NEW ISSUE - FULL BOOK ENTRY

Ratings†:		Series 2003A	Series 2003B
	Moody's:	Aaa/VMIG 1	Aaa
	Standard & Poor's:	AAA/A-1+	AAA
	Fitch Ratings:	AAA/F-1+	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 2003 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 2003 Bonds is not subject to Virginia income taxation.

$200,000,000
The Rector and Visitors of The University of Virginia General Revenue Pledge Bonds

$82,010,000 Series 2003A
$117,990,000 Series 2003B

Dated: Series 2003A - Date of Initial Delivery **Due: Series 2003A - June 1, 2034**

Series 2003B - March 1, 2003 **Series 2003B - See Inside Cover**

The offered bonds identified above (the "Series 2003 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 2003 Bonds under a book-entry only system. Accordingly, Beneficial Owners of the Series 2003 Bonds will not receive physical delivery of bond certificates. See "THE SERIES 2003 BONDS - BOOK-ENTRY ONLY SYSTEM". The 2003 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 2003A Bonds will be issued initially as multi-modal bonds in the Weekly Mode at a price of 100%. In the initial Weekly Mode, as herein defined, individual purchases of beneficial ownership interests may be made in the principal amount of $100,000 or any integral multiple of $5,000 in excess thereof. Until a Mode Change Date, the Series 2003A Bonds will bear interest at the Weekly Rate as determined by Lehman Brothers Inc., the Remarketing Agent for the Series 2003A Bonds. So long as the Series 2003A Bonds are in the Weekly Mode, accrued interest will be payable by The Bank of New York, as paying agent (the "Paying Agent") on the first Business Day, as herein defined, of each calendar month commencing April 1, 2003. In the Weekly Mode, the Series 2003A Bonds are subject, at the option of the Beneficial Owner, to tender for purchase on any Business Day (with notice to the Remarketing Agent and to The Bank of New York, as tender agent (the "Tender Agent") and as Paying Agent, not later than 4:00 p.m. (Eastern Time) on a Business Day at least seven days prior to such Purchase Date as described herein). The Series 2003A Bonds are also subject to mandatory tender for purchase as described herein.

The payment of the purchase price of the Series 2003A Bonds tendered or required to be tendered for purchase will be a direct obligation of the University.

The Series 2003B 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 2003B Bonds may be made in the principal amount of $5,000 or any integral multiple thereof. Interest on the Series 2003B Bonds is payable by the Paying Agent semi-annually on each June 1 and December 1, commencing on June 1, 2003.

The Series 2003 Bonds are subject to optional and extraordinary redemption and mandatory sinking fund redemption prior to maturity as described herein.

THE SERIES 2003 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 OR PURCHASE PRICE OF, REDEMPTION PREMIUM, IF ANY, AND INTEREST ON THE SERIES 2003 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 OR PURCHASE PRICE OF, REDEMPTION PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2003 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 OR PURCHASE PRICE OF, REDEMPTION PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2003 BONDS OR OTHER COSTS INCIDENT HERETO. THE UNIVERSITY HAS NO TAXING POWERS.

Each series of the Series 2003 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 2003 Bonds are expected to be available for delivery through the facilities of DTC New York, New York, or its custodial agent, on or about March 19, 2003.

LEHMAN BROTHERS††

Goldman, Sachs & Co. **Morgan Stanley & Co. Incorporated**

Davenport & Company, LLC **Morgan Keegan & Company, Inc.**

March 5, 2003

†See "RATINGS".

††Lehman Brothers is the sole underwriter for the Series 2003A Bonds.

The Rector and Visitors of The University of Virginia

General Revenue Pledge Bonds

Series 2003A

June 1 Maturity	Principal Amount	Price	CUSIP
2034	$82,010,000	100%	915217 PL1

Series 2003B

June 1 Maturity	Principal Amount	Interest Rate	Price/Yield	CUSIP
2004	$ 525,000	4.00%	103.507%	915217 NN9
2005	805,000	4.00	105.970	915217 NP4
2006	1,425,000	4.00	107.488	915217 NQ2
2007	2,155,000	5.00	112.024	915217 NR0
2008	2,265,000	4.50	110.102	915217 NS8
2009	2,365,000	5.00	112.619	915217 NT6
2010	2,480,000	5.00	112.309	915217 NU3
2011	2,605,000	5.00	112.121	915217 NV1
2012	2,735,000	5.00	112.208	915217 NW9
2013	2,875,000	5.00	112.221	915217 NX7
2014	3,015,000	5.00	111.046*	915217 NY5
2015	3,170,000	5.00	109.974*	915217 NZ2
2016	3,325,000	5.00	109.002*	915217 PA5
2017	3,490,000	5.00	108.128*	915217 PB3
2018	3,665,000	5.00	107.262*	915217 PC1
2019	3,850,000	5.00	106.404*	915217 PD9
2020	4,045,000	5.00	105.555*	915217 PE7
2021	4,245,000	5.00	104.798*	915217 PF4
2022	4,455,000	5.00	104.047*	915217 PG2
2023	4,680,000	5.00	103.385*	915217 PH0
2027	19,690,000	5.00	103.220*	915217 PJ6
2033	40,125,000	5.00	102.320*	915217 PK3

* Price to 06/01/2013 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 2003 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 2003 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

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OFFICIAL STATEMENT OF

THE RECTOR AND VISITORS OF THE UNIVERSITY OF VIRGINIA

relating to

$82,010,000 General Revenue Pledge Bonds, Series 2003A
and
$117,990,000 General Revenue Pledge Bonds, Series 2003B

INTRODUCTION

Purpose. This Official Statement, including the cover page and the Appendices, is furnished in connection with the sale of $200,000,000 aggregate principal amount of the The Rector and Visitors of The University of Virginia (the "University") General Revenue Pledge Bonds, Series 2003A and Series 2003B (collectively, the "Series 2003 Bonds"). The Series 2003 Bonds consist of the Series 2003A Bonds in an aggregate principal amount of $82,010,000 (the "Series 2003A Bonds") and the Series 2003B Bonds in an aggregate principal amount of $117,990,000 (the "Series 2003B Bonds"). The Series 2003 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 or purchase price of, redemption premium, if any, and interest on the Series 2003 Bonds shall be payable solely from the funds pledged therefor in accordance with the terms of the Bond Resolutions, as herein defined. See "SECURITY FOR THE SERIES 2003 BONDS". Terms capitalized but undefined in the body of this Official Statement are defined in "APPENDIX C--Definitions and Summary of Bond Resolutions."

The Series 2003A Bonds will bear interest at variable rates and will be issued initially as multi-modal bonds in the Weekly Mode. The Bond Resolution provides for the conversion of the interest rate modes of the Series 2003A Bonds, under certain circumstances, as further described herein. The Series 2003B Bonds will bear interest at fixed rates until maturity. See "THE SERIES 2003 BONDS."

The proceeds of the Series 2003 Bonds will be used by the University (a) to finance all or a portion of the costs incurred in connection with the following: (i) the construction and equipping of an addition to the Aquatic & Fitness Center consisting of a gymnasium complex, fitness and weightlifting areas and the Engineering/Science chiller plant; (ii) the renovation of the Cancer Center; (iii) the construction and equipping of the Emmet Street Parking Structure; (iv) the construction, renovation and equipping of a renovation and expansion project at University's acute care hospital; (v) the acquisition of the School of Medicine research building; (vi) the construction and equipping of the University's new sports arena; and (vii) the construction of a replacement of Observatory Hill Dining Facility; (b) to refund all or a portion of the outstanding principal amount of (i) the University's General Revenue Pledge Bonds, Series 1993A, issued to refund the University's Series C Bonds and Series D Bonds issued in 1985; (ii) the University's General Revenue Pledge Bonds, Series 1993B issued to finance all or a portion of the costs incurred in connection with the construction and equipping of the Gilmer Field recreation center, and an addition to the chemistry building and new academic facility for the Colgate Darden Graduate School; and (iii) the University's portion of the Commonwealth of Virginia's Higher Educational Institutions Bonds, Series 1992B (Taxable) issued to finance certain dining facilities at the University; 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 2003 Bonds. See "APPLICATION OF SERIES 2003 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. The Series 2003 Bonds will be issued under the Act pursuant to the terms of resolutions adopted by the Executive Committee of the Board of Visitors of the University (the "Board") on March 5, 2003 (each, as applicable, a "Bond Resolution" and collectively, the "Bond Resolutions"). See "APPENDIX A - The University of Virginia" for a description of the University.

Appendices. In addition to Appendix A describing the University, attached hereto as Appendix B are the University's financial statements for the fiscal years ended June 30, 2002 and 2001. Attached as Appendix C are certain definitions and summaries of the Bond Resolutions. Attached hereto as Appendix D is the proposed forms of Opinions of Bond Counsel. Attached hereto as Appendix E is the proposed form of Continuing Disclosure Agreement.

Document Summaries. This Official Statement contains summaries of certain provisions of the financing documents, including without limitation the Bond Resolutions. 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 2003 BONDS

The following is a summary of certain provisions of the Series 2003 Bonds. For definitions of certain terms and additional detailed information relating to the Series 2003 Bonds, see "APPENDIX C - Definitions and Summary of Bond Resolutions."

General

Series 2003A Bonds. The Series 2003A Bonds will be issued in the aggregate principal amount of $82,010,000. The Series 2003A Bonds will be dated as of the date of initial delivery and will mature on June 1, 2034. So long as the Series 2003A Bonds are in the Weekly Mode, interest will be payable on the first Business Day of each month, commencing on April 1, 2003. While in the Weekly Mode, the Series 2003A Bonds will be offered in Authorized Denominations of $100,000 and integral multiples of $5,000 in excess thereof. See "Series 2003A Bonds" below.

Series 2003B Bonds. The Series 2003B Bonds will be issued in the aggregate principal amount of $117,990,000. The Series 2003B Bonds will be dated March 1, 2003 and will mature on June 1 in the years and amounts as set forth on the inside cover page hereof. Interest on the Series 2003B Bonds will be payable semi-annually on June 1 and December 1, commencing on June 1, 2003, 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 2003B Bonds will be offered in Authorized Denominations of $5,000 and integral multiples thereof.

Series 2003A Bonds

While the Bond Resolution provides that the Series 2003A Bonds may, under certain circumstances, be converted to the Daily Mode, the Commercial Paper Mode (sometimes referred to herein collectively as the "Short-Term Modes"), the ARS Mode and the Term Rate Mode, this Official Statement, including Appendix C hereto, describes the Series 2003A Bonds only during the period in which they bear interest at the Weekly Mode. The Series 2003A Bonds are subject to mandatory tender in the event of any such Mode Change Date.

Weekly Interest Rates. The Series 2003A Bonds will initially be issued in the Weekly Mode, and will bear interest at the Weekly Rate determined by the Remarketing Agent. Lehman Brothers Inc. will serve as the initial Remarketing Agent. The Remarketing Agent will determine the Weekly Rate for the Series 2003A Bonds at the minimum rate of interest that, in the opinion of the Remarketing Agent, would under then existing market conditions result in the sale of the Series 2003A Bonds in the Weekly Mode at a price equal to the principal amount of such Series 2003A Bonds plus accrued interest, if any. The Remarketing Agent will determine the Weekly Rate on each Tuesday or, if such Tuesday is not a Business Day, the Business Day next succeeding such Tuesday. The Remarketing Agent shall make the Weekly Rate for the Series 2003A Bonds available to the University, the Paying Agent and the Tender Agent in a timely fashion, but no later than by 5:00 p.m. (Eastern Time) on each Rate Determination Date.

In the event the Remarketing Agent fails to determine an interest rate for the Series 2003A Bonds while they are in the Weekly Mode, the Interest Rate for each Interest Period shall be the Alternate Rate.

Interest on the Series 2003A Bonds while in the Weekly Mode will be calculated on the basis of a 365 or 366 day year, as appropriate, for the actual number of days elapsed. The determination by the Remarketing Agent of the interest rates for Series 2003A Bonds shall be conclusive and binding, in the absence of manifest error, upon the University, the Remarketing Agent, the Tender Agent, the Paying Agent and the Owners of the Series 2003A Bonds.

Optional and Mandatory Tender of Series 2003A Bonds in the Weekly Mode. **The payment of the purchase price of Series 2003A Bonds tendered or required to be tendered for purchase will be a direct obligation of the University. Though not required by the Bond Resolutions, at the time of delivery of the Series 2003A Bonds the University expects to enter into a line of credit with a financial institution. Such line of credit is expected to permit the University to make draws thereon solely for the payment of principal or purchase price of and interest on the Series 2003A Bonds and certain commercial paper that the University has authorized to be issued in an aggregate amount not to exceed $100,000,000 which it expects to issue beginning in July 2003. The University may terminate any such line of credit at any time. The financial institution will have termination rights under certain conditions which are customary for such type of line of credit. Payments made under such line of credit for the purchase of bonds are not directly available to the Paying Agent or Tender Agent.**

Optional Tender. While a Series 2003A Bond is in the Weekly Mode, an Owner of a Series 2003A Bond may elect to have such Bond (or a portion thereof equal to an Authorized Denomination) purchased, at the Purchase Price (defined below) on any Business Day specified by such Owner for such purchase (the "Purchase Date"), upon delivery of an irrevocable written notice of tender, or irrevocable telephonic notice of tender promptly confirmed in writing, to the Remarketing Agent and the Tender Agent. In the Weekly Mode, such notice of tender will be made not later than 4:00 p.m. (Eastern Time) on a Business Day at least seven days prior to such Purchase Date specified by the Owner. Such notice shall (i) state the CUSIP number and principal amount of such Series 2003A Bond (or portion thereof) to be purchased, and (ii) state that such Series 2003A Bond shall be purchased on the Purchase Date.

The Purchase Price for any Series 2003A Bond (or Authorized Denomination thereof) optionally tendered or subject to mandatory tender for purchase as described below shall be 100% of the principal amount thereof plus accrued interest, if any, to the Purchase Date of such Series 2003A Bond.

Mandatory Tender. The Series 2003A Bonds while in the Weekly Mode will be subject to mandatory tender for purchase (i) if the University determines to change the Mode of the Series 2003 Bonds to another Mode (see "Changes in Series 2003 A Bonds Modes" below), the Series 2003A Bonds will be subject to mandatory tender for purchase on the Mode Change Date at the Purchase Price, whether or not all of the conditions to such Mode Change are satisfied, or (ii) on any Substitution Date relating to the provision or change of Liquidity Facility, if any.

The Paying Agent shall provide at least 15 days but not more than 60 days notice of such mandatory tender with respect to a change from any Short-Term Mode to any other Short-Term Mode or to an ARS Mode and at least 30 days notice of such mandatory tender with respect to a conversion to a Term Rate Mode. The Paying Agent shall also provide at least 15 days but not more than 60 days notice of a mandatory tender relating to (ii) above.

Remarketing of Series 2003A Bonds. The Remarketing Agent will use its best efforts to find purchasers for (i) all Series 2003A Bonds tendered for purchase at the election of the Owners and (ii) all Series 2003A Bonds required to be purchased as described above.

The Remarketing Agent will notify the Tender Agent of the amount of Series 2003A Bonds that were remarketed by 11:00 a.m. (Eastern Time) on the Purchase Date or Mandatory Purchase Date. As soon as possible thereafter, the Tender Agent will notify the Paying Agent and the University of the amount of Remarketing Proceeds and the University by 2:30 p.m. (Eastern Time) on such date, will provide or cause to be provided moneys sufficient to purchase, at the applicable Purchase Price thereof, all such Series 2003A Bonds tendered or deemed tendered which have not been remarketed in accordance with the terms of the Bond Resolution.

Purchase of Series 2003A Bonds. Funds for the payment of the Purchase Price will be derived solely from the following sources in the following order of priority indicated: (a) immediately available funds derived from the remarketing of such Series 2003A Bonds on deposit in the remarketing proceeds account; and (b) from moneys in the purchase account provided by or on behalf of the University in accordance with the terms of the Bond Resolution. Neither the Tender Agent nor the Remarketing Agent will be obligated to provide funds for the payment of the Purchase Price from any other source.

