

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

June 30, 2012



VCU

VIRGINIA COMMONWEALTH UNIVERSITY

Make it real.

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MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2012 (unaudited)

Virginia Commonwealth University's Management Discussion and Analysis (MD&A) provides a discussion and overview of the financial performance during the fiscal year ended June 30, 2012, with comparative information presented for the fiscal year ended June 30, 2011. 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.

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.

Understanding the Financial Statements

The MD&A focuses on VCU and is intended to foster a greater understanding of VCU's financial activities. Since this presentation includes summarized formats it should be read in conjunction with the financial statements which have the following four components.

Statement of Net Position presents a snapshot of VCU's assets and liabilities under the accrual basis of accounting at the end of each fiscal year presented. The Statement of Net Position helps the reader understand the type and amounts of assets available to support operations, how much VCU owes to vendors and bond holders, and net position delineated based upon their availability for future expenditures.

Statement of Revenues, Expenses, and Changes in Net Position presents VCU's revenues and expenses categorized between operating, non-operating and other related activities. The Statement of Revenues, Expenses and Changes in Net Position reports VCU's operating results for each fiscal year presented.

Statement of Cash Flows (SCF) provides information about VCU's sources (receipts) and uses (payments) of cash during the fiscal year. The SCF classifies sources and uses of cash into four categories, and assists in determining whether VCU has the ability to generate future net cash flows to meet its obligations as they come due, and in determining the need for external financing.

Notes to the Financial Statements (Notes) provide additional information to clarify and expand on the financial statements.

The MD&A provides objective analysis of VCU's financial activities based on currently know facts, decisions, and conditions. The MD&A discusses the current year results in comparison to the prior year. To see discussions relating to the prior year, refer to last year's annual financial report on VCU's website

Statement of Net Position

The term “Net Position” refers to the difference between total assets and total liabilities, as an indicator of VCU’s financial condition. Changes in net position that occur over time indicate improvement or deterioration in VCU’s financial condition.

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.

| CONDENSED STATEMENT OF NET POSITION | | | | |
|---|------------------------|----------------------|----------------------|------------|
| as of June 30 | 2012 | 2011 | \$ CHANGE | % CHANGE |
| Current and other assets | 659,345,022 | \$536,541,706 | \$122,803,316 | 23% |
| Capital assets – net | 919,323,916 | 815,923,258 | 103,400,658 | 13% |
| Total assets and deferred outflow s | \$1,578,668,938 | 1,352,464,964 | 226,203,974 | 17% |
| Current liabilities | 168,419,386 | 159,034,137 | 9,385,249 | 6% |
| Long term liabilities | 525,358,908 | 435,549,221 | 89,809,687 | 21% |
| Total liabilities | \$693,778,294 | 594,583,358 | 99,194,936 | 17% |
| Net Position: | | | | |
| Invested in capital assets, net of related debt | 553,099,976 | 507,780,169 | 45,319,807 | 9% |
| Restricted | 72,873,483 | 40,745,832 | 32,127,651 | 79% |
| Unrestricted | 258,917,185 | 209,355,605 | 49,561,580 | 24% |
| Total net position | \$884,890,644 | \$757,881,606 | \$127,009,038 | 17% |

- ◆ Major projects that increased capital assets were the construction of the West Grace Street Housing and Parking Deck, General Classroom Building and the new School of Medicine Building.
- ◆ Long term liabilities increased due to a bond issue in the fall of 2011.
- ◆ Total assets grew by a greater margin than total liabilities, with net position increasing correspondingly.
- ◆ Restricted net position increased principally due to the Glasgow endowment.

Total Net Position

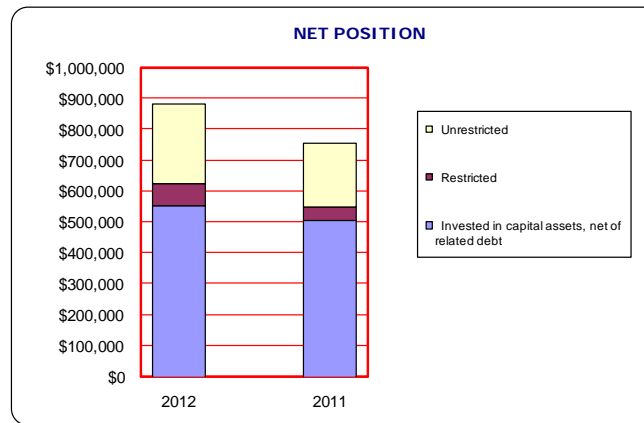
Net position is divided into three major categories:

Invested in capital assets, net of related debt, provides the University's equity in property, plant, and equipment owned by the University.

Restricted net assets are divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted assets is only available for investment purposes. Expendable restricted 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.

Unrestricted net position represents resources available to the University for any lawful purpose.

The following graph and table illustrates the changes in the make-up of net position between 2012 and 2011:



| | Total Net Position | | | |
|---|-----------------------|-----------------------|-----------------------|------------|
| as of June 30, | 2012 | 2011 | \$ Change | % Change |
| Invested in capital assets, net of related debt | \$ 553,099,976 | \$ 507,780,169 | \$ 45,319,807 | 9% |
| Restricted | \$ 72,873,483 | 40,745,832 | 32,127,651 | 79% |
| Unrestricted | \$ 258,917,185 | 209,355,605 | 49,561,580 | 24% |
| Total Net Position | \$ 884,890,644 | \$ 757,881,606 | \$ 127,009,038 | 17% |

- ◆ Restricted net position increased principally due to receipt of the Glasgow Trust.
- ◆ Increases in auxiliary services and overhead allocations have led to an increase in unrestricted net position.

Statement of Revenues, Expenses, and Changes in Net Position

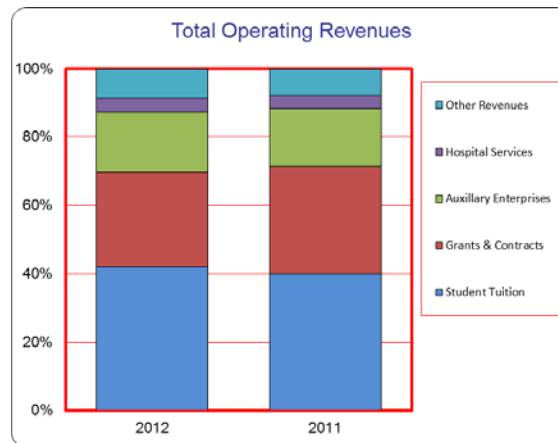
Due to the classification of certain revenues as nonoperating revenue, VCU shows a loss from operations. State appropriations, while budgeted for operations, are considered nonoperating revenues according to Governmental Accounting Standards Board (GASB) 35 standards and reflected accordingly in the nonoperating section of the Statement of Revenues, Expenses and Changes in Net Position, even though these funds are used solely for operating purposes.

The following is a summarized schedule of the revenues and expenses for the University:

| CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION | | | | |
|--|----------------|----------------|----------------|----------|
| For the Year Ended June 30, | 2012 | 2011 | \$ CHANGE | % CHANGE |
| Operating revenue | \$ 626,750,881 | \$ 605,899,469 | \$ 20,851,412 | 3% |
| Operating expense | 821,372,511 | 810,016,821 | 11,355,690 | 1% |
| Operating loss | (194,621,630) | (204,117,352) | 9,495,722 | (5%) |
| Non-operating revenues, net of expenses | 249,666,470 | 270,029,428 | (20,362,958) | (8%) |
| Other Revenues | 71,964,198 | 19,434,192 | 52,530,006 | 270% |
| Increase in net assets | 127,009,038 | 85,346,268 | 41,662,770 | 49% |
| Net assets - beginning of year | 757,881,606 | 672,535,338 | 85,346,268 | 13% |
| Net assets - end of year | \$ 884,890,644 | \$ 757,881,606 | \$ 127,009,038 | 17% |

REVENUES

Operating revenues increased \$21 million, or 3%, in 2012 compared to the prior year.

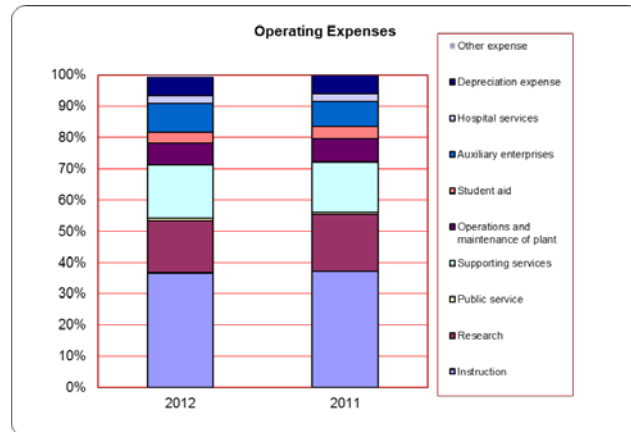


| TOTAL OPERATING REVENUES | | | | |
|---------------------------------|-----------------------|-----------------------|----------------------|-----------|
| For the Year Ended June 30, | 2012 | 2011 | \$ Change | % Change |
| Student Tuition | \$ 264,342,415 | \$ 241,656,157 | \$ 22,686,258 | 9% |
| Grants & contracts | 173,866,282 | 191,468,553 | (17,602,271) | -9% |
| Auxiliary enterprises | 108,094,573 | 101,923,257 | 6,171,316 | 6% |
| Hospital services | 26,419,705 | 22,776,079 | 3,643,626 | 16% |
| Other revenues | 54,027,906 | 48,075,423 | 5,952,483 | 12% |
| Total Operating Revenues | \$ 626,750,881 | \$ 605,899,469 | \$ 20,851,412 | 3% |

- Operating revenues increased due to increases in tuition and fees and increased demand for auxiliary services, which were partially offset by a decrease in federal grants and contracts.

EXPENSES

Operating expenses increased \$11.4 million, or 1%, over 2011 to \$821.4 million. The following chart summarizes operating expenses by functional classification:



| OPERATING EXPENSES BY FUNCTION | | | | |
|-------------------------------------|-----------------------|-----------------------|----------------------|-----------|
| For the Year Ended June 30, | 2012 | 2011 | \$ Change | % Change |
| Instruction | \$ 302,445,443 | \$ 299,972,557 | \$ 2,472,886 | 1% |
| Research | 136,278,068 | 148,077,846 | (11,799,778) | -8% |
| Public service | 8,121,259 | 7,023,802 | 1,097,457 | 16% |
| Supporting services | 140,034,273 | 129,380,216 | 10,654,057 | 8% |
| Operations and maintenance of plant | 57,189,291 | 60,799,144 | (3,609,853) | -6% |
| Student aid | 32,851,387 | 31,741,889 | 1,109,498 | 3% |
| Auxiliary enterprises | 74,337,785 | 64,878,644 | 9,459,141 | 15% |
| Hospital services | 20,348,778 | 19,748,685 | 600,093 | 3% |
| Depreciation expense | 49,760,599 | 48,394,038 | 1,366,561 | 3% |
| Other expense | 5,628 | - | 5,628 | |
| Total operating expenses | \$ 821,372,511 | \$ 810,016,821 | \$ 11,355,690 | 1% |

- ◆ Research expenses decreased due to the reduction of federal grant funding.
- ◆ Auxiliary enterprise expenses increased due to increased demand for housing and dining.

