

**VIRGINIA COMMONWEALTH UNIVERSITY**

**AUDITED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED**

**June 30, 2009**



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**Management's Discussion and Analysis**  
**(Unaudited)**

Virginia Commonwealth University's Management Discussion and Analysis (MD&A) provides a discussion and analysis of the financial performance during the fiscal year ended June 30, 2009, with comparative information presented for the fiscal year ended June 30, 2008. While maintaining its financial health is crucial to the long-term viability of the University, the primary mission of a public institution of higher education is to provide education, research and public service. Therefore, net assets are accumulated only as required to ensure that there are sufficient reserve funds for future operations and implementation of new programs.

This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the accompanying financial statements and notes. The financial statements, notes and this discussion are the responsibility of management.

**Using the Annual Report**

This report consists of three basic financial statements. The Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows provide information on the University as a whole and present a long-term view of the University's finances.

**The Statement of Net Assets**

The Statement of Net Assets presents the financial position at the end of the fiscal year and includes all assets and liabilities. The difference between total assets and total liabilities is net assets, which is an indicator of the current financial condition of the University. Assets and liabilities are generally measured using current values with capital assets as the one notable exception because they are stated at historical cost less an allowance for depreciation.

Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, provides the University's equity in property, plant, and equipment owned by the University. The next asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net assets are available for expenditure by the University but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted net assets are available to the institution for any lawful purpose of the institution.

The following table reflects the condensed Statement of Net Assets of the University:

	2009	2008	Increase (Decrease)
Current and other assets	\$437,528,576	\$375,716,364	\$ 61,812,212
Capital assets – net	753,549,577	735,424,371	18,125,206
Total assets	<u>1,191,078,153</u>	<u>1,111,140,735</u>	<u>79,937,418</u>
Current liabilities	154,382,827	133,500,479	20,882,348
Long term liabilities	418,592,423	389,383,236	29,209,187
Total liabilities	<u>\$572,975,250</u>	<u>\$522,883,715</u>	<u>\$ 50,091,535</u>

	<u>2009</u>	<u>2008</u>	<u>Increase (Decrease)</u>
Net Assets:			
Invested in capital assets, net of related debt	466,683,967	423,905,324	42,778,643
Restricted	33,613,294	39,310,241	(5,696,947)
Unrestricted	117,805,642	125,041,455	(7,235,813)
Total Net Assets	<u>\$618,102,903</u>	<u>\$588,257,020</u>	<u>\$ 29,845,883</u>

- The University's current and other assets increased due to the transfer of the School of Business, and School of Engineering buildings to the foundations and the subsequent University receivable for the associated debt.
- Current and other liabilities increased principally due to security lending transactions held by the Treasurer of Virginia.
- Long term liabilities increased due to higher debt. Debt is discussed in more detail below.
- Total assets grew by a greater margin than total liabilities, with net assets increasing correspondingly.

### **The Statement of Revenues, Expenses, and Changes in Net Assets**

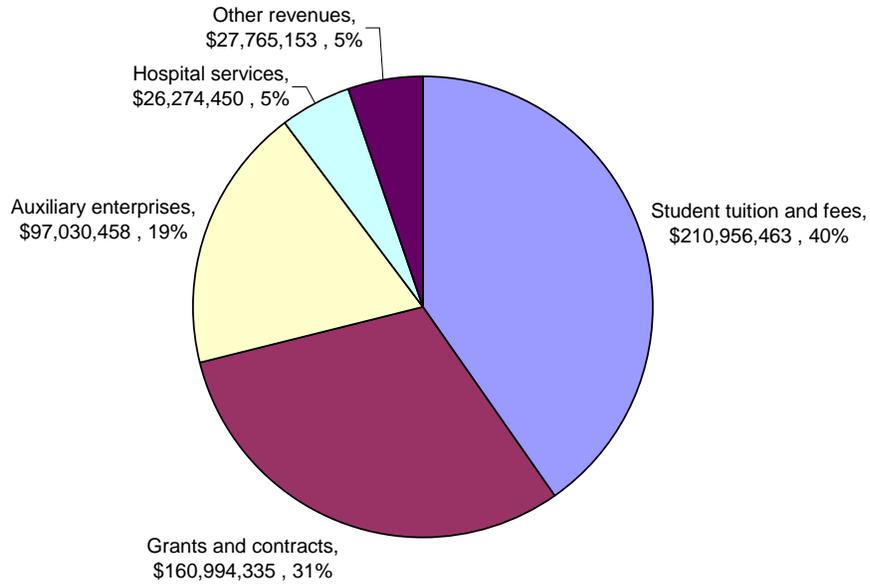
The Statement of Revenues, Expenses, and Changes in Net Assets presents the operating results, as well as the nonoperating revenues and expenses. State appropriations, while budgeted for operations, are considered non-operating revenues according to generally accepted accounting principles.

The following is a summarized schedule of the revenues and expenses for the University, for the year ended June 30, 2009, with comparative data for the year ended June 30, 2008.

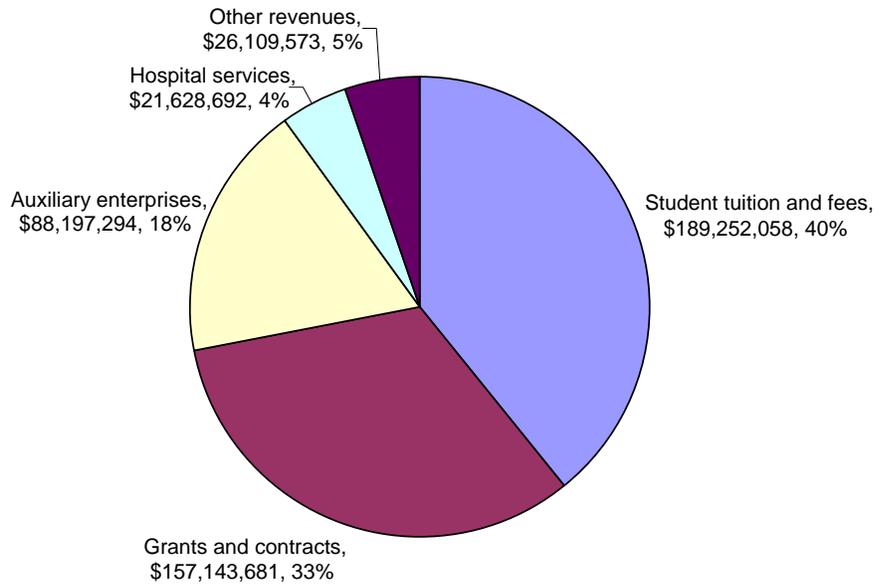
	<u>2009</u>	<u>University 2008</u>	<u>Increase (Decrease)</u>
Operating revenues	\$ 523,020,859	\$ 482,331,298	\$ 40,689,561
Operating expenses	770,644,093	732,050,692	38,593,401
Operating loss	<u>(247,623,234)</u>	<u>(249,719,394)</u>	<u>2,096,160</u>
Nonoperating revenues (expenses):			
State appropriations	218,801,967	226,444,533	(7,642,566)
Gifts	33,465,277	26,895,557	6,569,720
Investment income (net of investment expense)	(1,364,341)	8,418,973	(9,783,314)
Interest on capital asset-related debt	(11,236,599)	(12,352,880)	1,116,281
Pell revenue	13,505,787	11,881,585	1,624,202
Other	(11,227,960)	(2,633,125)	(8,594,835)
Net non-operating revenues	<u>241,944,131</u>	<u>258,654,643</u>	<u>(16,710,512)</u>
Income before other revenues	(5,679,103)	8,935,249	(14,614,352)
Additions to permanent endowments	0	2,280	(2,280)
Capital appropriations	40,924,375	55,686,503	(14,762,128)
Capital gifts	7,142,630	3,455,177	3,687,453
Reduction of capital appropriations	(12,542,019)	(9,016,087)	(3,525,932)
Increase in net assets	<u>29,845,883</u>	<u>59,063,122</u>	<u>(29,217,239)</u>
Net assets - beginning of year	<u>588,257,020</u>	<u>529,193,898</u>	<u>59,063,122</u>
Net assets - end of year	<u>\$ 618,102,903</u>	<u>\$ 588,257,020</u>	<u>\$ 29,845,883</u>

The following graphs present operating revenues and expenses for fiscal years 2009 and 2008:

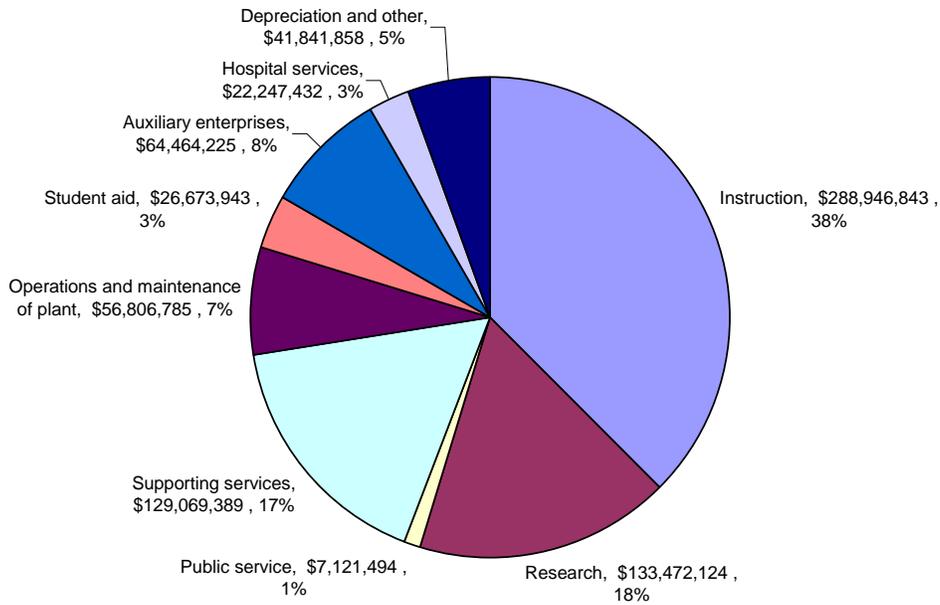
### 2009 Operating Revenues



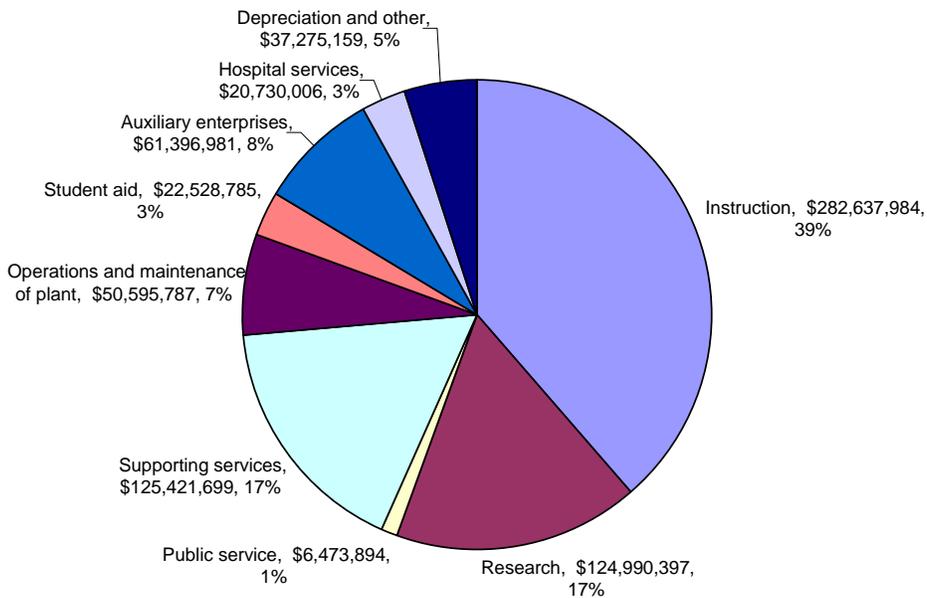
### 2008 Operating Revenues



**2009  
Operating Expenses**



**2008  
Operating Expenses**



- Tuition and fee increases coupled with enrollment growth translated to higher overall program revenues.
- Auxiliary enterprise revenue increased due to greater demand for dining services, fees and other auxiliary operations.
- Expenses increased due to higher depreciation related to completed capital projects, and expenditures associated with research grants.

### **The Statement of Cash Flows**

The Statement of Cash Flows provides information about cash receipts and cash payments during the year. This statement assists users in assessing the University's ability to generate net cash flows and meet its obligations as they come due, and its need for external financing.

The following is a summary Statement of Cash Flows for the University for the year ended June 30, 2009, with comparative data for the year ended June 30, 2008. For more detailed information, see the accompanying Statement of Cash Flows.

	2009	University 2008	Increase (Decrease)
Cash provided (used) by:			
Operating activities	\$ (176,454,899)	\$ (223,669,734)	\$ 47,214,835
Noncapital financing activities	264,708,322	269,969,559	(5,261,237)
Capital and related financing activities	(79,787,441)	(79,187,196)	(600,245)
Investing activities	4,198,200	19,847,689	(15,649,489)
Net increase in cash	<u>12,664,182</u>	<u>(13,039,682)</u>	<u>25,703,864</u>
Cash, beginning of year, as restated	<u>169,909,121</u>	<u>182,948,803</u>	<u>(13,039,682)</u>
Cash, end of year	<u><u>\$ 182,573,303</u></u>	<u><u>\$ 169,909,121</u></u>	<u><u>\$ 12,664,182</u></u>

- The University's operating cash flows increased primarily due to higher program and auxiliary enterprise revenues, as well as, improved grants.
- Noncapital financing activities decreased due to state appropriation reductions.
- Cash from investing activities decreased due to the sale and maturity of investments.

## Capital Assets and Debt Administration

### Capital Assets

Presented next is the schedule of capital assets net of depreciation. Depreciation expense totaled \$41.7 million for the University.

	University	
	2009	2008
Land	\$ 40,371,413	\$ 40,371,413
Land improvements and infrastructure	3,752,888	9,964,415
Buildings	561,926,488	488,919,791
Equipment	61,510,138	57,944,743
Library books	17,379,555	15,242,784
Construction in progress	68,609,095	122,981,225
Total	<u>\$ 753,549,577</u>	<u>\$ 735,424,371</u>

- Completed capital projects include Health and Life Science, Medical Sciences, Perkinson School of Dentistry, and Rice Center Environmental Education buildings. Monroe Park Deck and Housing, and several renovations projects were also completed in 2009.
- Engineering East and Snead Hall buildings were transferred to the VCU School of Engineering and Business Foundations.