During any period that the Series 2003A Bonds are registered in the name of DTC or a nominee thereof (i) any notice of optional tender delivered shall also (A) provide evidence satisfactory to the Tender Agent that the party delivering the notice is the Beneficial Owner or a custodian for the Beneficial Owner of the Series 2003 Bonds referred to in the notice, and (B) if the Beneficial Owner is other than a Participant of DTC, identify the Participant through whom the Beneficial Owner will direct transfer; (ii) on or before the Purchase Date, the Beneficial Owner must direct (or if the Beneficial Owner is not a Participant, cause its Participant to direct) the transfer of said Series 2003A Bonds on the records of DTC; and (iii) it shall not be necessary for Series 2003A Bonds to be physically delivered on the date specified for purchase thereof, but such purchase shall be made as if such Series 2003A Bonds had been so delivered, and the Purchase Price thereof shall be paid to DTC. In accepting a notice of tender, the Paying Agent and the Tender Agent may conclusively assume that the Person providing the notice of tender is the Beneficial Owner of the Series 2003A Bonds being tendered and therefore entitled to tender them. Neither the Paying Agent nor the Tender Agent assumes any liability to anyone in accepting a notice of tender from a Person whom it reasonably believes to be such a Beneficial Owner of the Series 2003A Bonds or, in its discretion, rejecting such tender, if it reasonably believes such Person has not demonstrated its status as such a Beneficial Owner.

Change in Series 2003A Bonds Modes. In addition to the Weekly Mode, the Bond Resolution provides for the Series 2003A Bonds to be changed to (i) a Daily Mode, in which the Series 2003A Bonds will have subsequent interest rate periods, each of one day's duration, during which the Series 2003A Bonds will bear interest at the rate set by the Remarketing Agent on a daily basis, (ii) a Commercial Paper Mode, in which the Series 2003A Bonds will have subsequent interest rate periods, each of a duration of days (which shall be at least one day and no more than 270 days) set by the Remarketing Agent at the beginning of each such period, and during which they will bear interest at the rate set by the Remarketing Agent at the beginning of each such period, (iii) a Term Rate Mode of the period (which shall be not less than 271 days) set at the commencement of such Mode, during which the Series 2003A Bonds will bear interest at the rate set by the Remarketing Agent at the beginning of such period, and (iv) an ARS Mode. Any changes in Mode for the Series 2003A Bonds may only be effected on all Series 2003A Bonds.

The Bond Resolution provides the methods by which changes from one Mode to another shall be made, which methods include the giving of notice of such change to the Owners of the Series 2003A Bonds, and describes in detail the provisions of the Mode being changed to and the conditions precedent to a change in Modes. In addition, upon a change in Mode, each Owner of a Series 2003A Bond subject to such change shall be required to tender such Series 2003A Bond for purchase on the effective date of such new mode. See "Optional and Mandatory Tender of Series 2003A Bonds in the Weekly Mode" above.

The Series 2003A Bonds may be changed from one Mode to another Mode as often as determined by the University in accordance with the provisions of the Bond Resolution. However, once changed to a Term Rate Mode which extends to the maturity date thereof, the Series 2003A Bonds shall remain in such Mode and not be subsequently changed to another Mode.

Redemption

Mandatory Sinking Fund Redemption. The Series 2003 Bonds 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:

Series 2003A Bonds

Redemption Date	Principal Amount
June 1, 2032	$27,335,000
June 1, 2033	27,335,000
June 1, 2034*	27,340,000

*Maturity.

Series 2003B Bonds

Redemption Date	Principal Amount
June 1, 2024	$4,585,000
June 1, 2025	4,795,000
June 1, 2026	5,035,000
June 1, 2027*	5,275,000
June 1, 2028	5,895,000
June 1, 2029	6,195,000
June 1, 2030	6,505,000
June 1, 2031	6,830,000
June 1, 2032	7,170,000
June 1, 2033*	7,530,000

*Maturity.

Optional Redemption. While in the Weekly Mode, the Series 2003A Bonds shall be subject to redemption prior to maturity, at the option of the University, in whole or in part, on any Interest Payment Date, at a redemption price equal to the principal amount of the Series 2003A Bonds to be redeemed, together with the interest accrued on such principal amount to the date fixed for redemption.

Series 2003B Bonds maturing on or before June 1, 2013 are not subject to optional redemption. Series 2003B Bonds maturing on or after June 1, 2014 are subject to redemption, in whole or in part, on any date on or after June 1, 2013 at a redemption price equal to the par amount thereof, together with the interest accrued on such principal amount to the date fixed for redemption.

Extraordinary Optional Redemption. The Series 2003 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 the principal amount of the Series 2003 Bonds to be redeemed, without premium, together with the interest accrued on such principal amount of the Series 2003 Bonds to be redeemed to, but not including, the redemption date if all or any part of the projects financed with the Series 2003 Bonds is damaged or destroyed or is taken through the exercise of the power of eminent domain and the CFO has delivered a certificate to the State Treasurer to the effect 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 Resolutions".

Notice of Redemption and Other Notices. So long as DTC or its nominee is the Bondholder, the University, the Paying Agent and the Remarketing 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 (1) to the Series 2003A Bondholders, while in the Weekly Mode, at least 15 days prior to the date fixed for redemption and (2) the Series 2003B 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 2003 Bondholder, or any defect in the notice to such Series 2003 Bondholder, shall not affect the validity of the call for redemption of any other Series 2003 Bond. So long as DTC or its nominee is the Series 2003 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.

Selection for Redemption. Subject to applicable procedures of DTC while the Series 2003 Bonds are held in book-entry form by DTC, if less than all of the Series 2003 Bonds are to be called for redemption, the University shall select Series 2003 Bonds for redemption in such manner as the University may determine.

Subject to applicable procedures of DTC while the Series 2003 Bonds are held in book-entry form by DTC, if less than all of the Series 2003A Bonds are to be redeemed and the Paying Agent has not received direction from the University as described above, the Paying Agent shall select the Series 2003A Bonds to be redeemed from among the outstanding Series 2003A Bonds: (i) if Series 2003A Bonds are redeemed pursuant to an optional redemption or an extraordinary optional redemption, in such a manner that the ratio of aggregate principal amount of Term Rate Bonds to aggregate principal amount of Short-Term Bonds and ARS Bonds that will remain outstanding following such redemption is approximately equal to the ratio of aggregate principal amount of Term Rate Bonds to aggregate principal amount of Short-Term Bonds and ARS Bonds that are outstanding prior to such redemption, and, among the Term Rate Bonds and ARS Bonds then outstanding, in equal principal amounts by maturity and, among the Short-Term Bonds then outstanding, by maturity and if the same maturity, by random selection, and (ii) if Series 2003A Bonds are redeemed other than pursuant to an optional redemption or an extraordinary optional redemption, first, all Short-Term Bonds and ARS Bonds, pro rata, and, if the amount to be so redeemed exceeds the principal amount of short-Term Bonds and ARS Bonds outstanding, then Term Rate Bonds, by inverse order of maturity and, within a maturity, by random selection. No portion of a Series 2003A Bond may be redeemed that would result in a Series 2003A Bond remaining in an amount other than an Authorized Denomination. For this purpose, the Paying Agent shall consider each Series 2003A Bond in a denomination larger than the minimum Authorized Denomination permitted hereunder to be separate Series 2003A Bonds each in the minimum Authorized Denomination. Provisions of this Resolution that apply to Series 2003A Bonds called for redemption also apply to portions of Series 2003A Bonds called for redemption.

Notwithstanding the foregoing, in the event of any partial redemption of Series 2003A Bonds, the Registrar shall first select for redemption any outstanding Series 2003A Bonds of which the University is the Beneficial Owner.

Book-Entry Only System

Upon initial issuance, the Series 2003 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 2003 Bonds and the ownership of one fully-registered bond for each Series of Series 2003 Bonds in the principal amount of such Series 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 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 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, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, 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.

Purchases of Series 2003 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2003 Bonds on DTC's records. The ownership interest of each actual purchaser of each Security ("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 2003 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 2003 Bonds, except in the event that use of the book-entry system for the Series 2003 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2003 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 2003 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 2003 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2003 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.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2003 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 Series 2003 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2003 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 Trustee, on 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 redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the University, 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 2003 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 2003 Bond certificates are required to be printed and delivered.

The University may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Series 2003 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, the Remarketing Agent, the Tender Agent and the Paying Agent take no responsibility for the accuracy thereof.

Neither the University, the Remarketing Agent, the Tender Agent or 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 2003 Bonds will be exchangeable and transferable on the registration books of the Registrar in Authorized Denominations. Upon presentation and surrender of any Series 2003 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 2003 Bonds in any Authorized Denomination or Denominations. For every exchange or transfer of Series 2003 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 2003 BOND PROCEEDS

Plan of Finance

Proceeds of the Series 2003 Bonds will be used (a) to finance costs incurred in connection with the projects described in "INTRODUCTION - Purpose;" (b) to provide for the payment and redemption within 90 days after issuance of the Series 2003 Bonds, of $32,370,000 outstanding principal amount of the University's Series 1993A Bonds, $45,670,000 outstanding principal amount of the University's Series 1993B Bonds (collectively, the "1993 Bonds"), and $1,830,000 outstanding principal amount of the Commonwealth's Education Institutions Taxable Bonds, Series 1992B (the "1992 Bonds" and collectively with the 1993 Bonds, the "Prior Bonds"); and (c) to pay working capital and other expenditures connected with the foregoing to the extent financeable, including, without limitation, certain costs of issuance including remarketing fees.

Upon issuance of the Series 2003 Bonds, a portion of the proceeds thereof will be deposited with the State Treasurer, as paying agent for the Prior Bonds. Such proceeds will be applied to the payment of the Prior Bonds on the applicable redemption dates. All of the Prior Bonds are expected to be redeemed within 90 days after issuance of the Series 2003 Bonds.

General

The proceeds of the Series 2003 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 2003 Bonds	$200,000,000
Plus original issue premium on Series 2003B Bonds	6,342,706
TOTAL	$206,342,706
Use of Funds:	
Refunding of 1993 Bonds	$ 79,600,800
Refunding of 1992 Bonds	1,848,300
Deposit to the Project Fund (includes capitalized interest)	123,356,179
Cost of Issuance (includes underwriting discount, see "UNDERWRITING")	1,537,427
TOTAL	$206,342,706

SECURITY FOR THE SERIES 2003 BONDS

The following summary of the security for the Series 2003 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 2003 Bonds and to the Bond Resolutions. For definitions of certain capitalized terms used but not defined herein, see "APPENDIX C -- Definitions and Summary of Bond Resolutions".

Pledge of Pledged Revenues

Pursuant to the Bond Resolutions, the University is required to pay the principal of, interest on and premium, if any, on the Series 2003 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 "Parity Credit Obligations") 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 Resolutions, 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 all existing obligations of the University secured with a pledge of any Pledged Revenues (except the previously issued general revenue pledge bonds) and qualifying future obligations. See "Permitted Subordination of Certain Pledged Revenues" below.

The University has previously issued certain Qualifying Senior Obligations secured by a pledge of the net revenues from the specific system or facility financed with the proceeds of such obligations. These obligations include those secured by a pledge of net revenues from certain dormitory, dining hall, parking and student fees. Since all such pledges are (1) prior and superior to the pledge securing the Series 2003 Bonds, and (2) net of operating expenses for the related system or facility, such revenues will be available to pay the Series 2003 Bonds and other Parity Credit Obligations only to the extent such revenues are not required for either operating expenses o the facilities involved or debt service on the related Qualifying Senior Obligations. The University has also issued certain General Revenue Pledge Bonds, which are described in "Parity Credit Obligations" below in this section, and. the University may issue future Parity Credit Obligations if the CFO delivers to the State Treasurer a certificate described below.

The Bond Resolutions also permit the University, within the limitations described below and other restrictions, to pledge in the future the revenues from certain revenue producing facilities to the payment of future Qualifying Senior Obligations, with such pledge being superior to the pledge securing the Series 2003 Bonds and with operating expenses of such facilities also having a prior claim to such revenues. Thus, any such revenues in the future may be available to pay the Series 2003 Bonds only to the extent not required for either debt service on the Qualifying Senior Obligations or operating or other qualifying expenses of the related facilities.

Permitted Subordination of Certain Pledged Revenues

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 2003 Bonds and any other Parity Credit Obligations, but only if the Chief Financial Officer ("CFO") of the University delivers to the State Treasurer a certificate to the effect 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 CFO 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 CFO's knowledge, the University is not in default in the performance and observance of any of the provisions of the Bond Resolutions 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.

The Bond Resolutions also permit the University to issue bonds to refund any Qualifying Senior Obligation and to secure such refunding bonds with the same source of revenues securing the Qualifying Senior Obligation being refunded. Upon the defeasance of the refunded Qualifying Senior Obligation pursuant to any such refunding, the refunding bonds will be considered Qualifying Senior Obligations under the Bond Resolutions.

Parity Credit Obligations

The University issued on January 18, 1995, its $6,100,000 General Revenue Pledge Bonds, Series 1995A, on November 24, 1998, its $73,720,000 General Revenue Pledge Bonds, Series 1998A and $6,525,000 General Revenue Pledge Bonds, Series 1998B, and on March 3, 1999 its $51,985,000 General Revenue Pledge Bonds, Series 1999A (collectively the "Outstanding General Revenue Pledge Bonds"), all of which are secured by a pledge of Pledged Revenues on a parity with the pledge securing the Series 2003 Bonds. The Bond Resolutions permit 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 2003 Bonds, but only if the CFO delivers to the State Treasurer a certificate to the effect 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 CFO 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 CFO'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 2003 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 2003 BONDS OR OTHER COSTS INCIDENT THERETO EXCEPT FROM SOURCES PLEDGED THEREFOR IN THE BOND RESOLUTIONS, 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 2003 BONDS OR OTHER COSTS INCIDENT THERETO. THE UNIVERSITY HAS NO TAXING POWER.

Defeasance

If the University provides to the State Treasurer or an escrow agent approved by the State Treasurer, cash or noncallable Government Obligations sufficient to provide for payment of all or part of the Series 2003 Bonds and meets certain other requirements, such Series 2003 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 - DEFEASANCE".

No Liens; Disposition of Assets

The Series 2003 Bonds are not secured by any lien on or security interest in any property of the University. 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 the University's CFO delivers a certificate to the State Treasurer to the effect 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 CFO 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 Resolutions, the University has entered into certain operating covenants, including a covenant to maintain a Depreciation Reserve Fund for the benefit of the University's Hospitals, as defined in the Bond Resolutions. See "APPENDIX C-Depreciation Reserve Fund". The covenants and other provisions relating to the security for each series of Series 2003 Bonds may be amended with the consent of the holders of a majority of the outstanding principal amount of the respective series of the Series 2003 Bonds then outstanding.

ENFORCEABILITY OF REMEDIES

The remedies available to the registered holders of the Series 2003 Bonds upon an event of default under the Bond Resolutions 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 Resolutions may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Series 2003 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 Resolutions."

CERTAIN LEGAL MATTERS

All legal matters incident to the authorization, issuance, sale and delivery of the Series 2003 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 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 2003 Bonds, or to in any way contest or affect the validity of the Series 2003 Bonds, the Bond Resolutions, or any proceedings of the University taken with respect to the issuance or sale of the Series 2003 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 current law and assuming compliance with the Covenants (as defined below), interest on the Series 2003 Bonds is excludable from gross income for purposes of federal income taxation and is not a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. However, 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 (the "Code"), interest on the Series 2003 Bonds must be included in computing adjusted current earnings. Bond Counsel will express no opinion regarding other federal tax consequences arising with respect to the Series 2003 Bonds.

In the opinion of Bond Counsel, interest on the Series 2003 Bonds is exempt from Virginia income taxation under current Virginia law. Each purchaser of the Series 2003 Bonds should consult his own tax advisor regarding the taxable status of interest on a particular state of local jurisdiction other than Virginia.

