NEW ISSUE - FULL BOOK ENTRY

Ratings†: *Moody's:* *Aaa*
Standard & Poor's: *AAA*
Fitch Ratings: *AAA*

Assuming compliance with certain covenants and subject to the qualifications as described in "TAX EXEMPTION," in the opinion of Bond Counsel, under current law interest on the Series 2005 Bonds (a) will not be included in gross income of owners thereof for federal income tax purposes and (b) will not be treated as a specific item of tax preference in computing the federal alternative minimum income tax for individuals and corporations. Such interest may be included in the calculations of a corporation's federal alternative minimum taxable income and may be subject to other federal income tax consequences as described in "TAX EXEMPTION." In the opinion of Bond Counsel, under current Virginia law, interest on the Series 2005 Bonds is not subject to Virginia income taxation.

$193,355,000
The Rector and Visitors of the
UNIVERSITY OF VIRGINIA
General Revenue Pledge Bonds, Series 2005

Dated: Date of Delivery **Due:** See Inside Cover

The offered bonds identified above (the "Series 2005 Bonds") will be issued, as fully registered bonds and will be registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"), New York, New York, which will act as securities depository for the Series 2005 Bonds under a book-entry only system. Accordingly, Beneficial Owners of the Series 2005 Bonds will not receive physical delivery of bond certificates. See "THE SERIES 2005 BONDS - Book-Entry Only System." The Series 2005 Bonds are payable solely from Pledged Revenues, as herein defined, available to The Rectors and Visitors of the University of Virginia (the "University").

The Series 2005 Bonds will bear interest at fixed rates and will be offered at the prices or yields, all as set forth on the inside of this cover page. Individual purchases of beneficial ownership interests in Series 2005 Bonds may be made in the principal amount of $5,000 or any integral multiple thereof. Interest on the Series 2005 Bonds is payable by the Paying Agent semi-annually on each June 1 and December 1, commencing on December 1, 2005.

The Series 2005 Bonds are subject to optional and extraordinary redemption and mandatory sinking fund redemption prior to maturity as described herein.

THE SERIES 2005 BONDS WILL CONSTITUTE LIMITED OBLIGATIONS OF THE UNIVERSITY AND WILL BE SECURED BY A PLEDGE OF CERTAIN REVENUES AND RECEIPTS OF THE UNIVERSITY, ALL AS DESCRIBED HEREIN. THE PRINCIPAL OF, AND INTEREST ON THE SERIES 2005 BONDS SHALL BE PAYABLE SOLELY FROM THE FUNDS PLEDGED THEREFOR. NEITHER THE COMMONWEALTH OF VIRGINIA, NOR ANY POLITICAL SUBDIVISION THEREOF, NOR THE UNIVERSITY, SHALL BE OBLIGATED TO PAY THE PRINCIPAL OF, OR INTEREST ON THE SERIES 2005 BONDS EXCEPT FROM THE REVENUES AND RECEIPTS PLEDGED AND ASSIGNED THEREFOR. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COMMONWEALTH OF VIRGINIA, OR ANY POLITICAL SUBDIVISION THEREOF, IS PLEDGED TO THE PRINCIPAL OF, OR INTEREST ON THE SERIES 2005 BONDS OR OTHER COSTS INCIDENT HERETO. THE UNIVERSITY HAS NO TAXING POWERS.

The Series 2005 Bonds are offered when, as and if issued and accepted by the Underwriters subject to the approval of legality by McGuireWoods LLP, Richmond, Virginia, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the University by Paul J. Forch, General Counsel to the University and Special Assistant Attorney General, Charlottesville, Virginia, and for the Underwriters by their counsel, Troutman Sanders LLP, Richmond, Virginia. The Series 2005 Bonds are expected to be available for delivery through the facilities of DTC, or its custodial agent, on or about July 20, 2005.

Goldman, Sachs & Co.

Lehman Brothers **Morgan Stanley & Co. Incorporated**
Legg Mason Wood Walker Incorporated **Morgan Keegan & Company, Inc.**

June 28, 2005

†See "RATINGS."

$193,355,000
The Rector and Visitors of the University of Virginia

General Revenue Pledge Bonds, Series 2005

June 1 Maturity	Principal Amount	Interest Rate	Price/Yield	CUSIP
2006	$2,770,000	4.000%	2.60%	915217 PV9
2007	2,495,000	4.000	2.67	915217 PW7
2008	2,595,000	4.000	2.77	915217 PX5
2009	2,700,000	4.000	2.87	915217 PY3
2010	2,815,000	4.000	2.99	915217 PZ0
2011	2,920,000	4.000	3.11	915217 QA4
2012	3,035,000	5.000	3.23	915217 QB2
2013	3,185,000	5.000	3.32	915217 QC0
2014	3,345,000	5.000	3.40	915217 QD8
2015	3,520,000	5.000	3.48	915217 QE6
2016	3,690,000	5.000	3.55*	915217 QF3
2017	3,880,000	5.000	3.61*	915217 QG1
2018	4,070,000	5.000	3.68*	915217 QH9
2019	3,140,000	4.000	4.00	915217 QJ5
2020	3,270,000	4.000	4.05	915217 QK2
2021	3,400,000	4.100	4.11	915217 QL0
2022	3,540,000	4.125	4.17	915217 QM8
2023	3,685,000	4.200	4.23	915217 QN6
2024	3,840,000	4.125	4.28	915217 QP1

$131,460,000 5.000% Term Bonds due June 1, 2037 -- yield 4.12%*
CUSIP: 915217 QQ9

---

* yield to the June 1, 2015 call date

The information set forth herein has been obtained from the University, The Depository Trust Company and other sources that are deemed to be reliable. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale of the Series 2005 Bonds shall under any circumstances create any implication that there has been no change in the affairs of the parties referred to above since the date hereof.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information and such information is not to be construed as a representation of the Underwriters.

No dealer, broker, salesperson or other person has been authorized to give any information or to make any representation other than as contained in this Official Statement and, if given or made, such other information or representation must not be relied upon as having been authorized by the University or the Underwriters. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Series 2005 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

TABLE OF CONTENTS

[THIS PAGE INTENTIONALLY LEFT BLANK]

OFFICIAL STATEMENT OF

THE RECTOR AND VISITORS OF THE UNIVERSITY OF VIRGINIA

relating to

$193,355,000 General Revenue Pledge Bonds, Series 2005

INTRODUCTION

Purpose

This Official Statement, including the cover page and the Appendices, is furnished in connection with the sale of $193,355,000 aggregate principal amount of The Rector and Visitors of the University of Virginia (the "University") General Revenue Pledge Bonds, Series 2005 (the "Series 2005 Bonds"). The Series 2005 Bonds will constitute valid and binding limited obligations of the University and will be secured by a pledge of certain revenues and receipts of the University, all as described herein. The principal of, and interest on the Series 2005 Bonds shall be payable solely from the funds pledged therefor in accordance with the terms of the Bond Resolution, as herein defined. See "SECURITY FOR THE SERIES 2005 BONDS." Terms capitalized but undefined in the body of this Official Statement are defined in "APPENDIX C--Definitions and Summary of Bond Resolution."

The Series 2005 Bonds will bear interest at fixed rates until maturity. See "THE SERIES 2005 BONDS."

The proceeds of the Series 2005 Bonds will be used by the University (a) to finance all or a portion of the costs incurred in connection with the following: (i) construction of the University's new sports arena, John Paul Jones Arena; (ii) renovation and expansion of the University's acute care hospital; (iii) construction of an addition to the University Health System's South Parking Garage; (iv) construction of a National Radio Astronomy Observatory building at the University to be leased to Associated Universities, Inc. ("Associated Universities"), a non-profit New York corporation described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"); (v) construction and equipping of the new residence hall at the University's College at Wise; (vi) acquisition, renovation and equipping of the Fontaine Clinics Building; (vii) upgrades and modifications to the University's Main Heating Plant; and (viii) renovation and expansion of Rouss Hall for the University's Commerce School; (b) to provide for the refunding of (i) all of the outstanding principal amount of the University's General Revenue Pledge Bonds, Series 1998A, issued to finance costs incurred in connection with expansion of the University's football stadium, Scott Stadium, and related parking, construction of a parking garage for the University's medical center, and construction and equipping of a new University residence hall; and (ii) a portion of the University's Commercial Paper General Revenue Pledge Notes, Series 2003A and Series 2003B, which the University has used to temporarily finance costs related to the projects described in (a) above; and (c) to pay other expenditures associated with the foregoing to the extent financeable, including, without limitation, costs of issuance with respect to the Series 2005 Bonds. See "APPLICATION OF SERIES 2005 BOND PROCEEDS - Plan of Finance."

The University

The University is an educational institution classified and constituted pursuant to Chapter 3, Title 23, Code of Virginia of 1950, as amended (the "Act"), as a public body and a governmental instrumentality of the Commonwealth for the dissemination of education. See "APPENDIX A - The University of Virginia" for a description of the University. The Series 2005 Bonds will be issued under the Act pursuant to the terms of a resolution adopted by the Board of Visitors of the University (the "Board") on June 11, 2005 and an executive committee resolution adopted by the Executive Committee of the Board on June 28, 2005 (together, the "Bond Resolution").

Appendices

In addition to Appendix A describing the University, attached hereto as Appendix B are the University's audited financial statements for the fiscal year ended June 30, 2004. Also included in Appendix B is the University's Management's Discussion and Analysis, which provides an overview of the financial position and results of activities of the University for the fiscal year ended June 30, 2004. Attached as Appendix C are certain definitions and summaries of the Bond Resolution. Attached hereto as Appendix D is the proposed form of the Opinion of Bond Counsel. Attached hereto as Appendix E is the proposed form of the Continuing Disclosure Agreement.

Document Summaries

This Official Statement contains summaries of certain provisions of the financing documents, including without limitation, the Bond Resolution. Reference is hereby made to each of such financing documents for the detailed provisions thereof, and the summaries and other descriptions of the provisions of such instruments and other documents contained in this Official Statement, including the Appendices hereto, are qualified in their entirety by such reference.

THE SERIES 2005 BONDS

The following is a summary of certain provisions of the Series 2005 Bonds. For definitions of certain terms and additional detailed information relating to the Series 2005 Bonds, see "APPENDIX C - Definitions and Summary of Bond Resolution."

General

The Series 2005 Bonds will be issued in the aggregate principal amount of $193,355,000. The Series 2005 Bonds will be dated the date of their delivery and will mature on June 1 in the years and amounts as set forth on the inside cover page hereof. Interest on the Series 2005 Bonds will be payable semi-annually on June 1 and December 1, commencing on December 1, 2005, at the rates per annum shown on the inside cover page hereof, calculated on the basis of a 360-day year consisting of 12 months of 30 days each. The Series 2005 Bonds will be offered in Authorized Denominations of $5,000 and integral multiples thereof.

Redemption

Mandatory Sinking Fund Redemption. The Series 2005 Bonds scheduled to mature on June 1, 2037, are subject to mandatory sinking fund redemption, and shall be redeemed, in part at a redemption price equal to 100% of the principal amount to be redeemed plus interest accrued to the sinking fund redemption date in the amounts and on the sinking fund redemption dates set forth below:

Redemption Date	Principal Amount
June 1, 2035	$41,695,000
June 1, 2036	43,780,000
June 1, 2037 – final maturity	45,985,000

Optional Redemption. The Series 2005 Bonds maturing on or before June 1, 2015 are not subject to optional redemption. Series 2005 Bonds maturing on or after June 1, 2016 are subject to redemption, in whole or in part, on any date on or after June 1, 2015 at a redemption price equal to 100% of the principal amount to be redeemed, together with the interest accrued on such principal amount to the redemption date.

Extraordinary Optional Redemption. The Series 2005 Bonds shall be subject to redemption, in whole or in part, on any date at the option of the University, from the proceeds of casualty insurance or condemnation awards, at a redemption price equal to 100% of the principal amount of the Series 2005 Bonds to be redeemed, without premium, together with the interest accrued on such principal amount of the Series 2005 Bonds to be redeemed to, but not including, the redemption date if all or any part of the projects financed with the Series 2005 Bonds is damaged or destroyed or is taken through the exercise of the power of eminent domain and the Executive Vice President and Chief Operating Officer of the University (the "COO") has certified that the University has determined not to use such proceeds to replace or rebuild the damaged, destroyed or taken property. See "APPENDIX C – Definitions and Summary of the Bond Resolution."

Notice of Redemption and Other Notices. So long as DTC or its nominee is the Bondholder, the University and the Paying Agent will recognize DTC or its nominee as the Bondholder for all purposes, including notices and voting. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory and regulatory requirements as may be in effect from time to time.

The Paying Agent shall give notice of redemption to the Series 2005 Bondholders not less than 30 nor more than 60 days prior to the date fixed for redemption. Failure to mail notice to a particular Series 2005 Bondholder, or any defect in the notice to such Series 2005 Bondholder, shall not affect the validity of the call for redemption of any other Series 2005 Bond. So long as DTC or its nominee is the Series 2005 Bondholder, any failure on the part of DTC or failure on the part of a nominee of a Beneficial Owner (having received notice from a Direct Participant or otherwise) to notify the Beneficial Owner so affected, shall not affect the validity of the call for redemption. Any notice mailed as provided in the Bond Resolution shall be conclusively presumed to have been given regardless of whether actually received by any Beneficial Owner. Such notice may state that it is conditioned upon the deposit of moneys with the Paying Agent to effect the redemption not later than the redemption date.

Selection for Redemption. Subject to applicable procedures of DTC while the Series 2005 Bonds are held in book-entry form by DTC, if less than all of the Series 2005 Bonds are to be called for redemption, the University shall select Series 2005 Bonds for redemption in such manner as the University may determine.

Book-Entry Only System

Upon initial issuance, the Series 2005 Bonds will be available only in book-entry form, and, will be available only in Authorized Denominations. DTC will act as securities depository for the Series 2005 Bonds and the ownership of one fully-registered bond for each maturity of Series 2005 Bonds in the principal amount of such maturity and will be registered in the name of Cede & Co. (DTC's partnership nominee), or such other name as may be requested by an authorized representative of DTC, and deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, DTC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Series 2005 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2005 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2005 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2005 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2005 Bonds, except in the event that use of the book-entry system for the Series 2005 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2005 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2005 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2005 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2005 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2005 Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Series 2005 Bonds, such as redemptions, defaults, and proposed amendments to the Bond Resolution. For example, Beneficial Owners of Series 2005 Bonds may wish to ascertain that the nominee holding the Series 2005 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners.

Redemption notices shall be sent to DTC. If less than all of the Series 2005 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Series 2005 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the University as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2005 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2005 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the University or the Paying Agent, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Paying Agent, or the University, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the University or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2005 Bonds at any time by giving reasonable notice to the University or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Series 2005 Bond certificates are required to be printed and delivered.

The University may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Series 2005 Bond certificates will be printed and delivered.

The information contained herein concerning DTC and DTC's book-entry system has been obtained from sources that the University believes to be reliable, but the University and the Paying Agent take no responsibility for the accuracy thereof.

Neither the University nor the Paying Agent will have any responsibility or obligation to such DTC Participants or the persons for whom they act as nominees with respect to the payments to the DTC Participants, the Indirect Participants or Beneficial Owners.

Exchange and Transfer

If for any reason the book-entry only system is discontinued, the Series 2005 Bonds will be exchangeable and transferable on the registration books of the Registrar in Authorized Denominations. Upon presentation and surrender of any Series 2005 Bond for transfer or exchange, the Registrar will authenticate and deliver in the name of the designated transferee or transferees or the registered Owner, as appropriate, one or more new fully registered Series 2005 Bonds in any Authorized Denomination or Denominations. For every exchange or transfer of Series 2005 Bonds, the Registrar may make a charge sufficient to reimburse it for any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer.

APPLICATION OF SERIES 2005 BOND PROCEEDS

Plan of Finance

Proceeds of the Series 2005 Bonds will be used (a) to finance costs incurred in connection with the projects described in "INTRODUCTION - Purpose;" (b) to provide for the advance refunding of the University's General Revenue Pledge Bonds, Series 1998A, maturing on and after June 1, 2006 in the aggregate principal amount of $61,775,000 (the "Series 1998A Refunded Bonds"), (c) to provide for the repayment of $84,963,000 of the outstanding principal amount of the University's Series 2003A and Series 2003B commercial paper notes (the "Commercial Paper Notes"); and (d) to pay working capital and other expenditures connected with the foregoing to the extent financeable, including, without limitation, certain costs of issuance. For further information regarding the advance refunding of the Series 1998A Refunded Bonds, see "VERIFICATION REPORT" below.

