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Embracing the “Useful Sciences”

Our heritage and our aspirations impel us to build new centers of excellence.

MORE THAN ANYONE of his extraordinary generation, Thomas Jefferson recognized the power of knowledge to shape the world around him. At every stage of his life, he pursued knowledge with insatiable fervor: through close reading in many subjects, through correspondence with the leading thinkers of his time, and through his own careful observations of natural and human phenomena. We are the heirs of his enthusiasm for learning and discovery.

Mr. Jefferson was also a proponent of what he called the “useful sciences,” a foundational principle that continues to guide our work and our planning. It underlies the pursuit of our Virginia 2020 goals, propelling new centers of excellence in the fine and performing arts, expansion of our international activities, fulfillment of our obligation to serve the people of the Commonwealth and the nation, and efforts to join the leading edge of science and engineering. This report documents recent progress in these and many other areas.

In the arts, construction crews are renovating Fayerweather Hall for the art history program, the first step in our plan for the Arts Grounds. Our expanded foreign-study programs are giving students a broader perspective on the world beyond U.S. borders.

Our outreach activities touch many lives, from schoolchildren to lifelong learners. Our recent investment of \$60 million in the research enterprise will take us to the forefront in areas of inquiry in which we are prepared to make significant and sustained contributions.

Mr. Jefferson’s notion of the “useful sciences” also informs current efforts to improve the curriculum. Edwin Alderman, the



Betsy and John Casteen with “Alice” on the steps of Carr’s Hill

progressive reformer who became the University’s first president exactly a century ago, once observed that “a changing society means a changing curriculum.” We are looking anew at what we require of students so that each will leave here with a firm grasp of scientific processes, strong quantitative and communication

“I hope the necessity will, at length, be seen of establishing institutions here, as in Europe, where every branch of science, useful at this day, may be taught in its highest degree.”—THOMAS JEFFERSON to John Adams, 1814

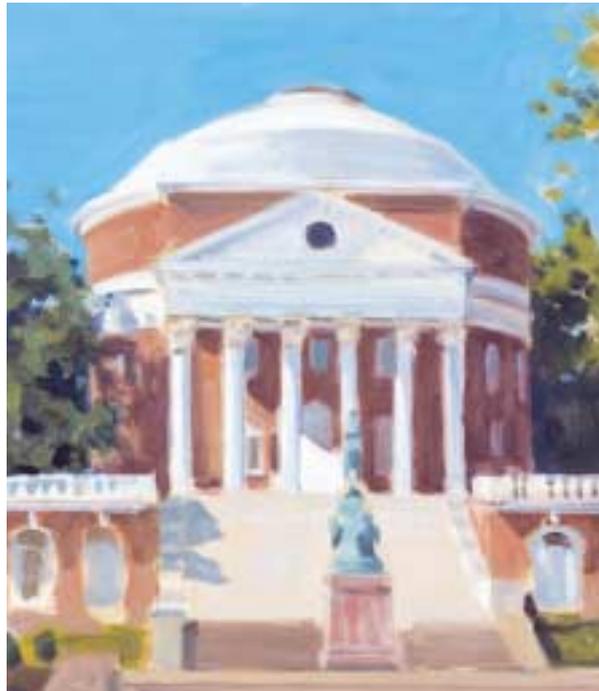
skills, and the capacity for critical reasoning. We must also prepare students in all disciplines to confront the ethical issues that will inevitably arise in their personal and professional lives.

As we strive to offer a more rigorous and rewarding student experience, we are assuring affordability for all who can benefit from that experience. AccessUVA, our groundbreaking financial-aid program, will reduce or even eliminate debt burdens that can prevent undergraduates from achieving their educational goals. We have mounted a nationwide effort to raise awareness of this initiative.

We are making the University a more accessible and welcoming environment in other ways. The Commission on Diversity and Equity, which I appointed in the spring of 2003, has completed its work and has laid out a plan for creating a safe and nurturing atmosphere for all students, staff, and faculty, regardless of race, ethnicity, gender, or sexual orientation. Chaired by Michael Smith, the Sorensen Professor of Political and Social Thought, and Angela Davis, associate dean of students, the commission has challenged us to adopt diversity as a way of life in the same way we embrace honor. Our response to acts of intolerance must be as strong as our response to acts of lying, cheating, and stealing.

The rewards of a diverse community could be seen in a fascinating exhibition in Alderman Library last fall. Titled "Breaking and Making Tradition: Women at the University of Virginia," it traced the influence of women who cleared paths for our current students, of whom more than half are female. The exhibition was one of the last to be displayed at Alderman before we moved our rare books and manuscripts into the new facility housing the Mary and David Harrison Institute for American History, Literature, and Culture and the Albert and Shirley Small Special Collections Library. Although primarily a resource for scholars, this is very much a public building, a place where visitors can see treasures from our collections and share in the intellectual life of the University.

Made possible by a combination of state funds and gifts from exceptionally generous benefactors, the new library speaks to our commitment to educate many broadly and deeply. It also represents the public-private partnership with which we now finance core operations. After three years of reductions, our funding from Richmond will rise in 2004–2005 and 2005–2006. Last fall we were able to report to our faculty and staff the approval of long-awaited state salary increases, to which we



have added non-state resources to help retain the members of our faculty who in their teaching and research advance the mission of the University and raise its stature among academic peers.

Today our funding from philanthropic sources is roughly equal to the state tax dollars we receive. Recognizing the Commonwealth's other obligations, we have come to terms with this new reality. Along with Virginia Tech and the College of William and Mary, we are proposing legislation known as the Commonwealth Chartered Universities and Colleges initiative. In granting us more autonomy and efficiency, this measure would enable the University to function with limited increases

in state appropriations and greater reliance on other revenue sources, including tuition and ongoing support from alumni and friends.

In a related development, we have entered the early stages of a fund-raising campaign that promises to change the University in profound and lasting ways. Through intensive planning, both University-wide and in each of our schools and programs, we have assessed our needs. We also have recruited a campaign executive committee of distinguished alumni and friends who will guide this effort to secure our present strengths and to build programs and facilities equal to our aspirations.

As we lay the groundwork for the University's future eminence, we will hold fast to Mr. Jefferson's guiding vision. We will continue to teach and produce useful knowledge, and we will instill in our students the traits of civility, responsibility, ethical conduct, tolerance, and self-reliance that characterize our graduates. As Mr. Jefferson knew well when he created this institution, our nation's freedom and prosperity will depend on their service and their leadership.

John T. Casteen III
PRESIDENT

milestones

October 2003–September 2004

OCTOBER

Patricia Werhane, the Ruffin Professor of Business Ethics in the Darden Graduate



Patricia Werhane

School of Business Administration, receives the Women's Center's 2003 Elizabeth Zintl Leadership Award. She is former chair of the Faculty Senate and co-chair of the Envision Integrity

initiative, which seeks to integrate honor and ethics more fully into University life.

Victor Elmaleh (Architecture '42) and **Sono Elmaleh** of New York contribute \$1.2 million for a major addition to Campbell Hall, providing a new entry building and space for exhibiting student and faculty work at the School of Architecture.

Dr. Robert M. Carey, a leading researcher who served as dean of the School of Medicine for sixteen years, becomes the forty-eighth recipient of the University's highest honor, the Thomas Jefferson Award.

Forty-eight University physicians are included in the 2004 edition of *America's Top Doctors*. Their specialties range from cardiology to pediatric surgery.



Dr. Robert Carey, dean of the School of Medicine from 1986 to 2002, received the Thomas Jefferson Award.



Joe Palca, senior science correspondent for National Public Radio, at left with President John T. Casteen III and University Librarian Karin Wittenborg, gave a public lecture at the grand opening of the newly renovated and recently named Charles L. Brown Science and Engineering Library.

NOVEMBER

The Virginia **football team** triumphs over Virginia Tech, 35-21, capturing the Commonwealth Cup and bringing it back to Charlottesville after a four-year absence.

CardioVillage, the cardiovascular medical education Web site launched by the School of Medicine, wins the eHealthcare Award for 2003, the latest in a series of awards that this innovative teaching tool has attracted. The site, www.cardiovillage.com, also received an honorable mention for best content in COR Health's Medicine on the Net Web Excellence Awards.

R. James Woolsey, CIA director during the Clinton administration, speaks at the University's second Conference on Countering Terrorism.

Leonard W. Sandridge, the University's executive vice president and chief operating officer, receives the 2003 Paul Goodloe McIntire Citizenship Award at the Charlottesville Regional Chamber of Commerce's annual dinner.



Leonard Sandridge

FILM FESTIVAL SHOWS US THE MONEY

"Money" provided the theme for the sixteenth annual Virginia Film Festival, which again illuminated the social and artistic impact of moviemaking. The October 2003 event featured nearly seventy film screenings and sixty guest speakers over four days and attracted



Cary Grant, **Katharine Hepburn**, and **Jimmy Stewart** in *The Philadelphia Story*

9,704 cinema enthusiasts. Highlights included a tribute to one of the most acclaimed bank heist films ever made, *Dog Day Afternoon*,

and its Oscar-nominated screenwriter, **Frank Pierson**. Now president of the Academy of Motion Picture Arts and Sciences, Mr. Pierson received the 2003 Virginia Film Award.

To benefit the festival, Miramax Films held an advance screening of Anthony Minghella's *Cold Mountain*, based on Charles Frazier's Civil War novel of the same name. Commentary was provided by three noted authorities on the war and its aftermath: **Edward Ayers**, the Hugh P. Kelly Professor of History and dean of Arts and Sciences; **Gary Gallagher**, the John L. Nau III Professor of the History of the American Civil War; and **Stephen Cushman**, the Robert C. Taylor Professor of English and author of *Bloody Promenade: Reflections on a Civil War Battle*.

Humphrey Bogart in *The Treasure of the Sierra Madre*



The University Art Museum pays tribute to **Ruth Cross** and her late husband, former Arts and Sciences dean **Robert Cross**, for their longtime support of the visual and performing arts. The museum's volunteer board announces establishment of the Ruth and Robert Cross Volunteer Service Award in their honor.

On Election Day, twenty-nine graduates of the University's **Sorensen Institute for Political Leadership** are voted into office across Virginia. The nonpartisan program introduces aspiring office seekers to the skills needed to govern effectively.

DECEMBER

The University's **Blandy Experimental Farm** receives a grant from the Institute for Museum and Library Services to evaluate and strengthen Blandy's programs for schoolchildren.

Dewey Cornell, the Curry Memorial Professor of Education and an authority on violence and youth, serves as an expert witness in the trial of convicted

sniper Lee Boyd Malvo. Prof. Cornell is the director of the Virginia Youth Violence Program, which has developed school guidelines for responding to student threats.

Former Solicitor General **Kenneth Starr** takes part in a forum at the Miller Center of Public Affairs examining the U.S. Patriot Act.

For the tenth straight year, the University is recognized by the *Journal of Blacks in Higher Education* for achieving the highest African-American graduation rate among the nation's major public institutions. The graduation rate for African-American students at the University is 85 percent.

Jean-David Levitte, French ambassador to the U.S., presents the *Chevalier of the Ordre National du Mérite* to **Olivier Zunz**, the Commonwealth Professor of History, and his wife, **Christine M. Zunz**, director of the University's French House.

The **Claude Moore Charitable Foundation** makes a \$12.5 million challenge gift to the School of Medicine for a state-of-the-art medical education building.

Virginia quarterback **Matt Schaub** throws for 244 yards and a touchdown to lead Virginia to a 23-16 victory over Pittsburgh in the Continental Tire Bowl in Charlotte.

JANUARY

The University community celebrates the legacy of **Dr. Martin Luther King, Jr.**, with a talk by comedian and civil rights activist **Dick Gregory**.



Dick Gregory

BUSINESS ETHICS: NO LONGER AN OXYMORON

The **Business Roundtable**, an association of chief executive officers from leading U.S. corporations, has joined forces with the Darden Graduate School of Business Administration to create the Business Roundtable Institute for Corporate Ethics. The first of its kind, the institute will offer practical, hands-on training in ethical practices to current and emerging business leaders. **Dean Krehmeyer** (McIntire '92, Darden '99) directs the institute, which will conduct research on ethics-related issues, develop best practices in corporate and business ethics, offer executive education programs, and create model curricula for business schools. Its first research project will be a study to map the terrain by surveying business leaders, academics, MBA students, and the media to identify the most pressing issues. More details are available at www.corporate-ethics.org.

"Tell someone you teach business ethics, and they'll say, 'Isn't that an oxymoron, like jumbo shrimp?'" said R. Edward Freeman, the Elis and Signe Olsson Professor of Business Administration, director of the Olsson Center for Applied Ethics, and member of the institute's advisory council. "We have a unique opportunity to make a lasting difference in corporate practice."

For the second year in a row, the University leads the nation's medium-size colleges and universities in the number of alumni serving as **Peace Corps volunteers**.

FEBRUARY



William and Alice Goodwin

A resolution by the Board of Visitors names Goodwin Bridge in honor of University benefactors **Alice T. Goodwin** and **William H. Goodwin, Jr.** (Darden '66). The new pedestrian bridge spans Emmet



Street near University Hall. At its April meeting, the board will name the Darden School Grounds for Mr. Goodwin, who was instrumental in their creation.

Jack Greenberg, one of the NAACP lawyers who successfully argued *Brown v. Board of Education*, speaks at a symposium celebrating the fiftieth anniversary of the landmark Supreme Court decision.

U.S. Supreme Court Justice **Stephen Breyer** gives the keynote address at the Fifth Annual Conference on Public Service and the Law at the School of Law.



Sandy Fitz-Hugh



Heywood Fralin



Glynn Key



James Head

NEW MEMBERS OF THE BOARD

In 2004, Governor Mark Warner appointed three distinguished alumni to the Board of Visitors: **G. S. "Sandy" Fitz-Hugh, Jr.** (College '62), of Richmond, president of Bank of America-Virginia; **W. Heywood Fralin** (College '62), chief executive officer of Medical Facilities of America, which operates nursing homes in Virginia and North Carolina; and **Glynn D. Key** (College '86, Law '89), a partner in the Washington, D.C., law firm of Wilmer, Cutler, Pickering, Hale & Dorr. This year's student member is **James W. Head** (College '03), a student in the School of Law.

The Board of Visitors approves funding to launch **AccessUVA**, an unprecedented financial-aid program designed to keep the University affordable for all students who qualify for admission.



Lisa Collis

First lady of Virginia **Lisa Collis** (College '77) kicks off the Women's Center's speaker series on women and public policy.



Jonathan Haidt

Jonathan Haidt, associate professor of psychology, is one of eleven college teachers throughout the state to receive an Outstanding Faculty Award from the State Council of Higher Education for Virginia.

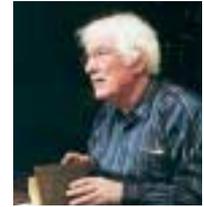
Carl and Martha Lindner of Cincinnati, parents of a fourth-year art history major, give \$2.8 million to create a permanent endowment for the art history program. The new fund will support graduate and undergraduate study in art history, as well as faculty research initiatives and course development.

Edward L. Ayers, dean of the College and Graduate School of Arts and Sciences and the Hugh P. Kelly Professor of History, wins the prestigious Bancroft Prize for his book *In the Presence of Mine Enemies: War in the Heart of America, 1859-1863*. Earlier he was named Professor of the Year by the Carnegie Foundation for the Advancement of Teaching and the Council for Advancement and Support of Education.

The **Raven Society** celebrates its centennial with a black-tie dinner at Memorial Gymnasium, followed by port

A P R I L

Nobel Prize-winning poet **Seamus Heaney** visits the Albert and Shirley Small Special Collections Library and reads from his works at the Culbreth Theatre.



Seamus Heaney

Arizona Governor **Janet Napolitano** (Law '83) comes east to receive the 2004 Distinguished Alumna Award from the Women's Center.



Governor Napolitano

Former Senior Vice President **Ernest Ern** comes out of retirement to serve as interim chancellor of the University's College at Wise.



The University's College at Wise

The University of Virginia's **College at Wise** celebrates its fiftieth anniversary at the Jefferson Hotel in Richmond. Those in attendance include Governor **Mark Warner** and former Governors **Gerald Baliles** (Law '67) and **Lynwood Holton**.



and cigars at Alumni Hall. Founded in 1904, the society brings together students, faculty, administrators, and alumni who have advanced the core ideals of the University, especially academic excellence.



Edward P. Jones, a 1981 alumnus of the creative writing program, winner of the 2004 Pulitzer Prize for his novel *The Known World*, and new recipient of a MacArthur "genius award," is among the authors taking part in the



Edward Jones

Virginia Festival of the Book. Presented by the Virginia Foundation for the Humanities, the festival also features **Garrison Keillor**, **Michael Ondaatje**, and **Michael Chabon**.



On Founder's Day, a tree was planted near the Rotunda in honor of retired Senior Vice President Ernie Ern, shown here with shovel in hand.

M A R C H

The family of the late State Senator **Emily Couric** donates her political papers to the University Library. Ms. Couric represented Charlottesville and the surrounding region.

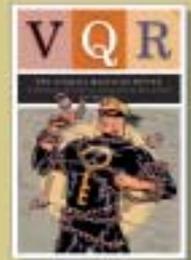
As a 2003-2004 Batten Fellow, **Reinhard Selten**, winner of the 1994



Reinhard Selten

Nobel Prize in economics, delivers two lectures on experimental economics, bounded rationality, and game theory at the Darden Graduate School of Business Administration.

**VQR
TURNS
A NEW
PAGE**



The *Virginia Quarterly Review*, one of the oldest literary journals in the country, took on a new look under its latest editor, **Ted Genoways** (Graduate Arts and Sciences '99). The Spring 2004 issue featured "The Origin of the Escapist" by Pulitzer Prize-winning author Michael Chabon and illustrator Eric Wight. Other writers contributing to the issue included E. L. Doctorow and Stuart Dybek, whose work appears frequently in *The New Yorker*, *Harper's*, and *The Atlantic Monthly*. Later in the year, the journal carried pieces by Salman Rushdie and Francine Prose. For a glimpse of the journal in its current form, visit www.virginia.edu/vqr/.

In honor of the forthcoming centennial of the Curry School of Education, **William G. Bowen**, president of the Andrew W. Mellon Foundation, delivers a series of lectures on diversity and access in higher education.



William Bowen

On Founder's Day, **J. Harvie Wilkinson**



Judge Wilkinson

III (Law '72), former chief judge of the U.S. Court of Appeals for the Fourth Circuit, receives the Thomas Jefferson Medal in Law.



Peter Walker

Landscape architect **Peter Walker**, winner of the design competition for the World Trade Center memorial, receives the Thomas Jefferson Medal in Architecture.

W. Lester Andrews, professor of chemistry, receives the *docteur honoris causa* degree from the Université Paul Sabatier in Toulouse, France.

George Welsh, Virginia football coach from 1982 to 2000, is named to the College Football Hall of Fame.

The Miller Center of Public Affairs brings **Yang Jiechi**, China's ambassador to the United States, to the Grounds to address an audience of students, faculty, and community members.



At the fifth annual McIntire Spring Symposium on April 23, Jeffrey Walker (McIntire '77), vice chairman of JPMorgan Chase, left, and John Kluge, president and chairman of Metromedia Company, share their perspectives in a program titled "Managing in a Global Age: Brave New World or False Dawn?".

MAY

During Finals Week-end, U.S. Senator **John Warner** (Law '53) of Virginia delivers the commencement address. New York Giants running back **Tiki Barber** (McIntire '97) speaks at Class Valediction.



Senator Warner

Fourth-year Jefferson Scholar **Jessica Belue** (College '04), classmate **Justin Steele** (Engineering '04), and recently retired University Treasurer **Alice Handy** receive the Algernon Sydney Sullivan Awards at Valediction.



Tiki Barber

Thirty-four students, the largest class so far, receive degrees in the **Bachelor of Interdisciplinary Studies** program in the School of Continuing and Professional Studies.

Haydn Wadley, the Edgar Starke Professor of Materials Science, wins the Edlich-Henderson Inventor of the Year Award from the University's Patent Foundation. He has developed a process capable of producing ultrathin coatings.

Marine Corps Major **Fritz Pfeiffer**, assistant professor in the Naval ROTC program, is named the top ROTC instructor in the country.

The **women's lacrosse team** routs Princeton, 10-4, to win the NCAA title.

U.S. Supreme Court Justice **Sandra Day O'Connor** addresses an overflow crowd at the Miller Center of Public Affairs on the balance of power between the court and the presidency.

New gifts enable Arts and Sciences to move forward with schematic designs for the **South Lawn Project**, including \$4.5 million from two anonymous donors and a \$1 million commitment from **John Birdsall** (College '66) of Charlottesville.

JUNE

The Law School ends the year with a number of major gifts, including a \$1.5 million commitment from **James C. Slaughter** (College '49, Law '51) and the **Horace W. Goldsmith Foundation** for the school's endowment.

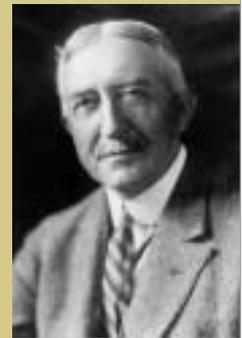
History professor and NAACP Chairman **Julian Bond** moderates "The Road To and

A CENTURY OF PRESIDENTIAL LEADERSHIP

In 1895, tragedy struck in the Academical Village. A fire gutted the Rotunda and destroyed its neighboring Annex, leaving the University bereft of its principal classroom facilities. The University would rebuild, but the incident made it clear that new leadership would be needed to guide the institution's growth at the dawn of a new century. In June of 1904, **Edwin A. Alderman**, the former president of Tulane University and the University of North Carolina, accepted the Board of Visitors' offer to become the first president of the University of Virginia.

Noted for his eloquence and inspirational leadership, Alderman embodied the ideals of the progressive movement, viewing public education as an engine of social and economic revitalization. During his tenure, which would last until 1931, the University was transformed. The student body multiplied by four and the faculty quintupled. Annual revenues increased ten times, bolstered in part by the president's vigorous fundraising efforts, which brought in more than \$1 million for new buildings, new schools and programs, and a new endowment. He once observed that if the University relied solely on state support, it would open its doors each year in September, and close them by Thanksgiving.

Like the University's founder, President Alderman embraced innovation. He strengthened the professional schools, created an extension service, and added programs in geology, forestry, and commerce, among other fields. True to his commitment to public instruction, he founded the Curry School of Education early in his presidency. Embracing Jefferson's view of education as essential to a free society, President Alderman called for the institution to reach out to every citizen, not merely to the few who were able to study within its walls.



Edwin A. Alderman, president from 1904 to 1931

From *Brown vs. Board of Education*," a conference held by the Miller Center of Public Affairs.

The **Heritage Repertory Theatre** presents the musical *Ragtime*, the largest production the company has ever undertaken.

Microsoft and **Thomson Learning** collaborate with the College of Arts and Sciences to provide Tablet PCs to students in biochemistry, psychology, and statistics. Each PC is loaded with course content and allows access to online exercises.

The **U.Va. Children's Hospital** and **WVIR-NBC 29** receive the Children's Miracle Network Award for generating the highest per-capita proceeds in the network's annual telethon. The 2004 event raised more than \$2 million.

Governor **Mark Warner** appears before a program designed by the Curry-Darden Partnership for Leaders in Education to



Governor Warner at the Darden School

train principals to turn around poorly performing schools in Virginia. The program later receives \$3 million from Microsoft.

JULY

Nine medical specialties in the University Health System receive high marks in *U.S. News & World Report's* 2004 edition of *America's Best Hospitals*.

More than 100 physicians, nurses, lab technicians, pharmacists, and radiologists travel from the University to Wise, Virginia, to take part in the **Remote Area Medical Clinic**, which this year provides nearly \$1 million in free medical care to 6,000 residents of southwest Virginia.

AUGUST

The University welcomes the 3,102 members of the **Class of 2008**, one of the most diverse and academically qualified classes ever to enroll.

The University is rated as the number two public university in the nation by *U.S. News & World Report* and holds its place as twenty-second overall. In the eight years the publication has ranked public universities as a separate category, the University has been either first or second in the listing.

After three years of construction, the University opens the new home of the

Mary and David Harrison Institute for American History, Literature, and Culture and the **Albert and Shirley Small Special Collections Library**. More than 12 million manuscripts, 300,000 rare books, and 4,000 maps, photographs, and other treasured archives are moved into the facility.

The exhibition "American Collage," the first product of a new partnership between the University Art Museum and The Phillips Collection in Washington, D.C., completes its seven-month run. Opening with a lecture by Phillips Collection curator **Elizabeth Turner** (College '73, Graduate Arts and Sciences '75, '85) and organized by **Matthew Affron**, assistant professor of art, the exhibition features works by Alexander Calder, Joseph Cornell, Robert Motherwell, and Louise Nevelson, among other artists, and provides a theme for classes, student art shows, film screenings, and other events.



Alexander Calder's *Only Only Bird* (1951) from The Phillips Collection appeared in "American Collage."

SEPTEMBER

John T. Gasteen III, president of the University, and **Leonard W. Sandridge**, executive vice president and chief operating officer, announce a proposal going before the Virginia General Assembly that would give the University and other

OUR BUILT HERITAGE

Three University properties were added to the Virginia Landmarks Register this past year. They include **Memorial Gymnasium**, completed in 1924 and honoring the 2,700 University students and alumni who lost their lives in World War I. **McCormick Observatory** and the neighboring **Alden House**, built as a home for the observatory's director, were also placed on the roster. Housing Leander McCormick's gift of what was then one of the world's most powerful telescopes, the observatory was dedicated on Thomas Jefferson's birthday in 1885.

Monroe Hill, the home of James Monroe before he moved to Ash Lawn/Highland, was named to the National Register of Historic Places as well as the Virginia Landmarks Register. The suite of buildings, some of which predate the University, are now part of Brown College on Monroe Hill, the University's first residential college.



McCormick Observatory and its telescope are still used for teaching and research.



The report produced by Professor Zelikow and the commission was nominated for a National Book Award.

AN UNBLINKING LOOK AT 9/11

There is perhaps no more pressing challenge facing the nation today than the threat of terrorism. **Philip Zelikow**, director of the Miller Center of Public Affairs and the White Burkett Miller Professor of History, played a critical role in assessing our response to this issue as executive director of the National Commission on Terrorist Attacks on the United States, better known as the 9/11 Commission. Its report, which became a national best seller, has won praise both for its careful analysis and its prudent recommendations.

public institutions in the Commonwealth greater control of their operations.

Nancy Andrews (College '86), a past winner of White House Photographer of the Year honors and now director of photography for the *Detroit Free Press*, receives the Bernard D. Mayes Award from the Serpentine Society, an organization serving lesbian, gay, bisexual, and transgender alumni.

Pulitzer Prize-winning poet **Rita Dove**, the Commonwealth Professor of English, begins her two-year



Rita Dove

term as Poet Laureate of Virginia. She served as U.S. Poet Laureate from 1993 to 1995.

The University's **Off-Grounds Housing Office** is reestablished by Student Council to assist students who wish to live off Grounds. In addition to offering a searchable database available online at www.offgrounds.com, the housing office will help ensure the safety and fair treatment of students who rent apartments in the area.



Combining comfort and new-media technology, the Kaleidoscope Center for Cultural Fluency in Newcomb Hall provides a new setting for student interaction.

Robert S. Harris announces he will step down as dean of the Darden Graduate School of Business Administration effective July 31, 2005, to return to full-time teaching and research.

The **Charlottesville and University Symphony Orchestra**, led by music director Carl Roskott, opens its thirtieth season.

The University launches an online **faculty opinion page**, which can be visited at www.virginia.edu/topnews/facultyopinions/.

Daniel Meyers, cofounder of First Marblehead Corp., a Boston-based firm that provides marketing and related services to private lenders of educational loans, makes a \$22 million gift to launch a building initiative for the Curry School of Education.



On September 21, all members of the University's ROTC programs gathered in the McIntire Amphitheater to honor U.S. Army Captain Humayun S. Khan (College '00), the first alumnus of the Army ROTC program killed in the line of duty since the Vietnam War. Capt. Khan died in Iraq on June 8 when he stopped two suicide bombers in an explosives-laden car outside his base.

FRANK L. HEREFORD, JR. 1923–2004

As a new academic year began, this community joined in mourning the loss of **Frank L. Hereford, Jr.** (College '43, Graduate Arts and Sciences '47), the fifth president of the University. Revered as a distinguished teacher, a productive researcher, and an effective academic leader who helped set the University on its current trajectory, he died September 21 at the age of 81.

As a graduate student in physics under the late Prof. Jesse Beams, Mr. Hereford took part in the Manhattan Project during World War II. He joined the faculty in 1949 and would write more than sixty scholarly articles and win recognition as codiscoverer of the presence of heavy particles striking the earth from outer space. He became dean of the Graduate School of Arts and Sciences in 1962 and provost in 1966, the same year he received the Thomas Jefferson Award, the University's highest honor, and the same year he was elected the Robert C. Taylor Professor of Physics, a title he held until his retirement in 1992.

A champion of the University's research enterprise who was equally devoted to enriching the student experience, he was instrumental in recruiting outstanding faculty in key disciplines, laying the foundation for the University's current strengths. He was largely responsible for the creation of the Center for Advanced Studies, which offered attractive incentives for drawing eminent scholars into the University's ranks. In 1973, he was chosen to succeed Edgar F. Shannon, Jr., as president of the University, a post he held for eleven years.