Capital Assets and Related Financing Activities

Capital Assets

At June 30, 2012 VCU had \$1.493M in capital assets, less accumulated depreciation of \$574M, for net capital assets of \$919M. VCU is committed to a comprehensive program of capital initiatives in support of the University's strategic plan.

| Capital assets, net | | | | |
|--------------------------------------|----------------------|----------------------|----------------------|------------|
| as of June 30, | 2012 | 2011 | \$ Change | % Change |
| Land | \$44,524,315 | \$42,801,805 | \$1,722,510 | 4% |
| Land Improvements and infrastructure | 3,330,048 | 3,989,196 | (659,148) | (17%) |
| Buildings | 627,089,624 | 596,692,843 | 30,396,781 | 5% |
| Equipment | 65,796,206 | 64,907,862 | 888,344 | 1% |
| Intangible (computer software) | 2,209,445 | 1,383,483 | 825,962 | 60% |
| Library books | 21,011,598 | 19,899,969 | 1,111,629 | 6% |
| Construction in progress | 155,362,680 | 86,248,100 | 69,114,580 | 80% |
| Total | \$919,323,916 | \$815,923,258 | \$103,400,658 | 13% |

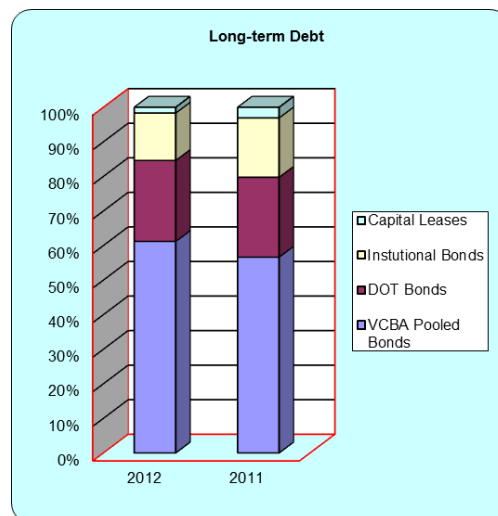
- ◆ Building value increased due to the completion of West Grace Street Parking Decks, Siegel Center, One Cap Square and School of Pharmacy improvements, purchase of Ackell Residence Center and BioTech One.
- ◆ Construction in progress increased principally due to the new School of Medicine, the General Classroom Building, Grace Street Housing projects and the Massey Cancer Center lab support projects.

Debt

At June 30, 2012, the University had \$495 million in long-term debt outstanding.

In November 2011 the University participated in a Virginia College Building Authority (VCBA) issue to fund the following construction projects:

- ◆ Biotech Purchase & Renovation (\$8.9M)
- ◆ New School of Medicine (\$56.1M)
- ◆ Ackell Residence Center (\$10.8M)



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 statement is divided into four sections:

1. Cash used by operating activities shows operating cash flows and shows net cash used by operating activities of the University.
2. Cash provided by noncapital financing activities reflects cash received and disbursed for purposes other than operating, investing and capital financing. GASB requires general appropriations from the Commonwealth and noncapital gifts be shown as cash flows from noncapital financing activities.
3. Cash used by capital and related financing activities presents cash used for the acquisition and construction of capital and related items. Plant fund and related long-term debt activities (except depreciation and amortization), as well as gifts to endowments, are included in cash flows from capital financing activities.
4. Cash used by investing activities reflects cash generated from investments which included purchases, proceeds, and interest.

The following is a summary Statement of Cash Flows for the University for the years ended June 30, 2012 and 2011. For more detailed information, see the accompanying Statement of Cash Flows.

| University | 2012 | 2011 | \$ Change |
|--|------------------|------------------|-----------------|
| Cash provided (used) by: | | | |
| Operating activities | \$ (135,361,341) | \$ (151,138,519) | \$ 15,777,178 |
| Noncapital financing activities | \$ 292,897,401 | \$ 273,392,766 | \$ 19,504,635 |
| Capital and related financing activities | \$ (60,192,792) | \$ (33,632,903) | \$ (26,559,889) |
| Investing activities | \$ (53,696,804) | \$ (57,530,701) | \$ 3,833,897 |
| | | | |
| Net increase in cash | 43,646,464 | 31,090,643 | \$ 12,555,821 |
| | | | |
| Cash, beginning of year | 89,715,523 | 58,624,880 | \$ 31,090,643 |
| | | | |
| Cash, end of year | \$ 133,361,987 | \$ 89,715,523 | \$ 43,646,464 |

- ◆ Cash revenue increased more than expenses which resulted in less cash being used by operating activities.
- ◆ Cash from noncapital financing increased due to gifts.
- ◆ Increase in construction projects led to more cash being used for capital and related financing activities.

Economic Outlook

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

- ◆ State General Fund appropriations are projected at \$182 million for fiscal year 2013.
- ◆ Tuition and fee revenues are projected to increase by \$21.6 million in fiscal year 2013 based on the Board of Visitors approved increase in tuition and mandatory fee rates of 3.9% for undergraduate residents and 4.2% for undergraduate nonresidents.

FINANCIAL STATEMENTS

VIRGINIA COMMONWEALTH UNIVERSITY
STATEMENT OF NET POSITION
As of June 30, 2012

| ASSETS | | | |
|---|-----------------------|--------------------------------|-----------------------|
| | University | VCU Health System Authority | MCV Foundation |
| Current assets: | | | |
| Cash and cash equivalents (Note 2) | \$ 80,015,748 | \$ 203,729,190 | \$ 3,099,000 |
| Short-term investments (Note 2) | 180,146,595 | 393,148,541 | - |
| Accounts receivable: | | | |
| Student, Net of allowance of \$5,724,097 | 12,711,436 | - | - |
| Sponsors | 22,296,566 | - | - |
| Patient, Net of allowance of \$203,449,671 | - | 228,139,791 | - |
| Contributions and gifts, Net of allowance of \$282,302 (Note 23) | - | - | 6,381,000 |
| Due from component units | 3,298,593 | - | - |
| Due from VCBA | 8,918,046 | - | - |
| Due from Commonwealth of Virginia | 131,141 | - | - |
| Student loans receivable, current portion | 2,341,751 | - | 23,000 |
| Other assets | 3,290,837 | 25,239,553 | 6,826,000 |
| Total current assets | 313,150,713 | 850,257,075 | 16,329,000 |
| Noncurrent assets: | | | |
| Restricted cash and cash equivalents (Note 2) | 53,346,239 | - | 2,233,000 |
| Endowment investments (Note 2) | 33,535,902 | - | 156,070,000 |
| Other investments (Note 2) | 104,226,604 | 452,893,388 | 220,016,000 |
| Contributions and gifts, Net of discount and allowance of \$3,361,770 (Note 23) | - | - | 13,092,000 |
| Student loans receivable, Net of allowance of \$1,973,106 | 23,261,950 | - | - |
| Loans and other receivables | - | 32,872,635 | 604,000 |
| Due from component units | 114,263,167 | - | - |
| Other long-term assets | 3,279,663 | 5,367,936 | 333,000 |
| Nondepreciable capital assets (Note 4) | 199,886,995 | 45,539,395 | 217,000 |
| Depreciable capital assets (Note 4) | 719,436,921 | 417,902,975 | 1,322,000 |
| Total noncurrent assets | 1,251,237,441 | 954,576,329 | 393,887,000 |
| Total Assets | 1,564,388,154 | 1,804,833,404 | 410,216,000 |
| Deferred Outflows | 14,280,784 | 64,081,370 | - |
| Total Assets and Deferred Outflows | 1,578,668,938 | 1,868,914,774 | 410,216,000 |
| LIABILITIES | | | |
| Current liabilities: | | | |
| Accounts payable and accrued liabilities (Note 6) | 87,587,680 | 209,955,574 | 386,000 |
| Deferred revenue | 34,247,777 | - | - |
| Due to component units | - | - | - |
| Long-term liabilities - current portion (Note 8) | 46,583,929 | 37,359,423 | 575,000 |
| Total current liabilities | 168,419,386 | 247,314,997 | 961,000 |
| Noncurrent liabilities: | | | |
| Funds held for others (Note 5) | 30,531,040 | - | - |
| Due to component units | - | - | - |
| Other | 14,280,784 | 89,535,404 | 6,826,000 |
| Long-term liabilities (Note 8) | 480,547,084 | 370,236,619 | 9,180,000 |
| Total noncurrent liabilities | 525,358,908 | 459,772,023 | 16,006,000 |
| Total liabilities | 693,778,294 | 707,087,020 | 16,967,000 |
| NET POSITION | | | |
| Invested in capital assets, net of related debt | 553,099,976 | 200,709,637 | 1,539,000 |
| Restricted for: | | | |
| Nonexpendable: | | | |
| Scholarships and fellowships | 3,717,407 | - | - |
| Departmental uses | 35,812,105 | 18,516,990 | 156,070,000 |
| Expendable: | | | |
| Scholarships and fellowships | 10,631,193 | - | - |
| Research | 5,065,437 | - | - |
| Departmental uses | 12,523,332 | 1,455,722 | 199,673,000 |
| Loans | 5,124,009 | - | - |
| Unrestricted | 258,917,185 | 941,145,405 | 35,967,000 |
| Total net position | \$ 884,890,644 | \$ 1,161,827,754 | \$ 393,249,000 |

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

STATEMENT OF NET POSITION
As of June 30, 2012

| | VCU Foundation | VCU Real Estate Foundation | VCU School of Business Foundation |
|---|----------------------|-------------------------------|---|
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents (Note 2) | \$ 2,331,206 | \$ 7,367,973 | \$ 3,545,271 |
| Short-term investments (Note 2) | - | - | - |
| Accounts receivable: | | | |
| Student, Net of allowance of \$5,724,097 | - | - | - |
| Sponsors | - | - | - |
| Patient, Net of allowance of \$203,449,671 | - | - | - |
| Contributions and gifts, Net of allowance of \$ 282,302 (Note 23) | 4,042,789 | 101,167 | 660,097 |
| Due from component units | 254,445 | - | - |
| Due from VCBA | - | - | - |
| Due from Commonwealth of Virginia | - | - | - |
| Student loans receivable, current portion | - | - | - |
| Other assets | 12,588 | 5,065 | 75,312 |
| Total current assets | <u>6,641,028</u> | <u>7,474,205</u> | <u>4,280,680</u> |
| Noncurrent assets: | | | |
| Restricted cash and cash equivalents (Note 2) | 16,443,778 | 2,535,725 | 1,802,665 |
| Endowment investments (Note 2) | 20,888,201 | - | 7,899,828 |
| Other investments (Note 2) | 34,270,104 | - | 23,629,384 |
| Contributions and gifts, Net of discount and allowance of \$3,361,770 (Note 23) | 7,386,508 | - | 1,249,630 |
| Student loans receivable, Net of allowance of \$1,973,106 | - | - | - |
| Loans and other receivables | - | - | - |
| Due from component units | - | - | - |
| Other long-term assets | - | 375,176 | 194,859 |
| Nondepreciable capital assets (Note 4) | - | 10,860,037 | 3,503,036 |
| Depreciable capital assets (Note 4) | - | 30,393,035 | 34,224,238 |
| Total noncurrent assets | <u>78,988,591</u> | <u>44,163,973</u> | <u>72,503,640</u> |
| Total Assets | <u>85,629,619</u> | <u>51,638,178</u> | <u>76,784,320</u> |
| Deferred Outflow s | - | - | - |
| Total Assets and Deferred Outflow s | <u>85,629,619</u> | <u>51,638,178</u> | <u>76,784,320</u> |
| LIABILITIES | | | |
| Current liabilities: | | | |
| Accounts payable and accrued liabilities | 28,487 | 264,364 | 305,061 |
| Deferred revenue | - | 4,185,132 | 25,232 |
| Due to component units | 242,729 | 480,000 | 1,214,582 |
| Long-term liabilities - current portion (Note 8) | - | 4,032,080 | - |
| Total current liabilities | <u>271,216</u> | <u>8,961,576</u> | <u>1,544,875</u> |
| Noncurrent liabilities: | | | |
| Funds held for others (Note 5) | 1,208,422 | - | - |
| Due to component units | 25,091,962 | 15,380,000 | 51,063,004 |
| Other | 145,749 | - | - |
| Long-term liabilities (Note 8) | - | 3,824,114 | - |
| Total noncurrent liabilities | <u>26,446,133</u> | <u>19,204,114</u> | <u>51,063,004</u> |
| Total liabilities | <u>26,717,349</u> | <u>28,165,690</u> | <u>52,607,879</u> |
| NET POSITION | | | |
| Invested in capital assets, net of related debt | - | 17,912,054 | 11,592,133 |
| Restricted for: | | | |
| Nonexpendable: | | | |
| Scholarships and fellow ships | - | - | - |
| Departmental uses | 21,987,585 | - | 7,916,884 |
| Expendable: | | | |
| Scholarships and fellow ships | - | - | - |
| Research | - | - | - |
| Departmental uses | 34,661,569 | - | 5,979,771 |
| Loans | - | - | - |
| Unrestricted | 2,263,116 | 5,560,434 | (1,312,347) |
| Total net position | <u>\$ 58,912,270</u> | <u>\$ 23,472,488</u> | <u>\$ 24,176,441</u> |

