was not included to allow this advance to be reimbursed from state debt proceeds. The amendment will provide for the reimbursement to come as soon as the construction funds are authorized.

Graduate Financial Aid Restriction for In-State Students (Language Only) - The University requests removal of the existing requirement that 50 percent of general funds allocated to graduate student financial assistance be made to Virginia residents. High-quality graduate students play a vital role in recruiting world class faculty, attracting external grant support, and improving the stature of the University's research enterprise. One no-cost measure of support for graduate students would be the elimination of this requirement. The University's highest-quality graduate student applicants are increasingly from out-of-state and require a higher level of financial commitment from the University. Many graduate students remain in the Commonwealth after graduation, even becoming faculty members at our public and private colleges and universities. Out-of-state graduate students frequently bring spouses and families to the region to settle here. Allowing the University to award state support to the highest-quality graduate students, regardless of their residency, will provide the University additional flexibility in building a world-renowned research enterprise.

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

APPROVAL OF STATE OPERATING BUDGET AMENDMENTS FOR THE 2010-2012 BIENNIUM FOR THE ACADEMIC DIVISION

WHEREAS, the 2010-2012 budget requests to the Governor were submitted on September 1, 2009, pending approval by the Board of Visitors; and

WHEREAS, the proposed 2010-2012 biennial budget requests have been reviewed carefully; and

WHEREAS, the proposed biennial budget requests represent the highest priority initiatives and are aligned with the mission of the institution;

RESOLVED, the Board of Visitors of the University of Virginia approves the 2010-2012 biennial budget requests accompanying this resolution; and

RESOLVED FURTHER, the Board of Visitors understands that to the extent these initiatives are not included in the Governor's 2010-2012 biennial budget, the Academic Division may want to pursue similar requests to the Legislature; and

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

B. APPROVAL OF SIGNATORY AUTHORITY FOR MEDICAL CENTER PROCUREMENT OF HOUSE STAFF MEDICAL BENEFITS: Authorizes the Executive Vice President and Chief Operating Officer to execute a contract for house staff medical benefits.

The Board of Visitors is required to approve the execution of any contract where the amount per year is in excess of \$5 million.

The University of Virginia Medical Center desires to contract with a vendor for the provision of house staff medical benefits at an estimated total cost of \$28.2 million over five years. The Medical Center is using a formal competitive procurement process to select the vendor.

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

APPROVAL OF SIGNATORY AUTHORITY FOR MEDICAL CENTER PROCUREMENT OF HOUSE STAFF MEDICAL BENEFITS

RESOLVED, the Board of Visitors authorizes the Executive Vice President and Chief Operating Officer of the University to execute a contract for house staff medical benefits, based upon the recommendation of the Vice President and Chief Executive Officer of the Medical Center in accordance with Medical Center procurement policy.

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: September 10, 2009

COMMITTEE: Finance

AGENDA ITEM: II. Endowment Spending Rate

BACKGROUND: At its June 2008 meeting, the Board of Visitors reset the fiscal year 2008-2009 spending rate to five percent of the June 30, 2008 market value. The Board of Visitors also passed a resolution to change the parameters of the spending policy. This policy, which became effective July 1, 2008, calls for "a percentage increase in the annual distribution from the endowment, unless such increase causes the distribution to fall outside a range defined as four percent on the low end and six percent on the high end of the market value of the Pooled Endowment Fund." If the distribution falls outside of this range, the Finance Committee may recommend either raising or lowering the rate of increase.

At its April 2009 meeting, the Board of Visitors reviewed the recent history of our spending distributions, discussed the impact of recent economic conditions on the endowment and considered options for setting the fiscal year 2009-2010 distribution from the endowment.

Additional information on the endowment spending rate is contained in the endowment white paper beginning on page 30.

DISCUSSION: Applying the spending policy with the usual inflator would result in an annual payout for fiscal year 2009-2010 of 6.6 percent of the June 30, 2009 market value of the Pooled Endowment Fund, which is outside of the approved band of 4.0 percent to 6.0 percent.

The Finance Committee will consider setting the annual endowment distribution for fiscal year 2009-2010 at 5.5 percent of the June 30, 2009 market value of the Pooled Endowment Fund. Withdrawals at this rate would be made in January and June 2010.

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

APPROVAL OF ENDOWMENT SPENDING DISTRIBUTION FOR FISCAL YEAR
2009-2010

WHEREAS, the University wishes to provide reliable and predictable distributions to support programs; and

WHEREAS, the Board of Visitors wishes to fund institutional priorities, including the recommendations of the Commission on the Future of the University; and

WHEREAS, recent decreases in state support have placed significant strain on University budgets; and

WHEREAS, the endowment spending policy calls for a percentage increase in the annual distribution from the endowment, unless such increase causes the distribution to fall outside a band defined as four percent to six percent of the market value of the Pooled Endowment Fund; and if the distribution falls outside of this range, the Finance Committee may recommend either raising or lowering the rate of increase; and

WHEREAS, applying the spending policy with the usual inflator would result in an annual payout for fiscal year 2009-2010 of 6.6 percent of the market value of the Pooled Endowment Fund, which is outside of the approved band of four percent to six percent.

RESOLVED, the Finance Committee recommends setting the annual endowment distribution for fiscal year 2009-2010 at 5.5 percent of the June 30, 2009 market value of the Pooled Endowment Fund.

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: September 10, 2009

COMMITTEE: Finance

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

ACTION REQUIRED: None

The Executive Vice President and Chief Operating Officer will inform the Board of Visitors 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: September 10, 2009

COMMITTEE: Finance

AGENDA ITEM: III.B. Financial Model of the Future:
Report on Debt and Liquidity

ACTION REQUIRED: None

BACKGROUND: The debt portfolio management program launched in 2002 by the University is our new financial model for debt. Long-term bonds were issued in connection with this new program in March 2003, July 2005, May 2008, and April 2009. A feature of the new debt approach, the commercial paper program, was implemented in 2003 to provide for interim capital financing needs.

In April 2006, the Board of Visitors approved the University's Debt and Interest Rate Risk Management Policies. These debt policies formalized the debt management principles and process practiced since 2003.

At the February 2008 Board of Visitors Finance Committee meeting the Vice President and Chief Financial Officer gave a comprehensive report on the University's debt portfolio management program, including its five objectives, strategies to achieve the objectives, metrics to evaluate success, results of the program to date, and peer comparisons. The Board of Visitors discussed debt planning, debt capacity, and the oversight and monitoring process. A variety of oversight and monitoring mechanisms exist, such as the Board of Visitors-approved policies, an annual debt report to the Finance Committee, the President's critical functions report, and rating agency reviews.

At the April 2009 Board of Visitors Finance Committee meeting the Vice President and Chief Financial Officer gave a report on the impact of recent economic conditions on the debt portfolio program, debt planning and debt capacity.

In terms of management of operating assets, the University established the infrastructure for a new financial model over several years and rolled out an Internal Bank in July 2007 when its new investment legislation became effective. These recent

innovations positioned the University to manage liquidity through the banking turmoil of the last year.

DISCUSSION: As part of the Board of Visitors examination of the Financial Model of the Future - an analysis of how the University can establish a better platform for financial success coming out of this economic period - the following white paper (appearing on page 10) details the University's practices before and after implementing a new financial model for debt and liquidity management in 2002. At the September 10 meeting, the Vice President and Chief Financial Officer will provide a progress report on initiatives in the current phase of implementation of our new financial model for debt and liquidity.

FINANCIAL MODEL OF THE FUTURE
DEBT AND LIQUIDITY
WHITE PAPER

The University of Virginia manages liquidity for capital and operating needs. Capital projects are funded with a variety of external and internal sources, including external debt. Operations are funded with external and internal sources as well, but not external debt. This paper traces the history of our debt and liquidity management program, including the implementation of a new financial model between 2002 and 2007, outcomes to date, the impact of the current turbulent economy and strategies for future expansion of the new model.

Background: Debt and liquidity before the new financial model

For new construction and major renovations, UVa began in the 1990's to move from full dependence on the State for capital appropriations to greater reliance on private gifts and external debt financing, typically tax-exempt bonds. The Code of Virginia authorizes the Board of Visitors to issue debt either on its own, or through participation in the bond pools managed by the Virginia College Building Authority (VCBA). Debt service payments on such bonds are the University's responsibility and prior to 2002 were passed-through to the benefiting/sponsoring units within the University. The outstanding balance of such University debt at June 30, 2001 was \$351 million or 7 percent of total assets, and the average weighted cost of capital was 5.27 percent.

Until 2007, the investment of cash varied with the source of the funds. 1) For state appropriations, tuition and fees, we had a daily cash settlement with the State. The State funded any daily net cash deficit and invested any net cash surplus. It retained the net earnings on the float, except for interest on auxiliary and Medical Center reserves, which usually was returned at the close of the year. 2) Endowment gifts were invested directly in UVIMCO's Long-Term Pool (LTP). 3) For non-endowment private funds (current gifts, endowment income and auxiliary reserves), there was a daily cash sweep into the Aggregate Cash Pool (ACP) housed at UVIMCO and managed by Standish Mellon. The ACP, our pool of short-term investments, was invested to comply with the State's Investment of Public Funds Act (IPFA): only governmental fixed income instruments, high-quality corporate bonds rated A or better, and asset-backed securities rated AAA, all with a maximum maturity of five years.

Implementation of a new financial model 2002-2007

In 2002, the University developed a plan to implement a new financial model for debt and liquidity management through two new programs.

New Debt Portfolio Program

The Vice President and Chief Financial Officer (VP&CFO) performed an analysis of the cost of borrowing through the VCBA and proposed a new university program to reduce costs and increase flexibility. Instead of the VCBA's 20-year amortizing fixed-rate debt structure, the new program uses a mixed debt structure, reducing borrowing costs by taking on measured and acceptable risks: bullet maturities and variable rate debt. Included in the proposal were risk mitigation strategies, including establishing an interest rate buffer, capping total variable-rate debt, and executing master contracts with counter-parties for swaps as a defensive risk management tool. Other objectives of the program are: (1) achieving and retaining a AAA rating from all three major rating agencies, (2) establishing predictable and stable repayment schedules for internal borrowing units and (3) extracting cost savings to fund University priorities. The last two objectives are accomplished by using operating funds to create an interest rate buffer to absorb the volatility in cash flows, and investing a portion of balances in equities. Meanwhile, internal borrowers can budget based on a known interest rate, currently 4.75 percent, and pay debt service on a 20-year amortization schedule.

Contracts were established in 2002 for financial advisors, bond counsel and underwriters, who all assisted with the implementation of the vision. Master agreements were negotiated in 2003-2004 with five potential counter-parties for future swap transactions. Long-term bonds were issued in connection with this new program in March 2003, July 2005, May 2008, and April 2009. As a feature of the new debt approach, a commercial paper program was implemented also in 2003 to provide for bridge-financing needs, moving away from using internal funds.

Oversight and monitoring mechanisms include the Board of Visitors-approved debt policies, an annual debt report to the Finance Committee, an annual report to the President, and rating agency reviews. The University Comptroller developed a compliance program with external bond counsel. In 2008, the Internal Revenue Service performed an audit of private use

associated with our 2003 Variable Rate Demand Bonds (VRDB) and complimented UVa on having the best compliance program their auditors had encountered.

The Auditor of Public Accounts performed a review of debt at state supported institutions of higher education in 2006 and singled out UVa as the only one out of seven universities with debt policies that address debt capacity. The audit report describes our debt capacity model and states: "The University of Virginia can serve as an example framework for other institutions in the Commonwealth."

At the February 2008 Board of Visitors meeting we provided a comprehensive report on the University's debt portfolio management program, including the program's objectives, strategies to achieve the objectives, metrics to evaluate success, results of the program to date, and peer comparisons.

New Treasury Management Program

The second program in the new financial model for debt and liquidity is the extension of the debt pooling approach to the management of working capital. Having obtained approval to establish a Treasury Operations Office, in the fall of 2005 we hired a director who began to develop the infrastructure needed for a modern treasury function. This involved buying and installing a treasury management system, collecting data needed for liquidity forecasts, developing cash models, creating treasury management policies and procedures, and building a small but effective organization.

In July 2007, we rolled out our Internal Bank (IB) which built on the framework established under the debt portfolio program by consolidating it with investment and cash management activities across all funding "buckets". The objectives of the IB are to: (1) manage internal and external assets and liabilities collectively to reduce cash flow volatility and achieve positive margins, (2) use cash modeling to project more precise liquidity requirements and identify amounts to invest longer-term for higher return, (3) provide enhanced banking services such as loans, investments, and cash management to internal units, and (4) act as a settlement agent to facilitate the flow of capital between University units and between the units and UVIMCO. We launched the Internal Investment Program, providing three investment pools differentiated by maturity. This provides investment returns for our internal departmental investors, in exchange for the implicit information about the

timing of their liquidity requirements, which in turn allows us to make informed decisions in allocating funds between the ACP and the LTP.

