



**House Appropriations, Higher Education
Subcommittee**

Senate Finance, Education Subcommittee

August 26, 2016

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Overview

- Audit Procedures
- Code of Virginia
- UVA Management Agreement
- Creation and composition of the Fund

Audit Procedures Performed

- Review of relevant authoritative language (Code of Virginia and UVA Management Agreement)
- Review of Board minutes, Board resolutions, approved policies
- Review of University transaction data, transfers, and gift and contract agreements

Audit Procedures Performed

- External confirmation of lines of credit extended to the University
- Discussions with University Comptroller, Treasurer, Vice President for Finance, and Executive Vice President and Chief Operating Officer

Audit Procedures Not Performed

- We did not review claims that the University violated open meeting laws at its June Board meeting
 - These claims have been addressed by the FOIA Council

Audit Procedures Not Performed

- As auditors, we typically do not evaluate policy decisions made by management
 - We did not assess the highest and best use of the funds available
 - We did not assess the appropriateness of the University's decisions regarding tuition increases

Preliminary Findings

- The University's investment program is in compliance with the relevant Code of Virginia sections, regulations, and autonomy extended through restructuring
- Balances included in the Strategic Investment Fund have been audited by the APA as part of the University's annual financial statement audit

Preliminary Findings

- Board resolutions appropriately authorized the University's liquidity policy and the Strategic Investment Fund (SIF)
- Lines of credit extended to the University have not been used as of August 1, 2016, supporting the University's statement that these are to be used for back up liquidity

Preliminary Findings

- We found no evidence the SIF includes:
 - nonexpendable gifts or income already designated by donor or other external restrictions
 - tuition and fees or general funds
- SIF balances related to gift or contract agreements have been recorded and controlled in accordance with related agreements

Financial Operations of Covered Institutions (§ 23-38.104)

- A covered institution:
 - May be expressly permitted to invest tuition, fees, research funds, auxiliary enterprise funds, and all other public funds under the terms of its management agreement
 - Shall invest any nongeneral funds consistent with investment policy established by BOV and retain all income on those investments

Chapter 9. University of Virginia (§ 23-62 through § 23-91.23:1)

- § 23-69
 - The rector and visitors of the University of Virginia shall be at all times subject to the control of the General Assembly
- § 23-76.1
 - The Board shall invest and manage endowment funds, endowment income, gifts, and all other nongeneral fund reserves and balances, and local funds held by the University

Chapter 9. University of Virginia (§ 23-62 through § 23-91.23:1)

- § 23-77.3
 - That the maintenance of a Medical Center serving such purposes requires specialized management and operation that permit the Medical Center to remain economically viable and to participate in cooperative arrangements reflective of changes in health care delivery
- § 23-81
 - Donations shall be invested in securities that are legal instruments under the laws of the Commonwealth and dividends accruing are to be appropriated by BOV for general purposes of the University unless otherwise designated by the donor

UVA Management Agreement

- Exhibit R, Section X
 - University can use various financing structures and funding sources, provided that the Executive VP and Chief Operating Officer ensures those mechanisms are consistent with the University's objectives
- Exhibit R, Section XI
 - University's policy is to invest operating and reserve funds solely in the interest of the University to provide highest investment return, maximum security, and to provide for daily cash flow demands of the institution

Strategic Investment Fund Timeline

- November 2015 – Board approves liquidity policy
 - Allows for use of lines of credit as back-up liquidity and the transfer of cash reserves to longer-term investment pools to maximize return
- January 2016 – Lines of credit established
 - Four banks extending an aggregate of \$300M
- February 2016 – Board approves establishment of Strategic Investment Fund

Creation of the Strategic Investment Fund

- February 19, 2016, Finance Committee Resolution
 - Approved resolution authorizing establishment of the “Strategic Investment Fund”
 - Not meant to replace or supplement ongoing operating costs, but to fund initiatives that advance the University’s mission
 - Establishes that lines of credit are only to be used as an additional source of back-up liquidity
 - Specifies that investment proposals must clearly align with the University’s strategic plan objectives
 - Includes a quarterly and annual progress reporting mechanism for monitoring of allocated funding