### Debt

At June 30, 2009, the University had \$397.9 million in debt outstanding.

- The University issued a note to VCBA in the amount of \$29.6 million to finance a portion of the Monroe Park and MCV Campus Recreation Facility projects, and \$13.7 million to finance Medical Science Building Phase II.

### Future Financial Effects

The following are known facts and circumstances that will affect future financial results.

- State General Fund appropriations are projected at \$161.9 million for fiscal year 2010. The current general fund projection includes \$55.4 million reductions from the Chapter 781, 2009 Acts of Assembly and Governor's reductions in October 2009.
- The amount of federal funding underpinning Virginia Commonwealth University's operations will temporarily increase in FY 2010 and FY 2011, due to the passage of the American Recovery and Reinvestment Act of 2009. During the FY 2009 Session, the General Assembly directed \$20.5 million in funds from this Act (federal stimulus funds) be provided to the University to offset general fund reductions. When the Governor again reduced the state's general fund revenue forecast in August, 2009 and ordered an additional 15 percent general fund reduction of the University appropriations in September (\$25.2 million), he recommended off-setting a portion of that reduction with a one-time allocation of additional federal stimulus funding totaling \$11.8 million. There is no expectation that any of these federal funds will continue to be available to the University. The University administration and Board are planning for the loss of these funds.
- Tuition and fee revenues are projected to increase by \$14 million in fiscal year 2010 based on the Board of Visitors approved increase in tuition and mandatory fee rates of 5% and increased student retention rates.

- New facilities opening in fiscal year 2010 include the Monroe Park and MCV Campus Recreation Center Facilities, and the 500 N. Harrison Academic Center.

## **FINANCIAL STATEMENTS**

VIRGINIA COMMONWEALTH UNIVERSITY  
STATEMENT OF NET ASSETS  
As of June 30, 2009

	University	VCU Health System Authority	MCV Foundation
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents (Note 2)	\$ 164,915,586	\$ 166,434,593	\$ 22,405,000
Short-term investments (Note 2)	14,407,020	166,731,856	-
Accounts receivable:			
Student, Net of allowance of \$4,287,749	7,609,169	-	-
Sponsors	26,429,048	-	-
Patient, Net of allowance of \$126,611,085	-	194,420,316	-
Premium	-	44,793,987	-
Contributions and gifts, Net of allowance of \$284,148	-	-	5,335,000
Due from component units	3,273,373	-	-
Due from VCBA	9,934,620	-	-
Due from Commonwealth of Virginia	12,534,862	-	-
Due from VCU Foundation	-	-	-
Student loans receivable, current portion	2,289,980	-	50,000
Other assets	3,203,087	18,455,978	4,575,000
Total current assets	<u>244,596,745</u>	<u>590,836,730</u>	<u>32,365,000</u>
Noncurrent assets:			
Restricted cash and cash equivalents	22,916,502	178,936	1,601,000
Endowment investments (Note 2)	-	-	128,401,000
Other investments (Note 2)	25,464,094	188,250,313	168,853,000
Contributions and gifts, Net of discount and allowance of \$3,261,307	-	-	4,621,000
Student loans receivable, Net of allowance of \$3,282,871	23,380,916	-	-
Loans receivable	-	-	316,000
Due from component units	119,124,606	716,173	-
Other long-term assets	2,045,713	8,711,546	94,000
Nondepreciable capital assets (Note 4)	108,980,508	32,172,624	217,000
Depreciable capital assets (Note 4)	644,569,069	438,715,315	1,484,000
Total noncurrent assets	<u>946,481,408</u>	<u>668,744,907</u>	<u>305,587,000</u>
Total assets	<u>1,191,078,153</u>	<u>1,259,581,637</u>	<u>337,952,000</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable and accrued liabilities	82,720,430	151,963,724	445,000
Deferred revenue	30,065,723	-	-
Due to component units	-	-	-
Due to Commonwealth of VA	1,450,051	-	-
Long-term liabilities - current portion (Note 8)	40,146,623	37,040,435	500,000
Total current liabilities	<u>154,382,827</u>	<u>189,004,159</u>	<u>945,000</u>
Noncurrent liabilities:			
Funds held for others (Note 5)	26,838,744	-	-
Due to component units	-	-	-
Other	-	28,844,388	4,575,000
Long-term liabilities (Note 8)	391,753,679	327,766,770	11,170,000
Total noncurrent liabilities	<u>418,592,423</u>	<u>356,611,158</u>	<u>15,745,000</u>
Total liabilities	<u>572,975,250</u>	<u>545,615,317</u>	<u>16,690,000</u>

VIRGINIA COMMONWEALTH UNIVERSITY  
STATEMENT OF NET ASSETS  
As of June 30, 2009

	VCU Foundation	VCU Real Estate Foundation	VCU School of Business Foundation
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents (Note 2)	\$ 2,401,909	\$ 6,235,722	\$ 7,330,744
Short-term investments (Note 2)	-	-	-
Accounts receivable:			
Student, Net of allowance of \$4,287,749	-	-	-
Sponsors	-	-	-
Patient, Net of allowance of \$126,611,085	-	-	-
Premium			
Contributions and gifts, Net of allowance of \$284,148	2,267,671	15,487	2,839,103
Due from component units	-	-	-
Due from VCBA			
Due from Commonwealth of Virginia	-	-	-
Due from VCU Foundation	-	-	-
Student loans receivable, current portion	-	-	-
Other assets	9,066	1,341,896	175,403
Total current assets	<u>4,678,646</u>	<u>7,593,105</u>	<u>10,345,250</u>
Noncurrent assets:			
Restricted cash and cash equivalents	10,173,521	6,063,275	1,062,651
Endowment investments (Note 2)	18,737,032	-	6,290,809
Other investments (Note 2)	28,836,344	-	14,441,116
Contributions and gifts, Net of discount and allowance of \$3,261,307	4,937,905	-	5,029,034
Student loans receivable, Net of allowance of \$3,282,871	-	-	-
Loans receivable	-	-	-
Due from component units	-	-	-
Other long-term assets	-	663,555	226,745
Nondepreciable capital assets (Note 4)	-	8,689,108	3,503,036
Depreciable capital assets (Note 4)	-	50,750,181	38,244,049
Total noncurrent assets	<u>62,684,802</u>	<u>66,166,119</u>	<u>68,797,440</u>
Total assets	<u>67,363,448</u>	<u>73,759,224</u>	<u>79,142,690</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable and accrued liabilities	47,983	756,459	238,287
Deferred revenue	-	5,026,137	-
Due to component units	-	702,000	915,000
Due to Commonwealth of VA			
Long-term liabilities - current portion (Note 8)	-	1,445,939	-
Total current liabilities	<u>47,983</u>	<u>7,930,535</u>	<u>1,153,287</u>
Noncurrent liabilities:			
Funds held for others (Note 5)	-	-	-
Due to component units	23,330,524	17,481,173	55,969,226
Other	185,048	2,396,921	-
Long-term liabilities (Note 8)	-	34,035,148	-
Total noncurrent liabilities	<u>23,515,572</u>	<u>53,913,242</u>	<u>55,969,226</u>
Total liabilities	<u>23,563,555</u>	<u>61,843,777</u>	<u>57,122,513</u>

VIRGINIA COMMONWEALTH UNIVERSITY  
STATEMENT OF NET ASSETS  
As of June 30, 2009

	VCU School of Engineering Foundation	Eliminations	Total
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents (Note 2)	\$ 18,451,834	\$ -	\$ 388,175,388
Short-term investments (Note 2)	-	-	181,138,876
Accounts receivable:			
Student, Net of allowance of \$4,287,749	-	-	7,609,169
Sponsors	-	-	26,429,048
Patient, Net of allowance of \$126,611,085	-	-	194,420,316
Premium	-	-	44,793,987
Contributions and gifts, Net of allowance of \$284,148	2,914,575	-	13,371,836
Due from component units	-	(3,273,373)	-
Due from VCBA	-	-	9,934,620
Due from Commonwealth of Virginia	-	-	12,534,862
Due from VCU Foundation	-	-	-
Student loans receivable, current portion	-	-	2,339,980
Other assets	-	(1,340,896)	26,419,534
Total current assets	<u>21,366,409</u>	<u>(4,614,269)</u>	<u>907,167,616</u>
Noncurrent assets:			
Restricted cash and cash equivalents	-	-	41,995,885
Endowment investments (Note 2)	771,430	-	154,200,271
Other investments (Note 2)	48,297,030	-	474,141,897
Contributions and gifts, Net of discount and allowance of \$3,261,307	950,980	-	15,538,919
Student loans receivable, Net of allowance of \$3,282,871	-	-	23,380,916
Loans receivable	-	-	316,000
Due from component units	-	(119,840,779)	-
Other long-term assets	2,246,363	(1,096,380)	12,891,542
Nondepreciable capital assets (Note 4)	3,112,659	(1,057,317)	155,617,618
Depreciable capital assets (Note 4)	57,343,660	(26,456,702)	1,204,649,572
Total noncurrent assets	<u>112,722,122</u>	<u>(148,451,178)</u>	<u>2,082,732,620</u>
Total assets	<u>134,088,531</u>	<u>(153,065,447)</u>	<u>2,989,900,236</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable and accrued liabilities	257,615	-	236,429,498
Deferred revenue	-	(5,591,996)	29,499,864
Due to component units	2,725,000	(4,342,000)	-
Due to Commonwealth of VA	-	-	1,450,051
Long-term liabilities - current portion (Note 8)	-	(897,303)	78,235,694
Total current liabilities	<u>2,982,615</u>	<u>(10,831,299)</u>	<u>345,615,107</u>
Noncurrent liabilities:			
Funds held for others (Note 5)	-	-	26,838,744
Due to component units	102,336,916	(199,117,839)	-
Other	-	-	36,001,357
Long-term liabilities (Note 8)	-	(17,931,964)	746,793,633
Total noncurrent liabilities	<u>102,336,916</u>	<u>(217,049,803)</u>	<u>809,633,734</u>
Total liabilities	<u>105,319,531</u>	<u>(227,881,102)</u>	<u>1,155,248,841</u>

VIRGINIA COMMONWEALTH UNIVERSITY

STATEMENT OF NET ASSETS

As of June 30, 2009

	<u>University</u>	<u>VCU Health System Authority</u>	<u>MCV Foundation</u>
NET ASSETS			
Invested in capital assets, net of related debt	466,683,967	175,287,504	1,701,000
Restricted for:			
Nonexpendable:			
Scholarships and fellowships	3,215,060	-	-
Departmental uses	601,639	14,284,192	128,401,000
Expendable:			
Scholarships and fellowships	3,826,195	-	-
Research	6,578,558	-	-
Departmental uses	14,668,748	906,520	179,940,000
Loans	4,723,094	-	-
Capital projects	-	-	-
Unrestricted	117,805,642	523,488,104	11,220,000
Total net assets	<u>\$ 618,102,903</u>	<u>\$ 713,966,320</u>	<u>\$ 321,262,000</u>

The accompanying notes to financial statements are an integral part of this statement.

VIRGINIA COMMONWEALTH UNIVERSITY

STATEMENT OF NET ASSETS

As of June 30, 2009

	VCU Foundation	VCU Real Estate Foundation	VCU School of Business Foundation
NET ASSETS			
Invested in capital assets, net of related debt	-	7,426,757	12,973,830
Restricted for:			
Nonexpendable:			
Scholarships and fellowships	-	-	-
Departmental uses	20,769,660	-	7,700,115
Expendable:			
Scholarships and fellowships	-	-	-
Research	-	-	-
Departmental uses	21,645,112	-	4,294,003
Loans	-	-	-
Capital projects	-	-	-
Unrestricted	1,385,121	4,488,690	(2,947,771)
Total net assets	\$ <u>43,799,893</u>	\$ <u>11,915,447</u>	\$ <u>22,020,177</u>

The accompanying notes to financial statements are an integral part of this statement.

VIRGINIA COMMONWEALTH UNIVERSITY

STATEMENT OF NET ASSETS

As of June 30, 2009

	VCU School of Engineering Foundation	Eliminations	Total
NET ASSETS			
Invested in capital assets, net of related debt	(3,184,046)	(4,354,326)	656,534,686
Restricted for:			
Nonexpendable:			
Scholarships and fellowships	-	-	3,215,060
Departmental uses	11,070,396	-	182,827,002
Expendable:			
Scholarships and fellowships	-	-	3,826,195
Research	-	-	6,578,558
Departmental uses	1,374,649	-	222,829,032
Loans	-	-	4,723,094
Capital projects	-	-	-
Unrestricted	19,508,001	79,169,981	754,117,768
Total net assets	\$ <u>28,769,000</u>	\$ <u>74,815,655</u>	\$ <u>1,834,651,395</u>

The accompanying notes to financial statements are an integral part of this statement.