Investment legislation effective July 1, 2007

The final prerequisite for long-term success of the new financial model was to obtain full investment flexibility, beyond the restrictions of the IPFA. The VP&CFO proposed a legislative amendment in the fall of 2004 and obtained the support of the State Treasurer. However, the Secretary of Finance asked us to defer the action for a year. Our legislation, sponsored by Delegate William H. Fralin, Jr. was passed with an effective date of July 1, 2007.

This new legislation allows the University of Virginia to invest in equities as well as the vehicles sanctioned by the IPFA. No other state agency or institution has been given this flexibility. We were able immediately to invest a large portion of the debt program's interest rate buffer balances in the UVIMCO LTP. This allowed us to reach our target buffer earlier, so that in 2008 we identified \$50 million in operating funds to put towards University priorities. Additionally, certain long-term reserves that had been invested in short-term investments were moved to the LTP. Examples of these are auxiliary units' capital reserves, the contingency reserves for our self-insured employee health plan and the Medical Center depreciation reserve. We also began transitioning to the LTP the IB balances that were demonstrably not needed in the near future.

The 2007 investment legislation and IB framework have allowed the management of a large pool of operating funds, reducing the number of invested "buckets" of resources.

Debt and liquidity challenges in fiscal year 2008-2009

The economic turmoil that began in September 2008 has intensely tested our strategic approach to debt and liquidity as well as the effectiveness of our new treasury function that was built from scratch over the last four years. Our strategy of implementing a treasury system to track cash flows and developing a cash projection model served us in good stead. While other universities experienced liquidity shortages for operations and construction, we were able to "make payroll" and meet other disbursement needs because of the reliability of our projections.

Additionally, in the spring of 2008, as depressing financial news began to emerge, we took two actions that turned out to provide some protection six months later:

Debt Portfolio Program

Concerned about Lehman Brothers' future, we began the lengthy process to hire a second remarketing agent for our VRDB's. When the Lehman Brothers' bankruptcy hit in mid-September, we were able to insert a replacement remarketer in one week, minimizing the disruption. We did have to repurchase \$9.9 million (or 12 percent) of our outstanding VRDB's during the two weeks following the beginning of the crisis. Also, with the credit freeze, the interest rate on our VRDB's jumped from the immediate pre-crisis level of 1.5 percent to 5.5 percent, 7.7 percent and 5.4 percent over the next three weeks, respectively, before dropping to 1 percent by October 22, and subsequently staying at between 0.10 percent and 1.3 percent. The average weekly rate on our VRDB's since the 2003 inception is 2.11 percent. The credit freeze had no discernible impact on our commercial paper program which continued to market well even for tranches with the maximum maturity, with the average cost since inception being 2.27 percent.

In April 2009, we were able to capitalize on the Build America Bond program when we issued \$250 million of bonds for construction. We developed risk mitigation solutions to address concerns about the new program, and marketed at the fixed-rate net interest of 4.04 percent. UVA was the first university to utilize the favorable terms of this program in a benchmark-sized bond. Since then we have been a resource to other universities and financial market analysts. We may issue through the Build America Bonds program again before its expiration in 2010 if warranted by our capital requirements.

At June 30, 2009 our outstanding debt is \$991 million, of which 14 percent is variable rate, and our weighted borrowing cost is approximately 4.4 percent.

Internal Bank (IB)

The second action we took, also in the spring of 2008, was to review the investment allocation of the ACP, which had been established by UVIMCO in January 2004 to maximize return subject to the restrictions of the IPFA. The ACP primarily contained mortgage-backed securities, asset-backed securities and corporate bonds. We decided on a new investment philosophy for

the ACP: with the 2007 Investment legislation we can now take all our investment risk in equities through the LTP and we should keep our short-term pool (ACP) 100 percent in Treasury and agency instruments. We instructed Standish Mellon to start transitioning our portfolio to reduce its average weighted maturity from over one year to approximately 90 days, increase the percentage of the portfolio with same-day and one-day liquidity, and move the asset allocation to 100 percent Treasury and agency instruments.

Fortunately, by mid-September, Standish Mellon had converted the ACP to contain 80 percent Treasuries and repurchase agreements, which subsequently became highly demanded and therefore expensive to acquire. Some of our foundations and several colleges and universities were not so fortunate and were unable to access their short-term assets. Our short-term pool did contain some exposure to corporate bonds including Lehman and other banks, which we had to sell at a loss this fiscal year, but by June 30, 2009, we had achieved our asset allocation goal of 100 percent Treasury and agency securities, and shifted the portfolio focus to safety and liquidity with less emphasis placed on return.

In this tumultuous year, the Assistant Vice President for Treasury Operations and Fiscal Planning also started managing liquidity related to the University's endowment transactions. In the past, shares were liquidated to make the approved spending distributions. We now provide liquidity from IB cash where feasible, thereby reducing the need to lock in market losses when investments are liquidated. Additionally, we began netting offsetting endowment trades made by units to reduce the amount of gross cash flow moving into and out of the endowment each month. This function has been very valuable during the recent financial crisis by helping manage University and UVIMCO liquidity.

Peer Comparisons

Our peers and our financial advisors consider the University of Virginia's debt and liquidity program to be best-in-class. Other universities, especially the private institutions, also pool debt and working capital to take advantage of market opportunities. What distinguishes us is that we do cash modeling and management instead of just a cash sweep. This enables us to hold a smaller portion of working capital in cash and invest a larger portion, while managing the risks. More important, most of the universities that have

pooled-debt programs and IBs pass-through the revenues and expenses to internal customers. In our case, we provide our internal customers competitive market-based rates for debt and working capital, while our innovative approaches allow us to generate additional revenues that can be used to fund University priorities.

Our internal borrowing rate has remained 4.75 percent since the inception of the program in 2002. Of our peers that pool debt, Duke currently charges 5.5 percent, Hopkins 5.35 percent, Harvard 5.55 percent, Emory 4.4 percent. Cornell, Penn, the California system and Michigan all pass-through actual costs. In addition to charging a relatively low rate as compared with our peers, this year we made our first contribution (\$50 million) from the debt program's interest rate buffer towards the construction of the College research building and SEAS' research building (Rice Hall). In fiscal year 2007-2008, the IB distributed \$12.2 million to internal investors to support their operations. The revenue distributed in fiscal year 2008-2009 was one-tenth of the prior year's because of market losses. As the market recovers and after we build adequate capital reserves for the IB, we expect to provide a stream of revenues to fund University priorities.

Strategies for Future Expansion

We are now engaged in enhancing the new financial model in several directions. In April 2009, the VP&CFO reported on the impact that falling endowment values have had on reducing debt capacity, and suggested that we may wish to consider developing guidelines to allocate debt capacity as a scarce resource. With a new CFO on board, the University of Virginia Foundation has been working closely with us to coordinate debt and liquidity approaches for our mutual benefit. We will perform sensitivity analysis to develop a plan for future infusion of funds from the debt program interest rate buffer for institutional priorities, beyond the \$50 million already committed.

In fiscal year 2008-2009, several wealthy private institutions took the unprecedented step of issuing taxable debt to fund operations, filling the funding gap left by drastically decreased endowment distributions. Although we believe that using taxable debt for continuing operations is not sustainable, we will monitor the experience of these peers, and might consider positioning ourselves to use taxable debt as a bridging or backup tool for certain types of operations, when market conditions improve.

The strong treasury operations infrastructure that has been built by the Assistant Vice President for Treasury Operations and Fiscal Planning, and his experience managing within this framework through two challenging years will allow planning for the IB to be a future source of unrestricted funds for institutional priorities. We will formalize investment allocation policies and develop risk management policies including capital reserve requirements for the IB.

We are also in a position to begin developing analyses to support long-term strategic financial planning, which would position the University to make strategic investments during the recession and especially post-recovery.

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: September 10, 2009

COMMITTEE: Finance

AGENDA ITEM: III.C. Financial Model of the Future:
Endowment Report

ACTION REQUIRED: None

As part of the Board of Visitors' examination of the Financial Model of the Future - an analysis of how the University can establish a better platform for financial success coming out of this economic period - the following white papers (beginning on page 19) detail historical trends and relevant background on the endowment - both as it is managed by the University of Virginia Management Company and its distribution is coordinated by the Vice President and Chief Financial Officer, and approved by the Board of Visitors (see page 5). The white paper on endowment distribution is provided as background only. At the September 10 meeting, the Chair of the UVIMCO Board of Directors and the Chief Executive Officer of the University of Virginia Investment Management Company (UVIMCO) will report on the organization and governance of UVIMCO, the investment process, current endowment performance, peer comparison, private funds, expected returns, and risk.

FINANCIAL MODEL OF THE FUTURE
UNIVERSITY OF VIRGINIA INVESTMENT MANAGEMENT COMPANY
WHITE PAPER

Background

The endowment is the University's source of sustainable private support for instruction, service, and research. The University's endowment consistently ranks among the five largest endowments of public institutions and among the thirty largest of all colleges and universities in the nation. Equally important, the endowment per student has consistently ranked among the largest in the nation for a public university.

The endowment is invested in a long-term pool managed by the University of Virginia Investment Management Company (UVIMCO). UVIMCO is a University-related foundation that provides investment management services to the University and related foundations. UVIMCO operates as a separate 501(c)(3) Virginia non-stock corporation.

Governance

UVIMCO is governed by a board of directors who elects its own members, except three who are appointed by the Board of Visitors and one who is appointed by the President. At present, the board is comprised of ten members and chaired by A. Macdonald Caputo. Eight of UVIMCO's board members are senior investment professionals with expertise in alternative investments. The other two, Leonard Sandridge and Austin Ligon, are well known to the Board of Visitors. The board meets four times a year to discuss investment strategy, set asset allocation policy, and monitor performance. At one of these quarterly meetings, the board gathers for two days to examine a particular asset class or investment theme in depth with the assistance of external practitioners and researchers. Biographical sketches of board members are available on the UVIMCO website.

Daily investment management is delegated to UVIMCO's full time staff, supervised by the Chief Executive Officer, Chris Brightman, who joined UVIMCO in 2004. In addition to Chris, UVIMCO presently employs five senior investment directors, five investment analysts, a General Counsel, a Chief Operating Officer, and twelve operations and administration staff. Biographical sketches of staff members are available on the UVIMCO website.

Objectives

UVIMCO's primary objective in managing the endowment pool is to maximize long-term real return commensurate with the risk tolerance of the University. To achieve this objective, UVIMCO actively manages the pool in an attempt to achieve returns that consistently exceed the returns on a passively investable policy benchmark with similar asset allocation and risk. Recognizing that the University must attract outstanding students, faculty, and staff and provide appropriate resources to them, UVIMCO strives to manage pool assets to provide long-term real returns that compare favorably with the returns of endowments of other outstanding schools.

Process

The UVIMCO board has established a traditional policy portfolio benchmark comprised of public market indices. At present, this policy benchmark is 60 percent equity, 10 percent real estate, and 30 percent fixed income. It represents the investable global securities market, and its historical returns closely track the average returns of the broad universe of institutional investors. The board directs staff to actively manage the endowment pool, primarily by employing external investment managers, to pursue returns substantially in excess of this passively investable policy benchmark.

Staff researches investment strategies seeking opportunities to employ skilled managers within all asset classes and regions of the world. Some of these managers focus in niches while others have a global reach. Many use leverage and/or sell securities short. Some invest in private markets. While few of these individual investment strategies resemble the market capitalization weighted indices that comprise the policy benchmark, the mix of active strategies produces a set of asset class exposures and risk similar to the policy portfolio benchmark.

Private Funds

UVIMCO's private fund investments and the uncalled commitments to those private funds have received considerable attention over the past year. Four years ago, UVIMCO's board and staff set a long-term target of 35 percent of the endowment pool's assets to be invested in private funds. Given the variability of capital market prices and the uncertain timing of calls/distributions to/from private funds, a 35 percent target

implies an actual range of 25 percent to 45 percent invested in private funds. To achieve this target allocation requires an ongoing amount of uncalled commitments of 25 percent of pool assets, which may vary in a range of 15 percent to 35 percent. Extensive recent modeling reconfirms the prudence of these targets and ranges.

During fiscal year 2007-2008, anticipating exceptional future opportunities in distressed private credit markets, staff, in consultation with the board, increased commitments to private funds by allocating up to 10 percent to private credit funds. By June of 2008, uncalled commitments reached \$2 billion (40 percent of the then \$5.1 billion pool), in addition to the \$1.7 billion (33 percent) already invested in private funds.

In September and October of 2008, the global financial crisis simultaneously reduced the value of the endowment pool and slowed the pace of distributions from private funds, causing concern about UVIMCO's elevated level of uncalled commitments. In response, staff, in close and frequent consultation with the board, ceased making new commitments, transferred some existing commitments to other investors, negotiated reductions in fund sizes, and sold private fund positions. By June of 2009, these activities reduced uncalled commitments to \$1.4 billion (35 percent of the now \$4 billion pool), in addition to the \$1.4 billion (35 percent) invested in private funds.

As present commitments are called over the next two years, the amount invested in private funds will grow to about 45 percent and uncalled commitments decline toward 25 percent of pool assets. Thereafter, the amount invested should remain within its 25 percent to 45 percent target range and the amount of uncalled commitments should remain within its 15 percent to 35 percent target range.