Creation of the Strategic Investment Fund

- Pooling of Funds

- The SIF is a pooling of existing balances for investment purposes (similar to pooling of resources by the Commonwealth's Treasury for the General Account)
- The income will be dedicated to strategic initiatives funded through a grant proposal process
- The balances (\$2.1 B) are not to be used for strategic initiatives as they have already been reserved for other purposes, either at the University, Division, or School level
- Only a portion of the expected income generated by the pooled funds will support strategic initiatives each year

Creation of the Strategic Investment Fund

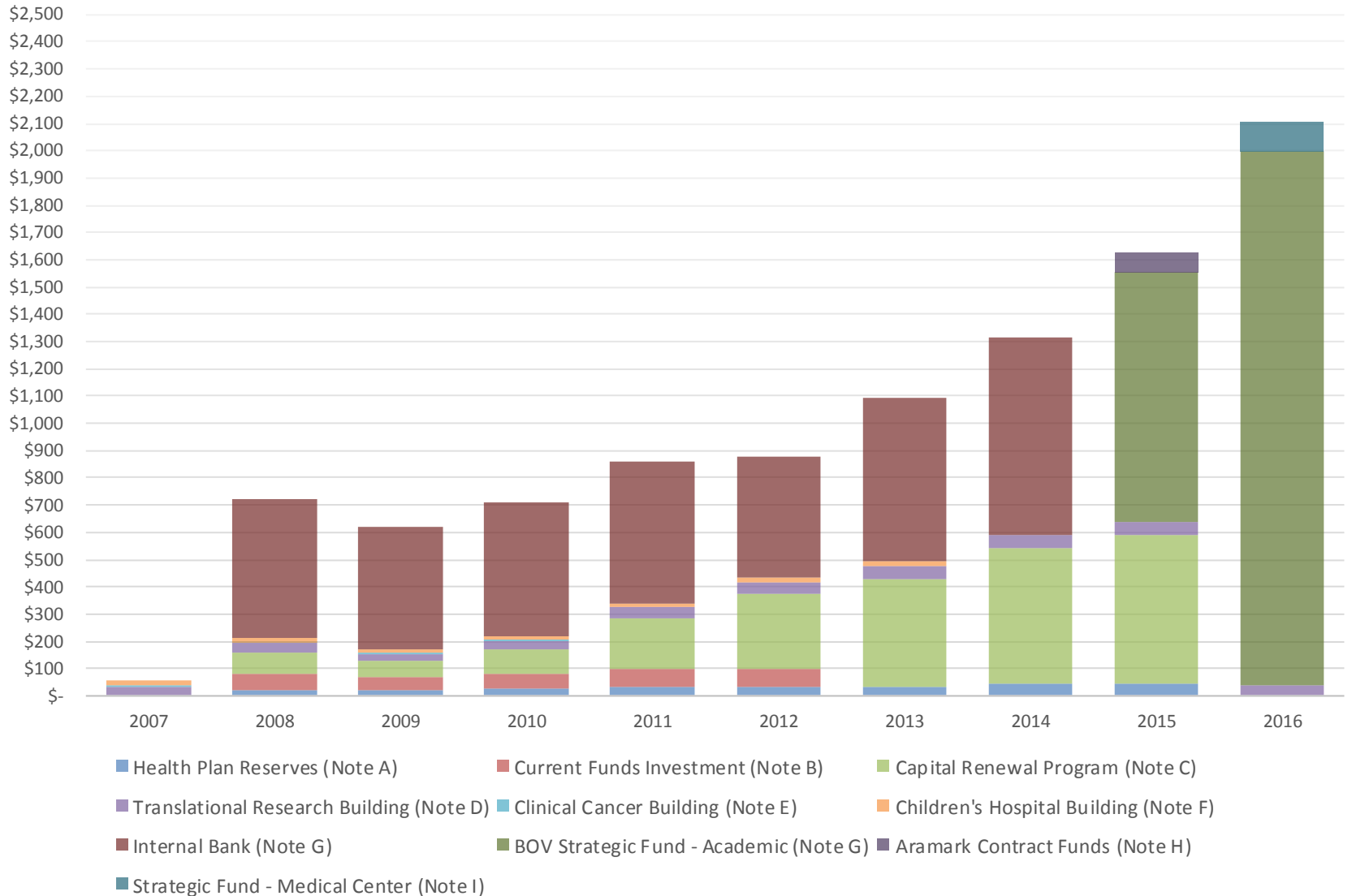
- Distributions of Income

- University will draw on the income at the same rate as the institution's endowment spending policy (currently around 4.6%)
- Using the five year annualized return for the UVA Investment Management Company (UVIMCO) Long Term Pool (9.1 percent), the Strategic Investment Fund projects to earn approximately \$200M
- Calculated payout using the 4.6% spending rate and current fund balance would be approximately \$100 M
- Any unspent return on investments during the year would remain in the pool