Upon the issuance of the Series 2005 Bonds, a portion of the proceeds thereof will be deposited, together with other available funds of the University, in an escrow account in an amount which together with investment earnings thereon will be sufficient to pay all principal of, and premium, if any, and interest on the Series 1998A Refunded Bonds to and including the applicable payment or redemption dates. Further, upon the issuance of the Series 2005 Bonds, a portion of the proceeds thereof will be deposited with or for the benefit of the paying agent for the Commercial Paper Notes, in amount which together with moneys to be provided at a later date by the University to pay the accrued interest on the Commercial Paper Notes, will be sufficient to pay $84,963,000 of the principal of and accrued interest on Commercial Paper Notes maturing through August 15, 2005.

General

The proceeds of the Series 2005 Bonds are expected to be applied on the date of issue in the estimated amounts as follows (rounded to the nearest dollar):

Sources of Funds:	
Principal amount of Series 2005 Bonds	$193,355,000
Plus net original issue premium on Series 2005 Bonds	12,589,479
TOTAL	$205,944,479
Use of Funds:	
Advance Refunding of Series 1998A Refunded Bonds	$64,740,198
Repayment of Commercial Paper Notes	84,963,000
Deposit to the Construction Fund (includes capitalized interest)	54,798,468
Cost of Issuance (includes underwriting discount, see "UNDERWRITING")	1,442,813
TOTAL	$205,944,479

SECURITY FOR THE SERIES 2005 BONDS

The following summary of the security for the Series 2005 Bonds is qualified in its entirety and reference is hereby made to Appendix C hereto which sets forth in further detail provisions relating to the security for the Series 2005 Bonds and to the Bond Resolution. For definitions of certain capitalized terms used but not defined herein, see "APPENDIX C -- Definitions and Summary of Bond Resolution."

Pledge of Pledged Revenues

Pursuant to the Bond Resolution, the University is required to pay the principal of and interest on the Series 2005 Bonds as they become due upon redemption, acceleration, maturity or otherwise. Such obligation is secured, together with general revenue pledge bonds previously issued by the University (see "Existing and Permitted Parity Credit Obligations" below) and any other obligations issued by the University and secured by a parity pledge of Pledged Revenues (the "Parity Credit Obligations"). "Pledged Revenues" are "any or all of the revenues now or hereafter available to the University which are not required by law, by binding contract entered into prior to the date of the Bond Resolution, or by the provisions of any Qualifying Senior Obligation to be devoted to some other purpose and shall include, without limitation, all revenues pledged to the payment of any Qualifying Senior Obligation net of amounts necessary to pay it or any operating or other expenses, the payment of which is required or permitted to be made with such revenues prior to payment of such Qualifying Senior Obligation." "Qualifying Senior Obligations" include certain qualifying future obligations of the University secured with a pledge of Pledged Revenues (not including Outstanding General Revenue Pledge Bonds, as defined below), and all obligations issued to refund such obligations. See "Qualifying Senior Obligations and Credit Obligations" and "Existing and Permitted Parity Credit Obligations" below.

Qualifying Senior Obligations and Credit Obligations

The Bond Resolution permits the University, within the limitations described below and other restrictions, to pledge in the future the revenues from certain revenue producing facilities or systems to the payment of future Qualifying Senior Obligations, with such pledge being superior to the pledge securing the Series 2005 Bonds and with operating expenses of such facilities or systems also having a prior claim to such revenues. For example, Qualifying Senior Obligations may include those secured by a pledge of net revenues from certain dormitory, dining hall, parking or student fees. All such pledges would be (1) prior and superior to the pledge securing the Series 2005 Bonds, and (2) net of operating expenses for the related facility or system, and such revenues would be available to pay the Series 2005 Bonds and other Parity Credit Obligations only to the extent such revenues are not required for either operating expenses of the facility or system involved or debt service on the related Qualifying Senior Obligations.

Currently, there are no Qualifying Senior Obligations and the University has no plans to issue any Qualifying Senior Obligations. The Bond Resolution further permits the University to issue bonds to refund any Qualifying Senior Obligations and to secure such refunding bonds with the same source of revenues securing the Qualifying Senior Obligations being refunded. Upon the defeasance of the refunded Qualifying Senior Obligations pursuant to any such refunding, the refunding bonds will be considered Qualifying Senior Obligations under the Bond Resolution.

Further, the University may issue Credit Obligations and may pledge and apply such portion of the Pledged Revenues as may be necessary to provide for (1) the payment of any such Credit Obligation, (2) the funding of reasonable reserves therefor and (3) the payment of operating and other reasonable expenses of the facilities financed in whole or in part with the proceeds of such Credit Obligation or facilities reasonably related to such facilities, and such pledge shall be senior and superior in all respects to the pledge of Pledged Revenues securing the Series 2005 Bonds and any other Parity Credit Obligations, but only if the COO certifies that (1) taking into account the incurrence of such proposed Credit Obligation, (a) the University will have sufficient funds to meet all of its financial obligations, including its obligations to pay principal of and interest on all Credit Obligations, for all Fiscal Years to and including the second full Fiscal Year after the later of (i) the issuance of such proposed Credit Obligation and (ii) the completion of any facility financed with its proceeds and (b) the COO has no reason to believe that the University will not have sufficient funds to pay all amounts due under all indebtedness of the University during the term of such proposed Credit Obligation, (2) to the best of the COO's knowledge, the University is not in default in the performance and observance of any of the provisions of the Bond Resolution and (3) the University has received an opinion of counsel nationally recognized in matters concerning municipal bonds to the effect such proposed Credit Obligation has been validly issued under the relevant provisions of the Constitution of Virginia.

Existing and Permitted Parity Credit Obligations

The University previously has issued Parity Credit Obligations, the outstanding principal amount of which as of March 31, 2005 was $490,949,000, including the Series 1998A Refunded Bonds and the Commercial Paper Notes (collectively, the "Outstanding General Revenue Pledge Bonds"). All of the Outstanding General Revenue Pledge Bonds are secured by a pledge of Pledged Revenues on a parity with the pledge securing the Series 2005 Bonds. See "APPENDIX A – The University of Virginia – Indebtedness and Other Obligations."

The Bond Resolution permits the University to incur other indebtedness that may be secured by a pledge of the Pledged Revenues ranking on a parity with the pledge of Pledged Revenues securing the Outstanding General Revenue Pledge Bonds and the Series 2005 Bonds, but only if the COO certifies that (1) taking into account the incurrence of such proposed Parity Credit Obligation, (a) the University will have sufficient funds to meet all of its financial obligations, including its obligations to pay principal of and interest on all Credit Obligations, for all Fiscal Years to and including the second full Fiscal Year after the later of (i) the issuance of such Parity Credit Obligation and (ii) the completion of any facility financed with the proceeds of such Parity Credit Obligation, and (b) the COO has no reason to believe that the University will not have sufficient funds to pay all amounts due under all indebtedness of the University during the term of such Parity Credit Obligation, and (2) to the best of the COO's knowledge, the University is not in default in the performance and observance of any of the provisions of the Bond Resolution or of any other resolution pursuant to which any Parity Credit Obligations have been issued.

THE SERIES 2005 BONDS AND THE INTEREST THEREON SHALL NOT BE DEEMED TO CONSTITUTE A DEBT OR LIABILITY OF THE COMMONWEALTH OF VIRGINIA, LEGAL, MORAL OR OTHERWISE. NEITHER THE COMMONWEALTH OF VIRGINIA NOR THE UNIVERSITY SHALL BE OBLIGATED TO PAY THE PRINCIPAL OF OR INTEREST ON THE SERIES 2005 BONDS OR OTHER COSTS INCIDENT THERETO EXCEPT FROM SOURCES PLEDGED THEREFOR IN THE BOND RESOLUTION, AND NEITHER THE FAITH AND CREDIT NOR FUNDS OF THE UNIVERSITY

ARE PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR THE INTEREST ON THE SERIES 2005 BONDS OR OTHER COSTS INCIDENT THERETO. THE UNIVERSITY HAS NO TAXING POWER.

Defeasance

If the University provides to the Paying Agent cash or noncallable Government Obligations sufficient to provide for payment of all or part of the Series 2005 Bonds and meets certain other requirements, such Series 2005 Bonds will no longer be secured by the pledge of Pledged Revenues but instead by such cash or noncallable Government Obligations. Such requirements are described more fully in "APPENDIX C – Definitions and Summary of Bond Resolution – Defeasance."

No Liens or Reserves; Disposition of Assets

The Series 2005 Bonds are not secured by any lien on or security interest in any property of the University or any reserves. The University is generally free to sell, encumber or otherwise dispose of its property if such disposition is either in the ordinary course of business, or if the University's COO certifies that taking into account such disposition (1) the University will have sufficient funds to meet all of its financing obligations to and including the second full Fiscal Year after such disposition and (2) the COO has no reason to believe that the University will not have sufficient funds to pay all amounts due under all indebtedness of the University then outstanding.

Operating Covenants; Amendments

In the Bond Resolution, the University has entered into certain operating covenants, which, along with other provisions relating to the security for the Series 2005 Bonds, may be amended with or without the consent of the holders of a majority of the principal amount of the Series 2005 Bonds then Outstanding. See "APPENDIX C – Definitions and Summary of Bond Resolution – Supplemental Bond Resolutions Without Bondholder Consent" and "— Supplemental Resolutions Requiring Bondholder Consent."

ENFORCEABILITY OF REMEDIES

The remedies available to the registered holders of the Series 2005 Bonds upon an Event of Default under the Bond Resolution are in many respects dependant upon regulatory and judicial actions, which are often subject to discretion and delay. Under existing law, the remedies provided under the Bond Resolution may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Series 2005 Bonds will be qualified as to enforceability of the various legal instruments, limitations imposed by bankruptcy, reorganization, insolvency or similar laws affecting the rights of creditors generally and by judicial discretion applicable to equitable remedies and proceedings generally. See "APPENDIX C -- Definitions and Summary of Bond Resolution."

CERTAIN LEGAL MATTERS

All legal matters incident to the authorization, issuance, sale and delivery of the Series 2005 Bonds are subject to the approval of McGuireWoods LLP, Richmond, Virginia, Bond Counsel to the University ("Bond Counsel"). Certain legal matters will be passed upon for the University by Paul J. Forch, General Counsel to the University and Special Assistant Attorney General, and for the Underwriters by their counsel, Troutman Sanders LLP, Richmond, Virginia.

LITIGATION

There is no threatened or pending litigation against or affecting the University that, to the knowledge of the University, seeks to restrain or enjoin the issuance, sale or delivery of the Series 2005 Bonds, or to in any way contest or affect the validity of the Series 2005 Bonds, the Bond Resolution, or any proceedings of the University taken with respect to the issuance or sale of the Series 2005 Bonds or with respect to the Bond Resolution, or in any way contesting the existence or powers of the University. See "APPENDIX A – The University of Virginia – Litigation."

TAX EXEMPTION

Opinion of Bond Counsel

Bond Counsel's opinion will state that, under existing law and assuming compliance with the Covenants (as defined below), interest, including any accrued "original issue discount" (OID) on the Series 2005 Bonds (a) is excludable from gross income for purposes of federal income tax, (b) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, with respect to corporations (as defined for federal income tax purposes) subject to the alternative minimum income tax, such interest (including accrued OID) is taken into account in determining adjusted current earnings for purposes of computing such tax, and (c) will be exempt from income taxation by the Commonwealth of Virginia and any political subdivision thereof. Except as discussed below regarding OID, no other opinion will be expressed by Bond Counsel regarding the tax consequences of the ownership of or the receipt or accrual of interest on the Series 2005 Bonds.

Bond Counsel's opinion will be given in reliance upon certifications of representatives of the University and certain of its affiliates as to facts material to the opinion. The University, its affiliates and, with respect to certain Series 2005 Bonds, Associated Universities, have covenanted to comply with certain provisions of the Code regarding, among other things, certain tax-exempt obligations, the use, expenditure and investment of proceeds of the Series 2005 Bonds, the use of the Series 2005 Bonds and the timely payment to the United States of any arbitrage rebate amounts with respect to the Series 2005 Bonds (the "Covenants"). Failure of the University, certain of its affiliates and, with respect to certain Series 2005 Bonds, Associated Universities, to comply with such Covenants could cause interest on the Series 2005 Bonds to become includable in gross income for federal income tax purposes retroactively to their date of issue.

Other Tax Matters

In addition to the matters addressed above, prospective purchasers of the Series 2005 Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to certain taxpayers including, without limitation, financial institutions, property and casualty insurance companies, "S corporations," certain foreign corporations subject to the "branch profits tax," recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and taxpayers attempting to qualify for the earned income tax credit. Prospective purchasers of the Series 2005 Bonds should consult their tax advisors as to the applicability and impact of such consequences.

Original Issue Discount

The initial public offering prices of the Series 2005 Bonds maturing on June 1, 2020 through 2024, inclusive (the "OID Bonds"), will be less than their stated principal amount. In the opinion of Bond Counsel, under current law, the difference between the stated principal amount and the initial offering price of the OID Bonds to the public (excluding bond houses and brokers) at which a substantial amount of such OID Bonds is sold will constitute OID. The offering prices set forth on the inside cover of this Official Statement for the OID Bonds are expected to be the initial offering prices to the public at which a substantial amount of such Series 2005 Bonds are sold.

Under the Code, for purposes of determining a holder's adjusted basis in an OID Bond, OID treated as having accrued while the holder holds the OID Bond will be added to the holder's basis. OID will accrue on a constant-yield-to-maturity method. The adjusted basis will be used to determine taxable gain or loss upon the sale or other disposition (including redemption or payment at maturity) of an OID Bond.

Prospective purchasers of OID Bonds should consult their own tax advisors as to the calculation of accrued OID and the state and local tax consequences of owning or disposing of such OID Bond.

Original Issue Premium

The Series 2005 Bonds maturing on June 1, 2006 through 2018 (inclusive) and on June 1, 2037, are referred to below as original issue premium bonds (the "OIP Bonds"). The initial offering price of the OIP Bonds at which a substantial amount of such OIP Bonds will be sold exceeds the principal amount payable on such OIP Bonds at maturity or upon redemption. Such excess constitutes amortizable bond premium for federal income tax purposes.

For purposes of determining gain or loss for federal income tax purposes upon a disposition of an OIP Bond, the cost basis of such OIP Bond in the hands of its original owner will include the amount of the amortizable bond premium. Such amortizable bond premium will be allocated over the term of the OIP Bond on the basis of the owner's yield to maturity in a manner that takes into account compounding on a semi-annual or more frequent basis. The amount of amortizable bond premium allocable to any such semi-annual compounding period will be applied against and reduce the owner's adjusted tax basis in such OIP Bond as of the close of such period. If an OIP Bond is sold or otherwise disposed of between semi-annual compounding dates, the owner's basis is reduced by a portion of the amortizable bond premium allocable to the period in which such disposition occurs, determined by allocating such portion equally among each day in such period.

The effect of any such reduction in the owner's tax basis is to increase the taxable gain (or reduce the taxable loss, as the case may be) that is realized by such owner for federal income tax purposes on a subsequent sale, redemption or payment at maturity of such OIP Bond.

FINANCIAL ADVISOR

Prager, Sealy & Co., LLC of San Francisco, California, serves as financial advisor to the University in connection with the issuance of the Series 2005 Bonds.

UNDERWRITING

The Series 2005 Bonds are being purchased by Goldman, Sachs & Co., as representative of a group of underwriters (the "Underwriters") at a price of $205,203,835.76 (reflecting the principal amount of $193,355,000.00 ***plus*** net original issue premium of $12,589,478.75, ***minus*** an underwriter's discount of $740,642.99 or 0.383048% of the principal amount of the Series 2005 Bonds). The Bond Purchase Agreement between the University and Goldman, Sachs & Co., as representative of the Underwriters, provides that the Underwriters will purchase all of the Series 2005 Bonds to be purchased if any Series 2005 Bonds are purchased.

The Bond Purchase Agreement provides that the Underwriters may offer and sell the Series 2005 Bonds to certain dealers and others at prices lower than the public offering prices stated on the inside cover page hereof, and the public offering prices set forth on the inside cover page may be changed after the initial offering by the Underwriters. In addition, the Bond Purchase Agreement provides that the University will reimburse the Underwriters for certain expenses incurred in connection with the offering of the Series 2005 Bonds.

VERIFICATION REPORT

The Arbitrage Group, Inc., Tuscaloosa, Alabama, independent consultants, has verified the arithmetical accuracy of certain computations included in the schedules provided by the Underwriters on behalf of the University relating to (a) computation of forecasted receipts of principal and interest on the cash and investments provided to the Paying Agent to redeem or repay the Series 1998A Refunded Bonds, and (b) computation of the yields on the Series 2005 Bonds and such investments. Such computations were based solely upon assumptions and information supplied by the Underwriters on behalf of the University. The Arbitrage Group, Inc. restricted its procedures to examining the arithmetical accuracy of certain computations and did not and will not make any study or evaluation of the assumptions and information upon which the computations are based and, accordingly, did not and will not express an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome. See "APPLICATION OF SERIES 2005 BOND PROCEEDS – Plan of Finance" above. Such verification will be relied upon by Bond Counsel to support its opinion that interest on the Series 2005 Bonds will not be included in gross income for federal income tax purposes.