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 and certain of its affiliates have covenanted to comply with certain provisions of the Code regarding, among other things, the use, expenditure and investment of proceeds of the Series 2003 Bonds, the arbitrage yield restrictions and rebate requirement imposed by the Code and certain other actions that would cause interest on the Series 2003 Bonds to be includable in gross income of their owners (the "Covenants"). Failure of the University and certain of its affiliates to comply with the Covenants could cause interest on the Bonds to become includable in gross income for federal income tax purposes retroactively to their date of issue.

The Bond Resolution provides that certain events related to the Series 2003A Bonds, including without limitation a Substitution Date and a Mode Change Date must be accompanied by an opinion of Bond Counsel to the effect that such event (as the case may be) will not adversely affect the exclusion of the interest payable on such Series 2003A Bonds from gross income for purposes of federal income taxation. Bond Counsel expresses no opinion as to the exclusion of the interest payable on the Series 2003A Bonds from gross income for purposes of federal income taxation from and after such events.

Other Tax Matters. In addition to the matters addressed above, prospective purchasers of the Series 2003 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, certain insurance companies, certain "S corporations," certain foreign corporations subject to the "branch profits tax," individual 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 2003 Bonds should consult their tax advisors as to the applicability and impact of such consequences.

Original Issue Premium. The Series 2003B Bonds 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 2003 Bonds.

UNDERWRITING

The Series 2003A Bonds are being purchased by Lehman Brothers Inc., as sole underwriter, at a price of 99.8597% of the principal amount thereof (reflecting an underwriter's discount of $115,060.25 or .1403% of the principal amount of the Series 2003A Bonds). The related Bond Purchase Agreement between the University and Lehman Brothers Inc., provides that Lehman Brothers Inc. will purchase all of the Series 2003A Bonds to be purchased if any Series 2003A Bonds are purchased.

The Series 2003B Bonds are being purchased by Lehman Brothers Inc., as representative of a group of underwriters, at a price of $124,166,727.97 (reflecting the principal amount of $117,990,000 ***plus*** net original issue premium of $6,342,706.30, ***minus*** an underwriter's discount of $459,009.58 or .3890% of the principal amount of the Series 2003B Bonds, ***plus*** pre-issuance accrued interest of $293.031.25). The related Bond Purchase Agreement between the University and Lehman Brothers Inc., as representative of such group of underwriters, provides that such underwriters will purchase all of the Series 2003B Bonds to be purchased if any Series 2003B Bonds are purchased.

The Bond Purchase Agreements provide that the Underwriters may offer and sell the Series 2003 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 Agreements provide that the University will reimburse the Underwriters for certain expenses incurred in connection with the offering of the Series 2003 Bonds.

FINANCIAL STATEMENTS

The audited financial statements of the University as of June 30, 2002, and for the fiscal years ended June 30, 2002 and 2001, included as Appendix B to the Official Statement have been audited by the Commonwealth's Auditor of Public Accounts, as stated in the report included in Appendix B.

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 (a) the Series 2003A Bonds short term ratings of "VMIG 1", "A-1+" and "F-1+," respectively, and (b) the Series 2003 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 2003 Bonds may have an effect on the market price thereof.

CONTINUING DISCLOSURE

While the offering of the Series 2003A Bonds is not initially subject to Rule 15c2-12 under the Securities Exchange Act of 1934, as amended ("Rule 15c2-12"), the offering of the Series 2003B Bonds is subject to Rule 15c2-12 and the University will enter into a continuing disclosure agreement (the "Continuing Disclosure Agreement") with respect to the Series 2003 Bonds for the benefit of the registered and Beneficial Owners of the Series 2003 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 and FINANCIAL INFORMATION in Appendix A comprising the following tables: "Undergraduate Applications, Acceptances, and Matriculations," "Graduate and Professional Applications, Acceptances, and Matriculations," "University Fall Enrollment," "Non-Operating Appropriations from the Commonwealth," "Undergraduate Tuition and Required Fees Per Student," "Graduate and Professional Tuition and Required Fees Per Student," "Grants and Contracts," "University of Virginia Medical Center Summary 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 2003 Bonds; and (iii) timely notice of a failure by the University to provide the required annual and quarterly 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 2003 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 and 1999 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 respects.

SERIES 2003 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 2003 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

The current Rector of the University, John P. Ackerly, III, whose term as Rector expires the later of February 28, 2003 or when his successor as Rector is appointed, is a partner in Troutman Sanders LLP, counsel to the Underwriters.

MISCELLANEOUS

The summaries or descriptions herein, including the Appendices hereto, of the Series 2003 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

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: its Academic Division, the Medical Center, and its College at Wise.

The University's Academic Division is a comprehensive teaching and research institution enrolling 19,129 full time equivalent students, including 12,748 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 offer 48 bachelor's degrees in 74 fields and programs, 94 master's degrees in 64 fields, six educational specialist degrees, two first professional degrees (law and medicine) and 55 doctoral degrees in 54 fields. Many of these programs rank among the nation's elite. In its 16th annual "America's Best Colleges" issue (Sept. 2002), *U.S. News and World Report* ranked the University as 2nd among national public universities and 23rd among all national universities.

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 542-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, has 10 programs ranked by *U.S. News and World Report* as top 100 programs, and its physicians have been listed as some of America's best doctors.

The University of Virginia's 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 1,632 students.

ACADEMIC AND RESEARCH PROGRAMS

The University has established 412 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 41 Rhodes Scholars, more than any other state-supported institution. Nationally ranked programs include Architecture, English, Spanish, German, Religious Studies, Physiology, French, Art History, Astronomy, Classics, History, Psychology, undergraduate Business (Commerce), graduate Business, Law, and Education.

For the year ended June 30, 2002, the University has grant and contract revenue of $262 million, a 12% increase from the year ended June 30, 2001. The Department of Health and Human Services continued as the University's major source of grant and contract awards, accounting for 49% of the total awards. The Medical School received approximately 60% of fiscal year awards, followed by Arts and Sciences at 18%, and Engineering at 14%.

ACCREDITATION AND MEMBERSHIP

The University has been accredited by the Southern Association of Colleges and Schools (SACS) since 1904. Additionally, individual programs, departments and schools have received accreditation from applicable professional agencies. In addition, 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 3,323 acres of land holdings throughout the Commonwealth of Virginia, including 223 acres in Charlottesville and 1,451 additional acres in Albemarle County. Capital infrastructure is comprised of 578 buildings consisting of approximately 12 million square feet, including the Medical Center. In 1987, the University of Virginia Grounds were named a World Heritage site 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 14 separate facilities, housing almost 4,800,000 volumes, over 53,000 journals, periodicals and serials, more than 15,700,000 manuscripts, and an extensive selection of electronic media and texts. Alderman Library, the central facility, also houses the University's world-renowned collections of rare books and 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 of Visitors. The corporate powers of the University are exercised by the Board through its 17 members, 16 of whom are appointed by Governor and confirmed by the Senate of Virginia, 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:

JOHN P. ACKERLY, III (RECTOR), *Richmond* .... Attorney, *Troutman Sanders, LLP*
THOMAS J. BLILEY, JR., *Richmond*.................... Ret. Congressman, Sr. Advisor, *Collier, Shannon, Scott*
WILLIAM G. CRUTCHFIELD, JR., *Charlottesville* .... President, *Crutchfield Corporation*
THOMAS F. FARRELL, II, *Richmond* .... Chief Executive Officer, *Dominion Energy, Inc.*
CHARLES L. GLAZER, *Greenwich, CT* .... President and CEO, *C.L. Glazer & Co., Inc.*
WILLIAM H. GOODWIN, JR., *Richmond* .... Chairman, *CCA Industries, Inc.*
T. KEISTER GREER, *Rocky Mount*... Attorney, Retired
ELSIE GOODWYN HOLLAND, *Richmond.* .... Educator
MARK J. KINGTON, *Alexandria* .... Managing Director, *Columbia Capital LLC*
DON R. PIPPIN, *Norton* .... Attorney, *Pippin & Pippin*
GORDON F. RAINEY, JR., *Richmond* .... Attorney and Chairman, *Hunton & Williams*
TERENCE P. ROSS, *Alexandria*... Attorney, *Gibson, Dunn & Crutcher LLP*
THOMAS A. SAUNDERS, III, *New York, NY* .... Partner, *Saunders, Karp and Megrue, L.P.*
WARREN M. THOMPSON, *Sterling* .... Chairman, CEO and President, *Thompson Hospitality, LLC*
ELIZABETH A. TWOHY, *Virginia Beach.* .... President and General Manager, *Capital Concrete, Inc.*
E. DARRACOTT VAUGHAN, JR., M.D., *New York, NY* .... Urologist-in-Chief, *NY-Presbyterian Hosp.*
H. TIMOTHY LOVELACE, JR., *Roanoke* .... Student, *University of Virginia*

Business and Financial Administration Officers

Two hallmarks of the University's business and financial team 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 of Visitors. The following table sets forth the principal business and financial administrative officers of the University and the year they initially assumed the role at the University.

Name	Title	Since
JOHN T. CASTEEN, III	President	1990
LEONARD W. SANDRIDGE	Executive Vice President and COO	1990
YOKE SAN L. REYNOLDS	Vice President for Finance	2001
COLETTE SHEEHY	Vice President for Management and Budget	1993
ROBERT D. SWEENEY.	Senior Vice President for Development and Public Affairs	1991
R. EDWARD HOWELL	Vice President and CEO, Medical Center	2001
ALICE W. HANDY	President, UVIMCO and Treasurer	1974

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, Mr. Casteen was president of the University of Connecticut (1985-1990) and Secretary of Education for the Commonwealth of Virginia (1982-1985). Among many leadership positions, Mr. 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). Mr. Casteen is a director of the Council for Higher Education Accreditation, and was chair 2000-2002, a member of the Association of Academic Health Centers' Council of Health Sciences and the University, a director of the Association of American Colleges and Universities, and vice chairman of the Association of American Universities.

Leonard W. Sandridge. Leonard W. Sandridge is executive vice president and chief operating officer, a title he received 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 athletics, student affairs, information technology and communication, management and budget, finance, UVIMCO, police, and compliance. In 1999, he assumed responsibility for the financial and managerial oversight of the Health System. Mr. Sandridge joined the University administration in 1967 as a member of the internal audit staff. He won the 1987 Ern Award for service to the Student Council and in 1993 was presented the Thomas Jefferson Award, the University's highest honor for a faculty member, given to recognize one who exemplifies Jefferson's principles and ideals in character, work, and influence.

Yoke San L. Reynolds. Yoke San L. Reynolds was named Vice President for Finance in May 2001. She serves as the University's chief business officer, and oversees financial administration, research administration, human resources management, business operations, risk management, business analysis, and debt management. She is also responsible for administration of the University's relationship with its nineteen 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 prior to joining the University. 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 a director of the Eastern Association of College and University Business Officers, and of the Council on Governmental Relations.

Colette Sheehy. Colette Sheehy has been the Vice President for Management and Budget since 1993. She serves as the institution'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).

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.

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 is the current Chair of the University Health System Consortium and is Chair -elect of the National Institutes of Health Clinical Center.

Alice W. Handy. Alice Handy serves as President of the University of Virginia Investment Management Company (UVIMCO) and Treasurer of the University. UVIMCO is a subcommittee of the Finance Committee, established to oversee the investment and management of the endowment. Ms. Handy joined the University in 1974 as Investment Officer, the first person whose primary responsibility was the management of the endowment. Prior to joining the University, she was an Assistant Investment Officer at the Travelers Insurance Company in the public bond department. She also served as Treasurer of the Commonwealth under Governor Gerald Baliles (1988-1990).

THE UNIVERSITY OF VIRGINIA MEDICAL CENTER

The Medical Center is an organizational unit of the University with approximately 5,000 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.

In 2001, the University created the position of Vice President and Chief Executive Officer (CEO) of the Medical Center. Reporting to the University's Executive Vice President and Chief Operating Officer, the CEO has overall management responsibilities for the operation of the University of Virginia Hospitals and Clinics. The 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 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 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 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 Operating Board serves as a subcommittee of the Health Affairs Committee of the University's Board of Visitors. The Medical Center Operating Board 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 Board of Visitors. Five of the Operating Board members are also members of the Board of Visitors, including the Rector and the current chairs of the Health Affairs and Finance Committees, and two 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 of Visitors. Advisory members of the Operating Board include the CEO, the President of the Clinical Staff, the Executive Vice President and Chief Operating Officer of the University and the Dean of the School of Medicine.

For the fiscal year ended June 30, 2002, the Medical Center had operating revenues of $568 million from payments for patient services plus $21.2 million in non-operating revenues from the Commonwealth for indigent care, collectively representing almost 42% of the University's revenues.

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 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 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 2002, the Medical Center had 542 beds available for patient care. 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,

	1998	1999	2000	2001	2002
Average Daily Census	458	423	409	411	410
Length of stay (days)	5.98	5.33	5.30	5.40	5.60
Inpatient Admissions	27,923	28,984	28,253	27,645	26,833
Outpatient Visits	499,674	531,664	560,861	570,616	579,522

FACULTY AND STAFF

For the fall 2002 semester, the University employed 2,004 full-time and 303 part-time instructional, research, and public service faculty as well as 694 full-time and 26 part-time administrative and professional faculty. Included were 1,085 tenured faculty and an additional 411 who were non-tenured but on tenure-track. More than 92% 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 16:1 (as defined in the Common Data Set).

Excluding the faculty, as of October 1, 2002, the University employed 9,219 full-time and 681 part-time permanent staff, including approximately 5,000 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. A designated group of research, instructional, and senior academic and administrative staff are covered under the employment policies for EPA (Exempt from Personnel Act) Non-Faculty Employees. 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. Roughly two-thirds (67.6%) of the first-year class, entering in fall 2002 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 14,320 completed applications were received for the current 2002-03 academic year to fill a target of approximately 2,985 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.

UNDERGRADUATE APPLICATIONS, ACCEPTANCES, AND MATRICULATIONS

	1998-99	1999-00	2000-01	2001-02	2002-03
Completed Applications[1]	15,955	16,461	14,145	14,739	14,320
In-state	6,107	6,105	5,528	5,677	5,727
Out-of-state	9,848	10,356	8,617	9,062	8,593
Applications Accepted[2]	34%	34%	39%	38%	39%
In-state	48%	50%	54%	54%	53%
Out-of-state	25%	25%	29%	28%	30%
Offers Accepted[3]	54%	52%	53%	54%	54%
In-state	66%	65%	67%	66%	67%
Out-of-state	39%	37%	38%	39%	38%

[1]*Prior to 2000-01 the University had a two-part application procedure, and counted receipt of the first part in the reported completed applications. The University believes that this change to a single part application accounts for the decline in completed applications since 2000-01.*
[2]*As a percent of completed applications received.*
[3]*As a percent of applications accepted.*

For the fall 2002 entering class, of the entering undergraduates for whom high school class rank was available, 83% ranked in the top 10% of their class and 95% ranked in the top 20% of their class. More than 92% of the first-year students who enter the University earn degrees, and 83% graduate within four years. The middle-50% range of combined SAT scores for the first-year entering class was 1240-1410.

GRADUATE & PROFESSIONAL APPLICATIONS, ACCEPTANCES, AND MATRICULATIONS

	1998-99	1999-00	2000-01	2001-02	2002-03
Completed Applications	17,384	16,872	16,405	18,296	20,078
Applications Accepted[1]	23%	27%	28%	25%	24%
Offers Accepted[2]	50%	46%	46%	46%	46%

[1]*As a percent of completed applications received.*
[2]*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 FALL ENROLLMENT

	1998-99	1999-00	2000-01	2001-02	2002-03
Undergraduate	12,440	12,463	12,489	12,595	12,748
Graduate	4,110	3,998	4,160	4,301	4,459
Professional	1,652	1,645	1,607	1,608	1,608
Unclassified	261	240	294	344	382
Total Headcount	18,463	18,346	18,550	18,848	19,197
Full Time Equivalent	18,670	18,318	18,488	18,745	19,129

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 men's, 13 women's) and provides additional opportunities in 50 club sports and numerous intramural recreational activities. The graduation rate of student athletes routinely ranks among the nations' 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 consist of general fund appropriations, 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."