Frank Hereford bridged the University's past and future. During his years in the administration, the University evolved from a largely male, virtually all-white, regional institution into a forward-looking, coeducational, and diverse national powerhouse. In 1984, near the end of his presidency, the *New York Times* declared the University a "hot college," a reflection of this transformation. The University's emergence as a force in athletics can be traced to his efforts. He also set the stage for the University's financial self-sufficiency. Between 1981 and 1984, he led one of the largest capital campaigns ever undertaken by a public institution, raising nearly \$146 million.

After stepping down as president, he purposely stayed out of the public eye, with the exception of a series of "Frank and Ray" shows, in which he and longtime psychology professor Raymond C. Bice swapped stories of the old University for large and appreciative undergraduate audiences. Soon after his death, it was revealed he was a member of the Seven Society.



Thinking Boldly, Acting Wisely

The University emerges from challenging times with renewed strength and confidence.

THE FIRST YEARS OF THE TWENTY-FIRST CENTURY have been a test of the University's mettle. As state revenue shortfalls threatened to erode its financial foundation, the University found ways to cultivate other funding sources and to increase its efficiency without retreating from its core purposes and without diminishing its stature as a top-twenty-five institution. It never veered from its commitment to strengthen its academic programs, to increase the diversity of its community, to improve its facilities, and to stay true to its long-range vision.

Having thrived in both lean and prosperous years, we now have the confidence to think even more boldly about the future and to ask new questions. How can we, as a public institution, take our place among the finest universities in the nation, public and private? And how can we best live up to our Jeffersonian mandate to serve the people, to harness the vast store of human and intellectual capital on these Grounds to address the problems besetting our society and the world at large?

These are daunting but inspiring challenges, and we are prepared to accept them. As a starting point, we can look to our Virginia 2020 initiatives, to the goals emerging from the Envision planning process undertaken by individual schools and programs, and to the new recommendations of the President's Commission on Diversity and Equity. As we strive to meet these challenges, we will benefit from the talents of several new academic leaders.

- Biomedical engineering professor J. Milton Adams is the new vice provost for academic programs. A former associate dean for academic programs in the School of Engineering and Applied Science, he is playing a pivotal role in realizing the Virginia 2020 goals.

- Chemical engineering professor Roseanne Ford assumed the post of associate vice president for research and graduate studies. As the University endeavors to strengthen its graduate programs, Prof. Ford will ensure that it continues to attract qualified and diverse graduate students.

- As the new vice provost for faculty advancement, anthropology professor Gertrude Fraser oversees the University's efforts to increase the diversity of the faculty and to provide faculty

with opportunities for professional development and leadership training.

- Dr. Leigh Grossman, chief of pediatric infectious diseases and now vice provost for international affairs, is piloting the University's efforts to add a global dimension to the academic experience.

PROGRESS TOWARD VIRGINIA 2020

These administrators join a dedicated team that is committed to advancing the University on a number of fronts, as is evident in our continued progress toward meeting the Virginia 2020 goals.

The Fine and Performing Arts. To lay the groundwork for superb programs in the arts, the University is moving forward with the first projects envisioned in the Arts Grounds master plan. In the coming year, we will break ground for Ruffin Hall, the new studio art building. The long-awaited renovation of Fayerweather Hall is well under way and will provide a new home for the art history program. We are developing a visionary but eminently achievable plan for placing a new performing arts center and a new building for the University Art Museum on adjoining sites with a shared lobby, café, and support facilities. This arrangement will foster collaborative ventures across artistic disciplines and



STRIVING FOR DIVERSITY

Anthropologist Gertrude Fraser, the new vice provost for faculty advancement, oversees the University's effort to achieve greater diversity on the faculty. Promoting innovative approaches to hiring, she is focused on three priorities: increasing the number of women and minority faculty, particularly in the sciences; retaining minority faculty in all areas; and institutionalizing mentoring programs for the professional development of faculty and offering leadership training for faculty who have been asked to fill new roles.



build a vibrant new crossroads of University and community life. The process of planning itself has energized our arts programs and has awakened the creativity of our students and faculty.

Science and Engineering. Of the several groundbreaking decisions by the Board of Visitors this past year, one of the most far-reaching was the commitment of \$60 million to expand the University's research capabilities in science, biomedicine, and engineering. This investment, combined with other resources, will build on emerging strengths. Our research in nanotechnology is pointing the way to improved electronic devices and novel materials with extraordinary properties. Our studies in cell biology are opening doors to new cancer treatments and advances in regenerative medicine. Our computer scientists are finding ways to process data faster and more efficiently. Our investigations of cognitive impairment are anticipating the needs of an aging population. Our environmental research is identifying climate patterns affecting wide areas of the globe.

"This institution is committed to effecting cultural change. Let me assure you that you have the full commitment of this board—both in terms of financial resources and moral leadership. We are united in our commitment to see change."

—GORDON F. RAINEY, JR.,
*Rector of the University, in response to
the Diversity Commission's report*

Public Service and Outreach. In our multifaceted public service and outreach endeavors, we are helping to strengthen K–12 education with programs such as Teachers for a New Era, a research-based collaboration of the College of Arts and Sciences and the Curry School of Education to identify best practices for training and retaining effective teachers. Equally important are capable school administrators. The new Curry-Darden

Partnership for Leaders in Education has focused its attention on turnaround specialists who can save failing schools. This work has won the backing of Governor Mark Warner and a \$3 million grant from Microsoft Corporation.

We also are doing our part to improve security in this country and abroad. The School of Continuing and Professional Studies oversees the curriculum for the FBI's National Academy in Quantico, Virginia, which provided instruction to nearly 1,000 members of the law enforcement community this past year. The school is working with the FBI to restructure the academy to meet new antiterrorism objectives. The school also provided curricular support for the International Law Enforcement Academy in Budapest, which promotes cross-border cooperation in combating such crimes as nuclear materials smuggling, money laundering, and drug trafficking.

International Activities. Over the past three years, enrollment in study-abroad programs has doubled, with approximately 1,400 students participating in educational activities overseas. Opportunities for foreign study include five one-semester programs for full University credit, nine summer programs for full credit, four programs for transfer credit, and sixty-four exchange programs. Many of these are offered through Universitas 21, a global consortium of institutions that promotes scholarly and educational exchanges and provides distance-learning opportunities across national borders. International initiatives on Grounds include a new diplomat-in-residence program. Leonard Robinson, former deputy assistant secretary of state for African affairs and president and CEO of the Africa Society, came to the University as the first visiting scholar-diplomat.

ENVISIONING A DIVERSE AND OPEN COMMUNITY

FOR THE UNIVERSITY to take its place among the nation's very best institutions of higher learning, all members of this community—administrators, faculty, staff, and students—must each ensure that this is a welcoming environment in which all persons have the opportunity to succeed. The President's Commission on Diversity and Equity, which presented its report to the Board of Visitors in October 2004, has offered a pragmatic plan for fulfilling this vision. Formed in the wake of troubling racial incidents in 2002–2003, the commission has called for establishing a chief officer for diversity and equity. It also made recommendations for building a more diverse faculty and student body (at both the graduate and undergraduate levels), for improving the climate for diversity on Grounds, for weaving diversity into the curriculum, and for addressing incidents of harassment and disrespect in decisive ways.

Even before the report was released, the commission's work was making an impact. The Inter-Fraternity Council unanimously

SEEING ART FROM A NEW POINT OF VIEW

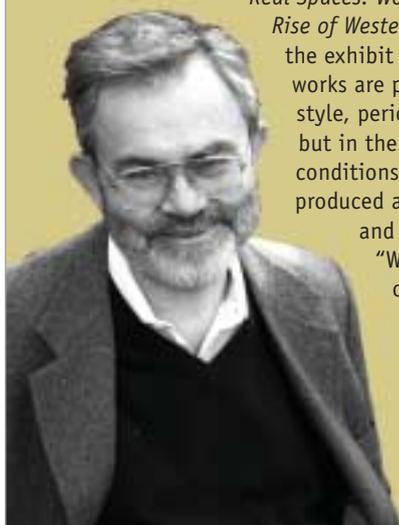
At the University of Virginia Art Museum, new curator Andrea Douglas (Graduate Arts and Sciences '96, '01), at left, and director Jill Hartz stand amid works appearing in a recent exhibition titled "The Museum: Conditions and Spaces," drawn from the museum's 10,000-object collection.



The exhibition and an accompanying 252-page catalogue edited by Ms. Douglas are based on theories posited by David Summers, left, the William R. Kenan, Jr., Professor of the History of Art, in his new book

Real Spaces: World Art History and the Rise of Western Modernism. In both the exhibit and the catalogue, works are placed not according to style, period, or country of origin, but in the context of the human conditions under which they were produced and their original cultural and social purposes.

"We cannot put all works of art back into their original circumstances," writes Prof. Summers in a catalogue essay, "but we can imagine those circumstances."



passed a resolution creating a diversity outreach chair to increase minority recruitment in fraternities; the University opened a new multicultural center in Newcomb Hall, the Kaleidoscope Center for Cultural Fluency; and the College of Arts and Sciences reported that its hiring of women and minorities is up significantly over previous years. For the full report and an overview of the commission's work, visit www.virginia.edu/wvadiversity/.



Angela Davis and Michael Smith, co-chairs of the President's Commission on Diversity and Equity, discuss their report with the news media.

SEEKING GREATER AUTONOMY

FOR A DECADE AND A HALF, the Commonwealth of Virginia has struggled to provide adequate funding for its system of higher education. The University is among three institutions leading the way to address this problem by forging a new relationship with the state. Under proposed legislation known as the Commonwealth Chartered Universities and Colleges initiative, the University of Virginia, the College of William and Mary, and Virginia Tech would obtain greater autonomy from the state while increasing their reliance on non-state revenues. A plan also has been proposed that would allow all of Virginia's public colleges and universities to participate in the charter initiative and to gain more flexibility in their day-to-day management.

Under the charter legislation, the Board of Visitors would be fully responsible for setting tuition, issuing bonds, and approving building projects, a change that alone could speed the completion of capital projects by as much as 25 percent. Tuition and

fees would increase according to a cost-of-education formula, but without endangering affordability for all qualified students. AccessUVA, the bold financial-aid program described in greater detail in the next section of this report, will keep the doors open. For more details on the charter proposal, visit www.virginia.edu/charter-eduniversities/.

FINDING NEW RESOURCES TO SUSTAIN EXCELLENCE

THE SUPPORT PROVIDED by alumni, parents, friends, corporations, and foundations has helped us weather the vagaries of state financing. Such generosity will be even more critical to our future success as we enter the early phase of an eight-year fund-raising campaign. Aimed at sustaining the people, places, and programs that make this an institution like no other, the campaign will

seek the resources needed to prepare students for leadership in the twenty-first century; to expand the University's capacity to make groundbreaking discoveries; to provide facilities for superb teaching, research, and patient care; and to marshal the University's intellectual resources to serve the common good. We are continuing to fine-tune our goals, which at present total some \$3 billion. A campaign of this magnitude will rank as one of the most ambitious undertaken by any university, public or private. The official kickoff is expected to be in fall 2006. For information on current fund-raising initiatives, visit www.virginia.edu/supportuva/.



THE UNIVERSITY OF VIRGINIA TODAY

U.S. NEWS & WORLD REPORT RANKINGS

The University is ranked the nation's number two public university and twenty-second among all national universities.

- Five schools are ranked in the top twenty:

Architecture	6th
Commerce	9th
Law	9th
Graduate Business Education	12th 20th

- The University's first-year experience was described as one of the best in the country.

- Ranked eighth among the nation's public liberal arts colleges, the University's College at Wise is ranked first among 200 national liberal arts colleges whose graduates complete their degrees while incurring the least amount of student debt.

- The University continues to be the most efficient of the nation's leading institutions, spending less per student than any other of the top twenty-five public and private universities as ranked by *U.S. News*.

- These medical specialties at the University were ranked by *U.S. News & World Report's* "America's Best Hospitals" guide.

Hormonal disorders	5th
Ear, nose, and throat	18th
Urology	19th
Digestive disorders	24th
Gynecology	27th
Cancer	32nd
Orthopedics	33rd
Neurology and neurosurgery	37th
Kidney disease	49th

OTHER RANKINGS

- In November 2003, *Kiplinger's Personal Finance* magazine ranked the University number two on its list of "100 Best Values in Public Colleges."

- In 2004, *BusinessWeek* released its biennial survey of America's top business schools and ranked the University's Darden Graduate School of Business Administration 12th in the nation.

- The Wall Street Journal* in 2004 also ranked the Darden School the 12th best graduate business school in North America. Darden's business ethics program ranked fourth, while in the "Best Professors" category, Darden ranked second.

- More of the University's rankings are available at www.virginia.edu/Facts/.

U.VA. AT A GLANCE

ENROLLMENT (Fall 2004)

Undergraduate	13,140
Graduate	4,632
First Professional (law and medicine)	1,650
On-Grounds Continuing Education	596
TOTAL	20,018

FACULTY AND STAFF (2004-2005)

Full-time instructional and research faculty	2,026
Full-time other staff	9,535
TOTAL	11,561

Leaders for Our Future

Our students have never been more diverse or more gifted or more committed to the common good.

SINCE 1819, THE UNIVERSITY HAS FULFILLED its founder's expectation of being a national institution, drawing students from every state as the country expanded. Today the University's reach extends around the globe, and the diversity of talented young women and men now tempted by the cup of knowledge at Virginia goes well beyond geography.

The Class of 2008, which moved into the first-year residence halls this fall, reflects the student body's geographic, demographic, and academic breadth. Virginians make up 67 percent of the undergraduate class, which also includes students from Korea, China, Turkey, India, and Canada, among other countries. African American students and black students of other nationalities make up 10 percent of the 3,096 new students who enrolled this year, up from 9 percent last year. The percentage of Asian, Asian American, Hispanic, and Latino students also increased.

These students are as academically gifted as they are diverse. The combined SAT scores of the middle 50 percent of the entering class ranged from 1,250 to 1,430, an increase of ten points on each end of the spectrum over the previous entering class. Eighty-three percent of incoming students ranked in the top 10 percent of their high school classes.

Now that we have drawn these extraordinary young people into our community, we bear a great responsibility. We must provide them with abundant opportunities for developing their intellects and their leadership abilities, as well as a nurturing and welcoming environment that respects and celebrates the tapestry of backgrounds and heritages they represent. We also must ensure that they have the means to take full advantage of all that is now before them.

ACCESS AND AFFORDABILITY

THIS YEAR THE BOARD OF VISITORS unveiled AccessUVA, an unprecedented financial-aid program designed to keep a University education affordable for all students who qualify for admission. The board has committed \$17.9 million annually to the program, which will address the needs not only of low-income students, but also of those from middle-income families increasingly squeezed by rising tuitions and

other costs resulting from decreased state support.

AccessUVA provides loan-free financial-aid packages for students with the greatest need (those whose family incomes are 200 percent of the federal poverty level or lower), and it places a cap on need-based loans for middle-income students who qualify for financial aid, making up the difference with grants. Under this limit, no baccalaureate student will graduate with a debt burden greater than one year's total in-state cost of attending the University, this year about \$16,000. Simply put, AccessUVA is one of the most far-reaching financial-aid programs on any public campus in the United States.

With its emphasis on grants and limited loans, AccessUVA will enable all students to take an active role in extracurricular and leadership opportunities and will give them greater freedom to pursue graduate study or public service careers. The University has mounted a national awareness campaign for the program, with actor Sean Patrick Thomas (College '92) generously contributing his talents as spokesperson. Known for his roles in such films as *Save the Last Dance* and *Barbershop*, he benefited from need-based aid as he pursued his drama degree at the University.

MUCH-DESERVED RECOGNITION

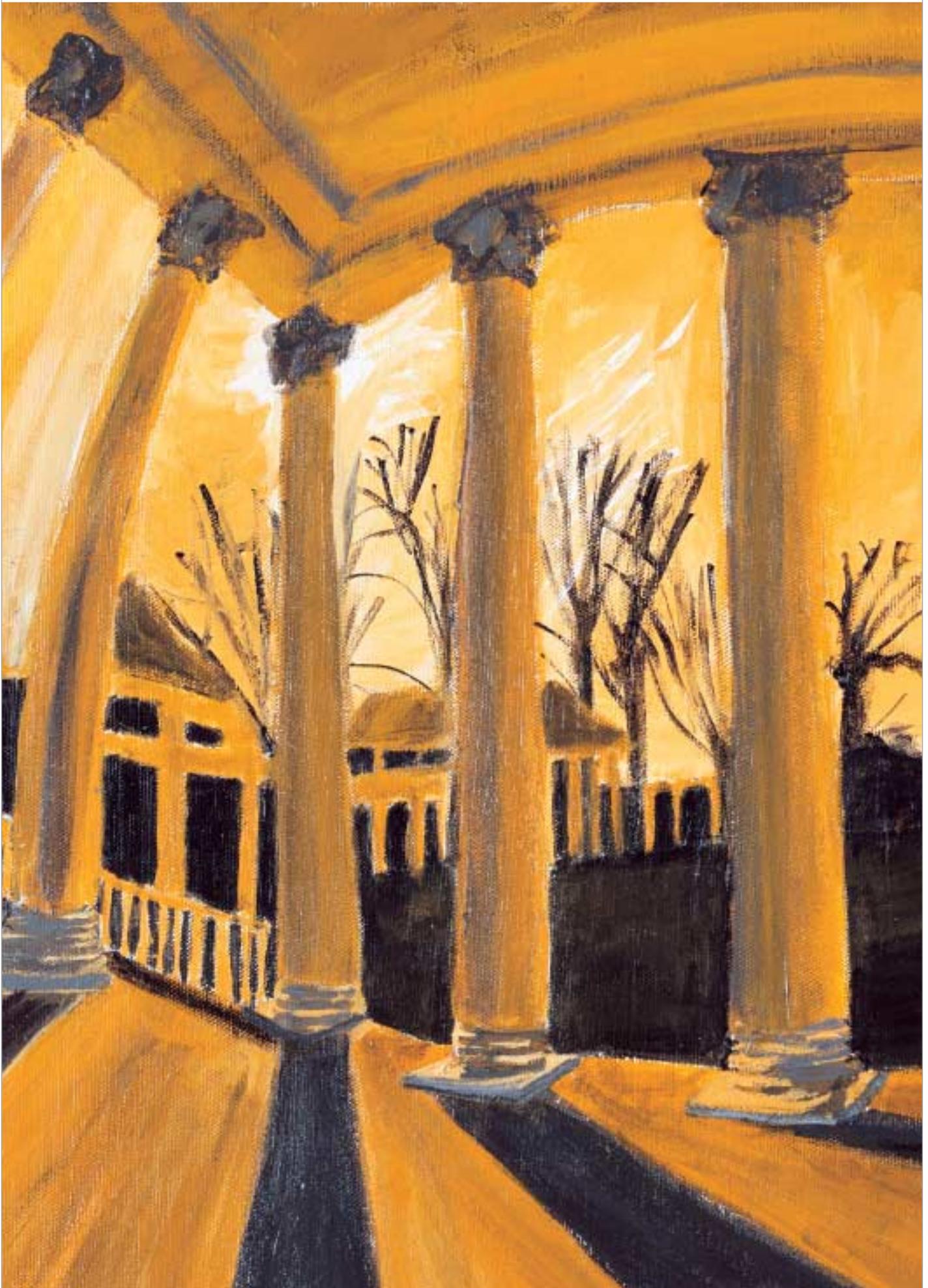
THE CLASS OF 2008 joins a student body noteworthy for its intellectual curiosity, personal initiative, and commitment to the public good. These qualities are clearly evident in the students who won prestigious scholarships this year.

David Buckley (College '04) will enter a year of graduate study at Queen's University Belfast as a George J. Mitchell Scholar. A Jefferson Scholar, Mr. Buckley majored in political and social thought and international relations, with a minor in religious studies. The second Mitchell Scholar from the University in as

many years, he will study comparative ethnic conflict.

Kurt E. Mitman (College '04) will pursue a master's degree in physics at Oxford as the sixth Marshall Scholar

Actor Sean Patrick Thomas (College '92) is raising national awareness of AccessUVA.



from the University. An Echols Scholar and the winner of a Goldwater Scholarship, Mr. Mitman received a Harrison Research Award to investigate the neural basis of cognition. He was also a Lawn resident and a member of the University Guides.

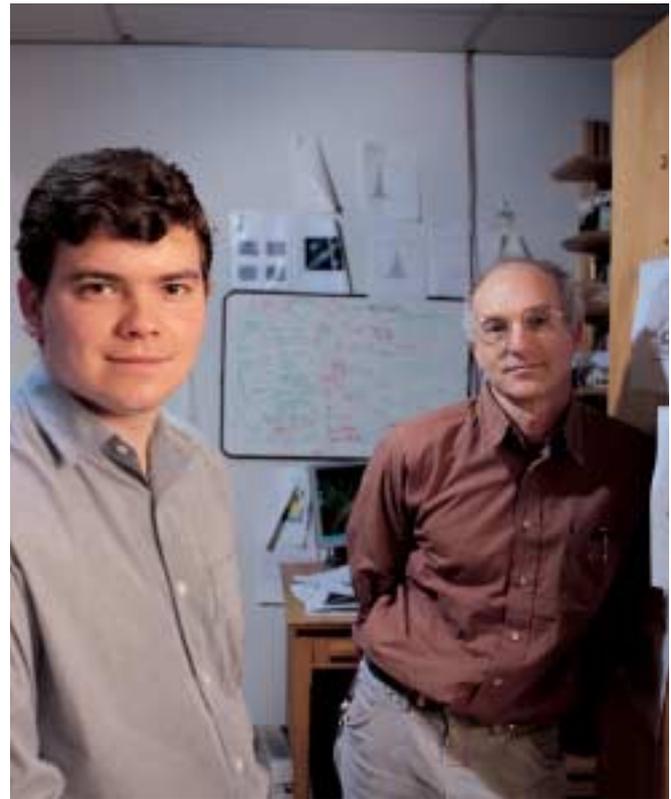
Third-year student Markus Weisner received a Truman Scholarship, a federal award for students who plan to pursue a career in government or public service. A systems and information engineering major, Mr. Weisner received \$30,000 to complete his undergraduate studies and to pursue graduate study and leadership training.

Four more students received Goldwater Scholarships for study in mathematics, science, and engineering. Bringing to forty the number of University students to receive the award, they are Brenda N. Goguen, a third-year double major in biochemistry and biology; Arsalan Tavakoli-Shiraji, a third-year double major in computer science and economics; Margaret E. Samra, a third-year Jefferson Scholar with a double major in biology and Latin American studies; and Yogesh Surendranath, a second-year double major in biochemistry and physics. Each will receive up to \$7,500.

Gregory Smith, who enrolled in the University in 2003 as a 13-year-old graduate student, was named to the Hall of Fame for Caring Americans, receiving a \$2,000 scholarship. He is founder of International Youth Advocates.

JOINING THE QUEST FOR KNOWLEDGE

TYPICALLY THE PRESERVE of faculty members and their graduate assistants, research has become an integral part of undergraduate education at the University. Undergraduate researchers work side-by-side with some of the University's most distinguished faculty, conducting sustained, in-depth investigations of complex problems under rigorous standards. In the School of Engineering and Applied Science, research for the fourth-year thesis has been a key component of engineering education at the University since Dean William M. Thornton introduced the requirement a century ago. The best of this work is recognized each year in the school's



Marshall Scholarship winner Kurt Mitman worked with neurosurgery professor William B. Levy, at right, to explore the neural basis of cognition.

Undergraduate Research and Design Symposium. The symposium's most recent first-place winner was Neda Cvijetic (Engineering '04), whose research focused on overcoming the "last mile" problem, when data carried by fiber-optic networks hit traffic jams just before reaching homes and offices. She examined the pros and cons of using pulsed laser arrays rather than wires and cables to bypass these snarls.

To encourage students across the University to engage in academic inquiry, the College of Arts and Sciences created the Center for Undergraduate Excellence, or CUE. In addition to helping students identify faculty mentors and develop research proposals, CUE administers a number of funding programs, including the new Double 'Hoo Research Awards. Distributed for the first time in April, the awards support pairs of undergraduate and graduate students who work jointly on a research topic. The eight winning projects range from archaeological investigations of Roman Britain and southern Benin to experiments involving tungsten dearomatization reagents.

CUE also oversees the Harrison Research Awards. Launched in 1999 with a gift from the late David A. Harrison III (College '39, Law '41), the Harrison Research Awards today are sustained through the generosity of his family. In 2003–2004, they provided a total of \$160,000 for forty-three student projects. With nearly a third requiring work in a foreign country and 25 percent involving community service, the projects are helping to fulfill key Virginia 2020 goals.

Edward Benson (Engineering '05), a computer science major and Jefferson Scholar, received a Harrison award for his project "Video Surveillance and the Privacy Arms Race." His study took him to London and Washington, D.C., where he interviewed police officers, government officials, store owners, and people on the street. Using maps of several camera networks, he also took walking tours to experience the effects of video surveillance in everyday life. Wynn Lei Nyane (College '04), a native of the

YOUNG WOMEN LEADERS

In elementary school, girls believe they can be anything they wish, but by middle school they begin to lose confidence. Unattainable body ideals projected by the media can be particularly harmful. Peer pressure can lead to unfortunate lifestyle choices, such as drug and alcohol abuse. To combat these problems, the Women's Center and the Curry School of Education developed the Young Women Leaders Program, which matches middle-school girls with college-age mentors.

Since it was established in 1997, the program has trained more than 550 University women to nurture competence and leadership potential in adolescent girls from area schools, many from minority backgrounds. The program has been so successful that seven other universities have adopted it, most recently historically black Fisk University. With gifts from the Alcoa Foundation, Scott McDonald (McIntire '86, '90), and other donors, the Women's Center recently developed a new space for the program, equipping it with computers and other learning resources.



At the Women's Center, student mentors boost confidence in adolescent girls.



With a Harrison Research Award, Wynn Lei Nyane revealed the plight of displaced Burmese children in Thailand.

former Burma, used a Harrison award to document the plight of displaced Burmese children in Thailand, where they suffer from squalid living conditions, lack of food, and woefully inadequate health care and education.

IMPROVING GRADUATE LIFE

AS IT FOSTERS A SUPERB UNDERGRADUATE experience, the University is working to enrich graduate life in comparable ways. Graduate students are vital partners in the academic enterprise, and by increasing funds for fellowships and graduate services, we will improve the University's teaching and research programs. Expanding our capacity to recruit the best graduate students enhances our ability to retain the best faculty, who in turn raise the University's stature and its ability to compete for the most promising students, both graduate and undergraduate.

With fellowships provided by generous benefactors, graduate students are making their mark in every academic discipline at the University. Ross Alzheimer, who received the Architecture School's Nix Travel Fellowship, explored more than 500 kilometers of subterranean Paris for his thesis, which focuses on ruptures caused by old quarry spaces beneath the 14th Arrondissement. Montana McCormick, who received the Curry School's Jean R. Butcher Fellowship, supervises student teachers and conducts research on adolescent literacy. She also is helping refine the University's Phonological Awareness Literacy Screening (PALS) pilot program for preschoolers. PALS is a screening tool used by 98 percent of school districts in Virginia to assess reading problems.

Rob Stevens, the William Ballard, Jr., Fellow in mechanical engineering, uses lasers to study microscale heat transfer,



Faculty such as Jeffrey Corwin, left, an expert on the restoration of hearing loss, routinely work with undergraduates in their labs.



Curry graduate student Montana McCormick conducts research on adolescent literacy and has refined literacy instruction for preschoolers.

measuring resistance to the flow of energy at the interface of two heated materials. Creative writing student Nick Taylor is using an award from the William R. Kenan, Jr., Endowment to conduct research for his short-fiction series, *52 East Lawn: Stories from the Academical Village*, told through the eyes of students who occupied the same Lawn room at different points in the University's history.

A TRADITION OF PUBLIC SERVICE

THE UNIVERSITY CONSISTENTLY RANKS among the top producers of Peace Corps volunteers, with more than seventy alumni now serving in foreign posts. This reflects the long tradition of public service in our student culture. The most visible manifestation of this volunteer spirit is Madison House, the organization that channels student energy into programs that benefit the community. This past year, Madison House volunteers worked at some 120 sites, ranging from area schools to migrant camps. In all, they touched the lives of 17,000 individuals.

The ethic of public service is deeply inculcated in the Law School, where students lend their aid in such programs as the Volunteer Income Tax Association. Participants help low-income citizens prepare their taxes, ensuring that they receive all the credits and deductions to which they are entitled. Reaching across international boundaries, members of Nursing Students Without Borders are raising funds to build a clinic in El Salvador, and the students who formed a chapter of Engineering Students Without Borders traveled on environmental service missions to Mexico and southern Africa. These students are applying what they learn in the classroom to real-world problems around the globe. **V**

A Commitment to Action

Faculty work propels the University into the national spotlight.

FOR THE FACULTY OF THE UNIVERSITY OF VIRGINIA, the life of the mind is one of action as well as contemplation. They continually seek new ways to enrich the student experience, to increase the relevance and impact of their teaching, and to introduce new programs of study. In their wide-ranging and productive efforts to advance knowledge, they have the confidence to embrace new approaches, to build powerful collaborations with colleagues in other disciplines that can yield new discoveries, and to devise imaginative and effective ways to make these discoveries available to the society they serve. This commitment to action is palpable across the Grounds and gives the University the exceptional vitality it enjoys today.