FINANCIAL STATEMENTS

The audited financial statements of the University for the fiscal year ended June 30, 2004 have been audited by the Commonwealth's Auditor of Public Accounts and are included in Appendix B. Also included in Appendix B is the University's Management's Discussion and Analysis, which provides an overview of the financial position and results of activities of the University for the fiscal year ended June 30, 2004.

RATINGS

Moody's Investors Service, 99 Church Street, New York, New York 10007 ("Moody's"), Standard & Poor's, 55 Water Street, New York, New York 10041 ("Standard & Poor's") and Fitch Ratings, Inc., One State Street Plaza, New York, New York 10004 ("Fitch Ratings") have assigned the Series 2005 Bonds long-term ratings of "Aaa," "AAA" and "AAA," respectively.

The ratings express only the views of the rating agencies. The explanation of the significance of the ratings may be obtained from Moody's, Standard & Poor's and Fitch Ratings, respectively. There is no assurance that any rating will continue for any period of time or that it will not be revised or withdrawn. Any revision or withdrawal of ratings on the Series 2005 Bonds may have an effect on the market price thereof.

CONTINUING DISCLOSURE

The offering of the Series 2005 Bonds is subject to Rule 15c2-12 under the Securities Exchange Act of 1934, as amended ("Rule 15c2-12") and the University will enter into a continuing disclosure agreement (the "Continuing Disclosure Agreement") with respect to the Series 2005 Bonds for the benefit of the registered and Beneficial Owners of the Series 2005 Bonds, substantially in the form attached as Appendix E to this Official Statement, pursuant to which the University will agree to provide or cause to be provided the following: (i) certain annual financial information, including audited financial statements of the University and certain information of the University included under the headings "STUDENTS," "THE UNIVERSITY OF VIRGINIA MEDICAL CENTER" and "FINANCIAL INFORMATION" in Appendix A comprising the following tables: "Undergraduate Applications, Acceptances, and Matriculations," "Graduate & Professional Applications, Acceptances, and Matriculations," "University Enrollment," "Selected Medical Center Patient Information," "Component Units," "Appropriations from the Commonwealth," "Undergraduate Tuition & Required Fees Per Student," "Graduate Tuition and Required Fees Per Student," "Grants and Contracts," "University of Virginia Medical Center Summary Statement of Revenues, Expenses and Changes in Net Assets" and "Pooled Endowment Fund Historic Annual Return"; (ii) timely notice of the occurrence of certain events, if material, with respect to the Series 2005 Bonds; and (iii) timely notice of a failure by the University to provide the required annual financial information on or before the date specified in the Continuing Disclosure Agreement. The University is not contractually obligated to supplement or update the information included in the Official Statement after the delivery of the Series 2005 Bonds except as provided in the Continuing Disclosure Agreement. The Underwriter has not undertaken either to supplement or update the information included in this Official Statement.

The University previously has undertaken to provide continuing disclosure pursuant to Rule 15c2-12, both in connection with its general revenue pledge bonds issued in 1998, 1999 and 2003 and with various bonds issued by the Virginia College Building Authority, a portion of the proceeds of which benefited the University, beginning in 1997. To date, the University has complied with such undertakings in all material respects.

SERIES 2005 BONDS ELIGIBLE FOR INVESTMENT AND SECURITY FOR PUBLIC DEPOSITS

The Act provides that bonds issued pursuant thereto shall be securities in which all public officers and public bodies of the Commonwealth of Virginia and all its political subdivisions, all insurance companies, trust companies, banking associations, investment companies, executors, trustees and other fiduciaries may properly and legally invest funds. No representation is made as to the eligibility of the Series 2005 Bonds for investment or any other purpose under any law of any other state. The Act also provides that bonds issued pursuant thereto may properly and legally be deposited with and received by any state or municipal officer or any agency or political subdivision of the Commonwealth of Virginia for any purpose for which the deposit of bonds or obligations of the Commonwealth of Virginia is now or may hereafter be authorized by law.

RELATIONSHIPS

Board of Visitor member, The Honorable Lewis F. Payne, is the CEO of McGuireWoodsConsulting, an affiliate of McGuireWoods LLP, Bond Counsel to the University.

MISCELLANEOUS

The summaries or descriptions herein, including the Appendices hereto, of the Series 2005 Bonds, the Bond Resolution, and the Continuing Disclosure Agreement, and all references to other materials not purporting to be quoted in full, are only brief outlines of some of the provisions thereof and do not purport to summarize or describe all of the provisions thereof. So far as any statements are made in this Official Statement involving matters of opinion, whether or not expressly so stated, they are intended merely as such and not as representations of fact.

The attached Appendices are integral parts of this Official Statement and should be read in their entirety together with all of the foregoing information.

The University has reviewed the information contained herein and has approved this Official Statement.

THE RECTOR AND VISITORS OF THE UNIVERSITY OF VIRGINIA

By: /s/ Leonard W. Sandridge

Title: Executive Vice President and Chief Operating Officer

APPENDIX A

THE UNIVERSITY OF VIRGINIA

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX A

THE UNIVERSITY OF VIRGINIA

BACKGROUND

Thomas Jefferson founded the University of Virginia (the "University") near his home in Charlottesville, the culmination of his lifelong dream to "create the bulwark of the human mind in this hemisphere". Chartered by the General Assembly of Virginia in 1819, the University opened for instruction in 1825.

Throughout its history, the University has drawn strength from the heritage of Mr. Jefferson. His belief in the "illimitable freedom of the human mind" continues to shape the goals of students and faculty. Audacious at its inception, the University's goals today are no less ambitious: to represent the American ideal for higher education and to achieve excellence in all of its endeavors. It pursues these by concentrating on four key areas: academic rigor, student self-governance, honor, and public service. Moreover, the University intends to remain a national model of excellence for undergraduate learning and professional education within a modern research university.

As a public entity, the University still embraces Mr. Jefferson's belief that an enlightened populace, sustained by students and scholars drawn from the Commonwealth of Virginia (the "Commonwealth") and around the world, is the surest way to secure the nation's liberty. By providing abundant opportunities for self-discovery and self-determination, it offers a student experience without parallel in higher education. Its tradition of student self-governance, marked most prominently by the student-run Honor System, strives to imbue its graduates with a devotion to ethical conduct that remains with them for the rest of their lives.

GENERAL

The University has three main operating divisions: the Academic Division, the Medical Center, and the College at Wise.

The University's Academic Division is a comprehensive teaching and research institution enrolling 20,064 full-time equivalent students in on-grounds programs, including 13,140 undergraduates. The Academic Division is comprised of 10 separate schools including Arts and Sciences, the Darden Graduate School of Business Administration, the School of Architecture, the McIntire School of Commerce, the Curry School of Education, the School of Engineering and Applied Science, the School of Law, the School of Medicine, the School of Nursing and the School of Continuing and Professional Studies. Collectively, these schools offer 52 bachelor's degrees in 48 fields and programs, 84 master's degrees in 66 fields, six educational specialist degrees, two professional degrees (law and medicine) and 58 doctoral degrees in 57 fields. Many of these programs rank among the nation's elite.

The University of Virginia Medical Center is an integrated network of primary and specialty care services ranging from wellness programs and routine checkups to the most technologically advanced care. The hub of the Medical Center is a 556-bed hospital with a state-designated Level 1 trauma center located on the Charlottesville campus. In addition, primary and specialty care is provided at convenient clinic locations throughout central Virginia communities. The Medical Center is one of the leading academic research hospitals in the nation. It has been named by Solucient, Inc. as a Top 100 Hospital and has 9 programs ranked by *U.S. News and World Report* as top 50 programs.

The University of Virginia's College at Wise (the "College at Wise") in southwest Virginia was originally founded in 1954 as Clinch Valley College, a branch campus of the University. The College at Wise provides undergraduate programs in the arts and sciences as well as select undergraduate professional programs in business, nursing, teacher education and other fields, all characterized by a strong liberal arts experience. The liberal arts foundation prepares individuals for professional careers, graduate study, or lifelong learning. The current enrollment is 1,820 students.

ACADEMIC AND RESEARCH PROGRAMS

The University has established 487 endowed professorships for outstanding scholars, and the Center for Advanced Studies plays a major role in attracting and retaining scholars of national and international distinction. The University has graduated 45 Rhodes Scholars, more than any other state-supported institution. Nationally recognized programs include Architecture, English, Spanish, German, Religious Studies, Physiology, French, Art History, Astronomy, Classics, History, Psychology, undergraduate Business (Commerce), graduate Business, Law, and Education.

In the fall of 2003, the University began an initiative to enhance the University's programs in scientific, biomedical, and engineering research. The $126 million, 5-year effort, is investing in laboratory space and providing compensation packages and other incentives to attract and retain premier faculty to capitalize on the University's existing strengths across a number of disciplines. The University's focus throughout this initiative will be on areas of morphogenesis and regenerative medicine, quantum and nanoscale studies, computer and information sciences, environmental studies, and aging studies. These areas emerged in the Virginia 2020 planning process as showing exceptional promise for achieving groundbreaking results.

ACCREDITATION AND MEMBERSHIP

The University has been accredited by the Southern Association of Colleges and Schools (SACS) since 1904, with the next re-accreditation visit scheduled for 2007. Additionally, individual programs, departments and schools have received accreditation from applicable professional agencies. The University belongs to the Association of American Universities, a group of 62 prominent research institutions throughout the United States and Canada.

FACILITIES

Thomas Jefferson designed the original University as an "academical village" - a plan to foster students and professors living and learning together. While that vision remains, today the University consists of 3,338 acres of land holdings throughout the Commonwealth, including 230 acres in Charlottesville and 1,459 additional acres in Albemarle County. Capital infrastructure is comprised of 530 buildings consisting of approximately 13.4 million square feet, including the Medical Center. In 1987, the University of Virginia at Charlottesville was named a World Heritage site, along with Monticello, on the United Nations Educational Scientific and Cultural Organization's prestigious World Heritage list.

Mr. Jefferson's private collection of books and materials created the nucleus of the University's first library. Since then the library system has grown to encompass 16 separate facilities, housing almost 5,000,000 books, more than 52,000 journals, periodicals and serials, and an extensive selection of electronic media and texts. The newest facility, the Albert and Shirley Small Special Collections Library, holds the University's archives and world-renowned collections of more than 300,000 rare books and 16.7 million manuscripts and other materials.

UNIVERSITY GOVERNANCE

Board of Visitors

The first Board of Visitors for the University (the "Board") had three former United States presidents as members – James Madison, James Monroe and Thomas Jefferson, who also served as the first Rector. Responsibility for all property, property rights, duties, contracts and agreements of the University is vested in the Board. The President of the University, a position created in 1904, is the chief executive officer and serves at the behest of the Board. The corporate powers of the University are exercised by the Board through its 17 members, 16 of whom are appointed by the Governor and confirmed by the Senate of the Commonwealth, and one of whom is a non-voting student member appointed for a one-year term by the Board. The usual term is four years, and except in limited circumstances, service is limited to two full terms. At least 13 members must be residents of Virginia and at least 11 members must be alumni of the University. The current members of the Board, including their primary residence and occupation are:

GORDON F. RAINEY, JR., (RECTOR)[1], *Richmond*..Chairman, *Hunton & Williams*
THOMAS F. FARRELL, II, (VICE RECTOR)[1], *Richmond*............President and CEO, *Dominion Energy, Inc.*
A. MACDONALD CAPUTO, *New York* .... Advisory Director, *Morgan Stanley*
ALAN A. DIAMONSTEIN, *Newport News* .... Attorney, *Patten, Wornom, Hatten & Diamonstein*.
SUSAN Y. DORSEY, *Richmond* .... Marketing Manager, *IBM*.
G. SLAUGHTER FITZ-HUGH, JR., *Richmond* .... President, *Bank of America (VA Region)*
W. HEYWOOD FRALIN[1], *Roanoke* .... CEO, *Medical Facilities of America, Inc.*
GLYNN D. KEY, *Washington, D.C.* .... Attorney, *Wilmer, Cutler & Pickering LLP*
MARK J. KINGTON, *Alexandria* ....Managing Director, *Columbia Capital LLC*
VINCENT J. MASTRACCO, JR, *Norfolk* ....Attorney, *Kaufman & Canoles, P.C.*
THE HON. LEWIS F. PAYNE, *Wash., D.C.*..... Retired Congressman and CEO, *McGuire Woods Consulting*
DON R. PIPPIN, *Norton* .... Attorney, *Pippin & Pippin*
WARREN M. THOMPSON, *Herndon* .... Chairman, CEO and President., *Thompson Hospitality, LLC*
E. DARRACOTT VAUGHAN, JR., M.D., *New York, NY* .... Urologist-in-Chief, *NY-Presbyterian Hosp*
GEORGIA M. WILLIS, *Ruther Glen* ....*Alumna, University of Virginia*
JOHN O. WYNNE, *Norfolk*. .... Retired President and CEO, *Landmark Communications, Inc.*
CATHERINE S. NEALE, *Charlottesville* ....Student, *University of Virginia*

[1] Effective July 1, 2005, Mr. Farrell will become Rector and Mr. Fralin will become Vice Rector. Mr. Rainey, whose term as Rector expires, will continue to serve on the Board.

Administrative Officers of the University

Two hallmarks of the University's administration are its stability and long-term performance. The President of the University has primary responsibility for the management and operation of the University. The provost, vice presidents, deans and all other administrative officers are responsible to the President and through the President to the Board. The following table sets forth the principal administrative officers of the University.

Name	Title
JOHN T. CASTEEN, III	President
LEONARD W. SANDRIDGE	Executive Vice President and COO
YOKE SAN L. REYNOLDS	Vice President and CFO
COLETTE SHEEHY	Vice President for Management and Budget
ROBERT D. SWEENEY	Senior Vice President for Development and Public Affairs
R. EDWARD HOWELL	Vice President and CEO, Medical Center
PAUL J. FORCH	General Counsel
ALEXANDER G. GILLIAM, JR.	Secretary to the Board of Visitors

John T. Casteen III. John Casteen became president in August 1990. During his tenure, he has overseen a major restructuring of the University's administrative and governance structures, one of the largest capital funds campaigns ever undertaken, significant improvements in academic programs, and major expansions of the University's physical facilities. Prior to returning to the University, the institution from which he holds three degrees, Dr. Casteen was president of the University of Connecticut (1985-1990) and Secretary of Education for the Commonwealth (1982-1985). Among many leadership positions, Dr. Casteen has been a director of the American Council on Education, a director of the National Collegiate Athletic Association, trustee and chair of the College Entrance Examination Board, and chair of the Association of Governing Board's council of presidents. He is also past-president of the Southern Association of Colleges and Schools (SACS). Dr. Casteen was a director of the Council for Higher Education Accreditation, and was chair 2000-2002, was a member of the Association of Academic Health Centers' Council of Health Sciences and the University, and was a director of the Association of American Colleges and Universities. He recently completed a term as chair of the Association of American Universities (AAU). He currently serves on the AAU's Institutional Data Committee, and is a director of the Association for Accreditation of Human Research Protection Programs, Inc.

Leonard W. Sandridge. Leonard W. Sandridge is executive vice president and chief operating officer, a title he assumed in November 1999. He has served since 1990 in that role, with similar titles, as a member of the President's senior cabinet. He oversees operations of all non-academic support areas at the University, including the architect for the university, athletics, student affairs, information technology and communication, management and budget, finance, police, and compliance. He also provides financial and managerial oversight of the Health System. Mr. Sandridge joined the University administration in 1967 as a member of the internal staff. He serves on the University of Virginia Foundation Board, the University of Virginia Investment Management Company Board, and the boards of the Charlottesville-Albemarle Chamber of Commerce, the Thomas Jefferson Partnership for Economic Development, and the Charlottesville-Albemarle County Convention and Visitors Bureau. In 1993, Mr. Sandridge received the Thomas Jefferson Award, the University's highest honor for a faculty member, recognizing one who exemplifies Jefferson's principles and ideals in character, work, and influence. In 2003, he received the Paul Goodloe McIntire Citizenship Award, presented by the Charlottesville Regional Chamber of Commerce to recognize outstanding citizen contributions.