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

STATEMENT OF NET POSITION
As of June 30, 2012

| | VCU School of Engineering Foundation | | Eliminations | Total |
|---|--|-----------------------------|--------------------|-----------------------------|
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents (Note 2) | \$ 9,192,353 | \$ - | \$ - | \$ 309,280,741 |
| Short-term investments (Note 2) | - | - | - | 573,295,136 |
| Accounts receivable: | | | | |
| Student, Net of allowance of \$5,724,097 | - | - | - | 12,711,436 |
| Sponsors | - | - | - | 22,296,566 |
| Patient, Net of allowance of \$203,449,671 | - | - | - | 228,139,791 |
| Contributions and gifts, Net of allowance of \$282,302 (Note 23) | 193,054 | - | - | 11,378,107 |
| Due from component units | - | (3,553,038) | - | - |
| Due from VCBA | - | - | - | 8,918,046 |
| Due from Commonwealth of Virginia | - | - | - | 131,141 |
| Student loans receivable, current portion | - | - | - | 2,364,751 |
| Other assets | 16,118 | - | - | 35,465,473 |
| Total current assets | <u>9,401,525</u> | <u>(3,553,038)</u> | <u>-</u> | <u>1,203,981,188</u> |
| Noncurrent assets: | | | | |
| Restricted cash and cash equivalents (Note 2) | - | - | - | 76,361,407 |
| Endowment investments (Note 2) | 11,967,473 | - | - | 230,361,404 |
| Other investments (Note 2) | 57,374,869 | - | - | 892,410,349 |
| Contributions and gifts, Net of discount and allowance of \$3,361,770 (Note 23) | 290,369 | - | - | 22,018,507 |
| Student loans receivable, Net of allowance of \$1,973,106 | - | - | - | 23,261,950 |
| Loans and other receivables | - | - | - | 33,476,635 |
| Due from component units | - | (114,263,167) | - | - |
| Other long-term assets | 2,248,998 | (889,674) | - | 10,909,958 |
| Nondepreciable capital assets (Note 4) | 5,912,659 | - | - | 265,919,122 |
| Depreciable capital assets (Note 4) | 50,453,039 | (24,259,600) | - | 1,229,472,608 |
| Total noncurrent assets | <u>128,247,407</u> | <u>(139,412,441)</u> | <u>-</u> | <u>2,784,191,940</u> |
| Total Assets | <u>137,648,932</u> | <u>(142,965,479)</u> | <u>-</u> | <u>3,988,173,128</u> |
| Deferred Outflows | - | - | - | 78,362,154 |
| Total Assets and Deferred Outflows | <u>137,648,932</u> | <u>(142,965,479)</u> | <u>-</u> | <u>4,066,535,282</u> |
| LIABILITIES | | | | |
| Current liabilities: | | | | |
| Accounts payable and accrued liabilities | 248,284 | - | - | 298,775,450 |
| Deferred revenue | - | (3,808,392) | - | 34,649,749 |
| Due to component units | 2,878,186 | (4,815,497) | - | - |
| Long-term liabilities - current portion (Note 8) | - | (910,980) | - | 87,639,452 |
| Total current liabilities | <u>3,126,470</u> | <u>(9,534,869)</u> | <u>-</u> | <u>421,064,651</u> |
| Noncurrent liabilities: | | | | |
| Funds held for others (Note 5) | - | - | - | 31,739,462 |
| Due to component units | 91,692,951 | (183,227,917) | - | - |
| Other | - | - | - | 110,787,937 |
| Long-term liabilities (Note 8) | - | (14,631,526) | - | 849,156,291 |
| Total noncurrent liabilities | <u>91,692,951</u> | <u>(197,859,443)</u> | <u>-</u> | <u>991,683,690</u> |
| Total liabilities | <u>94,819,421</u> | <u>(207,394,312)</u> | <u>-</u> | <u>1,412,748,341</u> |
| NET POSITION | | | | |
| Invested in capital assets, net of related debt | 700,513 | (5,417,715) | - | 780,135,598 |
| Restricted for: | | | | |
| Nonexpendable: | | | | |
| Scholarships and fellowships | - | - | - | 3,717,407 |
| Departmental uses | 12,271,536 | - | - | 252,575,100 |
| Expendable: | | | | |
| Scholarships and fellowships | - | - | - | 10,631,193 |
| Research | - | - | - | 5,065,437 |
| Departmental uses | 3,910,882 | - | - | 258,204,276 |
| Loans | - | - | - | 5,124,009 |
| Unrestricted | 25,946,580 | 69,846,548 | - | 1,338,333,921 |
| Total net position | <u>\$ 42,829,511</u> | <u>\$ 64,428,833</u> | <u>\$ -</u> | <u>2,653,786,941</u> |

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
As of June 30, 2012

| | University | VCU Health System Authority | MCV Foundation |
|---|-----------------------|--------------------------------|-----------------------|
| Operating revenues: | | | |
| Student tuition and fees, Net of scholarship allowances of \$66,235,270 | \$ 264,342,415 | \$ - | \$ - |
| Federal grants and contracts | 149,510,041 | - | - |
| State grants and contracts | 5,401,412 | - | - |
| Local grants and contracts | 382,405 | - | - |
| Nongovernmental grants and contracts | 18,572,424 | - | - |
| Sales and services of educational departments | 45,708,934 | - | - |
| Auxiliary enterprises: | | | |
| Sales and services, Net of scholarship allowances of \$395,227 | 64,898,128 | - | - |
| Student fees, Net of scholarship allowances of \$3,656,077 | 43,196,445 | - | - |
| Hospital services | 26,419,705 | 1,794,802,125 | - |
| Other revenues | 8,318,972 | - | 2,585,000 |
| Total operating revenues | <u>626,750,881</u> | <u>1,794,802,125</u> | <u>2,585,000</u> |
| Operating expenses: | | | |
| Instruction | 302,445,443 | - | - |
| Research | 136,278,068 | - | - |
| Public service | 8,121,259 | - | - |
| Supporting services: | | | |
| Academic support | 72,754,251 | - | 27,335,000 |
| Student services | 12,994,401 | - | - |
| Institutional support | 54,285,621 | - | 2,274,000 |
| Operations and maintenance of plant | 57,189,291 | - | - |
| Student aid | 32,851,387 | - | 2,042,000 |
| Auxiliary enterprises | 74,337,785 | - | - |
| Hospital services | 20,348,778 | 1,603,295,955 | 116,000 |
| Depreciation expense | 49,760,599 | 58,309,249 | 53,000 |
| Other expenses | 5,628 | - | - |
| Total operating expenses | <u>821,372,511</u> | <u>1,661,605,204</u> | <u>31,820,000</u> |
| Operating gain/(loss) | <u>(194,621,630)</u> | <u>133,196,921</u> | <u>(29,235,000)</u> |
| Nonoperating revenues (expenses): | | | |
| State appropriations (Note 21) | 181,662,361 | - | - |
| Federal Stimulus | 7,773,299 | - | - |
| Gifts | 39,351,500 | 3,008,850 | 12,266,000 |
| Investment income, Net of investment expense of \$3,571,824 | 12,029,102 | 8,943,308 | 5,122,000 |
| Interest on capital asset-related debt | (16,598,139) | (7,306,771) | - |
| Pell revenue | 27,380,840 | - | - |
| Other | (1,932,493) | - | - |
| Net nonoperating revenues | <u>249,666,470</u> | <u>4,645,387</u> | <u>17,388,000</u> |
| Income before other revenues and expenses | 55,044,840 | 137,842,308 | (11,847,000) |
| OTHER REVENUES | | | |
| Additions to permanent endowments | 35,343,170 | - | 7,630,000 |
| Capital appropriations | 35,332,238 | - | - |
| Capital gifts and grants | 1,288,790 | - | - |
| Increase in beneficial interest in trusts | - | (955,672) | - |
| Other | - | (8,110,184) | - |
| Increase (decrease) in net position | <u>127,009,038</u> | <u>128,776,452</u> | <u>(4,217,000)</u> |
| Net position - Beginning of year | <u>757,881,606</u> | <u>1,033,051,302</u> | <u>397,466,000</u> |
| Net position - End of year | <u>\$ 884,890,644</u> | <u>\$ 1,161,827,754</u> | <u>\$ 393,249,000</u> |

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
As of June 30, 2012

| | VCU Foundation | VCU Real Estate Foundation | VCU School of Business Foundation |
|---|----------------------|-------------------------------|---|
| Operating revenues: | | | |
| Student tuition and fees, Net of scholarship allowances of \$66,235,270 | \$ - | \$ - | \$ - |
| 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, Net of scholarship allowances of \$395,227 | - | - | - |
| Student fees, Net of scholarship allowances of \$3,656,077 | - | - | - |
| Hospital services | - | - | - |
| Other revenues | 529,904 | 7,783,420 | 2,964,193 |
| Total operating revenues | <u>529,904</u> | <u>7,783,420</u> | <u>2,964,193</u> |
| Operating expenses: | | | |
| Instruction | - | - | 909,325 |
| Research | - | - | - |
| Public service | - | - | - |
| Supporting services: | | | |
| Academic support | - | - | - |
| Student services | - | - | - |
| Institutional support | - | - | - |
| Operations and maintenance of plant | - | 2,355,859 | - |
| Student aid | - | - | - |
| Auxiliary enterprises | - | - | - |
| Hospital services | - | - | - |
| Depreciation expense | - | 1,718,566 | 1,351,646 |
| Other expenses | 8,102,105 | 162,050 | 2,514,968 |
| Total operating expenses | <u>8,102,105</u> | <u>4,236,475</u> | <u>4,775,939</u> |
| Operating gain/(loss) | <u>(7,572,201)</u> | <u>3,546,945</u> | <u>(1,811,746)</u> |
| Nonoperating revenues (expenses): | | | |
| State appropriations (Note 21) | - | - | - |
| Federal Stimulus | - | - | - |
| Gifts | 11,554,754 | - | 791,280 |
| Investment income, Net of investment expense of \$3,571,824 | (213,032) | 89,675 | 182,757 |
| Interest on capital asset-related debt | - | (1,589,816) | (1,045,132) |
| Pell revenue | - | - | - |
| Other | - | 1,246,631 | - |
| Net nonoperating revenues | <u>11,341,722</u> | <u>(253,510)</u> | <u>(71,095)</u> |
| Income before other revenues and expenses | 3,769,521 | 3,293,435 | (1,882,841) |
| OTHER REVENUES | | | |
| Additions to permanent endowments | 536,559 | - | 184,126 |
| Capital appropriations | - | - | - |
| Capital gifts and grants | - | - | - |
| Increase in beneficial interest in trusts | - | - | - |
| Other | - | - | - |
| Increase (decrease) in net position | <u>4,306,080</u> | <u>3,293,435</u> | <u>(1,698,715)</u> |
| Net position - Beginning of year | 54,606,190 | 20,179,053 | 25,875,156 |
| Net position - End of year | <u>\$ 58,912,270</u> | <u>\$ 23,472,488</u> | <u>\$ 24,176,441</u> |