Composition of the SIF

- 9 different “Projects” within UVA’s general ledger
- Funds accumulated over time for various purposes:
 - Health Plan Self-Insurance Reserves
 - Reserves for payment of principal on “bullet”/single-maturity bonds
 - Various gifts
 - Medical Center Profits/Reserves
 - Departmental Cash Reserves

GROWTH IN STRATEGIC INVESTMENT FUND BALANCE (IN MILLIONS)



Composition of the SIF

Project Desc	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Health Plan Reserves (Note A)	\$ -	\$ 21	\$ 21	\$ 24	\$ 30	\$ 31	\$ 35	\$ 42	\$ 45	\$ -
Current Funds Investment (Note B)	-	59	47	54	67	70	-	-	-	-
Capital Renewal Program (Note C)	-	77	60	90	186	273	391	501	545	-
Translational Research Building (Note D)	35	38	25	31	43	45	53	46	46	41
Clinical Cancer Building (Note E)	5	2	5	5	-	-	-	-	-	-
Children's Hospital Building (Note F)	15	15	15	15	15	15	15	-	-	-
Internal Bank (Note G)	-	509	445	490	520	445	602	726	-	-
BOV Strategic Fund - Academic (Note G)	-	-	-	-	-	-	-	-	916	1,959
Aramark Contract Funds (Note H)	-	-	-	-	-	-	-	-	-	74
Strategic Fund - Medical Center (Note I)	-	-	-	-	-	-	-	-	-	108
Total	\$ 55	\$ 721	\$ 618	\$ 709	\$ 861	\$ 879	\$1,096	\$1,315	\$1,552	\$2,182

1: For reference, the chart above is included on the following six slides.

2: UVA's accounting system uses "Project" as a higher tier in its accounting hierarchy. This terminology is comparable to "Fund" in other accounting systems. The table above is organized by Project.

3: UVA offers a self-funded medical care benefits program to its employees and does not participate in the Commonwealth health plan.

4: Some UVA-issued debt matures as a single maturity/principal payment. Large expected outflows include \$112M maturing in FY22 (2015B Bonds), \$329.5M in FY40 (2008 & 2009 Bonds), \$190M in FY41 (2010 bonds), and \$184.7M in FY45 (2015A-1 bonds).

Composition of the SIF

Project Desc	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Health Plan Reserves (Note A)	\$ -	\$ 21	\$ 21	\$ 24	\$ 30	\$ 31	\$ 35	\$ 42	\$ 45	\$ -
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Total	\$ 55	\$ 721	\$ 618	\$ 709	\$ 861	\$ 879	\$1,096	\$1,315	\$1,552	\$2,182

- Note A: Health Plan Reserves project balance transferred to BOV Strategic Fund – Academic project in 2016. These balance are internally reserved, rather than external restrictions of resources.
- Note B: Current Funds Investment project balance transferred to BOV Strategic Fund – Academic (previously UVA Internal Bank) in 2013. The Current Funds Investment project held UVA local fund investments.

Composition of the SIF

Project Desc	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Health Plan Reserves (Note A)	\$ -	\$ 21	\$ 21	\$ 24	\$ 30	\$ 31	\$ 35	\$ 42	\$ 45	\$ -
Current Funds Investment (Note B)	-	59	47	54	67	70	-	-	-	-
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Clinical Cancer Building (Note E)	5	2	5	5	-	-	-	-	-	-
Children's Hospital Building (Note F)	15	15	15	15	15	15	15	-	-	-
Internal Bank (Note G)	-	509	445	490	520	445	602	726	-	-
BOV Strategic Fund - Academic (Note G)	-	-	-	-	-	-	-	-	916	1,959
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Strategic Fund - Medical Center (Note I)	-	-	-	-	-	-	-	-	-	108
Total	\$ 55	\$ 721	\$ 618	\$ 709	\$ 861	\$ 879	\$1,096	\$1,315	\$1,552	\$2,182

- Note C: Capital Renewal Program project balance transferred to BOV Strategic Fund – Academic in 2016. The Capital Renewal Program project holds School/Departmental reserves transferred to pay debt service on bonds. The University Treasurer bills University business units using a regular amortization schedule to ensure sufficient resources are available to pay debt maturing as a single maturity at some point in future fiscal years. This project held resources reserved for future debt payments and cumulative market returns on those balances.