VIRGINIA COMMONWEALTH UNIVERSITY  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
As of June 30, 2009

	University	VCU Health System Authority	MCV Foundation
Operating revenues:			
Student tuition and fees (Net of scholarship allowances of \$41,416,108)	\$ 210,956,463	\$ -	\$ -
Federal grants and contracts	133,997,397	-	-
State grants and contracts	7,261,554	-	-
Local grants and contracts	736,817	-	-
Nongovernmental grants and contracts	18,998,567	-	-
Sales and services of educational departments	22,829,735	-	-
Auxiliary enterprises:			
Sales and services	58,089,270	-	-
Student fees (Net of scholarship allowances of \$2,713,831)	38,941,188	-	-
Hospital services	26,274,450	1,561,025,747	-
Other revenues	4,935,418	-	1,282,000
Total operating revenues	<u>523,020,859</u>	<u>1,561,025,747</u>	<u>1,282,000</u>
Operating expenses:			
Instruction	288,946,843	-	-
Research	133,472,124	-	-
Public service	7,121,494	-	-
Supporting services:			
Academic support	63,464,238	-	27,567,000
Student services	13,711,879	-	-
Institutional support	51,893,272	-	1,848,000
Operations and maintenance of plant	56,806,785	-	-
Student aid	26,673,943	-	1,633,000
Auxiliary enterprises	64,464,225	-	-
Hospital services	22,247,432	1,411,618,411	-
Depreciation expense	41,828,110	51,868,620	90,000
Other expenses	13,748	-	534,000
Total operating expenses	<u>770,644,093</u>	<u>1,463,487,031</u>	<u>31,672,000</u>
Operating gain/(loss)	<u>(247,623,234)</u>	<u>97,538,716</u>	<u>(30,390,000)</u>
Nonoperating revenues (expenses):			
State appropriations (Note 21)	218,801,967	-	-
Gifts	33,465,277	1,394,395	20,092,000
Investment income (loss)	(1,364,341)	(25,051,252)	(36,792,000)
Interest on capital asset-related debt	(11,236,599)	(9,718,077)	-
Pell revenue	13,505,787	-	-
Other	(11,227,960)	(19,985,765)	-
Net nonoperating revenues	<u>241,944,131</u>	<u>(53,360,699)</u>	<u>(16,700,000)</u>
Income before other revenues and expenses	(5,679,103)	44,178,017	(47,090,000)
Additions to permanent endowments			
Capital appropriations	40,924,375	-	-
Capital gifts and grants	7,142,630	-	-
Increase in beneficial interest in trusts	-	(3,963,052)	-
Other	-	(664,927)	-
Reductions of capital appropriations	(12,542,019)	-	-
Other capital appropriation reductions	-	-	-
Increase in net assets	<u>29,845,883</u>	<u>39,550,038</u>	<u>(41,008,000)</u>
Net assets - Beginning of year	<u>588,257,020</u>	<u>674,416,282</u>	<u>362,270,000</u>
Net assets - End of year	<u>\$ 618,102,903</u>	<u>\$ 713,966,320</u>	<u>\$ 321,262,000</u>

The accompanying notes to financial statements are an integral part of this statement.

VIRGINIA COMMONWEALTH UNIVERSITY  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
As of June 30, 2009

	VCU Foundation	VCU Real Estate Foundation	VCU School of Business Foundation
Operating revenues:			
Student tuition and fees (Net of scholarship allowances of \$41,416,108)	\$ -	\$ -	\$ -
Federal grants and contracts	-	-	-
State grants and contracts	-	-	-
Local grants and contracts	-	-	-
Nongovernmental grants and contracts	-	-	-
Sales and services of educational departments	-	-	-
Auxiliary enterprises:			
Sales and services	-	-	-
Student fees (Net of scholarship allowances of \$2,713,831)	-	-	-
Hospital services	-	-	-
Other revenues	281,663	10,659,207	2,818,562
Total operating revenues	<u>281,663</u>	<u>10,659,207</u>	<u>2,818,562</u>
Operating expenses:			
Instruction	-	-	650,477
Research	-	-	-
Public service	-	-	-
Supporting services:			
Academic support	-	-	-
Student services	-	-	-
Institutional support	-	-	-
Operations and maintenance of plant	-	3,824,391	-
Student aid	-	-	-
Auxiliary enterprises	-	-	-
Hospital services	-	-	-
Depreciation expense	-	2,266,672	1,351,646
Other expenses	7,318,530	610,838	2,592,892
Total operating expenses	<u>7,318,530</u>	<u>6,701,901</u>	<u>4,595,015</u>
Operating gain/(loss)	<u>(7,036,867)</u>	<u>3,957,306</u>	<u>(1,776,453)</u>
Nonoperating revenues (expenses):			
State appropriations (Note 21)	-	-	-
Gifts	7,062,202	973,533	833,722
Investment income (loss)	(5,736,866)	(85,389)	(4,651,059)
Interest on capital asset-related debt	-	(2,554,236)	(480,751)
Pell revenue	-	-	-
Other	-	-	-
Net nonoperating revenues	<u>1,325,336</u>	<u>(1,666,092)</u>	<u>(4,298,088)</u>
Income before other revenues and expenses	<u>(5,711,531)</u>	<u>2,291,214</u>	<u>(6,074,541)</u>
Additions to permanent endowments	657,180	-	-
Capital appropriations	-	-	-
Capital gifts and grants	-	-	-
Increase in beneficial interest in trusts	-	-	-
Other	-	-	-
Reductions of capital appropriations	-	-	-
Other capital appropriation reductions	-	-	-
Increase in net assets	<u>(5,054,351)</u>	<u>2,291,214</u>	<u>(6,074,541)</u>
Net assets - Beginning of year	<u>48,854,244</u>	<u>9,624,233</u>	<u>28,094,718</u>
Net assets - End of year	<u>\$ 43,799,893</u>	<u>\$ 11,915,447</u>	<u>\$ 22,020,177</u>

The accompanying notes to financial statements are an integral part of this statement.

VIRGINIA COMMONWEALTH UNIVERSITY  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
As of June 30, 2009

	VCU School of Engineering Foundation	Eliminations	Total
Operating revenues:			
Student tuition and fees (Net of scholarship allowances of \$41,416,108)	\$ -	\$ (1,952,032)	\$ 209,004,431
Federal grants and contracts	-	(200,000)	133,797,397
State grants and contracts	-	-	7,261,554
Local grants and contracts	-	-	736,817
Nongovernmental grants and contracts	-	-	18,998,567
Sales and services of educational departments	-	(744,815)	22,084,920
Auxiliary enterprises:			
Sales and services	-	(3,930,089)	54,159,181
Student fees (Net of scholarship allowances of \$2,713,831)	-	-	38,941,188
Hospital services	-	(13,697,080)	1,573,603,117
Other revenues	3,156,396	(10,024,654)	13,108,592
Total operating revenues	<u>3,156,396</u>	<u>(30,548,670)</u>	<u>2,071,695,764</u>
Operating expenses:			
Instruction	-	(122,216)	289,475,104
Research	-	(1,693,067)	131,779,057
Public service	-	(113)	7,121,381
Supporting services:			
Academic support	-	(21,108,923)	69,922,315
Student services	-	(7,208)	13,704,671
Institutional support	-	41,384	53,782,656
Operations and maintenance of plant	-	(3,196,029)	57,435,147
Student aid	-	(11,802)	28,295,141
Auxiliary enterprises	-	48,410	64,512,635
Hospital services	-	(23,181,064)	1,410,684,779
Depreciation expense	2,354,642	(1,184,684)	98,575,006
Other expenses	5,648,598	(10,110,339)	6,608,267
Total operating expenses	<u>8,003,240</u>	<u>(60,525,652)</u>	<u>2,231,896,158</u>
Operating gain/(loss)	<u>(4,846,844)</u>	<u>29,976,982</u>	<u>(160,200,394)</u>
Nonoperating revenues (expenses):			
State appropriations (Note 21)	-	-	218,801,967
Gifts	3,969,206	(29,077,665)	38,712,670
Investment income (loss)	(13,749,241)	(980,014)	(88,410,162)
Interest on capital asset-related debt	(1,532,250)	1,896,820	(23,625,093)
Pell revenue	-	-	13,505,787
Other	-	10,781,835	(20,431,890)
Net nonoperating revenues	<u>(11,312,285)</u>	<u>(17,379,024)</u>	<u>138,553,279</u>
Income before other revenues and expenses	<u>(16,159,129)</u>	<u>12,597,959</u>	<u>(21,647,114)</u>
Additions to permanent endowments	762,703	-	7,501,883
Capital appropriations	-	-	40,924,375
Capital gifts and grants	-	(5,831,213)	1,311,417
Increase in beneficial interest in trusts	-	-	(3,963,052)
Other	-	-	(664,927)
Reductions of capital appropriations	-	-	(12,542,019)
Other capital appropriation reductions	-	-	-
Increase in net assets	<u>(15,396,426)</u>	<u>6,766,746</u>	<u>10,920,563</u>
Net assets - Beginning of year	<u>44,165,426</u>	<u>68,048,909</u>	<u>1,823,730,832</u>
Net assets - End of year	<u>\$ 28,769,000</u>	<u>\$ 74,815,655</u>	<u>\$ 1,834,651,395</u>

The accompanying notes to financial statements are an integral part of this statement.

VIRGINIA COMMONWEALTH UNIVERSITY  
STATEMENT OF CASH FLOWS  
For the Year Ended June 30, 2009

	University
Cash flows from operating activities:	
Tuition and fees	\$ 210,917,241
Grants and contracts	173,262,461
Auxiliary enterprise charges	96,959,595
Sales and services of education departments	22,829,735
Hospital services charges	26,188,010
Payments to suppliers	(219,319,472)
Payments to employees	(498,608,270)
Loans issued to students	(2,760,612)
Collection of loans to students	2,942,896
Other receipts (payments)	11,133,517
Net cash used by operating activities	<u>(176,454,899)</u>
Cash flows from noncapital financing activities:	
State appropriations	217,701,006
Direct lending receipts	179,134,902
Direct lending disbursements	(179,134,902)
Agency receipts	33,042,815
Agency disbursements	(33,094,268)
Insurance recoveries	87,705
Pell revenue	13,505,787
Gifts	33,465,277
Virginia Commonwealth University Health System Authority loan repayment	
Noncapital long term-debt	
Net cash provided by noncapital financing activities	<u>264,708,322</u>
Cash flows from capital financing activities:	
Proceeds from issuance of note payable	43,785,417
State appropriations for capital assets	44,504,275
Gifts for capital assets	7,142,630
Purchase of capital assets	(149,812,225)
Donations and gifts	
Principal paid on capital-related debt	(14,826,411)
Interest paid on capital-related debt	(10,581,127)
Decrease in accrued interest payable	
Net cash used by capital financing activities	<u>(79,787,441)</u>
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	125,445,516
Investment income	3,813,065
Purchases of investments	(125,060,381)
Payments received on notes receivable	
Other	
Net cash provided by investing activities	<u>4,198,200</u>
Net increase in cash	12,664,182
Cash and cash equivalents - Beginning of year	<u>169,909,121</u>
Cash and cash equivalents - End of year	<u>\$ 182,573,303</u>

VIRGINIA COMMONWEALTH UNIVERSITY  
STATEMENT OF CASH FLOWS  
For the Year Ended June 30, 2009

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RECONCILIATION OF NET OPERATING EXPENSES TO NET CASH  
USED BY OPERATING ACTIVITIES:

Operating gain/(loss)	\$ (247,623,234)
Adjustments to reconcile net gain/(loss) to net cash used by operating activities:	
Depreciation expense	41,828,110
Impairment loss	
Provision for uncollectible accounts	1,075,662
Changes in assets and liabilities:	
Receivables	8,240,656
Other assets	244,558
Accounts payable	5,759,915
Deferred revenue	11,438,627
Compensated absences and deferred compensation	2,433,855
Deposits	52,623
Other liabilities	<u>94,329</u>
Net cash used by operating activities	\$ <u><u>(176,454,899)</u></u>

RECONCILIATION OF OF CASH AND CASH EQUIVALENTS:

Cash and Cash Equivalents per Statement of Net Assets	\$ 187,832,088
Less: Securities Lending Cash Equivalents	<u>5,258,785</u>
Cash and Cash Equivalents - End of year	\$ <u><u>182,573,303</u></u>

The accompanying notes to financial statements are an integral part of this statement.

## **NOTES TO FINANCIAL STATEMENTS**

VIRGINIA COMMONWEALTH UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Virginia Commonwealth University (VCU) is supported by Virginia to serve the Richmond area, the state and the nation through teaching, research, service and patient care.

More than 32,000 undergraduate, graduate, and professional students pursue more than 205 degree and certificate programs on VCU's two campuses: the Monroe Park Campus, situated in the historic Fan District, and the Medical College of Virginia Campus (MCV Campus), located two miles east in the commercial and governmental district of downtown Richmond. VCU's fifteen schools and one college include the School of Engineering, one of the largest School of Arts in the country, as well as the South's oldest School of Social Work. The University also is the site for the VCU Health System, one of the most comprehensive academic health centers in the nation. In addition, the University operates the VCU School of the Arts in Qatar, which offers degree programs in the design professions to the citizens of Qatar.

The University's accounting policies conform with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), including all applicable GASB pronouncements, as well as applicable Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

The VCU Health System Authority's accounting policies conform with generally accepted accounting principles as prescribed by GASB, including all FASB statements and interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued, unless those pronouncements conflict with or contradict GASB pronouncements.

The accounting policies of the Medical College of Virginia Foundation, Virginia Commonwealth University Foundation, Virginia Commonwealth University Real Estate Foundation, Virginia Commonwealth University School of Business Foundation, and Virginia Commonwealth University School of Engineering Foundation conform with the generally accepted accounting principles as prescribed by FASB, which are comparable to the GASB accounting principles except for certain disclosures.

The accompanying financial statements are prepared in accordance with generally accepted accounting principles as prescribed by GASB Statement 34 *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and GASB Statement 35 *Basic Financial Statements and Management's Discussion and Analysis of Public College and Universities*. Because the University is a component unit of the Commonwealth of Virginia, it is included in the Comprehensive Annual Financial Report of the Commonwealth.

A. Reporting Entity

The accompanying financial statements include the accounts of all organizational units of Virginia Commonwealth University and the Virginia Commonwealth University Intellectual Property Foundation, a component unit which is blended (consolidated) with University operations. These statements are presented as stand-alone statements of the University.

In accordance with GASB Statement 39, *Determining Whether Certain Organizations Are Component Units*, the financial statements include the Medical College of Virginia Foundation, Virginia Commonwealth University Foundation, Virginia Commonwealth University Real Estate Foundation, Virginia Commonwealth University School of Engineering Foundation, and Virginia Commonwealth University School of Business Foundation. Statement 39 provides additional guidance to determine whether certain organizations for which the University is not financially accountable should be reported as component units. Generally, it requires that an organization that raises and holds economic resources for the direct benefit of the University be reported as a component unit. As a result, where in the past the University presented summary financial information of certain of its foundations in the notes to the financial statements, the University is required under Statement 39 to include selected foundations in the body of its financial statements.

Virginia Commonwealth University Health System Authority (the Authority) is a public corporate body and political subdivision of the Commonwealth of Virginia created and established by an Act of the General Assembly of the Commonwealth of Virginia during 1996. The Authority is a tax-exempt, not-for-profit organization under the provisions of Internal Revenue Code Section 115. Effective July 1, 2000, in conjunction with legislation enacted by the Commonwealth of Virginia, and concurrent with certain changes to MCV Associated Physicians' (MCVAP) board structure, MCVAP began operating as a component unit of the Authority.