Under the budgetary procedures followed by the Commonwealth, all Commonwealth revenues are appropriated by the General Assembly pursuant to appropriation acts adopted at least every two years. Prior to adopting appropriation acts, the General Assembly receives the recommendation of the Governor contained in the executive budget for the biennium. The Governor prepares the budget on the basis of revenue estimates submitted by the Department of Taxation and reviewed by the Governor's Advisory Board of Economists and Board on Revenue Estimates. The Governor is assisted in the preparation of the executive budget by the Secretary of Finance and the Department of Planning and Budget, which reviews and approves the expense estimates and capital outlay requests received from the agencies of the Commonwealth. The Auditor of Public Accounts audits the Commonwealth's financial transactions to assure the reporting of such transactions is in compliance with generally accepted accounting principles.

Before any agency of the Commonwealth can expend any amount appropriated to it in an appropriation act, the Department of Planning and Budget must allot such funds to the agency. The Governor has authority to reduce general fund appropriations to avoid a deficit if he determines that estimated "general fund revenues" would be insufficient to pay such general fund appropriations in full. The Governor must reduce special fund appropriations if he determines that the special fund revenues supporting such appropriations will be insufficient.

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.

Recent Developments. Over the past ten years, the Commonwealth's share of the University's total operating budget has dropped from more than 27% to less than 9%. During this time, the University has increased other sources of support, including growth in research and sponsored programs by almost 80%, completion of a, successful capital campaign and growth in its endowment of over 350%.

Though appropriations from the Commonwealth are expected to account for less than 9% of total funding during fiscal year 2003-04, they remain a major source of support for many of the University's academic programs. The challenge of maintaining institutional excellence in the face of several budget reductions pushes the University to determine what is essential to its mission, to use resources wisely, and to find alternative means to fund core purposes. The University has successfully managed a period of continuously decreasing dependence on Commonwealth operating support, and believes it is capable of managing this latest downturn and emerging in a stronger and more competitive position.

The reduction in support for the University from the Commonwealth has encouraged the University to examine the ways in which the University may alter its business relationship with the Commonwealth. The University is committed to its public mandate; therefore altering the business relationship with the Commonwealth does not mean privatization. It means seeking a degree of decentralization that would allow the University the authority to manage more of its own affairs without the involvement of agencies, policies or procedures of the Commonwealth. Over the past ten years, the General Assembly has granted the University much of what the University has sought in terms of such decentralization.

FINANCIAL INFORMATION

During fiscal year 2002, the University adopted Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments,* as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – For Public Colleges and Universities,* GASB Statement No. 37*, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus* and GASB Statement No. 38 *Certain Financial Statement Note Disclosures* (collectively, the "New Financial Reporting Model"). These statements require public college and university financial statements to report on the University as a whole. Under financial reporting standards previously in effect, the University's financial statements focused on the accountability of individual fund groups.

Following is a list of certain significant changes to the University's financial statements as mandated by the New Financial Reporting Model:

- The measurement focus and basis of accounting is presented in full accrual, consistent with the accounting method used by private sector institutions. All current year's revenues and expenses are recognized when earned or incurred, regardless of when cash is received or disbursed.
- Resources are classified for accounting and reporting purposes into the following four net asset categories: invested in capital assets- net of related debt, restricted nonexpendable, restricted expendable and unrestricted.
- Revenues and expenses are categorized as operating or non-operating. Significant recurring sources of the University's revenues, including state appropriations, gift contributions and investment income (loss), are considered non-operating.
- Depreciation of capital assets is recognized. Accumulated depreciation for prior periods is reflected as a restatement to net assets and current year depreciation expense is shown as an operating expense on the Statement of Revenues, Expenses and Changes in Net Assets.
- Infrastructure assets are capitalized.
- Scholarships and fellowships applied to student accounts are shown as a reduction of student tuition and fees revenue, as opposed to being classified as financial aid expense.

The University is not required to restate prior year financial statements in accordance with the New Financial Reporting Model. As such, historical financial data is not comparable to the fiscal year 2002 data.

SUMMARY STATEMENT OF NET ASSETS
AS OF JUNE 30, 2002
(in thousands of dollars)

Assets	
Current assets	$ 591,445
Noncurrent endowment investments	1,801,066
Other Noncurrent assets	1,544,757
Total assets	$ 3,937,268
Liabilities	
Current liabilities	370,766
Non current liabilities	339,606
Total liabilities	$ 710,372
Net assets	
Invested in capital assets, net of related debt	$ 868,783
Restricted	1,483,681
Unrestricted	874,432
Total net assets	$ 3,226,896
Liabilities and net assets	$ 3,937,268

HISTORICAL SUMMARY OF COMBINED FUND BALANCES
AS OF JUNE 30,
(in thousands of dollars)

	1998	1999	2000	2001
Unrestricted current funds	$ 133,813	$ 128,246	$ 155,695	$ 171,369
Restricted current funds	102,107	118,348	131,107	190,842
Loan Funds	25,662	26,563	28,572	29,617
Endowment and similar funds	1,086,574	1,250,528	1,736,826	1,708,200
Life income funds	23,734	30,035	31,999	33,244
Unexpended plant funds	153,169	224,180	242,323	276,419
Retirement of debt funds	416	535	1,859	2,119
Net investment in plant	1,277,593	1,359,410	1,447,950	1,563,504
Total Fund Balances	$ 2,803,068	$ 3,137,845	$ 3,776,331	$ 3,975,314

RECONCILIATION OF COMBINED FUND BALANCES AS PREVIOUSLY REPORTED, TO TOTAL NET ASSETS AT JUNE 30, 2001
(in thousands of dollars)

Combined fund balance as previously reported	$ 3,975,314
Restatements:	
Accumulated depreciation	(867,984)
Infrastructure assets	109,277
Federal loan program contributions	(13,337)
Grants and contracts receivables	(11,781)
Library assets	(2,608)
Other	(81)
Total restatements	$ (786,514)
Combined fund balances, restated as total net assets	$ 3,188,800

SUMMARY STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2002
(in thousands of dollars)

Revenues	
Student tuition and fees	$ 177,913
Patient services	568,372
Grants and contracts	261,814
Sales and services of educational departments	21,464
Auxiliary enterprises revenue	77,070
Other	10,374
Total operating revenues	$ 1,117,007
Non-Operating Revenues	
State appropriations	176,177
Gifts	65,016
Investment income	26,975
Additions to permanent endowment	63,701
Other	49,299
Total operating and non-operating revenues	$ 1,498,175
Expenses	
Operating Expenses	
Compensation and benefits	796,959
Supplies and other services	426,501
Student aid	34,156
Utilities	56,227
Depreciation	98,628
Other	22,522
Total operating expenses	$ 1,434,993
Non-Operating Expenses	25,086
Total operating and non-operating expenses	$ 1,460,079
Increase in Net Assets	$ 38,096

Budgeting. The University's budgeted expenditures for fiscal year 2002-03 total $1.43 billion. This includes $826 million for the Academic Division (57%), $588 million for the Medical Center (42%) and $19 million for the University of Virginia's College at Wise (1%).

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. In the past decade, the University's percentage of total revenues arising from Commonwealth appropriations has gradually declined from over 30% to less than 13% in fiscal year 2002 and approximately 9% in fiscal year 2003, following mid-year reductions mandated by the Governor. With recent budget cuts, state general fund appropriations are projected to fall to $124 million (8.2% of the total budget) in 2003-04. This represents a decrease of almost 30% from the original fiscal year 2002 budget.

NON-OPERATING APPROPRIATIONS FROM THE COMMONWEALTH
FOR THE YEAR ENDED JUNE 30,
(in thousands of dollars)

	1998	1999	2000	2001	2002
Commonwealth Appropriations	$ 136,859	$ 145,070	$ 170,944	$ 177,001	$ 176,177

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, 2002 tuition and fees prior to reduction for student financial aid provided approximately 19% of the University's operating revenues.

Over the last five years, undergraduate tuition and fees have decreased 6% for in-state students and increased by 25% for out of-state students. From the 1995-96 to the 2001-02 academic year, in-state undergraduate tuition and mandatory educational and general fees were frozen and reduced (in 1999-2000) by legislative mandate of the Commonwealth.

UNDERGRADUATE TUITION & REQUIRED FEES PER STUDENT[1]

	1998-99	1999-00	2000-01	2001-02	2002-03
In-state tuition and fees	$ 4,866	$ 4,130	$ 4,160	$ 4,236	$ 4,595
Out-of-state tuition and fees	15,814	16,603	17,409	18,268	19,805

[1]The above table does not include first year orientation fees of $175 in FY 1999-2000, $180 in FY 2000-01 and $185 in FY 2001-02 and FY 2002-03. No orientation fees were charged in FY 1998-1999. Also excluded above is $385 mid-year tuition surcharge in FY 2002-03.

GRADUATE TUITION AND REQUIRED FEES PER STUDENT

	1998-99	1999-00	2000-01	2001-02	2002-03[1]
In-State Tuition and Fees					
Darden Graduate School of Business Administration[2]	$ 16,057	$ 16,945	$ 19,208	$ 22,283	$ 25,831
School of Law[2]	14,606	15,319	15,803	18,090	20,627
School of Medicine[2]	11,642	13,154	13,686	15,450	18,285
All others	4,866	4,916	5,023	5,178	5,661
Out-of-State Tuition and Fees					
Darden Graduate School of Business Administration[2]	21,479	22,671	24,208	27,283	30,831
School of Law	20,706	21,718	23,684	25,316	26,967
School of Medicine	23,952	25,135	26,366	27,950	30,567
All others	15,814	16,603	17,409	18,268	18,751

[1] The 2002-03 data excludes a $385 mid-year tuition surcharge.

[2] This represents the first-year tuition and fees which, in some years, includes a surcharge not charged to returning students.

During the 2002-03 academic year, 4,773 students (37% of the total student body) received over $44 million in financial assistance. Of this total, 38% of the funds were provided by the federal government, 8% by the Commonwealth, 30% by the University, 10% by the Virginia Athletics

Foundation, and 14% by other sources. The total included approximately $13.5 million in federal loans, and federal work-study, and nearly $31 million in federal, state, private and institutional grants and scholarships. In addition, 768 students' parents borrowed over $7.5 million from the Federal Parents Plus Loan program.

Grants and Contracts. The University earned $262 million from grants and contracts for research and other sponsored program activities during fiscal year 2002, an increase of 12% from the level in fiscal year 2001.

GRANTS AND CONTRACTS
FOR THE YEAR ENDED JUNE 30,
(in thousands)

	1998	1999	2000	2001	2002
Federal grants and contracts	$ 142,920	$ 155,442	$ 171,504	$ 187,234	$ 210,624
Other	26,821	62,197	44,176	45,337	51,190
Total grants and contracts	$ 169,741	$ 217,639	$ 215,680	$ 232,571	$ 261,814

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

UNIVERSITY OF VIRGINIA MEDICAL CENTER
SUMMARY STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2002
(in thousands of dollars)

Operating Revenues	$ 588,859
Non operating revenues	17,160
Total Revenues	$ 606,019
Operating Expenses	$ 600,584
Income before other revenues, expenses, gains or losses	$ 5,435
Additions to permanent endowment and transfers to academic division[1]	65,415
Increase in net assets	$ 70,850

[1] *Includes one time realized estate gift of $52.6 million*

Gifts and Fund Development. The University continues to benefit from the generosity of alumni and friends, foundations, and corporations. During 2001-2002, the University received $255 million in private gifts directly and through related foundations. The percentage of alumni who gave in 2000-2001 (the most recent figure available) is 29%.

In 2001-2002, the University received some of the largest gifts in its history, including a $52.6 million realized estate gift to create an unrestricted endowment for the Medical Center. The University also received nearly $34 million in annual giving (typically small gifts in response to direct-mail and telephone solicitations) contributed by more than 52,000 donors.

In December 2000, the University completed a comprehensive fund-raising campaign that attracted $1.43 billion in gifts, pledges, and revocable estate gifts, such as bequests. Alumni provided 45% of the campaign total, non-alumni friends 21%, foundations 17%, corporations 12%, and other organizations 5%.

The University is planning a new campaign that will begin its nucleus phase in 2004. A public kickoff is expected take place in the fall of 2005 or the spring of 2006, at which time funding priorities and a dollar goal will be announced.

Endowment. The University's endowment provides the funds necessary to finance the University's academic programs and related cultural and athletic activities above and beyond those funds appropriated by the Commonwealth. The endowment has grown from $59 million in June 1974, the inception of the current management structure, to $1.7 billion as of June 30, 2002, making the endowment the 5th largest among public colleges and universities and 24th largest among all public and private institutions reporting to the National Association of College and University Business Officers ("NACUBO").

POOLED ENDOWMENT FUND HISTORIC ANNUAL RETURN
FOR THE PERIOD ENDING DECEMBER 31, 2002

1 Year	3 Year	5 Year	10 Year	20 Year
0.3%	9.3%	13.5%	13.8%	14.2%

The Pooled Endowment Fund (representing 98% of the total endowment) investment performance and a conservative spending policy have enabled the University to keep pace with inflation and maintain the purchasing power of its endowment. The endowment is expected to contribute $85 million in expendable funds to the University in fiscal year 2002-03. The unrestricted expendable portion represents $502 million, or 30% of the endowment.

Most of the fixed income portion of the University's endowment is managed internally, but the bulk of the funds are managed by external investment firms and all funds are managed pursuant to guidelines established by the Finance Committee of the Board of Visitors. The long-term objective of the University's endowment fund is to provide current income and capital appreciation consistent with the preservation of the purchasing power of the underlying assets. Performance, over rolling three-year periods, is measured versus a peer group of the 36 largest endowments. In order to achieve these objectives, the Board has adopted the following asset mix targets: 60% to hedge funds, 20% to private equity, 5% to domestic public equity, 5% in international public equity, 5% to real assets, and 5% to fixed income. This allocation has protected the endowment during the current market decline.

The Board also sets the spending rate for the endowment. In order to provide a steady and reliable stream of income, distributions are based on a percent of a rolling three year average of the market value of the endowment. The Pooled Endowment Fund supports two spending rates. General endowment assets have a spending rate of 4.5% of market value. Those assets that are eligible for income supplements by the Commonwealth and those assets, which are used, at least in part, to support faculty salary increases have a spending rate of 5.5%.

Beginning on July 1, 1998, the Board delegated responsibility for oversight of the University's endowment to a subcommittee of the Finance Committee, called the University of Virginia Investment Management Company ("UVIMCO"). The UVIMCO Board consists of ten members including the Rector, the chair of the Finance Committee who is also chair of UVIMCO, three members of the Finance Committee appointed by the Rector, the President of the University or his/her designee, and a minority representation of not more than four alumni appointed by the Board for their investment experience and expertise. UVIMCO invests the University's endowment assets in conformity with the investment policy established by the Finance Committee of the Board of Visitors. In doing so, it (a) recommends investment policy for the endowment, (b) determines specific asset allocation targets, ranges and performance benchmarks consistent with individual asset class objectives, (c) selects managers, and (d) monitors performance against the endowment's objectives.

Financial Information Concerning Foundations. There are 19 related foundations providing support and/or services to the University. A number of the foundations have endowment funds of their own, which are not included with the University's Endowment Fund described above, some of which are substantial. Foundations' endowment assets total approximately $648 million as of June 30, 2002, of which $105 million are invested with UVIMCO, but are not reflected on the University's net assets.

The majority of the foundations are associated with individual schools or activities and are involved primarily in fund raising and alumni relations activities. Several foundations, including the Patent Foundation, the University of Virginia Foundation and the Health Services Foundation, are involved in operating activities including the development of research parks, the running of an inn and golf course, the holding of patents and license agreements and servicing as the physicians' faculty practice group. Two of the foundations - the McIntire School of Commerce Foundation and the Darden School Foundation - run executive education programs in addition to fund-raising activities.

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 are separate Virginia non-stock corporations (or operating arms thereof) exempt from taxation under Section 501(c)(3) of the Internal Revenue Code. The Foundations provide substantial support to the University, contributing approximately $26 million in gifts during fiscal year 2002.