Yoke San L. Reynolds. Yoke San L. Reynolds was named Vice President for Finance in May 2001, and Vice President and Chief Financial Officer in May 2005. She serves as the University's chief business officer, and oversees the offices of financial administration, research administration, human resources management, business operations, treasury management, risk management, and Integrated Systems Deployment Services. She is also responsible for administration of the University's relationship with its twenty-three primary foundations. Ms. Reynolds' background in higher education financial administration includes six years at the State University of New York at Albany and ten years at Cornell University, where she was Vice President for Financial Affairs. Ms. Reynolds is past chair of the National Association of College and University Business Officers' Accounting Principles Council. She chaired NACUBO's committee on Managerial Analysis and Decision Support, and was a member of NACUBO's ad hoc Committee on the Cost of Education. Currently, she is President of the Eastern Association of College and University Business Officers, and a director of the National Association of College and University Business Officers and of the Council on Governmental Relations.

Colette Sheehy. Colette Sheehy serves as the University's senior budget officer and oversees the functions of the chief facilities officer, the director of the budget, the director of procurement services, the director of the Leadership Development Center, and the director of state governmental relations. Ms. Sheehy began her career at the University as a Budget Analyst in 1982. She served on the Virginia Association of Management Analysis and Planning Executive Committee between 1990 and 1993, and as vice president and president of Virginia's Council of State Senior Business Officers (1998-2000). In 1995 she was recognized by her colleagues in the University of Virginia Women Faculty and Professional Association with the Woman of Achievement Award and in 2000 by students with the Greek Award for Outstanding Faculty Member.

Robert D. Sweeney. Bob Sweeney has spent his entire career in higher education advancement, successfully leading both public and private institutions in their fundraising, public relations, and strategic planning efforts. The April 2001 announcement of Mr. Sweeney's promotion to Senior Vice President of Development and Public Affairs came upon the heels of the successful completion of the $1.43 billion Campaign for the University. As Vice President for Development, Mr. Sweeney assumed leadership of the University's advancement initiatives in August of 1991 and led the Campaign from its planning stages to its successful conclusion. Under his guidance, the University's development effort was restructured, and annual philanthropic cash flow increased from $50 million in 1990 to $255 million in 2002. The Campaign, which concluded on December 31, 2000, realized nearly ten times the total of the University Campaign of the 1980's, which raised $146 million. Mr. Sweeney is currently leading the University's new capital campaign. The campaign's goal is to make the University unique among public institutions through a new model of philanthropy that achieves self-sufficiency at a level never before seen in public education.

R. Edward Howell. Ed Howell has been the Vice President and CEO of the Medical Center since February 2002. He has management responsibility for the operation of the University's hospital and clinics, in addition to all financial and information technology functions. For the past 25 years Mr. Howell has dedicated his life to academic medicine - working, teaching and moving through the administrative ranks at the Universities of Minnesota, Georgia and Iowa. For the period 1993 – 2001 he was the director and CEO of University of Iowa Hospitals and Clinics and the managing partner of University of Iowa Health Care. Mr. Howell has served as a member of the Executive Committee of the Association of American Colleges, Chair of the Council of Teaching Hospitals, Chair of the Accreditation Council for Graduate Medical Education and Chair of the University Health System Consortium Board of Directors. He is currently Co-Chair of the Advisory Board for Clinical Research at the National Institutes of Health.

Paul J. Forch. Mr. Forch was appointed by the University and the Virginia Attorney General as the University's General Counsel in 1996. He is responsible for the legal services provided the University and is a member of the President's senior cabinet, as well as a Special Assistant Attorney General reporting to the Attorney General. Mr. Forch has been practicing law since 1975, predominantly specializing in state and federal laws governing education policy and representing public institutions and providing litigation defense. Previously, as Education Chief in the Virginia Attorney General's office, Mr. Forch supervised, state-wide, the legal services provided all of Virginia's public institutions of higher education

Alexander G. Gilliam, Jr. Mr. Gilliam is the Secretary to the Board of Visitors and Special Assistant to the President. Mr. Gilliam returned to the University, of which he is an alumnus, in 1975 as Assistant to former President Hereford. He has been principally Secretary to the Board since 1991. As the University did not have a President during the first 85 years of its existence, the Secretary to the Board is the oldest administrative position at the University, having been specified when the University was chartered in 1819. He has served as a Foreign Service Officer, a Deputy Assistant Secretary of State, and Special Assistant to the Governor of the Commonwealth – positions with varied duties that provided good training for the unusual demands of higher academic administration.

FACULTY AND STAFF

For the fall 2004 semester, the University employed 2,026 full-time and 250 part-time instructional, research, and public service faculty as well as 707 full-time and 31 part-time administrative and professional faculty. Included were 1,110 tenured faculty and an additional 356 who were non-tenured but on tenure-track. More than 91% of the full-time instructional faculty hold the highest academic degree in their field. The ratio of full-time equivalent students to full-time equivalent instructional faculty members is approximately 15:1.

Excluding the faculty, as of the fall 2004 semester, the University employed 8,828 full-time and 803 part-time permanent staff, including approximately 4,475 full-time equivalent employees at the

Medical Center. Staff employees are covered by the Commonwealth's Personnel Act with compensation and benefits set at the Commonwealth level. The staff workforce is not unionized, as public employees in the Commonwealth are not allowed to engage in collective bargaining.

For the fall 2004 semester, the College at Wise employed 82 full-time and 2 part-time instructional, research, and public service faculty as well as 47 full-time and 5 part-time administrative and professional faculty. Included were 36 tenured faculty and an additional 21 who were non-tenured but on tenure-track. Almost 72% of the full-time instructional faculty hold the highest academic degree in their field.

Excluding the faculty, the College at Wise employed 119 full-time and 36 part-time permanent staff. Staff employees are covered by the Commonwealth's Personnel Act with compensation and benefits set at the Commonwealth level. The staff workforce is not unionized as public employees in the Commonwealth are not allowed to engage in collective bargaining.

STUDENTS

Admissions. The University practices a selective admissions policy, seeking students from the Commonwealth and throughout the United States and the world. The University also recognizes its commitment to the Commonwealth by reserving a significant portion of the available spaces for residents of Virginia. Approximately two-thirds (67.2%) of the first-year class entering in fall 2004 were in-state, a percentage that has remained relatively stable over the last five academic years. Interest in admission to the University remains high as 15,670 completed applications were received for the 2004-05 academic year to fill a target of approximately 3,100 spaces in the first year class. The following chart sets forth the information on applications, acceptances and matriculations for first-year students for the five most recent academic years.

For the fall 2004 entering class, of the entering undergraduates for whom high school class rank was available, approximately 84% ranked in the top 10% of their class and approximately 94% ranked in the top 20% of their class. Approximately 92% of the first-year students who enter the University earn degrees, and approximately 83% graduate within four years. The SAT scores for the 25th to 75th percentile range of the fall 2004 incoming class was approximately 1250-1430.

UNDERGRADUATE APPLICATIONS, ACCEPTANCES, AND MATRICULATIONS
FALL SEMESTER

	2000	2001	2002	2003	2004	2005 [1]
Completed Applications						
In-state	5,528	5,677	5,727	5,846	5,915	6,441
Out-of-state	8,617	9,062	8,593	8,781	8,907	9,229
Total	14,145	14,739	14,320	14,627	14,822	15,670
Applications Accepted[2]	39%	38%	39%	39%	39%	37%
In-state	54%	54%	53%	53%	52%	48%
Out-of-state	29%	28%	30%	31%	30%	30%
Offers Accepted[3]	53%	54%	54%	54%	54%	53%
In-state	67%	66%	67%	67%	68%	69%
Out-of-state	38%	38%	38%	38%	38%	36%

[1] *All 2005 figures are preliminary*
[2] *As a percent of completed applications received*
[3] *As a percent of applications accepted*

GRADUATE & PROFESSIONAL APPLICATIONS, ACCEPTANCES, AND MATRICULATIONS
FALL SEMESTER

	2000	2001	2002	2003	2004	2005 [1]
Completed Applications	16,405	18,296	20,078	20,646	19,673	19,106
Applications Accepted[2]	28%	25%	24%	23%	25%	NA
Offers Accepted[3]	46%	46%	46%	47%	45%	NA

[1] *All 2005 figures are preliminary*
[2] *As a percent of completed applications received*
[3] *As a percent of applications accepted*

Enrollments. The following chart reflects the University's on-grounds fall enrollment for the five most recent academic years.

UNIVERSITY ENROLLMENT
FALL SEMESTER

	2000	2001	2002	2003	2004
Undergraduate	12,489	12,595	12,748	12,907	13,140
Graduate	4,160	4,301	4,459	4,616	4,632
Medicine and Law	1,607	1,608	1,608	1,631	1,650
Unclassified	294	344	382	489	596
Total Headcount	18,550	18,848	19,197	19,643	20,018
Full-Time Equivalent	18,488	18,745	19,127	19,718	20,064

Student Life. The University has long cherished the goal of producing "educated citizens," a mission voiced by Thomas Jefferson two centuries ago. While Mr. Jefferson considered education in itself an ennobling enterprise, which helped develop the "natural aristocracy" of man, of greater concern to him was education's communal effects. By developing educated citizens, he believed the University would serve the nation, producing leaders who would be public servants in the broadest sense. The University has a long tradition of developing "thinkers and doers," and much of this training occurs outside of the classroom. The University, therefore, judges the success of its educational mission by looking at the entire student experience. To that end, key components include a significant degree of student autonomy, involvement, self-governance and a belief in, and inculcation of, ethical behavior.

Today the University offers students almost 500 contracted independent organizations, including several musical groups, numerous student publications, over 60 Greek social organizations, and an extremely wide array of hobby/interest/recreational clubs. In addition, the University Programs Council, a grounds-wide organization, offers dozens of movies, large-scale concerts, prominent speakers, renowned artists, and other notable events throughout the year. The University also participates in 25 NCAA sports (12 for men, 13 for women) and provides additional opportunities in over 65 club sports and numerous intramural recreational activities. The graduation rate of student athletes routinely ranks among the nation's best, indicative of the University's dedication to the entire educational experience.

The Honor System is one of the University's oldest and most venerated traditions. Based on the fundamental assumption that anyone who enrolls at the University subscribes to a code of ethics forbidding lying, cheating, and stealing, the Honor System allows students personal freedom possible only in an environment where respect and trust are presumed. For 150 years this system has been run entirely by students.

RELATIONSHIP WITH THE COMMONWEALTH

As an agency and instrumentality of the Commonwealth, the University is obligated to conform its financial procedures to various constitutional and statutory provisions. Except for gifts and endowment income, substantially all the funds received by the University, including grants and contract income, constitute revenues of the Commonwealth, which must in all cases be appropriated to the University's use by the General Assembly before the University can spend them. These revenues are of two kinds: general fund revenues, primarily derived from tax revenues, appropriated to cover both capital expenditures and a portion of operating expenses; and special fund revenues, primarily derived from collections by the University itself, such as tuition, room, board and fees and revenues from the operation of the Medical Center. The Constitution of Virginia provides that once special fund revenues are deposited into the State Treasury, they cannot be paid out for any purpose "except in pursuance of appropriations made by law."

The General Assembly historically has appropriated for the University all special fund revenues collected by the University, including revenues derived from the ownership or operations of the Medical Center. While the General Assembly has provided in Section 23-26 of the *Code of Virginia* that it "will not limit or alter" the right of the University to pledge any revenues to the payment of obligations issued by the University and that it will not act "in any way to impair the rights and remedies" of the holders of such obligations, the power to appropriate funds is entirely within the discretion of the General Assembly.

The General Assembly historically has also appropriated general fund revenues of the Commonwealth to the University for a variety of purposes. See "Financial Information - Appropriations from the Commonwealth" below.

Like other state agencies dependent upon legislative appropriations for operating revenues, the University has no assurance that the General Assembly will continue to make appropriations of general fund revenues or special fund revenues derived from operations of the University, either for operating expenses or capital expenditures, or, if such appropriations are made, that they will be made in a timely fashion or in adequate amounts to enable the University to pay debt service on the Bonds.

Over the past fifteen years, the Commonwealth's share of the University's total revenues, including operating and non-operating revenues, has dropped from more than 26% to less than 7%. During this time, the University has increased other sources of support, including externally funded research grants and private fundraising.

The reduction in support from the Commonwealth has motivated the University to examine the ways in which the University may alter its business relationship with them. The University is committed to its public mandate; therefore altering the business relationship with the Commonwealth does not mean privatization.

In 1996 the General Assembly granted the Medical Center partial autonomy from the Commonwealth. As a result, the Medical Center may approve operating leases without the Commonwealth's approval, is exempted from certain provisions of the Public Procurement Act, is permitted to establish its own human resources policies and procedures, and is granted limited post-appropriation autonomy for non-general fund capital projects.

2005 Legislation. In the 2005 session, the General Assembly passed landmark legislation known as the Restructured Higher Education Financial and Administrative Operations Act. The Act provides a framework for a relationship between public institutions of higher education and the Commonwealth built on long-term planning, commitments made by the institutions as well as by the Commonwealth, and performance measures and accountability. This legislation creates three levels of potential autonomy. The highest level requires execution of a management agreement that requires approval of the Governor and the General Assembly. The University intends to pursue the highest level of financial and administrative autonomy permitted under the legislation through the management agreement.

It is the University's expectation that a successful management agreement will improve the ability of the institution to plan over a multi-year time frame, allow its Board of Visitors to control the tuition policy for the institution, and produce greater managerial efficiencies through delegated authority in the areas of human resources management, procurement and capital projects without undue involvement of agencies, policies or procedures of the Commonwealth. The earliest the University expects to realize the full benefit of the legislation is July 2007.

THE UNIVERSITY OF VIRGINIA MEDICAL CENTER

The Medical Center is an organizational unit of the University employing approximately 4,475 full-time equivalent employees. It serves as the teaching facility for the University's School of Medicine and the School of Nursing, and also has extensive relationships with many of the University's other schools, notably Arts and Sciences.

The diagnostic and treatment services of the Medical Center are located on several sites, including University Hospital, Kluge Children's Rehabilitation Center, The West Complex, Northridge, Fontaine, McCue Center, Forrest Lakes, Moser Radiation Oncology Center and a number of primary care practices throughout central Virginia. The Medical Center also has facilities at the Fontaine Research Park for inpatient and outpatient adult rehabilitation services. The Medical Center has been designated a Level 1 Trauma Center and provides helicopter services for trauma and disaster emergency transport requests. It also provides emergency transportation for newborns, coronary care and other highly specialized needs of patients throughout the Commonwealth. During fiscal year 2004, the Medical Center had 556 beds available for patient care.

The Medical Center provides tertiary and quaternary care to patients from all areas of the Commonwealth, as well as to a limited number of patients from other states and other countries. The Medical Center service area consists of a Primary Service Area ("PSA"), from which about 51% of its inpatients are drawn, and northern and southern Secondary Service Areas, in which another 25% of inpatients are drawn. The remaining patients reside in other parts of Virginia (17%), West Virginia (5%), other states and outside the U.S. (2%). The PSA consists of ten cities and counties, extending about ninety miles from east to west and fifty miles from north to south. The total population of the PSA was 386,032 in 2004 and is expected to grow about 6% by 2009, which is a relatively fast growth rate.

There are two hospitals besides the Medical Center located in the PSA: Martha Jefferson Hospital in Charlottesville, and Augusta Medical Center in Augusta County. Both are small but high quality community-based hospitals with a typical array of services. UVA inpatient market share has remained steady over the last few years, with 37% of total Virginia hospital inpatient discharges in the PSA in 2004. Very few PSA patients leave the state for hospital services, indicating that the Medical Center provides the full array of health services for the region. The strongest service lines with over 40% market share include Heart and Vascular Center, Neurosurgery, Spine, Pediatrics and Cancer.

In 2001, the University created the position of Vice President and Chief Executive Officer of the Medical Center (the "Medical Center CEO"). Reporting to the University's Executive Vice President and Chief Operating Officer, the Medical Center CEO has overall management responsibilities for the operation of the University of Virginia Hospitals and Clinics. The Medical Center CEO works to promote excellence across all functional areas of system administration, focusing especially on a strong financial management platform and a simplified user-friendly administrative environment. Nine of the most senior administrative staff persons at the Medical Center report directly to the Medical Center CEO. These include the Clinical Operations Officer, the Chief Financial Officer, the Chief Marketing Officer, the Chief Information Officer, the Chief Clinical Officer, three directors of key functions, and a special advisor. The Medical Center CEO also plays a key role in ensuring that both School of Medicine faculty and hospital administrative efforts are closely intertwined and coordinated. To facilitate these efforts, the Medical Center CEO and the deans of the School of Medicine and the School of Nursing work closely together to coordinate plans and strategies.