The Authority's principal activity is the operation of the Medical College of Virginia Hospitals (MCVH), University Health Services, Inc. and subsidiaries (UHS), and MCVAP. MCVH, a division of the Authority, is an approximately 900-bed teaching hospital, which provides inpatient and outpatient services primarily to patients in the Commonwealth of Virginia. MCVAP, formed in 1991 as a nonstock, not-for-profit charitable educational organization, functions as the group practice plan for those physicians and health care professionals who have faculty appointments in the VCU School of Medicine (SOM). MCVH, UHS, and MCVAP are included in the enterprise funds of the Authority.

UHS, a component unit of the Authority, is a not-for-profit, nonstock, tax-exempt corporation, which was incorporated on January 26, 1995 to support the educational, scientific, and charitable purpose and activities of the University and, in particular, the activities of the SOM and MCVH. These activities include, but are not limited to, activities undertaken pursuant to Section 23-50.16B of the Code of Virginia. UHS is a component unit of the Authority due to the significance of the operational and financial relationship between the two entities. Virginia Premier Health Plan, Inc. (VA Premier) is a wholly owned subsidiary of UHS Managed Care, Inc., which in turn is a wholly owned subsidiary of UHS. Carolina Crescent Health Plan, Inc. (CCHP) is a not-for-profit, wholly owned subsidiary of UHS. VA Premier and CCHP are Medicaid health maintenance organizations whose primary purpose is to provide quality health care within a managed care framework.

The Medical College of Virginia Foundation (MCV Foundation) is a not-for-profit corporation organized to aid, strengthen, and extend the work, services and objectives of the MCV Campus of the University. This mission is achieved by receiving contributions, investing and managing funds, disbursing current funds and a portion of the total return on endowment, and providing information about the activities of the MCV Campus and the

MCV Foundation. The MCV Foundation is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3).

The Virginia Commonwealth University Foundation (VCU Foundation) is a Virginia corporation, which functions as a nonprofit charitable foundation solely to assist and support VCU. The VCU Foundation is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). The VCU Foundation exists solely to assist, support, and foster VCU in all proper ways that may from time to time be approved by the trustees of the VCU Foundation with the guidance of VCU. The VCU Foundation manages and distributes current and endowment gifts for all schools, departments, and programs throughout VCU with major emphasis on programs for the Monroe Park Campus.

The Virginia Commonwealth University Real Estate Foundation is a Virginia corporation, which functions as a nonprofit charitable foundation solely to assist and support VCU. The Virginia Commonwealth University Real Estate Foundation is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3).

The Virginia Commonwealth University Real Estate Foundation's subsidiary, the Ad Center Development LLC, was established to incur rehabilitation expenses for the Brandcenter project that are eligible for historic tax credits. Investor members will be brought into the LLC that can benefit from the historic tax credits. VCU is currently subleasing the space from the Ad Center Development LLC.

The Virginia Commonwealth University Real Estate Foundation's controlled affiliate, Monroe Park Campus Corporation, is a Virginia nonstock corporation, which functions as a nonprofit organization solely to support the Virginia Commonwealth University Real Estate Foundation. The Monroe Park Campus Corporation is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3).

The Virginia Commonwealth University School of Engineering Foundation is a Virginia corporation, which functions as a nonprofit charitable foundation solely to provide financial and other support to the School of Engineering for the benefit of VCU. The Foundation is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3).

The Virginia Commonwealth University School of Business Foundation is a Virginia corporation, which functions as a nonprofit charitable foundation solely to provide financial and other support to the School of Business for the benefit of VCU. The Foundation is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3).

The University also benefits from a number of organizations that exist mainly to support the various purposes and activities of the University and Authority. The assets of these affiliated organizations, which are separately incorporated and managed by their own Boards, are not included in these statements. The affiliated organizations are listed below and are described in Note 11:

- Virginia Biotechnology Research Park Partnership Authority
- Virginia Commonwealth University Alumni Association
- Medical College of Virginia Alumni Association of VCU
- MCV/VCU Dental Faculty Practice Association

Complete financial statements for the foundations can be obtained by writing the VCU Controller's Office, P.O. Box 843035, Richmond, VA 23284-3035.

B. Basis of Accounting

The financial statements of the University have been prepared on the accrual basis including depreciation expense relating to capitalized fixed assets. Revenues for the summer term are prorated on the basis of student class days occurring before and after June 30.

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that do not contradict or conflict with GASB pronouncements, including those issued after November 30, 1989. The University applies only those FASB pronouncements issued prior to November 30, 1989.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

C. Allowance for Uncollectible Receivables

The allowance for uncollectible receivables is based on management's evaluation of the collectibles of individual receivables. Receivables are charged against the allowance when deemed to be uncollectible. Subsequent recoveries are added to the allowance.

D. Pledges Receivable

Unconditional gifts are recognized when the donor makes a promise to give that is, in substance, unconditional. Unconditional gifts expected to be collected within one year are recorded at their net realizable value. Unconditional gifts expected to be collected in future years are recorded at the net present value of the estimated future cash flows.

Donations or contributions of land, buildings, equipment and gifts-in-kind except contributed services are recorded at fair market value when received or pledged, if earlier.

E. Investments

Investments in open-end mutual funds, debt securities, and equity securities that have readily determinable fair values are carried at fair value. The fair values of marketable equity securities, bonds and other investments are based on quoted market prices. Investments held in the liquidity fund (securities with a maturity of less than one year) of the University are reported as current assets with the remaining investments reported as noncurrent assets.

F. Inventories

Inventories are valued at the lower of cost (generally determined on the first-in, first-out method) or market.

G. Investment Income

Investment income, including net realized and unrealized gains or losses on investment transactions and investment expense, is recorded as nonoperating revenue.

It is the practice of the VCU Foundation, MCV Foundation, and Virginia Commonwealth University School of Engineering Foundation to annually distribute a set percentage of each endowment corpus to be utilized for the purpose of the fund as stipulated by the donor and/or established by the Foundation. Any excess net investment income over the distribution percentage is added to the individual endowment fund corpus.

H. Accrued Compensated Absences

University full-time classified, part-time classified and faculty employed on or after January 1, 1999 who are also active members of the Virginia Retirement System (VRS) are covered under the “Virginia Sickness and Disability Program” (VSDP). The plan provides for sick leave, family and personal leave, short-term disability benefits and long-term disability benefits. Full-time classified, part-time classified and faculty employed prior to January 1, 1999, who are active members of VRS, participate in VSDP under one of two options or remain under the traditional sick leave program in which classified employees and twelve month faculty earn 5 hours of leave each pay period regardless of the length of state service, and nine month faculty accrue 48 hours per semester. One VSDP option permitted eligible employees to convert accumulated sick leave balances to short-term disability credits. The other allowed for the conversion of sick leave balances to VRS service credit. The University was not required to currently fund the cost of conversion to VRS service credit. Enrollment in the VSDP is irrevocable, and no additional enrollments are planned. Under VSDP, unused VSDP sick leave and family and personal leave balances do not carry forward from one year to the next, and employees are not paid for unused balances upon termination. The converted short-term disability credits of classified employees are payable upon termination in accordance with the Commonwealth of Virginia’s sick leave payout policy discussed below. Faculty who converted sick leave balances to short-term disability credits are not compensated for these balances at termination.

Full-time and part-time twelve-month faculty and classified employees earn annual leave based upon the number of years of continuous state service. Faculty and classified employees carry forward annual leave balances from one year to the next based on the years of service. Upon termination, the payout of unused annual leave balances is subject to the maximum payout policy for each category of employee.

Employees who are not subject to the overtime provisions of the Fair Labor Standards Act may be eligible to earn compensatory leave. Leave is earned on an hour-for-hour basis for having worked additional hours in a workweek, holidays or scheduled days off. Compensatory leave may be used for paid time off and is payable upon termination. Accrued compensatory leave lapses within 12 months from the date it is earned and once lapsed, may not be used or paid upon termination.

The University records a liability for all unused annual, non-VSDP sick and compensatory leave and unused short-term disability credits, as well as related fringe benefits. Compensatory leave balances are paid in full upon termination. Annual leave balances are paid in full up to a maximum number of hours, depending upon length of service. Non-VSDP sick leave and short-term disability credits are payable upon employment termination and are limited to 25 percent of the value accumulated or \$5,000, whichever is less, under the Commonwealth of Virginia's sick leave pay-out policy for employees with 5 or more years of service.

The Authority records a liability for all paid time off and related FICA taxes expected to be paid.

I. Capital Assets

Capital assets are stated at cost or, if donated, at fair market value on the date of acquisition; however, transfers between related reporting entities are recorded at the carrying value at time of transfer. Equipment costing \$5,000 or more with a useful life of 2 or more years is capitalized. Infrastructure assets are included in the financial statements and are depreciated. The University and the Authority record depreciation on property, plant and equipment, including capital leases and excluding land and construction in progress, computed over the estimated useful lives of the assets based on the straight-line method. The general range of estimated useful lives is 10 to 40 years for buildings and fixtures and 5 to 20 years for equipment. The estimated useful life of library books is 5 years. The general range of estimated useful lives is 10 to 25 years for land improvements and infrastructure. Expenditures for construction in progress are capitalized as incurred and reflected in net investment in plant. Interest expense relating to construction is capitalized net of interest income earned on resources set aside for this purpose. Capital assets at the time of disposal revert to the Commonwealth of Virginia for disposition.

The VCU School of Engineering Foundation, VCU School of Business Foundation and the VCU Foundation record the acquisition of real estate at cost, or if donated, at fair market value at the time of donation; however, transfers between related reporting entities are recorded at the carrying value at time of transfer. Depreciation is provided for properties that are actively rented, using the straight-line method, at rates adequate to amortize the cost of the property over its estimated useful life. The estimated lives of these properties are between 10 and 40 years.

The VCU Real Estate Foundation records the acquisition of equipment at cost, or if donated, at fair market value at the time of donation; however, transfers between related reporting entities are recorded at the carrying value at time of transfer. Depreciation is computed using the straight-line method over the estimated lives of the equipment. The estimated useful lives for equipment are between 5 and 20 years.

The MCV Foundation records property and equipment at cost for purchased items and at fair value for donated items; however, transfers between related reporting entities are recorded at the carrying value at time of transfer. Acquisitions of fixed assets with a cost less than \$1,000 are expensed as acquired. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives range between 3 and 39 years.

J. Hospital Services

In addition to the services provided by the Authority to patients, the University provides facilities, graduate medical education, clinical support, and administrative support to hospitals. The revenues and expenditures necessary to provide the services are classified as hospital services.

K. Uncompensated Care

The Authority provides care to patients who meet certain criteria under its indigent care policy without charge or at amounts less than its established rates. Because the Authority does not pursue collection of charges determined to qualify as uncompensated care from the patients, they are not reported as revenue. The costs of providing these services are included in the Authority's operating expenses. Uncompensated care, which represents the difference between charges of the services provided and the costs of those respective services, approximated \$176,123,000 for the year ended June 30, 2009.

L. Net Patient Service Revenue

Net patient service revenue is reported in hospital services at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers.

Settlements due to third parties include amounts that are currently under appeal with various federal and state agencies. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. The effect of these settlement adjustments was to increase net patient service revenue by approximately \$37,900,000 in 2009.

A summary of the payment arrangements with major third-party payers follows:

- Anthem – Inpatient acute care services rendered to Anthem subscribers are paid at rates per discharge (DRGs) or discounted rates. Outpatient services rendered to Anthem subscribers are reimbursed at discounted rates or applicable fee schedule. The rates are not subject to retroactive adjustment.
- Medicare – Inpatient acute care services and defined capital costs rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates may vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient non-acute services, certain outpatient services and education related to Medicare beneficiaries are paid based on prospectively determined rates and a discounted cost reimbursement methodology. The Authority is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare fiscal intermediary. The Authority's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2004.
- Medicaid – Inpatient acute care services rendered to Medicaid program beneficiaries are paid at a per diem rate and APDRG (rates per discharge). Outpatient services rendered to Medicaid program beneficiaries are reimbursed on prospectively determined rates and a cost reimbursement methodology. In addition to inpatient and outpatient services provided to Medicaid program beneficiaries, Medicaid reimburses the Authority its costs related to services provided to indigent patients up to an amount which results in total Medicaid and indigent reimbursement to the Authority of approximately \$273,400,000 in 2009. The Authority's Medicaid cost reports have been audited by the Medicaid program representative through June 30, 2007.

In accordance with the third-party payer agreements, the difference between payment for services and the Authority's standard billing rates results in contractual adjustments. Contractual adjustments are recorded as deductions from patient service revenue in the period in which the related services are rendered. The annual settlements of reimbursement for patient services covered by third parties are determined through cost reports for Medicare (for outpatient and educational costs) and Medicaid. The settlements are subject to audit and retroactive adjustment by these third parties.

M. Premiums Earned

VA Premier has contracts with the Virginia Department of Medical Assistance Services (DMAS) wherein VA Premier provides health care services to the Temporary Assistance for Needy Families (TANF), the Family Access to Medical Insurance Security (FAMIS) and Aged, Blind and Disabled (ABD) residents of Virginia on a prepaid basis through a health maintenance organization (HMO). VA Premier recognizes premiums received from DMAS for members in the period to which health care coverage relates. CCHP has contracts with the South Carolina Department of Health and Human Services (DHHS) wherein CCHP provides healthcare services to TANF, ABD and Children's Medical Insurance Plan (SCHIP) residents of South Carolina through a health maintenance organization. Predominately all of UHS' premiums earned are from VA Premier's contracts with DMAS and CCHP's contracts with DHHS.

N. Uncollectible Accounts

A provision for uncollectible accounts is recorded during the period in which collection is considered doubtful.

O. Estimated Medical Claims Payable

VA Premier and CCHP provide for the liability arising from services rendered to members but unpaid at year-end based upon experience and cost-per-member trends. Although considerable variability is inherent in such estimates, management believes that the liability is adequate. Any required revisions to these estimates are reflected in operations of the period in which such revisions are determined.

