

## From the President

In these challenging times for American higher education, financial stability and effective management of our colleges and universities have become more important than ever. In the pages of this report, you will see evidence that the University of Virginia has set a high standard as one of the most financially stable and most effectively managed universities in the nation.

With our new strategic plan, the Cornerstone Plan, we have created a road-map to lead us into the University's third century. Bringing the plan to fruition will require both commitment and creativity. Through our new internal financial model, our organizational excellence program, our initiative to attract first-rate corporate partners, and other commitments, we are creating a solid financial foundation for the pursuit of our strategic priorities.

This financial report is a testament to Pat Hogan's continued strong leadership as executive vice president and chief operating

officer. Pat and his staff bring vision, energy, and a spirit of continuous improvement to their daily work. The results, spelled out in the pages of this report, demonstrate their record of success.

As the University's president, I am grateful to Pat and his team and to everyone in our community who contributes to the vitality and resilience of the University of Virginia.



Teresa A. Sullivan  
*President*





The University experienced another strong year of performance in fiscal year 2013-14. Thanks to the skill and dedication of all of our people, we are better positioned than most universities to address the challenges facing public higher education. We have made significant strides in mobilizing the necessary resources to address the generational turnover of faculty and to pursue the strategic directions established in the Cornerstone Plan. We are focused on advancing the University’s distinctive qualities—an emphasis on close faculty-student interaction in an unparalleled setting, cutting-edge research, and affordable excellence—that continue to distinguish us in a highly competitive landscape and that enable us to deliver value to the citizens of the Commonwealth, the nation, and, increasingly, the world.

### **A Solid Financial Base**

The primary measure of the University’s financial health and of our capacity to anticipate and adjust to change is our net position. In fiscal year 2013-14, the University’s total net position increased by \$850.2 million to \$7.9 billion. This 12.0 percent increase in net position was driven in large part by the performance of our endowment and other long-term investments, which experienced a 19.0 percent return. In addition, the U.Va. Medical Center achieved a 5.5 percent operating margin with net income in excess of \$137 million.

The diverse revenue base contributing to the University’s net position adds to our long-term resiliency in the face of shifting economic, competitive, and political circumstances. This year, we drew our operational funding from patient services (46.6 percent), tuition and fees (17.3 percent), grants and contracts (10.1 percent), philanthropy and endowment distribution (12.0 percent), auxiliary and other (7.9 percent), and state appropriations (6.1 percent).

### **Recognized for Outstanding Value**

The University’s ability to grow its net position reflects the quality of our financial and operational management, which earned us once again a “AAA” or equivalent bond rating from all three major credit-rating institutions—Standard & Poor’s, Fitch Ratings, and Moody’s Investors Service. The University remains one of just three public universities in the nation to receive the highest rating from all three agencies and has done so for more than a decade. In turn, these ratings add to our competitive advantage by enabling us to access the capital markets at very attractive rates.

This year, *U.S. News and World Report* singled out U.Va. as the second-best public institution in the country, while at the same time placing us 59th in financial resources expended per student. The combination of these ranking placements signals both the quality and efficiency of our academic operations. *Kiplinger* magazine also ranked the University No. 2 among “Best Values in Public Colleges,” while *Princeton Review* ranked U.Va. third-best value among public universities.

*The Atlantic* published a long-term survey by PayScale.com that concluded “for the best dollar-for-dollar investment, nothing beats the University of Virginia.”

### **Meeting the Challenges Facing Higher Education**

Higher education has entered a period of dramatic change. The funding model that has sustained public research universities for decades—based on substantial state and federal support—is challenged at the same time the unprecedented generational turnover of faculty is testing financial resources. There is much at stake. The individuals chosen to replace retiring faculty members will lead their institutions to mid-century. Accordingly, universities are under intense pressure, competing fiercely to attract the most talented scholars and researchers.

This year, the University conducted a detailed analysis of the incremental costs of the generational turnover, which includes hiring faculty at more competitive salaries and with start-up packages for science and engineering faculty members. We expect more than 600 tenure-track





## FROM THE EXECUTIVE VICE PRESIDENT AND CHIEF OPERATING OFFICER

faculty members to retire or leave the University over the next five to seven years, and we are planning accordingly. Our goal is to leverage the generational turnover to further increase the quality of an already distinguished faculty with a focus on building strength in the science, technology, engineering, and math (STEM) disciplines.

We have also targeted raising faculty salaries to top 20 in the Association of American Universities rankings by 2016-17. Thanks to an average 4.75 percent increase in faculty compensation last year, our position rose from 34th in 2012-13 to 27th in 2013-14. We have awarded another average 4.75 percent increase for faculty in October 2014.

For the University to thrive in the 21st-century, it must go beyond funding the status quo. Our purpose in creating the Cornerstone Plan was to determine how we can best allocate our resources to build on the University's strengths in ways that advance our mission as a public university. Having conducted a cost analysis of the entire Cornerstone Plan and generational faculty turnover this year, we are aggressively developing strategies and identifying resources to meet its funding requirements over the next several years.

### Funding Our Own Aspirations

Amid an environment of uncertain state funding and mounting federal budget concerns, addressing the investment in the Cornerstone Plan and the generational turnover are the University's highest

priorities. We are evaluating several ways to further diversify and expand our funding sources. We are working to optimize the performance of our balance sheet, to leverage our excellent recent investment performance, and to review our current debt portfolio with a goal of creating additional resources to invest in our strategic priorities. In addition, we have launched our Strategic Corporate Partners program. Focusing on a series of high-profile sectors, the Strategic Corporate Partners program streamlines the process of building productive relationships, expands educational opportunities for our students, and facilitates partners' efforts to recruit our graduates. At a time when corporations are focusing their resources on select universities, this program has successfully secured mutually beneficial partnerships for the University with leading businesses.