In order to centralize and strengthen the governance of the Medical Center, a specialized operating board was established in 2002 devoted exclusively to overseeing the operations of the University's hospitals and clinics. This Medical Center Operating Board is a subcommittee of the University's Board and currently has nine members, with an additional four ex-officio advisory members who are senior administrators. The legal responsibility for the Medical Center rests with the Medical Center Operating Board and the Board of Visitors. Five of the Operating Board members are also members of the Board, including the Rector and the chair of the Finance Committee, and three others chosen by the Rector. In addition, persons with specialized healthcare or other expertise provide valuable insights to the Operating Board and are selected by the Board. Advisory members of the Operating Board include the Vice President and CEO of the Medical Center, the Vice President and Dean of the School of Medicine, the President of the Medical Center Clinical Staff, and the Executive Vice President and Chief Operating Officer of the University.

For the fiscal year ended June 30, 2004, the Medical Center had net operating revenues of $713 million and operating income of $42 million. See "Financial Information – Medical Center" for additional information.

The table below summarizes selected patient information for each of the five most recent fiscal years.

SELECTED MEDICAL CENTER PATIENT INFORMATION
FOR THE FISCAL YEARS ENDED JUNE 30,

	2000	2001	2002	2003	2004
Average Daily Census	409	411	410	425	458
Length of stay (days)	5.3	5.4	5.6	5.6	5.7
Discharges	28,217	27,624	26,797	27,460	29,164
Outpatient Visits	560,861	570,616	579,522	541,925	566,336

FINANCIAL INFORMATION

The University's audited financial statements for fiscal year ended June 30, 2004 are provided in Appendix B. Also included in Appendix B is the University's Management's Discussion and Analysis for the fiscal year ended June 30, 2004. The University's financial statements are presented in accordance with generally accepted accounting principles applicable to governmental universities promulgated by the Governmental Accounting Standards Board (GASB). The University is not required to restate prior year financial statements in accordance with GASB statements. As such, historical financial data prior to fiscal year 2002 is not comparable; consequently only 3 years of historical data is provided.

SUMMARY STATEMENT OF NET ASSETS
AS OF JUNE 30,
(in thousands)

	2002	2003	2004
Assets			
Current assets	$ 610,768	$ 749,464	$ 827,214
Noncurrent endowment investments	1,801,065	$1,962,217	2,206,032
Other Noncurrent assets	1,512,200	1,786,537	1,779,658
Total assets	$ 3,924,033	$ 4,498,218	$ 4,812,904
Liabilities			
Current liabilities	249,107	$423,736	428,176
Non current liabilities	447,093	624,976	662,736
Total liabilities	$ 696,200	$ 1,048,712	$ 1,090,912
Net assets			
Invested in capital assets, net of related debt	$871,844	$917,924	$955,092
Restricted	1,497,810	$1,587,272	1,711,340
Unrestricted	858,179	944,310	1,055,560
Total net assets	$ 3,227,833	$ 3,449,506	$ 3,721,992
Liabilities and net assets	$ 3,924,033	$ 4,498,218	$ 4,812,904

SUMMARY STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30,
(in thousands)

	2002	2003	2004
Revenues			
Student tuition and fees	$177,913	$204,078	$233,786
Patient services	568,372	637,891	686,578
Grants and contracts	261,762	300,306	323,576
Sales and services of educational departments	19,773	19,905	21,650
Auxiliary enterprises revenue	77,070	81,671	89,149
Other	10,365	13,193	26,834
Total operating revenues	$1,115,255	$1,257,044	$1,381,573
Non-Operating Revenues			
State appropriations	176,053	140,851	125,321
Gifts	78,698	70,545	84,850
Investment income	19,527	189,702	255,380
Additions to permanent endowment	63,701	30,170	10,215
Other	52,999	37,883	32,439
Total operating and non-operating revenues	$1,506,233	$1,726,195	$1,889,778
Expenses			
Operating Expenses			
Compensation and benefits	831,980	822,201	893,463
Supplies and other services	411,139	448,886	467,520
Student aid	34,155	37,738	40,537
Utilities	56,204	58,718	76,105
Depreciation	98,628	99,915	102,597
Other	24,689	25,326	24,452
Total operating expenses	$1,456,795	$1,492,784	$1,604,674
Non-Operating Expenses	24,151	11,742	12,618
Total operating and non-operating expenses	$1,480,946	$1,504,526	$1,617,292
Increase in Net Assets	$25,287	$221,669	$272,486

Financial Information Concerning Foundations. During the year ended June 30, 2004, the University implemented GASB Statement 39, *Determining Whether Certain Organizations are Component Units*. This statement describes 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 determined that the following six foundations meet the criteria established by GASB Statement 39 to be component units and are included in the June 30, 2004 audited financial statements in Appendix B:

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

COMPONENT UNITS
SUMMARY STATEMENT OF NET ASSETS
AS OF JUNE 30,
(in thousands)

		2004
Assets		
Current assets	$	127,699
Noncurrent long-term investments		746,020
Other Noncurrent assets		228,534
Total assets	$	1,102,253
Liabilities		
Current liabilities		141,848
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

For the fiscal year ended June 30, 2004, component unit net assets grew $94.3 million, or 13.9% from fiscal year 2003.

Including these six foundations presented as component units, there are a total of –23 University affiliated foundations operating in support of the interests of the University. These related foundations are not-for-profit corporations controlled by separate boards of directors. The relationship between the University and the foundations is governed by the Policy on University-Related Foundations, which ensures that operations are consistent with the University's purpose, policies and procedures.

The foundations provide substantial financial support to the University, contributing approximately $52 million during fiscal year 2004.

Budgeting. According to the University Budget Office, the University's budgeted expenditures for fiscal year 2005-06 total $1.88 billion. This includes $1.04 billion for the Academic Division (55.4%), $812.6 million for the Medical Center (43.2%) and $26.6 million for the College at Wise (1.4%).

The University submits a budget request to the Governor, for approval by the legislature, every two years. Amendment requests may be made to the Governor in the off years and to the legislature in each year. The Commonwealth appropriates all funds expended by the University except for gifts and endowment income. Unless specifically approved by the Governor, unused state general funds revert to the general fund of the Commonwealth on June 30 of each year. However, institutions of higher education that meet management standards may request the carry-forward of unexpended general fund appropriations from one fiscal year to the next. The University has met those standards for the past ten years.

Appropriations from the Commonwealth. The percentage of Commonwealth appropriations to total operating and non-operating revenues was approximately 12% in fiscal year 2002; approximately 8% in fiscal year 2003 and approximately 7% in fiscal year 2004.

APPROPRIATIONS FROM THE COMMONWEALTH[1]
FOR THE YEARS ENDED JUNE 30,
(in thousands)

2000	2001	2002	2003	2004
$ 170,944	$ 177,001	$ 176,053	$ 140,851	$ 125,321

[1]*Excludes capital appropriations.*

Tuition and Fees. The University generates tuition and fees from both undergraduate and graduate students attending the University. In the fiscal year ended June 30, 2004 tuition and fees prior to reduction for student financial aid provided approximately 17% of the University's operating revenues.

UNDERGRADUATE TUITION & REQUIRED FEES PER STUDENT[1]
ACADEMIC YEAR

	2001-02	2002-03	2003-04	2004-05	2005-06[2]
In-state tuition and fees	$ 4,236	$ 4,595	$ 5,964	$ 6,600	$ 7,180
Out-of-state tuition and fees	18,268	19,805	21,984	22,700	24,100

[1] *The above table does not include first year orientation fees of $185 in FY2001-02 and FY2002-03, and $190 in FY2003-04 and FY2004-05. Also excluded above is $385 mid-year tuition surcharge in FY2002-03.*
[2] *The FY2005-06 data is preliminary*

GRADUATE TUITION AND REQUIRED FEES PER STUDENT[1]
ACADEMIC YEAR

	2001-02	2002-03[2]	2003-04	2004-05	2005-06[3]
In-State Tuition and Fees					
Darden Graduate School of Business Administration	$ 22,283	$ 25,831	$ 28,220	$ 30,200	$ 32,300
School of Law	18,090	20,627	23,798	26,100	28,300
School of Medicine	15,450	18,285	22,486	26,074	28,700
All others	5,178	5,661	7,856	9,200	9,800
Out-of-State Tuition and Fees					
Darden Graduate School of Business Administration	27,283	30,831	33,220	35,200	37,300
School of Law	25,316	26,967	29,201	31,100	33,300
School of Medicine	27,950	30,567	34,536	36,633	38,700
All others	18,268	18,751	19,964	20,200	20,400

[1] *In-State Tuition and Fees for Darden, Law, Medicine, and Out-of-State Tuition and Fees for Darden represent first-year tuition and fees which, in some years, includes a surcharge not charged to returning students.*
[2] *The FY2002-03 data excludes a $385 mid-year tuition surcharge.*

[3] *The FY2005-06 data is preliminary*

During the 2004-05 academic year, 6,008 students (46% of the total student body) received over $60 million in financial assistance. Of this total, 35% of the funds were provided by the federal government, 7% by the Commonwealth, 30% by the University, 11% by the Virginia Athletics Foundation, and 17% by other sources. The total included approximately $18 million in federal loans, and federal work-study, and over $38 million in federal, state, private and institutional grants and scholarships. In addition, 769 students' parents borrowed over $9 million from the Federal Parents Plus Loan program.

Grants and Contracts.

GRANTS AND CONTRACTS
SUMMARY SCHEDULE OF REVENUES
FOR THE YEARS ENDED JUNE 30,
(in thousands)

	2000	2001	2002	2003	2004
Federal grants and contracts	$ 171,504	$ 187,234	$ 210,591	$ 246,244	$ 274,018
Other	44,176	45,337	51,171	54,062	49,558
Total grants and contracts	$ 215,680	$ 232,571	$ 261,762	$ 300,306	$ 323,576

The U.S. Department of Health and Human Services continued as the University's major source of grant and contract awards, accounting for 54% of the total awards in fiscal year 2004.

Medical Center. The following data has been derived from annual audited financial statements of the Medical Center for the fiscal years ended June 30, 2002- 2004.

UNIVERSITY OF VIRGINIA MEDICAL CENTER
SUMMARY STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR YEARS ENDED JUNE 30,
(in thousands)

	2002	2003	2004
Net patient service revenue	$ 589,567	$ 638,105	$ 686,578
Other operating revenues	$ 20,488	$ 26,497	$ 26,834
Total Operating Revenues	$ 610,055	$ 664,602	$ 713,412
Operating Expenses	$ 600,584	$ 622,301	$ 671,062
Income before other revenues, expenses, gains or losses	$ 9,471	$ 42,301	$ 42,350
Net non-operating revenues	(4,036)	(2,250)	3,476
Increase in net assets	$ 5,435	$ 40,051	$ 45,826

Gifts and Fund Development. The University continues to benefit from the generosity of alumni and friends, foundations, and corporations. According to the University Development Office, during 2003-2004, the University received $174.9 million in private gifts directly and through related foundations, including nearly $41 million in annual giving contributed by 54,000 donors. The percentage of alumni who gave in 2003-2004 was 21%.

In recent years, the University has received some of the largest gifts in its history, including a $78 million bequest to benefit the Law School, Medical School, and Athletics, as well as a $52.6 million estate gift to create an unrestricted endowment for the Medical Center.

In December 2000, the University completed a comprehensive $1 billion fundraising campaign that attracted $1.43 billion in gifts, pledges, and revocable estate gifts, such as bequests. At the time of its completion, it was one of the top ten largest fund raising efforts ever conducted. Alumni provided 45% of the campaign total, non-alumni friends 21%, foundations 17%, corporations 12%, and other organizations 5%.

The University has begun a new campaign, now in its quiet fund phase, that will kick-off in Fall 2006. The eight-year campaign will run until 2011 and has a goal of $3 billion. A detailed campaign plan is already in place, and research, cultivation, and volunteer recruitment efforts are well underway. As of April 2005, 21% of the campaign goal had been reached, with 16% of the campaign time elapsed.

Endowment. The University of Virginia's endowment was $1.98 billion as of June 30, 2004. The unrestricted expendable portion was $563 million, or 28%, as of the same date. In accordance with the Board of Visitors' approved spending policy, the endowment contributed $86 million in fiscal year ending June 30, 2004 to support operations of the University.

Of the total endowment resources, 99% is invested in the pooled endowment fund, a commingled investment pool. The historic annual return as of June 30, 2004 for the pooled endowment fund follows:

POOLED ENDOWMENT FUND HISTORIC ANNUAL RETURN
AT JUNE 30, 2004

1 Year	3 Year	5 Year	10 Year	20 Year
12.70%	7.10%	12.50%	14.50%	14.60%

As of March 31, 2005, the fiscal year-to-date return on the fund was 11%.

All funds are managed pursuant to investment policies established by the University of Virginia Investment Management Company ("UVIMCO") Board of Directors. The long-term objectives of the University's endowment fund are to maximize long-term real return commensurate with the risk tolerance of the University, achieve long term returns that compare favorably with the returns of other outstanding schools and consistently exceed returns on a passively managed benchmark with similar asset allocation and risk. On June 7, 2005 the following policy portfolio targets were approved by the UVIMCO Board: 45% to hedge funds, 15% to private equity, 10% to domestic public equity, 10% to international public equity, 5% to emerging markets, 5% to real assets, and 10% to fixed income. These targets will be effective July 1, 2005."

The Board of Visitors sets the spending rate for the endowment. In April 2005, the Board of Visitors approved a new spending policy for endowment funds. The Pooled Endowment Fund continues to support two spending rates, and the plan is for the two rates to converge at a future time. Beginning in January 2006, general endowment shares will receive an annual growth in payout of 3.6%; shares that are eligible for income supplements by the Commonwealth and those assets, which are used, at least in part, to support faculty salaries will receive an increase when the payout on general endowment shares converges with the income supplement and faculty support shares. After that point, payouts on both classes of shares will increase at the same pace every year. This spending policy will be followed provided the payout falls within a range of 3.5% to 5.5% of the market value of the endowment. If the payout is outside the range, management will take a recommendation to the Board.

UVIMCO is a University-related foundation that provides investment management services to the University, independent foundations and other entities affiliated with the University and operating in support of its mission. UVIMCO's formal governance began in March 1998 when the Board of Visitors of the University established a subcommittee of the Finance Committee called UVIMCO. The Board charged this subcommittee with the investment and management of the endowment, and UVIMCO operated as a department of the University for several years. On July 1, 2004, UVIMCO was established as a separate 501(c) (3) Virginia non-stock corporation.

UVIMCO is governed by a board of eleven directors, three of whom are appointed by the Board of Visitors and one is appointed by the University of Virginia President. Daily investment management is delegated to UVIMCO's full-time staff of 11 employees, of which 5 are directors, and headed by

Christopher Brightman, CFA, who joined UVIMCO as Chief Executive Officer and Chief Investment Officer in December 2004.

UVIMCO oversees investments totaling $2.5 billion, as of March 31, 2005, including endowment assets, operating funds, charitable trusts, and other investments. The University of Virginia Endowment, managed by UVIMCO, is the University's primary source of sustainable private support for instruction, service, and research.

Indebtedness and other Obligations. As of June 30, 2004, the University had $425 million in long-term debt outstanding.. For a discussion of these obligations, see Note 4 in the financial statements of the University included in Appendix B. Certain proceeds of the Series 2005 Bonds will be used to refund outstanding obligations. See "APPLICATION OF SERIES 2005 BOND PROCEEDS – Plan of Finance"

The University has authorized a commercial paper program in an amount not to exceed $175 million.

TOTAL DEBT[1]
AT JUNE 30, 2004
(in thousands)

Medical Center Series 1998B		5,270
Medical Center Series 1999A		36,820
University of Virginia Series 1995A		3,080
University of Virginia Series 1998A		63,970
University of Virginia Series 2003A		82,010
University of Virginia Series 2003B		117,465
Commonwealth of Virginia Section 9(c) bonds		40,695
Notes payable to VCBA		3,630
Notes payable to VCBA		28,435
Notes payable to VCBA		43,330
Other		344
Total Long-Term Debt	$	425,049
Taxable Commercial Paper		2,600
Tax-Exempt Commercial Paper		17,100
Total Debt	$	444,749

[1] *Excludes long-term debt of affiliated foundations*.

LITIGATION

There is no litigation pending in any court or, to the best knowledge of the University, threatened, questioning the corporate existence of the University, or that would restrain or enjoin the issuance or delivery of the Bonds, or that concerns the proceeding of the University taken in connection with the Bonds or the pledge or application of the Pledged Revenues under the Bond Resolutions for their payment, or which contests the powers of the University with respect to the foregoing.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX B

FINANCIAL STATEMENTS FOR THE UNIVERSITY FOR THE FISCAL YEAR ENDED JUNE 30, 2004

and

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2004

[THIS PAGE INTENTIONALLY LEFT BLANK]

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	**(7,297)**	**35,169**
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. Gravely, 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.