Performance

Despite losses inflicted by the global financial crisis over the past year, longer-term investment performance remains commendable. In the five fiscal years ended since the creation of UVIMCO under its present governance structure and management, the endowment pool has appreciated by an average annual compound return of 6.5 percent, far exceeding its policy benchmark return of 2.9 percent. The table below presents the performance of the pool and its component strategies over this five-year period.

UVIMCO Asset Allocations and Investment Returns

	Allocations			Annual Returns					
	Policy	Jun-09	Jun-08	FY 2009	FY 2008	FY 2007	FY 2006	FY 2005	5 Years
Equity									
Public		17.1%	21.3%	(31.6)	(8.4)	44.4	23.8	26.7	7.3
Long/Short		24.5%	32.3%	(17.1)	17.8	23.8	9.9	13.3	8.5
Private		16.5%	19.6%	(35.5)	13.8	29.4	25.1	14.8	6.4
Total Equity		58%	73%	(26.2)	8.3	31.4	16.9	16.9	7.5
<i>MSCI AC World Equity</i> ⁽¹⁾	60%			(28.9)	(8.8)	25.8	18.6	11.7	1.6
Real Assets									
Real Estate		4.0%	5.2%	(45.4)	(11.9)	12.5	27.7	22.2	(3.3)
Resources		5.9%	5.0%	(23.5)	28.6	28.9	28.1	32.4	16.6
Total Real Assets		10%	10%	(34.8)	3.6	22.1	29.9	27.1	6.4
<i>MSCI Real Estate</i> ⁽²⁾	10%			(39.2)	(18.8)	21.2	23.0	32.8	(0.4)
Fixed Income, Cash & AR									
Absolute Return		8.7%	8.1%	2.1	4.2	10.2	7.8	5.2	5.9
Credit		7.6%	4.8%	(10.8)	(6.9)	15.6	0.1	13.1	1.7
Government Bonds		10.4%	10.2%	15.2	6.8	6.3	1.7	6.4	7.2
Cash & Currencies		5.3%	-6.5%	27.0	(1.5)	5.4	3.7	2.3	6.9
Total FI, Cash & AR		32%	17%	6.4	1.4	8.3	4.6	4.5	5.0
<i>Barclays Aggregate Bond</i> ⁽³⁾	30%			6.6	6.0	5.5	(0.4)	7.5	5.0
Total Pool		100%	100%	(21.0)	5.9	25.2	14.6	14.3	6.5
<i>Policy Benchmark</i> ⁽⁴⁾	100%			(19.6)	(5.3)	19.1	13.1	12.5	2.9

(1) MSCI All Country World Equity Index

(2) 50% MSCI US Real Estate and 50% MSCI AC World Real Estate (prior to January 1995 100% FTSE NAREIT)

(3) 50% Barclays U.S. Aggregate Bond and 50% Barclays Global Aggregate Bond Hedged (prior to January 1990 100% Barclays U.S. Aggregate Bond)

(4) Geometrically linked monthly average of 60% MSCI World Equity, 10% MSCI Real Estate, and 30% Barclays Aggregate Bond

UVIMCO's mix of active equity strategies produced a five year annualized return of 7.5 percent, nearly six percent in excess of the 1.6 percent return of the benchmark MSCI All Country World Index. In 2005, 2006, and 2007, public and private equity strategies far surpassed the long/short strategy. In 2008, long/short provided the highest return and then declined by far less in 2009. Predicting which active equity strategy will produce the best return in any given year is an impossible task. Together, the total of UVIMCO's three active equity strategies exceeded the benchmark in four out of the five years, including fiscal year 2009.

UVIMCO's real asset strategies produced a five-year return of 6.4 percent, nearly seven percent in excess of the 0.4 percent loss of the MSCI Real Estate Index benchmark. While UVIMCO's real estate funds lost money over the five years, its resource funds produced the best returns by far of all its strategies. As in equities, strategy diversification reduces risk.

UVIMCO's allocation to the lower returning but diversifying collection of cash, bond, credit, and absolute return strategies produced a five-year return of five percent, matching the five percent return of the Barclays (formerly Lehman) Aggregate Bond index benchmark. Matching this high grade index is a notable accomplishment given that many credit and absolute return strategies have struggled over recent years.

Attached to this paper is UVIMCO's investment report for the fiscal year ended June 2009.

Peer Comparison

In addition to its policy benchmark, UVIMCO compares its returns to peers to evaluate performance. The fiscal year ended June 2008 is the most recent year for which peer returns are available. Universities with large endowments typically report returns in October or November after completing their fiscal year-end audits.

As displayed on the table below, UVIMCO's returns for the periods ending June 2008 compare favorably with the broad universe of institutional investors and with other colleges and universities with endowments of greater than \$1 billion.

UVIMCO Performance Compared to Peers

<i>Periods Ending June 30, 2008</i>	<i>1-Year</i>	<i>3-Years</i>	<i>5-Years</i>	<i>10-Years</i>	<i>20-Years</i>
UVIMCO Long-Term Pool	5.9	15.0	14.4	14.0	13.8
Policy Benchmark*	(5.3)	8.4	11.0	5.8	8.2
TUCS All Master Trust Median**	(4.4)	6.4	8.5	5.7	9.7
Cambridge C&U Endowments >\$1B***	0.4	11.6	13.3	9.0	11.7

* Passive allocations of 60% global equity, 10% real estate, and 30% fixed income (credit & government) indices rebalanced monthly.

** Trust Universe Comparison Service (TUCS) reports performance of 1300 institutions representing \$3 trillion in assets.

*** Cambridge Associates reports performance for 56 colleges and universities each with more than \$1 billion in assets.

Some peer schools are reported to have estimated losses of 25 percent to 30 percent for the fiscal year just ended. These estimates, however, were communicated prior to fully taking account of the substantial recovery in financial markets over recent months. UVIMCO's return of negative 21 percent for the fiscal year ended June 2009 is expected to be in line with other large university endowments.

Expected Returns

The long-term history of investment market returns provides the starting point for setting future return expectations. The U.S. equity market has provided a long-term average annual return of nine percent. This historical return may be decomposed into three components: inflation, dividend yield and growth, and change in market valuation. Because inflation has averaged two percent, the real return has been seven percent. Dividend yield and growth is relatively stable over the decades, providing a five percent real return. Over any particular decade the change in market valuation may be positive or negative. Over the long-term history of the U.S. equity market, change in market valuation has added two percent per year to the sum of dividends and growth, boosting total real return to seven percent per year.

Looking forward one can observe today's dividend yield and estimate long-term growth. Today's dividend yield is three percent and trend real growth is two percent. Reliably forecasting future changes in valuation seems impossible. Making no assumption about a change in valuation (neither a continuation of the rise in valuation over recent decades nor a reversion to the lower historical average valuation), the equity market is expected to provide a five percent real return.

Forecasting the real return on bonds and the inflation rate is simpler; both are transparently priced by the bond market. At this writing, long nominal government bonds are priced to yield four percent, long-term consumer price inflation is priced at two percent, and long-term inflation linked bonds are priced to provide a real return of two percent.

With the real return for equities expected to be five percent and the real return for bonds expected to be two percent, the expected real return for a traditional institutional portfolio comprised of a 70 percent/30 percent mix of stocks and bonds is four percent. Adding the market's estimate for inflation of two percent, a traditional institutional portfolio is expected to provide an average annual return of six percent.

Over recent decades, large university endowments have achieved returns approximately three percent above a traditional institutional portfolio comprised of a 70 percent/30 percent mix of stocks and bonds. Assuming this three percent value added is

achieved in the future, large university endowments may be expected to achieve average annual returns of nine percent.

This nine percent expected return is the estimated central tendency of a distribution of future annual returns. History indicates that the standard deviation of this return distribution is about ten percent. Thus, in two of three years the endowment return is expected to be between - one percent and 19 percent, and in one of twenty years the endowment return is expected to be below -11 percent or above 29 percent. Because investment return distributions have fat tails, these outlier returns may be far below an 11 percent loss or above a 29 percent gain. History provides insufficient historical instances of these outliers to estimate them with any confidence.

Fortunately for long-term investors like university endowments, the dispersion of long-term annualized returns narrows with time. The standard deviation of annualized ten year returns is about three percent. Thus, the annualized endowment return is expected to be between six percent and 12 percent in two of three decades and between three percent and 15 percent in nineteen of twenty decades.

Spending Distribution

The University expects to spend five percent of its endowment assets per year and assess a 0.5 percent administrative fee. Each year the University also intends to increase its spending distribution by the rate of inflation to keep the five percent distribution constant in terms of real purchasing power.

Over recent decades, the rate of inflation in higher education has been one percent higher than the rate of inflation in the broader economy. Examining the causes of inflation in higher education requires distinguishing between costs and prices and thereby quantifying productivity. Studying productivity in higher education is beyond the scope of this analysis. This paper assumes that the rate of inflation in higher education remains one percent above the rate of inflation in the broader economy. With the bond market pricing consumer inflation at two percent, the University is expected to increase the dollar amount of its spending distribution by three percent per year.

Assuming a five percent spending rate, a 0.5 percent administrative fee, and a three percent inflation rate, the return on endowment assets must be 8.5 percent to maintain real purchasing power. The preceding analysis estimated the expected return of a traditional institutional portfolio comprised of a 70 percent/30 percent mix of stocks and bonds of only six percent. If this expected return for a traditional institutional portfolio is accurate, then the University's present spending policy requires 2.5 percent in annual value added through active management of its endowment assets.

Because dispersion of annualized investment returns narrows with time, universities can moderate the volatility of annual spending distributions. The volatility of spending distributions may be smoothed through time using a rolling average of endowment values upon which to apply the annual spending rate, or by increasing the spending distribution by an inflation factor so long as the result falls within a reasonable range around a target spending rate. Simulations suggest the optimal period for a rolling average is three years, and the optimal range for the inflation growth within a range policy is plus or minus one percent.

Simulating the University's present inflation growth within a range approach to smoothing spending distributions with the risk and return expectations presented in the preceding section, the annual spending distribution is expected to decline in one of twelve years. The average amount of these infrequent declines in year-over-year spending is estimated at 18 percent of the prior year's distribution. In contrast, a three-year rolling average spending rate is expected to result in a decline in one of every three years by an average amount of four percent of the prior year's distribution. Relative to the rolling average approach to smoothing, the University's inflation growth within a range approach produces fewer but larger annual declines in spending.



UNIVERSITY of VIRGINIA
Investment Management Company
Investment Report
June 30, 2009

Investment Activity

	Month	FY to Date 2009 ⁽¹⁾
Beginning Net Asset Value (NAV)	\$4,007,575,487.50	\$5,100,524,382.81
Beginning Shares	1,001,878.17	1,006,086.28
NAV Per Share at Beginning of Period	\$4,000.06	\$5,069.67
+ Contributions	\$2,516,452.14	\$180,955,213.21
- Redemptions	(\$55,422,691.99)	(\$211,252,341.57)
+ Investment Return	\$5,649,087.31	(\$1,098,581,112.44)
- UVIMCO Fees	(\$667,929.25)	(\$11,995,736.30)
Ending Net Asset Value (NAV)	\$3,959,650,405.71	\$3,959,650,405.71
Ending Shares	988,503.69	988,503.69
NAV Per Share at End of Period	\$4,005.70	\$4,005.70

Shareholder Summary

	Long-Term Pool	% of NAV
University of Virginia Endowment	\$2,471,618,721.94	62.4%
Affiliated Organizations	\$869,809,952.06	22.0%
University Operating Funds	\$618,221,731.71	15.6%
Total	\$3,959,650,405.71	100.0%

Performance

	Market Value ⁽²⁾		Time-Weighted Returns			Annualized			
	\$ Millions	%	MO	CYTD	FYTD	3 YR	5 YR	10 YR	20 YR
Public Equity	676	17.1	1.0	17.0	(31.6)	(3.3)	7.3	5.6	10.5
Long / Short Equity	971	24.5	(0.4)	2.8	(17.1)	6.5	8.5	11.3	--
Private Equity	653	16.5	1.4	10.3	(35.5)	(1.7)	6.4	14.8	18.7
Real Estate	158	4.0	(17.2)	(28.7)	(45.4)	(18.5)	(3.3)	(0.8)	--
Resources	232	5.9	0.1	(3.5)	(23.5)	8.2	16.6	19.6	--
Absolute Return	346	8.7	3.1	17.2	2.1	5.5	5.9	5.4	--
Credit	300	7.6	2.0	17.4	(10.8)	(1.4)	1.7	5.7	--
Government Bonds	411	10.4	2.5	4.9	15.2	9.4	7.2	8.1	8.4
Cash & Currency	212	5.3	(0.5)	(0.4)	27.0	9.6	6.9	--	--
Short-Term Borrowing	0	0.0	0.1	0.3	1.2	--	--	--	--
Total Pool	3,960	100.0	0.1	6.3	(21.0)	1.6	6.5	9.5	11.6
MSCI All Country World Equity ⁽³⁾		60.0	(0.5)	9.6	(28.9)	(6.5)	1.6	0.2	5.8
MSCI Real Estate ⁽⁴⁾		10.0	(1.7)	(1.9)	(39.2)	(15.7)	(0.4)	3.8	6.1
Barclays Aggregate Bond ⁽⁵⁾		30.0	0.7	1.7	6.6	6.0	5.0	5.7	7.0
Policy Benchmark⁽⁶⁾		100.0	(0.3)	6.7	(19.6)	(3.2)	2.9	2.6	6.6