AT THE TOP OF THEIR PROFESSION

THE UNIVERSITY MAKES GREAT demands of its faculty, and in meeting those demands, they are setting the national standard for their peers. Nowhere is this more evident than in the achievements of Edward L. Ayers, dean of the College and Graduate School of Arts and Sciences and the Hugh P. Kelly Professor of History. For his superb teaching and his devotion to undergraduate education, he was named the 2003 Professor of the Year for doctoral and research universities by the Carnegie Foundation for the Advancement of Teaching and the Council for Advancement and Support of Education. Several months later, Dean Ayers was honored for his innovative scholarship when he received the coveted Bancroft Prize for his latest book, *In the Presence of Mine Enemies: War in the Heart of America, 1859–1863*, which views the Civil War through the eyes of individuals—soldiers and civilians, slaves and free blacks, women and men. Awarded by the trustees of Columbia University, the Bancroft Prize honors the year's best work in American history, biography, and diplomacy.

Two other College faculty members, William B. Quandt and Ann Beattie, were elected to the American Academy of Arts and Sciences. Mr. Quandt, the Edward R. Stettinius Professor of Politics, recently stepped down as vice provost for international

affairs. As a member of the National Security Council staff, he was involved in negotiating the Camp David Accords and the peace treaty between Egypt and Israel. Ms. Beattie, the Edgar Allan Poe Professor of English, has won critical acclaim for novels and short stories that depict the generation of Americans who grew up in the 1960s. Patricia Spacks, the Edgar F. Shannon, Jr., Professor of English, has accepted a third term as president of the American Academy of Arts and Sciences.

In the Department of Civil Engineering, Nicholas J. Garber was elected to the National Academy of Engineering, the highest distinction accorded to members of his profession. An expert

on traffic operations and highway safety, he joins nine of his University of Virginia colleagues as members of the organization, including academy president William Wulf, the American Telephone and Telegraph Company Professor of Computer Science.

Other faculty members receiving special recognition this past year include the following:

- Joseph C. Miller, the T. Cary Johnson, Jr., Professor of History and an authority on the African slave trade, was one of 185 scholars chosen from among 3,200 applicants to receive 2004 Guggenheim fellowships. Prof. Miller is a past president of the American Historical Association and former dean of undergraduate programs in Arts and Sciences.

- Sidney Hecht, the John W. Mallet Professor of Chemistry, was elected a fellow of the American Association for the Advancement of Science. His efforts to synthesize antitumor compounds are pointing the way to more effective cancer treatments.

- William McDonough, a visiting professor in the Darden Graduate School of Business Administration and former dean of the School of Architecture, received the Columbia Business School's Botwinick Prize in Ethical Practice in the Professions. He is known worldwide for his advocacy of sustainable design.

- Edmund Russell, associate professor of engineering, received the Edelstein Prize from the Society for the History of



Ed Ayers, dean of Arts and Sciences, was named CASE Professor of the Year and winner of the Bancroft Prize.



Technology for his book *War and Nature: Fighting Humans and Insects with Chemicals from World War I to Silent Spring*.

■ Dr. Vamik Volkan, professor emeritus of psychiatry and founder of the Center for the Study of the Mind and Human Interaction, was presented the 2003 Sigmund Freud Award for Psychotherapy, given by the city of Vienna in collaboration with the World Council of Psychotherapy. Dr. Volkan has pioneered the use of psychotherapeutic techniques to ease ethnic conflict around the world.

■ Pam Roland of the School of Continuing and Professional Studies received the Excellence in Teaching Award from the

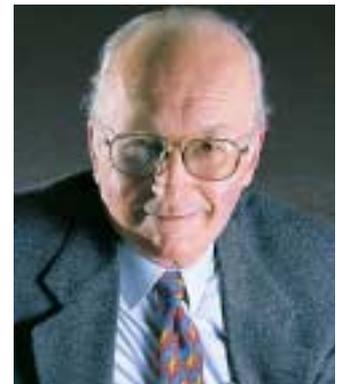
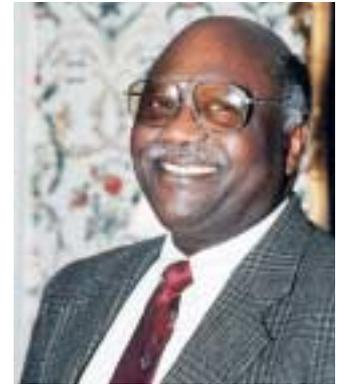
University Continuing Education Association. She is the lead faculty member in the school's "Career Switcher" teacher preparation program, which was declared the best noncredit academic program in the nation by the UCEA.

Another course that takes a cross-disciplinary approach is "Making Business Work," a semester-long case experience that gives students a broad overview of what it takes to run a successful enterprise. Offered by the McIntire School of Commerce, it is aimed primarily at first-year students in the College and the School of Engineering and Applied Science and covers such essential topics as designing a business model, understanding financial statements, developing a marketing strategy, and analyzing consumer behavior.

At the graduate and professional level, the School of Architecture and the McIntire Department of Art have combined their doctoral programs, creating a new Ph.D. degree in the history of art and architecture that will be available in fall 2005. In the new Law and Business Program, faculty in the Law School join colleagues from the McIntire School of Commerce and the Darden School, as well as real-world practitioners, to give future attorneys the skills they need to serve business clients.

The Engineering School has been particularly active in introducing new programs, thanks in part to donor support. Among them is the Engineering in Context initiative, designed to place the practice of engineering in its broader social, economic, and environmental framework. Gifts from Lockheed Martin helped set the program in motion. Students have begun pursuing a new minor in engineering and business, made possible by a recent \$1 million gift from the Clark Construction Group of Bethesda, Maryland, and earlier funding from William P. Utt (Engineering '79, '80, Darden '84). A new undergraduate major in biomedical engineering capitalizes on the strengths of the school's highly regarded graduate program in this field.

In keeping with the Virginia 2020 goals, University courses increasingly offer a global perspective, and many include an international experience. The Department of Anthropology has introduced a minor in global culture and commerce. The School of Architecture continues a well-established tradition of taking students abroad, hosting programs in cities as diverse as Beijing, Venice, and Falmouth, Jamaica. In the Darden School, MBA students take part in the Global Business Experience, visiting companies and taking courses over spring break in such locales as Prague, Shanghai, and Stockholm.



Among faculty receiving national honors this year were, from top, Ann Beattie, Nicholas Garber, and William Quandt.

BROWN BEFORE & AFTER

As the nation observed the fiftieth anniversary of *Brown v. Board of Education*, law professor Michael J. Klarman shed new light on the landmark decision with a timely and widely acclaimed book. Titled *From Jim Crow to Civil Rights: The Supreme Court and the Struggle for Racial Equality*, the work traces the history of Southern segregation and shows how American racial attitudes changed dramatically after World War II, paving the way for *Brown*. The political inferno that followed the ruling helped speed the pace of reform. "Though gradual change was going on, ... white Southerners, especially in the Deep South, would not have given up school segregation for many decades longer had it not been for this violent display that led Northerners to demand federal intervention," contends Mr. Klarman, who holds the James Monroe Distinguished Professorship in Law.



Michael Klarman takes a new look at the court and the struggle for civil rights.

ENRICHING THE LEARNING EXPERIENCE

IN SCHOOLS AND PROGRAMS across the Grounds, faculty members are working to enhance the curricular experience. As they develop courses that offer fresh perspectives and cover new ground, they increasingly draw on multiple disciplines.

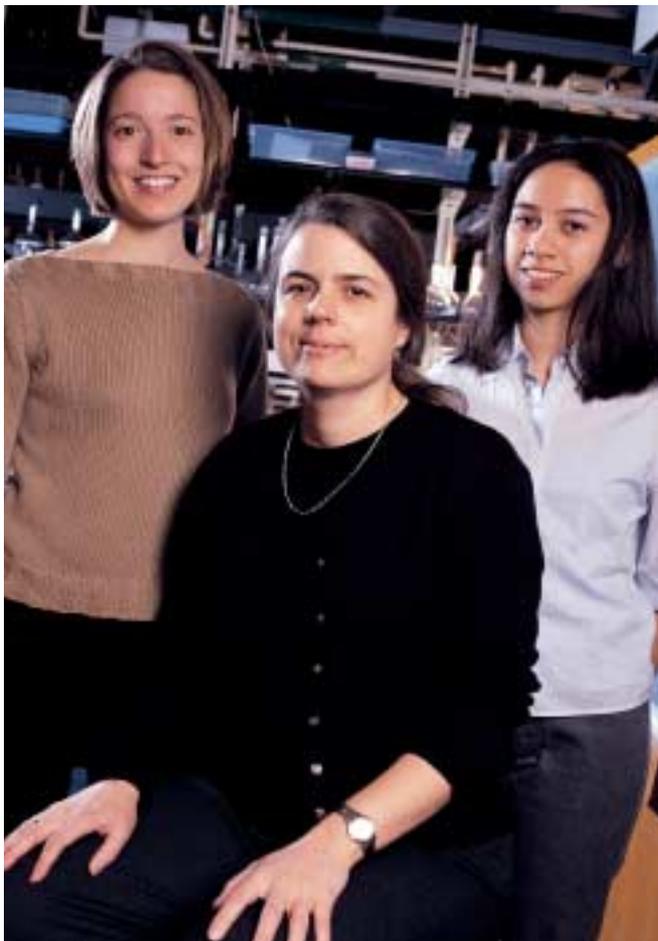
A case in point is the Common Course series for students in the College of Arts and Sciences and the Curry School of Education. Developed in conjunction with the Teachers for a New Era initiative, these courses are taught by faculty from multiple departments and show how information can be synthesized across disciplinary lines. While this approach is valuable for any student, it is particularly useful for those planning to become teachers, who must often integrate broad areas of science and the humanities in the classroom. This past spring, "Designing Matter," a new Common Course coordinated by chemist Cassandra L. Fraser, the Cavaliers' Distinguished Teaching Professor, examined our relationship to matter from subatomic to cosmic scales. Taught in Pavilion VIII on the Lawn, it brought together experts in fields as varied as astronomy, psychology, and cell biology.

A HUB OF SCHOLARLY PRODUCTIVITY

THE WIDENING SCOPE of expertise assembled on Grounds and the dazzling array of insights emanating from the University show a faculty working at the height of its powers. Indeed, the variety and the scale of our research activities can be seen along just a few hundred yards of McCormick Road, where investigators in education, the sciences, and engineering are making extraordinary headway in their respective programs.

From Ruffner Hall, Robert C. Pianta, the Novartis US Foundation Professor of Education, has been studying the way young children acquire the lifelong learning skills they will need to succeed. To expand on this work, which has been funded by the Virginia Preschool Classrooms Initiative, he obtained a \$5 million grant this past year from the National Institute of Child Health and Development. The award will be used to demonstrate how Web-based video technology can be employed to monitor individual preschool instructors and improve their performance. Teachers are volunteering to be observed and are eager to work with Prof. Pianta to sharpen their classroom abilities.

Across the road in the Department of Mechanical and Aerospace Engineering, assistant professor Hilary Bart-Smith is developing morphing structures that someday could be used in biomimetic submarines that move like manta rays through the ocean. Mother Nature has had millions of years to design



Chemist Cassandra Fraser, shown with undergraduates Anna Palumbo and Brenda Goguen of her research team, coordinated the Common Course on "Designing Matter."

The widening scope of expertise assembled on Grounds and the dazzling array of insights emanating from the University show a faculty working at the height of its powers.

the National Ecological Observatory Network, an initiative that will include fifteen sites in the United States and Antarctica and will require up to \$500 million in research support over its thirty-year lifespan. The goal is to create a large-scale picture over time of changes in the composition, structure, and dynamics of global ecosystems so that we can predict how these changes are likely to affect our health and well-being.

SHARING EXPERTISE FOR THE PUBLIC GOOD

AS LEADERS in their disciplines, our faculty represent a valuable resource for shaping public policy. Jonathan Moreno, the Emily Davie and Joseph S. Kornfeld Foundation Professor of Biomedical Ethics, has been appointed by the National Academy of Sciences to serve as co-chair of an expert panel developing voluntary guidelines for human embryonic stem cell research. The panel will address such complex issues as the use of new stem cell lines from surplus *in vitro* fertilization embryos, embryos created by nuclear transplantation, and those created with donated reproductive cells.

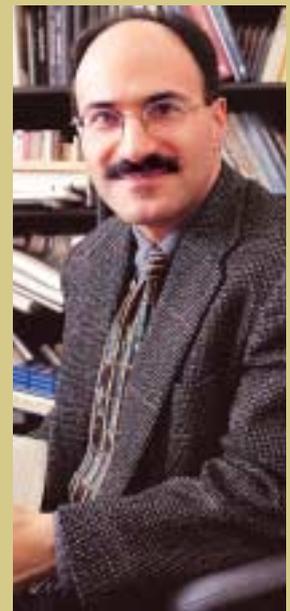
In the Architecture School, members of the Institute for Environmental Negotiation worked with Fairfax County on a watershed protection plan, and they helped Hagerstown, Maryland, gain community consensus for reusing a contaminated Superfund site. They also joined industry leaders to form a coalition for sustainable packaging, and with a \$300,000 grant from the William and Flora Hewlett Foundation, they are developing the Community-Based Collaboratives Research Consortium, which will bring community organizations together to solve complex environmental problems such as grazing land disputes and forest management.

the most efficient structures and systems, explained Prof. Bart-Smith, who has won a prestigious Packard Fellowship for Science and Engineering to support this work. Selected as a University Teaching Fellow, she is also the recipient of a National Science Foundation CAREER Award.

Down the street in Clark Hall, environmental sciences professor Bruce Hayden is leading the effort to create

THE POWER OF POETRY

As editor of the most recent *Norton Anthology of Modern and Contemporary Poetry*, English professor Jahan Ramazani (College '81) added 837 poems and fifty-one new writers to the collection, which captures the breadth and depth of new poetry for scholars and the reading public. The two-volume work has been praised for conveying what one reviewer called "the enduring power of literature and language."



Discoveries That Define Our Times

Bolstering the research enterprise opens the door to new strengths.

RENOWNED IN ACADEMIC CIRCLES for its distinguished programs in the humanities, as well as its highly ranked professional schools, the University is one of the nation's leaders in higher education. But to be a truly great institution, the University must establish equivalent strengths in the sciences and engineering. Developing strategies for achieving this goal was one of the purposes of the Virginia 2020 planning process.

In the fall of 2003, the Board of Visitors moved boldly to fulfill this vision. The board agreed to spend \$60 million over five years to enhance the University's programs in scientific, biomedical, and engineering research. To be combined with state bond funds for a new medical research facility and grant revenues generated by our investigators, the board's commitment is part of a \$126 million effort to raise the stature of the research enterprise.

The University will invest these funds in ways that yield the best returns. We will dramatically increase our laboratory space, we will provide compensation packages and other incentives to retain our best faculty, and we will recruit at least ten stellar research teams that can capitalize on the University's existing strengths across a number of disciplines.

Special attention will be paid to scientists and engineers working in the areas of morphogenesis and regenerative medicine, in quantum and nanoscale studies, in computer and information sciences and engineering, in regional environmental studies, and in aging. These areas emerged in the Virginia 2020 planning process as showing exceptional promise for achieving groundbreaking results with additional support.

CAPTURING OUR CURRENT MOMENTUM

THE BOARD'S ACTION REFLECTS the understanding that the University must do its part to advance the scientific and technological discoveries that define our times. Attracting nearly

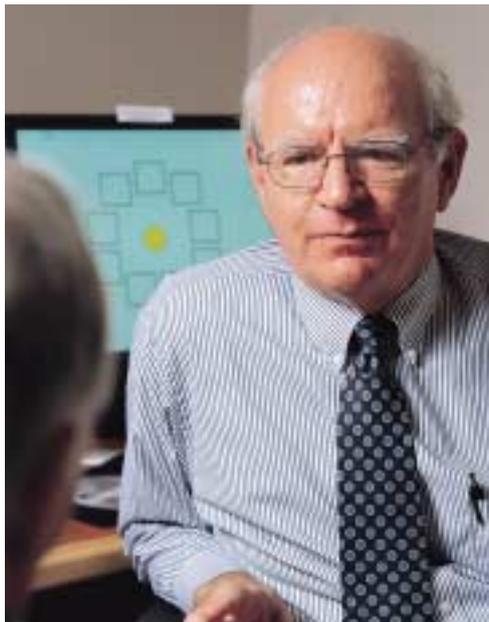
\$296 million in grants for sponsored research this past year, the University already has made substantial headway in achieving these ends by making key faculty hires and by fostering the collaborative, cross-disciplinary culture that will be critical to generating new breakthroughs.

An example of early progress is the new Institute on Aging, where multidisciplinary research now under way will help address the needs of the elderly, as well as the challenges posed by the baby boom generation as it nears retirement age. Directed by Timothy Salthouse, the Brown-Forman Professor of Psychology and one of the world's leading authorities on the ways aging affects memory and other mental processes, the institute has used funding from the Office of the Vice President for Research and Graduate Studies to launch six pilot projects. Neuroscientist Bernard Maier, for example, is looking

at how genes can be manipulated to reverse the cellular effects of aging. John Lach in electrical and computer engineering is developing a wearable health monitoring device, and Carol Manning in neurology is studying the relationship between cognitive impairment and the levels of certain brain chemicals. More on the institute can be found at www.virginia.edu/aginginstitute/.

Age-related research is taking place in schools and programs across the Grounds, including the Department of Health Evaluation Sciences. Robert Abbott, a professor of biostatistics in the department, is co-author of a new study published in the *Journal of the American Medical Association* showing that sedentary elderly men are nearly twice more likely to develop dementia than those who walk two miles a day.

The link between walking and cognitive ability is not clear, according to Prof. Abbott, but it may be related to the healthier lifestyles followed by those who exercise regularly.



Timothy Salthouse, the Brown-Forman Professor of Psychology, leads the new Institute on Aging.



Working with novel nanoscale structures, a cross-disciplinary team of physicists and materials scientists has taken yet another step toward the production of amorphous steel, a revolutionary new material that could be used in everything from submarines to tennis rackets. After nearly two decades of research, Joseph Poon, the William Barton Rogers Professor of Physics; Gary Shiflet, the William G. Reynolds Professor of Materials Science; and materials physicist Vijayarathi Ponnambalam succeeded in producing a nonmagnetic steel that is three times stronger than conventional steel and that can be machined and molded like plastic. Called amorphous steel because the material consists of a randomized arrangement of atoms rather than a crystal structure, the material holds great promise for industrial and military uses.

In the area of regional environmental studies, University students and faculty are looking at how the social, economic, and political dimensions of human activity affect the climate and other environmental factors over large stretches of the planet. In southern Africa, for example, Bob Swap (College '87, Graduate Arts and Sciences '90, '96) of the Department of Environmental Sciences has studied the way clouds of aerosol particles produced by massive annual fires, sparked by both human and natural forces, make an impact on climate patterns in the region. In his effort to understand what he calls "the complex feedback loop" between humans and the environment, he has been the catalyst for collaborative educational, research, and outreach programs that involve colleagues across the Grounds. He works with faculty in the schools of Nursing and Medicine and the Department of Anthropology, for example, to explore the link between the environment and human health issues in the developing world.

James Galloway, also a member of the environmental sciences faculty, has been a leader in establishing the International Nitrogen Initiative, a coordinated effort supported by the United Nations and other agencies to minimize the harmful consequences of nitrogen in the environment while augmenting its



James Galloway, professor of environmental sciences, is helping to lead international efforts to address the effects of reactive nitrogen.

beneficial effects. From unprecedented ozone levels in the air we breathe to algae blooms in our waterways to the acidification of our streams, a multitude of ills can be traced to the reactive nitrogen we introduce when we fertilize crops or burn fossil fuels. At the same time, much of humanity relies on the food produced with this substance, and portions of Africa suffer low crop yields and malnutrition due to a deficiency of nitrogen in the soil. Prof. Galloway believes our future depends on a fuller understanding of how nitrogen cycles through the environment, on both global and local scales, and how we can manage its use more wisely.

William Ruddiman, professor emeritus of environmental sciences, drew international headlines this past year with research showing that humans have been causing global warming not just since the dawn of the Industrial Age but since the dawn of widespread agriculture. According to Prof. Ruddiman, civilization has flourished because the climate for the past 8,000 years has been relatively stable and moderate. This, he explains, did not occur naturally, but happened because humans cleared enormous tracts of forest in Europe, China, and India to make room for crops and pastures. This loss of forestlands greatly increased the amount of heat-trapping carbon dioxide in the atmosphere. Humans also irrigated lands for rice fields, increasing the release of methane over the past 5,000 years, which also contributed to the greenhouse effect. Instead of cooling naturally, the climate stabilized. As a result, he argues, an ice age that should have begun 4,000 to 5,000 years ago never happened.

To build world-class research programs, the University must have world-class research space. The construction of Wilsdorf Hall, scheduled for completion in 2006, will support the University's drive to establish preeminence in nanotechnology. The five-story building in the Engineering School will house researchers in the Center for Nanoscopic Design and other investigators in materials science and chemical engineering. The Board of Visitors' financial commitment, combined with funds from the general-obligation bond issue approved by Virginia voters in 2002, enables the University to proceed with construction of Medical Research Building 6 and the new Advanced Research and Technology Building, a flexible facility planned for the Fontaine Research Park.

FOSTERING A DIVERSE FACULTY

Edward Botchwey in the Department of Biomedical Engineering and Nisha Botchwey in the Department of Urban and Environmental Planning were among eight 2003–2004 fellows in the Excellence in Diversity program, created by the Office of the Vice President and Provost and the Dean of Arts and Sciences to nurture the careers of minority scholars. An expert on tissue engineering, Mr. Botchwey studies the promise of bone repair using bioreactor technology. Ms. Botchwey specializes in community development and how local religious and secular institutions can promote public health.



Edward and Nisha Botchwey

The impact of the University's research efforts will be felt well beyond the Grounds. It is estimated that every \$1 million spent on research generates more than thirty full-time and part-time jobs.

A NEW GENERATION OF INVESTIGATORS

THE UNIVERSITY'S UP-AND-COMING scientists and engineers will play a prominent role in fulfilling our aspirations as a research institution. Among them are such rising stars as Richard Kent, assistant professor of mechanical and aerospace engineering, and Shayn Peirce (Engineering '00), assistant professor of biomedical engineering. Both were named to *Technology Review's* 2004 list of the world's 100 Top Young Innovators.

Prof. Kent, who holds a joint appointment in engineering and medicine, is using new mathematical algorithms to imagine seat belts and airbags that can process data rapidly during an impending crash. The safety devices would respond to how fast the car is going and the shape of the object being hit, as well as the size, weight, bone density, position, age, and health of the driver.

A pioneer in the emerging field of systems biology, Prof. Peirce designs complex computer models to predict blood vessel growth in response to changes in blood pressure and the presence of a growth protein. The research holds promise in the treatment of chronic heart disease and diabetes through the growth of new blood vessels. The results could also be used to treat cancer by shutting off the blood supply to malignant tissue.

Elsewhere in the Engineering School, assistant professor of computer science Greg Humphreys received a prestigious industry honor, the R&D 100 Award, for devising one of the most technologically significant new products of the year. Prof. Humphreys created a program called Chromium that manages supersized sets of data to create elaborate visual displays. Instead of requiring an expensive supercomputer to process the data, Chromium breaks the problem into separate pieces that can be run on ordinary, off-the-shelf personal computers.



Dr. Raghu Mirmira is revealing how insulin-generating cells are formed.

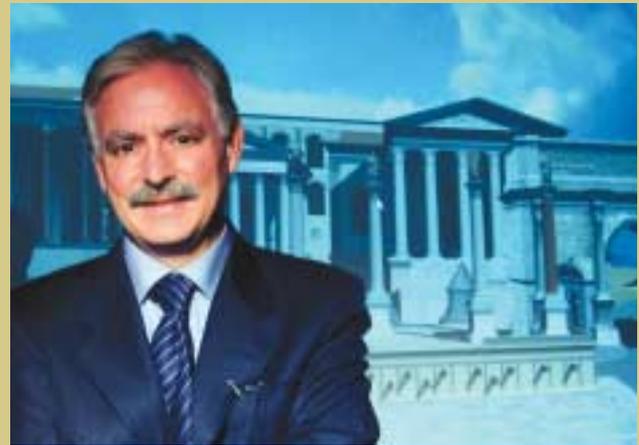
In the School of Medicine, Dr. Raghu Mirmira is investigating the processes by which insulin-producing cells are formed, which may reveal ways to convert other cell types into insulin generators. He recently won the Thomas R. Lee Career Development Award from the American Diabetes Association, which provides a \$912,000 grant to support this work. Along with Dr. John Kattwinkel, the Charles I. Fuller, Jr., Professor of Neonatology, Dr. Mirmira was one of thirteen researchers

recognized this past year at the Discovery Health Channel Medical Honors. Through a campaign advocating that infants be placed in cribs on their backs rather than their stomachs, Dr. Kattwinkel has helped reduce the incidence of sudden infant death syndrome by half since 1994.

As it elevates its science, biomedical, and engineering programs, the University will expand on the achievements of these and many other researchers. In recent times, our faculty have advanced strategies for restoring the Everglades, sent instruments to Saturn on board the Cassini-Huygens space probe, developed ways to manage highway traffic more efficiently, and used techniques for identifying proteins to develop anti-cancer vaccines now in clinical trials. Their success bodes well for our future.



DIGITAL SCHOLARSHIP



TEN YEARS OF IATH

The University's Institute for Advanced Technology in the Humanities, a pioneer in digital scholarship, celebrated its tenth anniversary last year. As it begins a new decade, it will be guided by a new

director, Bernard Frischer, who joined the faculty this fall as professor of classics and art history. Succeeding founding director John Unsworth, Prof. Frischer established UCLA's Cultural Virtual Reality Lab, which uses three-dimensional computer modeling to reconstruct cultural heritage sites such as the Roman Colosseum and the Roman Forum. Created with a grant from IBM and support from the University, IATH quickly became an international leader in providing scholars with the tools of the Information Age. The forty-five major projects emerging from the institute range from a documentary archive of the Salem witch trials, assembled by Benjamin Ray in the Department of Religious Studies, to a site on noun classification in Swahili created by Ellen Contini-Morava, chair of the Department of Anthropology. Drama professor LaVahn Hoh, well known to students for his popular course on the history of the circus, is launching a new site titled "The Circus in America: 1793-1940," a digital archive of thousands of circus artifacts from collections around the country. To view these and other projects, visit www.iath.virginia.edu.

Classicist Bernard Frischer, formerly of UCLA, is the new director of the Institute for Advanced Technology in the Humanities.

ROTUNDA PUTS DOLLEY MADISON ONLINE

The University of Virginia Press, directed by Penelope Kaisertian, has launched a new line of digital scholarship titled *Rotunda*. Mark Saunders, assistant director of the press, manages the electronic imprint, which will benefit from a new \$638,000 grant from the Andrew W. Mellon Foundation and support from the Office of the President.

The grant is the second from the foundation for the press's digital initiatives. The first release in the *Rotunda* series is *The Dolley Madison Digital Edition*, a Web-based collection of the first lady's correspondence edited by Holly Shulman. Future projects include a fully searchable online edition of the multivolume *Papers of George Washington and Emily Dickinson's Correspondences*, containing annotated scans of the letters in which Dickinson's poems first appeared.



Mark Saunders and Penelope Kaisertian

Models in Medicine and Nursing

The University seeks and finds answers in health care.

THIS IS AN EXCITING YET DEMANDING TIME for American health care. An aging population will put new strains on our capacity to meet future needs, and the rapid emergence of powerful new treatments challenges our ability to deploy them as they become available. To do its part to address these issues, the Health System unveiled the Decade Plan, the first joint strategic plan to cover all areas of the Health System. Titled “Models for All of U.S.,” the plan has proven an effective guide to advancing medicine and delivering it at the bedside.

An essential part of this vision is the physical development of the Health System. Plans call for the construction of a new Clinical Cancer Center, a new multidisciplinary Children’s Outpatient Center as an integral part of the U. Va. Children’s Hospital, and a core clinical laboratory, among other projects. We are planning a new companion building to be constructed in proximity to McLeod Hall, home of the School of Nursing, and with a challenge grant from the Claude Moore Charitable Foundation, a new medical education building. Funding is largely in place for Medical Research Building 6, thanks to a combination of state and University resources and donor support, including a generous new commitment from the Harrison Family Foundation. This facility will address the growing need for laboratory space.

Construction is well under way on a hospital addition and other projects that will add up to 130,000 gross square feet to the Medical Center and will bring its total operating rooms to twenty-four. Thorough renovations of the first and second floors of the hospital will help to accommodate patients using heart and vascular, perioperative, and interventional radiology services. The expansion effort is expected to be completed in 2006.

The Medical Center remains strong financially, achieving a consistent operating margin of 5 percent. To continue to perform at this level over the long term, it will commit 9 percent of its budget over the decade to upgrading its equip-

ment, facilities, and information technology, in addition to funds devoted to the expansion now under way. This steady infusion of resources is on a par with the best of the Medical Center’s peer group.

BUILDING ON A SOUND FOUNDATION

CONSISTENTLY RATED AMONG THE BEST HOSPITALS in the nation, the University Medical Center was named a top-100 cardiovascular hospital by Solucient. *U.S. News & World Report* placed nine of the University’s medical specialties in the top forty. The School of Medicine entered the top twenty-five in the annual *U.S. News & World Report* survey, its highest ranking ever. The School of Nursing’s master’s program ranks twenty-sixth nationally. Another three specialty nursing graduate programs are in the top ten. In addition, the Nursing School has risen to number sixteen in National Institutes of Health funding for nursing research.