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**

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.

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.

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)			Increase/(Decrease)	
	2004	2003	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			Increase/(Decrease)	
(in thousands)	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.

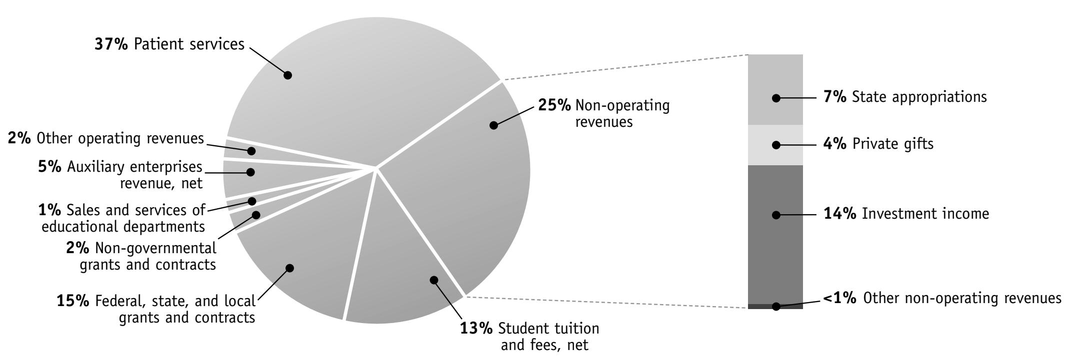
On the following page is a graphic illustration of revenues by source (both operating and non-operating), which are used to fund the University's operating activities for the fiscal years ended June 30, 2004 and 2003. As noted earlier, GASB Statement No. 34 requires state appropriations, gifts, and other 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%**

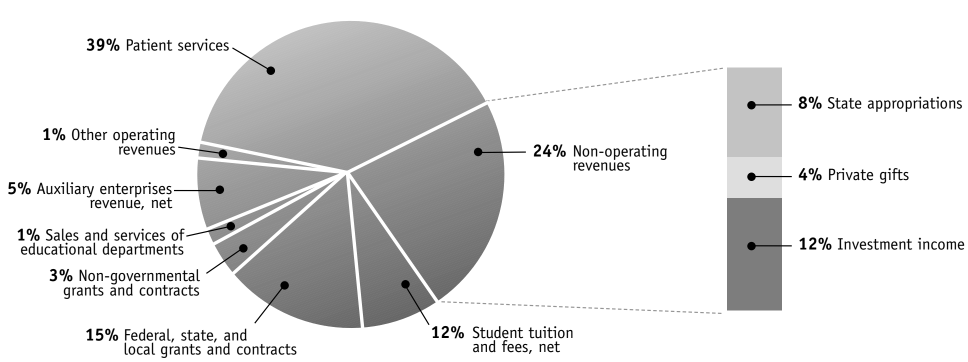
Patient services revenues accounted for 49.7 percent of the University's operating revenues and 37.1 percent of the operating and non-operating revenues combined. Additionally, state appropriations and student tuition and fees, which represent 6.8 percent and 12.6 percent of the University's total revenues,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

TOTAL REVENUES 2004, TOTAL UNIVERSITY REVENUES AVAILABLE FOR OPERATIONS (in thousands) $ 1,851,098



TOTAL REVENUES 2003, TOTAL UNIVERSITY REVENUES AVAILABLE FOR OPERATIONS (in thousands) $ 1,658,142

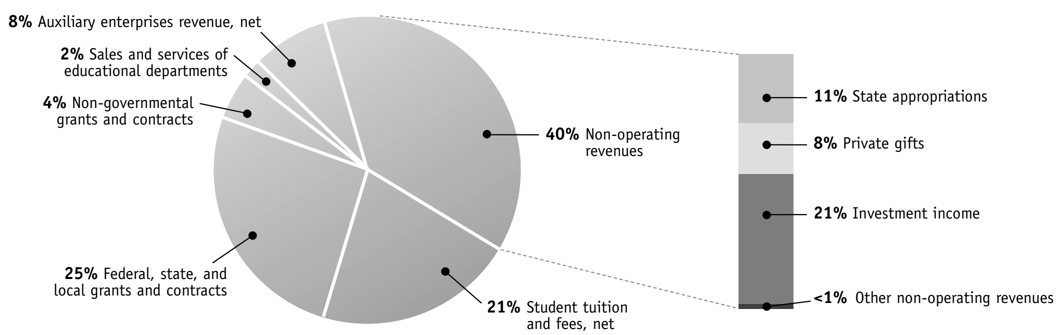


SUMMARY OF REVENUES, EXCLUDING THE MEDICAL CENTER

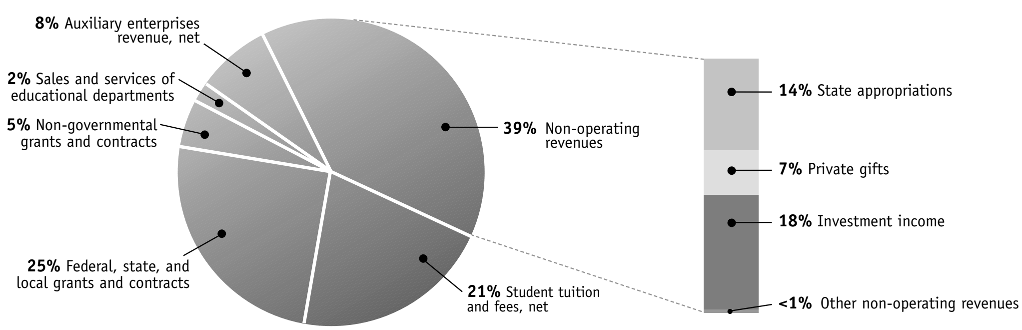
The University measures its performance both for the University as a whole and for the University without its Medical Center. The exclusion of the University's Medical Center provides a clearer view of the operations of the schools and colleges, as well as the central administration. The following is 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.

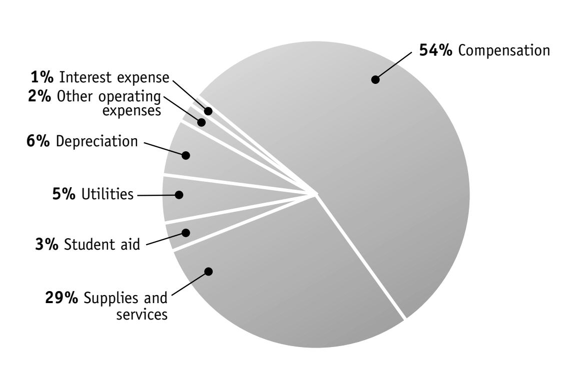
Revenues for all sponsored programs increased $23.3 million, or 7.7 percent, to a total of $323.6 million in 2004. This 7.7 percent increase is less than last year's 14.7 percent rise. This change was expected. While the National Institutes of Health (NIH) continues to provide substantial sponsored programs 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.

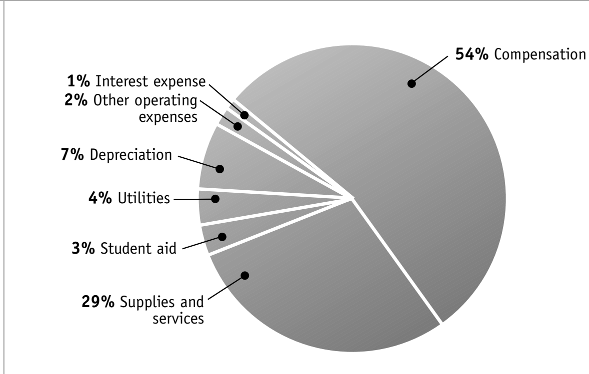
SUMMARY OF EXPENSES, TOTAL UNIVERSITY (in thousands)	2004	2003	Increase/(Decrease) Amount	Increase/(Decrease) Percent
OPERATING EXPENSES				
Compensation	$ 893,463	$ 822,201	$ 71,262	8.7%
Supplies and services	467,520	448,886	18,634	4.2%
Student aid	40,537	37,738	2,799	7.4%
Utilities	76,105	58,718	17,387	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%**

TOTAL EXPENSES 2004, TOTAL UNIVERSITY



(in thousands) $ 1,617,292

TOTAL EXPENSES 2003, TOTAL UNIVERSITY



(in thousands) $ 1,504,526

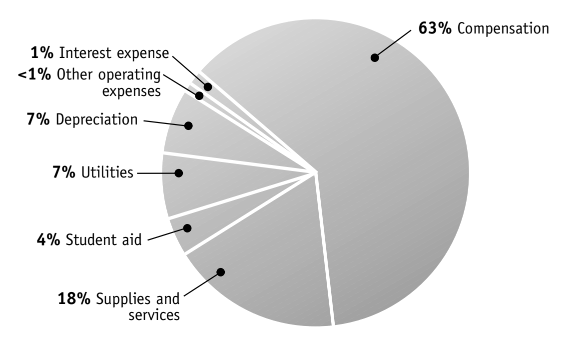
As a percentage, compensation (salaries and benefits) remained constant at 54 percent of total expenses. However, in dollars, compensation increased by $71.3 million as the Board of Visitors took action to address faculty and staff compensation levels that had fallen well below those of the University's 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.

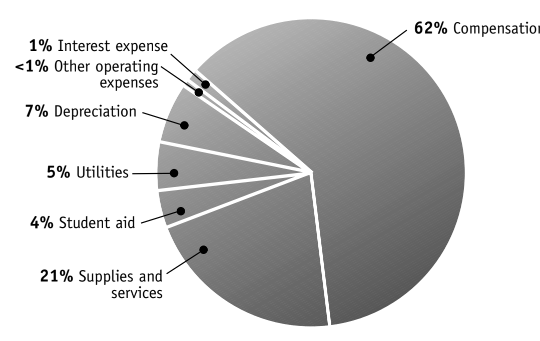
SUMMARY OF EXPENSES, EXCLUDING THE MEDICAL CENTER (in thousands)	2004	2003	Increase/(Decrease) Amount	Percent
OPERATING EXPENSES				
Compensation	$ 587,646	$ 544,870	$ 42,776	7.9%
Supplies and services	162,604	188,228	(25,624)	(13.6%)
Student aid	40,537	37,738	2,799	7.4%
Utilities	63,902	47,203	16,699	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%**

TOTAL EXPENSES 2004, EXCLUDING THE MEDICAL CENTER



(in thousands) $ 931,005

TOTAL EXPENSES 2003, EXCLUDING THE MEDICAL CENTER



(in thousands) $ 891,485

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.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX C

DEFINITIONS AND SUMMARY OF BOND RESOLUTION

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX C

DEFINITIONS AND SUMMARY OF BOND RESOLUTION

In addition to making provision for the issuance and terms of the Series 2005 Bonds, as described in "THE SERIES 2005 BONDS" and "SECURITY FOR THE SERIES 2005 BONDS" in this Official Statement, the Bond Resolution also contain other provisions and covenants of the University relating to the Series 2005 Bonds. These provisions and covenants are briefly described in this Appendix C, but do not purport to be either comprehensive or definitive. All references to the Bond Resolution in this Appendix C are qualified in their entirety by reference to such document.

Definitions

In addition to words and terms elsewhere defined in this Official Statement, the following words and terms when used in connection with the Series 2005 Bonds shall have the following meanings, unless some other meaning is plainly intended:

"Board" means the Board of Visitors of the University or, if such Board is abolished, the board or body succeeding to the principal functions thereof.

"Bond Purchase Agreement" means the Bond Purchase Agreement dated as of the date of its execution and delivery, between the University and the Underwriters.

"Bondholder" means the registered owner of any Series 2005 Bond.

"Chief Operating Officer" means the University's Executive Vice President and Chief Operating Officer or such other officer of the University having similar duties as may be selected by the Board.

"Commonwealth" means the Commonwealth of Virginia.

"Credit Obligation" of the University means any indebtedness incurred or assumed by the University for borrowed money and any other financing obligation of the University that, in accordance with generally accepted accounting principles consistently applied, is shown on the liability side of a balance sheet; provided, however, that Credit Obligation shall not include any portion of any capitalized lease payment directly appropriated from general funds of the Commonwealth or reasonably expected to be so appropriated as certified by the Chief Operating Officer, but only to the extent such appropriation is restricted by the Commonwealth to the payment of such capitalized lease obligation.

"DTC Participant" means each Participant for which DTC holds securities.

"Fiscal Year" means the period commencing on the first day of July and ending on the last day of June of the following year.

"Government Obligations" means certificates or interest-bearing notes or obligations of the United States, or those for which the full faith and credit of the United States are pledged for the payment of principal and interest, and investments in any of the following obligations provided such obligations are backed by the full faith and credit of the United States (a) direct obligations or fully guaranteed certificates of beneficial interest of the Export-Import Bank of the United States, (b) debentures of the Federal Housing Administration, (c) guaranteed mortgage backed bonds of the Government National Mortgage Association, (d) certificates of beneficial interest of the Farmers Home Administration, (e) obligations of the Federal Financing Bank or (f) project notes and local authority bonds of the Department of Housing and Urban Development.

"Owners" means the registered owners of Series 2005 Bonds or the duly authorized attorney in fact, representative or assign thereof.

"Paying Agent" means the State Treasurer, on behalf of the Treasury Board, or a designee of the State Treasurer which shall initially be The Bank of New York, or any successor Paying Agent appointed pursuant to the Bond Resolution.

"Participants" means those broker-dealers, banks and other financial institutions from time to time for which DTC holds Series 2005 Bonds as securities depository.

"Registrar" means the State Treasurer, on behalf of the Treasury Board, or a designee of the State Treasurer which shall initially be The Bank of New York, and any successor Registrar appointed pursuant to the Bond Resolution.

"State Treasurer" means the Treasurer of the Commonwealth.

Creation of Debt Service Fund

The Bond Resolution establishes a Debt Service Fund for the Series 2005 Bonds to be held by the Paying Agent. No later than the day before each interest payment date or principal payment date (a "Payment Date"), the University shall transfer or cause to be transferred sufficient funds to the Paying Agent for deposit in the Debt Service Fund an amount sufficient to cause the Debt Service Fund to contain adequate funds to pay the amounts due on the Series 2005 Bonds on such payment date.

Moneys in the Debt Service Fund shall be withdrawn by the Paying Agent at times appropriate to make payment on each Payment Date and the Paying Agent shall pay or cause the same to be paid to the bondholders on the due date.

Any moneys held in the Debt Service Fund and set aside for the purpose of paying any Series 2005 Bonds which shall remain unclaimed by the holders of the Series 2005 Bonds for a period of five years after the date on which such Series 2005 Bonds shall have become due and payable, shall be disposed of by the Paying Agent in accordance with The Virginia Uniform Disposition of Unclaimed Property Act.

The moneys in the Debt Service Fund are to be held in trust and applied as provided in the Bond Resolution and, pending such application, are subject to a lien and charge in favor of the holders of the Series 2005 Bonds.

Construction Fund

A special fund is established in the office of the State Treasurer as the Construction Fund (the "Construction Fund"), to the credit of which there shall be deposited a portion of the proceeds of the Series 2005 Bonds. The moneys in the Construction Fund shall be held in trust and applied to the payment of the Cost of the Project, defined below, and, pending such application, shall be subject to a lien and charge in favor of the holders of the Series 2005 Bonds and for the future security of such holders until paid out or transferred.

The Cost of the Project shall include (a) obligations incurred for labor and materials and to contractors, builders and materialmen in connection with the Project; (b) the cost of acquiring by purchase, if such purchase shall be deemed expedient, and the amount of any award or final judgment in or any settlement or compromise of any proceeding to acquire by condemnation, such lands, property, rights, rights of way, franchises, easements and other interests as may be deemed necessary or convenient by the Board for the construction and operation of the Project, options and partial payments thereon, and the amount of any damages incident to or consequent upon such construction and operation; (c) the cost of furnishing and equipping the Project; (d) interest on the Series 2005 Bonds, prior to and during construction of the Project and for up to one year thereafter; (e) taxes or other municipal or governmental charges lawfully levied or assessed during construction upon the Project or any property acquired therefor, and premiums on insurance, if any, in connection with the Project during construction; fees and expenses of engineers and architects for surveys and estimates and other preliminary investigations, preparation of plans, drawings and specifications and supervising construction, as well as for the performance of all other duties of engineers and architects in relation to the planning and construction of the Project or the issuance of Series 2005 Bonds therefor; (f) expenses of administration properly chargeable to the Project, legal expense and fees, fees and expenses of consultants, financing charges, cost of audits and of preparing and issuing the Series 2005 Bonds, and all other items of expense not elsewhere in this paragraph specified incident to the planning, construction, development and equipping of the Project and the placing of the Project in operation; and (g) any obligation or expenses heretofore or hereafter incurred by the University, any agent of the University or by any other agency of the Commonwealth in connection with the Project for any of the foregoing purposes.

