Management's Discussion and Analysis (Unaudited)

INTRODUCTION

This discussion and analysis provides an overview of the financial position and results of activities of the University of Virginia for the year ended June 30, 2006. Comparative information for the year ended June 30, 2005, has been provided where applicable. This overview has been prepared by management and should be read in conjunction with the financial statements and the footnotes that follow this section.

The University of Virginia is an agency of the Commonwealth of Virginia and is governed by the University's Board of Visitors. The Commonwealth prepares a separate financial report that incorporates all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. The University, consisting of three major divisions, is a component unit of the Commonwealth of Virginia and is included in the basic financial statements of the Commonwealth. The University of Virginia's three divisions are its Academic Division, Medical Center, and the College at Wise.

ACADEMIC DIVISION

A public institution of higher learning with 20,397 students and 2,102 instructional and research faculty members in ten separate schools, the University offers a diverse range of degree programs, including doctorates in fifty-four disciplines. The University is recognized internationally for the quality of its faculty and for its commitment to the primary academic missions of instruction, research, and public service. The University consistently ranks among the nation's top public colleges and universities, both for its general academic programs and for its strengths in specific disciplines. Its emphasis on the student experience is extraordinary among major public institutions, and its dedication to new advances in research permeates all of its schools and colleges.

MEDICAL CENTER

The University of Virginia Medical Center is an integrated network of primary and specialty care services ranging from wellness programs and routine checkups to the most technologically advanced care. The hub of the Medical Center is a hospital with more than 500 beds in operation and a state-designated Level 1 trauma center. In addition, primary and specialty care are provided at convenient clinic locations throughout central Virginia communities.

COLLEGE AT WISE

Located in southwestern Virginia, the College at Wise is a public liberal arts college with 1,953 students and 120 instructional faculty. It offers twenty-five majors including pre-professional programs in dentistry, forestry, law, medicine, physical therapy, and veterinary medicine. Degrees include the bachelor of arts, the bachelor of science, and the bachelor of science in nursing.

FINANCIAL HIGHLIGHTS

For the fiscal year ended June 30, 2006:

- The Board of Visitors has committed to increasing faculty compensation, with a goal to rank in the top twenty among the Association of American Universities (AAU) institutions. As a result of these compensation increases, the University has already raised its AAU faculty compensation ranking from thirtieth in 2002–03 to twenty-second in 2005–06.
- The Board of Visitors has also committed $126 million over a five-year period through 2009 to strengthen the University's status as a top-ranked research institution. The funds will be used for construction of the Carter-Harrison Medical Research Building and the Advanced Research and Technology facility, as well as the recruitment of ten National Academy-caliber research teams. The University recently secured the second and third of the ten planned research teams. One of the world's leading epidemiologists and geneticists has been appointed director of U.Va.'s Center for Public Health Genomics. The University also attracted a world-renowned physical and surface chemist who is a member of the National Academy of Science.
- The Board of Visitors approved the University's six-year institutional plan pursuant to the Restructured Higher Education Financial and Administrative Operations Act.
- The Board of Visitors approved the University's Debt Policy and Interest Rate Risk Policy.
- The Board of Visitors approved the University's Capital and Operating Reserves Policy.
- The Board of Visitors adjusted the endowment spending rate to 4 percent, thereby equalizing the payment rate for both Class A and Class B shares a year earlier than originally projected.

As a result of these strategic decisions and its day-to-day operations, the University realized a significant increase in net assets of $411 million. The increase is outlined in the summary table below.

SUMMARY OF THE INCREASE IN NET ASSETS *(in thousands)*	2006	2005	INCREASE AMOUNT	INCREASE PERCENT
Total revenues before investment income	$ 1,881,241	$ 1,733,868	$ 147,373	8.5%
Total expenses	1,837,505	1,719,019	118,486	6.9%
Increase in net assets before investment income	**43,736**	**14,849**	**28,887**	**194.5%**
Investment income	367,761	329,973	37,788	11.5%
TOTAL INCREASE IN NET ASSETS	**$ 411,497**	**$ 344,822**	**$ 66,675**	**19.3%**

- Revenues before investment income rose 8.5 percent against a rise in expenditures of 6.9 percent, leading to an overall increase before investment income of $29 million.
- Annual investment income grew to $368 million.
- Accordingly, net assets increased $411 million, which was $67 million, or 19.3 percent, more than last year's increase in net assets.
- The total return on net assets was 10.2 percent.

