

A Fond Farewell and Warm Welcome to New Leaders

It is with special appreciation for my time with you and confidence in our University's future that I write this letter for the last time. We are in the midst of a very effective transition. John Casteen gave us twenty years of remarkable leadership. He successfully improved the University's physical surroundings, private support, and academic reputation. He established a strong foundation on which we can build. I now look ahead to the vision and energy of Teresa A. Sullivan. I see the wealth of experience she brings and her commitment to help us achieve the University's potential. This is a unique time in our history when we build on the accomplishments of President Casteen and commit to the aspirations of President Sullivan.

President Sullivan joined the University as its eighth president on August 1 just as we had concluded an unprecedented fiscal year. In 2009–10 we began the recovery from a significant economic downturn, realized in new ways the benefits of Virginia's restructuring act of 2005, and invested more than ever in our building program. The Campaign for the University of Virginia reached a significant milestone during the year—the \$2 billion mark of a \$3 billion campaign.

During the fiscal year ended June 30, 2010, we managed our resources carefully, continued to operate efficiently, and lived within our budget. We have managed to maintain our sound financial position during these tough times in large part because of the commitment of faculty, health care providers, and staff who have gone above and beyond reasonable expectations to protect the quality and level of services provided to students, patients, and our customers. The institution's financial strength was confirmed this summer when our AAA or the equivalent bond ratings were reaffirmed by the three major credit-rating institutions—Standard & Poor's, Fitch Investors Service, and Moody's Investors Service.

President Sullivan assumes the leadership at a time when a focus on priorities

and more predictable revenues are essential if we are to sustain the quality of teaching, research, and service that the citizens of the Commonwealth and beyond deserve and have come to expect.

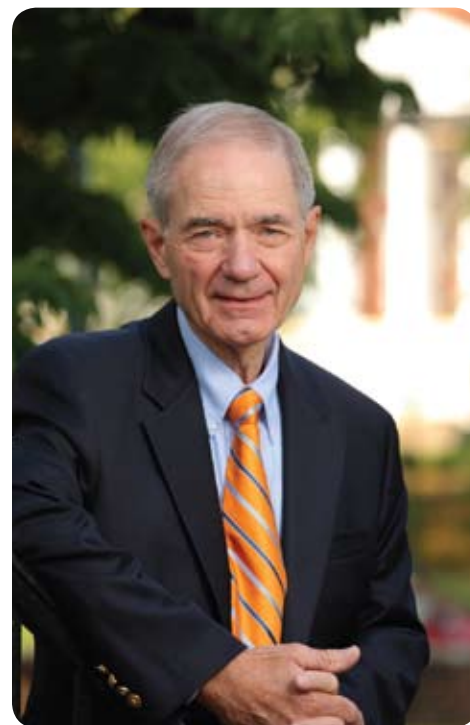
Faced with a continuing decline of state support and an unprecedented demand for a broad range of academic and health care services, we have taken on the development of a new financial model to protect the quality of the institution going forward.

Focusing on Priorities

The President's Commission on the Future of the University continues to be a primary blueprint for the University's strategic efforts in areas identified as priorities: student and faculty experience; international programs; and science, technology, engineering, and research. Funding for current commission initiatives was protected during budget reductions, and investments approved earlier by the Board of Visitors are being maintained. These top priorities are a major focus of the Campaign for the University of Virginia as well.

Funding for student financial aid is an increasing challenge as the recession and rising education costs have increased the demand for support through AccessUVA. Rated in 2010 by the *Princeton Review* as the best aid program among public institutions in the nation and second among all institutions, AccessUVA remains a critical priority for the University. The projected 2010–11 cost of AccessUVA will be \$80.1 million, an increase of \$10 million over the previous year. We remain committed to ensuring that a U.Va. education is available to all admitted students regardless of their ability to pay.

Through the federal stimulus package, Congress invested \$21.5 billion for research and development. At U.Va., researchers have been awarded more than \$67 million as of June 30, 2010, in new grants through the stimulus program, leading all other public universities in the Commonwealth. The University



received an additional \$10.7 million in federal stimulus funds to offset state budget cuts, and those resources are being used to moderate tuition increases for in-state students.

The University is also directly involved in economic activity in our region. U.Va. and Virginia Tech recently formed the Commonwealth Center for Advanced Manufacturing (CCAM), which will work directly with advanced manufacturing firms to reduce costs, speed time to market, and remain competitive through new innovations in surface engineering and manufacturing processes. Through CCAM, U.Va. expects to work with dozens of advanced manufacturing member companies from a variety of industries, creating new research and education opportunities for faculty and students. At the same time we look forward to the arrival of the federal Defense Intelligence Agency, which is in the process of relocating more than 800 positions to the Charlottesville area and opening a facility near the U.Va. Research Park in fall 2010.