P. Net Assets

GASB 34 requires that the Statement of Net Assets report the difference between assets and liabilities as net assets, not fund balances. Net assets are classified according to external donor restrictions or availability of assets for satisfaction of obligations. Invested in capital assets net of related debt represents the net value of capital assets (property, plant and equipment) less the debt incurred to acquire or construct the asset. Nonexpendable restricted net assets are gifts that have been received for endowment purposes, the corpus of which cannot be expended. Expendable restricted net assets represent gifts that have been received for specific purposes.

Unexpended appropriations for capital projects are included in expendable restricted net assets as they are not available for general operating purposes.

The Authority's investment balances include resources restricted for debt service under a bond indenture agreement, resources restricted under a malpractice trust agreement, resources restricted by insurance regulations of the Commonwealth of Virginia and State of South Carolina, resources restricted under the pension plan agreement, and unrestricted resources appropriated or designated by the Board of Directors for capital acquisition and for the future funding of MCVAP malpractice insurance.

The Authority's restricted net assets consist principally of beneficial interests in perpetual trust funds established by split interest agreements. Split interest agreements are trust agreements established by donors under which the Authority receives benefits that are shared with other beneficiaries. The trust agreements established by donors provide for a third party to hold the trust assets. These trusts do not permit donors to revoke their charitable contributions. Trust assets of \$14,284,192, which are restricted by donors for the Authority in perpetuity, are reported at fair value, which approximates the present value of the future cash receipts from the trust assets.

Q. Scholarship Allowances and Student Aid

Financial aid to students is reported in the financial statements under the alternative method as prescribed by the National Association of College and University Business Officers (NACUBO). Certain aid (loans, funds provided to students as awarded by third parties and Federal Direct Lending) is accounted for as third party payments (credited to the student's account as if the student made the payment). All other aid is reflected in the financial statements as operating expenses or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to the student in the form of reduced tuition. Under the alternative method, these amounts are computed on a total university basis by allocating the cash payments to students, excluding payments for services, on the ratio of all aid to the aid not considered to be third party aid.

R. Intangibles

The Authority's prepaid expenses and other assets include \$4,424,899 of goodwill that is not being amortized, but reviewed annually for impairment, in accordance with Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*.

S. Revenue and Expense Classifications

Operating revenues include activities that have the characteristics of exchange transactions, such as: (1) student tuition and fees, net of scholarship discounts and allowances; (2) sales and services of auxiliary enterprises, net of scholarship allowances; and (3) federal, state, and nongovernmental grants and contracts.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts, and other revenue sources that are defined as nonoperating revenues by GASB 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB 34, such as state appropriations and investment and interest income.

Nonoperating expenses include interest on debt related to the purchase of capital assets and losses on the disposal of capital assets. All other expenses are classified as operating expenses.

2. CASH AND INVESTMENTS

Cash

All cash of the University, excluding the cash held at Qatar, is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et seq. of the Code of Virginia or covered by federal depository insurance.

Investments and cash equivalents held by the Treasurer of Virginia represent the Department'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.

### Investments

Professional investment managers manage the University's non-state funds, other than endowment and funds internally designated to function as an endowment. The University's primary investment objective is to ensure the preservation of asset values with sufficient liquidity to meet cash disbursement requirements. The investment policy of the University is established by the Board of Visitors and is monitored by its Finance, Investment and Property Committee. Investment managers may invest in the following types of investments: direct obligations of the United States, obligations unconditionally guaranteed by the United States, including collateralized mortgage obligations, obligations of any agency or instrumentality of the United States, repurchase agreements, banker's acceptances, commercial paper issued by domestic corporations, money market funds, corporate notes of domestic corporations, fully hedged debt obligations of sovereign governments and companies, obligations of the Commonwealth of Virginia, asset backed securities with AAA ratings, and negotiable certificates of deposit and negotiable bank notes of domestic banks.

In accordance with the Authority's Statement of Spending and Investment Policy, adopted by its Board of Directors, the Authority can invest assets held with trustees in the following instruments: obligations of federal agencies or those guaranteed by the United States of America, savings accounts, certificates of deposit, time deposits, and obligations of the Commonwealth of Virginia.

For management purposes, endowment funds and funds internally designated to function as an endowment, are held in the investment pools of the VCU Foundation, VCU School of Business Foundation, and the MCV Foundation. These funds remain the property of the University. The investment pools consist of cash equivalents, bonds, preferred and common stocks, fixed asset instruments, hedge funds, and real estate. The University's equity in the investment pools is based on units or shares in the investment pools. The University's share of the investments is shown as a Due from Component Unit on the Statement of Net Assets.

As of June 30, 2009, the University held the following investments:

Investment Type	Fair Value	Investment Maturities (In Years)			
		< 1	1 - 5	6 - 10	> 10
U.S. Treasury and Agency Securities	\$ 4,661,519	\$ 599,172	\$ 1,925,861	\$ 587,583	\$1,548,903
Corporate Notes	770,715	25,496	499,691	191,609	53,919
Corporate Bonds	8,136,914	828,214	5,333,574	1,067,877	907,249
Commercial Paper	-	-	-	-	-
Asset Backed Securities	1,221,710	170,995	962,536	88,179	
Agency Mortgage Backed Securities	8,993,004	184,208	1,614,147	1,078,351	6,116,298
Common Stock	-	-	-	-	-
Securities Lending	6,309,386	6,309,386	-	-	-
Mutual and Money Market Funds	9,777,866	9,777,866	-	-	-
<b>Total</b>	<b>\$39,871,114</b>	<b>\$17,895,337</b>	<b>\$10,335,809</b>	<b>\$3,013,599</b>	<b>\$8,626,369</b>

As of June 30, 2009, the Moody's ratings of the University's investments in corporate notes and bonds were as follows:

Rating	Corporate Notes	Corporate Bonds
AAA	\$ -	\$ 2,010,194
AA1	-	594,454
AA2	-	680,077
AA3	80,293	415,788
A-1	351,087	1,006,074
A-2	243,393	1,898,987
A-3	95,942	1,390,927
Baa	-	140,413
Total	<u>\$ 770,715</u>	<u>\$ 8,136,914</u>

Authority:	Investment Maturities (In Years)				
Investment Type	Fair Value	<1	1 - 5	6 - 10	>10
Cash and Cash Equivalents	\$25,826,910	\$25,826,910	\$ -	\$ -	\$ -
Commercial Paper	2,784,284	2,784,284	-	-	-
Mutual Funds	38,476,887	N/A	N/A	N/A	N/A
Index Funds	31,330,086	N/A	N/A	N/A	N/A
Marketable Equity Securities	8,964,215	N/A	N/A	N/A	N/A
U.S. Treasury Notes	83,973,962	74,606,012	6,891,819	1,655,921	820,210
Asset backed securities	6,531,093	425,165	4,021,035	-	2,084,893
Agency backed mortgages	27,898,447	4,369,436	7,223,197	1,801,301	14,504,515
Corporate notes	34,148,792	6,229,584	19,834,553	6,130,638	1,954,017
Corporate bonds	9,455,087	1,007,551	5,687,536	1,130,067	1,629,933
Beneficial interest in trust	14,284,192	-	-	-	14,284,192
Investment Companies	66,738,501	-	-	-	-
Real Estate	4,569,713	N/A	N/A	N/A	N/A
Totals	<u>\$354,982,169</u>	<u>\$115,248,942</u>	<u>\$43,658,140</u>	<u>\$10,717,927</u>	<u>\$35,277,760</u>

N/A-Investment maturity not applicable to type of investments noted.

Investments held at the foundations as of June 30, 2009 were as follows:

	Fair Value	Cost
MCV Foundation:		
U.S. Treasury and Agency Securities	\$ 46,761,000	\$ 45,924,000
Common and Preferred Stocks	112,818,000	123,262,000
Corporate Bonds	99,597,000	98,441,000
Index Funds	37,893,000	27,328,000
Life Income Investment	185,000	185,000
Total	<u>\$ 297,254,000</u>	<u>\$ 295,140,000</u>

	<u>Fair Value</u>	<u>Cost</u>
VCU Foundation:		
U.S. Treasury and Agency Securities	\$ 3,138,953	\$ 3,021,161
Common and Preferred Stocks	39,932,966	45,422,647
Corporate Bonds	4,468,152	4,517,929
Life Income Investment	33,305	33,305
Total	<u>\$ 47,573,376</u>	<u>\$ 52,995,042</u>
VCU School of Business Foundation:		
U.S. Treasury and Agency Securities	\$ 559,202	\$ 547,428
Common and Preferred Stocks	8,077,460	11,279,379
Corporate Bonds	4,225,623	4,258,911
Alternative Investments	7,869,640	8,532,921
Total	<u>\$ 20,731,925</u>	<u>\$ 24,618,639</u>
VCU School of Engineering Foundation:		
Fundamental Managers Funds, L.P.	\$ 5,781,470	\$ 5,781,470
Private Advisors Small Co. Buyout Fund	855,550	855,550
Private Advisors Hedged Equity Fund, L.P.	2,649,833	2,649,833
Private Advisors Stable Value Fund, LTD	7,064,229	7,064,229
Blue Ridge Offshore Limited Partnership	18,192,936	18,192,936
Tiger Global, LTD	14,524,442	14,524,442
Total	<u>\$ 49,068,460</u>	<u>\$ 49,068,460</u>

### 3. JOINT VENTURES AND EQUITY INVESTMENTS

#### Investment in 7th and Marshall Corporation

Included in other long-term assets on the accompanying statement of net assets is a capital contribution to 7th and Marshall Corporation of \$500,000. UHS and Hospital Hospitality House, Inc. are the sole members of the 7th and Marshall Corporation, a not-for-profit corporation formed to support the charitable, educational and scientific activities of UHS and Hospital Hospitality House, Inc. The 50% investment in 7th and Marshall Corporation is accounted for under the equity method of accounting. The investment is carried at \$331,995.

#### 4. CAPITAL ASSET

Capital asset activity for the year ended June 30, 2009 was as follows:

University:	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable capital assets:				
Land	\$ 40,371,413	\$ -	\$ -	\$ 40,371,413
Construction in progress	122,981,225	123,871,203	178,243,333	68,609,095
Total nondepreciable capital assets	<u>163,352,638</u>	<u>123,871,203</u>	<u>178,243,333</u>	<u>108,980,508</u>
Depreciable capital assets:				
Land Improvements and infrastructure	22,510,707	515,201	6,143,043	16,882,865
Buildings	711,180,735	173,478,528	81,225,454	803,433,809
Equipment	141,676,936	18,746,724	3,684,817	156,738,843
Library Books	107,313,594	8,032,900	-	115,346,494
Total depreciable capital assets	<u>982,681,972</u>	<u>200,773,353</u>	<u>91,053,314</u>	<u>1,092,402,011</u>
Less accumulated depreciation for:				
Land Improvements and infrastructure	12,546,292	890,837	307,152	13,129,977
Buildings	222,260,944	20,641,106	1,394,728	241,507,322
Equipment	83,732,193	14,400,039	2,903,527	95,228,705
Library Books	92,070,810	5,896,128	-	97,966,938
Total accumulated depreciation	<u>410,610,239</u>	<u>41,828,110</u>	<u>4,605,407</u>	<u>447,832,942</u>
Total depreciable capital assets, net	<u>572,071,733</u>	<u>158,945,243</u>	<u>86,447,907</u>	<u>644,569,069</u>
Total capital assets - net	<u>\$ 735,424,371</u>	<u>\$ 282,816,446</u>	<u>\$ 264,691,240</u>	<u>\$ 753,549,577</u>

Interest capitalized as part of construction in progress was \$2,749,839.

Authority:				
Land	\$ 1,598,902	\$ 2,963,000	\$ -	\$ 4,561,902
Construction in progress	176,825,811	62,413,091	211,628,180	27,610,722
Total nondepreciable capital assets	<u>178,424,713</u>	<u>65,376,091</u>	<u>211,628,180</u>	<u>32,172,624</u>
Buildings	306,064,335	172,137,748		478,202,083
Equipment	234,815,341	42,220,590	455,469	276,580,462
Total depreciable capital assets	<u>540,879,676</u>	<u>214,358,338</u>	<u>455,469</u>	<u>754,782,545</u>
Less accumulated depreciation	<u>265,767,285</u>	<u>50,324,584</u>	<u>24,639</u>	<u>316,067,230</u>
Total depreciable capital assets, net	<u>275,112,391</u>	<u>164,033,754</u>	<u>430,830</u>	<u>438,715,315</u>
Total capital assets - net	<u>\$ 453,537,104</u>	<u>\$ 229,409,845</u>	<u>\$ 212,059,010</u>	<u>\$ 470,887,939</u>

	Beginning Balance	Additions	Reductions	Ending Balance
<b>MCV Foundation:</b>				
Land	\$ 217,000	\$ -	\$ -	\$ 217,000
Property and equipment - net				
Depreciation	1,574,000	-	90,000	1,484,000
Total capital assets - net	<u>\$ 1,791,000</u>	<u>\$ -</u>	<u>\$ 90,000</u>	<u>\$ 1,701,000</u>
<b>VCU Real Estate Foundation:</b>				
Nondepreciable capital assets:				
Land	\$ 11,092,697	\$ 4,298,595	\$ 6,702,184	\$ 8,689,108
Construction in progress	-	-	-	-
Total nondepreciable capital assets	11,092,697	4,298,595	6,702,184	8,689,108
Depreciable capital assets:				
Buildings	61,774,735	5,120,612	5,074,757	61,820,590
Equipment	2,605,287	-	-	2,605,287
Total depreciable capital assets	64,380,022	5,120,612	5,074,757	64,425,877
Less accumulated depreciation	11,439,403	2,236,293	-	13,675,696
Total before eliminations	64,033,316	7,182,914	11,776,941	59,439,289
Less included on University	10,274,926	-	254,751	10,020,175
Total capital assets - net	<u>\$ 53,758,390</u>	<u>\$ 7,182,914</u>	<u>\$ 11,522,190</u>	<u>\$ 49,419,114</u>
<b>VCU School of Business Foundation:</b>				
Land	\$ -	\$ 3,503,036	\$ -	\$ 3,503,036
Buildings and equipment	40,198,124	-	-	40,198,124
Total capital assets	40,198,124	3,503,036	-	43,701,160
Less accumulated depreciation	614,138	1,339,937	-	1,954,075
Total before eliminations	39,583,986	2,163,099	-	41,747,085
Less included on University	39,583,986	-	39,583,986	-
Total capital assets - net	<u>\$ -</u>	<u>\$ 2,163,099</u>	<u>\$ (39,583,986)</u>	<u>\$ 41,747,085</u>
<b>VCU School of Engineering Foundation:</b>				
Land	\$ 1,057,317	\$ 2,055,342	\$ -	\$ 3,112,659
Buildings and equipment	68,997,682	-	-	68,997,682
Construction in progress	-	-	-	-
Total capital assets	70,054,999	2,055,342	-	72,110,341
Less accumulated depreciation	9,357,432	2,296,590	-	11,654,022
Total before eliminations	60,697,567	(241,248)	-	60,456,319
Less included on University	60,697,567	-	43,203,723	17,493,844
Total capital assets - net	<u>\$ -</u>	<u>\$ (241,248)</u>	<u>\$ (43,203,723)</u>	<u>\$ 42,962,475</u>

GASB 42, *Accounting and Reporting for the Impairment of Capital Assets and for Insurance Recoveries*, effective for periods beginning after December 15, 2004, requires disclosure of insurance recoveries for circumstances other than impairment of capital assets. Fiscal year 2009 insurance recoveries of \$87,705 are reported as other non-operating income.