Overall, the primary factor in the University's net asset growth continues to be the performance of the endowment and its resultant investment income.

USING THE FINANCIAL STATEMENTS

The University's financial report includes three financial statements and related notes:

1. The Statement of Net Assets
2. The Statement of Revenues, Expenses, and Changes in Net Assets
3. The Statement of Cash Flows

These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles, which establish standards for external financial reporting for public colleges and universities. These principles require that financial statements be presented on a consolidated basis to focus on the University as a whole, with resources classified for accounting and reporting purposes into four net asset categories. Please note that although the University's foundations identified under guidance from GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units,* are reported in the component unit financial statements, this Management's Discussion and Analysis excludes them except where specifically noted.

STATEMENT OF NET ASSETS

The Statement of Net Assets presents the financial position of the University at the end of the fiscal year and includes all assets and liabilities of the University. The difference between total assets and total liabilities—net assets—is one indicator of the current financial condition of the University, while the change in net assets is an indicator of whether the overall financial condition has improved or worsened during the year. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation. A summary of the University's assets, liabilities, and net assets at June 30, 2006, and June 30, 2005 (restated), follows.

SUMMARY OF THE STATEMENT OF NET ASSETS *(in thousands)*	2006	2005	INCREASE AMOUNT	INCREASE PERCENT
Current assets	$ 936,689	$ 978,616	$ (41,927)	(4.3%)
Noncurrent assets				
Endowment and other long-term investments	2,773,862	2,387,332	386,530	16.2%
Capital assets, net	1,642,295	1,500,627	141,668	9.4%
Other	107,309	99,360	7,949	8.0%
Total assets	**5,460,155**	**4,965,935**	**494,220**	**10.0%**
Current liabilities	437,379	395,574	41,805	10.6%
Noncurrent liabilities	560,779	519,861	40,918	7.9%
Total liabilities	**998,158**	**915,435**	**82,723**	**9.0%**
NET ASSETS	**$ 4,461,997**	**$ 4,050,500**	**$ 411,497**	**10.2%**

This snapshot of the University shows that its financial condition continues to strengthen.

CURRENT ASSETS AND LIABILITIES

Current assets, which totaled $937 million as compared to the previous year's $979 million, a decrease of $42 million or 4.3 percent, consist primarily of cash and cash equivalents, operating investments, and accounts receivable. The overall decline in current assets resulted primarily from the movement of $75 million in Medical Center investments from short-term investments to those with longer term horizons of one to five years.

Current liabilities, which consist primarily of accounts payable, obligations under securities lending, deferred revenue, and long-term liabilities, increased by $42 million, or 10.6 percent. There were two major reasons for this change. Last year commercial paper was included in noncurrent liabilities because it was refunded immediately after fiscal year end with a long-term bond issuance. This year commercial paper of $26 million is classified as a current liability since there are no immediate plans to refinance the commercial paper with long-term bonds. Obligations under securities lending increased by $25 million as the Commonwealth of Virginia used state funds on deposit to increase participation in this state program. These current liabilities were offset by a reduction in accounts payable and accrued liabilities of almost $8 million.

From a liquidity perspective, current assets cover current liabilities 2.1 times, an indicator of good liquidity and the ability to weather short-term demands on working capital. This year's coverage is slightly lower than last year's rate of 2.5. Current assets also cover over six months of total operating expenses, including depreciation.

ENDOWMENT AND OTHER INVESTMENTS

Performance. At June 30, 2006, the major portion of the University's endowment was maintained in a long-term investment pool managed by the University of Virginia Investment Management Company (UVIMCO). The annual return for the long-term investment pool this year was 14.6 percent, a slight improvement over last year's return of 14.3 percent. Included in the calculation of this performance figure are realized and unrealized gains and losses, along with cash income. With this return, total investment income for all funds rose $38 million, or 11.5 percent.