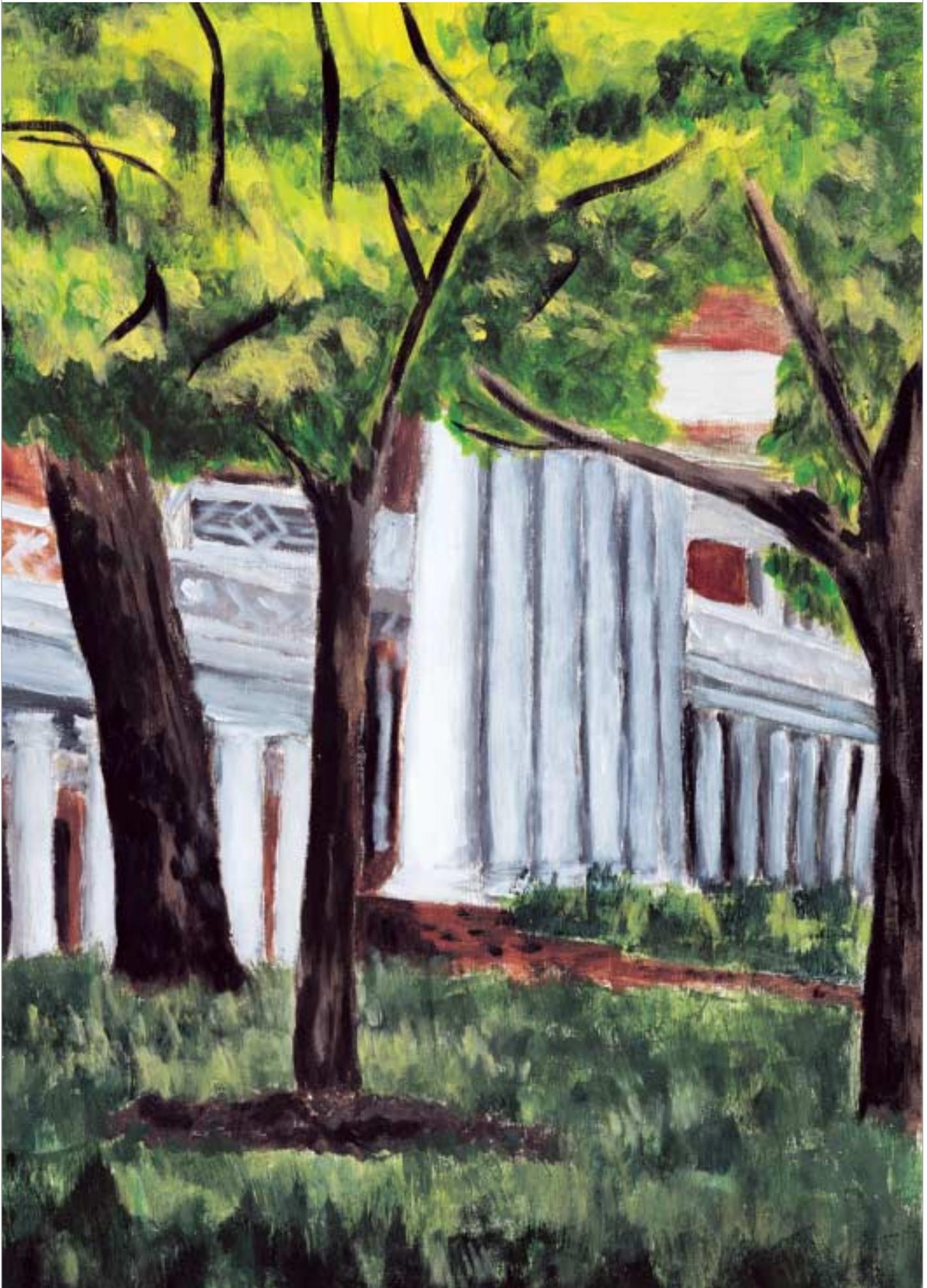
These rankings reflect the work of faculty and staff who are frequently singled out for their excellence as clinicians, researchers, educators, and leaders in their professions. In

October 2003, Dr. Richard Guerrant, the Thomas Harrison Hunter Professor of International Medicine, was elected to the Institute of Medicine of the National Academies, the highest honor for a medical researcher. Dr. Guerrant directs the University’s Center for Global Health, which received a generous challenge grant from the Ellison Medical Foundation this past year to expand its efforts to combat disease in the developing world.

Dr. Michael Thorner, the Henry B. Mulholland Professor of Internal Medicine and a leading endocrinologist, was designated a master of the American College of Physicians, and Dr. John Jane, the David D. Weaver Professor of Neurosurgery, was given the Cushing Medal, the highest award of the American Association of Neurological Surgeons. Other faculty at the forefront



Dr. Richard Guerrant, director of the Center for Global Health, visits a home with nurse Sayonara Sadio Bezerra de Alancar in Fortaleza, Brazil.



in their professions include Dr. Edward Laws, the W. Gayle Crutchfield Professor of Neurological Surgery and president-elect of the American College of Surgeons; Jeanette Lancaster, the Sadie Heath Cabaniss Professor and dean of the School of Nursing, who is president-elect of the American Association of Colleges of Nursing; and Dr. Paul Mintz, director of clinical pathology, and now president of the American Association of Blood Banks. Dr. Arthur Garson, Jr., vice president and dean of the School of Medicine, serves as chair of the National Advisory Council for Healthcare Research and Quality of the Agency for Healthcare Research and Quality, while R. Edward Howell, vice president and chief executive officer of the Medical Center, co-chairs the National Institutes of Health Advisory Board for Clinical Research.



Jeanette Lancaster is president-elect of the American Association of Colleges of Nursing.

COMFORT WITH QUALITY

The \$1.25 million renovation of the Cancer Center's Infusion Center captures our new vision of cancer care. In a soothing environment that promotes comfort and dignity, our patients receive the most advanced treatments available today. For example, the Medical Center is one of the first in the nation to use a new diagnostic technology, molecular cytogenetics, to map key areas of DNA in brain tumors. As a result, doctors can prescribe the chemotherapy regimen that is best for each patient.



Dr. Peyton Taylor, clinical director of the Cancer Center, with benefactor Trudy Peyton at the Infusion Center dedication

AT THE FOREFRONT OF DISCOVERY

THE HEALTH SYSTEM IS MOVING FORWARD on a number of fronts to gain knowledge that can save lives. Dr. Davis Parker, Jr., the Eugene P. Meyer Professor of the Neurosciences, continues to make progress in linking errors in mitochondrial DNA to the onset of Alzheimer's disease, offering tremendous hope for

slowing or even curing the neurodegenerative disorder. Todd Stukenberg, an assistant professor of biochemistry and molecular genetics, has discovered how cells receive the correct number of chromosomes during cell division, a process that can lead to cancer and other diseases when it goes awry.

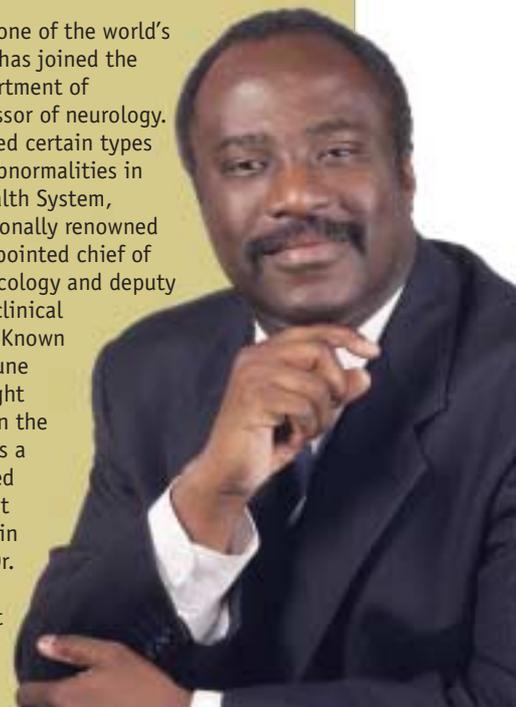
The promise of our basic medical research is evident in the generous grants received recently from the National Institutes of Health and other sources. The following are just the most prominent examples:

- Dr. Jerry Nadler, the Kenneth R. Crispell Professor of Internal Medicine, was awarded a \$1.3 million grant for research on a gene potentially involved in damaging the insulin-producing islet cells of the pancreas.
- Robin Felder, professor of pathology, received a \$10 million grant to further studies of the genetic basis for high blood pressure and salt sensitivity.
- Dr. Joel Linden, professor of cardiology and molecular physiology and biological physics, received a \$7.4 million grant to uncover the molecular and cellular mechanisms responsible for inflammation in the lung during pulmonary injury.
- John Bushweller, associate professor of molecular physiology and biological physics, and Dr. Milton Brown, associate professor of chemistry, will share a five-year, \$5 million grant from the Leukemia and Lymphoma Society to develop new targeted drug treatments for leukemia.
- The School of Nursing was awarded a \$1.4 million grant to establish a Rural Health Care Center, to be directed by Elizabeth Merwin, associate dean for research.
- Viktor Bobbjerg, assistant professor in health evaluation sciences, was selected for a \$3.5 million grant to study the effects of exercise and diet on type 2 diabetes.

Our physician-investigators are capitalizing on advances in basic research to develop new diagnostic tools and treatments. Dr. Dan Theodorescu, the Paul Mellon Professor of Urology and professor of molecular physiology and biological physics,

NEW TALENT IN HEALTH CARE

Dr. Bankole Johnson, at right, one of the world's leading experts on addictions, has joined the University as chair of the Department of Psychiatric Medicine and professor of neurology. Dr. Johnson's research has linked certain types of alcoholism with molecular abnormalities in the brain. Elsewhere in the Health System, Dr. Geoffrey Weiss, an internationally renowned cancer researcher, has been appointed chief of the Division of Hematology-Oncology and deputy director of clinical affairs and clinical research for the Cancer Center. Known for his studies of how the immune system may be marshaled to fight cancer, Dr. Weiss participated in the development of interleukin-2 as a standard treatment for advanced kidney cancer and for malignant melanoma, a serious form of skin cancer. Both Dr. Johnson and Dr. Weiss were at the University of Texas Health Sciences Center at San Antonio before coming to the University.



identified a gene whose activity correlates with the prognosis for bladder cancer, while Debra Lyon, an assistant professor of nursing, is investigating whether cranial electrostimulation can relieve depression in women undergoing chemotherapy for breast cancer. Cardiologist Christopher Kramer proved for the first time that magnetic resonance imaging can be used to identify the characteristic warning signs of a potential aneurysm. He received a \$3.7 million grant to study diagnostic tools and drug treatment for peripheral arterial disease.

Other investigators pursuing new therapies, cures, and diagnostic methods include Dr. Milagros Huerta, assistant professor of pediatrics and co-medical director of the Children's Fitness Clinic, who was awarded a \$700,000 grant from the National Institute of Diabetes and Digestive and Kidney Diseases to search for the best treatment to prevent obesity-related diabetes in children. Dr. Michael Williams, the Byrd S. Leavell Professor of Internal Medicine and professor of pathology, received \$450,000 from the Lymphoma Research Foundation to develop new, more effective treatments for mantle cell lymphoma.

ADVANCES IN CLINICAL CARE

THE HEALTH SYSTEM IS ACTING SWIFTLY TO ADOPT innovations that can improve the lives of patients and their families. In the area of children's health, we have expanded the child neurology program and the pediatric neurological surgery program, and we have enhanced the Pediatric Intensive Care Unit. The successful launch of Virginia's first islet cell transplant program, which offers great promise for diabetics, demonstrates the Health System's commitment to adopting and further develop-

ing advanced therapies. The program also provides a model for how generous philanthropic support can improve the delivery of medical care in our region.

In addition to receiving gifts from donors committed to fighting diabetes, the islet transplant effort has benefited from the endowment recently created by a \$52.6 million planned gift from the late Ward Buchanan. Income from the fund is supporting a new program for chronic obstructive pulmonary diseases like asthma and chronic bronchitis; it also financed the equipment needed to perform whole-body stereotactic radiosurgery, a technique used to treat extremely small brain tumors with minimal radiation.

The Buchanan Fund supports our Atrial Fibrillation Center, another area of innovation this past year. The Medical Center was the first in the United States to use a pacemaker approved by the Food and Drug Administration for atrial fibrillation and heart failure. We also are treating atrial fibrillation with new catheter ablation techniques that our own physicians have helped to develop. In another area of cardiology, our hospital is one of only two in Virginia approved to use mechanical left ventricular assist devices as a final treatment for people with end-stage heart failure.

THE OUTLOOK FOR MEDICAL EDUCATION

AS WE CONTINUE TO TEACH THE CORE SKILLS of the health professions, we are preparing students for an age in which robotic surgery, telemedicine, and molecular-based treatments will be the norm. A new course that epitomizes this approach is "Cells to Society," a three-day introductory program for first-year medical students. "Cells to Society" concentrates on a common disease as a way to illustrate the complex scientific and social issues that intersect in the course of modern medical practice.

As we join medical schools across the country responding to the Outcome Project of the Accreditation Council for Graduate Medical Education, we are looking anew at the way we train medical residents. The Medical Center has established the \$1 million GME Innovative Grant Program, again made possible by the Buchanan Fund. This program is spearheading some twenty initiatives in such areas as competency-based education, duty hours, and the quality of work life for medical residents, setting the stage for additional funding from outside sponsors.

The Health System also is taking the lead in developing innovative programs for nontraditional students. With a grant from the Department of Health and Human Services, the School of Nursing has created two-year online versions of its master's degree programs in Leadership in Community and Public Health and Health Systems Management. These have proven especially valuable for health-care professionals in rural settings.

IMPROVING DIGESTIVE HEALTH

The Health System is at the national forefront of efforts to combat inflammatory bowel disease, gastrointestinal cancers, and gastrointestinal infections. Dr. Fabio Cominelli, the David D. Stone Professor of Internal Medicine, leads a team that received a \$6 million, five-year grant from the National Institutes of Health for a new Digestive Health Research Center. Combining basic science and clinical research, the center is one of only sixteen facilities of its kind in the nation and the only one in Virginia.

NEW HOPE FOR DIABETICS

On June 3, a Charlottesville diabetic received the first islet cell transplant in Virginia, performed by a team led by Dr. Kenneth Brayman, professor of surgery and director of the Health System's Center for Cellular Transplantation and Therapeutics. In the first of two procedures, the pancreatic islet cells were injected into a vein in the liver, where they attached themselves and began producing insulin, greatly improving the patient's ability to control blood sugar levels. Immunosuppressant drugs kept her body from rejecting the transplanted cells.



A surgical team transplanted the islet cells into the patient's liver, where they began to produce insulin.

The new transplant program won the University a place in the National Institutes of Health's prestigious Islet Cell Research Consortium and has received generous support from the Ward Buchanan Fund and the Islet Replacement Research Foundation, created by Paul and Diane Manning of Gordonsville, Virginia. A research team led by Dr. Jerry Nadler, chief of the Division of Endocrinology, and comprising Dr. Brayman and Dr. Zandong Yang, recently obtained a five-year NIH grant to help advance the transplant program. In addition, the Diabetes and Hormone Center of Excellence, directed by Dr. Nadler, has received major support from a number of donors, including Dickey Meade (McIntire '67) and Elizabeth Meade of Richmond, Buford Scott (College '55) and Susan Scott of Richmond, and Dennis Casey and Pamela Ruth Casey of McLean.

A New Academical Village

As construction projects reshape its landscape, the University holds fast to its Jeffersonian ideals.

REVOLUTIONARY IN ITS TIME, Mr. Jefferson's concept of an Academical Village continues to inform the University's planning and construction efforts. As we develop the facilities necessary to sustain and enhance the quality of our programs, we are creating spaces that foster a sense of community, that support collaborative endeavors, and that inspire us to do our best work. Our aim is ambitious: to provide for future generations what Mr. Jefferson provided for us.

NEWLY COMPLETED PROJECTS

THIS PAST YEAR saw the opening of buildings that meet essential needs in the University's intellectual life. These include the Science and Engineering Library in Clark Hall, now transformed into an ideal information resource. Combining comfortable furnishings, spacious and sunlit reading areas, and the latest technology, the renovated library has quickly become one of the most popular places to study on Grounds, attracting more than 2,000 users a day. On October 1, 2004, the Board of Visitors named the library in memory of Charles L. Brown (Engineering '43), the former chairman of AT&T, in recognition of a \$5 million endowment gift from Mr. Brown's wife, Ann Lee Saunders Brown. She also endowed the electrical engineering department in his honor.

Another new library is equally forward looking, even as it connects us to the past. Made possible by a combination of state dollars and support from generous benefactors, the complex housing the Mary and David Harrison Institute for American History, Literature, and Culture and the Albert and Shirley Small Special Collections Library opened its doors as the 2004–2005 session began. Adding a handsome new edifice and landscaped plaza to the historic heart of the University, the building stands adjacent to Alderman Library and only hints at the abundance of treasures (and space)

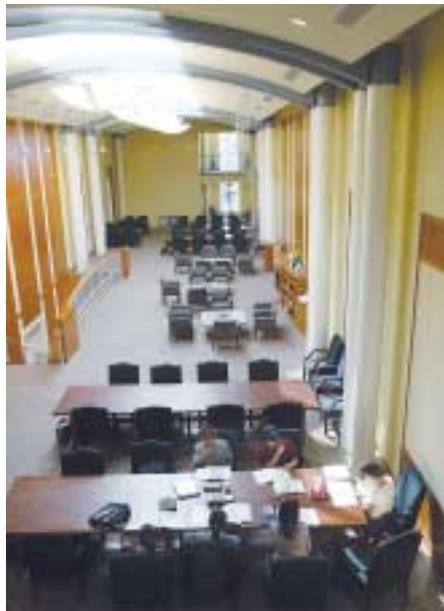
inside. Some 58,000 square feet of the facility is underground, providing a secure and climate-controlled environment for the University's priceless rare books and manuscripts, as well as a 190-seat auditorium. With half-round windows that hark back to the Jeffersonian anatomical theater that once stood nearby, the aboveground portion offers exhibition galleries, study areas for visiting scholars, and seminar rooms.

A facility eagerly anticipated by students is the recent addition to the Aquatic and Fitness Center near Scott Stadium. Its new gymnasium borrows some of the best features from the oldest continually operated athletics facility on Grounds, the eighty-year-old Memorial Gym. Like its venerable ancestor, the AFC's 46,500-square-foot expansion contains three basketball courts ringed by an elevated track.

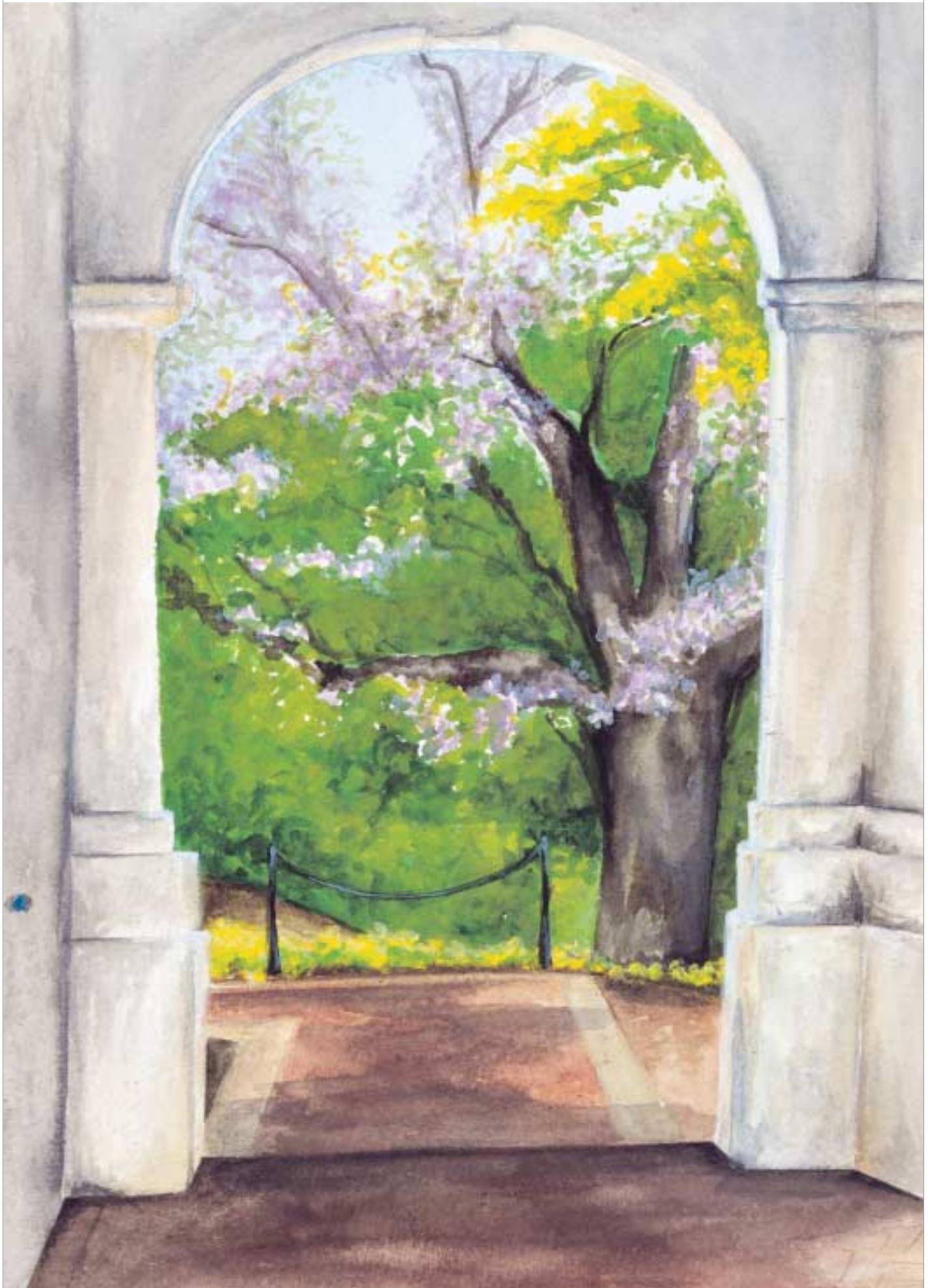
Other projects have enhanced the beauty, safety, and accessibility of the University for pedestrians. The new Goodwin Bridge, an elevated walkway spanning Emmet Street near University Hall, is the first part of a planned system of pathways

linking the Central Grounds to the North Grounds. Named by the Board of Visitors in February to recognize the leadership and generous support of outgoing member William H. Goodwin, Jr. (Darden '66), and his wife, Alice T. Goodwin, the bridge crosses one of Charlottesville's busiest thoroughfares. In April the board also named the Darden School complex the William H. Goodwin, Jr., Grounds.

Farther south on Emmet Street, pedestrians will discover an aquatic feature new to the University landscape, the 1,000 feet of Meadow Creek that was brought to the surface in the Dell, ending in a one-acre pond between Lambeth House and Ruffner Hall. Bordered by sidewalks and mulched paths, and ornamented with native plants, the pond is part of a larger effort to manage storm water in a more environmentally sensitive way.



The sunlit reading room is among the new features in the renovated Charles L. Brown Science and Engineering Library.





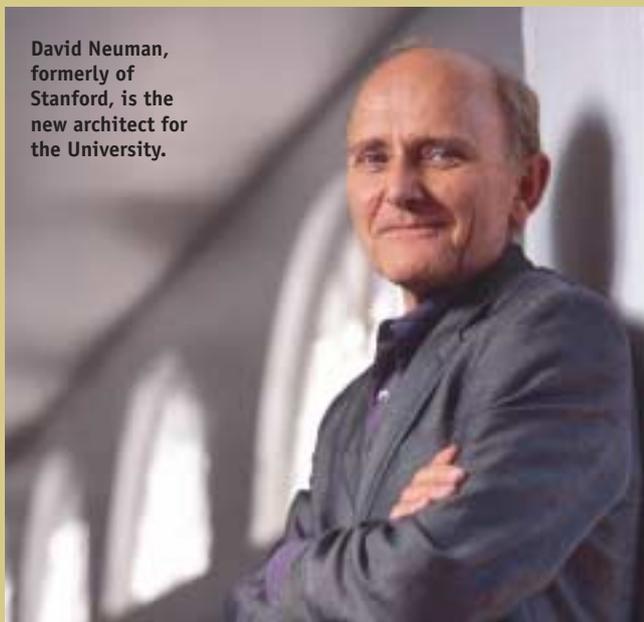
PROJECTS UNDER CONSTRUCTION

BESIDE TOWERING CRANES and a mountain of fill dirt, the John Paul Jones Arena is quickly taking shape on Massie Road. Already visible is the horseshoe configuration of the 15,000 seats it will provide for Virginia basketball fans and others attending games and special events there. Encompassing practice courts, a weight room, a dining facility, coaches' offices, a 1,500-car parking structure, and a large public plaza, the \$129.8 million facility is on schedule for completion in 2006.

GUIDING OUR GROWTH

As the expansion of the Grounds continues, it will benefit from the experienced eye of David Neuman, the new architect for the University. Formerly architect and associate provost for planning at Stanford University, he will play a key role in ensuring that the University's physical growth supports a cohesive academic community and meets high standards for design and functionality. In this regard, he builds on the work of his predecessor, Samuel A. "Pete" Anderson III (College '55), who guided the design of almost \$1 billion in construction and helped shape the University's current master plan before retiring in June 2003. Mr. Neuman's office will also oversee the University's historic preservation efforts, including the development of a master plan for using and protecting all of our historic buildings and landscapes.

David Neuman, formerly of Stanford, is the new architect for the University.



Ruffin Hall, a \$16.7 million facility for studio art, will contain spaces designed for work in specific media.

The 126,000-square-foot addition to the University Hospital will be finished in the spring of 2005, and another 150,000 square feet of renovations included in the \$89.6 million project will be completed in 2006. Also under construction is Wilsdorf Hall, the \$41.6 million building that will serve the Department of Materials Science and Engineering and other areas of the Engineering School involved in nanoscopic research and design. It also is on track for a 2006 completion date. Nearby on Alderman Road, the 62,000-square-foot, \$22 million replacement for the Observatory Hill Dining Hall will be ready to welcome students in early spring 2005.

Among projects started this year is the long-awaited, \$7.7 million renovation of Fayerweather Hall, a late-nineteenth-century gymnasium that later became the home of the art history and studio art programs. Once refurbished and reconfigured, the neoclassical building will be devoted entirely to art history. It is part of the Arts Grounds Project, which also includes Ruffin Hall, a new studio art building now in design. Among other upcoming projects are the \$51 million renovation and expansion of Rouss Hall for the Commerce School and the \$7 million upgrade of Cocke Hall for Arts and Sciences. **V**

TAPPING A DESIGN RESOURCE

As it plans the \$9 million expansion and renovation of Campbell Hall, the School of Architecture is drawing from a deep well of design expertise: its faculty. W. G. Clark (Architecture '65), the Edmund S. Campbell Professor of Architecture, is designing an east entry building that contains flexible exhibition space for presenting student and faculty work. William Sherman, the Mario di Valmarana Professor of Architecture and chair of the newly merged architecture and landscape architecture departments, is the creative force behind a bank of twenty-six faculty offices that will open onto the school's studios. His design incorporates a number of energy-saving innovations, such as a wall of glass louvers that can be controlled to distribute solar heat. Warren Byrd (Architecture '78), the Merrill D. Peterson Professor of Landscape Architecture, is designing exterior features, including a promenade that connects the school to Rugby Road. All are working on their projects in coordination with SMBW Architects of Richmond, led by Will Scribner (Architecture '71). Peter Waldman, the William R. Kenan, Jr., Professor of Architecture, and his students collaborated with other faculty members to design the Eric Goodwin Passage, one of the first components of the Campbell Hall addition to be constructed. The outdoor classroom space is named for an architecture student who died in his final year of study.



William Sherman's design for a bank of faculty offices employs an energy-saving system of glass louvers.

NEWLY COMPLETED

Among completed projects are, clockwise from top left, the Special Collections complex with its spiral staircase, the Dell pond, and the addition to the Aquatic and Fitness Center.



UNDER CONSTRUCTION

Projects under construction include John Paul Jones Arena and the addition to the hospital, at right.



One for the Record Books

With six ACC championships, two NCAA titles, and a bowl win, it was a golden year for the Cavaliers.

IN 2003–2004, VIRGINIA ATHLETES achieved success in a broad range of competition, earning for the University another top-thirty spot in the United States Sports Academy Directors' Cup standings. Thanks to the talent and hard work of players and coaches, the University has remained in the top thirty in all eleven years of the Directors' Cup rankings, which are based on the combined records of the men's and women's teams.

In postseason play, our athletes captured the women's NCAA lacrosse national championship and the women's rowing championship in the varsity four event. U.Va. tied for sixth in the NCAA women's rowing championship and placed thirteenth in men's swimming and diving, tied for sixteenth in wrestling, and nineteenth in women's swimming and diving. In addition, the men's tennis team hosted an NCAA regional tournament and advanced to the round of sixteen of the NCAA Tournament for the first time.

Six of our teams, representing 24 percent of our varsity sports programs, took home ACC championships: women's lacrosse, women's rowing,

women's swimming and diving, men's soccer, men's tennis, and men's swimming and diving. It was the sixth consecutive conference championship for the men's swimming and diving team, the fifth for the women's rowing team, and the first for men's tennis. Before this year, U.Va. had never won more than four conference championships in a single year.