Composition of the SIF

Project Desc	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Health Plan Reserves (Note A)	\$ -	\$ 21	\$ 21	\$ 24	\$ 30	\$ 31	\$ 35	\$ 42	\$ 45	\$ -
Current Funds Investment (Note B)	-	59	47	54	67	70	-	-	-	-
Capital Renewal Program (Note C)	-	77	60	90	186	273	391	501	545	-
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Children's Hospital Building (Note F)	15	15	15	15	15	15	15	-	-	-
Internal Bank (Note G)	-	509	445	490	520	445	602	726	-	-
BOV Strategic Fund - Academic (Note G)	-	-	-	-	-	-	-	-	916	1,959
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Strategic Fund - Medical Center (Note I)	-	-	-	-	-	-	-	-	-	108
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- Note D: Translational Research Building project funded by Ivy Foundation gift in 2007. Per the gift agreement, \$25M would be used to construct a Translational Research Building for medical research. Per the addendum to the gift agreement (dated July 2013), funds remaining after completion of the building will be used to create a \$5M quasi-endowment to support the School of Medicine's Ivy Biomedical Innovation Fund. The remaining funds are to be used at the Dean of the School of Medicine's discretion. When the project is complete, these funds will no longer be part of the Strategic Investment Fund balances. This project should be completed in fiscal year 2017.

Composition of the SIF

Project Desc	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Health Plan Reserves (Note A)	\$ -	\$ 21	\$ 21	\$ 24	\$ 30	\$ 31	\$ 35	\$ 42	\$ 45	\$ -
Current Funds Investment (Note B)	-	59	47	54	67	70	-	-	-	-
Capital Renewal Program (Note C)	-	77	60	90	186	273	391	501	545	-
Translational Research Building (Note D)	35	38	25	31	43	45	53	46	46	41
Clinical Cancer Building (Note E)	5	2	5	5	-	-	-	-	-	-
Children's Hospital Building (Note F)	15	15	15	15	15	15	15	-	-	-
Internal Bank (Note G)	-	509	445	490	520	445	602	726	-	-
BOV Strategic Fund - Academic (Note G)	-	-	-	-	-	-	-	-	916	1,959
Aramark Contract Funds (Note H)	-	-	-	-	-	-	-	-	-	74
Strategic Fund - Medical Center (Note I)	-	-	-	-	-	-	-	-	-	108
Total	\$ 55	\$ 721	\$ 618	\$ 709	\$ 861	\$ 879	\$1,096	\$1,315	\$1,552	\$2,182

- Note E: Clinical Cancer Building was part of the Ivy Foundation Gift in 2007 (\$5M). UVA completed construction of the building in 2011 and the project was closed. Income on this project transferred to the Translational Research Building project per the gift agreement.
- Note F: The Children's Hospital Building was part of the Ivy Foundation Gift in 2007 (\$15M). UVA completed construction of the building in 2014 and the project was closed. Income on this project transferred to the Translational Research Building project per the gift agreement.

Composition of the SIF

Project Desc	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Health Plan Reserves (Note A)	\$ -	\$ 21	\$ 21	\$ 24	\$ 30	\$ 31	\$ 35	\$ 42	\$ 45	\$ -
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BOV Strategic Fund - Academic (Note G)	-	-	-	-	-	-	-	-	916	1,959
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Strategic Fund - Medical Center (Note I)	-	-	-	-	-	-	-	-	-	108
Total	\$ 55	\$ 721	\$ 618	\$ 709	\$ 861	\$ 879	\$1,096	\$1,315	\$1,552	\$2,182

- Note G: UVA created the UVA Internal Bank in 2008 to provide various Treasury services to departments, including loans. In 2015, UVA changed the name of the project from Internal Bank to BOV Strategic Fund – Academic. This is shown on two separate lines in the table above; however, only the project name changed in the accounting system. As the balance in this project represents the largest portion of the SIF assets, additional detail regarding the sources of the funds will be discussed later in the presentation.