Distribution. The University distributes endowment earnings in a way that balances the annual support needed for operational purposes against the requirement to preserve the future purchasing power of the endowment. The endowment spending-rate policy is approved by the Board of Visitors and is based on total return, not just cash earnings. The total distribution for the endowment was $92 million.

Endowment investments. The total for endowment investments on the Statement of Net Assets is $2.5 billion, an increase from last year's $2.2 billion.

From a net assets perspective, earnings from the endowment, while expendable, are mostly restricted in use by the donors. It is important to note that of the University's endowment funds, only $699 million, or 28 percent, can be classified as unrestricted net assets. From this unrestricted endowment, a significant portion of the income is internally designated by the University for scholarships, fellowships, professorships, and research efforts.

Including endowment investments held by the seven related foundations reported as component units, the combined University system endowment was approximately $3.5 billion as of June 30, 2006.

CAPITAL AND DEBT ACTIVITIES

One of the critical factors in sustaining the quality of the University's academic and research programs and residential life is the development and renewal of its capital assets. The University continues to implement its long-range plan to modernize its older teaching and research facilities, construct new facilities, and fund its deferred maintenance obligations.

Capital additions before depreciation were $271 million in 2006. Capital additions primarily comprise replacement, renovation, and new construction of academic, research, and health care facilities, as well as significant investments in equipment, including information technology.

Projects that were in progress at June 30, 2006, included Wilsdorf Hall for the School of Engineering, the Rouss Hall Complex for the McIntire School of Commerce, the Carter-Harrison Research Building for the School of Medicine, the Campbell Hall additions, the Fayerweather Hall renovation, and the Cocke Hall renovation. Also, the John Paul Jones Arena was nearly complete at June 30, 2006.

Other projects that are in the design stage include the Claude Moore Nursing Education Building for the School of Nursing, the Claude Moore Medical Education Building, the South Lawn Project, the Hospital Bed Expansion and Infrastructure Project, the Emily C. Couric Clinical Cancer Center, Ruffin Hall, and the College at Wise's Arts Center.

Financial stewardship requires the effective management of resources, including the use of debt to finance capital projects. As evidence of the University's effective stewardship, Moody's Investors Service has assigned the University its highest credit rating (Aaa) for bonds backed by a broad revenue pledge. Standard and Poor's and Fitch Ratings have also assigned their AAA ratings to the University. The University of Virginia is one of only two public institutions with the highest bond ratings from all three agencies. Besides being an official acknowledgement of the University's financial strength, these ratings enable the University to obtain future debt financing at optimum pricing. In addition to issuing its own bonds, the University is utilizing its commercial paper program for short-term bridge financing.

Long-term debt additions totaled approximately $193 million. This increase resulted from the University's issuance of tax exempt bonds in July 2005. The University's debt portfolio contains a strategic mix of both variable- and fixed-rate obligations. Although the University has considered debt derivative instruments, it has not executed any. The seven foundations now required by GASB Statement No. 39 to be reported as component units held $159 million of long-term debt outstanding at June 30, 2006.

NET ASSETS

Net assets represent the residual interest in the University's assets after liabilities are deducted. The University's net assets at June 30, 2006, and 2005 (restated), are summarized below.

NET ASSETS *(in thousands)*	2006	2005	INCREASE AMOUNT	INCREASE PERCENT
Invested in capital assets, net of related debt	$ 1,116,746	$ 1,012,969	$ 103,777	10.2%
Restricted				
Nonexpendable	350,474	333,544	16,930	5.1%
Expendable	1,715,249	1,555,598	159,651	10.3%
Unrestricted	1,279,528	1,148,389	131,139	11.4%
TOTAL NET ASSETS	**$ 4,461,997**	**$ 4,050,500**	**$ 411,497**	**10.2%**

Net assets invested in capital assets, net of related debt, represent the University's capital assets net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets. Net capital assets increased $104 million, or 10.2 percent, in the current fiscal year compared with 6.1 percent growth in the previous year.