Coach Al Groh and the Virginia football team capped an 8-5 year with a big postseason victory. They defeated Pittsburgh 23-16 to win their second consecutive Continental Tire Bowl in Charlotte. Quarterback Matt Schaub threw for 244 yards, while the team ran up 196 yards rushing.

The bowl made it possible for the Department of Athletics to continue its tradition of supporting the arts and academics at the University. Proceeds from the bowl financed the first-ever Afropop Festival, held in October 2004. Featuring concerts by stars of contemporary African popular music, workshops, master classes, discussions, and open rehearsals, the five-day event was a forum for learning about the culture, history, and traditions surrounding African popular music.

GOING FOR GOLD IN THE OLYMPICS

VIRGINIA MADE A SOLID showing at the Athens Olympics. It began with former U.Va. basketball star Dawn Staley carrying the U.S. flag during the opening ceremonies. The 34-year-old point guard scored 14 points in the final game to help the U.S. women's team win its third consecutive gold medal. Former Cavalier All-American Angela Hucles was a member of the U.S. women's soccer team that captured the gold with a 2-1 overtime win against Brazil. Ms. Hucles, who graduated in 2000, is still U.Va.'s all-time leading scorer. Wyatt Allen, a 2001



Dawn Staley (College '92) carries the American flag for the U.S. team at the opening of the Athens Olympics.

Quarterback Matt Schaub led the Cavaliers to a 23-16 win over Pittsburgh in the Continental Tire Bowl in Charlotte. He was named the game's MVP.







Brian O'Connor was named ACC Coach of the Year after his first season with the Cavaliers.

graduate of the University, earned a gold medal as a member of the U.S. men's eight crew. The last time the Americans took gold in this event was 1964. Allen rowed with the Virginia men's club team from 1998 to 2001.

MAKING AN AUSPICIOUS DEBUT

BY THE END of coach Brian O'Connor's first season, it was hard to find a seat at Virginia baseball games. Finishing a close second place in the 2004 ACC regular season standings, O'Connor's squad posted an 18-6 record in conference play. The Cavaliers' forty-four overall victories tied the school record for most wins, and their eighteen ACC victories were seven more than the previous record. Thanks to this performance, Virginia was selected to host an NCAA regional tournament for the first time in its history, and Coach O'Connor was named the 2004 Atlantic Coast Conference Coach of the Year.

Also making its debut this year was the Cavalier Marching Band. Made possible by Carl Smith (College '51) and Hunter Smith of Charlottesville, the band under the direction of William Pease wowed the crowd of 62,790 at the opening game of the 2004 football season. The extra enthusiasm inspired by the marching musicians seemed to make a difference. The Cavaliers soundly defeated the University of North Carolina, 56-24.

WINNERS IN THE CLASSROOM

A TOTAL OF 224 VIRGINIA athletes were named to the 2003-2004 Atlantic Coast Conference Academic Honor Roll; four Cavaliers (Luke Wagner, Whitney Ashcraft, Jennifer Reck, and Doug Stewart) garnered 2003-2004 Virginia Sports Information Directors (VaSID) Academic All-State honors. The University's graduation rate for student-athletes is currently 83 percent, as compared with 62 percent for all Division I-A institutions. **V**

SWEET SATISFACTION



Two years ago in the NCAA championship, Princeton's women's lacrosse team rallied in the final minutes to tie the game, then pulled ahead in overtime to claim the title over Virginia. This year, the Cavaliers evened the score, solidly besting the Tigers, the two-time defending champions, 10-4, to bring the national championship to Charlottesville.



The first University of Virginia marching band in forty years makes history as it debuts at Carl Smith Center, home of David A. Harrison III Field at Scott Stadium.

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Moving Forward with Confidence

Report of the Executive Vice President and Chief Operating Officer

THIS HAS BEEN A PRODUCTIVE YEAR. Every member of this community—students and parents, faculty and staff, alumni and friends—can take pride in all the University of Virginia has achieved. The Board of Visitors and the management team worked effectively to launch groundbreaking initiatives that will provide for immediate needs and reap long-term benefits for the institution. Together we designed bold and innovative plans to meet the University's objectives in major areas, including financial aid, compensation, and research support. The institution, under the leadership and strong encouragement of its board, has moved decisively to focus its resources in ways that bode well for the future of the University.

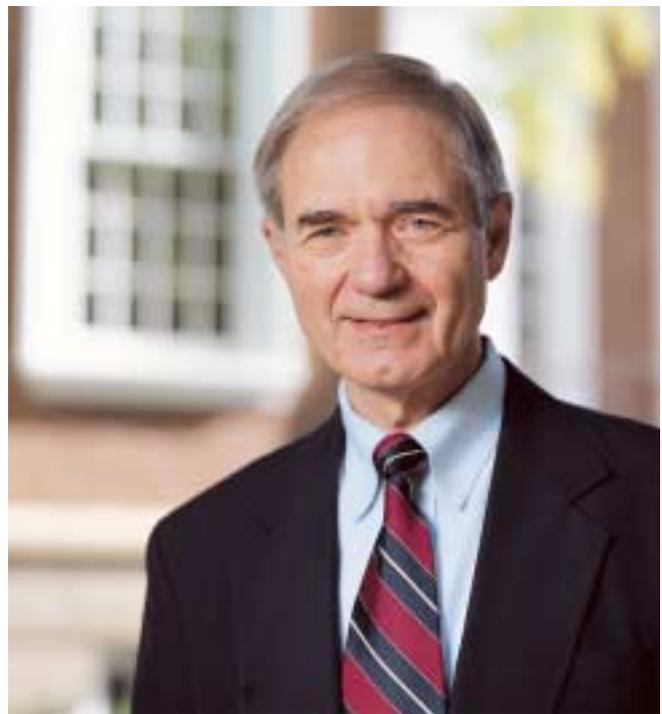
RESTORING COMPENSATION LEVELS

RECOGNIZING THAT the University's faculty and staff compensation has fallen relative to peers over the last decade, the board approved a resolution designed to restore faculty compensation to nationally competitive levels by the end of fiscal year 2007. The University's goal is to achieve a ranking of between fifteenth and nineteenth in compensation among members of the Association of American Universities by 2006–2007. This is approximately the same position the University held in 1989–1990, before the recent era of reduced state support.

In November 2003, the board supplemented the state's 2.25 percent salary increases, the first in three years, with an additional 1.75 percent in targeted, merit-based raises for teaching faculty. As a result, the University jumped from thirtieth to twenty-fourth in the AAU rankings. For 2004–2005, the board authorized a 2 percent, merit-based salary increase for teaching and administrative faculty on top of a 3 percent raise approved by the Commonwealth. In addition, the board created a pool of funds for adjusting salaries of classified staff identified as under-compensated. These measures have significantly enhanced the University's ability to recruit and retain talented faculty and staff. At the same time, steps have been taken to adjust compensation for Medical Center employees.

BOLSTERING SCIENTIFIC RESEARCH

ALTHOUGH GRANT FUNDING for our sponsored research continues to grow from year to year, approaching \$296 million in 2003–2004, the University remains forty-fifth in federal fund-



Leonard W. Sandridge

ing among its peers for federal research and development expenditures. At the board's request, Gene Block, the University's vice president and provost, outlined an aggressive strategy to raise the stature of the University's research programs in select areas of science, engineering, and medicine. In response, the board funded \$60 million of a five-year, \$126 million program to recruit world-class investigators in key areas of research, to fund salaries for their research teams, and to build new research space. Two laboratory buildings are now in the planning stages, and we have begun our targeted hiring of internationally renowned faculty.

RESULTS OF SOUND MANAGEMENT

IN A TIME OF SCARCE RESOURCES, sustaining the University's progress requires careful budgeting and management. In recent years, as we dealt with cutbacks in state support, we have taken the opportunity to streamline our operations. Now that a portion of these funds has been restored, we are reallocating dollars to

areas of highest priority where they will achieve the best results.

Our commitment to careful management can be seen clearly in the Medical Center. Achieving an operating margin of 5.4 percent in 2003–2004, it surpassed the 5 percent goal set by the Board of Visitors. This is the second year in a row that we have exceeded the board's expectations; our results place us in the top 10 percent of academic medical centers. All income from the Medical Center is reinvested into our clinical operations, providing resources for new equipment, new medical technologies, or the renovation and expansion of our facilities.



The endowment continues to be a tremendous source of strength. By June 30, 2004, our pooled endowment, the portion held directly by the Board of Visitors, had reached \$1.95 billion. Adding funds held by University-related foundations brings the total endowment to \$2.79 billion. Under the able stewardship of the University of Virginia Investment Management Company (UVIMCO), the pooled endowment achieved a 12.7 percent return this past year, which is consistent with the returns we have experienced over the past decade. During this period, UVIMCO has been restructured to devote its full attention to asset management, and Christopher J. Brightman has been selected as chief executive officer of the management company.

Our sound management, our strong endowment, our much-in-demand programs and services, and our generous support from alumni and friends, which reached nearly \$175 million this past year, are all indicators of a thriving institution. They are among the key factors cited by Standard & Poor's, Fitch Ratings, and Moody's Investors Service in awarding us their top debt ratings. We remain one of only two public institutions to hold AAA ratings from all three credit-rating agencies.

SUSTAINING EXCELLENCE IN EDUCATION

FOR MUCH OF THE PAST DECADE AND A HALF, the Commonwealth of Virginia has struggled to provide adequate financial resources for its colleges and universities. In 1985, funding for higher education represented approximately 17 percent of the state's general fund budget; by 2004, state appropriations for higher education fell to just 10 percent. This funding level ignores a nearly 17 percent increase in in-state students educated in the state's system of higher education over the past fifteen years. Competing demands for state tax dollars will make it extremely difficult for the state to fund its colleges and universities at the level necessary to sustain their ranking as among the very best public institutions in the country.

In an effort to support the high standards that Virginians have come to expect, the University has joined two other leading institutions—Virginia Tech and the College of William and Mary—to ask the General Assembly to create a mechanism for giving public universities and colleges more control over their operations. The initiative is open to all public institutions. The concept holds great promise in sustaining the premier system of higher education in Virginia and in supporting the important initiatives set forth by Governor Warner to enhance excellence in education throughout the state.

Under the new model, U.Va. would forgo some potential for future growth of tax appropriations. In exchange, we would be given more administrative autonomy, including the ability to set tuition levels, and would be free to achieve operational efficiencies that will reduce costs and speed operations. If such a proposal is approved, there should be no doubt that the University will remain a strong public institution, living up to its historic commitment to educate Virginians and serve the people of the Commonwealth and the world.

KEEPING COLLEGE AFFORDABLE

ALTHOUGH WE ARE PROUD of our reputation as an outstanding value in higher education, achieving greater self-reliance under a new relationship with the Commonwealth is likely to require increased costs for our students, both in-state and out-of-state. At the same time, we recognize that paying for college represents a significant burden for students from low- and middle-income families. Some must work long hours, devoting time that would otherwise be spent studying, taking part in independent research, or participating in student-life activities. Others leave the University with levels of debt that preclude entering careers in public service or attending graduate school. Furthermore, rising tuition costs deter highly qualified but financially disadvantaged students from seeking or accepting admission here.

To address these issues, the Board of Visitors unveiled AccessUVA, an ambitious financial-aid program designed to keep the University experience within reach of all students who qualify for admission, regardless of economic circumstance. The board committed \$17.9 million annually to this program, which will be rolled out over the next four years. Combining loan-free packages for low-income students, caps on loans for all other students qualifying for aid, and our commitment to meet 100 percent of need, AccessUVA stands as the most comprehensive program of its type at any public university.

REMAINING TRUE TO OUR MISSION

WE HAVE SEEN A TIME when our emphasis is on making this University the best it can possibly be. We have been unrelenting in our willingness to assess our performance and focus our resources in ways that distinguish this institution from most others. The predictably sound work that faculty and staff are doing on a day-to-day basis has given us the confidence to go forward. We stand at a crossroads with high expectations of future success that few places can enjoy.

LEONARD W. SANDRIDGE
Executive Vice President
and Chief Operating Officer

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, 2004. Comparative information for the year ended June 30, 2003, 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 financial statements referred to above and appended were prepared in accordance with Governmental Accounting Standards Board (GASB) principles. During fiscal year 2002, the University adopted GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, as amended by subsequent GASB Statements Nos. 37 and 38.

Effective this year, the University implemented GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. This statement addresses which fund-raising, research, or other foundations should be included as component units and how these component units should be displayed in the financial statements. Under previous accounting standards, the University had no component units. Under the new standards, six foundations meet the criteria and are included this year as component units. The six foundations are the Alumni Association of the University of Virginia, the University of Virginia Darden School Foundation, the University of Virginia Health Services Foundation, the University of Virginia Law School Foundation, the University of Virginia Foundation, and the Virginia Athletics Foundation. The financial data of these six foundations are presented separately in the Combined Statements of Financial Position and the Combined Statements of Activities. Additional information about each of the foundations is contained in the footnotes. The remainder of this Management's Discussion and Analysis excludes the foundations except where specifically noted.

BACKGROUND

The University of Virginia is an agency of the Commonwealth of Virginia and is governed by the University's Board of Visitors. A separate report is prepared for the Commonwealth of Virginia that includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. The University is a component unit of the Commonwealth of Virginia and is included in the basic financial statements of the Commonwealth.

A public institution of higher learning with 20,018 students and 2,026 instructional and research faculty members in ten separate schools, the University offers a wide diversity 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, public service, and patient care. The University is consistently ranked 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. The University's Health System also has established a tradition of excellence in teaching, advancement of medical science, and patient care.

FINANCIAL HIGHLIGHTS

The University's financial position remained strong at June 30, 2004, with total assets of \$4.8 billion and liabilities of \$1.1 billion, compared to total assets of \$4.5 billion and liabilities of \$1.0 billion at June 30, 2003. Net assets, which represent the residual interest in the University's assets after liabilities are deducted, are \$3.7 billion. This is a 7.9 percent increase over fiscal year 2003's net assets of \$3.4 billion. The increase in net assets results from the University's consolidated operations. Revenues, expenses, gains, and losses are summarized below:

SUMMARY OF THE INCREASE IN NET ASSETS (in thousands)	2004	2003
Total revenues before investment income	\$ 1,646.5	\$ 1,536.5
Total expenses	(1,629.4)	(1,504.5)
Increase in net assets before investment income	17.1	32.0
Investment income	255.4	189.7
TOTAL INCREASE IN NET ASSETS	\$ 272.5	\$ 221.7

Comparing fiscal 2004 to fiscal 2003, revenues before investment income increased 7.2 percent, while expenses increased 8.3 percent. Thus, expenses increased slightly more than revenues before net investment income. While net assets before investment income increased in fiscal 2004 by \$17.1 million, the increase was about \$15 million less than in fiscal 2003.

Several factors contributed to this difference. A total decrease of \$17.6 million occurred in state appropriations and capital appropriations. Compensation expenses increased by 8.7 percent, and utility costs increased by 30 percent. However, the endowment's strong performance more than offset these other factors, contributing almost 94 percent to the total increase in net assets for fiscal 2004. The University's long-term investment strategy has been successful, as evidenced by its strong returns over time and its ability to weather poor market conditions in recent years.

USING THE FINANCIAL STATEMENTS

The University's financial report includes three financial statements: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. As stated earlier, these financial statements are prepared in accordance with GASB principles, which establish standards for external financial reporting for public colleges and universities, and 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. Under these principles, revenues and expenses are categorized as either operating or non-operating. Significant recurring sources of the University's revenues, including state appropriations, gifts, and investment income, are considered non-operating, as defined by GASB Statement No. 34. Consequently, the operating loss of \$223 million does not account for these normal revenue sources. Adding the net non-operating revenues of \$457 million for the fiscal year more than offsets the operating loss and results in an adjusted income figure of \$234 million. This provides a more accurate picture of the University's total scope of operations.

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, 2004, and June 30, 2003 (restated), follows.

SUMMARY OF THE STATEMENT OF NET ASSETS (in thousands)	2004	2003	Increase/(Decrease)	
			Amount	Percent
CURRENT ASSETS	\$ 827,214	\$ 749,464	\$ 77,750	10.4%
NON-CURRENT ASSETS:				
Endowment and other long-term investments	2,511,497	2,243,615	267,882	11.9%
Capital assets, net	1,378,798	1,285,009	93,789	7.3%
Other	95,395	220,130	(124,735)	(56.7)%
TOTAL ASSETS	4,812,904	4,498,218	314,686	7.0%
Current liabilities	428,176	423,736	4,440	1.0%
Non-current liabilities	662,736	624,976	37,760	6.0%
TOTAL LIABILITIES	1,090,912	1,048,712	42,200	4.0%
NET ASSETS	\$ 3,721,992	\$ 3,449,506	\$ 272,486	7.9%

A review of the University's Statement of Net Assets at June 30, 2004, shows that the University continues to build upon its strong financial foundation. This financial health reflects the prudent utilization of its financial resources, including careful cost controls, effective management of its endowment, conservative utilization of debt, and adherence to its long-range capital plan for the maintenance and replacement of the physical plant.

Current assets, which totaled \$827 million as compared to the previous year's \$749 million, an increase of \$78 million, or 10.4 percent, consist primarily of cash, operating investments, and accounts receivable. Accounts receivable increased by \$30.4 million due primarily to an increase in patient care receivables. The total of cash, cash equivalents, and short-term investments increased by over \$42.4 million, a 7.5 percent growth.

Current liabilities consist primarily of accounts payable and obligations under securities lending. Securities lending affects both current assets and current liabilities, as explained in Note 2 on Investment Risk. Obligations under securities lending decreased this year by \$42.1 million. The other major fluctuation in current liabilities was an increase in the current portion of long-term liabilities. It rose \$27.7 million, or 56.8 percent. Most of this increase, \$19.7 million, originated from implementation of the University's commercial paper program.

From a liquidity perspective, current assets cover current liabilities 1.93 times, an indicator of good liquidity. This year's coverage is better than last year's rate of 1.77. Current assets also cover six months of total operating expenses, including depreciation. Excluding depreciation, current assets cover almost seven months of operating expenditures.

ENDOWMENT AND OTHER INVESTMENTS

Performance. The major portion of the University's endowment is maintained in a single investment pool named the University Pooled Endowment Fund. The annual return for the Pooled Endowment Fund this year was 12.7 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 \$65.7 million, or 34.6 percent.

Distribution. The University distributes endowment earnings in a way designed to balance the annual support required for operational needs 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 Pooled Endowment Fund was \$88.8 million, consisting of \$13.6 million in current year's cash income and \$75.2 million in net realized gains and asset appreciation.

Investments. The total for endowment investments on the Statement of Net Assets is \$2.2 billion. The University's portion is approximately \$1.98 billion, while the remainder of \$227 million comprises endowment assets held on behalf of related foundations and others. For the previous fiscal year, \$174 million of endowment assets was held on behalf of related foundations, so foundation endowment assets managed by the University increased by 30.4 percent. From a net assets perspective, earnings from the endowment, while expendable, are mostly restricted as to use by the donors. It is important to note that of the University's endowment funds, only \$563 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, research efforts, and other important programs and activities. As of June 30, 2004, the remainder of the endowment (72 percent) was classified as restricted net assets with the breakdown as follows: \$322 million of restricted non-expendable net assets; \$1.1 billion of restricted expendable net assets, including \$34 million of restricted life income funds. To this total of \$2.2 billion of endowment held by the University should be added the \$559 million endowment held by the six foundations now required by GASB Statement 39 to be reported as component units. The total endowment held by the University and these six foundations was valued on June 30, 2004, at \$2.7 billion.

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, balanced with new construction.

Capital additions, net of retirements, were \$113.4 million in 2004 and \$148.9 million in 2003. 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, 2004, included the expansion of the University Hospital; construction of the John Paul Jones Arena; the replacement of the Observatory Hill dining facility; construction of Wilsdorf Hall for the School of Engineering and Applied Science; and the renovation of Fayerweather Hall for the art history program. Other projects that are in the design stage include the renovation and expansion of Rouss Hall for the McIntire School of Commerce; Ruffin Hall, the new studio art building; the expansion and renovation of the School of Architecture's Campbell Hall; construction of a new medical research building, MR-6; and development of the South Lawn Project.

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. Another service, Fitch Ratings, assigned the University its highest AAA rating. Last year Standard and Poor's joined in assigning its AAA rating to the University. The University of Virginia is now 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 implemented its commercial paper program in 2004. Total commercial paper draws of \$19.7 million were made against a total authorization of \$100 million. Commercial paper is a tool that provides bridge financing in the short term at optimum rates.

Debt additions totaled \$20 million primarily as a result of the issuance of commercial paper. The University's debt portfolio contains a strategic mix of both variable- and fixed-rate obligations. The six foundations now required by GASB Statement No. 39 to be reported as component units held \$114 million of long-term debt outstanding at June 30, 2004.

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, 2004 and 2003 (restated), are summarized below.

NET ASSETS (in thousands)	2004	2003	Increase/(Decrease)	
			Amount	Percent
INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT	\$ 955,092	\$ 917,924	\$ 37,168	4.0%
RESTRICTED				
Non-expendable	322,218	311,779	10,439	3.3%
Expendable	1,389,122	1,275,493	113,629	8.9%
UNRESTRICTED	1,055,560	944,310	111,250	11.8%
TOTAL NET ASSETS	\$ 3,721,992	\$ 3,449,506	\$ 272,486	7.9%

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. These net assets increased \$37 million or 4 percent, continuing steady but predictable growth in capital assets. In the previous fiscal year, the growth was 5.3 percent.

Restricted non-expendable net assets comprise the University's permanent endowment funds. These are stated at original cost and exclude earnings and gains, but include any losses.

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.

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. Given below is a summarized statement of the University's revenues, expenses, and changes in net assets for the years ended June 30, 2004, and June 30, 2003 (restated).

SUMMARY OF THE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS (in thousands)			Increase/(Decrease)	
	2004	2003	Amount	Percent
Operating revenues	\$ 1,381,573	\$ 1,257,044	\$ 124,529	9.9%
Operating expenses (Note 8)	1,604,674	1,492,784	111,890	7.5%
OPERATING LOSS	(223,101)	(235,740)	12,639	5.4%
NON-OPERATING REVENUES (EXPENSES)				
State appropriations (Note 7)	125,321	140,851	(15,530)	(11.0%)
Gifts	84,850	70,545	14,305	20.3%
Investment income	255,380	189,702	65,678	34.6%
Other net non-operating expenses	(8,644)	(11,742)	3,098	26.4%
NET NON-OPERATING REVENUES	456,907	389,356	67,551	17.3%
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	233,806	153,616	80,190	52.2%
Capital appropriations, gifts, and grants	40,604	37,883	2,721	7.2%
Additions to permanent endowments	10,215	30,170	(19,955)	(66.1%)
Special item: write down of equipment (Note 14)	(12,139)	-	(12,139)	-
TOTAL OTHER REVENUES	38,680	68,053	(29,373)	(43.2%)
Increase in net assets	272,486	221,669	50,817	22.9%
Net assets—beginning of year	3,449,506	3,227,837	221,669	6.9%
NET ASSETS—END OF YEAR	\$ 3,721,992	\$ 3,449,506	\$ 272,486	7.9%

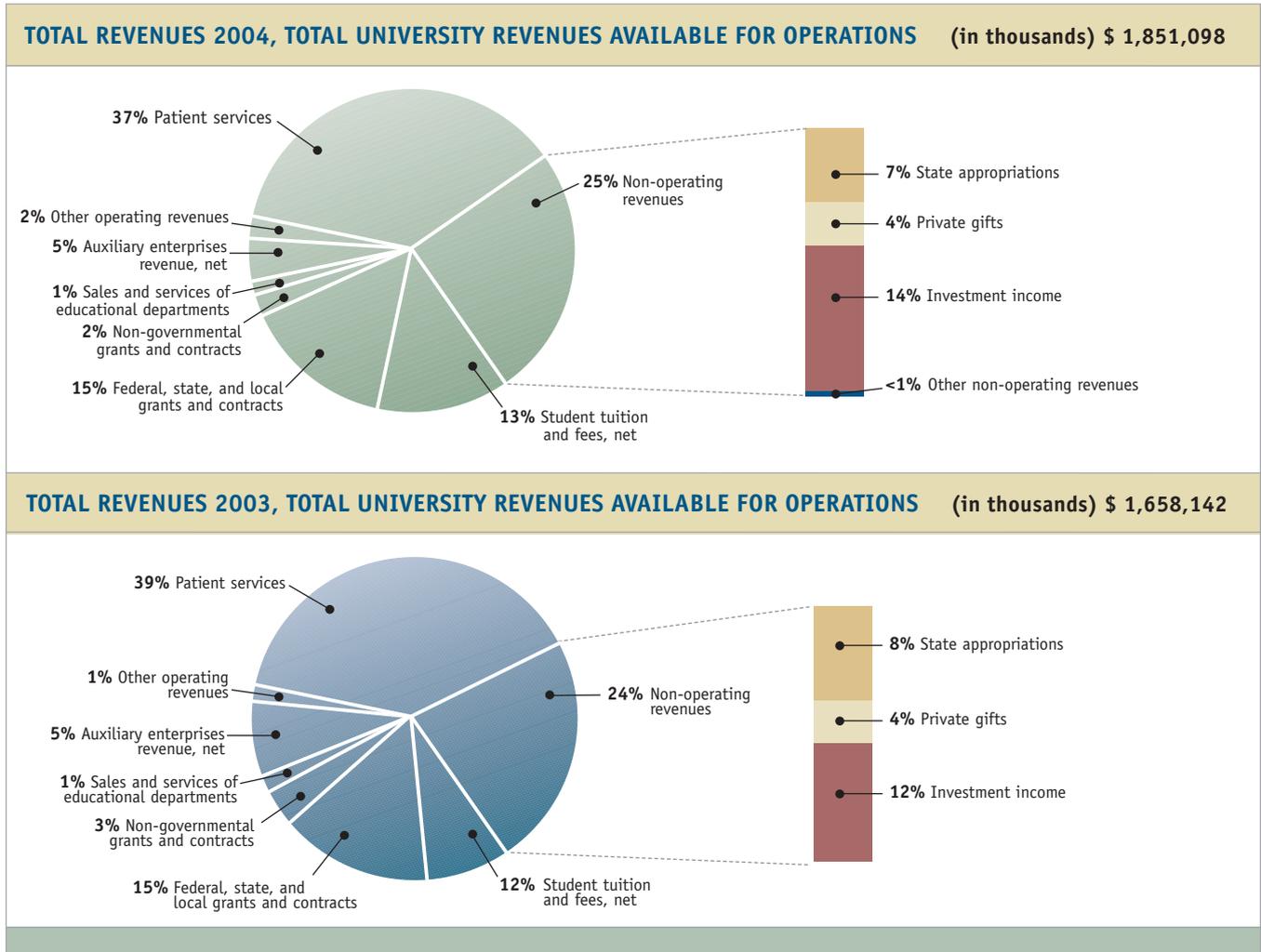
One of the University's greatest strengths is its well-balanced stream of revenues, which allows it to weather difficult economic times.

On the following page is a graphic illustration of revenues by source (both operating and non-operating), which are used to fund the University's operating activities for the fiscal years ended June 30, 2004 and 2003. As noted earlier, GASB Statement No. 34 requires state appropriations, gifts, and other significant revenues to be treated as non-operating revenues. Since these revenues support operating expenses, they are included in the charts.

SUMMARY OF REVENUES, TOTAL UNIVERSITY (in thousands)	2004	2003	Increase/(Decrease)	
			Amount	Percent
OPERATING REVENUES				
Student tuition and fees, net	\$ 233,786	\$ 204,078	\$ 29,708	14.6%
Federal, state, and local grants and contracts	281,260	253,733	27,527	10.8%
Non-governmental grants and contracts	42,316	46,573	(4,257)	(9.1%)
Sales and services of educational departments	21,650	19,905	1,745	8.8%
Auxiliary enterprises revenue, net	89,149	81,671	7,478	9.2%
Other operating revenues	26,834	13,193	13,641	103.4%
Patient services	686,578	637,891	48,687	7.6%
TOTAL OPERATING REVENUES	1,381,573	1,257,044	124,529	9.9%
NON-OPERATING REVENUES				
State appropriations	125,321	140,851	(15,530)	(11.0%)
Private gifts	84,850	70,545	14,305	20.3%
Investment income	255,380	189,702	65,678	34.6%
Other non-operating revenues	3,974	-	3,974	-
TOTAL NON-OPERATING REVENUES	469,525	401,098	68,427	17.1%
TOTAL UNIVERSITY REVENUES AVAILABLE FOR OPERATIONS	\$ 1,851,098	\$ 1,658,142	\$ 192,956	11.6%

Patient services revenues accounted for 49.7 percent of the University's operating revenues and 37.1 percent of the operating and non-operating revenues combined. Additionally, state appropriations and student tuition and fees, which represent 6.8 percent and 12.6 percent of the University's total revenues, respectively, are used to fund current operations.

State appropriations decreased by \$15.5 million, or 11 percent. This decrease continues a trend of declining state funding for operations. On the other hand, net tuition and fees increased by \$29.7 million, or 14.6 percent. The Board of Visitors approved a tuition and fee increase last year to help offset the continued reductions in state funding.