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Investment Report
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Commitments⁽⁷⁾

(\$ in Millions)	Drawn		
	Commitment	Down	Uncalled
Public Equity	124	82	41
Long / Short Equity	-	-	-
Private Equity	1,409	838	579
Real Estate	750	249	503
Resources	502	310	210
Absolute Return	-	-	-
Credit	188	101	89
Government Bonds	-	-	-
Total	2,972	1,580	1,422

Short-Term Liquidity⁽⁸⁾

(\$ in Millions)	Weekly	Monthly	Quarterly	Total	% of NAV
Public Equity	81	109	166	355	9%
Long / Short Equity	48	-	59	107	3%
Government Bonds	411	-	-	411	10%
Cash	207	-	-	207	5%
Receivables (Payables)	(33)	13	(25)	(46)	(1)%
Available Borrowing	84	-	-	84	2%
Total	797	122	200	1,118	28%
Cumulative Total	797	918	1,118		
% of Net Asset Value	20%	23%	28%		

Market and Currency Exposure Estimates⁽⁹⁾

	<i>Policy Range</i>	Actual Exposure	North America	Europe	Asia	LAMA ⁽¹⁰⁾
Equity	40 - 70	43.7	27.7	6.7	4.7	4.6
Real Assets	5 - 20	10.8	9.4	0.5	0.7	0.3
Credit	0 - 20	8.7	7.8	0.5	0.3	0.2
Government Bonds	5 - 20	10.4	10.4	--	--	--
Market Exposure	70 - 100	73.6	55.2	7.7	5.7	5.1
<i>Policy Ranges</i>	--	--	25 - 75	10 - 40	10 - 40	0 - 20
Cash & Currency	0 - 30	26.4	26.2	0.2	--	--
Currency Exposure	--	100.0	81.4	7.9	5.7	5.1
<i>Policy Ranges</i>	--	--	50 - 100	0 - 30	0 - 30	0 - 20

Investment Report
June 30, 2009

Endnotes

- (1) UVMCO's fiscal year runs from July 1 through June 30.
- (2) In accordance with UVMCO's valuation policy, investments in Private Equity, Private Real Estate, and Resources are valued at estimated fair market value.
- (3) The Equity component of our Fiscal Year 2009 policy portfolio is comprised of 100% MSCI AC World.
- (4) The Real Estate component of our Fiscal Year 2009 policy portfolio is comprised of 50% MSCI US Real Estate and 50% MSCI AC World Real Estate. Prior to January 1995, the benchmark is comprised of 100% FTSE NAREIT.
- (5) The Fixed Income component of our Fiscal Year 2009 policy portfolio and is comprised of 50% Barclays U.S. Aggregate Bond and 50% Barclays Global Aggregate Bond (Hedged). Prior to January 1990, the benchmark is comprised of 100% Barclays U.S. Aggregate Bond.
- (6) The Policy Benchmark is the geometrically linked monthly average of the underlying asset classes' benchmarks, weighted by the Fiscal Year 2009 policy target allocations: 60% Equity, 10% Real Assets, 30% Fixed Income.
- (7) Outstanding commitments to draw-down structured funds. Drawn Down represents all capital sent to manager, including management fees. Uncalled represents outstanding obligation to each fund and may not equal the difference between the Commitment and Drawn Down amounts.
- (8) Securities and funds that may be readily sold for cash within the designated time periods. Excludes the periodic redemption opportunity of funds with lock-up periods greater than one quarter.
- (9) Market and currency exposures are estimated by looking through managers and funds to the underlying security positions. Policy ranges express the expected variation in asset class, regional, and currency exposures during normal market circumstances.
- (10) Latin America, Middle East, and Africa.

FINANCIAL MODEL OF THE FUTURE
ENDOWMENT DISTRIBUTION
WHITE PAPER

Background: At June 30, 2008, the University of Virginia (UVA) reported a total endowment of approximately \$4.6 billion, with \$3.2 billion held by the Rector and Visitors (R&V) and the balance held by the seven related foundations that we report as component units. About 97 percent of the R&V endowment is held in the UVIMCO Long-Term Pool (LTP), with the remaining 3 percent not eligible for pooled investment. Early reports indicate that the amount held by R&V at June 30, 2009 is \$2.5 billion, down 21 percent from the \$3.2 billion.

The LTP is operated like a mutual fund, with the investors purchasing shares when they create a new endowment or add to an existing one, and selling shares when they divest principal. Prices are based on the monthly Net Asset Value (NAV) set by UVIMCO. An investment management fee is charged by UVIMCO. Within the R&V endowment there are over 1,800 separate endowment funds, established for specific purposes. Besides True Endowments that are created through an endowment gift, where the principal must be held permanently, there are also quasi endowments that are established by internal designation of the Board of Visitors.

Where decisions on investment allocation of the LTP are the responsibility of the UVIMCO board of directors, it is the University's Board of Visitors that has authority to determine distributions from the R&V endowment. In general, there are three types of distribution from an endowment: (1) distribution for spending to support the endowment purposes, generally determined in accordance with a "spending policy" approved by the board, (2) an administrative fee (separate from the investment management fee) for management of the programs funded by endowment and (3) extraordinary distributions, which are extremely rare in universities. Distributions from endowments are governed by the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and by the endowment gift agreements.

This white paper summarizes the history and current status of distributions for administrative expenses, and for spending to fund the programs supported by endowment accounts. The focus is on distributions from the endowment held by the R&V, with occasional reference to our foundations' policies applicable to the endowments that they hold.

Administrative Fee

Expenses associated with managing endowment programs

Beyond UVIMCO's investment management and fund administration, there are many services performed by the University in the administration of the endowment. These services include but are not limited to:

1. Supporting the purpose of the gift with University infrastructure, such as human resources, procurement, financial aid, student services, audit and legal counsel, general administration, campus security and environmental safety, information technology, and physical space;
2. Securing and handling gifts and communicating with donors;
3. Translating the UVIMCO aggregate-level accounting and reporting to the level of the over 1,800 individual accounts within the University through the unitization process; and
4. Calculating the distributions from endowment in compliance with the University's spending policy, and transferring funds to allow spending from endowment.

Many universities and most of our related foundations that hold endowments charge an administrative fee. Traditionally R&V have absorbed these costs of administration. However, the idea of an administrative fee was broached at the April 2008 Board of Visitors meeting, with the goal of recouping at least a portion of the administrative expenses, and a specific administrative fee was approved in June 2008.

Objective of the administrative fee

The extensive services listed above require the use of unrestricted University resources. Through assessing an administrative fee, these resources can be at least partially recovered for strategic use, including advancing the priorities identified by the Commission on the Future of the University.

Legal Framework

Prevailing laws, UMIFA (Uniform Management of Institutional Funds Act) or UPMIFA (Uniform Prudent Management of

Institutional Funds Act), permit "appropriate and reasonable" costs to be charged. The University's endowment gift agreements were revised approximately ten years ago to add similar language: "any reasonable fees associated with securing and administering such funds."

Peer Practices

The National Association of College and University Business Officers (NACUBO) sponsors an annual Endowment Study. The most recent survey for fiscal year 2007-2008 found that for the 784 institutions that responded, the average administrative fee assessed was 0.7 percent, with the average assessed by the subset of public universities being 1.6 percent.

Darden Foundation also performed its own survey in 2006 of 52 public university endowments, and reported a median administrative fee of 100 basis points (bps), and mean of 101 bps. The highest administrative fees were assessed by Florida State University at 250 bps and the University System of Maryland Foundation at 200 bps. The Virginia Tech Foundation has a policy of 120 bps, and the fee for various University of Virginia-related foundations ranges from 40 bps (Law School) to 100 bps (Medical School Alumni Foundation).

Cost Allocation Model

The Vice President & Chief Financial Officer directed an analysis to estimate costs associated with administration of the endowment, based on the University Comptroller's existing cost allocation model for developing the proposed federal government facilities and administrative (F&A) rate charged to sponsored programs. This cost allocation model is governed by OMB Circular A-21 and audited by federal auditors to support negotiation of the F&A rate. Our internal General and Administrative fee to allocate overhead costs to our auxiliaries is also based on this federal model. When we applied the methodology to endowment accounts for fiscal year 2007, we concluded the University could have justified assessing a 1.34 percent administrative fee.

Current UVa Administrative Fee

At its June 2008 meeting, the Board of Visitors approved an annual endowment administration fee of 50 bps (or 0.5 percent), effective for fiscal year 2008-2009. Of that fee, 25 bps is to be distributed to deans for departmental support of endowments

and 25 bps to be transferred to a central pool for University priorities. The financial impact of this policy in fiscal year 2008-2009 was to recover \$16 million of expenses incurred for endowment management.

Spending Policy

Introduction

Typically, endowment assets are invested to maximize total return rather than actual yield. Thus, endowment boards have resorted to adopting a specific spending policy to provide some discipline and consistency in determining annual payouts to support the programs funded by the endowment. The selection of a specific spending approach and formula is influenced by the institution's view of the spending goals.

Objectives of a Spending Policy

The two primary objectives of any endowment spending policy are to: (1) provide reliable, predictable and preferably inflation-protected distributions to support programs; and (2) preserve purchasing power of endowment principal in order to fund programs in perpetuity. Institutional boards have to manage the tension between these two competing goals, and balance the priorities of current budgetary support and asset preservation. In effect, boards make decisions about inter-generational equity: how much to spend this year on the current generation of beneficiaries versus how much to re-invest in order to benefit future generations. At the University, with the completion of recent long-term academic planning activities, endowment spending policy is also instrumental in our efforts to invest in priorities identified by the Commission on the Future of the University.

History of UVa's Spending Policy

The University of Virginia spending policy is described as "inflation growth within a band" or "snake in the tunnel." This policy was maintained for a couple of decades through fiscal year 2002. Then for fiscal years 2003 through 2005, the Board of Visitors used the spending policy of distributing a calculated percentage of a twelve-quarter moving average of market value (4.5 percent for Class A shares and a higher percentage for Class B shares).

After three years of this experiment, the University returned to the "snake in the tunnel" policy. Effective with fiscal year 2005-2006, spending was increased by inflation each year within a band of 3.5 to 5.5 percent of market value. In subsequent years, extraordinary market growth caused our spending rate to fall below the pre-determined band, and the Board of Visitors consequently reset the endowment payout three times. The fiscal year 2007 spending rate was increased to four percent of the LTP market value; the 2008 spending rate was increased to 4.5 percent; and the 2009 spending rate was reset to five. With the 2009 reset, the Board of Visitors also adjusted the parameters of the band or tunnel, to four - six percent of endowment market value. Our University-related foundations develop their spending policies independently, but are required in their 2008 memoranda of understanding with the University to "adopt endowment spending disciplines consistent with University policy."

Peer Spending Policies

The most common spending policy among our peers is distributing a fixed percentage of endowment market value. According to the 2008 NACUBO Endowment Study, a strong majority (73.4 percent) of universities has adopted some variation of this approach. Included in this group are Duke, Brown, William & Mary, Virginia Tech Foundation, Johns Hopkins and Vanderbilt, and most of UVa's University-related foundations.

A small group of our peers (including Princeton and Swarthmore) has adopted a policy similar to ours, increasing prior year spending by either an inflation index or by a fixed percentage, and either readjusting within a band or not. A third small but highly-regarded group of our peers (including Yale and Stanford) incorporate a hybrid of the two, calculating a weighted average of the two aforementioned policies. This approach was pioneered by Dave Swensen and is widely known as the Yale Model. And finally, other universities (such as Harvard) decide on an appropriate spending rate each year. Comparing the two most common methods, fixed percentage of market value versus consistent year-to-year growth within a band, the advantages and disadvantages have been discussed regularly with the Board of Visitors. The fixed percentage of market value policy is mathematically derived and easy to calculate. However, it guarantees that the payout amount varies every year. With smoothing techniques, such as moving average of twelve quarters' market value (which the University used for three consecutive years as described in the history section

above), the distribution volatility is mitigated. However, in our experience using moving averages, in one year out of the three we did see a decrease in the payout. Even if there were no decrease, year-to-year fluctuations make it difficult for managers of the funded programs to plan or make commitments to permanent continuing expenses like salaries.

The snake-in-the-tunnel policy emphasizes stability of distribution flows and purchasing power protection for the funded programs. The linkage of payout to market value is accomplished through a requirement that spending must fit within an established range, rather than a fixed percent. When the asset markets are rising, this approach produces modest growth in annual payout. In a falling market this policy puts a mathematically calculated cap on the decrease, but provides room for judgment to consider the holistic financial situation encountered by the University.