5. FUNDS HELD FOR OTHERS

At June 30, 2009, the University held deposits for others, which are composed of the following:

	<u>Funds Held for Others</u>
Federal loan programs	\$ 24,401,187
Student organizations and others	<u>2,437,557</u>
Total	<u>\$ 26,838,744</u>

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consisted of the following as of June 30, 2009:

Vendor payables	\$ 25,499,297
Retainage payable	6,113,337
Accrued wages	36,720,631
Securities lending obligation	11,568,172
Interest payable	<u>2,818,993</u>
Total	<u>\$ 82,720,430</u>

7. DEFERRED REVENUE

Deferred Revenue consisted of the following as of June 30, 2009:

Prepaid tuition and Fees	\$ 8,545,687
Grants and contracts	19,779,140
Rent	<u>1,740,896</u>
Total	<u>\$ 30,065,723</u>

8. LONG TERM LIABILITIES

Long term liabilities consist of bonds, notes payable, capital leases, installment purchases, deferred compensation, compensated absences and estimated losses on malpractice claims.

Bonds Payable

The Commonwealth of Virginia issues bonds for agencies and institutions of the Commonwealth. The University has received a portion of the proceeds to fund capital construction. The University recognizes a liability associated with its share of the bonds and remits principal and interest payments related to this liability to the Treasurer of Virginia. The General Revenue Pledge Bonds (Section 9d Bonds) carry interest rates of 1.5% - 5.00% and are due through 2033. Included in the total General Revenue Pledge Bonds are outstanding bonds payable in the amount of \$17,195,000, which will be repaid by the VCU Real Estate Foundation. Of the total Commonwealth of Virginia Revenue Bonds, outstanding bonds payable in the amount of \$1,613,194 will be repaid by the Authority

## General Obligation Bonds

Section 9(c) bonds are general obligation bonds issued by the Commonwealth on behalf of the University, which are secured by the net revenues of the completed project and the full faith, credit and taxing power of the Commonwealth. In November 2008, Commonwealth of Virginia 9(c) General Obligation Bonds were issued to refund Series 1998. The refunding bonds had interest rates ranging from 4 to 5 percent, with a final maturity in 2013.

## Virginia College Building Authority

The Virginia College Building Authority (VCBA) issues Educational Facilities Revenue Bonds (Public Higher Education Financing Program). As a participating institution in this program, the University issued a note payable to the VCBA. This note, along with the notes of other institutions, is held by the VCBA as security for the Educational Facilities Revenue Bonds. For accounting purposes, the financing arrangement is considered to represent a note payable. The notes have interest rates of 2% to 6%. The University issued a note to VCBA in the amount of \$43,345,000 in January, 2009 to finance a portion of the Monroe Park and MCV Campus Recreation Facility projects and the Medical Sciences Building.

## Virginia Public Building Authority

The University participates in a financing arrangement with the Virginia Public Building Authority to construct a steam plant adjacent to the MCV Campus. The University considers this financing arrangement to be a capital lease with imputed interest rates of 2.25% -5.85%.

## Virginia Biotechnology Research Park Partnership Authority

The University occupies space owned by the Virginia Biotechnology Research Park Partnership Authority. For accounting purposes, this arrangement is considered to be a capital lease with an imputed interest rate of 9%.

## Ad Center Development LLC

The University leases space for the VCU BrandCenter which is owned by the VCU Real Estate Foundation and leased through Ad Center LLC. For accounting purposes, this arrangement is considered to be a capital lease with an imputed interest rate of 4.3%.

## Defeasance of Debt

In prior fiscal years, a portion of the Commonwealth of Virginia Revenue Bonds, of which the University has a share, has been defeased. Details relating to the current and prior years' defeasances are reported in the Comprehensive Annual Financial Report of the Commonwealth.

In the current year, the Commonwealth of Virginia issued General Obligation Refunding bonds, Series 2008 B to refund its General Obligation Refunding Bonds, Series 1998, of which the University had a share.

The changes in long-term liabilities are as shown below:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
University :					
Bonds payable:					
General Revenue pledge Bonds	\$ 126,493,073	\$ -	\$ 3,246,161	\$ 123,246,912	\$ 6,005,000
Commonwealth of Virginia					
Revenue Bonds	<u>30,615,840</u>	<u>4,706,299</u>	<u>6,979,795</u>	<u>28,342,344</u>	<u>2,425,949</u>
Total bonds payable	<u>157,108,913</u>	<u>4,706,299</u>	<u>10,225,956</u>	<u>151,589,256</u>	<u>8,430,949</u>
Notes payable:					
Virginia College Building					
Authority	<u>188,298,611</u>	<u>45,690,372</u>	<u>7,585,478</u>	<u>226,403,505</u>	<u>8,965,001</u>
Capital leases:					
Virginia College Building					
Authority	8,057,712	-	1,099,978	6,957,734	1,163,523
Virginia Biotechnology					
Research Park Partnership					
Authority	4,133,268	-	392,533	3,740,735	426,458
AD Center Development LLC	5,738,590	-	192,517	5,546,073	200,930
912-914 West Grace St.	-	157,294	-	157,294	93,023
10 North Brunswick St.	-	1,408,854	39,329	1,369,525	243,462
Total capital leases	<u>17,929,570</u>	<u>1,566,148</u>	<u>1,724,357</u>	<u>17,771,361</u>	<u>2,127,396</u>
Installment purchases	<u>1,291,551</u>	<u>1,205,122</u>	<u>399,915</u>	<u>2,096,758</u>	<u>541,885</u>
Total long-term debt	<u>364,628,645</u>	<u>53,167,941</u>	<u>19,935,706</u>	<u>397,860,880</u>	<u>20,065,231</u>
Compensated absences	27,514,404	9,772,507	8,399,639	28,887,272	18,747,796
Deferred compensation	<u>4,091,162</u>	<u>2,306,254</u>	<u>1,245,266</u>	<u>5,152,150</u>	<u>1,333,596</u>
Total	<u>\$ 396,234,211</u>	<u>\$ 65,246,702</u>	<u>\$ 29,580,611</u>	<u>\$ 431,900,302</u>	<u>\$ 40,146,623</u>
Authority:					
General Revenue pledge Bonds	\$ 281,560,000	\$ -	\$ 2,385,000	\$ 279,175,000	\$ 5,100,000
Notes Payable	-	1,807,150	193,953	1,613,197	196,373
Capital leases	3,090,720	-	1,341,798	1,748,922	1,748,922
Installment purchases	<u>5,800,025</u>	<u>11,835,056</u>	<u>3,253,334</u>	<u>14,381,747</u>	<u>4,154,811</u>
Total long-term debt	<u>290,450,745</u>	<u>13,642,206</u>	<u>7,174,085</u>	<u>296,918,866</u>	<u>11,200,106</u>
Estimated losses on malpractice					
Claims	31,013,526	1,611,873	2,211,215	30,414,184	2,500,000
Workers Compensation	17,802,549	699,017	2,167,740	16,333,826	2,200,000
Compensated absences	<u>20,595,477</u>	<u>34,110,869</u>	<u>33,566,017</u>	<u>21,140,329</u>	<u>21,140,329</u>
Total	<u>\$ 359,862,297</u>	<u>\$ 50,063,965</u>	<u>\$ 45,119,057</u>	<u>\$ 364,807,205</u>	<u>\$ 37,040,435</u>

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
MCV Foundation:					
Note Payable	\$ 12,155,000	\$ -	\$ 485,000	\$ 11,670,000	\$ 500,000
VCU Foundation:					
Note Payable	\$ 113,494	\$ -	\$ 113,494	\$ -	\$ -
VCU Real Estate Foundation:					
Tax exempt bonds payable	\$ 19,071,000	\$ -	\$ 508,000	\$ 18,563,000	\$ 536,000
Notes payable	18,479,742	522,000	2,083,655	16,918,087	909,939
Total	\$ 37,550,742	\$ 522,000	\$ 2,591,655	\$ 35,481,087	\$ 1,445,939

Long-term debt matures as follows:

	Fiscal Year	Revenue Bonds	Notes Payable	Capital Leases	Installment Purchases	Total
University:						
	2010	\$ 8,430,948	\$ 8,965,000	\$ 3,097,013	\$ 541,885	\$ 21,034,846
	2011	8,475,686	9,375,000	3,067,693	542,615	21,460,994
	2012	8,554,052	9,805,000	3,005,806	545,021	21,909,879
	2013	8,763,552	10,270,000	3,008,376	259,926	22,301,854
	2014	7,978,539	10,790,000	2,333,681	207,311	21,309,531
	2015-2019	34,117,174	62,165,000	4,662,672	-	100,944,846
	2020-2024	27,210,000	66,950,000	2,181,000	-	96,341,000
	2025-2029	28,810,000	40,225,009	1,526,700	-	70,561,709
	2030-2034	17,685,000	-	-	-	17,685,000
	2035-2039	2,685,000	-	-	-	2,685,000
Add:	Unamortized Premium	1,783,873 -	8,903,222 -	- -	- -	10,687,095 -
Less:	Deferred Charge	(2,904,568)	(1,044,726)	-	-	(3,949,294)
Less:	Interest	-	-	(5,111,580)	-	(5,111,580)
	Total	\$ 151,589,256	\$ 226,403,505	\$ 17,771,361	\$ 2,096,758	\$ 397,860,880

	Fiscal Year	Revenue Bonds	Notes Payable	Capital Leases	Installment Purchases	Total
Authority:						
	2010	\$ 5,100,000	\$ 196,373	\$ 1,748,922	\$ 4,154,811	\$ 11,200,106
	2011	5,315,000	206,377	-	3,800,168	9,321,545
	2012	5,550,000	220,107	-	3,026,067	8,796,174
	2013	5,710,000	230,107	-	2,455,998	8,396,105
	2014	6,040,000	238,834	-	944,703	7,223,537
	2015-2019	34,370,000	521,399	-	-	34,891,399
	2020-2024	42,780,000	-	-	-	42,780,000
	2025-2029	52,265,000	-	-	-	52,265,000
	2030-2034	62,665,000	-	-	-	62,665,000
	2035-2039	59,380,000	-	-	-	59,380,000
Less:	Interest	-	-	(6,851)	-	(6,851)
	Total	\$ 279,175,000	\$ 1,613,197	\$ 1,742,071	\$ 14,381,747	\$ 296,912,015

Fiscal Year	Revenue Bonds	Notes Payable	Capital Leases	Installment Purchases	Total
MCV Foundation:					
2010	\$ -	\$ 500,000	\$ -	\$ -	\$ 500,000
2011	-	525,000	-	-	525,000
2012	-	550,000	-	-	550,000
2013	-	575,000	-	-	575,000
2014	-	605,000	-	-	605,000
Thereafter	-	8,915,000	-	-	8,915,000
Total	\$ -	\$ 11,670,000	\$ -	\$ -	\$ 11,670,000

VCU Real Estate Foundation:					
2010	\$ 536,000	\$ 909,939	\$ -	\$ -	\$ 1,445,939
2011	559,000	15,941,538	-	-	16,500,538
2012	588,000	11,657	-	-	599,657
2013	613,000	12,624	-	-	625,624
2014	642,000	13,672	-	-	655,672
Thereafter	15,625,000	28,657	-	-	15,653,657
Total	\$ 18,563,000	\$ 16,918,087	\$ -	\$ -	\$ 35,481,087

A summary of future interest requirements is as follows:

	Fiscal Year	Revenue Bonds	Notes Payable	Total
University:				
	2010	\$ 5,983,955	\$ 9,992,165	\$ 15,976,120
	2011	5,710,882	9,578,793	15,289,675
	2012	5,409,343	9,121,698	14,531,041
	2013	5,099,871	8,625,725	13,725,596
	2014	4,778,330	8,108,713	12,887,043
	2015-2019	18,816,807	32,361,661	51,178,468
	2020-2024	12,693,181	16,786,244	29,479,425
	2025-2029	7,625,377	3,572,310	11,197,687
	2030-2034	2,208,393	-	2,208,393
	2035-2039	258,875	-	258,875
	Total	\$ 68,585,014	\$ 98,147,309	\$ 166,732,323
Authority:				
	2010	\$ 3,308,544	\$ 77,984	\$ 3,386,528
	2011	3,168,961	68,165	3,237,126
	2012	3,028,051	57,847	3,085,898
	2013	2,877,434	46,841	2,924,275
	2014	2,716,619	35,336	2,751,955
	2015-2019	10,769,142	34,097	10,803,239
	2020-2024	5,198,395	-	5,198,395
	2025-2029	2,151,036	-	2,151,036
	2030-2034	1,117,280	-	1,117,280
	2035-2039	139,545	-	139,545
	Total	\$ 34,475,007	\$ 320,270	\$ 34,795,277

9. VIRGINIA COMMONWEALTH UNIVERSITY FACULTY EARLY RETIREMENT INCENTIVE PLAN

The University established the Virginia Commonwealth University Faculty Early Retirement Incentive Plan for Faculty (Plan) to provide a financial early retirement incentive for certain tenured faculty that will facilitate the release of tenured faculty resources for budget reallocation or reduction in accordance with the University Strategic Plan goals, changes in enrollment, and other University needs. Tenure is a permanent appointment granted to associate professors and professors, which continues until the faculty member leaves the University, is dismissed for cause, or is terminated due to a financial crisis.