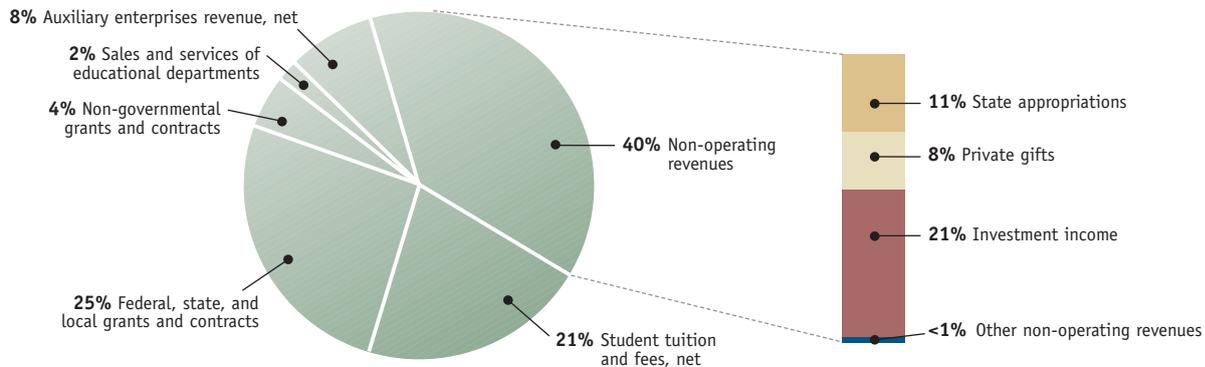
SUMMARY OF REVENUES, EXCLUDING THE MEDICAL CENTER

The University measures its performance both for the University as a whole and for the University without its Medical Center. The exclusion of the University's Medical Center provides a clearer view of the operations of the schools and colleges, as well as the central administration. The following is a graphic illustration of University revenues by source (both operating and non-operating), which are used to fund operating activities other than the hospitals, health centers, and similar activities, for the years ended June 30, 2004 and 2003 (restated).

SUMMARY OF REVENUES, EXCLUDING MEDICAL CENTER (in thousands)	2004	2003	Increase/(Decrease)	
			Amount	Percent
OPERATING REVENUES				
Student tuition and fees, net	\$ 233,786	\$ 204,078	\$ 29,708	14.6%
Federal, state, and local grants and contracts	281,260	253,733	27,527	10.8%
Non-governmental grants and contracts	42,316	46,573	(4,257)	(9.1%)
Sales and services of educational departments	21,650	19,905	1,745	8.8%
Auxiliary enterprises revenue, net	89,149	81,671	7,478	9.2%
TOTAL OPERATING REVENUES	668,161	605,960	62,201	10.3%
NON-OPERATING REVENUES				
State appropriations	125,321	140,851	(15,530)	(11.0%)
Private gifts	84,314	70,160	14,154	20.2%
Investment income	239,209	175,684	63,525	36.2%
Other non-operating revenues	6,266	258	6,008	2328.7%
TOTAL NON-OPERATING REVENUES	455,110	386,953	68,157	17.6%
TOTAL ACADEMIC REVENUES	\$1,123,271	\$ 992,913	\$ 130,358	13.1%

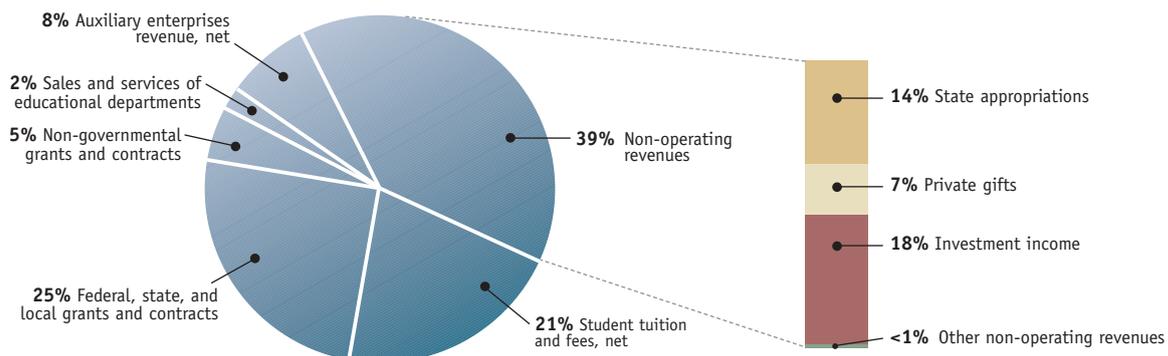
TOTAL REVENUES 2004, EXCLUDING MEDICAL CENTER

(in thousands) \$ 1,123,271



TOTAL REVENUES 2003, EXCLUDING MEDICAL CENTER

(in thousands) \$ 992,913



The figures excluding the Medical Center demonstrate that the academic revenue streams are balanced but changing. Major sources for 2004 included federal, state, and local grants and contracts, 25 percent; net tuition and fees, 21 percent; investment income, 21 percent; and state appropriations, 11 percent. These percentages show a shift from last fiscal year, when 14 percent was provided by state appropriations. As noted earlier, state appropriations continue to decrease, while the performance of the endowment in 2004 was very strong.

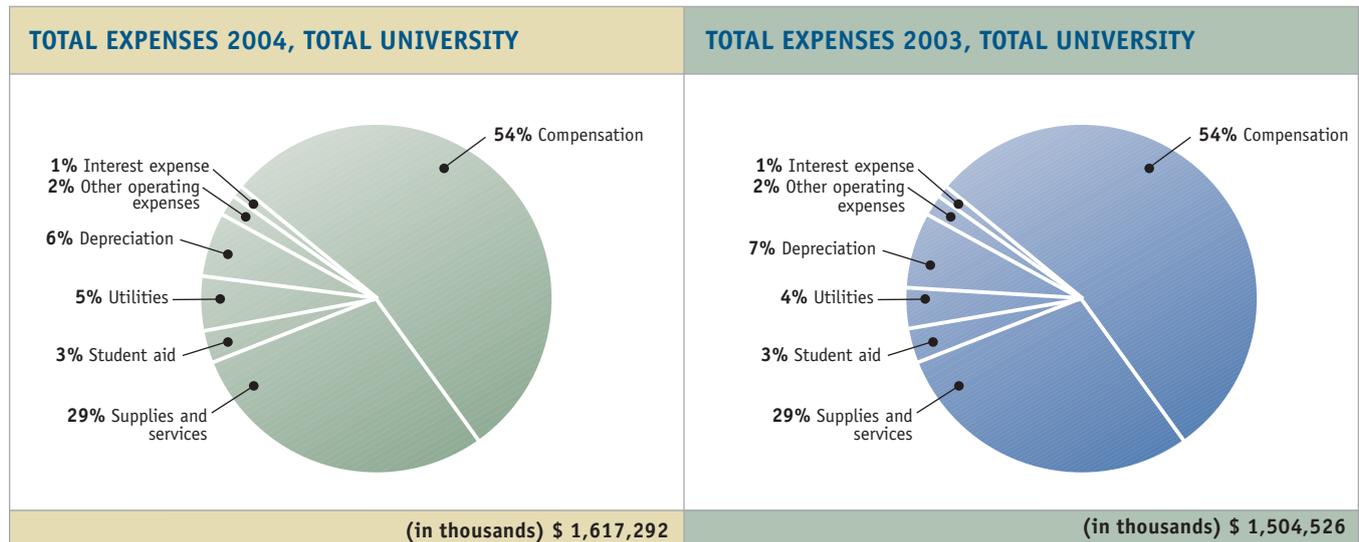
The University continues to make revenue diversification, along with cost containment, an ongoing priority. This is necessary as the University continues to face significant financial pressure with state budget reductions, increased compensation and benefit costs, and escalating technology and energy prices. While tuition and state appropriations fund 39 percent of the University's academic division costs, 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 \$23.3 million, or 7.7 percent, to a total of \$323.6 million in 2004. This 7.7 percent increase is less than last year's 14.7 percent rise. This change was expected. While the National Institutes of Health (NIH) continues to provide substantial sponsored programs funding, that funding increased at a lesser rate than in recent years.

SUMMARY OF EXPENSES, TOTAL UNIVERSITY

A summary of the University's expenses, for the years ended June 30, 2004 and 2003 (restated), appears below.

SUMMARY OF EXPENSES, TOTAL UNIVERSITY (in thousands)	2004	2003	Increase/(Decrease)	
			Amount	Percent
OPERATING EXPENSES				
Compensation	\$ 893,463	\$ 822,201	\$ 71,262	8.7%
Supplies and services	467,520	448,886	18,634	4.2%
Student aid	40,537	37,738	2,799	7.4%
Utilities	76,105	58,718	17,387	29.6%
Depreciation	102,597	99,915	2,682	2.7%
Other operating expenses	24,452	25,326	(874)	(3.5%)
TOTAL OPERATING EXPENSES	1,604,674	1,492,784	111,890	7.5%
NON-OPERATING EXPENSES				
Interest expense	12,618	11,467	1,151	10.0%
Other non-operating expenses	-	275	(275)	-
TOTAL NON-OPERATING EXPENSES	12,618	11,742	876	7.5%
TOTAL UNIVERSITY EXPENSES	\$1,617,292	\$ 1,504,526	\$ 112,766	7.5%

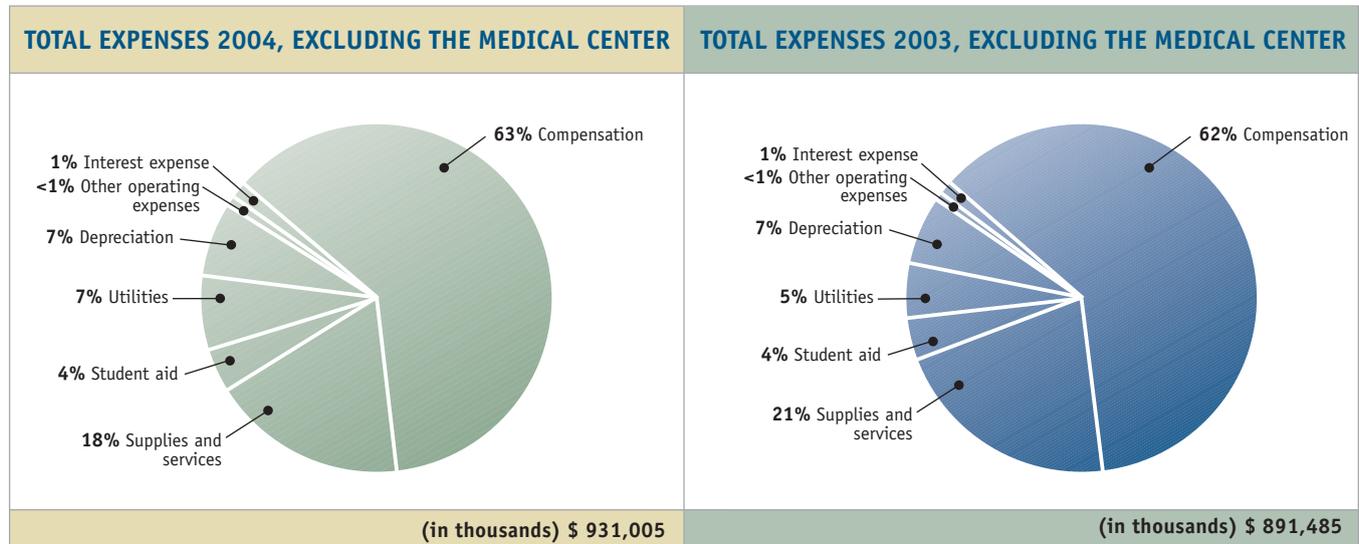


As a percentage, compensation (salaries and benefits) remained constant at 54 percent of total expenses. However, in dollars, compensation increased by \$71.3 million as the Board of Visitors took action to address faculty and staff compensation levels that had fallen well below those of the University's national peers. For fiscal year 2004, the board supplemented the state's salary increases with an additional 1.75 percent in targeted, merit-based raises for teaching faculty.

Student aid expense increased \$2.8 million, or 7.4 percent, as the University continued its commitment to meeting 100 percent of demonstrated need. Depreciation increased slightly by \$2.7 million, or 2.7 percent. Interest expense on capital asset-related debt increased by 10 percent, or \$1.2 million, because of the new debt issued in March 2003 for new construction. However, interest expense as a percentage of total expenses actually decreased to less than 1 percent. Interest is also less than 1 percent of operating revenues, highlighting the University's prudent use of debt financing.

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 footnotes to the financial statements. Expenses for patient services, instruction, and research account for 42.5 percent, 13.5 percent, and 17.7 percent, respectively, of total operating expenses. When combined, these major functions account for 73.7 percent of the total, which is consistent with the mission-critical nature of instruction, research, and patient services for the University.

SUMMARY OF EXPENSES, EXCLUDING THE MEDICAL CENTER (in thousands)	2004	2003	Increase/(Decrease)	
			Amount	Percent
OPERATING EXPENSES				
Compensation	\$ 587,646	\$ 544,870	\$ 42,776	7.9%
Supplies and services	162,604	188,228	(25,624)	(13.6%)
Student aid	40,537	37,738	2,799	7.4%
Utilities	63,902	47,203	16,699	35.4%
Depreciation	64,942	63,941	1,001	1.6%
Other operating expenses	3,076	2,466	610	24.7%
TOTAL OPERATING EXPENSES	922,707	884,446	38,261	4.3%
NON-OPERATING EXPENSES				
Interest expense	8,298	7,039	1,259	17.9%
TOTAL NON-OPERATING EXPENSES	8,298	7,039	1,259	17.9%
TOTAL ACADEMIC EXPENSES	\$ 931,005	\$ 891,485	\$ 39,520	4.4%



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 non-capital financing activities, cash flows from capital and related financing activities, and cash flows from investing activities.

This statement provides a slightly different financial perspective from the Statement of Revenues, Expenses, and Changes in Net Assets. On the latter statement, state appropriations, gifts, and investment income are considered non-operating revenues. However, on the Cash Flow Statement, state appropriations and gifts are reflected under non-capital financing activities, while investment income resides under investing activities. These cash inflows are critical to funding the operations of the University.

SUMMARY OF STATEMENT OF CASH FLOWS, TOTAL UNIVERSITY (in thousands)	2004	2003	Increase/(Decrease)	
			Amount	Percent
Cash flows from operating activities	\$ (117,851)	\$ (102,575)	\$ (15,276)	(14.9%)
Cash flows from non-capital financing activities	207,063	239,178	(32,115)	(13.4%)
Cash flows from capital and related financing activities	(163,615)	(39,438)	(124,177)	(314.9%)
Cash flows from investing activities	67,106	(61,996)	129,102	208.2%
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	\$ (7,297)	\$ 35,169	\$ (42,466)	(120.7%)

The major shift in cash flow from 2003 to 2004 occurred in investing activities. In 2003, investing activities used \$62 million; whereas, in 2004 investing activities provided \$67 million, a \$129 million change. This \$129 million provided the cash to cover the acquisition and construction of capital assets without issuing any additional long-term debt, as outlined in the capital and related financing activities section.

FUTURE ECONOMIC OUTLOOK

Executive management believes that the University is well positioned to maintain and enhance its strong financial condition, and to continue providing excellent programs and service to its constituents. The University's financial position, as evidenced by the highest credit rating obtainable, provides a high degree of flexibility in securing capital funds on the most competitive terms. To fund its capital projects, the University anticipates issuing more bonds in the upcoming fiscal year. The issuance of long-term bonds and the use of the short-term commercial paper program, along with the ongoing efforts toward revenue diversification, will enable the University to obtain the necessary resources to support and maintain its level of excellence.

The cost of the University's health benefits has increased significantly and will probably continue to increase as the cost of medical care and prescription drugs are forecast to rise. Also, the Board of Visitors is committed to restoring compensation levels in order to compete for the best faculty and staff. The University will continue to face competitive pressures related to attracting and retaining leading faculty and staff.

A major factor in the University's future will continue to be its relationship with the Commonwealth of Virginia. There is a direct relationship between the decrease in state support and the University's ability to enhance its core academic programs. For the second year in a row, the University's operating budget will have a higher amount of private funding than state funding. As state appropriations continue to decrease, the University will look to increase two other sources of revenue: 1) philanthropic support and 2) tuition. The University has announced its \$3.0 billion capital campaign, which is on a scale not seen before in its history. Increasing tuition revenue to offset the state reductions will continue to be a focus of the board, with an emphasis on developing a long-term pricing policy. However, the University will not increase tuition without a corresponding focus on improving access and affordability for students. This year the board announced an ambitious new financial-aid program, AccessUVA, which commits \$17.9 million annually when fully implemented. AccessUVA will offer to meet 100 percent of financial need, replace loans with grants for low-income students, and create a maximum loan cap for all students.

The University has joined two other leading institutions—Virginia Tech and the College of William and Mary—to ask the General Assembly to enact the Commonwealth Chartered Universities and Colleges Act. Under this new model, the institutions would craft a new relationship with the Commonwealth. In return for limits on future growth in appropriations, the institutions would be given more administrative autonomy, including the ability to set tuition levels, and would be free to achieve operational efficiencies that would reduce costs and streamline operations.

The University continues to execute its plan to modernize and expand its complement of older teaching and research facilities with new construction. This strategy incorporates the University's growth plans and the continuing effects of technology on teaching and research methodologies. The Board of Visitors has endorsed a proposal for the University to expand its research activities in line with the governor's request and the University's own mission.

The University's Medical Center is well positioned, although ongoing constraints on revenue are expected with the unfunded demands to serve indigent patients and fiscal pressures created by new federal and state legislation. The Medical Center has begun a major expansion of its University Hospital facility. The expansion will increase the number of operating rooms and thereby increase patient census and net revenue. Management believes that much of the payment pressure can be offset by growth in patient volume and continued efforts to contain growth in expenses.

The University will continue to employ its long-term investment strategy to maximize total returns, at an appropriate level of risk, while utilizing a spending rate policy to insulate the University's operations from temporary market volatility.

The University's philosophy will always stress the undergraduate residential experience. This year, the University made a commitment to guarantee housing to all second-year students who desire it. First-year students already live on Grounds. With exceptionally strong student demand for admission to the University's programs, and with anticipated statewide growth in the number of college-eligible students, the University plans to increase its undergraduate enrollment at a modest rate over the next ten years.

Taken together, the development of a new relationship with the Commonwealth of Virginia; the creation of a long-range tuition plan; the establishment of a new financial-aid program; the beginning of a new, unprecedented capital campaign; and a continuing commitment to the core values of its founder, Thomas Jefferson, will serve the University well in the decades to come.

MANAGEMENT RESPONSIBILITY*October 20, 2004*

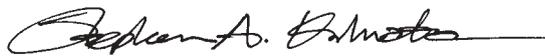
TO THE PRESIDENT AND BOARD OF VISITORS
OF THE UNIVERSITY OF VIRGINIA:

We are pleased to submit the annual Financial Report of the University of Virginia for the year ended June 30, 2004. Management is responsible for the objectivity and integrity of the accompanying financial statements, which have been prepared in conformance with the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*. The financial statements, of necessity, included management's estimates and judgments relating to matters not concluded by year-end. Financial information contained elsewhere in the annual Financial Report is consistent with that included in the financial statements.

Management is responsible for maintaining the University's system of internal control that includes careful selection and development of employees, proper division of duties, and written accounting and operating policies and procedures augmented by a continuing internal audit program. Although there are inherent limitations to the effectiveness of any system of internal accounting controls, management believes that the University's system provides reasonable, but not absolute, assurance that assets are safeguarded from unauthorized use or disposition and that the accounting records are sufficiently reliable to permit the preparation of financial statements that conform in all material respects with generally accepted accounting principles.

The Auditor of Public Accounts for the Commonwealth of Virginia, independent certified public accountants, provides an independent opinion regarding the fair presentation in the financial statements of the University's financial position. Their examination was made in accordance with generally accepted government auditing standards and included a review of the system of internal accounting controls to the extent they considered necessary to determine the audit procedures required to support their opinion. The Audit Committee of the Board of Visitors meets periodically and privately with the independent auditors, the internal auditors, and the financial officers of the University to review matters relating to the quality of the University's financial reporting, the internal accounting controls, and the scope and results of audit examinations. The committee also reviews the scope and quality of the internal auditing program.

Respectfully submitted,



Stephen A. Kimata
Assistant Vice President for Finance
and University Comptroller



Yoke San L. Reynolds
Vice President for Finance

AUDITOR'S OPINION

October 20, 2004

THE HONORABLE MARK R. WARNER
Governor of Virginia

THE HONORABLE LACEY E. PUTNEY
Chairman, Joint Legislative Audit and Review Commission

THE BOARD OF VISITORS
University of Virginia

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying basic financial statements of the University of Virginia, a component unit of the Commonwealth of Virginia, and its aggregate discretely presented component units as of and for the year ended June 30, 2004, as shown on pages 51 through 69. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the component units of the University, which are discussed in note 1 of the notes to the financial statements. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates the amounts included for the component units of the University, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the component units of the University that were audited by other auditors upon whose reports we are relying were audited in accordance with auditing standards generally accepted in the United States of America, but not in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Virginia and of its aggregate discretely presented component units as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in the notes to the financial statements, the University has implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 39, which addresses the conditions under which institutions should include associated foundations as component units and how such component units should be displayed in the financial statements. The University has determined that six foundations meet the criteria established by GASB Statement No. 39 to be component units and are included in the financial statements as of and for the year ended June 30, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2004, on our consideration of the University of Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 40 through 48 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Walter J. Kucharski
Auditor of Public Accounts

UNIVERSITY OF VIRGINIA Statement of Net Assets (in thousands) As of June 30, 2004 (with comparative information as of June 30, 2003)	2004	2003
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (NOTE 2)	\$ 266,045	\$ 188,082
Short-term investments (NOTE 2)	342,593	378,143
Accounts receivable, net (NOTE 3a)	184,295	153,866
Prepaid expenses	11,499	8,286
Inventories	14,701	14,136
Notes receivable, net (NOTE 3b)	7,839	6,892
Other	242	59
TOTAL CURRENT ASSETS	827,214	749,464
NON-CURRENT ASSETS		
Restricted cash and cash equivalents (NOTE 2)	8,774	94,034
Endowment investments (NOTE 2)	2,206,032	1,962,217
Other long-term investments (NOTE 2)	305,465	281,398
Deposit with bond trustee	25,660	80,232
Notes receivable, net (NOTE 3b)	16,036	16,999
Pledges receivable, net (NOTE 3c)	43,381	27,393
Capital assets—depreciable, net (NOTE 3d)	1,132,722	1,094,722
Capital assets—non-depreciable (NOTE 3d)	246,076	190,287
Goodwill (NOTE 3e)	895	1,472
Other	649	–
TOTAL NON-CURRENT ASSETS	3,985,690	3,748,754
TOTAL ASSETS	\$ 4,812,904	\$ 4,498,218
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities (NOTE 3f)	\$ 156,529	\$ 142,606
Deferred revenue (NOTE 3g)	58,665	56,995
Obligations under securities lending (NOTE 2)	117,962	160,079
Deposits held in custody for others	18,203	14,959
Long-term liabilities—current portion (NOTE 4)	76,557	48,837
Advance from Treasurer of Virginia	260	260
TOTAL CURRENT LIABILITIES	428,176	423,736
NON-CURRENT LIABILITIES (NOTE 4)		
Long-term debt	410,359	425,453
Other non-current liabilities	252,377	199,523
TOTAL NON-CURRENT LIABILITIES	662,736	624,976
TOTAL LIABILITIES	\$ 1,090,912	\$ 1,048,712
NET ASSETS		
INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT	\$ 955,092	\$ 917,924
RESTRICTED		
Non-expendable	322,218	311,779
Expendable	1,389,122	1,275,493
UNRESTRICTED	1,055,560	944,310
TOTAL NET ASSETS	\$ 3,721,992	\$ 3,449,506
Certain 2003 amounts have been restated to conform to 2004 classifications. The accompanying Notes to Financial Statements are an integral part of this statement.		

UNIVERSITY OF VIRGINIA Component Units COMBINED STATEMENTS OF FINANCIAL POSITION (in thousands) As of June 30, 2004	2004
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 55,489
Receivables	60,424
Other current assets	11,786
TOTAL CURRENT ASSETS	127,699
NON-CURRENT ASSETS	
Pledges receivable, net of current portion of \$20,881	43,238
Long-term investments	746,020
Capital assets, net of depreciation	158,037
Other non-current assets	27,259
TOTAL NON-CURRENT ASSETS	974,554
TOTAL ASSETS	\$ 1,102,253
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Assets held in trust for others	\$ 62,722
Accounts payable—affiliated organizations	21,357
Other current liabilities	57,769
TOTAL CURRENT LIABILITIES	141,848
NON-CURRENT LIABILITIES	
Long-term debt, net of current portion of \$2,184	114,341
Other long-term liabilities	70,997
TOTAL NON-CURRENT LIABILITIES	185,338
TOTAL LIABILITIES	\$ 327,186
NET ASSETS	
Unrestricted	\$ 206,734
Temporarily restricted	272,053
Permanently restricted	296,280
TOTAL NET ASSETS	\$ 775,067
TOTAL LIABILITIES AND NET ASSETS	\$ 1,102,253
The accompanying Notes to Financial Statements are an integral part of this statement.	

UNIVERSITY OF VIRGINIA

Statement of Revenues, Expenses, and Changes in Net Assets (in thousands)

For the year ended June 30, 2004

(with comparative information for the year ended June 30, 2003)

	2004	2003
REVENUES		
OPERATING REVENUES		
Student tuition and fees (net of scholarship allowances of \$43,817 and \$37,670)	\$ 233,786	\$ 204,078
Patient services (net of indigent care of \$454,700 and \$355,948)	686,578	637,891
Federal grants and contracts	274,018	246,244
State and local grants and contracts	7,242	7,489
Non-governmental grants and contracts	42,316	46,573
Sales and services of educational departments	21,650	19,905
Auxiliary enterprises revenue (net of scholarship allowances of \$4,743 and \$4,933)	89,149	81,671
Other operating revenues	26,834	13,193
TOTAL OPERATING REVENUES	1,381,573	1,257,044
EXPENSES		
OPERATING EXPENSES (NOTE 8)		
Compensation	893,463	822,201
Supplies and services	467,520	448,886
Student aid	40,537	37,738
Utilities	76,105	58,718
Depreciation	102,597	99,915
Other operating expenses	24,452	25,326
TOTAL OPERATING EXPENSES	1,604,674	1,492,784
OPERATING LOSS	(223,101)	(235,740)
NON-OPERATING REVENUES (EXPENSES)		
State appropriations (NOTE 7)	125,321	140,851
Gifts	84,850	70,545
Investment income	255,380	189,702
Interest on capital asset-related debt	(12,618)	(11,467)
Other non-operating revenues (expenses)	3,974	(275)
NET NON-OPERATING REVENUES	456,907	389,356
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	233,806	153,616
Capital appropriations	14,593	16,667
Capital grants and gifts	26,011	21,216
Additions to permanent endowments	10,215	30,170
Special item: Write-down of equipment (NOTE 14)	(12,139)	-
TOTAL OTHER	38,680	68,053
INCREASE IN NET ASSETS	272,486	221,669
NET ASSETS		
Net assets—beginning of year	3,449,506	3,227,837
NET ASSETS—END OF YEAR	\$ 3,721,992	\$ 3,449,506

Certain 2003 amounts have been restated to conform to 2004 classifications. The accompanying Notes to Financial Statements are an integral part of this statement.

UNIVERSITY OF VIRGINIA Component Units COMBINED STATEMENTS OF ACTIVITIES (in thousands) For the year ended June 30, 2004	2004
UNRESTRICTED REVENUES AND SUPPORT	
Contributions	\$ 20,653
Fees for services, rentals, and sales	224,378
Investment income	24,251
Net assets released from restrictions	54,774
Other revenues	35,207
TOTAL UNRESTRICTED REVENUES AND SUPPORT	359,263
EXPENSES	
Program services, lectures, and special events	239,630
Scholarships and financial aid	18,863
Management and general	43,917
Other expenses	38,608
TOTAL EXPENSES	341,018
Excess of unrestricted revenues and support over expenses	18,245
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS	
Contributions	58,403
Investment and other income	55,225
Reclassifications per donor stipulation	(248)
Net assets released from restrictions	(54,774)
NET CHANGES IN TEMPORARILY RESTRICTED NET ASSETS	58,606
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS	
Contributions	16,539
Investment and other income	732
Reclassifications per donor stipulation	248
NET CHANGES IN PERMANENTLY RESTRICTED NET ASSETS	17,519
CHANGE IN NET ASSETS	94,370
NET ASSETS—BEGINNING OF YEAR	680,697
NET ASSETS—END OF YEAR	\$ 775,067
The accompanying Notes to Financial Statements are an integral part of this statement.	