We continue to invest significantly in buildings and infrastructure for both the University's academic side and its Health

System. In 2009–10 we spent nearly \$208 million on capital construction, almost three times the investment of just ten years ago. I expect that capital construction spending will reach approximately \$200 million in the 2010–11 fiscal year and stay within the \$125 million to \$150 million range for the next several years as projects in the pipeline are completed.

Financing the University

The Board of Visitors approved a \$2.38 billion 2010–11 operating budget for the Academic Division, the Medical Center, and the College at Wise. This represents an increase of about 4 percent over the 2009–10 fiscal year. State appropriations make up just 10.2 percent of U.Va.'s Academic Division budget, compared to 23.5 percent ten years ago and nearly 30 percent twenty years ago. By contrast, tuition and fees will provide nearly 31 percent of the 2010–11 Academic Division budget.

Since 2000–01, state funding per in-state student has fallen from almost \$15,000 to \$8,470 in inflation-adjusted 2010–11 dollars. For the first time, an in-state U.Va. undergraduate student will contribute more through tuition than the state will contribute in General Fund support. Cumulatively, U.Va. has incurred a \$36.8 million, or 25 percent, reduction in the state appropriation over the past three years. Although the University does not anticipate a reduction in state appropriations for fiscal year 2010–11, an additional \$14.7 million reduction is expected in fiscal year 2011–12. We have sustained these cuts without layoffs, although our faculty and staff are facing a third year without raises in salaries.

Governor Bob McDonnell has established a Commission on Higher Education Reform, Innovation, and Investment to determine how the Commonwealth can produce more degrees at an affordable price for Virginians. To achieve these objectives, we all must be more efficient and effective

in the delivery of academic programs. This will require that we reshape the financial model and focus more intently on quality and productivity. In the months ahead, we must examine our size, our pricing, and our approach to the delivery of teaching, research, and patient care.

Through our loyal alumni and supporters, we continue to raise money despite the challenges of the economic downturn. By June 30, 2010, the campaign total reached \$2.18 billion, representing nearly 72.6 percent in campaign achievement in 81.2 percent of campaign time elapsed. We rely increasingly on philanthropic support to achieve our aspirations, and this is evidence that our alumni and supporters are standing by us.

From its high point of \$5.3 billion in May 2008, the University's long-term investment pool, which includes the long-term investments (including endowment) of the Rector and Visitors and most related foundations, fell to \$3.8 billion in February 2009 before recovering to \$4.7 billion by September 30, 2010. The endowment has enjoyed an annualized return of 11.7 percent over the past twenty years, comfortably exceeding both endowment spending requirements and the returns available from a traditional equity and bond portfolio over the same time period. For the year ended June 30, 2010, the return was 15.1 percent. We take seriously the responsibility to be good stewards of the endowment entrusted to U.Va., which ranks among the top five public institutions in the nation in endowment size.

Promoting Sustainability

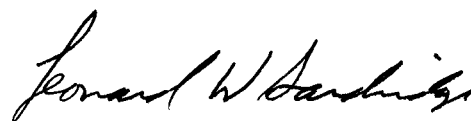
Along with a larger physical footprint, the University has increased both operational sustainability and community outreach. We have completed the first phase of the Committee on Sustainability's Environmental Footprint Reduction Plan, achieved LEED silver certifications on two new buildings, and stepped up retro-commissioning to reduce energy costs and carbon emissions

in existing energy-intensive facilities during the last fiscal year.

U.Va.'s Housing and Dining divisions earned the highest levels ever awarded to a Virginia college or university through Virginia's Department of Environmental Quality's Exemplary Environmental Enterprise certification. In November 2009, Parking and Transportation brought Zip-cars to the Grounds. Sustainability was the theme of the spring 2010 Semester at Sea voyage, which offered almost 600 undergraduates courses and site visits related to sustainable communities, green businesses, energy generation, and environmental ethics. These programs and more are detailed on our new sustainability website at www.virginia.edu/sustainability.

Welcoming New Leadership

It has been an incredible honor for Jerry and me to be allowed to serve the University of Virginia and the College at Wise for so many years. I am grateful to the Boards of Visitors and five presidents who have allowed me to work for the Commonwealth, our students, and our patients. Ray Hunt and Vincent Shea showed me how to do the job with integrity and fairness. The U.Va. faculty and those with whom I have worked have been consistently outstanding. I have special admiration and respect for the University's staff, who care for the University and make it the best it can be every day. I will miss them. But, it is time for this old soldier to fade away and let the capable team that follows carry on with new vigor and relentless commitment. Our University deserves nothing less. Thank you for being such an important part of my family's life.



LEONARD W. SANDRIDGE
*Executive Vice President
and Chief Operating Officer*