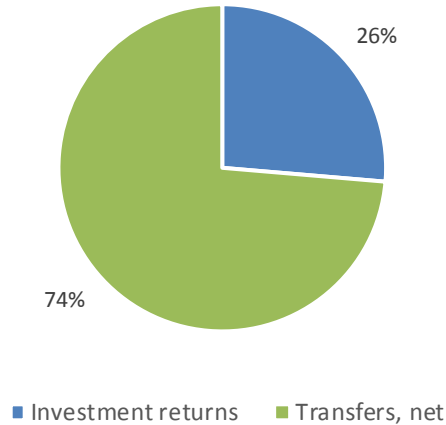
Composition of the SIF

Project Desc	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Health Plan Reserves (Note A)	\$ -	\$ 21	\$ 21	\$ 24	\$ 30	\$ 31	\$ 35	\$ 42	\$ 45	\$ -
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Clinical Cancer Building (Note E)	5	2	5	5	-	-	-	-	-	-
Children's Hospital Building (Note F)	15	15	15	15	15	15	15	-	-	-
Internal Bank (Note G)	-	509	445	490	520	445	602	726	-	-
BOV Strategic Fund - Academic (Note G)	-	-	-	-	-	-	-	-	916	1,959
Aramark Contract Funds (Note H)	-	-	-	-	-	-	-	-	-	74
Strategic Fund - Medical Center (Note I)	-	-	-	-	-	-	-	-	-	108
Total	\$ 55	\$ 721	\$ 618	\$ 709	\$ 861	\$ 879	\$1,096	\$1,315	\$1,552	\$2,182

- Note H: Funds and market returns related to an “Unrestricted Grant” specified in the University’s dining contract with Aramark in fiscal year 2015 in an amount of \$70M. Funds are for “use by the University at the University’s discretion.” The University must amortize the funds through June 30, 2034, and pay back any unamortized amount should the agreement terminate prior to termination date.
- Note I: Additional cash balances transferred from the Medical Center as a result of the liquidity policy approved during fiscal year 2016.

Composition of the SIF

Sources of Strategic Investment Fund Balances



Cumulative Sources (in millions)	2016
Investment returns	\$ 575
Transfers, net	\$ 1,607
Total	\$ 2,182

- Two major sources comprise the balances of the projects pooled to create the SIF :
 - Market gains and losses on UVIMCO Short-term and Long-term pools – primarily unrealized gains on investments
 - Transfers in and out of the projects comprising the SIF

Transfers in/out of the SIF

Project	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Health Plan Reserves	\$ -	\$ 20	\$ 5	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (43)	\$ (18)
Current Funds Investment	-	59	-	-	-	-	(75)	-	-	-	\$ (16)
Capital Renewal Program	-	74	-	19	69	75	79	34	6	(517)	\$ (161)
Translational Research Building	29	1	(6)	3	4	1	2	(16)	(3)	(5)	\$ 10
Clinical Cancer Building	13	(1)	3	(2)	(3)	(1)	(2)	(17)	-	-	\$ (10)
Children's Hospital Building	4	-	1	(1)	(6)	-	-	-	-	-	\$ (2)
Internal Bank	-	494	49	(18)	(80)	(96)	94	15	-	-	\$ 458
BOV Strategic Fund - Academic	-	-	-	-	-	-	-	-	131	1,038	\$ 1,169
Aramark Contract Funds	-	-	-	-	-	-	-	-	70	-	\$ 70
Strategic Fund - Medical Center	-	-	-	-	-	-	-	-	-	107	\$ 107
Total	\$ 46	\$ 647	\$ 52	\$ 1	\$ (16)	\$ (21)	\$ 98	\$ 16	\$ 204	\$ 580	\$ 1,607

1: Negative amounts in the total column represent cumulative transfers out that exceed transfers in to a given project. In these instances, market return on balances accounts for the additional transfer of funds out of a given project. Market returns are not reflected in the schedule above, but will be reflected in a later slide.

2: Significant transfers highlighted above are discussed on the next slide.