The University also took steps to maintain the pace of private giving after the close of the \$3 billion capital campaign in 2013. In 2013-14, we realized \$153.6 million, an increase of 3.8 percent over the previous year, of which a substantial portion was allocated to faculty and student support. We anticipate further emphasis on philanthropy as we execute a robust campaign to support the Cornerstone Plan and faculty excellence.

One of the objectives of the Cornerstone Plan is to maintain and enhance affordability through AccessUVa, our signature need-based financial aid program, on a sustainable basis. This year, we created the Blue Ridge Scholars program to provide support to first-generation, low-income

students. We will continue to evaluate the best approach to funding academic excellence while increasing affordability for low and middle income Virginians. Strategic fundraising to grow the AccessUVa endowment to generate sufficient revenue to fund the current level of institutional investment in need-based financial aid is a key fundraising priority now and for our next major campaign that will coincide with the University's bicentennial.

### A Foundation of Organizational Excellence

Our ability to respond to disruptive changes in higher education and health care, fulfill the promise of the Cornerstone Plan, and achieve these aims in a responsible, cost-effective manner rests on a foundation of organizational excellence. In our view, organizational excellence entails seeking opportunities to enhance the University's stewardship of its resources—financial resources as well as facilities—and align its processes, technology, and people to support its institutional priorities. The enterprise risk management framework we are developing will support the success of the Cornerstone Plan and put appropriate risk mitigation strategies in place.

This year, the Organizational Excellence program completed a benchmarking study of administrative services in key support areas: human resources, information technology, finance, procurement, research administration, and student services. We have begun to leverage its findings in a number of ways. The University is making better use of its scale to achieve economies





in procurement. For example, we are achieving strategic savings in areas including sourcing office supplies, renegotiating the dining contract, and redesigning travel and expense management. Additionally, we are pursuing improvements in human resources, service delivery, research automation, and information technology infrastructure.

Our transition to a new financial model complements the Organizational Excellence initiative. The new model promotes transparent decision-making, incentive-based allocations, and prudent stewardship of the University's resources. It will empower individual academic units to be innovative and cost-efficient, and built-in incentives will encourage entrepreneurship and collaboration among deans, administrative leaders, and faculty and staff members. We anticipate that continued Organizational Excellence efforts will provide additional resources to advance University priorities through a combination of reallocation and efficiencies achieved.

### **Investing in Our People**

The University continues to invest in the development of our people to ensure that they are ready to face current and future challenges. We are introducing enhanced decision-support and data analysis tools in many of our administrative areas which require us to elevate the skills of our workforce, a goal of our new Center for Leadership Excellence. We are focused on preparing the next generation of University leaders and have developed a Leadership Strategies program to increase mid-level managers' leadership capacity by creating a personal development plan for them based on feedback gained via a comprehensive and confidential 360-degree evaluation process; exploring timely, U.Va.-specific leadership issues related to the University mission with resident subject matter experts; and completing a relevant and tangible, experiential group learning activity. We will also continue our efforts to increase staff salaries in order to appropriately compensate our valuable University staff.

### **Sustaining the Medical Center at an Inflection Point in Health Care**

Bold steps are required for U.Va. Medical Center to successfully navigate changes resulting from the Affordable Care Act and shifts in patient demographics and acuity. The University is addressing these challenges by expanding its clinical presence in Central Virginia, by building a culture focused on rigorous and continuous quality improvement, shared learning and patient and team member safety, and by investing in its Heart and Vascular, Neurosciences, and Cancer Centers of Excellence. This year, we completed acquisition of the outstanding interest in Culpeper Regional Hospital and opened the Battle Building at UVA Children's Hospital. Planning is underway for expansion of the Emergency Department, an important project that will improve care for our patients who require immediate attention for a broad array of medical needs.

Vice President and CEO of the Medical Center Ed Howell retired in June after more than a decade of strong stewardship. Tangible elements of his legacy include the Emily Couric Clinical Cancer Center, the Transitional Care Hospital, a major hospital bed expansion project, and the Battle Building. In FY2013-14, we recruited Richard P. (Rick) Shannon, M.D. to serve as executive vice president for health affairs and Pamela Sutton-Wallace to serve as Medical Center CEO. Both bring the depth of experience and expertise needed to keep the Medical Center financially strong while providing outstanding quality and safety to our patients.

### **Challenges and Opportunity**

The decisions that we make today will affect the University well into its third century. All of us in the University community feel an intense responsibility to make the best possible decisions—to approach the challenges we face with determination, analytic rigor, vision, and passion—and, in doing so, secure the best possible future for the University. It is a time to be bold and innovative as we support the initiatives outlined in the Cornerstone Plan. Everyone who works here—the faculty who teach, conduct research and provide health care services, and the staff at all levels who support the many facets of the University's operations—plays an important role in fulfilling the University's mission and in meeting the obligations we have to our students, our patients, and the Commonwealth. This is indeed a demanding time, but in addressing these challenges, we have an opportunity both to safeguard and strengthen a remarkable institution.

Patrick D. Hogan  
*Executive Vice President  
and Chief Operating Officer*