Restricted nonexpendable net assets comprise the University's permanent endowment funds.

Restricted expendable net assets are subject to externally imposed restrictions governing their use. This category of net assets includes permanent endowment fund earnings that can be spent, but only in accordance with restrictions imposed by external parties. This asset category grew 10.3 percent or $160 million primarily due to the investment performance of the University's endowment.

Unrestricted net assets are not subject to externally imposed stipulations. The majority of the University's unrestricted net assets have been designated for various instruction and research programs and initiatives, as well as capital projects.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

The Statement of Revenues, Expenses, and Changes in Net Assets presents the University's results of activities for the year. Presented below is a summarized statement of the University's revenues, expenses, and changes in net assets for the years ended June 30, 2006, and June 30, 2005 (restated).

SUMMARY OF THE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS *(in thousands)*	2006	2005	INCREASE AMOUNT	INCREASE PERCENT
Operating revenues	$ 1,547,194	$ 1,453,159	$ 94,035	6.5%
Operating expenses	1,807,858	1,689,679	118,179	7.0%
Operating loss	**(260,664)**	**(236,520)**	**(24,144)**	**10.2%**
Nonoperating revenues (expenses)				
State appropriations	158,192	143,605	14,587	10.2%
Gifts	111,974	96,547	15,427	16.0%
Investment income	367,761	329,973	37,788	11.5%
Other net nonoperating expenses	(29,647)	(29,340)	(307)	1.0%
Net nonoperating revenues	**608,280**	**540,785**	**67,495**	**12.5%**
Income before other revenues, expenses, gains or losses	**347,616**	**304,265**	**43,351**	**14.2%**
Capital appropriations, gifts, and grants	46,948	29,105	17,843	61.3%
Additions to permanent endowments	16,933	11,452	5,481	47.9%
Total other revenues	**63,881**	**40,557**	**23,324**	**57.5%**
Increase in net assets	**411,497**	**344,822**	**66,675**	**19.3%**
Net assets - beginning of year	4,050,500	3,705,678	344,822	9.3%
NET ASSETS - END OF YEAR	**$ 4,461,997**	**$ 4,050,500**	**$ 411,497**	**10.2%**

Under GASB principles, revenues and expenses are categorized as either operating or nonoperating. Significant recurring sources of the University's revenues, including state appropriations, gifts, and investment income, are considered nonoperating, as defined by GASB Statement No. 34. Consequently, the operating loss of $261 million does not account for these normal revenue sources. Adding the net nonoperating revenues of $608 million for the fiscal year more than offsets the operating loss and results in an adjusted income figure of $348 million. This provides a more accurate picture of the University's total scope and results of operations.

REVENUES

The University strives to maintain a diverse stream of revenues, which allows it to weather difficult economic times.

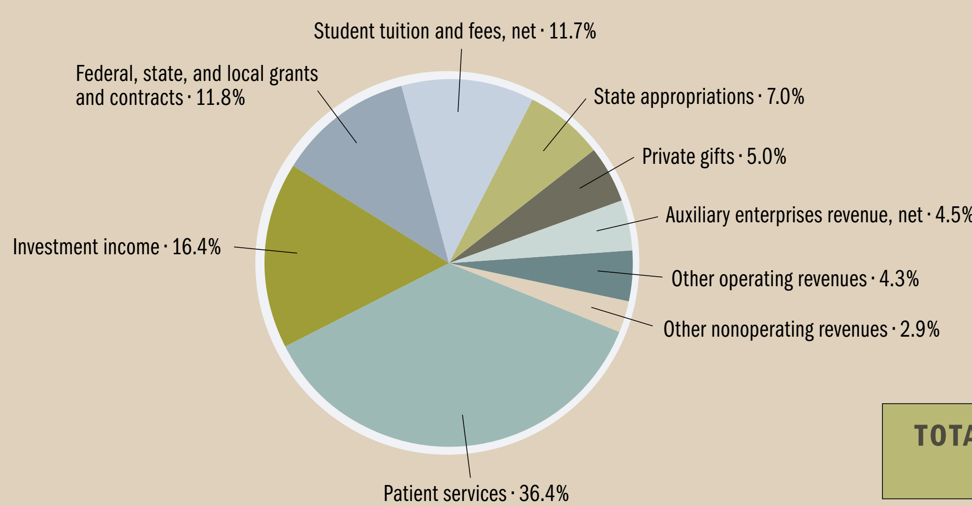
SUMMARY OF REVENUES, TOTAL UNIVERSITY

A summary of the University's revenues, for the years ended June 30, 2006, and 2005 (restated).