UNIVERSITY OF VIRGINIA
Statement of Cash Flows (in thousands)

For the year ended June 30, 2004 (with comparative information for the year ended June 30, 2003)

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 235,969	\$ 203,388
Grants and contracts	330,504	293,219
Receipts from patients and third parties	670,877	634,214
Sales and services of educational activities	14,743	20,200
Sales and services of auxiliary enterprises	88,969	81,530
Payments to employees and fringe benefits	(896,589)	(823,958)
Payments to vendors and suppliers	(558,659)	(490,463)
Payments for scholarships and fellowships	(40,537)	(37,738)
Perkins and other loans issued to students	(7,627)	(9,949)
Collection of Perkins and other loans to students	7,763	12,794
Other receipts	36,736	14,188
NET CASH USED BY OPERATING ACTIVITIES	(117,851)	(102,575)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
State appropriations	126,158	135,317
Additions to true endowments	10,215	30,171
Direct lending receipts, including PLUS loans	55,290	48,405
Direct lending payments, including PLUS loans	(55,290)	(48,405)
Receipts on behalf of agencies	3,244	2,444
Payments on behalf of agencies	(3,524)	(3,958)
Non-capital gifts and grants	75,370	75,204
Other	(4,400)	-
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	207,063	239,178
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	1,017	10,934
Capital gifts and grants received	6,594	16,416
Proceeds from capital debt	79,766	306,217
Proceeds from sale of capital assets	382	720
Acquisition and construction of capital assets	(267,967)	(192,629)
Principal paid on capital debt and leases	(23,283)	(97,834)
Interest paid on capital debt and leases	(14,695)	(11,912)
(Deposit to)/Withdrawal from trustee	54,571	(71,350)
NET CASH USED BY RELATED FINANCING ACTIVITIES	(163,615)	(39,438)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	1,663,565	1,534,846
Interest on investments	29,978	49,610
Purchase of investments and related fees	(1,626,072)	(1,646,573)
Other investment activities	(365)	121
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	67,106	(61,996)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		
Cash and cash equivalents, July 1	\$ 282,116	\$ 246,947
CASH AND CASH EQUIVALENTS, JUNE 30	274,819	282,116
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	\$ (223,101)	\$ (235,740)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Depreciation expense	102,597	99,915
Provision for uncollectible loans and writeoffs	(117)	242
Miscellaneous non-operating income	6,265	258
CHANGES IN ASSETS AND LIABILITIES		
Receivables, net	(8,299)	14,321
Inventories	(565)	(2,807)
Other assets	10,940	(355)
Prepaid expenses	(3,213)	536
Notes receivable, net	137	2,842
Accounts payable and accrued liabilities	(2,898)	24,830
Non-cash adjustment to supplies and services	(396)	(1,546)
Deferred revenue	(1,116)	257
Accrued vacation leave—long term	1,915	(5,328)
TOTAL ADJUSTMENTS	105,250	133,165
NET CASH USED BY OPERATING ACTIVITIES	\$ (117,851)	\$ (102,575)

Certain 2003 amounts have been restated to conform to 2004 classifications. The accompanying Notes to Financial Statements are an integral part of this statement.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Purpose

The University of Virginia is an agency of the Commonwealth of Virginia and is governed by the University's Board of Visitors. A separate report is prepared for the Commonwealth of Virginia that includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. The University is a component unit of the Commonwealth of Virginia and is included in the basic financial statements of the Commonwealth. The University consists of three divisions. The Academic Division and the University of Virginia's College at Wise generate and disseminate knowledge in the humanities, arts, scientific, and professional disciplines through instruction, research, and public service. The Medical Center Division provides routine and ancillary patient services through a full-service hospital and clinics.

Reporting Entity

During the year ended June 30, 2004, the University implemented GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. This statement addresses the conditions under which institutions should include associated foundations as component units and how such component units should be displayed in the financial statements.

There are currently twenty-one related foundations (parent) operating in support of the interests of the University. These related foundations are not-for-profit corporations controlled by separate boards of directors. Before implementation of GASB Statement No. 39, they were not included as component units of the University. The University determined that the following six foundations meet the criteria established by GASB Statement No. 39 to be component units and are included in the financial statements presented as of June 30, 2004:

- University of Virginia Law School Foundation
- University of Virginia Darden School Foundation
- Alumni Association of the University of Virginia
- Virginia Athletics Foundation
- University of Virginia Foundation
- University of Virginia Health Services Foundation

The foundations' financial information is included in the accompanying financial statements. Condensed financial statements for each component unit are disclosed in Note 6. Information on the organization and nature of activities for each foundation is presented below.

The **University of Virginia Law School Foundation** was established as a tax-exempt organization to foster the study and teaching of law at the University of Virginia and to receive and administer funds for that purpose. The Foundation is affiliated with the University of Virginia and expends funds to support professorships, faculty benefits, financial aid, student activities, and other academic programs within the University's Law School. For additional information, contact the Treasurer's Office at Slaughter Hall, 580 Massie Road, Charlottesville, VA 22903.

The **University of Virginia Darden School Foundation** was established as a non-stock corporation created under the laws of the Commonwealth of Virginia. Its primary purposes are to promote the advancement and further the aims and purposes of the Colgate Darden Graduate School of Business Administration of the University of Virginia and to provide education for business executives. For

additional information, contact the Finance and Administration Office at P.O. Box 7263, Charlottesville, VA 22906.

The **Alumni Association of the University of Virginia** was established as a legally separate, tax-exempt organization to provide services to all alumni of the University of Virginia, thereby assisting the University of Virginia and all its students, faculty, and administration in attaining the University's highest priority of achieving eminence as a center of higher learning. The consolidated financial information of the Alumni Association of the University of Virginia includes the operating activities and financial position of the Alumni Association and the Jefferson Scholars Foundation. The Jefferson Scholars Program is an awards program primarily sponsored by the Alumni Association and was organized as a separate legal entity, the Jefferson Scholars Foundation, to become a wholly owned subsidiary of the Alumni Association. All related operations and assets were transferred to the Jefferson Scholars Foundation in 2001. For additional information, contact the Finance and Administration Office at P.O. Box 3446, Charlottesville, VA 22903.

The **Virginia Student Aid Foundation, Inc., T/A Virginia Athletics Foundation** was established as a tax-exempt organization to support intercollegiate athletic programs at the University of Virginia by providing student-athletes the opportunity to achieve academic and athletic excellence. The Foundation provides the funding for student-athlete scholarships at the University, funding for student-athlete academic advising programs at the University, operational support for various sports at the University, informational services to its members and the general public and ancillary support to the athletic programs at the University. The Foundation has adopted December 31 as its year end. All amounts reflected are as of December 31, 2003. For additional information, contact the Gift Accounting Office at P.O. Box 400833, Charlottesville, VA 22904.

The **University of Virginia Foundation** was established as a non-stock corporation under applicable Virginia statutes to provide administrative services to the University of Virginia and supporting organizations, engage in any and all matters pertaining to real property for the benefit of the University, and use and administer gifts, grants and bequests, and devises for the benefit of the University. For additional information, contact the Financial Services Office at P.O. Box 400218, Charlottesville, VA 22904.

The **University of Virginia Health Services Foundation** was established as a non-profit group practice health care provider organization designed to assist medical education through teaching and research within the academic environment of the Health System of the University of Virginia, and to coordinate and develop superior patient care in the Health System. The Foundation entered into an affiliation agreement with the University of Virginia for the Foundation through its member clinical departments to provide patient care at the Health System. The Foundation will provide patient care services to Health System patients, and in conjunction with the care of patients, will provide teaching services. The University will provide space and certain administrative services to the Foundation. The Foundation will reimburse the University for the salaries and fringe benefits of classified and hourly employees of the clinical departments paid by the University, and not funded by the Commonwealth of Virginia or by gifts, grants, and contracts. For additional information, contact the Finance Office at 500 Ray C. Hunt Drive, Charlottesville, VA 22903.

The University allows its affiliated foundations to participate in the University's pooled endowment fund, through which the University invests funds on behalf of the foundations. As such, these funds are liabilities of the University to the foundations, and are reported on the Statement of Net Assets as non-current liabilities. At June 30, 2004, these liabilities for all foundations amounted to \$227.5 million of the \$662.7 million total of non-current liabilities.

Reporting Basis

The accompanying financial statements are presented in accordance with generally accepted accounting principles applicable to governmental colleges and universities as promulgated by the Governmental Accounting Standards Board (GASB) and, for pronouncements issued prior to November 30, 1989, the Financial Accounting Standards Board (FASB). It is the University's policy not to follow FASB standards after that date. The component units included under GASB 39 continue to follow FASB pronouncements, and their financial statements are presented on that basis.

In accordance with GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* and GASB Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, as amended by GASB Statement Nos. 37 and 38, the University has elected to report as an entity engaged in business-type activities. Entities engaged in business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

GASB Statement No. 35 establishes standards for external financial reporting for public colleges and universities and requires that resources be classified for accounting and reporting purposes into the following net asset categories:

Invested in capital assets, net of related debt: Capital assets, net of accumulated depreciation and long-term debt attributable to the acquisition, construction, or improvement of these assets.

Restricted: Those net assets, either expendable or non-expendable, subject to donor-imposed restrictions stipulating how the resources may be used. Expendable net assets are those that can be satisfied by actions of the University. Non-expendable net assets, consisting of endowments, must be maintained in perpetuity.

Unrestricted: Those net assets that are not classified either as capital assets, net of related debt or restricted net assets. Unrestricted net assets may be designated for specific purposes by management.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the University's policy is first to apply the expense toward restricted resources, then toward unrestricted. Restricted funds remain classified as such until restrictions have been satisfied.

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when incurred and measurable, regardless of when the related cash flows take place. Non-exchange transactions, in which the University receives value without directly giving equal value in exchange, include grants, state appropriations, and private donations. On an accrual basis, revenues from these transactions are recognized in the fiscal year in which all eligibility requirements (resource provider conditions) have been satisfied, if measurable and probable of collection. The University does not capitalize works of art or historical treasures that are held for exhibition, education, research, and public service. These collections are neither disposed of for financial gain nor encumbered in any means. Accordingly, such collections are not recognized or capitalized for financial statement purposes.

Cash and Cash Equivalents

In addition to cash on deposit in private bank accounts, petty cash, and undeposited receipts, this classification includes cash on deposit with fiscal agents and short-term investments with the State Treasurer's Cash and Investment Pool (a governmental external investment pool). All other short-term investments are reported as investments.

Inventories

Inventories are valued at the lower of cost (generally determined on the weighted average method) or market value.

Investments

Investments in corporate stocks and marketable bonds are recorded at market value. Certain less marketable investments, principally real estate and private equity investments, are generally carried at estimated values as determined by management. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. Mortgages held for investment by the endowment fund are recorded at book value representing principal amounts due.

Endowment

The major portion of the University's endowment is maintained in a single investment pool named the University Pooled Endowment Fund. The Pooled Endowment Fund is pooled using a market value basis, with each individual fund subscribing to or disposing of units (permanent shares) on the basis of the market value per unit at the beginning of the month within which the transaction takes place.

Pledges Receivable

The University receives pledges and bequests of financial support from corporations, foundations, and individuals. Revenue is recognized when a pledge representing an unconditional promise to pay is received and all eligibility requirements, including time requirements, have been met. In the absence of such a promise, revenue is recognized when the gift is received. Endowment pledges do not meet eligibility requirements, as defined by GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, and are not recorded as assets until the related gift is received.

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the estimated future cash flows. An allowance for uncollectible pledges receivable is provided based on management's judgment of potential uncollectible amounts. The determination includes such factors as prior collection history and type of gift.

Fixed Assets and Depreciation

Fixed assets are stated at cost at date of acquisition, or fair market value at date of donation in the case of gifts. In the case of buildings, the University capitalizes fixed assets that have a value or cost in excess of \$250,000 at the date of acquisition and an expected useful life of one or more years. Effective July 1, 2003, the Academic Division increased its moveable equipment capitalization threshold to a value or cost of \$5,000 and an expected useful life of one or more years. The Medical Center Division capitalizes moveable equipment at a value or cost of \$2,000 and an expected useful life of one or more years. Maintenance or renovation expenditures of \$250,000 or more are capitalized only to the extent that such expenditures prolong the life of the asset or otherwise enhance its capacity to render service.

Depreciation of buildings, improvements other than buildings, and infrastructure is provided on a straight-line basis over the estimated useful lives ranging from ten to fifty years.

Depreciation of equipment and capitalized software is provided on a straight-line basis over estimated useful lives ranging from three to twenty years.

Depreciation of library books is calculated on a straight-line basis over ten years.

Fixed assets related to construction are capitalized as expenditures are incurred. Projects that have not been completed as of the date of the statement of net assets are classified as Construction in Process. Construction period interest cost in excess of earnings associated with the debt proceeds is capitalized as a component of the fixed asset.

Fixed assets, such as roads, parking lots, sidewalks, and other non-building structures and improvements are capitalized as infrastructure and depreciated accordingly.

In accordance with AICPA Statement of Position 98-1, the University capitalizes computer software developed or obtained for internal use. Capitalization begins at the application development stage, which consists of the design, coding, installation, and testing of the software and interfaces.

Deferred Revenue

Deferred revenue represents revenues collected but not earned as of June 30. This primarily comprises revenue for student tuition accrued in advance of the semester and advance payments on grants and contracts.

Interest Capitalization

Interest expense incurred during the construction of capital assets is capitalized, if material, net of interest income earned on resources set aside for this purpose. The University incurred net interest expense of \$3,352,949 for the fiscal year ended June 30, 2004. Interest capitalized for the fiscal year ended June 30, 2004, totaled \$2,081,830.

Accrued Compensated Absences

The amount of leave earned but not taken by non-faculty salaried employees is recorded as a liability on the Statement of Net Assets. The amount reflects, as of June 30, 2004, all unused vacation leave, sabbatical leave, and the amount payable upon termination under the Commonwealth of Virginia's sick leave payout policy. The applicable share of employer-related taxes payable on the eventual termination payments is also included.

Revenue Recognition

Revenues, as reflected on the Statement of Revenues, Expenses, and Changes in Net Assets, include all exchange and non-exchange transactions earned and in which all eligibility requirements (resource provider conditions) have been satisfied, if measurable and probable of collection.

Student tuition and student auxiliary fees are presented net of scholarships and fellowships applied to student accounts.

Certain auxiliary operations provide goods and services to internal customers. These auxiliary operations include activities such as central stores, the print shop, and other auxiliaries with interdepartmental activities. The net effect of these internal transactions has been eliminated in the Statement of Revenues, Expenses, and Changes in Net Assets to avoid inflating revenues and expenses.

Medical Center Sales and Services

A significant portion of the Medical Center services is rendered to patients covered by Medicare, Medicaid, or Blue Cross of Virginia. The Medical Center has entered into contractual agreements with these third parties to accept payment for services in amounts less than scheduled charges. In accordance with these agreements, the difference between the contractual payments due and the Medical Center scheduled billing rates results in contractual adjustments. Contractual adjustments are recorded as deductions from Medical Center revenues in the period in which the related services are rendered.

Certain annual settlements of amounts due for Medical Center services covered by third parties are determined through cost

reports that are subject to audit and retroactive adjustment by the third parties. Provisions for possible adjustments of cost reports have been estimated and reflected in the accompanying financial statements. Since the determination of settlements in prior years has been based on reasonable estimation, the difference in any year between the originally estimated amount and the final determination is reported in the year of determination as an adjustment to Medical Center revenues.

Operating Activities

The University's policy for defining operating activities is based primarily on an activity's character as an exchange event. Exchange events generally involve payments or receipts for providing or receiving goods and services. With the exception of interest expense, all expense transactions are classified as operating, while some revenue transactions (i.e., state appropriations, gifts, and investment income) are classified as non-operating in accordance with GASB Statement No. 34.

Scholarship Allowance

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowance in the Statement of Revenues, Expenses, and Changes in Net Assets. Scholarship allowance is the difference between the stated charge for goods and services provided by the University and the amount paid by students and/or third parties making payments on the students' behalf. Financial aid to students is reported using the alternative method as recommended by the National Association of College and University Business Officers (NACUBO). The alternative method is a simple proportionality algorithm that computes scholarship allowance on a University-wide basis by allocating the cash payments to students, excluding payments for services, on the ratio of total aid to the aid not considered to be third-party aid.

Reclassifications

Certain amounts from the prior fiscal year have been reclassified to conform to current year presentation. The following adjustments have been made to the ending balance of fiscal year 2003 (in thousands):

NET ASSETS REPORTED AT JUNE 30, 2003 (in thousands)		\$ 3,449,439
Additional state appropriation		26
Prior year expense adjustment		41
Beginning net assets at July 1, 2003, as adjusted		\$ 3,449,506

NOTE 2: INVESTMENT RISK

The relative risk associated with the University's financial assets is detailed below.

Cash: All cash of the University is maintained in accounts that are collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et seq., of the Code of Virginia.

Investments: The investment policy goals, objectives, and guidelines are established by the Finance Committee of the Board of Visitors. The University's cash equivalents and investments are categorized by levels of credit risk as described below:

Category 1—Insured or registered securities or securities held by the University of Virginia or its agent in the University's name.

Category 2—Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the University of Virginia's name. None of the University's investments are classified as category 2 investments.

Category 3—Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the University of Virginia's name. None of the University's investments are classified as category 3 investments.

CATEGORIZATION OF INVESTMENT RISK FOR ASSETS HELD AS OF JUNE 30, 2004 (in thousands)				
	CATEGORY 1	NON-CATEGORIZED	FAIR VALUE	COST
U.S. Treasury and agency securities	\$ 381,229	\$ -	\$ 381,229	\$ 382,893
Index funds	-	112,707	112,707	107,283
Common and preferred stocks	96,990	-	96,990	80,708
Corporate notes	85,546	-	85,546	86,064
Mutual and money market funds	-	211,785	211,785	187,187
Real estate and other tangible property	-	42,240	42,240	31,003
Mortgages	-	31,154	31,154	31,154
Private placement investments	-	1,798,834	1,798,834	1,476,619
Asset-backed securities	93,094	-	93,094	93,181
Guaranteed investment contract	-	25,309	25,309	25,309
Other intangible property	-	862	862	863
TOTAL	\$ 656,859	\$ 2,222,891	\$ 2,879,750	\$ 2,502,264

Security Lending: Under authorization of the board of the University of Virginia Investment Management Company, the University of Virginia, through its agent, Mellon Bank, lends U.S. government and equity securities to various broker-dealers on a temporary basis for collateral. All security loan agreements are collateralized by readily marketable and liquid securities, loans, or other obligations secured by a lien or similar interest on an asset totaling at least 102 percent of the market value of the loaned securities. The University of Virginia retains the right to pledge or sell these securities held as collateral at its discretion. All security loans can be terminated on demand by either the University or the borrower, and the average term of the security loans as well as collateral held is less than one week. Under the University's security lending program, securities loaned as of June 30, 2004, have a carrying value of \$78,510,481 and a market value of \$102,576,789. Collateral received totals \$104,418,847. In addition, the University participates in the State Treasury's securities lending program. Collateral held for securities lending transactions of \$13,542,836 represents the University's allocated share of cash collateral received and reinvested and securities received for the State Treasury's securities lending program. Information related to the credit risk of these investments and the State Treasury's securities lending program is available on a statewide level in the Commonwealth of Virginia's *Comprehensive Annual Financial Report (CAFR)*.

Derivative Financial Instruments: Derivative instruments are financial contracts whose values depend on the values of one or more underlying assets, reference rates, or financial indexes. A derivative instrument generally has one or more underlying investments, requires little or no initial net investment, and requires or permits a net settlement.

The University from time to time may use, through its investments and through investments in pooled funds, a variety of derivative securities including futures, options, and forward foreign currency contracts. These financial instruments are used to modify market risk exposure. Futures contracts and options on futures contracts are traded on organized exchanges and require collateral or margin in the form of cash or marketable securities. The net change in the futures contract value, if any, is settled with a cash transaction on a daily basis. Holders of futures contracts look to the exchange for performance under the contract and not the entity holding the offsetting futures position. Accordingly, the amount of risk due to non-performance of counterparties to the futures contracts is minimal. Foreign exchange contracts are used to protect the University's portfolio against fluctuations in the values of foreign currencies. The credit risk of forward currency contracts traded over-the-counter lies with the counterparty. Asset swap contracts are privately negotiated agreements between two participants to exchange the return stream derived from their assets to each other without exchanging underlying assets. The University uses asset swaps to gain exposure to certain market sectors in lieu of direct investment. The credit risk lies with the intermediary who arranges the asset swap. The University has no direct exposure to derivative instruments at June 30, 2004.

NOTE 3: STATEMENT OF NET ASSETS DETAILS

a. Accounts receivable: Accounts receivable at June 30, 2004, are summarized in the chart below.

ACCOUNTS RECEIVABLE (in thousands)	2004
Patient care	\$ 193,166
Grants and contracts	23,692
Pledges	9,836
Related foundation	11,994
Other	34,944
Less allowance for doubtful accounts	(89,337)
TOTAL	\$ 184,295

b. Notes receivable: Notes receivable are reported net of the allowance for uncollectible student loans, which amounted to \$2.9 million for the fiscal year ending June 30, 2004.

c. Pledges: The composition of pledges receivable at June 30, 2004, is summarized in the chart below.

PLEDGES (in thousands)	2004
GIFT PLEDGES OUTSTANDING:	
Operations	\$ 25,918
Capital	44,113
TOTAL GIFT PLEDGES OUTSTANDING	70,031
LESS:	
Allowance for doubtfully collectible pledges	7,003
Unamortized discount to present value	10,794
TOTAL PLEDGES RECEIVABLE, NET	52,234
Less current portion, net of allowance	8,853
TOTAL NON-CURRENT PLEDGES RECEIVABLE	\$ 43,381

d. Capital assets: Capital assets activity for the year ended June 30, 2004, is summarized in the chart below.

INVESTMENT IN PLANT-CAPITAL ASSETS (in thousands)	BEGINNING BALANCE	ADDITIONS	RETIREMENTS	ENDING BALANCE
NON-DEPRECIABLE CAPITAL ASSETS:				
Land	\$ 37,851	\$ 2,171	\$ -	\$ 40,022
Construction in process	152,436	146,096	92,478	206,054
TOTAL NON-DEPRECIABLE CAPITAL ASSETS	190,287	148,267	92,478	246,076
DEPRECIABLE CAPITAL ASSETS:				
Buildings	1,162,169	88,762	26	1,250,905
Equipment	521,402	51,780	98,303	474,879
Infrastructure	151,822	10,595	-	162,417
Improvements other than buildings	143,645	156	-	143,801
Software	32,062	559	-	32,621
Library books	85,197	4,200	152	89,245
TOTAL DEPRECIABLE CAPITAL ASSETS	\$ 2,096,297	\$ 156,052	\$ 98,481	\$ 2,153,868
LESS ACCUMULATED DEPRECIATION FOR:				
Buildings	(462,630)	(36,715)	(4)	(499,341)
Equipment	(339,941)	(49,356)	(82,621)	(306,676)
Infrastructure	(67,108)	(4,477)	-	(71,585)
Improvements other than buildings	(58,653)	(8,208)	-	(66,861)
Software	(8,037)	(418)	-	(8,455)
Library books	(65,206)	(3,490)	(468)	(68,228)
TOTAL ACCUMULATED DEPRECIATION	(1,001,575)	(102,664)	(83,093)	(1,021,146)
TOTAL DEPRECIABLE CAPITAL ASSETS, NET	\$ 1,094,722	\$ 53,388	\$ 15,388	\$ 1,132,722
TOTAL	\$ 1,285,009	\$ 201,655	\$ 107,866	\$ 1,378,798

e. Goodwill: In May 2000, the Medical Center acquired from Augusta Health Care, Inc., the Kidney Dialysis Assets in a transaction accounted for as a purchase. Accordingly, \$987,188 was recorded as goodwill for the purchase of the assets and is being amortized over five years. An additional \$800,000 was recorded as goodwill for a Non-Competition Agreement and is being amortized over its ten-year life.

In July 1994, the Medical Center and the University of Virginia Health Services Foundation (HSF) entered into a Memorandum of Agreement for the purpose of joint purchase and operation of a Hyperbaric Oxygen Unit. The memorandum provided that HSF would own 67 percent interest and the Medical Center would own 33 percent. In December 2000, the Medical Center acquired from HSF its interest in the Hyperbaric Oxygen Unit. Of the acquisition price, \$1,166,615 was recorded as goodwill for the purchase of the assets and is being amortized over five years.

f. Accounts payable: Accounts payable are summarized in the chart below.

ACCOUNTS PAYABLE (in thousands)	2004
Accounts payable	\$ 50,536
Accrued salaries and wages	53,956
Other payables	52,037
TOTAL	\$ 156,529

g. Deferred revenue: Deferred revenue includes the following.

DEFERRED REVENUE (in thousands)	2004
Grants and contracts	\$ 38,784
Student payments	13,182
Other deferred revenue	6,699
TOTAL	\$ 58,665

NOTE 4: NON-CURRENT LIABILITIES

NON-CURRENT LIABILITY ACTIVITY As of June 30, 2004 (in thousands)	INTEREST RATES	MATURITY	BEGINNING BALANCE	ADDITIONS	REDUCTIONS	ENDING BALANCE	CURRENT PORTION
LONG-TERM DEBT							
Medical Center Series 1998B	3.5% to 5.0%	2018	\$ 5,540	\$ -	\$ 270	\$ 5,270	\$ 280
Medical Center Series 1999A	4.5% to 5.3%	2013	40,860	-	4,040	36,820	4,225
University of Virginia Series 1995A	variable	2020	3,360	-	280	3,080	-
University of Virginia Series 1998A	4.0% to 5.1%	2024	66,075	-	2,105	63,970	2,195
University of Virginia Series 2003A	variable	2034	82,010	-	-	82,010	-
University of Virginia Series 2003B	4.0% to 5.0%	2033	117,990	-	525	117,465	805
U.Va.'s College at Wise 1973B	5.6% to 5.9%	2011	220	-	220	-	-
Commonwealth of Virginia bonds	3.8% to 9.3%	2021	44,666	-	3,971	40,695	4,069
Notes payable to VCBA	3.8% to 5.0%	2018	3,810	-	180	3,630	185
Notes payable to VCBA	4.5% to 6.0%	2020	29,555	-	1,120	28,435	1,175
Notes payable to VCBA	4.3% to 5.8%	2021	44,895	-	1,565	43,330	1,630
Other	various	2007	390	71	117	344	126
TOTAL LONG-TERM DEBT			439,371	71	14,393	425,049	14,690
Commercial Paper							
Taxable	1.1% to 1.3%	2004	-	2,600	-	2,600	2,600
Tax Exempt	1.0% to 1.1%	2004	-	17,100	-	17,100	17,100
TOTAL COMMERCIAL PAPER			-	19,700	-	19,700	19,700
TOTAL DEBT			439,371	19,771	14,393	444,749	34,390
OTHER NON-CURRENT LIABILITIES:							
Investments held for related foundations			173,932	58,989	5,388	227,533	-
Accrual for compensated absences			36,471	44,066	40,027	40,510	40,510
Perkins loan program			11,900	1,007	-	12,907	-
Bond premium			7,362	-	321	7,041	-
Deferred loss on early retirement of debt			(1,990)	138	-	(1,852)	-
Other			5,316	3,994	905	8,405	1,657
TOTAL OTHER NON-CURRENT LIABILITIES			232,991	108,194	46,641	294,544	42,167
TOTAL NON-CURRENT LIABILITIES			\$ 672,362	\$ 127,965	\$ 61,034	\$ 739,293	\$ 76,557

Maturities and interest on notes, bonds payable, and commercial paper for the next five years and in subsequent five-year periods are as summarized in the chart to the right:

	PRINCIPAL	INTEREST	TOTAL
2005	\$ 34,390	\$ 19,773	\$ 54,163
2006	15,605	19,076	34,681
2007	16,579	18,306	34,885
2008	16,958	17,457	34,415
2009	13,079	16,617	29,696
2010–2014	85,946	70,690	156,636
2015–2019	70,952	49,626	120,578
2020–2024	54,000	32,868	86,868
2025–2029	27,195	23,572	50,767
2030–2034	110,045	13,431	123,476
TOTAL	\$ 444,749	\$ 281,416	\$ 726,165

The University entered into a revolving credit agreement with a maximum principal amount of \$82,010,000 to provide liquidity for (i) the Series 2003A General Revenue Pledge Bonds and (ii) the Series 2003A Notes. There were no advances outstanding under this credit agreement as of June 30, 2004.

The University has taxable and tax-exempt commercial paper facilities that provide for borrowings up to \$100,000,000 outstanding at any time. The weighted average days to maturity was 77.49 days and the weighted average effective interest rate was 1.10% as of June 30, 2004.

9c and 9d bonds are supported by all revenue of the University not otherwise pledged.

NOTE 5: AFFILIATED COMPANIES

University of Virginia Imaging, L.L.C.

On March 26, 2002, the Medical Center entered into an agreement with Outpatient Imaging Affiliates of Virginia, L.L.C. (OIA), to establish University of Virginia Imaging, L.L.C., (UVI). The limited liability corporation was formed to operate an outpatient diagnostic imaging center to help respond to the need for radiology services in the Charlottesville area.

The Medical Center currently operates an outpatient imaging department offering MRI, plain film radiography, fluoroscopy, and ultrasound in office space at the Fontaine Research Park in Charlottesville, Virginia. Although available to all U.Va. physicians, the site principally serves orthopedic physicians located at Fontaine. UVI also provides services to outpatients from the Medical Center's primary and secondary service areas.

Since the Medical Center owns 80 percent of UVI, its financial activity is presented under the consolidation method.

Community Medicine, L.L.C.

On November 14, 2000, the University of Virginia established the Community Medicine University of Virginia, L.L.C. (Community Medicine). Community Medicine was established as a limited liability corporation (L.L.C.) under the laws of the Commonwealth of Virginia to house physician practices. This model gives physicians an organizational structure that allows them the opportunity to practice independently in a virtual private practice environment with all the risks and gains associated with an independent model. As an L.L.C., which is a wholly owned subsidiary of the University, Community Medicine is considered a disregarded entity for tax purposes, and its financial activity is accounted for under the consolidation method.