Payments from Construction Fund

Payment of the Cost of the Project shall be made from the Construction Fund and other available funds, all as provided by law.

Moneys in the Construction Fund shall be paid out by the State Treasurer on vouchers of the University, all in accordance with the Act, the amounts stated in such vouchers to be certified by the University to be necessary for paying items of Cost of the Project.

The vouchers shall state each amount to be paid, the name of the person, firm or corporation to whom each such payment is due and the purpose for which the obligation to be paid was incurred, and shall certify that the goods or services specified have been received, or performed, payment therefor has not been previously authorized and that the expenditure is a proper charge to the appropriation for the Construction Fund.

Covenants Regarding Payment of Principal and Interest; Pledge of Pledged Revenues

The University covenants to pay the principal of and the interest on the Series 2005 Bonds in the manner provided in the Bond Resolution and in the Series 2005 Bonds, payable solely from Pledged Revenues. The University pledges the Pledged Revenues to the payment of such principal and interest and to the payment of any Parity Credit Obligations issued by the University. The Series 2005 Bonds and the interest thereon shall not be deemed to constitute any debt or liability of the Commonwealth. Neither the University nor the Commonwealth shall be obligated to pay the principal of or interest on the Series 2005 Bonds, or other costs incident thereto except from the Pledged Revenues, and neither the faith and credit nor the taxing power of the Commonwealth are pledged to the payment of the principal of or interest on the Series 2005 Bonds, or other costs incident thereto.

Covenants Regarding Additional Indebtedness and Encumbrances

Except as described in "SECURITY FOR THE SERIES 2005 BONDS" in this Official Statement, the Bond Resolution does not limit the right of the University to incur other Credit Obligations. As described in such section, the Bond Resolution does limit the University's right to incur Parity Credit Obligations and Qualifying Senior Obligations and to pledge any portion of the Pledged Revenues.

Other Covenants of the University

In the Bond Resolution, the University covenants that it will carry or maintain an adequate program of commercial insurance or self-insurance for its properties and other risks. The University further covenants that it will keep accurate records and accounts of all items of cost and expenditures relating to the Pledged Revenues and the application of the Pledged Revenues and that it will cause to be filed not later than the end of the eighth month following the close of each Fiscal Year with the State Treasurer and to be mailed to all Bondholders who shall have filed their names and addresses with the Secretary of the Board for such purpose a report, signed by the chief financial officer of the University and by the Virginia Auditor of Public Accounts or by an independent certified public accountant (or firm thereof) approved by the Virginia Auditor of Public Accounts, setting forth for the preceding Fiscal Year, in reasonable detail, the financial condition of the University, including its statements of net assets as of the end of the preceding fiscal year, and related statements of revenues, expenses and changes in net assets and statement of cash flows for the preceding Fiscal Year. The University further covenants in the Bond Resolution that it will not convey, sell or otherwise dispose of any its property unless (a) such conveyance, sale or encumbrance is in the ordinary course of business, or (b) the Chief Operating Officer certifies that, taking into account the conveyance, sale or other disposition of such property (i) the University will have sufficient funds to meet all of its financial obligations, including its obligations to pay principal of and interest on all Credit

Obligations, for all Fiscal Years to and including the second full Fiscal Year after such conveyance, sale or other disposition and (ii) the Chief Operating Officer has no reason to believe that the University will not have sufficient funds to pay all amounts due under all indebtedness of the University then outstanding. The University further covenants in the Bond Resolution to do and perform all acts and things permitted by law and the Bond Resolution which are necessary or desirable in order to assure that the interest paid on the Series 2005 Bonds will be excludable from gross income from federal income tax purposes and to take no action that would result in such interest not being excludable from gross income for federal income tax purposes.

Events of Default

The following events are "Events of Default" under the Bond Resolution:

(a) due and punctual payment of the principal of any of the Series 2005 Bonds is not made when the same becomes due and payable, either at maturity or by proceedings for purchase, redemption or otherwise;

(b) due and punctual payment of any interest due on any of the Series 2005 Bonds is not made when the same becomes due and payable;

(c) the University is for any reason rendered incapable of fulfilling it obligations under the Bond Resolution;

(d) an order or decree is entered, with the consent or acquiescence of the University, appointing a receiver or receivers of the University or any part thereof or of the revenues thereof, or if such order or decree, having been entered without the consent or acquiescence of the University, is not vacated or discharged or stayed on appeal within sixty (60) days after the entry thereof;

(e) any proceeding is instituted, with the consent or acquiescence of the University, for the purpose of effecting a composition between the University and its creditors or for the purpose of adjusting the claims of such creditors pursuant to any federal or state statute now or hereafter enacted; or

(f) the University defaults in the due and punctual performance of any other of the covenants, conditions, agreements and provisions contained in such Series 2005 Bonds or in the Bond Resolution on the part of the University to be performed, and such default continues for thirty (30) days after written notice specifying such default and requiring same to be remedied is given to the Board by any bondholder, provided that if such default is such that it can be corrected but cannot be corrected within such thirty (30) day period, it shall not constitute an Event of Default if corrective action is instituted by the University within such period and is diligently pursued until the default is corrected.

Remedies Upon Default

The Bond Resolution provides that, upon an Event of Default thereunder, the holders of not less than 25% in aggregate principal amount of the Series 2005 Bonds, by instrument or instruments filed with the Governor and proved or acknowledged in the same manner as a deed to be recorded, may appoint a trustee to represent the holders of the Series 2005 Bonds for the purposes in the Bond Resolution and in the Act provided.

Such trustee may, and upon written request of the holders of not less than 25% in principal amount of the Series 2005 Bonds then outstanding shall, in its own name:

(a) By mandamus or other suit, action or proceeding at law or in equity enforce all rights of the holders of the Series 2005 Bonds, including the right to require the University and its Board to collect fees, rents, charges or other revenues adequate to carry out any agreement as to, or pledge of, such revenues, and to require the University and Board to carry out any other agreements with the holders of the Series 2005 Bonds and to perform it and their duties under the Act;

(b) Bring suit upon the Series 2005 Bonds;

(c) By action or suit in equity, require the University to account as if it were the trustee of an express trust for the holders of the Series 2005 Bonds; or

(d) By action or suit in equity, enjoin any acts or things which may be unlawful or in violation of the rights of the holders of the Series 2005 Bonds.

Any such trustee, whether or not all Series 2005 Bonds have been declared due and payable, shall be entitled as of right to the appointment of a receiver who may enter and take possession of any property of the University any of the revenues from which are pledged for the security of Series 2005 Bonds and operate and maintain the same and collect and receive all fees, rents, charges and other revenues thereafter arising therefrom in the same manner as the University itself might do and shall deposit all such moneys in a separate account and apply the same in such manner as the court appointing such receiver shall direct. In any suit, action or proceeding by the trustee the fees, counsel fees and expenses of the trustee and of the receiver, if any, shall constitute taxable costs and disbursements and all costs and disbursements allowed by the court shall be a first charge on any fees, rents, charges and other revenues of the University pledged for the security of Series 2005 Bonds.

Such trustee shall, in addition to the foregoing, have and possess all of the powers necessary or appropriate for the exercise of any functions specifically set forth in the Bond Resolution or incident to the general representation of the holders of the Series 2005 Bonds in the enforcement and protection of their rights.

To the extent permitted by law, in addition to the foregoing rights and remedies, upon an Event of Default under the Bond Resolution, any bondholder may proceed to protect and enforce the rights of the holders of the Series 2005 Bonds by a suit, action or special proceeding in equity or at law, either for the specific performance of any covenant or agreement contained in the Bond Resolution or in aid or execution of any power granted therein or for the enforcement of any proper legal or equitable remedy. Any such proceedings at law or in equity shall be instituted, had and maintained for the equal benefit of all holders of the Series 2005 Bonds.

The Bond Resolution further provides for the pro rata application of available moneys to the payment of the principal of and interest on the Series 2005 Bonds and any Parity Credit Obligations.

Supplemental Bond Resolutions Without Bondholder Consent

The University may, from time to time and at any time, subject to the approval of the Governor and the Treasury Board of the Commonwealth, adopt such supplemental Bond Resolutions as shall not be inconsistent with the terms and provisions of the Bond Resolution:

(a) to cure any ambiguity or formal defect or omission or to correct any inconsistent provisions in the Bond Resolution or in any supplemental Bond Resolutions,

(b) to provide for the issuance of certificated Series 2005 Bonds or to obtain or maintain a rating on the Series 2005 Bonds,

(c) to grant to or confer upon the bondholders any additional rights, remedies, powers, authority or security (including liquidity facilities) that may lawfully be granted to or conferred upon the bondholders,

(d) to add new conditions, limitations and restrictions on the issuance of other Credit Obligations by the University,

(e) to add to the covenants and agreements of the Board in the Bond Resolution other covenants and agreements thereafter to be observed by the Board or to surrender any right or power therein reserved to or conferred upon the Board,

(f) to comply with any proposed, temporary or permanent regulations regarding arbitrage rebate requirements,

(g) to modify, alter, amend, add to or rescind, in any particular, any of the terms or provisions contained the Bond Resolution, if in the opinion of the State Treasurer, who may rely upon an opinion of Bond Counsel, such supplemental Bond Resolutions shall not adversely affect or prejudice the interests of the bondholders.

At least thirty (30) days prior to the adoption of any supplemental Bond Resolutions for any of the above purposes, the Secretary of the Board shall cause a notice of the proposed adoption of such supplemental Bond Resolutions to be mailed, postage prepaid, to all registered owners the Series 2005 Bonds at their addresses as they appear on the registration books. Such notice shall briefly set forth the nature of the proposed supplemental Bond Resolutions and shall state that copies thereof are on file at the office of the Secretary of the Board for inspection by all Bondholders. A failure on the part of the Secretary of the Board to mail such notice shall not affect the validity of such supplemental Bond Resolutions.

Supplemental Resolutions Requiring Bondholder Consent

Subject to the terms and provisions contained in the Bond Resolution, and not otherwise, the holders of not less than a majority in aggregate outstanding principal amount of the Series 2005 Bonds shall have the right, from time to time, anything contained in the Bond Resolution to the contrary notwithstanding, to consent to and approve the adoption, subject to the approval of the Governor and the Treasury Board of the Commonwealth, of such Bond Resolution or Bond Resolutions supplemental to the Bond Resolution as shall be deemed necessary or desirable by the Board for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in such Bond Resolution or in any supplemental Bond Resolution; provided, however, that nothing contained in the Bond Resolution shall permit, or be construed as permitting, (a) without the approval of all of the holders of the Series 2005 Bonds, (i) an extension of the maturity of the principal of or the interest on any of such Series 2005 Bond, (ii) a reduction in the principal amount of any of such series of Series 2005 Bonds or the rate of interest thereon, (iii) except as otherwise provided in the Bond Resolution, a preference or priority of any of Series 2005 Bond over any other Series 2005 Bond, or (iv) except as provided in the Bond Resolution, the release of the lien created by the Bond Resolution with respect to any Pledged Revenues, or (b) without the approval of all of the holders of the Series 2005 Bonds, a reduction in the aggregate principal amount of the Series 2005 Bonds required for consent to such supplemental Bond Resolution.

If at any time the Board shall determine that it is necessary or desirable to adopt any supplemental Bond Resolution for any of the above purposes, the Secretary of the Board shall cause notice of the proposed adoption of such supplemental Bond Resolution to be mailed, not less than thirty (30) nor more than sixty (60) days prior to the date of such adoption, postage prepaid, to all registered owners of the Series 2005 Bonds at their addresses as they appear on the registration books held by the Registrar. Such notice shall briefly set forth the nature of the proposed supplemental Bond Resolution and shall state that copies thereof are on file at the office of the Secretary of the Board for inspection by all bondholders. The Board shall not, however, be subject to any liability to any bondholder by reason of its failure to cause such notice to be mailed and any such failure shall not affect the validity of such supplemental Bond Resolution when consented to and approved as provided above.

Whenever, at any time within one year after the date of such notice, the Board shall deliver to the State Treasurer an instrument or instruments in writing purporting to be executed by the holders of not less than a majority or all, as appropriate, in aggregate principal amount of the Series 2005 Bonds then outstanding, which instrument or instruments shall refer to the proposed supplemental Bond Resolution described in such notice and shall specifically consent to and approve the adoption thereof in substantially the form of the copy thereof referred to in such notice, thereupon, but not otherwise, the Board may adopt such supplemental Bond Resolution in substantially such form, without liability or responsibility to any holder of any Series 2005 Bond, whether or not such holder shall have consented thereto.

If the holders of not less than a majority or all, as appropriate, in aggregate principal amount of the Series 2005 Bonds outstanding at the time of the adoption of such supplemental Bond Resolution shall have consented to and approved the adoption thereof as herein provided, no holder of any Series 2005 Bond shall have any right to object to the adoption of such supplemental Bond Resolution, or to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question the propriety of the adoption thereof, or to enjoin or restrain the Board from adopting the same or from taking any action pursuant to the provisions thereof.

Upon the adoption of any supplemental Bond Resolutions pursuant to the provisions set forth above, the Bond Resolution shall be and be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Bond Resolution of the University, the Board, the State Treasurer and all holders of the Series 2005 Bonds then outstanding shall thereafter be determined, exercised and enforced in all respects under the provisions of the Bond Resolution as so modified and amended.

Defeasance

The University shall pay or provide for the payment of the entire indebtedness on all or particular outstanding Series 2005 Bonds in any one or more of the following ways:

(a) by paying or causing to be paid the principal of and interest on such outstanding Series 2005 Bonds as and when the same become due and payable;

(b) by depositing with the Paying Agent, in trust, at or before maturity, moneys in an amount sufficient to pay or redeem (when redeemable) such outstanding Series 2005 Bonds (including the payment of interest payable on such Series 2005 Bonds to the maturity or redemption date thereof), provided that such moneys, if invested, shall be invested in noncallable Government Obligations in an amount, without consideration of any income or increment to accrue thereon, sufficient to pay or redeem (when redeemable) and discharge the indebtedness on such Series 2005 Bonds at or before their respective maturity dates, it being understood that the investment income on such Government Obligations may be used for any lawful purpose;

(c) by delivering to the Paying Agent, for cancellation, such outstanding Series 2005 Bonds; or

(d) by depositing with the Paying Agent, in trust, noncallable Government Obligations in such amount as will, together with the income or increment to accrue thereon, without consideration of any reinvestment thereof, be fully sufficient to pay or redeem (when redeemable) and discharge the indebtedness on such outstanding Series 2005 Bonds at or before their respective maturity dates as an independent certified public accountant shall certify to the Paying Agent's satisfaction.

Upon deposit with the Paying Agent, in trust, of money or Government Obligations in the necessary amount to pay or redeem all outstanding Series 2005 Bonds and compliance with the other payment provisions of the Bond Resolution, the Bond Resolution may be discharged in accordance with the provisions thereof but the University's liability in respect of the Series 2005 Bonds shall continue, provided that the holders thereof shall thereafter be entitled to payment only out of the moneys and the Government Obligations deposited with the Paying Agent as indicated above.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX D

PROPOSED FORM OF OPINION OF BOND COUNSEL

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX D

PROPOSED FORM OF BOND COUNSEL OPINION

Set forth below is the proposed form of the opinion of McGuireWoods, LLP, Bond Counsel. It is preliminary and subject to change prior to the delivery of the Series 2005 Bonds.

July 20, 2005

The Rector and Visitors of
the University of Virginia
Charlottesville, Virginia

$193,355,000
The Rector and Visitors of the University of Virginia
General Revenue Pledge Bonds, Series 2005

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance by The Rector and Visitors of the University of Virginia ("University") of the referenced general revenue pledge bonds delivered as of this date (collectively, the "Bonds"). The Bonds are issued pursuant to Title 23, Chapter 3 of the Code of Virginia of 1950, as amended ("Act"), and a resolution (the "Resolution") adopted by the Executive Committee of the Board of Visitors of the University ("Executive Committee") on June 28, 2005. We refer you to the Bonds and the Resolution for the definitions of capitalized terms not otherwise defined herein, and for a description of the purposes for which the Bonds are issued and the security therefor. We have examined certified copies of proceedings and other papers relating to the issuance of the Bonds, and have also examined the Constitution and the statutes of the Commonwealth of Virginia, including the Act, and a specimen of the Bonds.