SUMMARY OF REVENUES *(in thousands)*	2006			2005			TOTAL INSTITUTION INCREASE	
	ACADEMIC DIVISION & WISE	MEDICAL CENTER	TOTAL INSTITUTION	ACADEMIC DIVISION & WISE	MEDICAL CENTER	TOTAL INSTITUTION	AMOUNT	PERCENT
Operating revenues								
Student tuition and fees, net	$ 263,727	$ –	$ 263,727	$ 246,062	$ –	$ 246,062	$ 17,665	7.2%
Federal, state and local grants and contracts	265,571	–	265,571	246,665	–	246,665	18,906	7.7%
Nongovernmental grants and contracts	40,972	–	40,972	39,591	–	39,591	1,381	3.5%
Sales and services of educational departments	18,925	–	18,925	16,469	–	16,469	2,456	14.9%
Auxiliary enterprises revenue, net	101,093	–	101,093	93,983	–	93,983	7,110	7.6%
Other operating revenues	–	37,414	37,414	–	30,192	30,192	7,222	23.9%
Patient services	–	819,492	819,492	–	780,197	780,197	39,295	5.0%
Total operating revenues	**$ 690,288**	**$ 856,906**	**$1,547,194**	**$ 642,770**	**$ 810,389**	**$1,453,159**	**$ 94,035**	**6.5%**
Nonoperating revenues								
State appropriations	$ 158,192	$ –	$ 158,192	$ 143,605	$ –	$ 143,605	$ 14,587	10.2%
Private gifts	111,203	771	111,974	93,761	2,786	96,547	15,427	16.0%
Investment income	338,801	28,960	367,761	305,600	24,373	329,973	37,788	11.5%
Other nonoperating revenues	63,881	–	63,881	40,557	–	40,557	23,324	57.5%
Total nonoperating revenues	**$ 672,077**	**$ 29,731**	**$ 701,808**	**$ 583,523**	**$ 27,159**	**$ 610,682**	**$ 91,126**	**14.9%**
TOTAL REVENUES	**$1,362,365**	**$ 886,637**	**$2,249,002**	**$1,226,293**	**$ 837,548**	**$2,063,841**	**$ 185,161**	**9.0%**

Below is a graph of revenues by source (both operating and nonoperating), which were used to fund the University's activities for the fiscal year ended June 30, 2006. As noted earlier, GASB Statement No. 34 requires state appropriations, gifts, and other significant revenues to be treated as nonoperating revenues.

TOTAL UNIVERSITY REVENUES · FISCAL YEAR 2006 *(in thousands)*



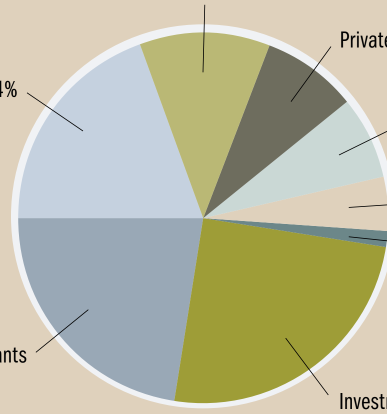
TOTAL REVENUE *(in thousands)*
$2,249,002

Patient services revenues accounted for 53.0 percent of the University's operating revenues and 36.4 percent of the operating and nonoperating revenues combined. State appropriations and student tuition and fees, which represent 7.0 percent and 11.7 percent, respectively, of the University's total revenues are used to fund current operations.

State appropriations increased by $15 million, or 10.2 percent. The primary component of this increase was $14 million for operations. Net tuition and fees increased by 7.2 percent as tuition rose.