The Plan provides an annuity for five years from the date of retirement equal to 20% of the average University salary of the faculty members eligible to participate in the Plan, not to exceed 30% of the participant’s base annual salary from University resources at the time the agreement was signed. In addition, the University provides a health care benefit supplement until the participant becomes Medicare eligible (currently age 65) if the participant retires, or up to 18 months of COBRA benefits if the participant does not retire.

As of June 30, 2009, 80 faculty members were enrolled in the Plan. Payments during fiscal year 2009 were \$1,245,266. The present value of future Plan payments schedule follows:

<u>Fiscal Year</u>	<u>Plan Obligations</u>
2010	\$ 1,333,596
2011	1,269,703
2012	1,073,928
2013	830,879
2014	528,158
2015	106,653
2016	7,464
2017	<u>1,769</u>
Total	<u>\$ 5,152,150</u>

10. RETIREMENT, PENSION PLANS, AND POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

University

Substantially all full-time classified salaried and certain full-time faculty employees of the University participate in the defined benefit retirement plan administered by the Virginia Retirement System (VRS). The VRS is an agent multiple-employer public employee retirement system (PERS) that acts as a common investment and administrative agency for the Commonwealth of Virginia and its political subdivisions.

The long-term disability benefit provided by the “Virginia Sickness and Disability Program” (VSDP) is administered by VRS. Funding for this benefit has been incorporated into the VRS contribution shown below.

The University's payroll costs, excluding accrued payroll, for employees covered by the VRS for the year ended June 30, 2009 were \$167,063,478. The University's total payroll costs for the year were \$392,819,327.

Information regarding types of employees covered, benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions as well as employer and employee obligations to contribute are established and disclosed in the Comprehensive Annual Financial Report of the Commonwealth of Virginia.

The University's total VRS contributions were \$18,751,308 for the year ended June 30, 2009, which included the 5% employee contribution assumed by the employer.

The VRS does not measure assets and pension benefit obligations separately for individual state institutions. The Comprehensive Annual Financial Report of the Commonwealth of Virginia provides disclosure of the Commonwealth's unfunded pension benefit obligation at June 30, 2009. The same report contains historical trend information showing VRS's progress in accumulating sufficient assets to pay benefits when due.

Full-time faculty and certain administrative staff are eligible to participate in other retirement plans. These are fixed-contribution programs where the retirement benefits received are based upon the employer (5.4%) and employee (5%) contributions (all of which are paid by the University) plus interest and dividends.

Individual contracts issued under the plans provide for full and immediate vesting of both the University's and the employee's contributions. Contributions to other retirement plans were calculated using the base salary \$145,851,985 in fiscal year 2009. Total pension costs under these plans were \$15,110,960 in fiscal year 2009.

The state participates in the VRS administered statewide group life insurance program, which provides post employment life insurance benefits to eligible retired and terminated employees. The state also provides health care credits against the monthly health insurance premiums of its retirees who have at least 15 years of state service and participate in the state health plan. Information related to these plans is available at the statewide level in the Comprehensive Annual Financial Report of the Commonwealth.

The Deferred Compensation Plan (DCP) gives full and part-time faculty and staff who contribute at least \$10 each pay period through the Tax Deferred Annuity Program (TDA) a matching contribution of 50%, up to a maximum of \$20 each pay period, of the amount faculty and staff contribute through the TDA Program.

### Authority

Prior to July 1, 1997, employees of the Authority were employees of the Commonwealth of Virginia (the Commonwealth). These employees are eligible to participate in a defined benefit pension plan administered by the VRS. The VRS also administers life insurance and health-related plans for retired employees. Information relating to these plans is available at the statewide level only in the Commonwealth of Virginia's Comprehensive Annual Financial Report. The Commonwealth, not the Authority, has overall responsibility for these plans. Total pension costs for the year were approximately \$5,737,000.

Effective July 1, 1997, the Hospital established the Medical College of Virginia Hospitals Authority Defined Contribution Plan (the Plan). Effective July 1, 2000, the Plan Sponsor and the Employer became a part of the Virginia Commonwealth University Health System Authority. The Plan was amended and restated effective January 1, 2002 and is now referred to as the VCUHS Retirement Plan. All employees, excluding house staff, working at least 20 hours a week in a benefit-eligible position are eligible to participate in the Plan. At June 30, 2009, there were 4,868 participants

in the Plan. Per the Plan document as approved by the Hospital's Board of Directors, the Hospital contributes up to 10% of the participant's salary to the Plan not to exceed the lesser of (a) the amount in accordance with Code 415(d), or (b) one hundred percent (100%) of the Participant's Compensation for such limitation year. Total contributions to the Plan for year ended June 30, 2009 were approximately \$13,405,000. The Hospital shall have the right at anytime, and without the consent of any party, to terminate the Plan in its entirety. Any changes to the provisions of the Plan, including the contribution requirements, must be approved in writing by the Hospital's Board of Directors.

The Authority has also established the Virginia Commonwealth University Health System Authority Health Care Providers Defined Contribution Plan (the HCP Plan). All persons hired as a health care provider on or after July 1, 1993 and prior to July 1, 1997 and working at least 35 hours of service per week are eligible to participate in the HCP Plan. At June 30, 2009, there were 5 participants in the HCP Plan. All significant provisions of the HCP Plan, including the contribution requirements, are similar to the Plan. Total contributions to the HCP Plan for the year ended June 30, 2009 were approximately \$35,000.

The Plan and the HCP Plan use the accrual basis of accounting, and the Plan assets, which consist of mutual funds, are carried at fair market value. The fair market values of the mutual funds are based on quoted market prices. Individual organizations that hold 5% or more of the assets are:

	<u>2009</u>
Fidelity Investments	\$ 49,453,590
TIAA/CREF	33,029,178
VALIC	<u>8,411,536</u>
Net assets available for plan benefits	<u>\$ 90,894,304</u>

MCVAP sponsors the MCVAP 401(a) Retirement Plan (the 401(a) Plan), a noncontributory, defined contribution plan which covers substantially all full-time clinical provider employees of MCVAP. Contributions to the 401(a) Plan by MCVAP, as determined annually at the discretion of the Board of Directors, were approximately \$9,296,000 for the year.

MCVAP sponsors the VCUHS 401(a) Retirement Plan (the VCUHS 401(a) Plan), a defined contribution plan which covers all non-medical employees of MCVAP and the VCUHS 457(b) Retirement Plan (VCUHS 457(b) Plan), a salary reduction plan that represents employee contributions. These plans became effective on January 1, 2002 and replaced the MCVAP 403(b) plan for all non-medical staff. The 401(a) Plan contributions are a function of the employee's age plus years of service per the table below. MCVAP employees may contribute to the VCUHS 457(b) Salary Reduction Plan. Employees may also receive a 2% matching contribution in their VCUHS 401(a) Plan based on their 457(b) salary reduction contribution.

<u>Age + Years of Service</u>	<u>Employer Contribution (401(a) Plan)</u>
65+	10%
55 - 65	8
45 - 55	6
35 - 45	4
<35	2

Contributions to the plans for the year ended June 30, 2009 were \$1,787,000.

Effective August 1, 1999, VA Premier adopted a 401(k) plan, for which Fidelity Investments is the trustee. Employees become eligible to participate in the plan after completing one year of

service. There is no minimum service or age requirement to be in the 401(k) plan. Employees may contribute 1% to 15% of their compensation. VA Premier will match 50% of the employee's contributions up to 4% of the employee's compensation. Matching will occur based on the bi-weekly pay periods. In addition, VA Premier contributes 3% of the employee's compensation after each bi-weekly payroll effective when the employee begins employment. Employees are fully vested after 4 years of service in which the employees have at least 1,000 hours of service each year. VA Premier's expense for its contributions to this plan was approximately \$549,000 for the year ended 2009.

Effective June 2007, CCHP adopted a 401(k) plan, for which Fidelity Investments is the trustee. All terms are consistent with the VA Premier 401(k) plan. CCHP's expense for its contributions to this plan was approximately \$68,000 for the year ended 2009.

## 11. RELATED PARTIES

The financial statements do not include the assets, liabilities, or fund balances of affiliated organizations. All of these organizations are separately incorporated entities managed by their own Boards and audited by other independent certified public accounting firms. Each organization is described below.

### Virginia Biotechnology Research Park Partnership Authority

The primary purpose of the Virginia Biotechnology Research Park Partnership Authority is to expand knowledge pertaining to scientific and technological research and development among public and private entities and promote the economic and industrial development of the City of Richmond and the Commonwealth of Virginia. The University currently occupies 58,374 square feet of Biotech One under a capital lease as shown in Note 8.

### Medical College of Virginia Alumni Association of VCU

The purpose of the Medical College of Virginia Alumni Association of VCU is to organize alumni activities for Virginia Commonwealth University. The University provided funding of \$249,004 in 2009 as the principal source of funding for the Association's operation.

### Virginia Commonwealth University Alumni Association

The Association was formed for educational purposes to further the best interests of the University, its alumni and students. The University provided funding of \$58,274 in 2009 as the principal source of funding for the Association's operation.

### MCV/VCU Dental Faculty Practice Association

The Association was established to support the education, research, service and patient care mission of the School of Dentistry (School) of Virginia Commonwealth University. The Association promotes and coordinates the delivery of superior patient care at the School.

## 12. FUNDS HELD IN TRUST BY OTHERS

Under the provisions of the wills of certain benefactors, the University's portion of principal sums with market values of \$15,451,178 at June 30, 2009, was held in trust by others. These assets are not included in the University's balance sheet.

### 13. COMMITMENTS

The University and the Authority are party to various construction commitments. At June 30, 2009, the remaining commitments were \$20,719,477 for the University and approximately \$16,300,000 for the Authority.

The University also is committed under various operating leases (for buildings, computer equipment, business equipment, etc.). The University has renewal options on the leased assets for another similar term. In most cases, the University expects that, in the normal course of business, these leases will be replaced by similar leases. Rental expense for the fiscal year ended June 30, 2009 was \$7,083,922 for the University and \$11,115,000 for the Authority.

The University has, as of June 30, 2009 the following total future minimum rental payments due under the above leases.

<u>Fiscal Year</u>	<u>University</u>	<u>Authority</u>
2010	\$ 6,268,622	\$ 9,629,398
2011	4,385,170	7,677,708
2012	2,929,102	6,162,146
2013	2,114,232	3,715,550
2014	1,338,769	1,128,763
2015-2019	2,953,094	1,519,009
2020-2024	2,156,939	-
2025-2029	860,162	-
Total future minimum rental payments	<u>\$ 23,006,090</u>	<u>\$ 29,832,574</u>

### 14. LITIGATION

The University and Authority have been named as a defendant in a number of lawsuits. The final outcome of any of these lawsuits cannot be determined at this time. However, management is of the opinion that any ultimate liability to which the University and Authority may be exposed will not have a material effect upon the entity's financial position.

### 15. TRANSACTIONS BETWEEN COMPONENT UNITS

The University and its component units provide services and support to each other so as to avoid duplication of efforts as much as possible.

The VCU Foundation, the VCU School of Business and the VCU School of Engineering Foundation hold the University's investments that function as endowments, both true and quasi. As of June 30, 2009, the VCU Foundation and VCU School of Engineering Foundation held University investments of \$22,554,651 and \$4,465,982 respectively. VCU School of Business Foundation held investments of \$721,279. The University has a due from component units for these investments, which is eliminated in the total column.

The VCU School of Engineering Foundation has constructed two buildings with the proceeds of debt issued by the University. The School of Engineering Foundation transfers sufficient funds to the University annually to fund the debt service. The annual transfer is recorded on the University as a gift received. The University includes one of the buildings and the liability for both buildings on the Statement of Net Assets. The VCU School of Engineering Foundation has the building, deferred bond

issuance costs, prepaid bond interest, a liability and an accrued contribution to the University on their financial statements which are eliminated in the Statement of Net Assets.

The VCU School of Business Foundation has constructed a building with the proceeds of debt issued by the University. The School of Business Foundation transfers sufficient funds to the University annually to fund the debt service. The University has the liability for the outstanding debt on the Statement of Net Assets. The VCU School of Business Foundation has the building, deferred issuance costs, a liability and an accrued contribution to the University on their financial statements which are eliminated in the Statement of Net Assets.

The MCV Foundation, VCU Foundation and VCU School of Engineering Foundation solicit funds to benefit the University and transfer a portion of those funds to the University to support programs. These transactions have been eliminated from the Statement of Revenues, Expenses and Changes in Net Assets from gift revenue and supporting services.

MCV Associated Physicians, a component of the VCU Health System, transfers a portion of their patient revenues to the University, to support the academic and research missions. Those transfers are eliminated from hospital services expenses and gift revenues.

The VCU Real Estate Foundation acquires facilities and rents them to the University and VCU Health System. Those rental expenses are eliminated from operations and maintenance expenses and other revenues.

The University and VCU Health System support each other through the sharing of capabilities and resources. Reimbursements of costs are made between the entities to ensure that each entity bears the proper portion of costs. Those transactions are eliminated between the revenue recorded and the expense category so that the expense is included in the expense category that reflects the service delivered to the student or public.

## 16. CONTINGENCIES

Through June 30, 1990, the Hospitals were insured under a claims-made policy with respect to institutional and professional liability, each with liability limits of \$1 million per incident and an aggregate annual liability limit of \$3 million in each policy year. Either the PHICO Insurance Company or The Virginia Insurance Reciprocal provided insurance.

Effective July 1, 1990 and through June 30, 1998, the Hospitals and the Authority were insured under a risk management plan for the Commonwealth of Virginia. This plan was also claims-made with institutional and professional liability limits of \$1 million per incident but no aggregate limit.

Effective July 1, 1998, the Hospitals became self-insured. Professional liability limits of \$1 million per incident and \$3 million in aggregate are self-insured. Excess insurance coverage up to \$10 million was provided by The Reciprocal of America (the Reciprocal), a multi provider reciprocal insurance company until June 30, 2002. In connection with the self-administered plan effective July 1, 2002, an excess professional liability policy for the Hospitals was written by Columbia Casualty Group of the CNA Insurance Group. This policy covers losses in excess of the reciprocal limits for an additional annual aggregate amount of \$5 million. Effective July 1, 2003, the Hospitals no longer maintain excess professional liability coverage.