Establishment of Spending Rate for Fiscal Year 2009-2010

During fiscal year 2008-2009, market value of the LTP fell 21 percent. For R&V endowments, applying an inflation factor to the prior year's spending to determine the spending for fiscal year 2009-2010 would result in the payout falling above the 4-6 percent band. Therefore, at the Board of Visitors' September 2009 meeting, the Board of Visitors will consider a proposal to reset the spending rate for fiscal year 2009-2010 to fall within the band.

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: September 10, 2009

COMMITTEE: Finance

AGENDA ITEM: III.D. Annual Report on the UVa Health Care Plan and Review of University Benefits (Written Report)

ACTION REQUIRED: None

BACKGROUND: The UVa Health Plan aims to provide a health insurance benefit that is attractive to current and prospective employees while maintaining financial stability and reserves. In 2008, the plan enrolled 13,266 employees with an average total enrollment of 27,858 lives. There are two options in the Plan - a low premium (with lesser benefits) and a high premium program. Average enrollment in the Low Premium Program increased by 22 percent in 2008 over 2007, while the average increase in the High Premium Program increased only 0.7 percent. However, 91.5 percent of enrollment remains in the High Premium Program (12,141); 8.5 percent enrollment is in the Low Premium Program (1,125). The Low Premium Program continues to show a significantly lower claim cost than the High Premium Program, and was 56.4 percent lower in 2008. The total projected plan costs for 2009 are \$122 million and for 2010, projected to reach \$137 million. The UVa Health Plan is a "self-funded" health insurance plan. Employer and employee premiums are set at the amount necessary to cover plan expenses.

To ensure the financial stability of the health plan, the University regularly monitors its health insurance claims and premiums, the adequacy of its reserves, and the outlook for future health care costs. In addition, the University employs a consultant to monitor the third-party administrator performance and health plan financials. The overall objective in managing the plan is to keep the plan cost increases as low as possible while maintaining financial integrity, and to hold employee and employer premiums equal to or less than the state plan while providing superior or at least comparable coverage. As anticipated for 2009, the Plan's health care costs increased, at the same time the value of the Plan's reserves decreased.

Aggregate medical costs increased 15.0 percent 2008 over 2007. Unexpectedly, the number and intensity of claims over

\$100,000 increased in 2008. In aggregate there was approximately \$3.0 million more in paid claims at this threshold in 2008 than in 2007. If the \$3.1 million additional costs in these high-dollar claims were excluded from the medical claims, the resulting medical trend increase for 2008 would have been 9.9 percent.

The Plan's reserve policy has been to hold 20 percent of projected expenses to cover Incurred But Not Reported (IBNR) claims plus contingent reserves. At the end of 2007, \$51.4 million was held in reserves, about 269 percent of the recommended reserves of \$19.1 million. At the end of 2008, \$38.4 million was held in reserves, about 180 percent of the recommended reserves of \$21.3 million. At this time last year, the funding strategy for 2009 was set with (1) a 9.5 percent increase in employer contributions, (2) 9.5 percent increase in most employee contribution rates and (3) a drawdown on excess reserves. This strategy was estimated to result in an operating deficit of \$5.6 million. Currently, the estimate for 2009 is an operating deficit of \$9.9 million. This is because (a) investment income is now projected at \$0, rather than the anticipated \$2.2 million and (b) medical claims are expected to be higher than projected.

DISCUSSION: If no other changes were made, UVa and employee contribution rates would need to increase 17 percent effective January 1, 2010 in order to cover increasing utilization and maintain reserves at the recommended 20 percent level. Numerous plan changes and premium change scenarios were reviewed by the Vice President and Chief Human Resources Officer, the Executive Vice President and Chief Operating Officer, and the Vice President for Management and Budget, with the assistance of third-party health benefits consultants.

Effective January 2010, a two-part strategy is planned to respond to the health plan cost increases: (1) revise benefit design to shift cost-sharing to the participant at the point of service (i.e., increase office visit and hospital co-payments on the High Premium Program and increase cost sharing on brand drugs on both Programs) and (2) increase premiums in the High Premium Program by approximately 13 percent. The premium for the High Premium Program is being increased to cover projected claims costs and to keep the reserve at an appropriate level based on those projected costs. Utilization in the Low Premium Program is significantly less than the High Premium Program and claim costs are lower. Therefore, the premium for the Low Premium Program will remain the same.

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: September 10, 2009

COMMITTEE: Finance

AGENDA ITEM: III.E. Student System Project

ACTION REQUIRED: None

BACKGROUND: The Board of Visitors approved the budget for the Student System Project (the third phase of the Integrated System Project) on June 7, 2007, and agreed to receive reports no less frequently than semi-annually describing progress on the project and compliance with the business plan.

The project is slated to be complete in December 2009.

DISCUSSION: Project Timeline and Budget: The Student System Project (SSP) is on schedule and within budget. Elements of the new student information system (SIS) have been available to the University community in phases since summer 2008.

In March 2009, returning undergraduate and graduate students enrolled for fall 2009 classes through the SIS. The number of undergraduate students and the credits they enrolled in were consistent with those from years past, and numbers of graduate students and the credits in which they enrolled exceeded those from prior years.

Since spring 2009, undergraduates have been able to apply online through the Common Application, to pay application fees, to accept offers of admission, and to pay tuition deposits.

Student financial aid for new undergraduates, new graduate students, and returning students have been posted to the Student Center, and students have been able to accept aid, select lender(s) for loans, sign up for payment plans, and pay tuition and other charges on line.

Students' charges are reflected in SIS from a variety of sources: tuition, fees, parking, housing, dining, etc., and payment for charges may be made on line. The payment process is "real time," and results in rapid transfer of funds from the student to the credit card vendor or bank, and back to the University.

On August 5, 2009, the SIS opened for all new and returning students enrolling for the fall semester. The number of users in the system spiked on the morning of August 5th with approximately 3,000 concurrent users. Since that time, the number of logins in a single day has reached as high as 8,000, exceeding the previous record of approximately 6,000 applicants who logged into SIS in the first hour when admission offers were posted this spring.

ISIS Online was replaced by SIS as the system of record for all but historical financial aid changes as of August 14th, and transcripts were, for the first time, generated from SIS on August 20th by the University Registrar.

Governance structures that were convened for the project are in transition until January 2010 when the maintenance of SIS will begin. Some of these groups have been repurposed, while others have been subsumed into "user groups" which have begun to communicate and serve the University community of SIS users.

Planning for the transition of the student system project to the maintenance organization (Integrated System Deployment & Support) is progressing and the transition will be final in January 2010.

Upcoming Activities: During the next three months, the project team will:

- Continue to stabilize enrollment and academic advisement functionality in the Student Center and Faculty Center;
- Continue to implement new financial aid and student finance processes and functionality in SIS;
- Implement online graduate admissions functionality for Architecture, Arts and Sciences, Curry, Engineering, McIntire, and Nursing. Online evaluation for graduate applicants will also be implemented using ImageNow.
- Continue to refine functionality for loans, disbursement of loans and other aid, and billing/cashiering
- Continue to work with users who need to understand the data in SIS and how to report accurately from it;
- Execute project transition plan and create project closeout report, and
- Conduct final review by Gartner, Inc. in December 2009, focusing primarily on the effectiveness of the University's transition to maintenance.

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MISCELLANEOUS FINANCIAL REPORTS
Finance Committee
University of Virginia

September 10, 2009

UNIVERSITY OF VIRGINIA ACADEMIC DIVISION

FINANCIAL REPORT

ACCOUNTS AND LOANS RECEIVABLE AS OF JUNE 30, 2009

Summary of Accounts Receivable:

The University's Academic Division's total accounts receivable at June 30, 2009 was \$19,221,000 as compared to \$19,874,000 at March 31, 2009. The major sources of receivables at June 30, 2009 were sponsored programs of \$11,611,000 and other receivables of \$3,872,000.

The past due receivables over 120 days old were \$1,877,000 as of June 30, 2009 or 9.77 percent of total receivables which is below the Commonwealth's management standard of 10 percent.

	<u>Student Accounts</u>	<u>Sponsored Programs</u>	<u>Other Receivables</u>	<u>Total</u>
Gross Accounts Receivable	\$ 3,872,000	\$ 11,611,000	\$ 3,738,000	\$ 19,221,000
Less: Allowance for Doubtful Accounts	271,000	407,000	50,000	728,000
Net Accounts Receivable	<u>\$ 3,601,000</u>	<u>\$ 11,204,000</u>	<u>\$ 3,688,000</u>	<u>\$ 18,493,000</u>
Accounts Receivable Greater than 120 Days Past Due	<u>\$ 692,000</u>	<u>\$ 1,017,000</u>	<u>\$ 168,000</u>	<u>\$ 1,877,000</u>

SOURCE: Financial Administration
DATE: July 31, 2009

UNIVERSITY OF VIRGINIA ACADEMIC DIVISION

FINANCIAL REPORT

ACCOUNTS AND LOANS RECEIVABLE AS OF JUNE 30, 2009

Summary of Loans Receivable:

The default rate for the Perkins Student Loan Program was 5.93 percent for the quarter ending June 30, 2009. This is based on the cohort default calculation and is well below the 15 percent threshold set by federal regulations. The Health Professions Loan Program default rate remained the same at 0.0 percent. The Nursing Undergraduate Student Loan Program default rate increased by 0.03 percent to 2.28 percent. Both medical loan programs are well below the 5 percent federal threshold. The University Loan Program default rate increased by 0.59 percent to 3.04 percent for the quarter ending June 30, 2009.

	<u>Gross Loans Receivable</u>	<u>Current Default Rate</u>	<u>Inc. / (Dec) From Last Quarter</u>
Perkins Student Loans	\$ 19,369,000	5.93%	0.00%
Health Professions Loans	6,000	0.00%	0.00%
Undergraduate Nursing Loans	1,403,000	2.28%	0.03%
University Loans	<u>13,736,000</u>	3.04%	0.59%
Total Student Loan Outstanding	<u>\$ 34,514,000</u>		

SOURCE: Financial Administration

DATE: July 31, 2009

**UNIVERSITY OF VIRGINIA
CAPITAL CAMPAIGN SUMMARY
As of June 30, 2009**

All Units			
	Expendable	Endowment	Total
Gifts and Pledge Payments	796,863,759	377,791,138	1,174,654,897
Outstanding Pledge Balances	202,105,613	65,529,546	267,635,159
Deferred Gifts	88,833,190	25,189,818	114,023,008
Private Grants	157,048,633	0	157,048,633
Gifts in Kind	66,465,288	1,325,447	67,790,735
Gift and Pledge Total	1,311,316,483	469,835,949	1,781,152,432
Future Support	159,585,803	44,555,704	204,141,507
Campaign Total	1,470,902,286	514,391,653	1,985,293,939
Additional Amounts To Be Raised ⁽¹⁾	60,633,517	1,158,214,051	1,218,847,568
Total	1,371,950,000	1,628,050,000	3,000,000,000

Rector & Visitors Gift Accounts Only

	Expendable	Endowment	Total
Gifts and Pledge Payments	288,307,428	218,961,269	507,268,697
Outstanding Pledge Balances	44,976,013	18,552,592	63,528,605
Deferred Gifts	57,297,023	9,562,646	66,859,669
Private Grants	0	0	0
Gifts in Kind	27,238,842	10,587	27,249,429
Gift and Pledge Total	417,819,306	247,087,094	664,906,400
Future Support	107,204,570	3,592,539	110,797,109
Campaign Total	525,023,876	250,679,633	775,703,509
Additional Amounts To Be Raised	TBD	TBD	TBD
Total	525,023,876	250,679,633	775,703,509

Rector & Visitors Unrestricted Giving

Gifts and Pledge Payments	3,900,031	0	3,900,031
Deferred Gifts	200,000	0	200,000
Outstanding Pledge Balances	327,086	0	327,086
Total	4,427,117	0	4,427,117

(1) Excludes future or revocable support

* Rounding \$2.00

Source: Office of Development and Public Affairs

Date: August 13, 2009

**USES OF FUNDS FROM PRATT ESTATE
For Year Ended June 30, 2009**

	6/30/08		2008-09		2008-09		6/30/09
	Unexpended		Allocations¹		Expenditures		Unexpended
	Balance						Balance
Arts & Sciences							
Biology							
Student Support	\$ (8,000)	\$	218,520	\$	187,547	\$	22,973
Faculty Salary Support	12,615		31,480		37,885		6,210
Research & Equipment	158,936		-		4,732		154,204
	<u>163,550</u>		<u>250,000</u>		<u>230,164</u>		<u>183,386</u>
Chemistry							
Student Support	10,354		100,000		50,590		59,763
Faculty Salary Support	80,586		60,000		28,583		112,003
Research & Equipment	174,292		90,000		83,162		181,129
	<u>265,232</u>		<u>250,000</u>		<u>162,335</u>		<u>352,896</u>
Mathematics							
Student Support	295,394		118,690		16,882		397,202
Faculty Salary Support	35,368		21,310		213,330		(156,652)
Research & Equipment	72,365		10,000		37,157		45,208
	<u>403,127</u>		<u>150,000</u>		<u>267,370</u>		<u>285,757</u>
Physics							
Student Support	71,628		216,473		162,006		126,095
Faculty Salary Support	272,150		33,527		61,359		244,318
Research & Equipment	1,098,240		-		226,901		871,339
	<u>1,442,019</u>		<u>250,000</u>		<u>450,265</u>		<u>1,241,753</u>
Presidential Science Initiative	392,899		-		-		392,899
Science & Technology Initiative (FEST)	29,776		-		(6)		29,782
Provost Faculty Start-Ups	4,363,416		2,424,146		548,444		6,239,118
Pratt Master - To be Allocated	18,713		-		-		18,713
Total Arts and Sciences	<u>7,078,732</u>		<u>3,324,146</u>		<u>1,658,572</u>		<u>8,744,306</u>
School of Medicine							
Student Support	2,235		113,175		81,699		33,710
Research & Equipment	432,297		1,291,402		1,237,897		485,802
Science & Technology Initiative (FEST)	45,688		-		-		45,688
Decade Plan	6,676,430		5,000,000		1,575,740		10,100,691
Pratt Master - To be Allocated	32,612		30,423		-		63,035
Total School of Medicine	<u>7,189,262</u>		<u>6,435,000</u>		<u>2,895,335</u>		<u>10,728,926</u>
TOTALS	<u>\$ 14,267,994</u>	\$	<u>9,759,145</u>	\$	<u>4,553,907</u>	\$	<u>19,473,232</u>

¹ Includes amounts approved by the Board of Visitors for 2008-09, less amounts that will not be needed for the original approved purpose and will be reverted to the endowment balance. This includes \$75,854 for Arts & Sciences.