Plant Assets. As of June 30, 2002 the University's capital assets totaled $1.2 billion, net of accumulated depreciation of $940 million. The New Financial Reporting Model requires the recognition of depreciation on capitalized assets. Accordingly, prior years accumulated depreciation of $868 million was recorded as an adjustment to the beginning net assets. Current years depreciation expense of $98 million was recorded as a current year operating expense.

Indebtedness and other Obligations. The University has outstanding a number of bond and note issues and other obligations in addition to the Series 2003 Bonds. 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 2003 Bonds will be used to refund certain outstanding obligations. See "APPLICATION OF SERIES 2003 BOND PROCEEDS – Plan of Finance."

The University has authorized a tax-exempt and taxable commercial paper program in an amount not to exceed $100 million. It is expected the University will make initial draws under the program in the near future.

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.

Auditor's Opinion
October 22, 2002

The Honorable Mark R. Warner
Governor of Virginia

The Honorable Kevin G. Miller
Chairman, Joint Legislative Audit
and Review Commission

The Board of Visitors
University of Virginia

We have audited the accompanying statement of net assets; statement of revenues, expenses and changes in net assets; and the statement of cash flows of the University of Virginia, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2002, which collectively comprise the University's basic financial statements. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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. 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 provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the University of Virginia as of June 30, 2002, and the respective changes in financial position and cash flows 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 a new financial reporting model as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* and Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities* as of June 30, 2002.

In accordance with *Government Auditing Standards,* we have also issued our report dated October 22, 2002, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. 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 presented on pages 44 through 49 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the University's basic financial statements referred to above. Other information in this *President's Report* is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the University. This other information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on this other information.

Walter J. Kucharski

AUDITOR OF PUBLIC ACCOUNTS

UNIVERSITY OF VIRGINIA
STATEMENT OF NET ASSETS
As of June 30, 2002 (in thousands)

		2002
ASSETS		
Current assets		
Cash and cash equivalents (Note 2)	$	205,509
Short-term investments (Note 2)		205,096
Accounts receivable, net (Note 3a)		155,939
Prepaid expenses		6,940
Inventories		13,246
Notes receivable, net		4,712
Other		3
Total current assets		**591,445**
Non-current assets		
Restricted cash and cash equivalents (Note 2)		30,171
Endowment investments (Notes 1, 2)		1,801,066
Other long-term investments (Note 2)		220,502
Deposit with bond trustee		8,881
Appropriations available for plant		31,927
Notes receivable, net		22,263
Pledges receivable, net		30,529
Capital assets, net (Note 3e)		1,198,072
Goodwill (Note 3f)		1,983
Other		429
Total non-current assets		**3,345,823**
Total assets	**$**	**3,937,268**
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	$	122,007
Deferred revenue		57,690
Obligations under securities lending (Note 2)		3,853
Deposits held in custody for others		133,744
Long-term liabilities, current portion (Note 4)		53,151
Advance from Treasurer of Virginia		321
Total current liabilities		**370,766**
Non-current liabilities (Note 4)		
Long-term debt		318,967
Other non-current liabilities		20,639
Total non-current liabilities		**339,606**
Total liabilities	**$**	**710,372**
NET ASSETS		
Invested in capital assets, net of related debt	$	868,783
Restricted:		
Non-expendable		282,440
Expendable		1,201,241
Unrestricted		874,432
Total net assets	**$**	**3,226,896**

UNIVERSITY OF VIRGINIA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the year ended June 30, 2002 (in thousands)

		2002
REVENUES		
Operating revenues		
Student tuition and fees (net of scholarship allowances of $34,115,874)	$	177,913
Patient services (net of charity care of $250,689,581)		568,372
Federal grants and contracts		210,624
State and local grants and contracts		7,632
Non-governmental grants and contracts		43,558
Sales and services of educational departments		21,464
Auxiliary enterprises revenue (net of scholarship allowances of $5,398,179)		77,070
Other operating revenues		10,374
Total operating revenues		**1,117,007**
EXPENSES		
Operating expenses (Note 8)		
Compensation and benefits		796,959
Supplies and other services		426,501
Student aid		34,156
Utilities		56,227
Depreciation		98,628
Other		22,522
Total operating expenses		**1,434,993**
Operating income (loss)		**(317,986)**
NON-OPERATING REVENUES (EXPENSES)		
State appropriations (Note 7)		176,177
Payments from Commonwealth for indigent care		21,195
Gifts		65,016
Investment income		26,975
Interest on capital asset-related debt		(12,038)
Losses on affiliated company sold		(12,113)
Other non-operating revenues (expenses)		(935)
Net non-operating revenues		**264,277**
Income before other revenues, expenses, gains, or losses		**(53,709)**
Capital appropriations		16,595
Capital grants and gifts		11,509
Additions to permanent endowments		63,701
Total other revenues		**91,805**
Increase in net assets		**38,096**
NET ASSETS		
Net assets—beginning of year		3,188,800
Net assets—end of year	**$**	**3,226,896**

UNIVERSITY OF VIRGINIA
STATEMENT OF CASH FLOWS
For the year ended June 30, 2002 (in thousands)

	2002
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and fees	$ 176,115
Grants and contracts	265,354
Receipts from patients and third parties	535,901
Sales and services of educational activities	21,339
Sales and services of auxiliary enterprises	76,545
Payments to employees and fringe benefits	(783,610)
Payments to vendors and suppliers	(469,399)
Payments for student aid	(34,165)
Loans issued to students	(6,794)
Collection of loans to students	6,531
Other receipts (payments)	20,502
Net cash used by operating activities	**(191,681)**
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
State appropriations	172,958
Payments from Commonwealth for indigent care	21,195
Additions to true endowments	63,701
Direct lending receipts, including PLUS	52,441
Direct lending payments, including PLUS	(52,441)
Receipts on behalf of agencies	71,244
Payments on behalf of agencies	(65,210)
Non-capital gifts and grants and endowments received	48,219
Other	2,104
Net cash provided by non-capital financing activities	**314,211**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital appropriations	10,086
Capital gifts and grants received	14,756
Proceeds from capital debt	4,923
Proceeds from sale of capital assets	3,267
Acquisition and construction of capital assets	(188,184)
Principal paid on capital debt and leases	(19,685)
Interest paid on capital debt and leases	(12,038)
Reduction in deposit with trustee	26,803
Net cash used by capital and related financing activities	**(160,072)**
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales and maturities of investments	2,307,116
Interest on investments	57,816
Purchase of investments and related fees	(2,309,543)
Other investment activities	1,566
Net cash provided by investing activities	**56,955**
Net increase in cash and cash equivalents	**19,413**
Cash and cash equivalents, July 1	216,267
Cash and cash equivalents, June 30	**$ 235,680**
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	$ (317,986)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	98,628
Provision for uncollectible loans and writeoffs	239
Miscellaneous non-operating income	(315)
Changes in assets and liabilities:	
Receivables, net	(4,660)
Inventories	(778)
Prepaid expenses	(1,028)
Notes receivable, net	(1,218)
Accounts payable and accrued liabilities	17,915
Non-cash adjustment to supplies and services	8,876
Deferred revenue	4,801
Accrued vacation leave—long term	3,876
Accrued vacation leave—current	(31)
Total adjustments	126,305
Net cash used by operating activities	**$ (191,681)**
Non-cash investing, capital, and financing activities:	
Assets acquired through assumption of a liability	8,799
Assets acquired through a gift	18,317
Change in fair value of investments	(81,095)
Increase in receivables related to non-operating income	68

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 general-purpose financial statements of the Commonwealth. The University consists of three divisions. The Academic Division and 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

The financial statements and the accompanying notes of the University include all funds and organizations for which the Board of Visitors has oversight responsibility. There are currently nineteen affiliated foundations created and operated in support of the interests of the University. Affiliated foundations are not-for-profit corporations controlled by separate boards of directors and are not included in the basic financial statements of the University.

Condensed financial statements for the following foundations, whose boards include officers of the University, are disclosed in Note 6:

University of Virginia Health Services Foundation, an educational, scientific, and charitable organization established to assist the University in providing hospital and medical care services, medical education programs, medical research, and programs of public charity at the University.

University of Virginia Foundation and Subsidiaries, which includes the University of Virginia Real Estate Foundation, established to promote, support, and aid the University in matters pertaining to real estate, as well as to use and administer gifts, grants, and bequests for the benefit of the University.

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 issued after that date.

In accordance with 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: 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: Net assets are those net assets that are not properly classified either as capital assets, net of related debt or restricted net assets. Unrestricted net assets may be designated for specific purposes by management or may otherwise be limited by contractual agreements with outside parties.

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, and 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, or 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 with 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.

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 $50,000 at the date of acquisition and an expected useful life of one or more years. Both the Academic and Medical Center Divisions capitalize moveable equipment at a value or cost of $2,000 or greater and an expected useful life of one or more years. Maintenance or renovation expenditures of $50,000 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, of improvements other than buildings, and of infrastructure is provided on a straight-line basis over 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 financed with debt proceeds are reported when 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 is primarily composed of revenue for student tuition accrued in advance of the semester.

Deposits Held in Custody for Others

The University allows its affiliated foundations to participate in the University's endowment, such that 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 in deposits held in custody for others. At June 30, 2002, these liabilities amounted to $92.7 million of the $133.7 million total of deposits held in custody for others.

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, 2002, 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 Trigon Blue Cross Blue Shield 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 basic 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. 35.

Restatement of Beginning Net Assets

As a result of the implementation of GASB Statement No. 35, the following adjustments have been made to reflect the cumulative effect of this accounting change (in millions):

Fund balances reported at June 30, 2001	$3,975
Adjustments:	
Accumulated depreciation on capital assets at June 30, 2001, not previously recorded	(868)
Infrastructure assets not previously recorded	109
Federal loan program contributions previously recorded as fund balance in loan funds, now recorded as liabilities	(13)
Restatement of sponsored programs receivables	(12)
Restatement of library assets	(3)
Other	1
Beginning net assets at July 1, 2001, as adjusted	$3,189

NOTE 1: ENDOWMENT

The major portion of the University's endowment is maintained in a single investment pool named the University Pooled Endowment Fund. The University has adopted and met an investment objective of top-quartile performance, measured by a peer group of thirty-five other endowment funds, over rolling three-year periods. The annual return for the Pooled Endowment Fund was -0.1 percent. This percentage has been computed using realized and unrealized gains and losses and investment income. The rate of inflation plus the average level of spending from endowment income was 5.7 percent.

Virginia statutes prescribe that the Board of Visitors may prudently appropriate for expenditure, for the uses and purposes for which an endowment fund is established, the net realized and unrealized appreciation in the fair value of the assets of an endowment fund over the historic dollar value of the aggregate fund. The University's policy is to retain the endowment realized and unrealized appreciation with the endowment after the spending rule distributions. Exceptions to the retention policy require executive management approval within prescribed annual limits and Board of Visitors approval for amounts in excess of prescribed annual limits. At June 30, 2002, the Pooled Endowment Fund includes restricted non-expendable net assets of $282 million, restricted expendable net assets of $902 million, unrestricted net assets of $502 million, and life income funds of $33 million.

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 calendar month within which the transaction takes place. A summary of endowment and similar funds at market value follows:

ENDOWMENT AND SIMILAR FUNDS AS OF JUNE 30, 2002 (in thousands)

	POOLED ENDOWMENT ASSETS*	SEPARATELY INVESTED ASSETS	TOTAL
Mutual and Money Market Funds	$ 548,410	$ 3,308	$ 551,718
U.S. Government Securities	243,460	496	243,956
Corporate and Municipal Bonds	5,030	451	5,481
Corporate Notes	-	-	-
Common and Preferred Stock	411,489	4,848	416,337
Advances to Foundations (Note 3d)	8,612	30,723	39,335
Real Estate and Other Tangible Property	-	330	330
Mortgages	3,297	-	3,297
Private Placement Investments	540,612	-	540,612
Total Assets	$1,760,910	$ 40,156	$1,801,066
*Includes $32.5 million of trust assets			
Investment Income	$ 22,122	$ 6,934	$ 29,056
Realized Net Gain	51,506	1,967	53,473
Unrealized Net Gain/(Loss)	(82,970)	(347)	(83,317)

POOLED ENDOWMENT FUNDS

Number of Permanent Shares	707,928
Number of Participating Shares	697,340
Market Value Per Share	$ 2,445.67
Earnings Per Share	$ 33.77
Distribution Per Share—Class A	$ 95.36
Distribution Per Share—Class B	$ 134.33

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 2.1-359, et seq., of the Code of Virginia.

Investments: The investment policy goals, objectives, and guidelines are established by the Finance Committee of the Board. 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.

Security Lending: Under authorization of the board of the University of Virginia Investment Management Company, the University of Virginia, through its agent, Deutsche Bank AG New York, 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, thereof 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. No securities were on loan as of June 30, 2002. Collateral held for securities lending transactions 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).*

CATEGORIZATION OF INVESTMENT RISK FOR ASSETS HELD AS OF JUNE 30, 2002 (in thousands)

	CATEGORY 1	NON-CATEGORIZED	FAIR VALUE	COST
U.S. Government Securities	$ 581,037	$ -	$ 581,037	$ 572,532
Corporate Bonds	33,256	-	33,256	32,987
Corporate Notes	-	-	-	-
Common and Preferred Stocks	416,337	-	416,337	318,140
Municipal Securities	225	-	225	25
Mutual and Money Market Funds	-	589,222	589,222	555,870
Real Estate and Other Tangible Property	-	39,665	39,665	39,665
Mortgages	-	32,818	32,818	33,091
Private Placement Investments	-	540,611	540,611	602,860
Other Intangible Property	-	2,374	2,374	2,374
Total	**$ 1,030,855**	**$ 1,204,690**	**$ 2,235,545**	**$ 2,157,544**

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 investment, requires little or no initial net investment, and requires or permits a net settlement. In addition, some traditional securities can have derivative-like characteristics. Examples of common derivatives include, but are not limited to, futures, forwards, options, or swap contracts. Although the contract or notional amount of the derivative is not recorded on the financial statements, all derivative instruments are recognized as either an asset or a liability depending on the rights or obligations of the contract measured at fair value.

The University has indirect exposure to various derivative financial instruments that are used in the normal course of business to enhance returns on investments and manage risk exposure to changes in value due to fluctuations in market conditions. These investments may involve, to varying degrees, elements of credit and market risk in excess of amounts recognized on the financial statements. Credit risk is the possibility that losses may occur from the failure of a counterparty to perform according to the terms of the agreement. The University minimizes the credit (or repayment) risk in its direct derivative instrument by entering into transactions with high-quality counterparties and a legally enforceable master netting agreement. The "net" mark to market exposure represents the netting of the positive and negative exposures with the same counterparty. Market risk arises due to adverse changes in market price, interest rate, and foreign exchange rate fluctuations that may result in a decrease in the market value of a financial investment and/or increases in its funding cost. The University manages market risk by establishing and monitoring limits as to the type and degree of risk that may be undertaken.