There have been malpractice claims asserted against the Hospitals by various claimants. The claims are in various stages of processing and some may ultimately be brought to trial. There are also known incidents that have occurred through June 30, 2009 that may result in the assertion of additional claims. In addition, there may be other claims from unreported incidents arising from services provided to patients through June 30, 2009. At June 30, 2009, the Hospitals' management

accrued professional liability losses to the extent they fall within the limits of the Hospitals' self-insurance program or exceed the limits of the excess insurance coverage. The liability for medical malpractice at June 30, 2009 includes approximately \$4,976,807 for claims and related legal expenses for reported and unreported incidents occurring since July 1, 1998. The liability (undiscounted) was actuarially determined combining industry data and the Hospitals' historical experience.

A revocable trust has been established and is funded for payment of malpractice claims and related expenses. At June 30, 2009, the medical malpractice trust fund for the Hospitals includes approximately \$6,141,753.

Prior to fiscal year 2005, MCVAP's professional liability coverage was provided through a claims-made policy obtained from Universal Re-Insurance Company (URIC), a Bermuda insurance corporation. The policy provided coverage of \$1,650,000 per occurrence and \$8,000,000 annual aggregate. Premiums paid by MCVAP to URIC were recorded as expense by MCVAP and deposited in an irrevocable trust fund administered by SunTrust Bank. Under the terms of the agreement with URIC, no risk was transferred by MCVAP to URIC. As a result, the irrevocable trust, totaling \$9.3 million at June 30, 2004, was recorded as assets whose use is limited with an equal liability for estimated losses for malpractice claims (discounted at 5%) as of June 30, 2004. There were no premiums paid during 2005 related to this arrangement.

In addition, MCVAP was self-insured for any claims in excess of its insurance coverage with URIC. The Board sets aside funds to be used to fund estimated losses based on actuarially determined reserves. At June 30, 2009, assets whose use is limited includes \$34,204,628 that will be used to fund malpractice claims. Also, estimated losses on malpractice claims included approximately \$25,437,377 at June 30, 2009, in addition to the amount recorded under the URIC agreement.

Estimated claims liabilities are recorded based on factors such as actual claims history and the percentage of certainty that actual losses will not exceed the reserve recorded. During the fiscal year ended June 30, 2009, the accrual for estimated claims was calculated based on an assumption of 90% certainty (90% confidence level) that the actual losses related to professional liability would not exceed the reserve recorded.

There is uncertainty as to whether the actual malpractice reserves will conform to the assumptions inherent in the determination of the amounts recorded. Because of the uncertainties related to the recording of malpractice reserves, the ultimate settlement of the reserve estimates may vary from the estimated amounts included in the accompanying financial statements.

UHS maintains general and professional liability policies. The general liability policy in force is occurrence-based. The coverage under the professional liability policy is on a claims-made basis and must be renewed or replaced with the equivalent insurance if claims incurred during its terms, but asserted after its expiration, are to be insured. Coverage limits for the general liability policy are \$1 million per occurrence and \$2 million annual aggregate. The coverage limit for the professional liability policy is \$7 million in the annual aggregate. Management does not believe the amount of liability for any claims incurred but unreported as of June 30, 2009 is significant.

During fiscal 1996, the Department of Health and Human Services (HHS) announced its intention to audit Medicare billings submitted by teaching physicians at all of the major teaching hospitals in the United States. During fiscal 1998, MCVAP received notification from the Department of Justice (DOJ) stating that it was the subject of investigations relating to CHAMPUS and Medicare billing practices. MCVAP has cooperated fully with this notification from the DOJ. Since the date of the notification, MCVAP has not received any further correspondence from HHS. At the present time, management does not have sufficient information to determine if MCVAP will have any liability related to these issues or what the potential liability, if any, might be.

17. STOP-LOSS COVERAGE

VA Premier has a stop-loss arrangement to limit its losses on individual claims. This contract provides stop-loss coverage for all VA Premier enrollee claims. This contract provides coverage for 90% of certain hospital claims in excess of \$275,000 subject to certain limitations and an annual limit of \$1,000,000 per enrollee and a lifetime limit of \$2,000,000 per enrollee. Stop-loss premiums net of reinsurance recoveries of approximately \$546,000 are included as a reduction in medical claims expense for the year ended June 30, 2009.

18. INDEMNIFICATIONS

As permitted or required under Virginia law, the MCV Foundation has certain obligations to indemnify its current and former officers and directors for certain events or occurrences while the officer or director is, or was serving, at the Foundation's request in such capacities. The maximum liability under these obligations is unlimited; however, the Foundation believes that the estimated fair value of these indemnification obligations is minimal.

19. NET PATIENT SERVICE REVENUE

The Authority's patient service revenue is as follows for the year ended June 30, 2009:

Gross Patient Revenue:	
Inpatient	\$ 1,360,329,673
Outpatient	<u>912,943,739</u>
Total gross patient service revenue	2,273,273,412
Provision for uncompensated care and contractual adjustments	<u>(1,386,359,105)</u>
Net patient service revenue (Hospitals)	886,914,307
MCVAP's net patient service revenue	<u>131,027,472</u>
Net patient service revenue (Authority)	<u><u>\$ 1,017,941,779</u></u>

20. ESTIMATED MEDICAL CLAIMS PAYABLE

Claims expenses and liabilities arising from services rendered to VA Premier's and CCHP's HMO members are reported when it is probable that services have been provided and the amount of the claim can be reasonably estimated. The claims payable includes an estimate of claims that have been incurred but not reported. At June 30, 2009 the amount of these liabilities included in accounts payable and accrued liabilities was \$58,645,581. This liability is VA Premier's best estimate based on available information.

21. STATE APPROPRIATIONS

The University receives state appropriations from the General Fund of the Commonwealth. The Appropriations Act specifies that such unexpended appropriations shall revert at the end of the biennium, as specifically provided by the General Assembly, unless the University meets management standards.

The following is a summary of the state appropriations for the year ended June 30, 2009:

Original legislative appropriation per Chapter 879:

Educational and general programs	\$ 200,566,480
Higher education student financial assistance	18,828,536
Governor's Research Initiative for Biomedical Engineering and Regenerative Medicine	1,162,500
Higher Education Research Initiative for Cancer Research	1,000,000

Supplemental adjustments:

Virtual Library of Virginia- VIVA	24,777
Central Appropriation for Interest Earnings on Tuition and Fee Balances	1,414,622
Central Appropriation for Credit Card Rebate	110,519
Reversion of Merit Funding from GF	(1,175,880)
Central Reduction for Sickness and Disability Rate Contribution	(156,650)
Higher Education Equipment Trust Fund 08	45,400
Higher Education Equipment Trust Fund 09	8,063,825
Steam Plant debt service	600,381
Capital Project 236-17037	302,235
GF Reversion	(529,582)
Budget Reductions per October, 2009 Plan	(10,136,449)
Virginia Military Survivors and Dependent Education Program	78,575
Brown vs. Board of Education Scholarship	5,926
Two Year College Grant Program	2,000
Reappropriation from FY08 GF Balances	49,713
Department of Education Conditional Pilot License Program	136,411
Department of Education PlugGED In Award	127,000
Department of Education Clinical Faculty Plus	45,731
Productivity Investment Fund DaVinci Center Partnership	105,000
Eminent Scholars	346,793
Reversal of prior year interest accrual	(1,525,141)
HEETF NGF Payment Ch 847 Item 276 E.4.	(401,647)
Capital Fee for Out of State Students Ch 847 Item 276 E.3.	(289,108)
	<u>\$ 218,801,967</u>

22. RISK MANAGEMENT

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; nonperformance of duty; injuries to employees; and natural disasters. The University participates in insurance plans maintained by the Commonwealth of Virginia. The state employee health care and worker's compensation plans are administered by the department of Human Resource Management and the risk management insurance plans are administered by the department of Treasury, Division of Risk Management. Risk management insurance includes property, general liability, medical malpractice, faithful performance of duty bond, automobile, air and watercraft plans. The University pays premiums to each of these departments for its insurance coverage. The University also purchases certain contingency insurance coverage related to the VCU School of the Arts in Qatar. Information relating to the Commonwealth's insurance plans is available in the Commonwealth of Virginia's *Comprehensive Annual Financial Report*.

23. CONTRIBUTIONS RECEIVABLE

Contributions receivable as of June 30, 2009, are expected to be received as follows:

MCV Foundation:	
Receivable in less than one year	\$ 5,389,000
Receivable in one to five years	4,387,000
Receivable in more than five years	<u>842,000</u>
	10,618,000
Less: Discounts	(556,000)
Allowances	<u>(106,000)</u>
Net Contributions Receivable	<u>\$ 9,956,000</u>

Discount rate between 4.53% and 5.12% were used in determining the present value of the contributions receivable.

VCU Foundation:	
Receivable in less than one year	\$ 1,988,833
Receivable in one to five years	<u>6,902,540</u>
	8,891,373
Less: Discounts	(1,703,309)
Allowances	<u>(336,504)</u>
Net Contributions Receivable	<u>\$ 6,851,560</u>

Discount rates between 1.18% and 5.15% were used in determining the present value of the contributions receivable.

VCU Real Estate Foundation:	
Receivable in less than one year	\$ 121,422
Less: Allowances	<u>(105,935)</u>
Net Contributions Receivable	<u>\$ 15,487</u>

VCU School of Business Foundation:	
Receivable in less than one year	\$ 2,698,156
Receivable in one to five years	<u>5,592,971</u>
	8,291,127
Less: Discounts	(551,770)
Allowances	<u>(18,037)</u>
Net Contributions Receivable	<u>\$ 7,721,320</u>

Discount rates between 1.06% and 5.17% were used in determining the present value of the contributions receivable.

VCU School of Engineering Foundation:	
Receivable in less than one year	\$ 2,957,740
Receivable in one to five years	<u>1,075,715</u>
	4,033,455
Less: Discounts	(109,035)
Allowances	<u>(58,865)</u>
Net Contributions Receivable	<u>\$ 3,865,555</u>

Discount rate between 1.26% and 5.83% were used in determining the present value of the contributions receivable.

#### 24. DERIVATIVE INSTRUMENT

In December 2005, the University entered into an interest rate swap agreement in conjunction with the issuance of its Series 2005B tax-exempt bonds (see Note 7). The swap has a notional amount of \$75,000,000 which declines over time to \$5,035,000 at the maturity date of November 1, 2029. The University pays a fixed rate of 3.436% and the counterparty pays 67% of LIBOR.

Per FASB rules, the School of Business Foundation and the School of Engineering Foundation have recorded unrealized gain and losses on the interest rate swap and reduced or increased their liability by the amount of the gain or loss. GASB pronouncements require disclosure only. Therefore, this income has not been recorded on the University's consolidated statements.

Below is a reconciliation of the net assets of the foundations.

##### VCU School of Engineering Foundation

Net Assets per Foundation financial statements	\$ 24,729,742
Add: Unrealized gain on interest rate swap	<u>4,039,258</u>
Net assets as reported on University's financial statements	<u>\$ 28,769,000</u>

##### VCU School of Business Foundation

Net Assets per Foundation financial statements	\$ 19,485,575
Less: Unrealized loss on interest rate swap	<u>2,534,602</u>
Net assets as reported on University's financial statements	<u>\$ 22,020,177</u>

In June 2007, MCVH entered into an interest rate swap agreement in anticipation of the issuance of tax-exempt bonds in November 2007. The swap has a notional amount of \$125 million, which declines over time to \$15.7 million at the termination date of July 1, 2037. MCVH pays a fixed rate of 3.84% and the counterparty pays 67% of LIBOR (1.65% as of June 30, 2008). The payments are settled monthly at the first of each month. Financial Accounting Standards Board (FASB) Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, requires companies to

recognize their derivative instruments as either assets or liabilities in the balance sheet at fair value. At June 30, 2009, the fair market value of the swap is included with other noncurrent assets in the accompanying consolidated balance sheet – enterprise funds. Changes in the fair market value of the swap are reported on the accompanying consolidated statements of revenues, expenses and changes in net assets – enterprise funds as nonoperating revenue or expense. As the swap agreement is not designated as an effective cash flow hedge, any payments or receipts under the terms of the swap are also recorded as nonoperating revenue or expense. For the year ended June 30, 2009, the Authority recognized nonoperating expense related to the change in fair value of the swap of approximately \$10,526,000.

In December 2005, MCVH entered into an interest rate swap agreement in conjunction with the issuance of its Series 2005 tax-exempt bonds (see note 5). The swap has a notional amount of \$75 million, which declines over time to \$8 million at the maturity date of July 1, 2030. MCVH pays a fixed rate of 3.499% and the counterparty pays 67% of LIBOR (1.65% as of June 30, 2008). The payments are settled monthly at the first of each month. At June 30, 2009 the fair market value of the swap is included with other noncurrent assets in the accompanying consolidated balance sheets – enterprise funds. Changes in the fair market value of the swap are reported on the accompanying consolidated statements of revenues, expenses and changes in net assets – enterprise funds as nonoperating revenue or expense. As the swap agreement is not designated as an effective cash flow hedge, any payments or receipts under the terms of the swap are also recorded as nonoperating revenue or expense. For the year ended June 30, 2009, the Authority recognized nonoperating expense related to the change in fair value of the swap of approximately \$4,768,000.



# Commonwealth of Virginia

**Walter J. Kucharski, Auditor**

**Auditor of Public Accounts  
P.O. Box 1295  
Richmond, Virginia 23218**

December 4, 2009

The Honorable Timothy M. Kaine  
Governor of Virginia

The Honorable M. Kirkland Cox  
Chairman, Joint Legislative Audit  
and Review Commission

The Board of Visitors  
Virginia Commonwealth University

## INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities and the discretely presented component units of Virginia Commonwealth University, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2009, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of University management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the component units of the University, which are discussed in note 1. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the component units of the University, is based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and discretely presented component units of the University as of June 30, 2009, and the respective changes in

financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with Government Auditing Standards, we have also issued our report dated December 4, 2009, on our consideration of Virginia Commonwealth University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



AUDITOR OF PUBLIC ACCOUNTS

**VIRGINIA COMMONWEALTH UNIVERSITY**  
**Richmond, Virginia**

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