Excluding the Medical Center data more clearly demonstrates that the academic revenue streams are well balanced. Major sources for 2006 included investment income, 24.9 percent; federal, state, and local grants and contracts, 22.5 percent; net tuition and fees, 19.4 percent; and state appropriations, 11.6 percent.

ACADEMIC AND WISE REVENUES · FISCAL YEAR 2006 *(in thousands)*



TOTAL REVENUE *(in thousands)*
$1,362,365

The University continues to emphasize revenue diversification, along with cost containment, as ongoing priorities. This is necessary as the University continues to face significant financial pressure with increased compensation and benefit costs, as well as escalating technology and energy prices. Private support has been, and will continue to be, essential to maintaining the University's academic excellence. Private support comes in the form of gifts and additions to permanent endowment.

Revenues for all sponsored programs increased $19 million, or 7.7 percent, to a total of $266 million in 2006. The increase is above last year's 7.2 percent rise. The University expects sponsored programs funding to slightly decrease next year as the federal budget cuts to sponsors such as the National Institutes of Health begin taking effect.

EXPENSES

The University continues to be a good steward in the judicious expenditure of funds.

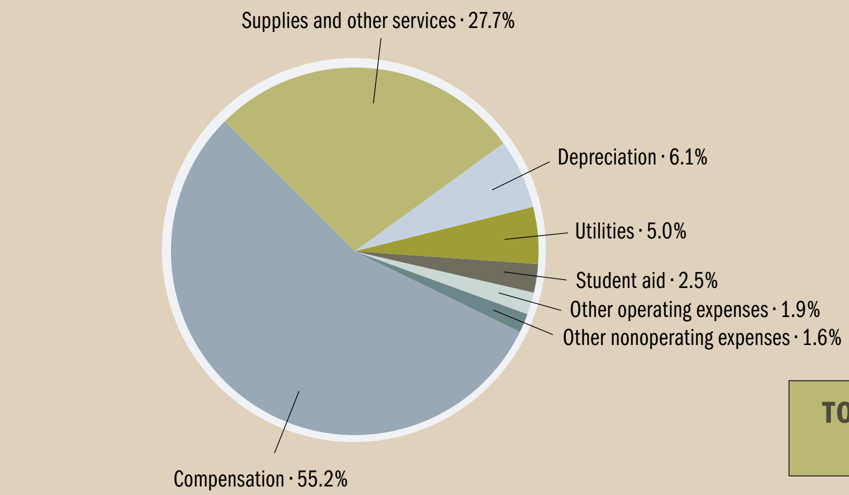
SUMMARY OF EXPENSES, TOTAL UNIVERSITY

A summary of the University's expenses, for the years ended June 30, 2006, and 2005 (restated).

SUMMARY OF EXPENSES *(in thousands)*	2006			2005			TOTAL INSTITUTION INCREASE (DECREASE)	
	ACADEMIC DIVISION & WISE	MEDICAL CENTER	TOTAL INSTITUTION	ACADEMIC DIVISION & WISE	MEDICAL CENTER	TOTAL INSTITUTION	AMOUNT	PERCENT
Operating expenses								
Compensation	$ 663,025	$ 352,088	$ 1,015,113	$ 629,893	$ 334,828	$ 964,721	$ 50,392	5.2%
Supplies and other services	138,868	369,283	508,151	123,178	344,438	467,616	40,535	8.7%
Student aid	46,474	–	46,474	40,944	–	40,944	5,530	13.5%
Utilities	76,878	14,485	91,363	69,306	13,016	82,322	9,041	11.0%
Depreciation	65,692	45,962	111,654	62,446	42,008	104,454	7,200	6.9%
Other operating expense	2,817	32,286	35,103	2,233	27,389	29,622	5,481	18.5%
Total operating expenses	**993,754**	**814,104**	**1,807,858**	**928,000**	**761,679**	**1,689,679**	**118,179**	**7.0%**
Nonoperating expenses								
Interest expense	10,484	4,712	15,196	9,844	4,816	14,660	536	3.7%
Other nonoperating expense	10,538	3,913	14,451	12,763	1,917	14,680	(229)	(1.6%)
Total nonoperating expenses	**21,022**	**8,625**	**29,647**	**22,607**	**6,733**	**29,340**	**307**	**1.0%**
TOTAL UNIVERSITY EXPENSES	**$1,014,776**	**$ 822,729**	**$1,837,505**	**$ 950,607**	**$ 768,412**	**$1,719,019**	**$ 118,486**	**6.9%**