Summary of the University's outstanding derivatives at June 30, 2002 (in thousands):

	NOTIONAL	FAIR VALUE
Indirect Derivative Exposure		
Fair Value Hedge	$ 10,159	$ 9,130
Cash Flow Hedge	51,487	(2,185)
Foreign Currency Hedge	24,646	(3,668)
Not Used for Hedging	2,522	1,932
Total Indirect Derivative Exposure	$ 88,814	$ 5,209

NOTE 3: STATEMENT OF NET ASSET DETAILS

a. Accounts receivable

Accounts receivable include the following (in thousands):

Patient Care	$ 153,533
Estimated Amounts Due from Third-Party Payors	13,815
Grants and Contracts	20,712
Pledges	16,455
Related Foundation	5,824
Other	22,716
Less Allowance for Doubtful Accounts	(77,116)
Total	$ 155,939

b. Notes receivable

Notes receivable are reported net of the allowance for uncollectible student loans, which amounted to $2.8 million.

c. Pledges

The University recorded $33.9 million in pledges receivable, of which $3.8 million relates to plant construction. These are reported net of the allowance for uncollectible pledges, which amounts to $3.4 million.

d. Advances to foundations

The University advances funds to affiliated foundations to enable the foundations to acquire real property in areas near the University and to enhance foundation operations. Foundations are expected to make principal repayments as funds become available. The Board of Visitors has authorized up to $48 million for advances to the University of Virginia Real Estate Foundation. At June 30, 2002, advances to foundations totaled $39.3 million.

e. Capital assets

Capital assets activity for the year ended June 30, 2002, is summarized as follows (in thousands):

INVESTMENT IN PLANT-CAPITAL ASSETS (in thousands)

	Beginning Balance	Additions	Retirements	Ending Balance
Land	$ 31,934	$ 2,642	$ -	$ 34,576
Improvements Other Than Buildings	132,603	19,856	-	152,459
Infrastructure	145,390	4,332	-	149,722
Buildings	965,957	115,852	1,972	1,079,837
Equipment	484,699	58,010	40,145	502,564
Software Capitalization	14,366	11,053	-	25,419
Library Books	76,654	4,993	-	81,647
Construction in Process	135,374	116,670	140,557	111,487
	1,986,977	333,408	182,674	2,137,711
Less Accumulated Depreciation	(867,984)	(98,415)	(26,760)	(939,639)
Total	**$ 1,118,993**	**$ 234,993**	**$ 155,914**	**$ 1,198,072**

Construction in Process additions, in the above table, represent expenditures for new projects net of the amount of capital assets placed in service.

f. Goodwill

On October 1, 1997, the Medical Center acquired from the University of Virginia Health Services Foundation the Medicine Clinical Laboratories in a transaction accounted for as a purchase. Accordingly, $1.8 million was recorded as goodwill and is being amortized over five years.

On May 12, 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.

On December 15, 2000, the Medical Center acquired from the University of Virginia Health Services Foundation (HSF) its interest in the Hyperbaric Oxygen Unit. In July 1994, the Medical Center and 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. Accordingly, $1,166,615 was recorded as goodwill for the purchase of the assets and is being amortized over five years.

NOTE 4: NON-CURRENT LIABILITIES

NON-CURRENT LIABILITY ACTIVITY AS OF JUNE 30, 2002, IS SUMMARIZED AS FOLLOWS (in thousands):

DESCRIPTION	INTEREST RATES	MATURITY	BEGINNING BALANCE	ADDITIONS	REDUCTIONS	ENDING BALANCE	CURRENT PORTION
Long-Term Debt:							
Revenue bonds							
Medical Center series 1993A	4.1% to 5.2%	2015	$ 32,960	$ -	$ 290	$ 32,670	$ 300
Medical Center series 1998B	3.5% to 5.0%	2018	6,050	-	250	5,800	260
Medical Center series 1999A	4.5% to 5.25%	2011	48,435	-	3,705	44,730	3,870
University of Virginia series 1995A	variable	2014	4,120	-	480	3,640	221
University of Virginia series 1998A	4.0% to 5.125%	2018–2024	70,050	-	1,950	68,100	2,025
University of Virginia series 1993B	4.25% to 5.375%	2013–2020	49,925	-	2,075	47,850	2,180
U.Va.'s College at Wise 1973B	5.6% to 5.875%	2011	260	-	20	240	20
Commonwealth of Virginia bonds	3.8% to 9.25%	2003–2021	50,988	4,670	4,619	51,039	4,693
Notes payable to VCBA	3.75% to 5.0%	2018	4,145	-	165	3,980	170
Notes payable to VCBA	4.5% to 6.0%	2020	31,635	-	1,015	30,620	1,065
Notes payable to VCBA	4.25% to 5.75%	2021	47,480	-	1,090	46,390	1,495
Higher Education Equipment Trust Fund leases payable	3.85% to 5.0%	2003	5,371	-	3,941	1,430	1,430
Other	various	2007	128	253	84	297	90
Total Long-Term Debt			**351,547**	**4,923**	**19,684**	**336,786**	**17,819**
Other non-current liabilities:							
Accrual for compensated absences			37,388	42,376	37,432	42,332	35,332
Perkins loan program			11,773	649	-	12,422	-
Bond premium			1,309	-	110	1,199	-
Other			19	-	1	18	-
Total Other Non-Current Liablities			**50,489**	**43,025**	**37,543**	**55,971**	**35,332**
Total Non-Current Liabilities			**$ 402,036**	**$ 47,948**	**$57,227**	**$392,757**	**$ 53,151**

Maturities and interest on notes and bonds payable for the next five years and in subsequent five-year periods are as follows:

	PRINCIPAL	INTEREST
2003	$ 17,819	$ 17,486
2004	16,257	16,629
2005	16,950	15,862
2006	17,399	15,030
2007	17,844	14,125
2008–2012	109,123	53,607
2013–2017	83,730	26,944
2018–2022	49,800	7,805
2023–2027	7,864	595
	$336,786	$168,083

NOTE 5: AFFILIATED COMPANIES

Blue Ridge Health Alliance, Inc.

The Medical Center was a participant with the Health Services Foundation (HSF) in Blue Ridge Health Alliance, Inc. (Blue Ridge Health Alliance or the Corporation), a joint venture to develop and operate a managed health care organization in Central and Western Virginia and certain counties in West Virginia. Blue Ridge Health Alliance, a for-profit corporation, was formed in April 1994 to develop a regional network of physicians, hospitals, and other health care providers through which to deliver health benefits to insured and self-funded employers and other groups. QualChoice of Virginia Health Plan, Inc. (QualChoice), was a wholly owned subsidiary of the Corporation formed to operate a health maintenance organization (HMO) serving employers and other groups in the Commonwealth of Virginia. QualChoice commenced operations on January 4, 1995.

Blue Ridge Health Alliance had authorized capital stock consisting of one million two (1,000,002) shares of common stock, par value $0.01 per share (the "Common Stock"). The authorized shares of common stock consist of 1,000,000 shares of Class A Voting Common Stock and two shares of Class B Voting Common Stock. In 1994, the Medical Center and the HSF each executed a Shareholders Subscription Agreement under which each agreed to contribute $4,550,000 as equity capital. Subsequently, the Medical Center and HSF each were issued one share of Class B Voting Common Stock and shares of Class A Voting Common Stock. Except for the original obligations of the founding shareholders under the Founding Shareholders Subscription Agreements, no shareholder had an obligation to make any loans, advances, or additional equity contributions whatsoever to the capital of the Corporation. The shareholders acknowledged and agreed that the Corporation was expected to retain its earnings in order to finance growth and that there was no expectation that the Corporation would pay any cash dividends in the foreseeable future.

The Medical Center contributed a total of $15 million to Blue Ridge Health Alliance during the period ended June 30, 1998. Also, on April 6, 1998, the Medical Center loaned $3.8 million to the Corporation due on July 6, 1998, and bearing interest at 6.25 percent. In July 1998, the Board of Directors of the Corporation issued a capital call to HSF and the Medical Center for $5 million. HSF elected not to participate in this capital call in accordance with their rights prescribed in the Shareholders Agreement; accordingly, the Medical Center contributed the entire $5 million, by converting the $3.8 million loan to capital and contributing $1.2 million in cash. This contribution increased the Medical Center's percentage ownership to 52.05 percent. By agreement between HSF and the Medical Center, HSF relinquished its share of Class B Voting Common Stock to the Medical Center. Corporate actions enumerated in the Amended Articles of Incorporation require approval of the holders of all of the shares of the Class B Voting Common Stock. Except for this special voting requirement, the shares of Class A and Class B Voting Common Stock have equal rights, privileges, and dividend distribution rights. On November 25, 1998, the Medical Center provided a loan to the Corporation as evidenced by a promissory note in the amount of $6,678,595 due February 24, 1999, at 4.50 percent. This note was renewed on February 25, 1999, with a due date of March 26, 1999. The note was renewed again on March 27, 1999, and was structured to have an optional renewal each month. On March 5, 1999, the Medical Center loaned $250,000 to the Corporation, which was to be due December 31, 1999, bearing interest at 4.50 percent. Effective September 15, 1999, Blue Ridge Health Alliance revised its Shareholders Agreement to provide additional capital and to effect a transfer of shares among the shareholders. Under this agreement, the debt owed to the Medical Center was converted to capital. HSF contributed an additional $12,181,232, and Martha Jefferson Hospital contributed an additional $22,881. Once these additional contributions had been made, the Medical Center owned 48.08 percent of the Class A Stock, HSF owned 48.08 percent, and Martha Jefferson Hospital owned 3.84 percent. In addition, the University transferred to HSF one share of Class B Common Stock so that both HSF and the University each owned one of the two shares, which have been authorized.

On May 30, 2001, the Medical Center loaned $3 million to the Corporation due on May 30, 2004, bearing an interest rate of 6.19 percent.

On August 31, 2001, Coventry Health Care, Inc., acquired Blue Ridge Health Alliance, Inc., and its HMO subsidiary, QualChoice of Virginia Health Plan, Inc. The transaction was accounted for as a purchase in which Coventry paid $12.5 million. The Medical Center recognized a loss on the sale of $4.8 million. As part of the definitive agreement, Coventry will enter into a five-year provider contract with Blue Ridge's current majority owners, the University of Virginia Medical Center and the University of Virginia Health Services Foundation.

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. Central Virginia Health Network 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 Central Virginia Health Network of $15,913. The net investment in CVHN is summarized below. Complete financial statements can be obtained from the registered agent: Steven D. Gravely, Esq., Mezzullo and McCandlish, Post Office 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. The new facility, located at the Fontaine Research Park in Charlottesville, Virginia, provides patient services to the region. The Medical Center made a capital contribution of $2,230,000 to capitalize the joint venture in May 1996, which represents a 50 percent interest in the joint venture. The net investment in HEALTHSOUTH is summarized on the following page. 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 engaging in the business of integrating and coordinating the delivery of healthcare 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.

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 University HealthSystem Consortium is to advance knowledge, foster collaboration, and promote change to help members compete in their respective healthcare 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 member health systems as patrons.

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. For fiscal year 2001, the Medical Center began recording the portion of the patronage dividends that were held by UHC as patronage equity.

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.

AFFILIATED COMPANIES AS OF JUNE 30, 2002 (in thousands)

	CENTRAL VIRGINIA HEALTH NETWORK	HEALTH SOUTH	VALIANCE	UHC
Common Stock and Equity Contributions	$ 232	$ 2,230	$ 100	$ -
Share of Income/(Loss)	(23)	(1,437)	48	489
Net Investment	$ 209	$ 793	$ 148	$ 489

Community Medicine, L.L.C.

The University believed it was imperative to offer health care in the community that allowed the University primary care physician providers an alternative to the traditional model of healthcare delivery. This new 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.

On November 14, 2000, the University of Virginia established 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. As an L.L.C., which is a wholly owned subsidiary of the University, Community Medicine is considered a disregarded entity for tax purposes. Because Community Medicine is a wholly owned subsidiary, its financial activity will be accounted for under the consolidation method.

An initial investment of $750,000 was made to Community Medicine in May 2001. Community Medicine commenced operations on July 1, 2001. An additional investment of $500,000 was made in July 2001.

NOTE 6: AFFILIATED FOUNDATIONS

The financial statements do not include the assets, liabilities, or net assets of the University of Virginia Health Services Foundation, the University of Virginia Foundation and Subsidiaries, nor any other foundation. These foundations are separately incorporated entities and the related financial statements are examined by other auditors. The University received gifts from these and other foundations amounting to approximately $34.8 million. The condensed summary below is based solely upon the reports of other auditors.

As a result of the issuance of GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, the University is conducting a review of all affiliated foundations to determine whether they qualify as component units. If it is determined that any entities qualify as component units, they will be reported with the University's financial statement for the year ending June 30, 2004.

AFFILIATED FOUNDATIONS CONDENSED BALANCE SHEET (in thousands)

	Health Services Foundation June 30, 2001	University of Virginia Foundation June 30, 2001
Assets		
Current assets due from the University	$ 5,115	$ -
Other current assets	53,464	4,254
Other assets	58,862	180,530
Total assets	**$ 117,441**	**$ 184,784**
Liabilities and net assets		
Current liabilities due to the University	$ 7,295	$ 8,212
Other current liabilities	30,517	7,523
Long-term debt due to the University	-	36,875
Other long-term debts	50,672	66,102
Obligations to the University under trust agreements	-	11,833
Net assets	28,957	54,239
Total liabilities and net assets	**$ 117,441**	**$ 184,784**

AFFILIATED FOUNDATIONS CONDENSED STATEMENT OF REVENUES AND EXPENDITURES (in thousands)

	Health Services Foundation June 30, 2001	University of Virginia Foundation June 30, 2001
Revenues		
Professional and technical services provided by the University	$ 19,900	$ 28,608
Rental income from the University	-	2,025
Other	143,823	-
Total revenues	**$ 163,723**	**$ 30,633**
Expenditures		
Office space and administrative services provided by the University	$ 790	$ -
Clinical operations provided by the University	1	-
Gifts to the University	7,546	-
Other	161,085	29,921
Total expenditures	**$ 169,422**	**$ 29,921**

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.

The following is a summary of state appropriations received by the University and the University's College at Wise, including all supplemental appropriations and reversions (in thousands):

Original Legislative Appropriation per Chapter 814	$177,087
Adjustments:	
Match Funds for Deferred Compensation Program	589
Retirees' Health Insurance Credit	(670)
VRS Rate Reduction	(3,674)
Miscellaneous E&G	5,457
Budget Cuts	(7,184)
Reappropriation FY 2001	4,639
Miscellaneous Appropriation	(67)
Adjusted State Appropriation	$176,177

NOTE 9: RETIREMENT PLANS

Employees of the University are employees of the Commonwealth. Substantially all full-time classified salaried 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.

Substantially all full-time faculty, certain administrative staff, and Health Care Professionals participate in Faculty Optional Retirement Plans. These are fixed-contribution plans in which the retirement benefits received are based upon the employer and employee contributions (all of which are paid by the University), and the interest and dividends. Individual contracts issued under the plans for full-time faculty and certain administrative staff provide for full and immediate vesting of both the University's and the participant's contributions. Health Care Professionals' employer contributions fully vest after one year of employment. Total pension costs under the plans were approximately $33.3 million. Contributions to the Optional Retirement Plans were calculated using base salaries of $337.6 million. The contribution percentage amounted to 9.9 percent.

NOTE 8: NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

OPERATING EXPENSES BY FUNCTIONAL CLASSIFICATION AS OF JUNE 30, 2002 (in thousands):

	COMPENSATION	SUPPLIES AND SERVICES	SCHOLARSHIPS	UTILITIES	DEPRECIATION	OTHER	TOTAL
Instruction	$ 213,120	$ 7,975	$ 3,781	$ 1,820	$ -	$ -	$ 226,696
Research	114,194	83,767	8,186	899	-	-	207,046
Public Service	8,645	7,689	262	186	-	-	16,782
Academic Support	62,714	29,168	551	548	-	-	92,981
Student Services	14,309	5,540	115	247	-	-	20,211
Institutional Support	52,729	3,188	24	2,300	-	-	58,241
Operation of Plant	4,718	14,287	7	37,301	-	-	56,313
Student Aid	531	2,584	21,114	-	-	-	24,229
Auxiliary	33,885	45,124	105	1,534	-	-	80,648
Depreciation	-	-	-	-	64,266	-	64,266
Patient Services	285,617	236,286	-	11,019	34,362	22,522	589,806
Other	6,497	(9,107)	11	373	-	-	(2,226)
TOTAL	**$ 796,959**	**$ 426,501**	**$ 34,156**	**$ 56,227**	**$ 98,628**	**$ 22,522**	**$ 1,434,993**

NOTE 10: POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

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

NOTE 11: SELF-INSURANCE

All University employees have an 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 and is held in a separate bank account with a June 30, 2002, market value balance of $20 million. The estimated liability for outstanding claims was $7.7 million. The University has contracted with Southern Health Services, Inc., a third-party administrator, to provide administrative services for this healthcare benefits program.