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
As of June 30, 2012

| | VCU School of Engineering Foundation | Eliminations | Total |
|---|--|----------------------|-------------------------|
| Operating revenues: | | | |
| Student tuition and fees, Net of scholarship allowances of \$66,235,270 | \$ - | \$ (22,188) | \$ 264,320,227 |
| Federal grants and contracts | - | (217,445) | 149,292,596 |
| State grants and contracts | - | - | 5,401,412 |
| Local grants and contracts | - | - | 382,405 |
| Nongovernmental grants and contracts | - | - | 18,572,424 |
| Sales and services of educational departments | - | (868,883) | 44,840,051 |
| Auxiliary enterprises: | | | |
| Sales and services, Net of scholarship allowances of \$395,227 | - | (174,142) | 64,723,986 |
| Student fees, Net of scholarship allowances of \$3,656,077 | - | - | 43,196,445 |
| Hospital services | - | (26,419,705) | 1,794,802,125 |
| Other revenues | 3,192,701 | (12,736,882) | 12,637,308 |
| Total operating revenues | <u>3,192,701</u> | <u>(40,439,245)</u> | <u>2,398,168,979</u> |
| Operating expenses: | | | |
| Instruction | - | (36,236) | 303,318,532 |
| Research | - | (1,972,825) | 134,305,243 |
| Public service | - | (940) | 8,120,319 |
| Supporting services: | | | |
| Academic support | - | (1,696,729) | 98,392,522 |
| Student services | - | (65) | 12,994,336 |
| Institutional support | - | (8,157) | 56,551,464 |
| Operations and maintenance of plant | - | (2,814,374) | 56,730,776 |
| Student aid | - | - | 34,893,387 |
| Auxiliary enterprises | - | (197,882) | 74,139,903 |
| Hospital services | - | (29,965,255) | 1,593,795,478 |
| Depreciation expense | 2,354,808 | (1,187,458) | 112,360,410 |
| Other expenses | 3,431,851 | (12,385,452) | 1,831,150 |
| Total operating expenses | <u>5,786,659</u> | <u>(50,265,373)</u> | <u>2,487,433,520</u> |
| Operating gain/(loss) | <u>(2,593,958)</u> | <u>9,826,128</u> | <u>(89,264,541)</u> |
| Nonoperating revenues (expenses): | | | |
| State appropriations (Note 21) | - | - | 181,662,361 |
| Federal Stimulus | - | - | 7,773,299 |
| Gifts | 3,815,886 | (15,073,703) | 55,714,567 |
| Investment income, Net of investment expense of \$3,571,824 | 7,263,520 | - | 33,417,330 |
| Interest on capital asset-related debt | (2,346,605) | 3,474,277 | (25,412,186) |
| Pell revenue | - | - | 27,380,840 |
| Other | - | (781,119) | (1,466,981) |
| Net nonoperating revenues | <u>8,732,801</u> | <u>(12,380,545)</u> | <u>279,069,230</u> |
| Income before other revenues and expenses | 6,138,843 | (2,554,417) | 189,804,689 |
| OTHER REVENUES | | | |
| Additions to permanent endowments | 146,129 | - | 43,839,984 |
| Capital appropriations | - | - | 35,332,238 |
| Capital gifts and grants | - | (1,288,790) | - |
| Increase in beneficial interest in trusts | - | - | (955,672) |
| Other | - | - | (8,110,184) |
| Increase (decrease) in net position | <u>6,284,972</u> | <u>(3,843,207)</u> | <u>259,911,055</u> |
| Net position - Beginning of year | <u>36,544,539</u> | <u>68,272,040</u> | <u>2,393,875,886</u> |
| Net position - End of year | <u>\$ 42,829,511</u> | <u>\$ 64,428,833</u> | <u>\$ 2,653,786,941</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, 2012

| | University |
|---|------------------|
| Cash flows from operating activities: | |
| Tuition and fees | \$ 262,390,707 |
| Grants and contracts | 180,230,649 |
| Auxiliary enterprise charges | 108,252,156 |
| Sales and services of education departments | 46,387,696 |
| Hospital services charges | 26,001,346 |
| Payments to suppliers | (248,593,886) |
| Payments to employees | (523,057,465) |
| Loans issued to students | (3,048,038) |
| Collection of loans to students | 4,094,191 |
| Other receipts (payments) | 11,981,302 |
| Net cash used by operating activities | (135,361,341) |
| Cash flows from noncapital financing activities: | |
| State appropriations | 181,662,361 |
| Federal Stimulus | 7,773,299 |
| Direct lending receipts | 219,842,098 |
| Direct lending disbursements | (219,842,098) |
| Agency receipts | 34,926,622 |
| Agency disbursements | (33,595,133) |
| Insurance recoveries | 355,795 |
| Pell revenue | 27,380,840 |
| Gifts | 74,393,618 |
| Net cash provided by noncapital financing activities | 292,897,401 |
| Cash flows from capital and related financing activities: | |
| Proceeds from issuance of note payable | 148,945,571 |
| State appropriations for capital assets | 33,540,620 |
| Gifts for capital assets | 1,288,790 |
| Purchase of capital assets | (171,073,013) |
| Principal paid on capital-related debt | (57,514,439) |
| Interest paid on capital-related debt | (15,380,322) |
| Net cash used by capital and related financing activities | (60,192,793) |
| Cash flows from investing activities: | |
| Proceeds from sales and maturities of investments | 698,502,742 |
| Investment income | 9,233,902 |
| Purchases of investments | (761,433,448) |
| Net cash used by investing activities | (53,696,804) |
| Net increase in cash | 43,646,464 |
| Cash and cash equivalents - Beginning of year | 89,715,523 |
| Cash and cash equivalents - End of year | \$ 133,361,987 |
| RECONCILIATION OF NET OPERATING EXPENSES TO NET CASH USED BY OPERATING ACTIVITIES: | |
| Operating gain/(loss) | \$ (194,621,630) |
| Adjustments to reconcile net gain/(loss) to net cash used by | |
| Operating activities: | |
| Depreciation expense | 49,760,599 |
| Provision for uncollectible accounts | (421,857) |
| Changes in assets and liabilities: | |
| Receivables | (6,542,184) |
| Other assets | (21,534) |
| Accounts payable and other liabilities | 3,020,513 |
| Deferred revenue | 14,225,881 |
| Compensated absences and deferred compensation | (1,619,017) |
| Deposits | 857,888 |
| Net cash used by operating activities | \$ (135,361,341) |

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

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Virginia Commonwealth University is a public research university located in Richmond, the state capital of Virginia. VCU was founded in 1838 as the medical department of Hampden-Sydney College, becoming the Medical College of Virginia in 1854. In 1968, the General Assembly merged MCV with the Richmond Professional Institute, founded in 1917, to create Virginia Commonwealth University.

Today, more than 31,000 students pursue 222 degree and certificate programs through VCU's 13 schools and one college. The VCU Health System supports the University's health care education, research and patient care mission. VCU is designated as a research university with very high research activity by the Carnegie Foundation.

A broad array of university-approved centers and institutes of excellence – involving faculty from multiple disciplines in public policy, biotechnology and health care discoveries – supports the University's research mission. Twenty-eight graduate and first-professional programs are ranked by U.S. News & World Report as among the best in the country.

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 to 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), Virginia Premier Health Plan (VA Premier), University Health Services, Inc. and subsidiaries (UHS), Children's Hospital (Children's) and MCVAP. MCVH, a division of the Authority, is an approximately 805-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 with the Authority as sole corporate member, 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, VA Premier, UHS, Children's 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. 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 (HMOs) whose primary purpose is to provide quality health care within a managed care framework. In June 2010, CCHP sold its rights to serve Medicaid members pursuant to its contract with the State of South Carolina and will no longer underwrite new business in South Carolina. CCHP has certain claims run-out and transition obligations that will continue into 2012. Management intends to liquidate the remaining assets of CCHP subsequent to the claims run-out.

Effective June 30, 2010, the Authority became the sole corporate member of Children's Hospital (Children's). As sole corporate member, the Authority holds certain reserve and related powers with respect to the governance, operations and corporate existence of Children's. Children's was created in 1920 and is a Virginia not-for-profit corporation. The 47-bed hospital provides pediatric specialty care to both inpatients and outpatients. The merger qualified and was accounted for under the pooling-of-interests accounting method.

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

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, Virginia Commonwealth University School of Engineering Foundation, and Virginia Commonwealth School of Business 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. Medicaid reimburses the Authority for a substantial portion of its costs of providing services to indigent patients. The estimated costs for the services provided for this care, net of reimbursement from the Commonwealth of Virginia, is approximately \$12,673,000 in 2012. The Authority's Medicaid cost reports have been audited by the Medicaid program representative through June 30, 2010.

L. Net Patient Service Revenue

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

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 \$19,059,000 in 2012. Settlements due to and from third-party payors include amounts that are currently under appeal with various federal and state agencies.

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 or discounted rates. Outpatient services rendered to Anthem subscribers are reimbursed at discounted rates or applicable fee schedule. The rates can be subject to retroactive adjustment based on quality standards or calculations above a predetermined charge increase percentage.

- ◆ 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 \$378,400,000 in 2012. The Authority's Medicaid cost reports have been audited by the Medicaid program representative through June 30, 2010.

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.

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 Position

GASB standards require the classification of net position into three components – net investment in capital assets; amounts that are restricted; and amounts that are unrestricted. These classifications are defined as follows:

- ◆ 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 consists of gifts that have been received for endowment purposes, the corpus of which cannot be expended.
- ◆ Expendable restricted represents restricted assets reduced by liabilities related to those assets. Assets may be restricted through external constraints imposed by grantors, contributors, or creditors through bond covenants.
- ◆ Unrestricted is the net amount of assets and related liabilities that do not have external restrictions on the use of the funds.

Unexpended appropriations for capital projects are included in expendable restricted net position 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 position consists 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 \$16,189,468, 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.

Children's recognizes its beneficial interest in assets held by Children's Hospital Foundation by recording an equity interest equal to its share of net assets of the Children's Hospital Foundation. Equity interest of \$2,870,417 for June 30, 2012 is included in assets whose use is limited.

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. 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

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, except the Glasgow Trust, 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 Position.

The University received \$31.230 million from the Margaret Branch Glasgow Trust on January 4, 2012 and \$4.057 million from the Arthur Glasgow Trust on February 6, 2012. This endowment is managed by JP Morgan. Net appreciation of the Margaret Glasgow Trust is recorded in the restricted-expendable net position to reflect the fact that the net appreciation must be spent in accordance with the stipulations set forth in the underlying endowment agreement. The Arthur

Glasgow Trust placed no restrictions on spending so the net appreciation is recorded as unrestricted net position. At June 30, 2012 net appreciation of \$324,060 is available to be spent.

The long-term objective of the spending policy is to maintain the purchasing power of the Glasgow Endowed Fund with the goal of providing a predictable and sustainable level of income to support current operations. The rule should reflect best industry practices among endowment institutions. Under this policy, spending for a given year equals the sum of (i) 70% of spending in the previous year, adjusted for inflation as measured by the Higher Education Price Index (HEPI) for the 12 months prior to the start of the fiscal year, and (ii) 30 % of the trailing three-year average market value of the endowment investment pool multiplied by the long-term spending rate (currently 5%). Spending on gifts received in the previous fiscal year will receive a pro-rated amount based on the number of whole months each gift was included in the fund.