**SOURCE: University Budget Office
DATE: August 5, 2009**

UNIVERSITY OF VIRGINIA
INTERNAL LOANS TO UNIVERSITY DEPARTMENTS AND ACTIVITIES
As of June 30, 2009

PURPOSE	DATE OF LOAN	INTEREST RATE ²	ORIGINAL LOAN AMOUNT	PRINCIPAL PAYMENTS MADE TO DATE	OUTSTANDING PRINCIPAL	APPROXIMATE FINAL PAYMENT
Cocke Hall	06/30/06	4.75%	1,941,787	1,110,646	831,141	June 2011
ITC ISIS Software	06/30/06	4.75%	1,575,000	900,854	674,146	July 2010
National Radio Astronomy Observatory Piping	09/01/06	6.25%	706,833	374,698	332,135	August 2011
Varsity Hall	06/30/07	4.75%	1,517,726	640,926	876,800	March 2012
Wilsdorf Hall	11/01/06	4.75%	3,311,328	2,896,130	415,198	November 2011
Wise Football Facility	10/01/07	4.75%	629,171	91,389	537,782	October 2022
Total Internal Loans Subject to \$15M Limit Established by BOV ¹			\$ 9,681,845	\$ 6,014,643	\$ 3,667,202	

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NOTES: 1. Per January 1990 Board of Visitors resolution establishing the internal loan pool at \$10 million and per April 2003 Board of Visitors resolution approving the expansion of the internal loan pool from \$10 million to \$15 million. All internal loans are subject to the approval of the Executive Vice President and Chief Operating Officer.

2. The University's blended borrowing rate for tax exempt financing is 4.75 percent. A taxable rate of 6.25 percent is being charged for the National Radio Astronomy Observatory Piping project.

SOURCE: Financial Administration
DATE: July 20, 2009

QUARTERLY BUDGET REPORT

As of June 30, 2009

This report compares the actual results for the sources and uses of funds to the Academic Division annual budget (excluding the Medical Center and the University of Virginia's College at Wise). At the end of fiscal year 2008-2009, 101.5 percent of the budgeted sources were collected and 98.2 percent of the budgeted uses were 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.
- The Federal Family Education Loan Program is excluded from the operating budget.
- Sources of funds are shown net of transfers to capital reserves/projects in the operating budget.
- Fringe benefit expenditures are included in the operating budget using pooled benefit rates.
- The operating budget recognizes recoveries of indirect costs only upon distribution of those revenues, and not when billed to granting agencies.

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

SOURCE: University Budget Office
DATE: August 31, 2009

University of Virginia Academic Division
2008-09 Operating Budget Report
As of June 30, 2009

(in thousands)

	2008-09 Revised Budget	6/30/2009 Actual Results	Variance	6/30/2009 Results Percentage
Sources of Available Funds, net of transfers to capital reserves				
Tuition & Fees for Operating Plan	\$355,583	\$355,891	(\$308)	100.1%
State General Fund Appropriation for Operating Plan	160,996	160,686	310	99.8%
Sponsored Research for Operating Plan	298,700	302,727	(4,027)	101.3%
Endowment Distribution	157,268	144,699	12,569	92.0%
Net Gifts Available for Operating Plan	75,769	104,158	(28,389)	137.5%
Sales, Investment & Other	33,271	33,750	(479)	101.4%
Net Auxiliary Enterprises for Operating Plan	152,400	150,582	1,818	98.8%
Total Sources of Available Funds	\$1,233,987	\$1,252,493	(\$18,506)	101.5%
Uses of Available Funds				
Direct Instruction	\$310,866	\$304,588	\$6,278	98.0%
Research and Public Service	314,418	293,330	21,088	93.3%
Library, Information Tech., & Academic Administration	120,157	124,803	(4,646)	103.9%
Student Services	27,579	28,685	(1,106)	104.0%
General Administration	82,864	73,768	9,096	89.0%
Operation & Maintenance of Physical Plant	70,519	72,383	(1,864)	102.6%
Scholarships, Fellowships, & Other Graduate Support	131,925	136,236	(4,311)	103.3%
Athletics	42,601	49,484	(6,883)	116.2%
Bookstore	31,317	29,637	1,680	94.6%
Housing and Conference Services	20,935	21,841	(906)	104.3%
Other Auxiliary Operations	57,995	59,411	(1,416)	102.4%
Total Operating Expenses	\$1,211,176	\$1,194,166	\$17,010	98.6%
Total Operating Reserves and Temporary Allocations	18,674	13,029	5,645	69.8%
Total Uses of Available Funds	\$1,229,850	\$1,207,195	\$22,655	98.2%

DEFINITION OF TERMS

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

Auxiliary Enterprises - those activities 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, which includes 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 that portion of the School of Medicine's clinical physicians' salaries and fringe benefits related to patient care.

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

Student Services - activities whose primary purpose is to contribute to the students' emotional and physical well-being and to their intellectual, cultural, and social development outside the classroom.

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/Long Term Investments for UVa and Related Foundations
June 30, 2009**

**Unaudited
(in thousands)**

	Rector and Visitors Funds	Related Foundation Funds Invested by UVIMCO	Alumni Association Funds Invested by UVIMCO	Related Foundation Funds Invested by Direction of Foundation Board	Total
The University of Virginia Medical School and related foundations	\$ 580,141	\$ 26,433	\$ 5,411	\$ 175	\$ 612,160
The College of Arts and Sciences and related foundations	258,923	31,080	8,093	2,668	300,764
The University of Virginia Law School and related foundation	34,315	156,402	-	78,370	269,087
Darden School and related foundation	87,221	169,278	-	12,077	268,576
The McIntire School of Commerce and related foundation	62,567	-	18,025	404	80,996
School of Engineering and related foundation	61,702	231	2,089	1,498	65,520
University of Virginia's College at Wise and related foundation	32,584	3,405	1,625	7,965	45,579
Graduate School of Arts and Sciences	36,908	-	-	-	36,908
School of Nursing	28,739	-	1,321	-	30,060
Curry School of Education and related foundation	9,939	5,549	-	1,581	17,069
School of Architecture and related foundation	12,855	-	322	613	13,790
School of Continuing and Professional Studies	58	-	39	-	97
University of Virginia Medical Center and related foundations	250,082	45,482	3,482	19,273 **	318,319
Provost	145,247	-	-	-	145,247
Centrally Managed University Scholarships	125,177	-	-	-	125,177
Athletics and related foundation	31,054	47,809	296	583	79,742
University of Virginia Foundation and related entities	-	50,411	-	144	50,555
Alumni Association	-	-	39,415	9,807	49,222
Miller Center and related foundation	41,776	6,043	-	-	47,819
Alumni Board of Trustees	-	40,223	-	-	40,223
University Libraries	37,994	-	36	-	38,030
University - Unrestricted but designated	242,201	-	-	-	242,201
University - Unrestricted Quasi and True Endowment	145,221	-	-	-	145,221
University - Unrestricted Other	118,232	-	-	-	118,232
All Other	153,085	8,837	180,930 *	-	342,852
	<u>\$ 2,496,021</u>	<u>\$ 591,183</u>	<u>\$ 261,084</u>	<u>\$ 135,158</u>	<u>\$ 3,483,446</u>

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

**Excludes approximately \$29.8 million of board designated pension funds.

UNIVERSITY OF VIRGINIA

QUASI-ENDOWMENT ACTIONS

April 1, 2009 to June 30, 2009

The quasi-endowment actions listed below were approved by either (1) the Executive Vice President and Chief Operating Officer, under the following Board of Visitors' resolutions, or (2) the Vice President and Chief Financial Officer, under the delegation of authority from the Executive Vice President and Chief Operating Officer:

In October 1990 and June 1996 the Board of Visitors approved resolutions delegating to the Executive Vice President and Chief Operating Officer the authority to approve quasi-endowment actions, including establishments and divestments of less than \$2,000,000, with regular reports on such actions.

In February 2006, the Board of Visitors approved a resolution permitting approval of quasi-endowment transactions, regardless of dollar amount, in cases in which it is determined to be necessary as part of the assessment of the business plan for capital projects. Additionally, to the extent that the central loan program has balances, they may be invested in the long term investment pool managed by UVIMCO or in other investment vehicles as permitted by law.

<u>Additions from Gifts</u>	<u>Amount</u>
Osher Lifelong Learning Institute Quasi-Endowment*	\$ 750,000.00
President's Fund for Excellence Unrestricted Quasi-Endowment	51,158.01
UVA Bookstore Quasi-Endowment for Excellence	200,000.00
University Quasi-Endowment Fund (1)	40,415.17
Total Additions from Gifts to Quasi-Endowments	\$ 1,041,573.18

Additions from Endowment Income (Capitalizations)

Antrim, Lottie C. Income Capitalization Quasi-Endowment	\$ 21,971.77
Athletics General Operations Quasi-Endowment	73,454.95
Chrysler, W. P. Fund for Engineering Library	1,797.98
Class of 1955 Fund	1,717.79
Class of 1956 Fund	5,847.95
Class of 1957 Fund	4,546.48
Class of 1958 Fund	5,780.14
Class of 1959 Fund	6,757.06
Class of 1960 Fund	5,695.63
Class of 1961 Fund	5,144.30
Class of 1962 Fund	7,508.35
Class of 1963 Fund	2,323.59
Class of 1964 Fund	4,573.42
Class of 1965 Fund	1,395.96
Dermatology General Investment Fund	27,471.68
Hecht-Cruachem Chemistry Quasi-Endowment #2	3,172.27
Hecht-Cruachem Chemistry Quasi-Endowment #3	3,215.19
Horton, Charles E. Professorship in International Plastic Surgery Quasi-Endowment	10,673.51
Hughes Endowment Income Capitalization Quasi-Endowment	3,683.29
Jargowsky, Karen Chair in Pediatric Hematology/Oncology Quasi-Endowment	76,490.95
Jordan, Harvey E. Lectureship	1,258.59
Low, Emmet F. and N. Alyce Chair Quasi-Endowment	1,080.18
McIntire School of Commerce Operations Fund	1,071,255.45
McIntire, Howard Quasi-Endowment in Neurology	20,557.00
Medical Center Capital Assets Quasi-Endowment (2)	4,242,765.09
Miller, Mae W. Cancer Research Quasi-Endowment	5,331.80
Moyston Quasi-Endowment for Ophthalmology	22,126.14
Moyston, Vernah Scott Professorship in Ophthalmology Investment Quasi-Endowment	3,838.75
Plastic Surgery Quasi-Endowment Fund	16,247.86
Radiology Fund Special Diagnostic	3,871.61
Samuels, Bernard Ophthalmology Library Quasi-Endowment	2,193.45
School of Medicine Quasi-Endowment	28,596.91
Swartzel, Thelma R. Research Quasi-Endowment	24,517.37
Taylor, Henry N. Fund	285.10
Virginia Quarterly Review - Anonymous	492.86
Whyburn, Gordon T. Professorship Quasi-Endowment	14,172.70
Williams, Langbourne M. Professorship in American History Quasi-Endowment	68,834.24
	<hr/>
Total Additions from Endowment Income to Quasi-Endowments	\$ 5,800,647.36

Divestments

Carlson Psychiatry Research Fund	\$	180,000.00
Darden, Joshua P. Jr. Unrestricted Quasi-Endowment		10,000.00
Dean's Discretionary Research Fund for Infectious Disease		692,496.80
McIntire School of Commerce Operations Fund		908,617.83
Otolaryngology/HNS Molecular Research Program Quasi-Endowment		175,000.00
University Press Investment Fund		60,000.00
		<hr/>
Total Divestments from Quasi-Endowments	\$	<u>2,026,114.63</u>

Notes:

*Quasi-endowment newly established or originally funded since April 1, 2009.

(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.