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

The risk management insurance plans are administered by the Department of Treasury, Division of Risk Management. Risk management insurance includes property, boiler and machinery, crime, employee faithful performance of duty bond, 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 and vehicle physical damage insurance coverage.

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 as of June 30, 2002, was $113 million, and income received totaled $6.5 million.

NOTE 13: COMMITMENTS

As of June 30, 2002, the University was a party to construction contracts totaling approximately $219 million, of which $142 million had been incurred. The University's commitments for equipment, leases, and services are as follows (in thousands):

YEAR ENDING JUNE 30	LEASE OBLIGATION
2003	$ 6,987
2004	4,994
2005	2,113
2006	1,446
2007	1,207
2008–2012	1,358
2013–2017	1,083
2018–2022	875
2023–2027	823
2028–2032	823
2033–2037	823
2038–2042	823
2043–2047	823
2048–2052	332
	$ 24,510

The total rental expense for all property and equipment was approximately $17.6 million.

NOTE 14: SUBSEQUENT EVENTS

OIG Indigent Care Investigation

On August 13, 2002, the U.S. Department of Health and Human Services, Office of the Inspector General (OIG), issued a draft report entitled *Review of Medicaid Disproportionate Share Hospital Payments Made by Virginia's Department of Medical Assistance Services to the University of Virginia Medical Center for Fiscal Years Ending June 30, 1997, and June 30, 1998.* The objectives of the review were to determine if disproportionate share hospital (DSH) payments made to the Medical Center for fiscal years 1997 and 1998 (1) were calculated in accordance with the approved state plan, and (2) did not exceed the uncompensated care costs (UCC) as mandated by the Omnibus Budget Reconciliation Act of 1993 (OBRA 1993).

While finding that the Medical Center had calculated DSH in accordance with the state plan, the report alleges that the Medical Center overstated its UCC. As this report is addressed to the Department of Medical Assistance Services, the impact on the Medical Center cannot be determined at this time; however, management has reduced net patient revenue by $6 million, the amount that it believes to be the potential exposure related to this matter.

APPENDIX C

DEFINITIONS AND SUMMARY OF BOND RESOLUTIONS

In addition to making provision for the issuance and terms of the Series 2003 Bonds, as described in "THE SERIES 2003 BONDS" and "SECURITY FOR THE SERIES 2003 BONDS" in this Official Statement, the Bond Resolutions also contain other provisions and covenants of the University relating to the Series 2003 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 Resolutions in this Appendix C are qualified in their entirety by reference to such documents.

While the Bond Resolution relating to the Series 2003A Bonds provides that the Series 2003A Bonds may, under certain circumstances, be converted to the Daily Mode, the Commercial Paper Mode, the ARS Mode and the Term Rate Mode, this Official Statement, including this Appendix C, describes the Series 2003A Bonds only during the period in which they bear interest at the Weekly Mode. The Series 2003A Bonds are subject to mandatory tender upon the occurrence of any Mode Change Date.

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 2003 Bonds shall have the following meanings, unless some other meaning is plainly intended:

"Alternate Rate" means the BMA Municipal Swap Index of Municipal Market Data, formerly the PSA Municipal Swap Index (as such term is defined in the 1992 ISDA U.S. Municipal Counterparty Definitions) (the "BMA Rate") most recently available as of the date of determination, or (b) if such index is no longer available, or if the BMA Rate is no longer published, the Kenny Index (as such term is defined in the 1992 ISDA U.S. Municipal Counterparty Definitions) with respect to Series 2003A Bonds which are in the Daily Mode, Weekly Mode or a Commercial Paper Mode with an interest period relating to such mode of 30 days or less, (b) with respect to Series 2003A Bonds which are in a Commercial Paper Mode with an interest period relating to such mode of greater than 30 days but less than or equal to 180 days, the yield evaluation period for the Index shall be 180-day U.S. Treasury Bills, and (c) with respect to Series 2003A Bonds which are in the Term Rate Mode or a Commercial Paper Mode with an interest period relating to such mode of greater than 180 days, the yield evaluation period for the Index shall be one-year U.S. Treasury Bills.

"ARS Bonds" means any Series 2003A Bond while in an ARS Mode.

"ARS Mode" means the mode during which the Series 2003A Bonds bear interest at an auction reset security rate determined as provided in the Series 2003A Bond Resolution.

"Authorized Denominations" means with respect to Series 2003A Bonds (i) in a Short-Term Mode, $100,000 and any integral multiple of $5,000 in excess of $100,000 (ii) in an ARS Mode, $25,000 and any integral multiple of $25,000 and (iii) in a Term Rate Mode, $5,000 and any integral multiple thereof; provided, however, that if as a result of the change in the Mode of the Series 2003A Bonds it is not possible to deliver all the Series 2003A Bonds required or permitted to be outstanding in a denomination permitted above, Series 2003A Bonds may be delivered, to the extent necessary, in different denominations determined by the University.

"Bank Bond" means any Series 2003A Bond during any period commencing on the day such Series 2003A Bond is owned by or held on behalf of any Liquidity Facility issuer or its successors and assigns under the reimbursement agreement relating to such Liquidity Facility as a result of such Series 2003A Bond having been purchased from the proceeds of an advance under any liquidity facility and ending when such Series 2003A Bond is, pursuant to the provisions of the applicable reimbursement agreement related to such Liquidity Facility, no longer deemed to be a Bank Bond.

"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 2003 Bond.

"Business Day" means, with respect to the Series 2003A Bonds, any day except (i) a Saturday, Sunday or other day on which commercial banks in the City of New York, New York, or any other city in which is located the office of the Paying Agent or any of (as applicable) the Tender Agent, the Remarketing Agent, any liquidity facility issuer, the auction agent, as designated in the Series 2003A Bond Resolution, or the broker-dealer, as designated in the Series 2003A Bond Resolution, are authorized by law to close or (ii) a day on which the New York Stock Exchange is closed.

"Commercial Paper Mode" means the mode with an interest period of at least one day and not more than 270 days during which the interest rates for Series 2003A Bonds are determined by the Remarketing Agent pursuant to the Series 2003A Bond Resolution.

"Commercial Paper Rate Bond" means any Series 2003A Bond while in a Commercial Paper Mode.

"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 Financial Officer, but only to the extent such appropriation is restricted by the Commonwealth to the payment of such capitalized lease obligation.

"Daily Mode" means the mode with an interest period of one day's duration during which the Series 2003A Bonds bear interest at a Daily Rate.

"Daily Rate" means an interest rate for Series 2003A Bonds in the Daily Mode determined pursuant to the Series 2003A Bond Resolution.

"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.

"Hospitals" means, collectively (i) the University of Virginia Hospital in the City of Charlottesville, Virginia, including the East Hospital, the West Hospital Complex and the Primary Care Center, (ii) the Kluge Children's Rehabilitation Center in Albemarle County, Virginia, (iii) Northridge primary and specialty care clinics, Fontaine clinics and offices, McCue Center, Forrest Lakes primary care center, and Moser Radiation Oncology

Center, all located in Albemarle County or the City of Charlottesville and (iv) any facilities used by the University in the future for the delivery of health care and any additions, extensions and improvements to any of the facilities described in subsections (i), (ii) or (iii) above.

"Liquidity Facility" means any standby bond purchase agreement, letter of credit or other liquidity enhancement in the amount of the required liquidity amount delivered after issuance of the Series 2003 Bonds to the Paying Agent or the Tender Agent for the purpose of making payments on the Series 2003A Bonds, provided that if such Liquidity Facility is surrendered for cancellation, or if the purchase or other funding obligations of the Liquidity Facility issuer under the Liquidity Facility are otherwise terminated (in accordance with the express terms of such Liquidity Facility) in connection with the provision of an alternate Liquidity Facility, then such alternate Liquidity Facility shall thereafter be the "Liquidity Facility."

"Mandatory Purchase Date" means (i) the Purchase Date of Series 2003A Bonds in the Commercial Paper Mode or the Term Rate Mode, (ii) any Mode Change Date, and (iii) except as provided in the Series 2003A Bond Resolution, the Substitution Date.

"Maximum Rate" means, with respect to Series 2003A Bonds not in an ARS Mode, fifteen percent (15%) per annum; provided that the Maximum Rate may be increased by the University to a higher rate, not to exceed twenty percent (20%) per annum, if there shall have been delivered to the University (a) a favorable opinion of Bond Counsel, and (b) if a liquidity facility is in effect, a new or amended liquidity facility in an amount equal to the liquidity requirement calculated using the new Maximum Rate; provided further, that the Maximum Rate shall never exceed the highest lawful rate as advised by counsel to the University.

"Mode" means, with respect to Series 2003A Bonds, each of the Commercial Paper Mode, the Daily Mode, the Weekly Mode, the Term Rate Mode and the ARS Mode.

"Mode Change Date" means, with respect to Series 2003A Bonds, the date one Mode terminates and another Mode begins.

"Owners" means the registered owners of Series 2003A Bonds or the duly authorized attorney in fact, representative or assign thereof; the term "Owners" shall include the liquidity facility issuer or its assignee, if appropriate.

"Participants" means those broker-dealers, banks and other financial institutions from time to time for which DTC holds Series 2003 Bonds as securities depository.

"Rate Determination Date" means any date on which the interest rate on any Series 2003A Bonds that are not Bank Bonds or ARS Bonds is required to be determined, being: (i) in the case of any Commercial Paper Rate Bond, the first day of each interest period related to the Commercial Paper Mode therefor; (ii) in the case of Series 2003A Bonds in the Daily Mode, each Business Day; (iii) in the case of any Series 2003A Bonds to be, or continue to be, in the Weekly Mode, for any interest period related to such mode commencing on the Closing Date or on any Mode Change Date, the Business Day immediately preceding the respective date on which the Series 2003A Bonds are first issued, sold and delivered or the Mode Change Date, and for other interest periods, each Tuesday or, if such Tuesday is not a Business Day, the Business Day next succeeding such Tuesday; and (iv) in the case of any Series 2003A Bonds to be, or continue to be, in the Term Rate Mode, a Business Day prior to the first day of the applicable interest period.

"Registrar" means the State Treasurer, on behalf of the Treasury Board, or its designee which shall initially be The Bank of New York, and any successor Registrar appointed pursuant to the Series 2003 Bond Resolutions.

"Short-Term Bonds" means any Series 2003A Bond while in a Short-Term Mode, i.e., the Daily Mode, the Weekly Mode or the Commercial Paper Mode.

"State Treasurer" means the Treasurer of the Commonwealth.

"Substitution Date" means the date on which a liquidity facility is to become effective, or the date an alternate liquidity facility is to become effective in substitution for liquidity facility, or the date a liquidity facility will expire or terminate when no alternate liquidity facility is to become effective, all pursuant to the Series 2003A Bond Resolution.

"Term Rate" means the interest rate for Term Rate Bonds determined pursuant to the Series 2003A Bond Resolutions.

"Term Rate Bonds" means any Series 2003A Bonds while in a Term Rate Mode.

"Term Rate Mode" means the mode of greater than 270 days during which the Series 2003A Bonds bear interest at a Term Rate.

"University Bonds" means any Series 2003A Bonds of which the University is the registered holder including any such Series 2003A Bonds pledged to any third party by the University.

"Weekly Mode" means the mode with an interest period of seven days' duration during which the Series 2003A Bonds bear interest at a Weekly Rate.

"Weekly Rate" means the interest rate for Series 2003A Bonds in the Weekly Mode determined pursuant to the Series 2003A Bond Resolution.

Creation of Debt Service Fund

The Bond Resolutions establish a Debt Service Fund, with a principal and interest subaccount and a redemption subaccount, for each series of Series 2003 Bonds to be held by the Paying Agent. All accrued interest, if any, received from the purchasers of the Series 2003 Bonds shall be deposited in the Debt Service Funds. 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 appropriate Debt Service Fund an amount sufficient to cause the Debt Service Fund to contain adequate funds to pay the amounts due on such Series 2003 Bonds on such payment date.

Moneys in the appropriate subaccounts at 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 Funds and set aside for the purpose of paying any of the Series 2003 Bonds which shall remain unclaimed by the holders of such series of Series 2003 Bonds for a period of five years after the date on which such series of Series 2003 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 Funds are to be held in trust and applied as provided in the Bond Resolutions and, pending such application, are subject to a lien and charge in favor of the holders of the appropriate series of Series 2003 Bonds.

Construction Fund

A special fund is hereby created 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 2003A Bonds and Series 2003B Bonds. The moneys in the Construction Fund shall be held in separate accounts for each component of the Project 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 2003A Bonds and Series 2003B Bonds and for the future security of such holders until paid out or transferred. Moneys in any account of the Construction Fund shall be transferred to another account of the Construction Fund at the request of the University if the University provides the State Treasurer (a) a written certificate executed by the Chief Financial Officer of the

University to the effect that such transfer will not result in the University exceeding the maximum authorized amount for each component of the Project, and (b) a favorable opinion of Bond Counsel for federal income tax purposes.

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 2003A Bonds and the Series 2003B 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 2003A Bonds and the Series 2003B 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 2003A Bonds and Series 2003B Bonds, and all other items of expense not elsewhere in this Section 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 appropriate account of 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 warrants of the State Comptroller to be issued 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 appropriate account from which funds should be used, 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.

Depreciation Reserve Fund

The University agrees to maintain with the State Treasury a Depreciation Reserve Fund described below. The University shall deposit into the Depreciation Reserve Fund on December 1, 2003 and on each December 1 thereafter, one hundred percent (100%) of the Depreciation Reserve Fund Requirement for such year.

The Depreciation Reserve Fund Requirement for each Fiscal Year will be determined from the Schedule of Depreciation and Principal Requirements, described below, prepared by the chief financial officer of the Hospitals within 30 days prior to the beginning of such Fiscal Year.

Each Schedule of Depreciation and Principal Requirements shall contain the following:

(1) The depreciation on all property, plant and equipment of the Hospitals, assuming no further capital expenditures from the time of calculation, for each Fiscal Year commencing with the Fiscal Year next succeeding that in which the schedule is prepared, as calculated by the chief financial officer of the Hospitals in

accordance with generally accepted accounting principles and based upon the most recent audited financial statements of the Hospitals together with the depreciation on depreciable assets acquired during the period from the last audited financial statements to the date of calculation.

(2) The principal requirements on Long-Term Indebtedness for each Fiscal Year described in clause (1) above assuming no further issuance of Long-Term Indebtedness and no further reduction in any mandatory redemption requirements for outstanding Long-Term Indebtedness from the date of calculation (the "Principal Requirements").

(3) A comparison of depreciation, as shown in (1) above, and the Principal Requirements, as shown in (2) above, showing (A) the Fiscal Years in which depreciation exceeds the Principal Requirements ("Excess Depreciation Years") and for each Excess Depreciation Year the amount by which depreciation exceeds the Principal Requirements ("Excess Depreciation") and (B) the Fiscal Years in which the Principal Requirements exceed depreciation ("Depreciation Shortfall Years") and for each Depreciation Shortfall Year the amount by which the Principal Requirements exceed depreciation ("Depreciation Shortfall").

In any Fiscal Year that is an Excess Depreciation Year, one-half (½) of the excess of depreciation over the Principal Requirements (the "Depreciation Reserve Fund Requirement").

Money held for the credit of the Depreciation Reserve Fund shall be applied as follows:

(1) During a Depreciation Shortfall Year, the State Treasurer shall transfer from the Depreciation Reserve Fund to the Paying Agent (except as limited by the provisions of any bond resolution) an amount equal to the pro rata portion of the Depreciation Shortfall attributable to the Series 2003 Bonds for such Depreciation Shortfall Year and, upon delivery to the State Treasurer of a certificate of the chief financial officer of the Hospitals stating the principal amount due on other Long-Term Indebtedness for such Depreciation Shortfall Year, the date such principal amount is due and that such principal amount has not been paid from any other source, to the University or any trustee for holders of other Long-Term Indebtedness an amount equal to the pro rata portion of the Depreciation Shortfall attributable to such other Long-Term Indebtedness for such Depreciation Shortfall Year.