Following is a graphic illustration of expenses (both operating and nonoperating) for the fiscal year ended June 30, 2006.

TOTAL UNIVERSITY EXPENSES · FISCAL YEAR 2006 *(in thousands)*

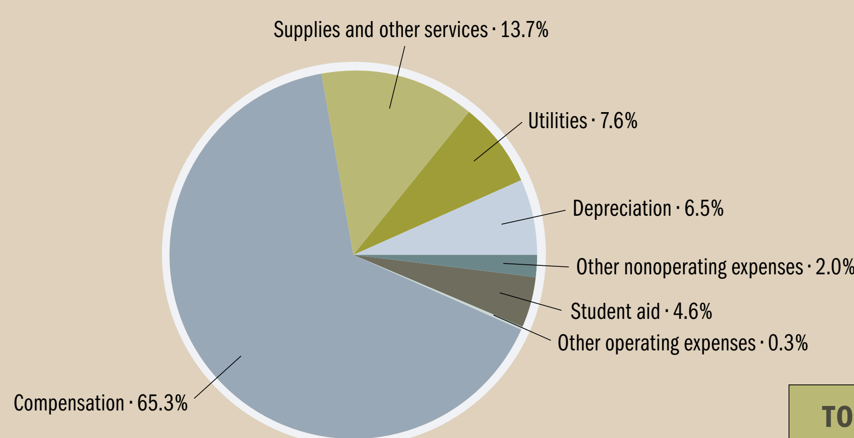


TOTAL EXPENSES *(in thousands)*
$1,837,505

As a percentage of total expenses, compensation (salaries and benefits) remained almost constant. However, in dollars, compensation increased by $50 million as the Board of Visitors continued its goal of raising faculty and staff compensation.

Student aid expense increased to $47 million, a change of $6 million, as the University continued its commitment to AccessUVa. Depreciation increased by $7 million, or 6.9 percent, driven by the increase in capital assets. Interest expense increased by 3.7 percent, or $1 million as new debt was issued.

ACADEMIC AND WISE EXPENSES · FISCAL YEAR 2006 *(in thousands)*



TOTAL EXPENSES *(in thousands)*
$1,014,776

In addition to their natural (object) classification, it is also informative to review operating expenses by function. A complete matrix of expenses, natural versus functional, is contained in the notes to the financial statements. Expenses for patient services, instruction, and research account for 45.0 percent, 13.9 percent, and 13.9 percent, respectively, of total operating expenses. When combined, these major functions account for 72.8 percent of the total, which is consistent with the mission-critical nature of instruction, research, and patient services for the University.

SUMMARY OF STATEMENT OF CASH FLOWS

The Statement of Cash Flows provides additional information about the University's financial results by reporting the major sources and uses of cash. GASB principles define four major categories of cash flows: cash flows from operating activities, cash flows from noncapital financing activities, cash flows from capital and related financing activities, and cash flows from investing activities.

SUMMARY OF THE STATEMENT OF CASH FLOWS *(in thousands)*	**2006**	**2005**	**INCREASE (DECREASE)**	
			AMOUNT	**PERCENT**
Cash flows from operating activities	$ (158,911)	$ (95,892)	$ (63,019)	(65.7%)
Cash flows from noncapital financing activities	282,093	220,468	61,625	28.0%
Cash flows from capital and related financing activities	(145,006)	(373,449)	228,443	61.2%
Cash flows from investing activities	70,801	493,513	(422,712)	(85.7%)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**$ 48,977**	**$ 244,640**	**$ (195,663)**	**(80.0%)**

Cash flows from operating activities are different from the operating loss on the Statement of Revenues, Expenses, and Changes in Net Assets because items such as depreciation expense do not have a cash effect and because the latter statement is prepared on the accrual basis, versus cash basis, of accounting. Another difference between the two statements is on the latter statement, state appropriations, gifts, and investment income are considered nonoperating revenues. However, on the Statement of Cash Flows, state appropriations and gifts are reflected under noncapital financing activities, while investment income resides under investing activities.