(2) Per February 7, 2008 BOV authorization, additional amounts up to \$300 million can be transferred to this fund from the depreciation reserve held by the State without further BOV approval.

SOURCE: Financial Administration

DATE: July 1, 2009

UNIVERSITY OF VIRGINIA

SALARY AND COMPENSATION FOR FULL-TIME FACULTY

AT AAU AND SCHEV PEER GROUP INSTITUTIONS

These reports provide average compensation and salary figures for institutions included in the Association of American Universities (AAU), and average salary figures for the University's peer institutions, as established by the State Council of Higher Education in Virginia (SCHEV). These figures include instructional faculty paid on a full-time basis; all medical faculty have been excluded. Salary figures for faculty with eleven- or twelve-month duties have been converted to nine-month figures by adjusting the total salaries by a factor of 9/11^{ths}. The source for these figures is "The Annual Report on the Economic Status of the Profession, 2008-2009," Academe, March-April, 2009, the bulletin of the American Association of University Professors (AAUP).

SOURCE: Institutional Assessment and Studies

DATE:

August 7, 2009

UNIVERSITY OF VIRGINIA

FACULTY SALARY AND COMPENSATION AVERAGES

Salary at AAU Institutions

- AAU salary data includes all sources of funds.
- The 60 institutions included in this year's rankings are only the US institutions. Two Canadian institutions, the University of Toronto and McGill University, have been excluded.
- The UVa average in each of the years displayed represents the salary average as of December 1 of that year and reflects the merit increase of that date.
- The UVa actual percentage salary increase between 2007-2008 and 2008-2009 was 0.87 percent. The median for the AAU was 4.24 percent. Only two AAU institutions had a smaller increase than UVa. The University's rank position of tied for 22nd in 2007-2008 fell to 26th in 2008-2009 and dropped five positions in the past two years.
- In 1989-1990, before the first round of the Wilder budget cuts, UVa ranked 18th (69th percentile) in the AAU. Since then our ranking has varied, never rising above 18th, dropping as low as 32nd in 1996-1997, and now stands at 26th (58th percentile) in 2008-2009. During that 19-year period the University's average salary increased from \$54,100 in 1989-1990 to \$103,900 in 2008-2009 (a total increase of 92 percent, the equivalent of an annual 3.49 percent increase applied and compounded each year).
- The University's current position in the AAU, 26th, is at least seven positions short of the Board of Visitors-defined target range of 15th through 19th. This gap represents \$6,400 in average salary. A total of \$7.9 million would be required to raise the salaries of the 1,241 full-time instructional (non-medical) faculty included in this calculation to the 19th position (and holding peer salaries unchanged). A total of \$14.3 million in current dollars would be required to award the same salary increase to the 2,240 total full-time equivalent (FTE) teaching and research faculty at the University.

Compensation at AAU Institutions

- As in the case of the average salary, average compensation was reported as of December 1 of those years. The average compensation includes both salary and benefits.
- The UVa percentage compensation increase between 2007-2008 and 2008-2009 was 1.01 percent. This was well below the median for the AAU (4.01 percent) and resulted in a decline in our compensation ranking (from 27th to 28th).
- In 1989-1990 UVa ranked 20th (65th percentile) in compensation. Since then the University's ranking has varied, never rising above 20th, and now stands at 28th (54th percentile) in 2008-2009. During that 19-year period, our average compensation increased from \$66,800 in 1989-1990 to \$130,300 in 2008-2009 (a total increase of 95 percent, the equivalent of an annual 3.58 percent increase applied and compounded each year).

State Salary at SCHEV Peer Institutions

- In the summer of 2007, SCHEV approved a new sample of peer institutions for the University. The attached table includes the salary averages for the old peer group in 2006-2007 and compares it to the salary averages of the new peer group in 2006-2007 through 2008-2009. Again, the UVa state salary average represents the salary average as of December 1 each year. The UVa state salary averages listed in the table represent the authorized state salary averages rather than the actual averages. They are intended to exclude all UVa endowment funds.
- The implementation of the new peer group did not change UVa's percentile rank (41st) in 2006-2007. The UVa percentage increase in the State authorized salary average between 2007-2008 and 2008-2009, was zero percent resulting in the authorized average remaining at \$96,384. The mean increase for the new peer group was 3.75 percent. UVa's rank among the new sample peers dropped to the 16th position (32nd percentile).
- In 1989-1990, UVa ranked 10th in the State peer group that was in effect at that time. Two new peer groups have been approved since then. In the current peer group, approved by SCHEV in summer 2007, the University began in 2007-2008 at position 15, at the 41st percentile, and has dropped to 16th (32nd percentile).

Average Salary for Full-Time Instructional Faculty at AAU Institutions, 2002-03 to 2008-09

Rank	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	Rank		
1	Harvard U	124,600	129,869	135,946	142,200	147,400	Stanford U	154,500	4.82%
2	Stanford U	121,300	125,147	131,506	139,000	142,700	Harvard U	149,400	4.70%
3	U Penn	115,300	124,541	129,699	136,900	141,200	Cal Tech	147,300	4.32%
4	Cal Tech	112,900	118,496	124,697	129,699	134,700	U Penn	139,500	3.56%
5	Princeton U	112,700	117,833	121,489	126,900	131,700	Princeton U	137,500	4.40%
6	MIT	111,100	111,970	115,782	119,200	125,700	Duke U	132,700	5.57%
7	Northwestern	108,500	109,921	114,080	118,600	124,200	Columbia U	131,100	8.53%
8	Columbia U	104,100	108,576	112,300	116,800	124,200	Northwestern	130,700	5.23%
9	Duke U	103,100	107,300	112,112	116,714	123,300	MIT	130,600	5.92%
10	U Chicago	103,200	106,709	111,400	116,700	121,800	Yale U	130,500	5.07%
11	Yale U	102,300	106,577	110,495	116,000	120,800	U Chicago	127,600	4.76%
12	UC Berkeley	101,900	103,526	106,297	109,400	114,900	Emory U	119,600	6.41%
13	Cornell-Endow	99,700	102,412	104,825	108,700	113,800	Cornell-Endow	118,800	4.76%
14	Washington U	98,500	101,351	103,374	107,200	113,400	UCLA	116,800	2.46%
15	UCLA	98,300	100,562	103,360	107,100	112,400	UC Berkeley	116,500	2.37%
16	Emory U	96,900	99,646	101,360	104,900	107,800	Washington U	114,400	6.42%
17	Brown U	93,900	99,013	100,471	103,100	107,500	Rice U	111,100	7.14%
18	NYU	92,200	95,428	98,303	101,900	106,300	Brown U	110,400	2.41%
19	Rice U	92,000	93,989	96,620	99,600	103,700	NYU	110,300	3.76%
20	CMU	90,400	93,378	96,081	99,000	103,700	CMU	109,700	5.79%
21	UC San Diego	90,100	91,666	95,876	99,000	103,700	Rice U	107,200	0.85%
22	USC	87,800	91,568	95,210	99,000	103,000	UC San Diego	106,800	5.43%
23	Rutgers U	87,400	91,090	95,210	98,500	103,000	USC	106,000	2.91%
24	U Virginia	86,700	90,957	94,711	98,200	101,900	U Virginia	106,000	4.02%
25	UC Santa Barb	86,600	88,918	91,379	95,800	101,600	UNC	105,900	4.23%
26	U Michigan	86,500	88,747	91,241	96,100	101,300	Johns Hopkins ⁴	103,900	0.87%
27	UC Davis	86,400	88,443	91,155	95,000	101,100	Rutgers U	102,900	1.78%
28	Vanderbilt	85,800	87,335	91,104	94,800	100,300	U Michigan	102,600	3.64%
29	U Rochester	85,500	87,327	90,645	94,200	99,800	UC Santa Barb	102,300	1.99%
30	U Illinois	85,100	87,083	90,369	94,100	99,568	U Rochester	102,100	5.15%
31	U Maryland	84,300	86,435	89,872	94,100	99,000	U Irvine	102,000	4.19%
32	U Wisconsin	83,600	85,835	89,661	93,500	97,900	U Maryland	101,900	2.34%
33	U Minnesota	83,400	85,788	88,998	93,300	97,100	UC Davis	101,600	1.80%
34	UC Irvine	83,300	85,211	88,543	92,500	97,100	Ohio State	100,500	5.02%
35	Case Western	83,300	85,192	87,791	92,100	95,700	Illinois	99,700	2.68%
36	Ohio State	82,700	85,016	87,789	91,200	93,500	Ohio State	96,400	3.10%
37	Johns Hopkins	81,800	84,573	87,148	89,500	92,200	Brandeis U	96,400	5.70%
38	UNC	81,700	83,991	85,949	89,200	91,900	U Washington	96,100	4.23%
39	U Iowa	81,100	82,609	85,596	88,700	91,700	U Texas	96,100	6.76%
40	SUNY StonyBrk	79,600	82,607	85,300	88,400	91,700	SUNY Buffalo	94,800	6.63%
41	Mich St U	79,100	81,998	84,700	87,500	91,200	Iowa	94,100	3.63%
42	SUNY Buffalo	79,000	81,684	84,414	87,300	90,800	U Iowa	94,100	5.85%
43	Brandeis U	78,200	80,963	83,928	87,100	90,300	Case Western	93,900	2.40%
44	Purdue U	77,600	80,712	83,090	86,700	89,800	U Wisconsin	93,400	1.85%
45	Indiana U	77,300	79,805	82,292	85,300	88,800	U Wisconsin	93,400	4.59%
46	U Texas	77,000	78,954	82,002	84,500	87,300	U Kansas	91,400	5.42%
47	U Arizona	76,800	78,720	81,434	84,000	86,900	Mich St U	91,000	4.24%
48	U Washington	75,800	78,389	81,271	83,900	86,700	Purdue U	90,100	3.68%
49	U Washington	75,200	77,905	81,007	83,400	86,300	U Kansas	89,300	3.48%
50	U Colorado	75,100	77,056	80,472	82,200	85,400	Indiana U	88,300	4.50%
51	U Florida	74,800	77,500	80,160	82,200	85,400	Syracuse U	88,200	3.28%
52	Tulane U	74,500	77,049	79,346	81,900	84,200	U Colorado	87,500	3.92%
53	Penn State	73,800	76,553	79,051	81,500	83,300	Penn State	87,300	4.80%
54	Syracuse U	73,200	75,874	79,051	81,400	83,300	U Pittsburgh	87,200	-5.11%
55	Texas A&M	73,100	75,112	78,216	80,100	82,800	Texas A&M	86,000	3.86%
56	U Nebraska	72,400	74,245	77,919	79,400	82,500	U Nebraska	85,900	4.50%
57	Iowa State	70,900	73,878	77,060	79,400	82,500	U Florida	85,300	3.39%
58	U Kansas	70,000	72,211	74,636	77,200	82,200	Iowa State	85,300	4.28%
59	U Missouri	68,700	70,314	72,059	74,600	81,800	U Nebraska	84,100	0.96%
60	U Oregon	61,000	61,658	64,959	66,000	69,800	U Missouri	81,600	7.23%
							U Oregon	73,300	5.01%

Average Salary for Full-Time Instructional Faculty at AAU Institutions, 2002-03 to 2008-09

Rank	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	Rank
	Median Increase: 2.87% UVa Increase: 4.33% UVa Percentile Ranking: 61st	Median Increase: 3.32% UVa Increase: 5.06% UVa Percentile Ranking: 63rd	Median Increase: 3.43% UVa Increase: 4.52% UVa Percentile Ranking: 64th	Median Increase: 3.93% UVa Increase: 3.98% UVa Percentile Ranking: 66th	Median Increase: 4.05% UVa Increase: 4.04% UVa Percentile Ranking: 63rd	Median Increase: 4.24% UVa Increase: 0.87% UVa Percentile Ranking: 58%	

Notes: All medical faculty are excluded from the above salary averages. Only faculty who are 50% or only U.S. institutions are included above. The University of Toronto and McGill University, although members of AAU, are not included. Beginning in 1992, at the University of Virginia, salary increases were given on December 1 of each year. The above averages for UVa include the December 1 increases each year.

Source: *Academe, Bulletin of the American Association of University Professors*

- 1 Data for Missouri is suspect for 2002-03, so an estimated 1.05% decrease was used in its place.
- 2 The mean salary figure for Michigan reported in *Academe* in 2004-05, was incorrect. The correct figure was obtained from the Michigan IR office.
- 3 Data for Columbia for 2005-06 and 2006-07 were not available so the AAU median increase was used.
- 4 Data for Johns Hopkins for 2008-09 were not available so the AAU median increase was used.