If the Glasgow Endowment falls underwater, the payout and distribution would be in compliance with Virginia's Uniform Prudent Management of Institutional Funds Act (§ 55-268.11 et seq., "UPMIFA").

As of June 30, 2012, the University held the following investments:

| Investment Type | Fair Value | Investments Maturities (In Years) | | | |
|-------------------------------------|-----------------------|-----------------------------------|-----------------------|----------------------|----------------------|
| | | <1 | 1-5 | 6-10 | >10 |
| U.S. Treasury and Agency Securities | \$ 44,908,975 | \$ 13,783,326 | \$ 17,905,697 | \$ 476,127 | \$ 12,743,825 |
| Corporate Notes | 24,056,596 | 5,263,008 | 18,038,613 | 389,629 | 365,346 |
| Corporate Bonds | 54,450,563 | 21,311,344 | 28,619,062 | 3,011,575 | 1,508,582 |
| Municipal Securities | 1,503,323 | N/A | 1,135,038 | 151,184 | 217,101 |
| Asset Backed Securities | 52,577,529 | N/A | 37,814,931 | 3,234,096 | 11,528,502 |
| Agency Unsecured Bonds and Notes | 14,316,010 | 4,200,630 | 10,115,380 | N/A | N/A |
| Agency Mortgage Backed Securities | 12,334,437 | 2,564,452 | 5,512,164 | 3,138,591 | 1,119,230 |
| Mutual and Money Market Funds | 80,103,292 | 9,679,950 | N/A | 48,785,837 | 21,637,505 |
| Alternative assets: | | | | | |
| Alternative assets (hedge funds) | 8,000,029 | N/A | N/A | N/A | N/A |
| Equity | 13,187,453 | N/A | N/A | N/A | N/A |
| Fixed income | 12,470,894 | N/A | N/A | N/A | N/A |
| Total | <u>\$ 317,909,101</u> | <u>\$ 56,802,710</u> | <u>\$ 119,140,885</u> | <u>\$ 59,187,039</u> | <u>\$ 49,120,091</u> |

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

As of June 30, 2012, the Moody's ratings of the University's investments in corporate notes and bonds were as follows:

| Rating | Corporate Notes | Corporate Bonds |
|---------|----------------------|----------------------|
| Aaa | \$ 4,411,648 | \$ 8,319,035 |
| Aa1 | - | 3,381,436 |
| Aa2 | 1,403,262 | 3,656,298 |
| Aa3 | 6,106,371 | 9,233,307 |
| A1 | 3,470,657 | 7,587,800 |
| A2 | 7,479,106 | 7,710,739 |
| A3 | 216,064 | 6,072,041 |
| Baa1 | 94,942 | 2,787,089 |
| Baa2 | 874,546 | 4,198,841 |
| Baa3 | - | 149,041 |
| P-1 | - | 399,936 |
| A-(S&P) | - | 955,000 |
| Total | <u>\$ 24,056,596</u> | <u>\$ 54,450,563</u> |

As of June 30, 2012, the Authority held the following investments:

| Investment Type: | Fair Value | Investments Maturities (In Years) | | | |
|--|-----------------------|-----------------------------------|----------------------|----------------------|----------------------|
| | | <1 | 1-5 | 6-10 | >10 |
| U.S. Treasury and Agency Securities | \$ 94,377,974 | \$ 75,153,522 | \$ 15,585,347 | \$ 1,219,811 | \$ 2,118,644 |
| Cash and cash equivalents | 82,338,550 | 82,338,550 | N/A | N/A | N/A |
| Corporate notes | 61,222,772 | 22,514,681 | 26,675,668 | 9,526,378 | 2,506,045 |
| Corporate bonds | 20,054,079 | 4,308,620 | 9,575,967 | 2,414,394 | 3,755,098 |
| Asset backed securities | 24,420,268 | 1,180,827 | 16,750,893 | 2,114,692 | 4,373,856 |
| Agency backed mortgages | 40,419,103 | 9,154,038 | 12,273,978 | 2,630,031 | 16,361,056 |
| Beneficial interest in perpetual trust | 16,189,468 | N/A | N/A | N/A | N/A |
| Equity interest in Foundation | 2,870,417 | N/A | N/A | N/A | N/A |
| Mutual funds | 64,843,739 | N/A | N/A | N/A | N/A |
| Index funds | 48,860,702 | N/A | N/A | N/A | N/A |
| Marketable equity securities | 15,004,120 | N/A | N/A | N/A | N/A |
| Real estate | 14,434,983 | N/A | N/A | N/A | N/A |
| Commercial paper | 249,918,933 | 249,918,933 | - | - | - |
| Repurchase agreements | 1,550,000 | N/A | N/A | N/A | N/A |
| Investment companies | 109,536,821 | N/A | N/A | N/A | N/A |
| Total | <u>\$ 846,041,929</u> | <u>\$ 444,569,171</u> | <u>\$ 80,861,853</u> | <u>\$ 17,905,306</u> | <u>\$ 29,114,699</u> |

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

As of June 30, 2012, the foundations held the following investments:

| Investment Type: | VCU Foundation | VCU School of Business Foundation | VCU School of Engineering Foundation | Medical College of Virginia Foundation |
|-----------------------------------|----------------------|---|--|--|
| US Treasury and Agency Securities | \$ 405,643 | \$ 1,535,255 | \$ - | \$ 70,256,000 |
| Common & Preferred Stocks | 3,935,100 | 2,158,957 | - | 16,261,601 |
| Corporate Bonds | 5,489,948 | 2,456,059 | - | 37,803,000 |
| Asset Backed Securities | 2,700,924 | 433,773 | - | 5,730,000 |
| Mutual and Money Market Funds | 6,370,552 | 3,382,698 | - | 79,799,399 |
| Index Funds | 6,146,869 | 5,891,564 | - | - |
| Alternative Investments | | | | |
| Emerging Markets | 1,254,968 | 1,160,222 | | 7,059,000 |
| Hedged Equity Funds | 18,934,904 | 10,372,059 | 42,639,568 | 111,598,000 |
| International | 4,149,896 | 1,783,878 | 25,775,206 | 25,746,000 |
| Real Estate Funds | 5,659,058 | 2,354,747 | - | 21,648,000 |
| Life Income Investment | 110,443 | - | - | 185,000 |
| Buyout Fund | - | - | 927,568 | - |
| Total | <u>\$ 55,158,305</u> | <u>\$ 31,529,212</u> | <u>\$ 69,342,342</u> | <u>\$ 376,086,000</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 Position 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 \$298,799.

4. CAPITAL ASSET

Capital asset activity for the year ended June 30, 2012 was as follows:

| University: | Beginning Balance | Additions | Reductions | Ending Balance |
|---|-----------------------|-----------------------|------------------------|-----------------------|
| Nondepreciable capital assets: | | | | |
| Land | \$ 42,801,804 | \$ 4,724,621 | \$ (3,002,110) | \$ 44,524,315 |
| Construction in progress | 86,248,101 | 113,985,168 | (44,870,589) | 155,362,680 |
| Total nondepreciable capital assets | <u>129,049,905</u> | <u>118,709,789</u> | <u>(47,872,699)</u> | <u>199,886,995</u> |
| Depreciable capital assets: | | | | |
| Land Improvements and infrastructure | 18,689,171 | 198,126 | - | 18,887,297 |
| Buildings | 885,130,089 | 57,927,817 | (6,499,136) | 936,558,770 |
| Equipment | 175,976,395 | 16,728,377 | (5,319,380) | 187,385,392 |
| Intangible Assets | 8,460,248 | 1,476,926 | (147,079) | 9,790,095 |
| Library Books | 131,911,118 | 8,920,816 | - | 140,831,934 |
| Total depreciable capital assets | <u>1,220,167,021</u> | <u>85,252,062</u> | <u>(11,965,595)</u> | <u>1,293,453,488</u> |
| Less accumulated depreciation for: | | | | |
| Land Improvements and infrastructure | 14,699,978 | 857,272 | - | 15,557,250 |
| Buildings | 288,437,248 | 25,899,147 | (4,867,249) | 309,469,146 |
| Equipment | 111,068,533 | 14,544,024 | (4,023,372) | 121,589,185 |
| Intangible Assets | 7,076,763 | 650,966 | (147,079) | 7,580,650 |
| Library Books | 112,011,148 | 7,809,188 | - | 119,820,336 |
| Total accumulated depreciation | <u>533,293,670</u> | <u>49,760,597</u> | <u>(9,037,700)</u> | <u>574,016,567</u> |
| Total depreciable capital assets, net | <u>686,873,351</u> | <u>35,491,465</u> | <u>(2,927,895)</u> | <u>719,436,921</u> |
| Total capital assets - net | <u>\$ 815,923,256</u> | <u>\$ 154,201,254</u> | <u>\$ (50,800,594)</u> | <u>\$ 919,323,916</u> |

Interest capitalized as part of construction in progress was \$2,524,317.

| Authority: | | | | |
|---------------------------------------|-----------------------|----------------------|------------------------|-----------------------|
| Land | \$ 5,114,816 | \$ 2,609,490 | \$ - | \$ 7,724,306 |
| Construction in progress | 10,138,217 | 63,404,861 | (35,727,989) | 37,815,089 |
| Total nondepreciable capital assets | <u>15,253,033</u> | <u>66,014,351</u> | <u>(35,727,989)</u> | <u>45,539,395</u> |
| Buildings | 553,031,937 | 14,720,157 | (70,025) | 567,682,069 |
| Equipment | 256,783,202 | 23,271,291 | (3,738,642) | 276,315,851 |
| Intangible Assets | 84,348,869 | 709,189 | - | 85,058,058 |
| Total depreciable capital assets | <u>894,164,008</u> | <u>38,700,637</u> | <u>(3,808,667)</u> | <u>929,055,978</u> |
| Less accumulated depreciation | 456,585,489 | 58,232,946 | (3,665,432) | 511,153,003 |
| Total depreciable capital assets, net | <u>437,578,519</u> | <u>(19,532,309)</u> | <u>(143,235)</u> | <u>417,902,975</u> |
| Total capital assets - net | <u>\$ 452,831,552</u> | <u>\$ 46,482,042</u> | <u>\$ (35,871,224)</u> | <u>\$ 463,442,370</u> |

| MCV Foundation: | | | | |
|-------------------------------|---------------------|------------------|-------------|---------------------|
| Land | \$ 217,000 | \$ - | \$ - | \$ 217,000 |
| Property and equipment | 2,070,000 | - | - | 2,070,000 |
| Total capital assets | <u>2,287,000</u> | <u>-</u> | <u>-</u> | <u>2,287,000</u> |
| Less accumulated depreciation | 695,000 | 53,000 | - | 748,000 |
| Total capital assets - net | <u>\$ 1,592,000</u> | <u>\$ 53,000</u> | <u>\$ -</u> | <u>\$ 1,539,000</u> |