Community Medicine commenced operations on July 1, 2001, and as of July 1, 2003, the Medical Center's investment totaled \$1,560,000. During fiscal year 2004, the Medical Center made an additional investment of \$250,000, bringing the total investment to \$1,810,000.

Central Virginia Health Network, Inc.

In May 1995, the Medical Center joined the Central Virginia Health Network, Inc. (CVHN), a partnership of eight Richmond-area hospitals. CVHN was formed to provide an efficient and coordinated continuum of care, with services ranging from acute hospital treatment to primary physician care and home health services.

The Medical Center originally paid \$100 for 10,000 shares of common stock and \$109,900 as additional paid-in capital. In addition, the Medical Center is obligated for monthly dues to CVHN of \$15,913. Complete financial statements can be obtained from the registered agent: Steven D. Gravelly, Esq., Mezzullo and McCandlish, P.O. Box 796, Richmond, VA 23206.

University of Virginia/HEALTHSOUTH L.L.C.

The Medical Center entered into a joint venture with HEALTHSOUTH Corporation to establish an acute rehabilitation facility, located at the Fontaine Research Park in Charlottesville, Virginia, to provide patient services to the region. The Medical Center made a capital contribution of \$2,230,000 to the joint venture in May 1996, which represents a 50 percent interest. Complete financial statements can be obtained from the managing member: HEALTHSOUTH Corporation, 7700 East Parham Road, Richmond, VA 23294.

Valiance Health, L.L.C.

In November 1997, the Medical Center became a participant with Rockingham Memorial Hospital and Augusta Health Care, Inc., in Valiance Health, L.L.C. (Valiance), a joint venture integrating and coordinating the delivery of health care services in Central and Western Virginia. The Medical Center contributed \$100,000 in initial capital, which entitles it to a pro-rata distribution of any profits and losses of Valiance. In October 2003, the Medical Center contributed an additional \$400,000 in capital to Valiance, bringing the Medical Center's total investment to \$500,000.

University HealthSystem Consortium (UHC)

In December 1986, the Medical Center became a member of the University HealthSystem Consortium (UHC). Founded in 1984, UHC is an alliance of the clinical enterprises of academic health centers. While focusing on the clinical mission, UHC is mindful of and supports the research and education missions. The mission of the UHC is to advance knowledge, foster collaboration, and promote change to help members compete in their respective health care markets. In keeping with this mission, UHC helps members pool resources, create economies of scale, improve

clinical and operating efficiencies, and influence the direction and delivery of health care. Accordingly, UHC is organized and operated on a cooperative basis for the benefit of its patron member health systems.

UHC is a not-for-profit organization. It is incorporated as a non-stock corporation and designated as a non-exempt cooperative that is taxable under Subchapter T (Section 1382-1388) of the Internal Revenue Code. As such, UHC's bylaws provide for distributions of patronage dividends to its patrons. This allocation is based on the value of business done with or for each patron by UHC. The Medical Center records the portion of the patronage dividends that were held by UHC as patronage equity.

AFFILIATED COMPANIES AS OF JUNE 30, 2004 (in thousands)	UNIVERSITY OF VIRGINIA IMAGING	COMMUNITY MEDICINE	CENTRAL VIRGINIA HEALTH NETWORK	HEALTHSOUTH	VALIANCE	UHC
Common stock and equity contributions	\$ 687	\$ 1,810	\$ 233	\$ 2,230	\$ 500	\$ -
Share of accumulated income (loss)	5,330	(1,974)	(31)	1,529	62	613
NET INVESTMENT	\$ 6,017	\$ (164)	\$ 202	\$ 3,759	\$ 562	\$ 613

HealthCare Partners, Inc.

In May 1995, HealthCare Partners, Inc. (HealthCare Partners), a non-stock, non-profit corporation, was established to support networking, external business relationships with neighboring hospitals and physicians groups, and expansion of primary care activities. The Medical Center and the Health Services Foundation are the primary contributors to the funding of the corporation. The corporation is governed by a board of directors composed of Health Sciences Center staff, community members, and University Board of Visitors appointees.

NOTE 6: COMPONENT UNITS

During the year ended June 30, 2004, the University implemented GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. Summary financial statements and additional disclosures are presented below.

STATEMENT OF FINANCIAL POSITION (in thousands)	UNIVERSITY OF VIRGINIA LAW SCHOOL FOUNDATION	UNIVERSITY OF VIRGINIA DARDEN SCHOOL FOUNDATION	ALUMNI ASSOCIATION OF THE UNIVERSITY OF VIRGINIA	VIRGINIA ATHLETICS FOUNDATION	UNIVERSITY OF VIRGINIA FOUNDATION	UNIVERSITY OF VIRGINIA HEALTH SERVICES FOUNDATION	COMPONENT UNITS TOTALS
ASSETS							
CURRENT ASSETS							
Total current assets	\$ 4,745	\$ 20,302	\$ 10,239	\$ 17,340	\$ 5,284	\$ 69,789	\$ 127,699
NON-CURRENT ASSETS							
Long-term investments	195,662	174,352	251,446	41,777	59,033	23,750	746,020
Capital assets, net of depreciation and other assets	7,283	6,682	10,121	26,991	137,678	39,779	228,534
Total non-current assets	202,945	181,034	261,567	68,768	196,711	63,529	974,554
TOTAL ASSETS	\$ 207,690	\$ 201,336	\$ 271,806	\$ 86,108	\$ 201,995	\$ 133,318	\$ 1,102,253
LIABILITIES AND NET ASSETS							
CURRENT LIABILITIES							
Total current liabilities	\$ 105	\$ 5,283	\$ 63,275	\$ 445	\$ 21,872	\$ 50,868	\$ 141,848
NON-CURRENT LIABILITIES							
Long-term debt, net of current portion of \$2,184	8	-	-	-	82,621	31,712	114,341
Other non-current liabilities	440	2,100	16,550	1,045	31,137	19,725	70,997
Total non-current liabilities	448	2,100	16,550	1,045	113,758	51,437	185,338
TOTAL LIABILITIES	\$ 553	\$ 7,383	\$ 79,825	\$ 1,490	\$ 135,630	\$ 102,305	\$ 327,186
NET ASSETS							
Unrestricted	\$ 40,207	\$ 62,860	\$ 32,372	\$ 31,563	\$ 8,719	\$ 31,013	\$ 206,734
Temporarily restricted	97,815	30,338	62,547	36,173	45,180	-	272,053
Permanently restricted	69,115	100,755	97,062	16,882	12,466	-	296,280
TOTAL NET ASSETS	207,137	193,953	191,981	84,618	66,365	31,013	775,067
TOTAL LIABILITIES AND NET ASSETS	\$ 207,690	\$ 201,336	\$ 271,806	\$ 86,108	\$ 201,995	\$ 133,318	\$ 1,102,253

Investments

Investments are recorded at market value, which is determined by readily available quotes on the stock exchange or as quoted by the investment company for pooled investments. Realized gains (losses) from the sale of securities and unrealized gains (losses) from the appreciation (depreciation) of the value of securities held are recognized in the year incurred. The fair values of investments by investment class at June 30, 2004, for the foundations are as follows:

SUMMARY SCHEDULE OF INVESTMENTS (in thousands)	UNIVERSITY OF VIRGINIA LAW SCHOOL FOUNDATION	UNIVERSITY OF VIRGINIA DARDEN SCHOOL FOUNDATION	ALUMNI ASSOCIATION OF THE UNIVERSITY OF VIRGINIA	VIRGINIA ATHLETICS FOUNDATION	UNIVERSITY OF VIRGINIA FOUNDATION	UNIVERSITY OF VIRGINIA HEALTH SERVICES FOUNDATION	COMPONENT UNITS TOTALS
Private placements and limited partnerships	\$ 10	\$ -	\$ 199,499	\$ -	\$ -	\$ -	\$ 199,509
University of Virginia Investment Management Co.	84,937	47,277	-	18,876	35,460	-	186,550
Equities	81,655	89,135	22,032	21,238	-	1,205	215,265
Other	29,060	37,940	29,915	1,663	23,573	22,545	144,696
TOTAL INVESTMENTS	\$ 195,662	\$ 174,352	\$ 251,446	\$ 41,777	\$ 59,033	\$ 23,750	\$ 746,020

Pledges Receivable

Unconditional promises to give (pledges) are recorded as receivables and revenues and are assigned net asset categories in accordance with donor-imposed restrictions. Pledges expected to be collected within one year are recorded at net realizable value. Pledges that are expected to be collected in future years are recorded at the net present value of their estimated future cash flows. The discounts on these amounts are computed using risk-free interest rates applicable to the years in which the payments will be received. The foundations record an allowance against pledges receivable for estimated uncollectible amounts. The Health Services Foundation does not accept gifts. Unconditional promises to give at June 30, 2004, are as follows:

SUMMARY SCHEDULE OF PLEDGES RECEIVABLE (in thousands)	UNIVERSITY OF VIRGINIA LAW SCHOOL FOUNDATION	UNIVERSITY OF VIRGINIA DARDEN SCHOOL FOUNDATION	ALUMNI ASSOCIATION OF THE UNIVERSITY OF VIRGINIA	VIRGINIA ATHLETICS FOUNDATION	UNIVERSITY OF VIRGINIA FOUNDATION	UNIVERSITY OF VIRGINIA HEALTH SERVICES FOUNDATION	COMPONENT UNITS TOTALS
TOTAL PLEDGES RECEIVABLE	\$ 16,782	\$ 11,174	\$ 10,024	\$ 41,257	\$ -	\$ -	\$ 79,237
Less allowance for uncollectible accounts	(4,569)	(350)	(999)	(2,312)	-	-	(8,230)
Less effect of discounting to present value	(1,015)	(447)	(1,228)	(4,198)	-	-	(6,888)
NET PLEDGES RECEIVABLE	11,198	10,377	7,797	34,747	-	-	64,119
Less current pledges	(4,583)	(6,817)	(1,274)	(8,207)	-	-	(20,881)
TOTAL NON-CURRENT PLEDGES RECEIVABLE	\$ 6,615	\$ 3,560	\$ 6,523	\$ 26,540	\$ -	\$ -	\$ 43,238

The **University of Virginia Law School Foundation** held bequest intentions and certain other conditional promises to give of approximately \$24.5 million at June 30, 2004. These intentions and conditional promises to give are not recognized as assets, and if they are received, will generally be restricted for specific purposes stipulated by the donors, primarily endowments for scholarships and professorships.

The **Alumni Association of the University of Virginia** receives contributions that are designated for University of Virginia-related programs. These amounts are held in trust until they are disbursed. The total of such amounts being held by the Association at June 30, 2004, was \$62.7 million.

Pledges receivable for the **Virginia Athletics Foundation** are for several programs. The majority of these receivables are for the Arena Campaign.

Property, Furnishings, and Equipment

The University of Virginia Foundation's property, furnishings, and equipment are recorded at cost, except donated property, which is recorded at fair market value at the date of the gift. Depreciation is taken over estimated useful lives of five to thirty-nine years using the straight-line method. As of June 30, 2004, capital assets consisted of (in thousands):

Land	\$ 41,370
Building and improvements	112,988
Furnishings and equipment	10,685
TOTAL	165,043
Less accumulated depreciation	(35,071)
NET CAPITAL ASSETS	\$ 129,972

Notes Payable

The **University of Virginia Foundation** has established a line of credit in the amount of \$16 million. The outstanding balance at June 30, 2004, was \$16 million. The Foundation has a second line of credit in the amount of \$15 million. The outstanding balance on this line was \$1.5 million at June 30, 2004.

The University has allocated up to \$48 million of its quasi-endowment funds for use by the Foundation to acquire and develop real estate. As of June 30, 2004, the Foundation had borrowed \$9.9 million of these funds to acquire properties on behalf of the University. The notes payable are non-interest bearing and are due on demand.

Long-Term Debt

The following table summarizes the University of Virginia Foundation's long-term obligations at June 30, 2004 (in thousands):

1996 Industrial Development Authority revenue bonds	\$ 1,502
1997 Industrial Development Authority revenue bonds—Louisa	6,786
1999 Mortgage note payable	8,590
1999 Mortgage note payable	510
2001 Refinancing demand bonds	47,130
2004 Mortgage note payable	1,303
2004 Refinancing note payable	18,366
TOTAL	\$ 84,187
Less portion due within one year	(1,566)
LONG-TERM DEBT, NET OF CURRENT PORTION	\$ 82,621

Principal maturities of all mortgages and notes payable after refinancing, over the next five years, are as follows (in thousands):

Years ended June 30, 2005–2009	\$ 36,273
Years ended June 30, 2010–2020	47,914
TOTAL	\$ 84,187

The following table summarizes the University of Virginia Health Services Foundation's long-term obligations at June 30, 2004 (in thousands):

1998 Refunding bonds	\$ 16,890
1996 Industrial Development Authority revenue bonds—Albemarle	9,920
1998 Mortgage note payable	647
2000 Industrial Development Authority revenue bonds—Louisa	4,860
TOTAL	32,317
Less current portion	(605)
LONG-TERM DEBT, NET OF CURRENT PORTION	\$ 31,712

Annual maturities of debt for the next five fiscal years are as follows (in thousands):

Years ended June 30, 2005–2009	\$ 5,197
Years ended June 30, 2010–2030	27,120
TOTAL	\$ 32,317

COMPONENT UNITS, STATEMENT OF ACTIVITIES (in thousands)	UNIVERSITY OF VIRGINIA LAW SCHOOL FOUNDATION	UNIVERSITY OF VIRGINIA DARDEN SCHOOL FOUNDATION	ALUMNI ASSOCIATION OF THE UNIVERSITY OF VIRGINIA	VIRGINIA ATHLETICS FOUNDATION	UNIVERSITY OF VIRGINIA FOUNDATION	UNIVERSITY OF VIRGINIA HEALTH SERVICES FOUNDATION	COMPONENT UNITS TOTALS
UNRESTRICTED REVENUES AND SUPPORT							
Contributions	\$ 1,615	\$ 2,149	\$ 994	\$ 15,895	\$ –	\$ –	\$ 20,653
Fees for services, rentals, and sales	–	17,463	1,094	556	31,301	173,964	224,378
Other revenues	11,746	13,899	41,908	7,674	3,599	35,406	114,232
TOTAL UNRESTRICTED REVENUES AND SUPPORT	13,361	33,511	43,996	24,125	34,900	209,370	359,263
EXPENSES							
Program services, lectures, and special events	6,164	18,406	41,035	7,408	–	185,480	258,493
Other expenses	2,424	16,495	1,464	11,397	30,696	20,049	82,525
TOTAL EXPENSES	8,588	34,901	42,499	18,805	30,696	205,529	341,018
Excess (deficiency) of unrestricted revenues and support over expenses	4,773	(1,390)	1,497	5,320	4,204	3,841	18,245
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS							
Contributions	8,323	1,081	27,066	21,931	2	–	58,403
Other	10,030	8,397	(21,267)	(2,353)	5,396	–	203
NET CHANGES IN TEMPORARILY RESTRICTED NET ASSETS	18,353	9,478	5,799	19,578	5,398	–	58,606
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS							
Contributions	5,948	1,208	8,377	1,006	–	–	16,539
Other	259	–	597	10	114	–	980
NET CHANGES IN PERMANENTLY RESTRICTED NET ASSETS	6,207	1,208	8,974	1,016	114	–	17,519
CHANGE IN NET ASSETS	29,333	9,296	16,270	25,914	9,716	3,841	94,370
NET ASSETS, BEGINNING OF YEAR	177,804	184,657	175,711	58,704	56,649	27,172	680,697
NET ASSETS, END OF YEAR	\$ 207,137	\$ 193,953	\$ 191,981	\$ 84,618	\$ 66,365	\$ 31,013	\$ 775,067

Other Significant Transactions with the University of Virginia

The University provides certain services for the **University of Virginia Darden School Foundation** that are reimbursed by the Foundation monthly.

In addition, the University of Virginia Darden School Foundation will pay the University the following amounts for the construction of new and improved facilities at the Darden School (in thousands).

Years ended June 30, 2005–2009	\$ 29,975
Years ended June 30, 2010–2020	69,827
TOTAL	\$ 99,802
For the year ended June 30, 2004, \$4.4 million was paid to the University under this agreement.	

Direct payments to the University from the **Alumni Association of the University of Virginia** for the year ended June 30, 2004, totaled \$8.2 million. This amount includes gift transfers, payment for facilities and services, and other support for University activities.

The **University of Virginia Health Services Foundation** has contracted with the University to provide certain professional and technical services. The Foundation's revenue from these services was approximately \$26.2 million for the year ended June 30, 2004.

The **University of Virginia Health Services Foundation** contributed \$20.8 million to the University in support of various academic programs, equipment, and teaching and research for the year ended June 30, 2004.

NOTE 7: APPROPRIATIONS

The University receives state appropriations from the General Fund of the Commonwealth. The Appropriation Act specifies that such unexpended appropriations shall revert, as specifically provided by the General Assembly, at the end of the biennium. For years ending at the middle of a biennium, unexpended appropriations that have not been approved for reappropriation in the next year by the Governor become part of the General Fund of the Commonwealth and are, therefore, no longer available to the University for disbursements.

A summary of state appropriations received by the University and the University's College at Wise, including all supplemental appropriations and reversions is provided in the chart at right.

APPROPRIATIONS (in thousands)	2004
Original Legislative appropriation per Chapter 1042, as amended	\$ 120,269
ADJUSTMENTS:	
Salary increase	\$ 1,398
Property insurance increase	36
Group Life rate suspension	(803)
Retirees' health credit reduction	(148)
Health insurance premium increase	181
VRS rate reduction	(290)
VSDP rate increase	222
VSDP rate reduction	(110)
Miscellaneous appropriation	1,743
Reversions	(1,622)
Legislative amendment	(2)
Financial aid—General Fund	6,098
Fishery (VGMSC)	(210)
Commonwealth Technology Research Fund	1,089
Miscellaneous educational and general	(2,530)
TOTAL APPROPRIATIONS	\$ 125,321

NOTE 8: NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

OPERATING EXPENSES BY FUNCTIONAL CLASSIFICATION							
As of June 30, 2004 (in thousands)							
	COMPENSATION	SUPPLIES AND SERVICES	STUDENT AID	UTILITIES	DEPRECIATION	OTHER	TOTAL
Instruction	\$ 212,276	\$ 293	\$ 1,467	\$ 1,665	–	\$ 816	\$ 216,517
Research	138,218	130,034	13,914	924	–	277	283,367
Public service	12,072	7,712	527	192	–	345	20,848
Academic support	71,259	22,110	671	1,021	–	(156)	94,905
Student services	15,173	3,847	153	204	–	222	19,599
Institutional support	51,765	1,668	28	1,593	–	(120)	54,934
Operation of plant	40,308	(39,190)	19	42,335	–	9	43,481
Student aid	506	3,337	23,140	–	–	100	27,083
Auxiliary	46,053	27,083	3	15,260	–	1,470	89,869
Depreciation	–	–	–	–	64,942	–	64,942
Patient services	305,817	304,917	–	12,203	37,655	21,376	681,968
Other	16	5,709	615	708	–	113	7,161
TOTAL	\$ 893,463	\$ 467,520	\$ 40,537	\$ 76,105	\$ 102,597	\$ 24,452	\$ 1,604,674

NOTE 9: RETIREMENT PLANS

Employees of the University are employees of the Commonwealth. Substantially all salaried classified employees and research staff, 9 percent of faculty, and 32 percent of Medical Center employees participate in a defined benefit pension plan administered by the Virginia Retirement System (VRS). Information relating to this plan is available at the statewide level only in the Commonwealth of Virginia's *Comprehensive Annual Financial Report (CAFR)*. The Commonwealth, not the University, has overall responsibility for contributions to this plan.

Ninety-one percent of teaching, research, and administrative faculty, and 68 percent of Medical Center employees participate in Optional Retirement Plans. The Faculty Retirement Plan is a defined contribution plan to which the University contributes an amount established by statute. Faculty are fully vested immediately. The Medical Center Retirement Plan is a defined contribution plan to which the University contributes an amount determined by the Board of Visitors. Medical Center employees are fully vested after one or two years of employment, depending on their date of hire.

Total pension costs under the plans were approximately \$35 million, and contributions to the Optional Retirement Plans were calculated using base salaries of \$358 million, for the year ended June 30, 2004. The contribution percentage amounted to 9.8 percent.

NOTE 10: POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

The Commonwealth of Virginia sponsors a VRS-administered statewide group life insurance program, which provides post-employment life insurance benefits to eligible retired and terminated employees. The Commonwealth also provides healthcare credits against the monthly health insurance premiums of its retirees who have at least fifteen years of state service. Information related to these plans is available at the statewide level in the Commonwealth's *Comprehensive Annual Financial Report (CAFR)*.

University of Virginia faculty receive \$5,000 in retiree life insurance, and Medical Center employees who do not participate in VRS have a variety of retiree life insurance options depending on termination date and years of service.

University employees who retire before reaching age 65 participate in the Retiree Health Plan, which mirrors the U.Va. Health Plan for active employees, until they reach age 65. At age 65, University retirees can participate in the Commonwealth's Medicare Supplement Plan.

NOTE 11: SELF-INSURANCE

All University employees have the option to participate in the University's self-funded, comprehensive medical care benefits program. The cost of medical care is paid out of employee and employer contributions. The market value of investments at June 30, 2004, was \$16.3 million. The estimated liability for outstanding claims at June 30, 2004, was \$10.2 million. The University has contracted with several third-party claims administrators: Southern Health Services, Inc., for its medical claims; United Concordia for its dental claims; and EHS for its pharmacy claims.

University employees are covered by a self-insured workers' compensation benefits program administered by the Commonwealth of Virginia's Department of Human Resource Management. Information relating to this plan is available at the statewide level only in the Commonwealth's *Comprehensive Annual Financial Report (CAFR)*.

The University's Office of Risk Management manages all insurance programs for the University, including the Health System and U.Va.'s College at Wise. At present, most insurance coverages are obtained through participation in the state risk management self-insurance plans, which are administered by the State Department of Treasury, Division of Risk Management. Risk management insurance includes property, boiler and machinery, crime, employee faithful performance of duty bond (employee dishonesty), general (tort) liability, professional liability (includes medical malpractice), aviation and watercraft coverage, and automobile liability. The University is self-insured for the first \$100,000 of each property and boiler and machinery loss, and for the first \$20,000 of each vehicle physical damage loss. The University also maintains excess crime/employee dishonesty and excess vehicle physical damage insurance coverages. Separate insurance coverage is maintained as appropriate on subsidiary organizations owned by the Health System, such as Community Medicine and Virginia Ambulatory Surgery, Inc.

NOTE 12: FUNDS HELD IN TRUST BY OTHERS

Assets of funds held by trustees for the benefit of the University are not reflected in the accompanying Statement of Net Assets. The University has irrevocable rights to all or a portion of the income of these funds, but the assets of the funds are not under the management of the University. The market value of the funds held by trustees for the benefit of the University at June 30, 2004, was \$111 million and income received totaled \$6.1 million.

NOTE 13: COMMITMENTS

Contractual Commitments

The University has entered into numerous agreements to lease land, buildings, and equipment, of which the total expense was approximately \$21.4 million for the year ended June 30, 2004.

As of June 30, 2004, the University has outstanding construction contract commitments of approximately \$145 million. The University's lease commitments are summarized in the chart at right.

Litigation

The University is a defendant in a number of legal actions. While the final outcome cannot be determined at this time, management is of the opinion that the liability, if any, for these legal actions will not have a material effect on the University's accounting position.

YEAR ENDING JUNE 30	LEASE OBLIGATIONS (in thousands)
2005	\$ 5,049
2006	3,139
2007	2,636
2008	1,476
2009	341
2010-2014	1,192
2015-2019	823
2020-2024	823
2025-2029	823
2030-2034	823
2035-2039	823
2040-2044	823
2045-2049	823
TOTAL	\$ 19,594

NOTE 14: FIXED ASSET RETIREMENTS

Effective July 1, 2003, the University increased its equipment capitalization threshold from \$2,000 to \$5,000. The University wrote off the remaining value of equipment with an original cost below the \$5,000 capitalization threshold, with which the U.S. Department of Health and Human Services concurred. The University retired approximately 18,000 assets, with a total original cost, less accumulated depreciation, of \$12,139,481.

NOTE 15: SUBSEQUENT EVENTS

University of Virginia Investment Management Company (UVIMCO)

Effective July 1, 2004, the University of Virginia Investment Management Company (UVIMCO) was formed as a legally separate non-profit, non-stock corporation organized under Virginia law exclusively for charitable and educational purposes and more specifically to provide investment and investment management related services to the University of Virginia and the private and independent foundations and other entities affiliated with the University. The University of Virginia has entered into a Deposit and Management Agreement delegating investment management responsibility for endowment and other assets to UVIMCO. Upon the occurrence of several managerial and operational objectives, the University of Virginia will deposit securities and cash items with UVIMCO to be held in custody and control and in the name of UVIMCO for the benefit of the University.

Virginia Ambulatory Surgery, Inc.

The Medical Center purchased Virginia Ambulatory Surgery, Inc. (VASI), on July 1, 2004, for \$10.3 million. The Medical Center owns 100 percent of VASI and will be presenting its financial statements under the consolidation method.

UNIVERSITY ADMINISTRATION 2003-2004

John T. Casteen III, *President*
 Leonard W. Sandridge, *Executive Vice President and Chief Operating Officer*
 Gene D. Block, *Vice President and Provost*
 R. Ariel Gomez, M.D., *Vice President for Research and Graduate Studies*
 William W. Harmon, *Senior Vice President*
 R. Edward Howell, *Vice President and Chief Executive Officer of the Medical Center*
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 Robert E. Reynolds, M.D., *Vice President and Chief Information Officer*
 Yoke San L. Reynolds, *Vice President for Finance*
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 B. Jeanette Lancaster, *Dean of the School of Nursing*
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 Sondra F. Stallard, *Dean of the School of Continuing and Professional Studies*
 Karen Van Lengen, *Dean of the School of Architecture*
 Carl P. Zeithaml, *Dean of the McIntire School of Commerce*
 John A. Blackburn, *Dean of Undergraduate Admission*
 H. E. "Penny" Rue, *Dean of Students*
 M. Rick Turner, *Dean of African-American Affairs*
 Karin Wittenborg, *University Librarian*
 Ernest H. Ern, *Chancellor of the University of Virginia's College at Wise*

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Leonard W. Sandridge, *Executive Vice President and Chief Operating Officer*
 Yoke San L. Reynolds, *Vice President for Finance*
 Colette Sheehy, *Vice President for Management and Budget*
 Stephen A. Kimata, *Assistant Vice President for Finance and University Comptroller*

Internal Audit

Barbara J. Deily, *Director of Audits*

University of Virginia President's Report
 Produced by the Office of University Publications and Development Communications
 P.O. Box 400807, Charlottesville, Virginia, 22904-4807.
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Photography by Rebecca Arrington, Mike Bailey, Lincoln Ross Barbour, Ian Bradshaw, Peter Bronsteen, Mark Butler, Jim Carpenter, Mark Claywell, Tom Cogill, Tim Cox, Ed Deasy, Jen Fariello, Daniel Grogan, Stephanie Gross, Peggy Harrison, Michael Higgins, Katherine Kayser, Richard Robinson, Barbara Rushia, Fariss Samarrai, Andrew Shurtleff, Pasquale Sorrentino, Bill Sublette, Fred Viebahn, and Mary Wood. Baseball photo courtesy of U.Va. Athletic Media Relations. Dawn Staley photo by AP/Laurent Rebours.

Art students whose work appears in the report: Elizabeth Green (cover), Lauren Frisk, Kate Morris, Danielle Gause, Angeliqe Sklavounos, Erin Gordon, and Renee Brown.

Consistent with federal and state law, the University does not discriminate in any of its programs, procedures, or practices on the basis of age, color, disability, national or ethnic origin, political affiliation, race, religion, sex (including pregnancy), sexual orientation, or veteran status. The University operates equal opportunity and affirmative action programs for faculty, staff, and students, including discriminatory harassment policies and procedures. The University of Virginia is an Equal Opportunity/Affirmative Action Employer. The University's Section 504 and American Disabilities Act Coordinator is Bradford K. Holland, University ombudsman (434-924-7819; ombuds@virginia.edu). Mr. Holland also serves as the Interim Title IX Coordinator in the Office of Equal Opportunity Programs (434-924-3200; bkh9d@virginia.edu). Both offices are in Washington Hall, East Range, P.O. Box 400219, Charlottesville, VA 22904-4219.

An online version of this report is available at www.virginia.edu/president/report04.

Produced with private funds.

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THE STUDENT PAINTINGS

The paintings of the University on the cover and throughout the report are by students enrolled in last spring's offering of Arts 271, an introductory painting class taught by Richard Crozier, professor of art. The class was evenly divided between art students and students majoring in other disciplines, according to Prof. Crozier, a member of the faculty for some thirty years. Known as a prolific painter of streetscapes and landscapes that record an ever-changing environment, particularly in and around Charlottesville, Prof. Crozier teaches introductory drawing and painting classes in the evening hours. He finds it a time when students are more relaxed and better able to fit the two-and-a-half-hour studio sessions into their schedules. The Arts 271 students were given the assignment to make their own interpretations of familiar University settings and landmarks. The works in this report are among the results of their efforts. Prof. Crozier's own paintings of the University appear on pages 3 and 39. For more information on the studio art program, visit www.virginia.edu/art/.



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