SOURCE: Institutional Assessment and Studies
DATE: April 22, 2009

Average Compensation for Full-Time Instructional Faculty at AAU Institutions, 2002-03 to 2008-09

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Rank	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	Rank
56	Penn State	U Kansas	Iowa State	U Nebraska	Tulane U	Tulane U	56
57	Texas A&M	Tulane U	U Nebraska	U Colorado	U Nebraska	Penn State	57
58	U Kansas	Texas A&M	Texas A&M	Texas A&M	Texas A&M	U Oregon	58
59	U Missouri	U Missouri	U Oregon	U Missouri	U Oregon	Texas A&M	59
60	U Oregon	U Oregon	U Missouri	U Oregon	U Missouri	U Missouri	60

Median Increase: 3.14%	Median Increase: 3.53%	Median Increase: 3.86%	Median Increase: 3.96%	Median Increase: 4.27%	Median Increase: 4.01%
UVa Increase: 6.60%	UVa Increase: 5.18%	UVa Increase: 5.01%	UVa Increase: 3.85%	UVa Increase: 3.95%	UVa Increase: 1.01%
Va Percentile Ranking: 58th	Va Percentile Ranking: 61st	Va Percentile Ranking: 64th	Va Percentile Ranking: 63rd	Va Percentile Ranking: 56th	UVa Percentile Ranking: 54%

Notes: All medical faculty are excluded from the above salary averages. Only faculty who are 50% or more instructional are included.

Only U.S. institutions are included above. The University of Toronto and McGill University, although members of AAU, are not included. Beginning in 1992, at the University of Virginia, salary increases were given on December 1 of each year. The above averages for UVa include the December 1 increases each year.

Source: *Academe, Bulletin of the American Association of University Professors*

- 1 The AAU compensation figure reported for Michigan in 2004-05 was faulty. It was estimated using the same percent increase that occurred in their salary figures, rounded to the nearest 100 dollars.
- 2 Data for Columbia for 2005-06 and 2006-07 were not available so the AAU median increase was used.
- 3 Data for Johns Hopkins for 2008-09 were not available so the AAU median increase was used.

Institutional Assessment and Studies
April 22, 2009

SCHEV Approved Institutional Peer Group Faculty Salaries for the University of Virginia, 2006-07 to 2008-09

Rank	New Peer Group				Rank
	Old Peer Group		New Peer Group		
	2006-07	2007-08	2008-09	% Incr.	
	Salary	Salary	Salary		
1	U Penn 129,600	U Penn 134,700	U Penn 139,500	3.56%	1
2	Northwestern 119,200	Duke U 125,700	Duke U 132,700	5.57%	2
3	Duke U 116,700	UCLA 114,000	Emory U 119,600	6.41%	3
4	Emory U 109,400	UC Berkeley 113,800	Cornell U 118,800	4.39%	4
5	UC Berkeley 107,100	Cornell U 113,800	UCLA 116,800	2.46%	5
6	Washington U 104,900	Emory U 112,400	UC Berkeley 116,500	2.37%	6
7	USC 99,600	Washington U 107,500	Washington U 114,400	6.42%	7
8	Vanderbilt U 98,200	USC 103,000	Rutgers U 106,800	5.43%	8
9	U Michigan 94,800	UNC 101,900	USC 106,000	2.91%	9
10	U Maryland 94,200	Rutgers U 101,300	UNC 106,000	4.02%	9
11	U Illinois 94,100	Vanderbilt U 101,100	Vanderbilt U 102,900	1.78%	11
12	UNC 94,100	U Michigan 99,000	U Michigan 102,600	3.64%	12
13	U Connecticut 93,200	U Maryland 97,900	U Maryland 102,000	4.19%	13
14	U Virginia 92,677	U Illinois 97,100	U Illinois 99,700	2.68%	14
15	Ohio State 92,500	U Virginia 96,384	U Washington 96,400	5.70%	15
16	U Texas 89,500	U Texas 92,200	U Virginia 96,384	0.00%	16
17	Boston U 88,700	U Arizona 91,900	U Texas 96,100	4.23%	17
18	U Arizona 87,500	U Washington 91,200	SUNY Buffalo 94,800	6.76%	18
19	U Wisconsin 87,300	U Iowa 90,800	U Iowa 94,100	3.63%	19
20	SUNY Buffalo 87,100	U Wisconsin 89,300	U Wisconsin 93,400	4.59%	20
21	U Iowa 85,300	U Wisconsin 88,800	U Colorado 88,300	4.50%	21
22	U Pittsburgh 84,500	SUNY Buffalo 84,500	U Pittsburgh 87,300	4.80%	22
23	Tulane U 81,500	U Colorado 83,300	U Arizona 87,200	-5.11%	23
24	U Colorado 79,400	Tulane U 83,300	U Nebraska 85,900	4.50%	24
25	U Kentucky 75,400	U Florida 82,500	U Florida 85,300	3.39%	25
	Mean 95,500	U Nebraska 82,200	Tulane U 84,100	0.96%	26
		Mean 99,200	Mean 102,800	3.61%	

Mean Sal. (excluding UVa)	95,575	95,420	99,328	103,088
Mean Incr. (excl. UVa)	3.90%	4.01%	4.05%	3.75%
Std Dev (excluding UVa)	12,914	12,346	13,593	14,548

UVa Increase	5.00%	5.00%	4.00%	0.00%
UVa Percentile	41%	41%	41%	32%
60th %tile Salary	98,868	98,568	102,794	106,798

Notes:

UVa figures represent the authorized state salary average rather than the actual average. It is intended to exclude all endowment funds. The 2006-07 authorized increase (5.00%) included the 4.39% provided by the State plus the 0.61% supplement all located from tuition. All medical faculty have been excluded from the above salary averages.

Source: *Academe, Bulletin of the American Association of University Professors*

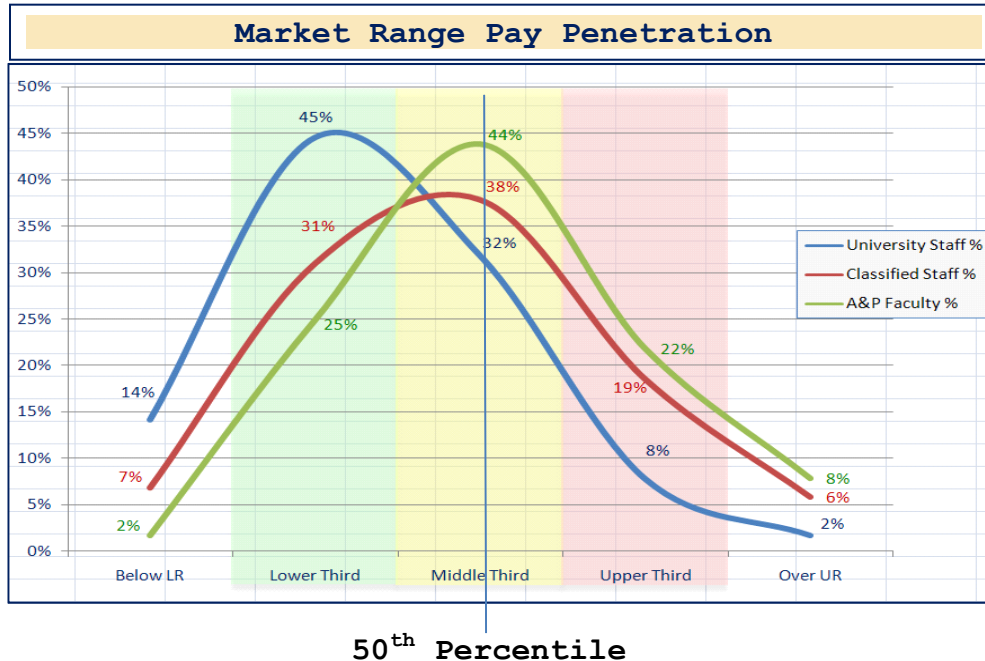
UNIVERSITY STAFF SALARY REPORT

September 2009

Background: In 2009, the University of Virginia implemented the new University Staff Human Resources Plan. The cornerstones of the Plan are enhanced employee development and performance management programs with competitive compensation through market-based pay. All staff hired after July 1, 2006 are covered by the plan as a new category of employee, University Staff. The State granted the University the right to manage this category of employee through the Higher Education Restructuring Act rather than under the rules of the State Personnel Act. Under the Act, the Board of Visitors has authority to grant University Staff salary increases. This is the same as what has been done in the past for faculty salaries.

Description: Given the wide range of work that University Staff employees perform, relevant market ranges have been established for different jobs. This is similar to the benchmarking that is done with faculty salaries. The initial goal is to have the University Staff salary average at the 50th percentile of the market range. The goal for faculty salaries has been between the 70th and 75th percentile of the AAU Peer Group. The University recognizes that an even more aggressive goal may be appropriate for staff in the future. However, because this is a new category of employee, an initial target goal of 50th percentile of the market ranges is appropriate and realistic.

As can be seen from the graph below, the University Staff employee salaries are currently positioned well below the targeted 50th percentile of the market ranges. For comparison purposes, and as of the third quarter of FY 2008-2009, both the Classified Staff and the Administrative & Professional Faculty employee categories have more "Middle Third" positioned salary distributions than do University Staff.



Analysis: Over the past several years, the University has been improving the pay positioning of staff salaries. The continued availability of supplemental funding approved by the Board of Visitors as part of the annual operating budget, as well as the implementation of effective pay decision-making tool for managers, (named "Pay Action 7"), have been instrumental in directing funds to those staff whose salary positioning most warrant adjustments. Continued monitoring and targeted pay actions will be necessary to achieve the initial goal.

Sensitivity/Cost-Benefit: University Staff salaries are currently 13.7 percent below the 50th percentile of market ranges. Our ability to attract, motivate and maintain highly qualified talent is in part dependent on maintaining competitive compensation. The cost to the University as a whole to reach the 50th percentile of the market ranges is approximately \$8.1 million. Since these salaries are funded from a variety of sources, including auxiliary operations, grants and other revenues, the state portion of this requirement would be approximately \$3.8 million. As stated above, moving staff salaries closer to the 50th percentile mark will establish market competitive salaries to sustain excellent services in support of the University's core missions of teaching and research.

SUMMARY OF SPONSORED PROGRAMS GRANTS AND CONTRACTS

FISCAL YEAR 2008-2009

SUMMARY:

For Fiscal Year 2009, the University received sponsored program awards totaling \$332.27 million, an increase of approximately six percent over the fiscal year 2008 amount of \$314.6 million. This year's total includes \$66.34 million in facilities and administrative (indirect) costs as compared to \$70.87 million last year.

Once again, federal agencies continue to account for most of our funding, with 67 percent of the total. The Department of Health and Human Services continues to be the University's largest individual sponsor of awards, accounting for 47 percent of the total.

The School of Medicine was awarded almost 57 percent of all award dollars, followed by the School of Engineering with 14 percent and the College of Arts and Sciences, which accounted for 13 percent of the funds. The remaining 16 percent was distributed among various areas within the University.

One variation from last year to this year merits brief comment: the School of Architecture received a single award from the National Institutes of Health in fiscal year 2008, for \$700,000, which caused a significant spike in their fiscal year 2008 total. The absence of that award in fiscal year 2009 accounts for most of the decline in their funding.

Finally, it also should be noted that this year's report contains 21 awards made as part of the American Reinvestment and Recovery Act (ARRA). These awards accounted for almost \$5 million. Of those 21 awards, 17 were from the National Institutes of Health and four were from the National Science Foundation.

**SPONSORED PROGRAM GRANTS AND CONTRACTS REPORT OF AWARD DATA FOR FISCAL YEAR 2008-2009
REPRESENTED IN MILLIONS OF DOLLARS**

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<u>SCHOOL</u>	<u>DHHS</u>	<u>DOD</u>	<u>DE</u>	<u>DOE</u>	<u>NASA</u>	<u>NSF</u>	<u>Other Federal</u>	<u>Non- Federal</u>	<u>State</u>	<u>Total FY 2009</u>	<u>Total FY 2008</u>	<u>% Increase/ Decrease</u>
Architecture							0.06	0.52	0.01	0.59	1.30	-54%
Arts & Scs.	13.13	2.44	0.56	2.84	2.61	10.89	2.60	9.19	0.23	44.48	40.25	11%
Education	1.23		1.85			2.02	0.05	7.41	2.76	15.32	13.46	14%
Engineering	4.64	10.17	0.03	0.37	1.52	11.31	2.88	14.20	2.76	47.88	45.04	6%
Law							0.19	3.12		3.31	2.36	40%
Medicine	135.96	2.48		1.26		0.73	0.20	44.92	4.31	189.86	194.72	-2%
Nursing	2.23							0.45		2.68	2.49	8%
Other*	0.01		1.70	0.04		1.99	3.12	2.79	18.50	28.15	14.98	88%
Total FY 2009	157.20	15.09	4.13	4.51	4.13	26.93	9.10	82.60	28.57	332.27	314.60	6%
Total FY 2008	160.69	15.46	4.95	5.49	6.08	24.34	6.75	72.32	18.52			
%	-2%	-2%	-17%	-18%	-32%	11%	35%	14%	54%			

**SOURCE: Office of Sponsored Programs
DATE: August 24, 2009**

- Notes:**
- 1) * Includes University Librarian; Vice President for Research and Graduate Studies; Miller Center; Vice President and Provost; School of Continuing and Professional Studies; Center for Public Service; Financial Administration; Student Health; Health Sciences Library; UVA College at Wise; Vice President for Student Affairs, the Virginia Foundation for the Humanities and the Southwest Virginia Higher Education Center.
 - 2) Totals may be slightly off due to rounding.