| VCU Real Estate Foundation: | | | | |
|---------------------------------------|----------------------|---------------------|------------------------|----------------------|
| Nondepreciable capital assets: | | | | |
| Land | \$ 8,819,757 | \$ - | \$ (2,750,386) | \$ 6,069,371 |
| Construction in progress | 319,633 | 4,471,033 | - | 4,790,666 |
| Total nondepreciable capital assets | <u>9,139,390</u> | <u>4,471,033</u> | <u>(2,750,386)</u> | <u>10,860,037</u> |
| Depreciable capital assets: | | | | |
| Buildings | 60,032,257 | 116,900 | (20,938,457) | 39,210,700 |
| Equipment | 2,605,287 | - | (2,000,000) | 605,287 |
| Total depreciable capital assets | <u>62,637,544</u> | <u>116,900</u> | <u>(22,938,457)</u> | <u>39,815,987</u> |
| Less accumulated depreciation | 16,792,256 | - | (7,369,304) | 9,422,952 |
| Total before eliminations | 54,984,678 | 4,587,933 | (18,319,539) | 41,253,072 |
| Less included on University | 9,607,722 | 257,359 | - | 9,350,363 |
| Total capital assets - net | <u>\$ 45,376,956</u> | <u>\$ 4,845,292</u> | <u>\$ (18,319,539)</u> | <u>\$ 31,902,709</u> |

| VCU School of Business Foundation: | | | | |
|------------------------------------|-------------------|--------------------|----------|-------------------|
| Land | \$ 3,503,036 | \$ - | \$ - | \$ 3,503,036 |
| Buildings and equipment | 40,198,124 | - | - | 40,198,124 |
| Total capital assets | <u>43,701,160</u> | <u>-</u> | <u>-</u> | <u>43,701,160</u> |
| Less accumulated depreciation | 4,633,949 | 1,339,937 | - | 5,973,886 |
| Total capital assets - net | <u>39,067,211</u> | <u>(1,339,937)</u> | <u>-</u> | <u>37,727,274</u> |

| VCU School of Engineering Foundation: | Beginning Balance | Additions | Reductions | Ending Balance |
|---------------------------------------|----------------------|---------------------|-------------|----------------------|
| Land | \$ 3,112,659 | \$ 2,800,000 | \$ - | \$ 5,912,659 |
| Buildings and equipment | 68,997,682 | - | - | 68,997,682 |
| Total capital assets | <u>72,110,341</u> | <u>2,800,000</u> | <u>-</u> | <u>74,910,341</u> |
| Less accumulated depreciation | 16,248,053 | 2,296,590 | - | 18,544,643 |
| Total before eliminations | 55,862,288 | 503,410 | - | 56,365,698 |
| Less included on University | 15,770,489 | 861,252 | - | 14,909,237 |
| Total capital assets - net | <u>\$ 40,091,799</u> | <u>\$ 1,364,662</u> | <u>\$ -</u> | <u>\$ 41,456,461</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 2012 insurance recoveries of \$355,795 are reported as other nonoperating income.

GASB 51, *Accounting and Reporting for Intangible Assets*, effective for periods beginning after June 15, 2009, requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. These include but are not limited to easements, water rights, timber rights, patents, trademarks and computer software. Intangible assets for the University and the Authority were previously included in the values for equipment.

5. FUNDS HELD FOR OTHERS

At June 30, 2012, the University held deposits for others, which are composed of the following:

| | Funds held for others |
|----------------------------------|--------------------------|
| Federal loan programs | \$ 25,876,687 |
| Student organizations and others | 4,654,353 |
| Total | <u>\$ 30,531,040</u> |

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consisted of the following as of June 30, 2012:

| | |
|-------------------|----------------------|
| Vendor payable | \$ 39,969,320 |
| Retainage payable | 444,374 |
| Accrued wages | 42,195,075 |
| Interest payable | 4,978,911 |
| | <u>\$ 87,587,680</u> |

7. DEFERRED REVENUE

Deferred revenue consisted of the following as of June 30, 2012:

| | |
|--------------------------|----------------------|
| Prepaid tuition and fees | \$ 18,453,721 |
| Grants and contracts | 15,794,056 |
| Total | <u>\$ 34,247,777</u> |

8. LONG TERM LIABILITIES

Long term liabilities consist of bonds and 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 2037. Included in the total General Revenue Pledge Bonds are outstanding bonds payable in the amount of \$15,860,000, 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 \$870,947 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.

New General Obligation Bond, series 2011A, totaling \$25,830,000 was issued in November 2011. This bond was issued to fund construction of the West Grace Street Housing - North. These bonds have a variable interest rate. The bonds are due June 1, 2036.

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 3% to 5%.

In November 2011 the University issued notes to VCBA totaling \$75,890,000 for the following projects:

| <u>Project</u> | <u>Amount</u> | <u>Interest Rate</u> |
|-------------------------------|----------------------|----------------------|
| New school of medicine | \$ 56,105,000 | 3.0-5.0% |
| Biotech purchase & renovation | 8,990,000 | 3.0-5.0% |
| Ackell residence center | 10,795,000 | 3.0-5.0% |
| | <u>\$ 75,890,000</u> | |

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 2.00% -5.75%.

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 the current year, the University issued \$37,105,947 in notes payable with an average interest rate of 2.75% to 5% to advance refund \$38,845,337 of 2003A , 2004A and 2005A Series VCBA bonds with and interest rates of 4% to 5%. The net proceeds were placed with an escrow agent to provide for all future debt service payments on the 2003A, 2004A and 2005A Series bonds issued by the VCBA. As a result, the VCBA bonds are considered to be defeased and the University has removed the liability for those notes from the statement of net position. The University obtained an economic gain of \$3,201,778 for the advanced refunding. The 2012A Series VCBA Educational Revenue Bonds were issued at a premium of \$6,647,645 in excess of the face value of the bonds. That premium is reported in the long-term debt section of the financial statements.

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.

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

| University : | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|-----------------------|-----------------------|------------------------|-----------------------|------------------------|
| Bonds payable: | | | | | |
| General Revenue Pledge Bonds Commonwealth of Virginia Revenue Bonds | \$ 111,914,587 | \$ - | \$ (5,841,159) | \$ 106,073,428 | \$ 6,360,000 |
| | <u>52,777,820</u> | <u>28,463,901</u> | <u>(3,488,459)</u> | <u>77,753,262</u> | <u>3,200,985</u> |
| Total bonds payable | <u>164,692,407</u> | <u>28,463,901</u> | <u>(9,329,618)</u> | <u>183,826,690</u> | <u>9,560,985</u> |
| Notes payable: | | | | | |
| Virginia College Building Authority | 231,527,181 | 120,481,662 | (49,303,989) | 302,704,854 | 13,795,000 |
| Capital leases: | | | | | |
| Virginia Public Building Authority | 4,566,840 | - | (1,294,875) | 3,271,965 | 1,365,107 |
| Virginia Biotechnology Research Park Partnership Authority | 2,850,684 | - | (2,850,684) | - | - |
| AD Center Development LLC | 5,135,433 | - | (218,866) | 4,916,567 | 228,439 |
| Total capital leases | <u>12,552,957</u> | <u>-</u> | <u>(4,364,425)</u> | <u>8,188,532</u> | <u>1,593,546</u> |
| Installment purchases | 693,899 | - | (486,580) | 207,319 | 207,319 |
| Total long-term debt | <u>409,466,444</u> | <u>148,945,563</u> | <u>(63,484,612)</u> | <u>494,927,395</u> | <u>25,156,850</u> |
| Compensated absences | 29,684,708 | 25,224,680 | (26,233,124) | 28,676,264 | 20,135,737 |
| Deferred compensation | 4,137,927 | 1,016,197 | (1,626,770) | 3,527,354 | 1,291,342 |
| Total | <u>\$ 443,289,079</u> | <u>\$ 175,186,440</u> | <u>\$ (91,344,506)</u> | <u>\$ 527,131,013</u> | <u>\$ 46,583,929</u> |
| Authority: | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
| General Revenue Pledge Bonds | \$ 217,760,000 | \$ 121,069,055 | \$ (2,896,718) | \$ 335,932,337 | \$ 2,895,000 |
| Notes Payable | 1,210,444 | - | (220,107) | 990,337 | 230,107 |
| Capital leases | - | - | - | - | - |
| Installment purchases | 6,426,771 | - | (3,026,067) | 3,400,704 | 2,455,998 |
| Total long-term debt | <u>225,397,215</u> | <u>121,069,055</u> | <u>(6,142,892)</u> | <u>340,323,378</u> | <u>5,581,105</u> |
| Estimated losses on malpractice Claims | 23,501,213 | 5,052,077 | (5,085,671) | 23,467,619 | 3,500,000 |
| Workers Compensation | 18,408,983 | 596,732 | (1,478,988) | 17,526,727 | 2,000,000 |
| Compensated absences | 24,351,931 | 40,247,396 | (38,321,009) | 26,278,318 | 26,278,318 |
| Total | <u>\$ 291,659,342</u> | <u>\$ 166,965,260</u> | <u>\$ (51,028,560)</u> | <u>\$ 407,596,042</u> | <u>\$ 37,359,423</u> |
| MCV Foundation: | | | | | |
| Note Payable | \$ 10,645,000 | \$ - | \$ (890,000) | \$ 9,755,000 | \$ 575,000 |
| VCU Real Estate Foundation: | | | | | |
| Notes payable | \$ 9,884,934 | \$ - | \$ (6,018,740) | \$ 3,866,194 | \$ 3,824,080 |
| Tax exempt bonds payable | 17,468,000 | - | (13,478,000) | 3,990,000 | 208,000 |
| Total | <u>\$ 27,352,934</u> | <u>\$ -</u> | <u>\$ (19,496,740)</u> | <u>\$ 7,856,194</u> | <u>\$ 4,032,080</u> |

Long-term debt matures as follows:

| | Fiscal Year | Revenue Bonds | Notes Payable | Capital Leases | Installment Purchases | Total |
|------------------------------------|-----------------|-----------------------|-----------------------|---------------------|--------------------------|-----------------------|
| <u>University:</u> | | | | | | |
| | 2013 | \$ 9,560,985 | \$ 13,795,000 | \$1,593,546 | \$ 207,319 | \$ 25,156,850 |
| | 2014 | 9,642,669 | 14,465,000 | 1,037,094 | - | 25,144,763 |
| | 2015 | 10,098,164 | 15,020,000 | 788,957 | - | 25,907,121 |
| | 2016 | 9,602,466 | 15,755,000 | 827,783 | - | 26,185,249 |
| | 2017 | 8,220,596 | 16,525,000 | 271,063 | - | 25,016,659 |
| | 2018-2022 | 38,770,000 | 90,860,000 | 1,543,688 | - | 131,173,688 |
| | 2023-2027 | 38,275,000 | 82,545,000 | 1,911,763 | - | 122,731,763 |
| | 2028-2032 | 41,075,000 | 37,384,989 | 214,638 | - | 78,674,627 |
| | 2033-2037 | 16,845,000 | - | - | - | 16,845,000 |
| | 2038-2040 | - | - | - | - | - |
| Add: | Unamortized | - | - | - | - | - |
| | Premium | 3,396,563 | 23,953,834 | - | - | 27,350,397 |
| Less: | Deferred Charge | (1,659,753) | (7,598,969) | - | - | (9,258,722) |
| | Total | <u>\$ 183,826,690</u> | <u>\$ 302,704,854</u> | <u>\$ 8,188,532</u> | <u>\$ 207,319</u> | <u>\$ 494,927,395</u> |
| <u>Authority:</u> | | | | | | |
| | 2013 | \$ 2,895,000 | \$ 230,107 | \$ - | \$ 2,455,998 | \$ 5,581,105 |
| | 2014 | 3,085,000 | 238,834 | - | 944,706 | 4,268,540 |
| | 2015 | 5,585,000 | 253,836 | - | - | 5,838,836 |
| | 2016 | 5,755,000 | 267,560 | - | - | 6,022,560 |
| | 2017 | 5,945,000 | - | - | - | 5,945,000 |
| | 2018-2022 | 33,095,000 | - | - | - | 33,095,000 |
| | 2023-2027 | 62,120,000 | - | - | - | 62,120,000 |
| | 2028-2032 | 70,220,000 | - | - | - | 70,220,000 |
| | 2033-2037 | 96,845,000 | - | - | - | 96,845,000 |
| | 2038-2040 | 49,350,000 | - | - | - | 49,350,000 |
| Add: | Unamortized | - | - | - | - | - |
| | Premium | 1,037,337 | - | - | - | 1,037,337 |
| | Total | <u>\$ 335,932,337</u> | <u>\$ 990,337</u> | <u>\$ -</u> | <u>\$ 3,400,704</u> | <u>\$ 340,323,378</u> |
| <u>MCV Foundation:</u> | | | | | | |
| | 2013 | \$ - | \$ 575,000 | \$ - | \$ - | \$ 575,000 |
| | 2014 | - | 605,000 | - | - | 605,000 |
| | 2015 | - | 600,000 | - | - | 600,000 |
| | 2016 | - | 635,000 | - | - | 635,000 |
| | 2017 | - | 665,000 | - | - | 665,000 |
| | Thereafter | - | 6,675,000 | - | - | 6,675,000 |
| | Total | <u>\$ -</u> | <u>\$ 9,755,000</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 9,755,000</u> |
| <u>VCU Real Estate Foundation:</u> | | | | | | |
| | 2013 | \$ 208,000 | \$ 3,824,080 | \$ - | \$ - | \$ 4,032,080 |
| | 2014 | 217,000 | 13,672 | - | - | 230,672 |
| | 2015 | 228,000 | 14,807 | - | - | 242,807 |
| | 2016 | 238,000 | 13,635 | - | - | 251,635 |
| | 2017 | 250,000 | - | - | - | 250,000 |
| | Thereafter | 2,849,000 | - | - | - | 2,849,000 |
| | Total | <u>\$ 3,990,000</u> | <u>\$ 3,866,194</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 7,856,194</u> |