As to questions of fact material to this opinion, we have relied upon (a) representations of and compliance with covenants by the University contained in the Resolution and certain other documents and certificates delivered this date, and (b) certificates of representatives of the University, certain of its affiliates and other parties, including, without limitation, representations, covenants and certifications as to certain prior tax-exempt bond issues, the use of the proceeds of the Bonds, compliance with the arbitrage reporting and rebate requirements and other factual matters which are relevant to the opinions expressed in paragraph 7, in each case without undertaking any independent verification. We have assumed that all signatures on documents, certificates and instruments examined by us are genuine, all documents, certificates and instruments submitted to us as originals are authentic, and all documents, certificates and instruments submitted to us as copies conform to the originals. In addition, we have assumed that all documents, certificates and instruments relating to this financing have been duly authorized, executed and delivered by all parties thereto other than the University, and we have further assumed the due organization, existence and powers of all parties other than the University.

Based on the foregoing, it is our opinion that:

1. The University is a duly organized and validly existing public body constituted as a governmental instrumentality of the Commonwealth of Virginia, having the powers and authority, among others, set forth in the Act and in Title 23, Chapter 9 of the Code of Virginia of 1950, as amended.

2. The University has the requisite power and authority to adopt the Resolution, issue the Bonds and apply the proceeds from the issuance and sale of the Bonds as set forth in the Resolution.

3. The Resolution has been duly and validly adopted by the Executive Committee, is binding upon the University and is enforceable in accordance with its terms.

4. The Bonds have been duly authorized, executed and delivered in accordance with the Act and the Resolution and constitute valid and binding limited obligations of the University, payable solely from the Pledged Revenues and other property pledged therefor under the Resolution. Except as provided in the Resolution, the Bonds are not payable from the funds of the University, nor do they constitute a legal or equitable pledge, charge, lien or encumbrance upon any of the properties of the University or upon its income, receipts or revenues. The Bonds do not create or constitute a pledge of the faith and credit of the Commonwealth of Virginia.

5. As permitted by the Act, the Resolution validly and legally pledge the Pledged Revenues to the payment of the Bonds. We point out, however, that under the Resolution (i) the University has previously issued and may issue Parity Credit Obligations secured by Pledged Revenues on a parity basis with the Bonds and (ii) Pledged Revenues excludes certain revenues previously or subsequently pledged to the payment of Qualifying Senior Obligations or necessary to pay operating or other expenses related to facilities or systems financed in whole or in part with Qualifying Senior Obligations.

6. The obligations of the University under the Bonds and the Resolution are subject to the provisions of applicable bankruptcy, insolvency, reorganization, moratorium and similar laws, now or hereafter in effect, relating to or affecting the enforcement of creditors' rights generally. Such obligations are also subject to usual equitable principles, which may limit the specific enforcement of certain remedies but which do not affect the validity of the obligations.

7. Interest on the Bonds is excluded from gross income for federal income tax purposes and will not be a specific item of tax preference for purposes of the federal alternative

minimum tax imposed on individuals and corporations. It should be noted, that for purposes of the alternative minimum tax imposed on corporations (as defined for federal income tax purposes) under Section 56 of the Internal Revenue Code of 1986, as amended ("Code"), interest on the Bonds must be included in computing adjusted current earnings.

The opinions set forth in this paragraph 7 are subject to the condition that the University and certain other parties comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds so that interest on the Bonds is and continues to be excluded from gross income for federal income tax purposes. The University and such other parties have covenanted to comply with each such requirement. Failure to comply with certain requirements may cause interest on all or a portion of the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of such Bonds. We express no opinion regarding other federal tax consequences arising with respect to ownership of the Bonds.

8. Interest on the Bonds is exempt from income taxation by the Commonwealth of Virginia and any political subdivision thereof.

Our services as Bond Counsel to the University have been limited to rendering the foregoing opinion based on our review of such legal proceedings as we deem necessary to approve the validity of the Bonds and the tax-exempt status of the interest thereon. The foregoing opinion is in no respect an opinion as to the financial condition of the University or the sufficiency of the Pledged Revenues to provide for payment of the Bonds or the accuracy or completeness of any information that may have been relied upon by any owner of the Bonds in making such owner's decision to purchase the Bonds.

Very truly yours,

APPENDIX E

CONTINUING DISCLOSURE AGREEMENT

[THIS PAGE INTENTIONALLY LEFT BLANK]

CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement") is executed and delivered by The Rector and Visitors of the University of Virginia (the "University"), in connection with the issuance by the University of $193,355,000 aggregate principal amount of its General Revenue Pledge Bonds, Series 2005 (the "Series 2005 Bonds") pursuant to a Bond Resolution adopted by the Board of Visitors of the University on June 11, 2005 and by the Executive Committee of the Board of Visitors of the University on June 28, 2005 (together, the "Bond Resolution"). The University has approved the marketing of the Series 2005 Bonds by the Participating Underwriters, pursuant to an Official Statement (the "Official Statement") relating to the Series 2005 Bonds dated June 28, 2005 in a primary offering.

NOW THEREFORE in consideration of the foregoing and the covenants contained herein, the University hereby represents, covenants and agrees as follows:

Section 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the University for the benefit of the Holders and Beneficial Owners of the Series 2005 Bonds.

Section 2. Definitions. In addition to the definitions set forth in the Bond Resolution, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Financial Information" with respect to any Fiscal Year of the University means the following:

(a) the audited financial statements of the University for the prior Fiscal Year, prepared in accordance with generally accepted accounting principles as promulgated from time to time by the Financial Accounting Standards Board. If such audited financial statements are not available by the time the Annual Financial Information is required to be filed pursuant to Section 3(a), the Annual Financial Information shall contain unaudited financial statements, and the audited financial statements shall be filed in the same manner as the Annual Financial Information when such statements become available; and

(b) the operating data of the University included under the headings "STUDENTS," "THE UNIVERSITY OF VIRGINIA MEDICAL CENTER" and "FINANCIAL INFORMATION" in Appendix A to the Official Statement comprising the following tables: "Undergraduate Applications, Acceptances, and Matriculations," "Graduate & Professional Applications, Acceptances, and Matriculations," "University Enrollment," "Selected Medical Center Patient Information," "Component Units," "Appropriations from the Commonwealth," "Undergraduate Tuition & Required Fees Per Student," "Graduate Tuition and Required Fees Per Student," "Grants and Contracts," "University of Virginia Medical Center Summary Statement of Revenues, Expenses and Changes in Net Assets" and "Pooled Endowment Fund Historic Annual Return."

The audited financial statements described above may be included by specific reference to other documents, including official statements of debt issues with respect to which the University is an "obligated person" (as defined by the Rule), which have been filed with each of the NRMSIRs or the SEC. If the document included by reference is a final official statement, it must be available from the MSRB. The University shall clearly identify each such other document so included by reference.

"Disclosure Representative" means the Chief Financial Officer of the University or such other person as the University shall designate from time to time.

"Dissemination Agent" means an entity, if any, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the University and which has filed with the University a written acceptance of such designation.

"Event Notice" means the notice of the events described in Section 3(c) hereof.

"Fiscal Year" means the twelve-month period, at the end of which the financial position of the University and results of its operations for such period are determined. Currently, the University's Fiscal Year ends on June 30 of each year.

"Holder" means, for purposes of this Disclosure Agreement, any Person who is a record owner or Beneficial Owner of a Series 2005 Bond, from time to time.

"Make Public" or "Made Public" has the meaning set forth in Section 4 of this Disclosure Agreement.

"MSRB" means the Municipal Securities Rulemaking Board.

"NRMSIR" means each nationally recognized municipal securities information repository approved as such by the SEC from time to time.

"Participating Underwriters" shall mean the original underwriters of the Series 2005 Bonds required to comply with the Rule in connection with the offering of the Series 2005 Bonds.

"Rule" means Rule 15c2-12 under the Securities Exchange Act of 1934 and any similar rules of the SEC relating to disclosure requirements in the offering and sale of municipal securities, all as in effect from time to time.

"SEC" means the U.S. Securities and Exchange Commission.

"SID" means any state-based information depository existing from time to time in the Commonwealth of Virginia for the purpose of receiving information concerning municipal securities and recognized as such by the SEC.

Section 3. Obligations of the University. (a) The University agrees to prepare and cause to be Made Public Annual Financial Information with respect to any Fiscal Year of the University when and if available but in no case later than 240 days after the end of such Fiscal Year. The Annual Financial Information may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information.

(b) The University shall cause to be Made Public, in a timely manner, notice of any of the following events that may from time to time occur with respect to the Series 2005 Bonds, but with respect to the items in (i) through (xi), only if material:

(i) principal and interest payment delinquencies;

(ii) non-payment related defaults;

(iii) unscheduled draws on debt service reserves reflecting financial difficulties;

(iv) unscheduled draws on any credit enhancement maintained with respect to the Series 2005 Bonds reflecting financial difficulties;

(v) substitution of credit or liquidity providers, or their failure to perform;

(vi) adverse tax opinions or events affecting the tax-exempt status of interest on the Series 2005 Bonds;

(vii) modifications to rights of Holders;

(viii) bond calls;

(ix) defeasances;

(x) release, substitution, or sale of property securing repayment of the Series 2005 Bonds;

(xi) rating changes; and

(xii) the failure of the University on or before the date required by Section 3(a) and Section 3(b) to provide Annual Financial Information or Make Public Event Notices to the persons and in the manner required by this Disclosure Agreement.

(c) Whenever the University obtains knowledge of the occurrence of an event listed in subsection (b) above, the University shall as soon as possible determine if such event would be material under applicable federal securities laws; provided, that any event described in subsection (b)(xii) above shall always be material.

(d) If the University has determined that knowledge of the occurrence of an event listed in subsection (c) above would be material under applicable federal securities laws, the University shall promptly report the occurrence pursuant to subsection (e) below.

(e) If the University has determined to report the occurrence of an event listed in subsection (b) above, the University shall file a notice of such occurrence with the MSRB and each SID. Notwithstanding the foregoing, notice of an event listed in subsection (b) above described in subsections (b)(viii) and (ix) need not be given under this subsection any earlier than the date on which the notice (if any) of the underlying event is given to the Holders of affected Series 2005 Bonds pursuant to the Bond Resolution.

(f) The University shall notify the NRMSIRs of any change in the University's Fiscal Year not later than the first date on which it first provides any information to the NRMSIRs after such change in fiscal year.

(g) Without limiting any of the foregoing, the University further agrees in a timely manner to deliver to any Holder of Series 2005 Bonds upon written request the information required to be provided to the NRMSIRs pursuant to subsections (a), (b) and (e) above.

Section 4. Information Made Public. Information shall be deemed to have been "Made Public" for purposes of this Disclosure Agreement if transmitted to the following as herein required:

(i) subject to the provisions of Section 10, each NRMSIR at its then current address, including the following NRMSIRs existing as of the date hereof:

Bloomberg Municipal Repository
100 Business Park Drive
Skillman, New Jersey 08558
Phone: (609) 279-3225
Fax: (609) 279-5962
E-Mail: Munis@Bloomberg.com

DPC Data Inc.
One Executive Drive
Fort Lee, New Jersey 07024
Phone: (201) 346-0701
Fax: (201) 947-0107
E-mail: nrmsir@dpcdata.com

FT Interactive Data
Attn. NRMSIR
100 William Street, 15th Floor
New York, New York 10038
Phone: (212) 771-6999; (800) 689-8466
Fax: (212) 771-7390
E-mail: NRMSIR@interactivedata.com

Standard & Poor's Securities Evaluations, Inc.
55 Water Street, 45th Floor
New York, New York 10041
Phone: (212) 438-4595
Fax: (212) 438-3975
E-mail: nrmsir_repository@sandp.com

(ii) at its then current address, the SID, if any; provided that in the case of Event Notices Made Public under Section 3(c), such information may be provided to the MSRB at the following address (or such other address as may at the time be in effect), in lieu of providing it to the NRMSIRs as described in clause (i) above:

Municipal Securities Rulemaking Board
1900 Duke Street
Suite 600
Alexandria, Virginia 22314
Phone: (703) 797-6600
Fax: (703) 797-6700

Section 5. CUSIP Numbers. The University shall reference, or cause to be referenced, the CUSIP prefix number for the Series 2005 Bonds in any notice provided to the NRMSIRS, the MSRB and/or the SID pursuant to Sections 3 and 4.

Section 6. Termination of Reporting Obligation. The obligations under this Disclosure Agreement shall terminate upon the earlier to occur of the legal defeasance, prior redemption or payment in full of all of the Series 2005 Bonds. If such termination occurs prior to the final maturity of the Series 2005 Bonds, the University shall give notice of such termination in the same manner as for the events listed in Section 3(b) hereof.

Section 7. Dissemination Agent. The University may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the University pursuant to this Disclosure Agreement. The Dissemination Agent may resign at any time by providing at least 30 days' written notice to the University.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the University may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived by the University, if such amendment or waiver is supported by an opinion of counsel expert in federal securities laws, to the effect that such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule, provided that the University shall have provided notice of such delivery and of the amendment to each then existing NRMSIR and SID, if any, and the Municipal Securities Rulemaking Board. Any such amendment shall satisfy, unless otherwise permitted by the Rule, the following conditions:

(a) the amendment may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in the identity, nature or status of the obligated person or type of business conducted;

(b) this Disclosure Agreement, as amended, would have complied with the requirements of the Rule at the time of the primary offering, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the amendment does not materially impair the interests of the Holders of any of the Series 2005 Bonds, as determined either by parties unaffiliated with the University (such as counsel expert in federal securities laws), or by the approving vote of Holders pursuant to the terms of the Indenture at the time of the amendment.

The initial Annual Financial Information after the amendment shall explain, in narrative form, the reasons for the amendment and the effect of the change, if any, in the type of operating data or financial information being provided.

If the amendment is made to an undertaking specifying the accounting principles to be followed in preparing Financial Statements, the annual financial information for the year in which the change is made should present a comparison between the Financial Statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison should include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to Holders to enable them to evaluate the ability of the University to meet its obligations. To the extent reasonably feasible, the comparison also should be quantitative. A notice of the change in the accounting principles should be sent to the NRMSIRS or the MSRB, and the appropriate SID, if any.

Section 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the University from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Financial Information or notice of occurrence of an event listed in Section 3(b), in addition to that which is required by this Disclosure Agreement. If the University chooses to report any information in any Annual Financial information or include any information in a notice of occurrence of an event listed in Section 3(b), in addition to that which is specifically required by this Disclosure Agreement, the University shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Financial Information or notice of occurrence of such an event.

Section 10. Alternate Filing Location. Any filing under this Disclosure Agreement may be made solely by transmitting such filing to the Texas Municipal Advisory Council (the "MAC") as provided at http://www.disclosureusa.org unless the United States Securities and Exchange Commission has withdrawn the interpretive advice in its letter to the MAC dated September 7, 2004.

Section 11. Default. In the event of a failure of the University to comply with any provision of this Disclosure Agreement, any Holder of the Series 2005 Bonds, may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the University to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Bond Resolution, and the sole remedy under this Disclosure Agreement in the event of any failure of the University to comply herewith shall be an action to compel specific performance. Nothing in this provision shall be deemed to restrict the rights or remedies of any Holder pursuant to the Securities Exchange Act of 1934, the rules and regulations promulgated thereunder, or other applicable laws.

Section 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the University, the Participating Underwriters and the Holders of the Series 2005 Bonds, and shall create no rights in any other person or entity.

Section 13. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 14. Applicable Law. This Disclosure Agreement shall be construed under the laws of the Commonwealth of Virginia and, to the extent inconsistent, with the laws of the United States of America.

Dated as of July 20, 2005

THE RECTOR AND VISITORS OF
THE UNIVERSITY OF VIRGINIA

By ___________________________________

Name: Leonard W. Sandridge
Title: Executive Vice President and Chief Operating Officer

EXHIBIT A

NOTICE TO NRMSIRs OF FAILURE TO FILE
ANNUAL FINANCIAL INFORMATION

Name of Issuer:	The Rector and Visitors of the University of Virginia
Name of Issue:	General Revenue Pledge Bonds, Series 2005
Date of Issuance:	July 20, 2005
CUSIP Numbers:	915217 PV9 to QQ9

NOTICE IS HEREBY GIVEN that the University has not provided the Annual Financial Information with respect to the above-named Series 2005 Bonds, as required by a Continuing Disclosure Agreement dated as of July 20, 2005.

Dated: ________________

**THE RECTOR AND VISITORS OF
THE UNIVERSITY OF VIRGINIA**

By __________________________________
Name: ____________________________
Title: ____________________________

[______________________, as Dissemination Agent for
**THE RECTOR AND VISITORS OF
THE UNIVERSITY OF VIRGINIA]**

By __________________________________
Name: ____________________________
Title: ____________________________

[THIS PAGE INTENTIONALLY LEFT BLANK]

UNIVERSITY of VIRGINIA

Recycled Paper - Printed by
IMAGEMASTER 800.452.5152