(2) If at any time money held for the credit of a Debt Service Fund should be insufficient to pay the principal and interest on the Series 2003 Bonds when due and payable, the University shall transfer (except as limited by the provisions of any bond resolution) from the Depreciation Reserve Fund to such Debt Service Fund an amount sufficient to make up any deficiency, and if at any time the University should be unable to make payments of principal and interest on other Long-Term Indebtedness when due and payable upon delivery to the State Treasurer of a certificate of the chief financial officer of the Hospitals stating the amount of such principal and interest that such principal and interest have not been paid from any other source and that no funds are available to make such payments, the State Treasurer shall transfer from the Depreciation Reserve Fund to the University or the trustee for holders of such other Long-Term Indebtedness an amount sufficient to take such payments.

(3) For so long as there shall be no Event of Default under the provisions of the Bond Resolutions, the University may use all or a portion of the amount on deposit in the Depreciation Reserve Fund to pay the cost of the acquisition or construction by the University of assets which are subject to the allowance for depreciation, or to provide working capital for the University or for any other lawful purpose, provided that any such cost has not previously been paid from the Depreciation Reserve Fund.

Notwithstanding any other section hereof or any provision of the Bond Resolutions, the University may provide for the amendment of this section to provide that (1) the percentage of the Depreciation Reserve Fund Requirement to be deposited in the Depreciation Reserve Fund may be reduced to any percentage thereof (including zero) and/or (2) amounts in the Depreciation Reserve Fund may be transferred to the University without restriction if the University (A) reasonably determines that such deposits can be reduced or eliminated and/or such transfer made, as the case may be because of, a change in reimbursement rules from third-party payors relating to depreciation, the availability of funds from other sources adequate to ensure payment of principal of all Series 2003 Bonds or any other reason, determined by the University in its sound discretion, with due regard to the operations of the Hospitals and the University's obligation to provide for payment of the principal of the Series 2003 Bonds; (B) provides written notice to the State Treasurer and the Treasury Board of such determination and of the percentage, if any, of the Depreciation Reserve Fund Requirement to be deposited thereafter in the Depreciation Reserve Fund and/or the amount of transfers to be made; and (C) adopts a supplemental resolution to state the percentage, if any, of the Depreciation Reserve Fund Requirement thereafter to be deposited in the Depreciation Reserve Fund and/or providing for transfers from the Depreciation Reserve Fund.

For the purposes of this section, "Long-Term Indebtedness" shall mean all obligations for borrowed money incurred or assumed by the University which are, in accordance with generally accepted accounting principles, reflected on the financial statements of the Hospitals, including guaranties, Short-Term Indebtedness if a commitment by a financial lender exists to provide financing to retire such Short-Term Indebtedness and such commitment provides for the repayment of principal on terms which would, if such commitment were implemented, otherwise constitute Long-Term Indebtedness, and the current portion of Long-Term Indebtedness, for money borrowed for an original term, or renewable at the option of the borrower for a period from the date originally incurred, longer than one year; leases which are required to be capitalized in accordance with generally accepted accounting principles having an original term, or renewable at the option of the lessee for a period from the date originally incurred, longer than one year; and installment sale or conditional sale contracts having an original term in excess of one year; provided, however, that any guaranty by the University of any obligation of any person which obligation would, if it were a direct obligation of the University, constitute Short-Term Indebtedness shall be excluded.

For the purposes of this section, "Short-Term Indebtedness" shall mean all obligations for borrowed money incurred or assumed by the University which are, in accordance with generally accepted accounting principles reflected on the financial statements of the Hospitals, for payments of principal and interest with respect to money borrowed for an original term, or renewable at the option of the borrower for a period from the date originally incurred, of one year or less; payments under leases which are capitalized in accordance with generally accepted accounting principles having an original term, or renewable at the option of the lessee for a period from the date originally entered into, of one year or less; and payments under installment purchase or conditional sale contracts having an original term of one year or less.

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 2003 Bonds in the manner provided in the Bond Resolutions and in such Series 2003 Bonds, and any premium required for the retirement of such Series 2003 Bonds, payable solely from Pledged Revenues. The University pledges the Pledged Revenues to the payment of such principal, interest and any premium and to the payment of any Parity Credit Obligations issued by the University. The Series 2003 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 2003 Bonds, any related premium, 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 2003 Bonds, any related premium, or other costs incident thereto.

Covenants Regarding Additional Indebtedness and Encumbrances

Except as described in "SECURITY FOR THE SERIES 2003 BONDS" in this Official Statement, the Bond Resolutions do not limit the right of the University to incur other Credit Obligations. As described in such section, however, the Bond Resolutions do 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 Resolutions, 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 seventh 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 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 balance sheet as of the end of the preceding Fiscal Year and the related statements of changes and fund balances and current funds, revenues, expenditures and other changes for the preceding Fiscal Year. The University further covenants in the Bond Resolutions 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 Financial Officer delivers to the State Treasurer a certificate to the effect 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 Financial 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 Resolutions to do and perform all acts and things permitted by law and the Resolutions which are necessary or desirable in order to assure that the interest paid on the Series 2003 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 each Bond Resolution:

(a) due and punctual payment of the principal purchase price, or redemption premium, if any, of any of the series of the Series 2003 Bonds authorized by such Bond Resolution is not made when the same become 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 such series of the Series 2003 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 such 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 of the Series 2003 Bonds or in such 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

Each Bond Resolution provides that, upon an Event of Default thereunder, the holders of not less than 25% in aggregate principal amount of the affected series of Series 2003 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 such series of Series 2003 Bonds for the purposes in the 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 such series of Series 2003 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 such series of Series 2003 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 such series of Series 2003 Bonds and to perform it and their duties under the Act;

(b) Bring suit upon such series of Series 2003 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 such series of Series 2003 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 such series of Series 2003 Bonds.

Any such trustee, whether or not all such series of Series 2003 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 such series of Series 2003 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 such series of Series 2003 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 herein or incident to the general representation of the holders of such series of Series 2003 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 a Bond Resolution, any bondholder may proceed to protect and enforce the rights of the holders of such series of Series 2003 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 such series of Series 2003 Bonds.

Each Bond Resolution further provides for the pro rata application of available moneys to the payment of the principal of and interest on the Series 2003 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 each Bond Resolution:

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

(b) to provide for the issuance of certificated Series 2003 Bonds or to obtain or maintain a rating on the Series 2003 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 Resolutions 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 make any amendment relating to redemption provisions as contemplated in the Series 2003A Bond Resolution or relating to the Depreciation Reserve Fund in either Bond Resolution,

(h) to modify, alter, amend, add to or rescind, in any particular, any of the terms or provisions contained the Bond Resolutions, 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, or

(i) for the Series 2003A Bond Resolution only, to implement a conversion of the interest rate on all of the Series 2003A Bonds to a Term Rate, including, but not limited to, modifying, amending or supplementing the form of Series 2003A Bond to reflect, among other things, a change in the designated title of the Series 2003A Bonds, the fixing of an annual rate of interest and, the termination of the rights of any owner of Series 2003A Bonds to tender such Series 2003A Bonds for purchase.

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 of such series of Series 2003 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 Resolutions, and not otherwise, the holders of not less than a majority in aggregate outstanding principal amount of the affected series of Series 2003 Bonds shall have the right, from time to time, anything contained in the Bond Resolutions 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 Resolutions or Bond Resolutions supplemental to their respectable 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 Resolutions; provided, however, that nothing contained in the Bond Resolutions permit, or be construed as permitting, (a) without the approval of all of the holders of the affected series of Series 2003 Bonds, (i) an extension of the maturity of the principal of or the interest on any of such series of Series 2003 Bond, (ii) a reduction in the principal amount of any of such series of Series 2003 Bonds or the redemption premium or the rate of interest thereon, (iii) except as otherwise provided in the Bond Resolutions, a preference or priority of any of such series of Series 2003 Bond over any other of such series of Series 2003 Bond, or (iv) except as provided in the Bond Resolutions, the release or subordination 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 affected series of Series 2003 Bonds, a reduction in the aggregate principal amount of such series of Series 2003 Bonds required for consent to such supplemental Bond Resolutions.

If at any time the Board shall determine that it is necessary or desirable to adopt any supplemental Bond Resolutions for any of the above purposes, the Secretary of the Board shall cause notice of the proposed adoption of such supplemental Bond Resolutions 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 affected series of Series 2003 Bonds at their addresses as they appear on the registration books held by the State Treasurer or Registrar. 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. 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 Resolutions 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 affected series of the Series 2003 Bonds then outstanding, which instrument or instruments shall refer to the proposed supplemental Bond Resolutions 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 Resolutions in substantially such form, without liability or responsibility to any holder of any Series 2003 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 affected series of Series 2003 Bonds outstanding at the time of the adoption of such supplemental Bond Resolutions shall have consented to and approved the adoption thereof as herein provided, no holder of any Series 2003 Bond shall have any right to object to the adoption of such supplemental Bond Resolutions, 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 affected 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 Resolutions of the University, the Board, the State Treasurer and all holders of the Series 2003 Bonds then outstanding shall thereafter be determined, exercised and enforced in all respects under the provisions of the Bond Resolutions 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 2003 Bonds of any series in any one or more of the following ways:

(a) by paying or causing to be paid the principal of (including redemption premium, if any) and interest (for the Series 2003A Bonds only, calculated at the Maximum Rate) on such outstanding Series 2003 Bonds of such series, 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 2003 Bonds of such series (including the payment of premium, if any, and interest (for the Series 2003A Bonds only, at the Maximum Rate) payable on such Series 2003 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 2003 Bonds at or before their respective maturity dates (for the Series 2003A Bonds only, assuming interest in the future at the Maximum Rate), 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 2003 Bonds of such series; 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 2003 Bonds of such series 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 2003 Bonds of any series and compliance with the other payment provisions of the appropriate Bond Resolution, such Bond Resolution may be discharged in accordance with the provisions thereof but the University's liability in respect of such Series 2003 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.

APPENDIX D

PROPOSED FORMS OF OPINIONS OF BOND COUNSEL

Set forth below are the proposed forms of bond counsel opinions. They are preliminary and subject to change prior to delivery of the Series 2003A Bonds and Series 2003B Bonds.

[Letterhead of McGuireWoods LLP]

[Date of Delivery of the Bonds]

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

The Rector and Visitors of the University of Virginia
General Revenue Pledge Bonds, Series 2003A

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 certain resolutions (the "Resolutions") adopted by the Executive Committee of the Board of Visitors of the University ("Executive Committee") on March 5, 2003. We refer you to the Bonds and the Resolutions 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 and certain of its affiliates contained in the Resolutions and certain other documents and certificates delivered this date, and (b) certificates of representatives of the University 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 Resolutions, issue the Bonds and apply the proceeds from the issuance and sale of the Bonds as set forth in the Resolutions.

3. The Resolutions have been duly and validly adopted by the Executive Committee, are binding upon the University and are enforceable in accordance with their terms.

4. The Bonds have been duly authorized, executed and delivered in accordance with the Act and the Resolutions and constitute valid and binding limited obligations of the University, payable solely from the Pledged Revenues and other property pledged therefor under the Resolutions. Except as provided in the Resolutions, 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 Resolutions validly and legally pledge the Pledged Revenues to the payment of the Bonds. We point out, however, that under the Resolutions (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 Resolutions 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 of its affiliates 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 certain of its affiliates 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.

We advise you that upon the occurrence of certain events the method of determining the interest rate on the Bonds may be changed, a new interest rate period may be established, or a Substitution Date or certain other events may occur which are subject to, among other things, delivery of an opinion of Bond Counsel (which may or may not be this firm) substantially to the effect that the rate change or other events will not adversely affect the exclusion of interest on the Bonds from gross income for purposes of federal income taxation or from income taxation by the Commonwealth of Virginia. The opinions expressed in this letter speak only as of its date, and nothing should be interpreted or construed to express or imply any opinion concerning the effect of such other events on the exclusion of interest on the Bonds from gross income for purposes of federal income taxation or from income taxation by the Commonwealth of Virginia. The availability of such an opinion will depend upon the facts and law existing at the time the opinion is sought.

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,

[Date of Delivery of the Bonds]

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

The Rector and Visitors of the University of Virginia
General Revenue Pledge Bonds, Series 2003B

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 certain resolutions (the "Resolutions") adopted by the Executive Committee of the Board of Visitors of the University ("Executive Committee") on March 5, 2003. We refer you to the Bonds and the Resolutions 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 and certain of its affiliates contained in the Resolutions and certain other documents and certificates delivered this date, and (b) certificates of representatives of the University 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 Resolutions, issue the Bonds and apply the proceeds from the issuance and sale of the Bonds as set forth in the Resolutions.

3. The Resolutions have been duly and validly adopted by the Executive Committee, are binding upon the University and are enforceable in accordance with their terms.

4. The Bonds have been duly authorized, executed and delivered in accordance with the Act and the Resolutions and constitute valid and binding limited obligations of the University, payable solely from the Pledged

Revenues and other property pledged therefor under the Resolutions. Except as provided in the Resolutions, 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 Resolutions validly and legally pledge the Pledged Revenues to the payment of the Bonds. We point out, however, that under the Resolutions (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 Resolutions 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 of its affiliates 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 certain of its affiliates 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 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 $200,000,000 aggregate principal amount of its General Revenue Pledge Bonds Series 2003A and 2003B (the "Series 2003 Bonds") pursuant to a Bond Resolution adopted by the Executive Committee of the Board of Visitors of the University on March 5, 2003 (the "Bond Resolution"). The University has approved the marketing of the Series 2003 Bonds by the Participating Underwriters, pursuant to an Official Statement (the "Official Statement") relating to the Series 2003 Bonds dated March 5, 2003 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 2003 Bonds.

Section 2. Definitions. In addition to the definitions set forth in the Bond Resolutions, 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 and FINANCIAL INFORMATION in Appendix A to the Official Statement; comprising the following tables: "Undergraduate Applications, Acceptances, and Matriculations," "Graduate and Professional Applications, Acceptances, and Matriculations," "University Fall Enrollment," "Non-Operating Appropriations from the Commonwealth," "Undergraduate Tuition and Required Fees Per Student," "Graduate and Professional Tuition and Required Fees Per Student," "Grants and Contracts," "University of Virginia Medical Center Summary 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 Vice President for Finance 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 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 2003 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 2003 Bonds required to comply with the Rule in connection with the offering of the Series 2003 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 2003 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 2003 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 2003 Bonds;

(vii) modifications to rights of Holders;

(viii) bond calls;

(ix) defeasances;

(x) release, substitution, or sale of property securing repayment of the Series 2003 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 2003 Series Bonds pursuant to the Bond Resolutions.

(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 2003 Bonds upon written request the information required to be provided to the NRMSIRs pursuant to subsections (a), (b) and (h) 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) 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
New York, New York 10038
Phone: (212) 771-6999
Fax: (212) 771-7390
E-mail: NRMSIR@FTID.com

Standard & Poor's J.J.Kenny Repository

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 2003 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 2003 Bonds. If such termination occurs prior to the final maturity of the Series 2003 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 2003 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. Default. In the event of a failure of the University to comply with any provision of this Disclosure Agreement, any Holder of the Series 2003 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 Resolutions, 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 11. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the University, the Participating Underwriters and the Holders of the Series 2003 Bonds, and shall create no rights in any other person or entity.

Section 12. 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 13. 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 March 19, 2003

THE RECTOR AND VISITORS OF
THE UNIVERSITY OF VIRGINIA

By: ____

Name: ____

Title: ____

EXHIBIT A

<u>NOTICE TO NRMSIRs OF FAILURE TO FILE</u>
<u>ANNUAL [OR QUARTERLY] FINANCIAL INFORMATION</u>

Name of Issuer: The Rector and Visitors of The University of Virginia

Name of Issue: General Revenue Pledge Bonds, Series 2003A and 2003B

Date of Issuance: March 19, 2003

NOTICE IS HEREBY GIVEN that the University has not provided the Annual Financial Information with respect to the above-named Series 2003 Bonds.

Dated: _______________

____________________, on behalf of The Rector and Visitors of The University of Virginia

UNIVERSITY of VIRGINIA