A summary of future interest requirements as of June 30, 2012 follows:

| Fiscal Year | Revenue Bonds | Notes Payable | Total |
|--------------------|----------------------|-----------------------|-----------------------|
| <u>University:</u> | | | |
| 2013 | \$ 7,386,047 | \$ 12,671,730 | \$ 20,057,777 |
| 2014 | 7,009,238 | 12,119,528 | 19,128,766 |
| 2015 | 6,570,578 | 11,431,227 | 18,001,805 |
| 2016 | 6,109,493 | 10,714,285 | 16,823,778 |
| 2017 | 5,710,747 | 9,907,045 | 15,617,792 |
| 2018-2022 | 23,884,338 | 37,082,162 | 60,966,500 |
| 2023-2027 | 16,696,095 | 16,259,107 | 32,955,202 |
| 2028-2032 | 8,555,903 | 3,223,900 | 11,779,803 |
| 2033-2037 | 1,811,533 | - | 1,811,533 |
| <u>Total</u> | <u>\$ 83,733,972</u> | <u>\$ 113,408,984</u> | <u>\$ 197,142,956</u> |

| | | | |
|-------------------|-----------------------|-------------------|-----------------------|
| <u>Authority:</u> | | | |
| 2013 | \$ 5,696,356 | \$ 46,841 | \$ 5,743,197 |
| 2014 | 5,690,748 | 35,336 | 5,726,084 |
| 2015 | 5,636,956 | 23,394 | 5,660,350 |
| 2016 | 5,557,448 | 10,702 | 5,568,150 |
| 2017 | 5,475,481 | - | 5,475,481 |
| 2018-2022 | 25,701,397 | - | 25,701,397 |
| 2023-2027 | 22,197,377 | - | 22,197,377 |
| 2028-2032 | 17,300,150 | - | 17,300,150 |
| 2033-2037 | 11,032,124 | - | 11,032,124 |
| 2038-2042 | 3,345,185 | - | 3,345,185 |
| <u>Total</u> | <u>\$ 107,633,222</u> | <u>\$ 116,273</u> | <u>\$ 107,749,495</u> |

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, 2012, 80 faculty members were enrolled in the plan. Payments during fiscal year 2012 were \$1,626,711. The present value of future Plan payment schedule follows:

| <u>Fiscal year</u> | <u>Plan obligations</u> |
|--------------------|-------------------------|
| 2013 | \$ 1,291,341 |
| 2014 | 1,049,754 |
| 2015 | 636,774 |
| 2016 | 292,649 |
| 2017 | 172,612 |
| 2018 | 84,224 |
| Total | <u>\$ 3,527,354</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, 2012 were \$181,447,672. The University's total payroll costs for the year were \$433,835,000.

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 \$5,357,541 for the year ended June 30, 2012.

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, 2012. 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 for faculty hired before July 1, 2010) plus interest and dividends. For faculty hired on or after July 1, 2010, the 5% employee contribution is paid by the employee, and the employer contribution, paid by the University, is 8.5%.

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 \$161,010,217 in fiscal year 2012. Total pension costs under these plans were \$16,431,445 in fiscal year 2012.

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. Also, the long-term disability benefit provided by the "Virginia Sickness and Disability Program" (VSDP) is administered by VRS 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 MCVH, has overall responsibility for these plans. Total pension costs paid to the Commonwealth for the years ended June 30, 2012 for these plans were approximately \$3,214,000.

Effective July 1, 1997, MCVH established the MCVH Authority Defined Contribution Plan (the Plan). Effective July 1, 2000, MCVH became a part of the Authority. The Plan was amended and restated effective January 1, 2002 and is now referred to as the VCUHS Retirement Plan (VCUHS 401(a) Plan). All employees, excluding house staff, working at least 20 hours a week in a benefit-eligible position are eligible to participate in the VCUHS 401(a) Plan. At June 30, 2012, there were 5,325 participants in the VCUHS 401(a) Plan. Per the VCUHS 401(a) Plan document as approved by the Authority's Board of Directors, MCVH contributes up to 10% of the participant's salary to the VCUHS 401(a) 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. Contributions are a function of the employee’s age plus years of service per the table below. Total contributions to the VCUHS 401(a) Plan for years ended June 30, 2012 were approximately \$17,050,000. MCVH shall have the right at anytime, and without the consent of any party, to terminate the VCUHS 401(a) Plan in its entirety. Any changes to the provisions of the VCUHS 401(a) Plan, including the contribution requirements, must be approved in writing by the Authority’s Board of Directors. MCVH also sponsors the VCUHS Savings Plan (VCUHS 457(b) Plan), a savings plan that represents employee contributions and employees may also receive a 2% matching contribution in their VCUHS 401(a) Plan based on their 457(b) 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 |

The Authority has also established 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, 2012, there were five 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, 2012 were approximately \$32,000.

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. Investments with investment managers are as follows:

| | |
|--|-----------------------|
| Fidelity Investments | \$ 100,145,095 |
| TIAA/CREF | 52,893,997 |
| VALIC | <u>11,597,349</u> |
| Net assets available for plan benefits | <u>\$ 164,636,441</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 and the MCVAP 403(b) Salary Deferral Plan (the 403(b) Plan), a salary deferral plan that represent physical contributions. Contributions to the 401(a) Plan by MCVAP, as determined annually at the discretion of the Board of Directors, were approximately \$11,333,000 for the year ended June 30, 2012.

MCVAP sponsors the VCUHS 401(a) Retirement Plan (the VCUHS 401(a) Plan), a defined contribution plan, which covers all benefited nonclinical provider employees of MCVAP; the

VCUHS Savings Plan (VCUHS 457(b) Plan), a savings plan that represents employee contribution and the MCVAP 403(b) Supplemental Plan (the 403(b) Highly Compensated Plan), a noncontributory defined contribution plan for highly compensated employees. The VCUHS 401(a) Plan contributions (as a percentage of employee’s salary) 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) Savings Plan. Employees may also receive a 2% matching contribution in their VCUHS 401(a) Plan based on their 457(b) contribution.

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

Contributions to the plans for the years ended June 30, 2012 approximately \$3,118,000.

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, during which the employee completes 1,000 hours 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 \$1,230,000 for the year ended 2012.

Children’s has a noncontributory defined benefit pension plan (Pension Plan) covering substantially all Children’s employees. The Pension Plan provides benefits that are based on the five consecutive years for which an employee’s compensation is highest. Children’s funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as Children’s may determine to be appropriate from time to time. Effective June 20, 2010, Children’s decided to freeze all future benefit accruals for those who were active plan participants. The Pension Plan is also frozen to new participants as of that date.

The measurement date for determining the Pension Plan’s funded status is June 30. The Pension’s projected benefit obligation was \$12,656,088 as of June 30, 2012. The Pension Plan’s fair value of plan assets was \$8,468,236 as of June 30, 2012. The Pension Plan’s unfunded liability of \$4,187,852 as of June 30, 2012 is included in other liabilities on the accompanying consolidated statements of net position.

Children's also maintains a retirement plan under Internal Revenue Code Section 401(k) for its employees. All full-time employees with at least one full year of employment are eligible for participation in the 401(k) plan. Contributions are made at the discretion of the Children's Board of Directors. Effective June 30, 2010, the 401(k) plan was frozen. The IRS approved the freezing of the plan during 2011 and plan participants received a distribution of their account balance.

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.

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 \$251,048 in 2012 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 \$125,868 in 2012 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.

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.

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 \$13,393,740 at June 30, 2012, 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, 2012, the remaining commitments were \$81,948,538 for the University and approximately \$49,900,000 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, 2012 was \$3,411,615 for the University and \$9,758,000 for the Authority.

The University and the Authority have the following total future minimum rental payments due under the above leases as of June 30, 2012.

| Fiscal Year | University | Authority |
|-------------|---------------|---------------|
| 2013 | \$ 4,251,977 | \$ 8,978,295 |
| 2014 | 2,892,485 | 7,103,064 |
| 2015 | 2,097,970 | 6,345,337 |
| 2016 | 1,361,555 | 5,025,183 |
| 2017 | 660,426 | 4,044,225 |
| 2018-2022 | 2,242,462 | 4,056,584 |
| 2023-2027 | 1,737,102 | |
| | \$ 15,243,977 | \$ 35,552,688 |

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 Foundation and the VCU School of Engineering Foundation hold the University's investments that function as endowments, both true and quasi. As of June 30, 2012, the VCU Foundation and VCU School of Engineering Foundation held University investments of \$24,082,374 and \$6,615,095 respectively. VCU School of Business Foundation held investments of \$947,704. The University has a due from component units for these investments, which is eliminated in the total column.

The VCU Foundation also holds investments for the VCU Intellectual Properties Foundation in the amount of \$1,009,588. 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 Position. The VCU School of Engineering Foundation has the phase I 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 Position.

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 Position. The VCU School of Business Foundation has deferred issuance costs, a liability and an accrued contribution to the University on their financial statements which are eliminated in the Statement of Net Position.

The MCV Foundation, VCU Foundation, VCU School of Engineering Foundation, and VCU School of Business 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 Position 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, 2012 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. Management of MCVH accrues estimated losses on malpractice claims to the extent they fall within the limits of the MCVH's self-insurance program or exceed the limits of the excess insurance coverage in place at the date of the claim. The undiscounted liability is actuarially determined using industry data and MCVH's historical experience.

Investments have been set aside for payment of malpractice claims and related expenses based on actuarially determined reserves. At June 30, 2012 the internally restricted funds for the Hospitals include approximately \$3,781,282 purpose.

The Authority believes that its consolidated financial position would not be materially affected by the difference between the amounts recorded and the ultimate cost related to asserted or unasserted MCVH claims, if any, at June 30, 2012.

In addition, MCVAP is self-insured for all malpractice claims. There have been malpractice claims asserted against MCVAP 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 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. Management of MCVAP accrues estimated losses on malpractice claims. The undiscounted liability is actuarially determined using industry data and MCVAP's historical experience. Assets whose use is limited of \$19,686,337 have been internally restricted as of June 30, 2012, for payment of claims and related legal expenses for reported and unreported incidents.