Noncapital financing activities produced a cash flow increase of 28 percent, or $62 million, over last year as state appropriations increased by $10 million and gifts, grants, and endowments received at the University rose about $42 million. Gifts to the overall University system are likely to continue to increase as the Capital Campaign continues. Gift revenue for the significant affiliated foundations is reflected in the component unit financial statements.

The major change occurred in cash flows from investing activities. The comparison to fiscal year 2005 is skewed since UVIMCO became a private foundation during fiscal year 2006. Consequently, last year's proceeds from sales and maturities of investments and purchase of investments are much higher than the current year because of the transfer of endowment investments to the foundation.

FUTURE ECONOMIC OUTLOOK

Executive management believes that the University remains well positioned financially to continue providing excellent programs and service to its constituents. The University's financial position, as evidenced by the highest credit rating attainable, provides a high degree of accessibility to capital funds on the most competitive terms. The issuance of long-term bonds and the use of its expanded short-term commercial paper program, along with continued efforts toward revenue diversification, will enable the University to obtain the necessary resources to support and maintain its level of excellence.

The Board of Visitors has created a special planning committee, which oversees the institution's ten-year plan. As the board continues to fund strategic initiatives, it carefully ensures that adequate funding will be available in both the short and long term. Examples of such initiatives are:

AccessUVa. In the continued implementation of AccessUVa, as of the 2006-07 academic year, the University will offer 100 percent of demonstrated need to all undergraduates and will provide full grant funding for first-, second-, and third-year low-income students. In addition, it will cap need-based loans for its first-, second-, and third-year students.

Competitive Compensation. The University anticipates that during the coming year its average teaching and research faculty salary will rise to at least the nineteenth position among AAU universities. This will achieve the goal first set by the Board of Visitors three years ago.

Deferred Maintenance. In February 2005, the Board of Visitors stated that the University should move to establish ongoing maintenance investments that would protect its Education and General physical assets and make one-time investments to reduce the backlog of deferred maintenance to reasonable levels based on industry standards. Within ten years, annual maintenance spending needs to be increased by $15 million. To achieve this, we are adding $1.5 million each year for the next ten years.

International Programs. In 2001, the International Studies Office oversaw five faculty-led programs. The office now oversees twenty-seven such programs and three program-affiliates. Two new summer and four new January-term programs will be added in the coming year. And the University has partnered with the Institute for Shipboard Education to become the academic home for the Semester at Sea program.

The School of Medicine's Implementation of the Decade Plan. The Decade Plan is a joint planning effort of the School of Medicine, the School of Nursing, the Health Sciences Library, the Medical Center, and the Health Services Foundation that outlines how the Health System will create innovation in the areas of patient service, translational research from cell to bedside, and professionalism in teaching and service to the community. Challenges exist due to cost pressure on pharmaceutical and medical devices, along with a shortage of healthcare workers.

To meet these and other challenges, University management has had the foresight to create and implement two major strategies. First, the University's $3 billion Capital Campaign will be officially launched during fiscal year 2007. It is one of the largest in higher education, for public or private institutions. Second, the University successfully negotiated its management agreement with the Commonwealth of Virginia under the Restructured Higher Education Financial and Administrative Operations Act. With an effective date of July 1, 2006, it provides for additional autonomy in the areas of procurement, capital projects, information technology, human resources, and finance. Creating, and now implementing, this new relationship with the Commonwealth of Virginia symbolizes the outlook for the University's future. The University of Virginia will remain a public institution, fulfilling the public educational vision of its founder, while using its additional autonomy to streamline operations and improve the missions of excellent instruction, research, patient care, and public service.