Transfers In/Out of SIF

- Transfers represent a variety of different activities including transfers across projects within the SIF, transfers in from external sources, or uses/divestment of funds
- \$494M transfer in 2008 provided initial capitalization of UVA's internal bank
- \$517M transfer out of Capital Renewal Program offset by \$517M transfer in to BOV Strategic Fund
 - Consolidation of projects in accounting system
- \$1,038M net transfer to BOV Strategic Fund includes transfers in from Capital Renewal Program and Health Plan Reserves and addition influx from transfer of cash due to new liquidity policy (\$480M), net of any transfers out

Capitalization of the Internal Bank (2008)

Project Name	Transfers In (Transfers Out)
Current Fund Investment	\$ (506)
Capital Renewal Program	(2)
Internal Bank:	
Cash	14
LT Investments (A)	494
Total Transfers In/Out	\$ -

- Note A: The \$494M net transfer noted on the previous slide represents the initial capitalization of the UVA Internal Bank project. The internal bank was originally capitalized to provide loans, investment services, and cash balance management to University schools and departments. The Internal bank was primarily funded by transfers from the University's Current Fund Investment project, which historically housed University local fund cash and investments.

Capitalization of the Internal Bank (2008)

Project Name	July 2007	Aug 2007	Oct 2007	Nov 2007	Dec 2007	Jan 2008	Feb 2008	Mar 2008	Apr 2008	May 2008	June 2008	Total
Current Fund Investment	\$(311)	\$ -	\$ -	\$ -	\$ -	\$ -	\$(195)	\$ -	\$ -	\$ -	\$ -	\$(506)
Capital Renewal Program	-	-	-	-	-	-	-	-	2	-	(4)	(2)
Internal Bank:												
Cash	311	(250)	(100)	30	(20)	(80)	-	(32)	35	59	61	14
LT Investments	-	250	100	(30)	20	80	195	32	(37)	(59)	(57)	494
Total Transfers In/Out	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

- The table above shows transfers in to the University's Internal Bank project during fiscal year 2008 from the University Current Fund Investment project.
- We reviewed the Current Fund Investment project, dating back to the University's accounting system implementation in fiscal year 2002, and determined the balance to be approximately \$235M at that time. The Current Fund Investment project was not used after 2008.

Transfers of Cash

- Liquidity policy authorized in November 2015 allowed for transfer of \$480M in cash to SIF due to additional back-up liquidity from lines of credit
- We reviewed the transfer of funds to UVA's Investment Management Company's (UVIMCO) Short-term Pool (STP) on January 25, 2016
 - \$250M then transferred to Long-term Pool (LTP) as of FYE
 - \$230M remains in STP for a total of \$480M to be transferred as a result of new liquidity policy

Cumulative Market Returns by Project

Cumulative Impact of Investment Activity and Market Returns by Project (in millions)											
Project	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Health Plan Reserves	\$ -	\$ 1.0	\$ (5.0)	\$ 3.1	\$ 5.8	\$ 1.5	\$ 4.1	\$ 6.6	\$ 3.1	\$ (1.7)	\$ 18.5
Current Funds Investment	-	0.3	(12.6)	6.9	12.9	3.3	5.3	-	-	-	16.1
Capital Renewal Program	-	2.8	(16.2)	10.0	26.7	12.5	38.4	76.2	37.8	(27.7)	160.5
Translational Research Building	5.8	2.0	(7.5)	3.8	7.8	2.0	6.1	8.3	3.4	(0.8)	30.9
Clinical Cancer Building	2.6	0.9	(3.4)	2.1	3.2	0.8	1.9	1.9	-	-	10.0
Children's Hospital Building	0.9	0.3	(1.1)	0.7	0.9	-	-	-	-	-	1.7
Internal Bank	-	15.1	(111.8)	62.2	109.7	21.4	62.9	109.3	-	-	268.8
BOV Strategic Fund - Academic	-	-	-	-	-	-	-	-	58.7	5.3	64.0
Aramark Contract Funds	-	-	-	-	-	-	-	-	5.2	(1.4)	3.8
Strategic Fund - Medical Center	-	-	-	-	-	-	-	-	-	1.2	1.2
Total	\$ 9.3	\$ 22.4	\$ (157.6)	\$ 88.8	\$ 167.0	\$ 41.5	\$ 118.7	\$ 202.3	\$ 108.2	\$ (25.1)	\$ 575.5

- The table above shows the impact of investment activity on the balances in each project comprising the Strategic Investment Fund.
- Investment returns for the projects comprising the SIF appear consistent with UVIMCO reported returns on Long-term Pool investments.
- The UVIMCO LTP consistently outperforms its target benchmark and endowments of similar size.

QUESTIONS?