The Authority believes that its consolidated financial position would not be materially affected by the difference between the amounts recorded and the ultimate cost related to asserted and unasserted MCVAP claims, if any, at June 30, 2012.

VA Premier 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 \$3 million annual aggregate. The coverage limit for the professional liability policy is \$5 million in the annual aggregate. Management does not believe the amount of liability for any claims incurred but unreported as of June 30, 2012 is significant.

Children's Hospital maintains professional liability insurance coverage on the claims-made basis. Should Children's not renew its policy or replace it with equivalent insurance, occurrences during its term but asserted after its term will be uninsured, unless Children's obtains tail coverage.

The Authority believes that its consolidated financial position would not be materially affected by the ultimate cost related to unasserted claims, if any, at June 30, 2012.

17. STOP-LOSS COVERAGE

VA Premier has a stop-loss arrangement to limit losses on individual claims. These contracts provide stop-loss coverage for all enrollee claims. The VA Premier contract provides coverage for 90% of all inpatient and outpatient services, physician services, and drug related services in excess of \$350,000 subject to certain limitations and a lifetime limit of \$5,000,000 per enrollee. Premiums paid to the reinsurer for the years ended June 30, 2012, were approximately \$2,302,000, and are included in other expenses in the accompanying combined statements of revenues, expenses and changes in net position. Benefits of approximately \$1,985,000 were provided by the reinsurer for the years ended June 30, 2012, and are netted with medical claims expense in the accompanying combined statements of revenues, expenses, and changes in net position.

18. INDEMNIFICATIONS

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 limited by the Code of Virginia. The Foundation has a Director and Officer insurance policy that further limits its exposure and enables the Organization to recover a portion of any future amounts paid.

19. NET PATIENT SERVICE REVENUE

The Authority's patient service revenue is as follows for the year ended June 30, 2012:

| | |
|--|--------------------------------|
| Gross patient revenue: | |
| Inpatient | \$ 1,855,965,047 |
| Outpatient | 1,259,765,269 |
| | <u>3,115,730,316</u> |
| Provision for uncompensated care and contractual adjustments | (2,027,566,913) |
| Net patient service revenue (Hospitals) | <u>1,088,163,403</u> |
| MCVAP's net patient service revenue | 168,435,566 |
| Children's patient service revenue | 25,776,269 |
| Eliminations | (28,254,745) |
| Consolidated net patient service revenue | <u><u>\$ 1,254,120,493</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, 2012 the amount of these liabilities included in accounts payable and accrued liabilities was \$42,721,288.

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, 2012:

| | FY2012 |
|---|------------------------------|
| Original legislative appropriation per Chapter 874: | |
| Educational and general programs | \$ 142,212,191 |
| Higher education student financial assistance | 21,699,506 |
| Governor's Research Initiative for Biomedical Engineering and Regenerative Medicine | 1,162,500 |
| Higher Education Research Initiative for Cancer Research | 6,000,000 |
| Supplemental adjustments: | |
| College Scholarship Assistance Program- CSAP | 361,727 |
| Virtual Library of Virginia- VIVA | 21,614 |
| VITA Savings Chapter 874 Item 430 | (5,538) |
| Refund Item 430 | 5,538 |
| Reappropriation of FY10 GF Balances | 0 |
| Central Appropriation for Credit Card Rebate | 116,240 |
| Central Appropriation for Item 469-Compensation and Benefits and Item 473-Miscellaneous Savings | 2,121,993 |
| Virginia Military Survivors and Dependent Education Program | 88,750 |
| Brown vs. Board of Education Scholarship | 27,325 |
| Two Year College Transfer Grant Program | 48,000 |
| Eminent Scholars | 98,502 |
| State reversion non general fund (Chapter 890) | (883,425) |
| C-Lot Purchase | 3,300,000 |
| Higher Education Equipment Trust Fund 11 | 6,714,380 |
| Steam Plant debt service | 533,235 |
| HEETF NGF Payment Ch 781 Item 280 E.4. | (401,647) |
| Capital Fee for Out of State Students Ch 890 Item 271 E.3. | (1,906,560) |
| Capital Fee Refund | 348,030 |
| TOTAL | <u>\$ 181,662,361</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

| <u>MCV Foundation:</u> | |
|------------------------------------|-----------------------------|
| Receivable in less than one year | \$ 6,446,000 |
| Receivable in one to five years | 7,850,000 |
| Receivable in more than five years | <u>6,689,000</u> |
| | 20,985,000 |
| Less: | |
| Discounts | (1,302,000) |
| Allowances | <u>(210,000)</u> |
| Net Contribution Receivable | <u><u>\$ 19,473,000</u></u> |

Discount rate of 2.76% was used in determining the present value of the contributions receivable.

| <u>VCU Foundation:</u> | |
|----------------------------------|-----------------------------|
| Receivable in less than one year | \$ 4,195,448 |
| Receivable in one to five years | <u>9,158,777</u> |
| | 13,354,225 |
| Less: | |
| Discounts | (1,405,665) |
| Allowances | <u>(519,263)</u> |
| Net Contribution Receivable | <u><u>\$ 11,429,297</u></u> |

Discount rates between 0.15% and 5.10% were used in determining the present value of the contributions receivable.

| <u>VCU Real Estate Foundation:</u> | |
|------------------------------------|--------------------------|
| Receivable in less than one year | \$ 161,573 |
| Less: | |
| Allowances | <u>(60,406)</u> |
| Net Receivable | <u><u>\$ 101,167</u></u> |

| <u>VCU School of Business Foundation:</u> | |
|---|----------------------------|
| Receivable in less than one year | \$ 662,388 |
| Receivable in one to five years | <u>1,343,500</u> |
| | 2,005,888 |
| Less: | |
| Discounts | (88,354) |
| Allowances | <u>(7,807)</u> |
| Net Contribution Receivable | <u><u>\$ 1,909,727</u></u> |

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

| <u>VCU School of Engineering Foundation:</u> | |
|--|----------------|
| Receivable in less than one year | \$ 195,000 |
| Receivable in one to five years | <u>339,000</u> |
| | 534,000 |

| | |
|-----------------------------|------------|
| Less: | |
| Discounts | (45,249) |
| Allowances | (5,328) |
| Net Contribution Receivable | \$ 483,423 |

Discount rates between .41% and 5.22% were used in determining the present value of the contributions receivable.

24. DERIVATIVE INSTRUMENT

At June 30, 2012, the University had two fixed-payer interest rate swaps with a notional amount of \$67,875,000, which declines to \$4,835,000 at the termination date of November 1, 2030. The swaps are used as cash flow hedges by the University in order to provide a hedge against changes in interest rates on a similar amount of the University's variable-rate debt. The fair value of the swaps were calculated by Deutsche Bank using undisclosed proprietary methods. The swaps were entered into at a zero market value and no payments were made or received when they were initiated.

The University pays a fixed rate of 3.436% and the counterparty pays 67% of LIBOR (0.16% as of June 30, 2012). The payments are settled monthly at the first of each month. Payments or receipts under the terms of the swap are recorded as nonoperating revenue or expense. At June 30, 2012, the fair market value of the swap of \$14,280,784 is included in deferred outflows and in other liabilities in the accompanying consolidated balance sheets. For the year ended June 30, 2012, the change in fair value of the swap was \$6,489,536.

Risk

The use of derivatives may introduce certain risk for the University, including:

Credit risk is the risk that a counterparty will not settle an obligation in full, either when due or at any time thereafter. As of June 30, 2012, the \$67,875,000 notional amount of swaps outstanding had a negative market value, of \$14,280,784, representing the amount the University would pay if the swaps were terminated on that date. The market value of the swaps has risen by \$6,489,536 over the reporting period.

The fair values of the swaps were calculated by Deutsche Bank using undisclosed proprietary methods. The University would be exposed to credit risk of its swap counterparties any time the swaps had a positive market value. At June 30, 2012, the University had no credit risk related to its swaps.

Interest rate risk is the risk that an unexpected change in interest rates will negatively affect the collective value of a hedge and a hedged item. When viewed collectively, the hedges and the hedged item are subject to interest rate risk in that a change in interest rate will impact the collective market value of both the hedge and hedged item. Conversely, the collective effect of the hedges and the hedged item serves to reduce cash flow variability caused by changes in interest rates.

Basis risk arises when different indexes are used in connection with a derivative resulting in the hedge and hedged item not experiencing price changes in entirely opposite directions from each other. The University's swaps are deep to be effective hedges of its variable-rate debt with an amount of basis risk that is within guideline for establishing hedge effectiveness.

Termination risk arises when the unscheduled termination of a derivative could have an adverse effect on the University's strategy or could lead to potentially significant unscheduled payments. The University's derivative contract uses the international Swap Dealers Association Master Agreement, which included standard termination events, such as failure to pay and bankruptcy. The University or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If at the time of termination the swap has a negative market value, the University would be liable to the counterparty for a payment equal to the swap's market value.

Rollover risk arises when a derivative associated with a hedged item does not extend all the way to the maturity date of the hedged item, thereby creating a gap in the protection otherwise afforded by the derivative. The University's hedges serve to hedge all \$67,875,000 of its variable rate Series 2006A bonds maturing in November 2030.

Market-access risk arises when an entity enters into a derivative in anticipation of entering the credit market at a later date, but is ultimately prevented from doing so. The University has no market-access risk.

Foreign currency risk is the risk of a hedge's value changing due to changes in currency exchange rates. The University's derivatives have no foreign currency risk.

Below are debt service requirements of the University's debt and net receipts/payments on associated derivative instruments. These amounts assume that current variable and reference rates on the hedging instruments will remain the same for their terms. As these rates vary, net receipt/payments on the hedging instruments will vary.

| Maturity | Principal | Variable Interest | Hedging Derivative Instruments, Net | Total |
|-----------------|----------------------|--------------------------|--|----------------------|
| 2013 | \$ 2,410,000 | \$ 29,192 | \$ 2,221,587 | \$ 4,660,779 |
| 2014 | 2,520,000 | 28,156 | 2,142,705 | 4,690,861 |
| 2015 | 2,625,000 | 27,072 | 2,060,225 | 4,712,297 |
| 2016 | 2,735,000 | 25,944 | 1,974,307 | 4,735,251 |
| 2017 | 2,845,000 | 24,768 | 1,884,790 | 4,754,558 |
| 2018-2022 | 16,145,000 | 104,412 | 7,944,689 | 24,194,100 |
| 2023-2027 | 19,810,000 | 66,685 | 5,072,091 | 24,948,777 |
| 2028-2031 | 18,785,000 | 20,531 | 1,558,466 | 20,363,997 |
| Total | \$ 67,875,000 | \$ 326,760 | \$ 24,858,860 | \$ 93,060,620 |

In June 2007, MCVH entered into two interest rate swap agreements in anticipation of the issuance of the Series 2008 tax-exempt bonds. The swaps have a combined notional amount of \$125,000,000,

which declines over time to \$15,700,000 at the termination date of July 1, 2037. MCVH pays a fixed rate of 3.84% and the counterparty pays 67% of LIBOR (0.16% as of June 30, 2012). The payments are settled monthly at the first of each month. Payments or receipts under the terms of the swap are recorded as nonoperating revenue or expense. At June 30, 2012 the fair market value of the swap of \$46,335,212 is included in deferred outflows and in other liabilities in the accompanying consolidated balance sheets. For the year ended June 30, 2012 the change in fair value of the swaps was approximately \$23,430,000.

In December 2005, MCVH entered into an interest rate swap agreement in conjunction with the issuance of its Series 2005 tax-exempt bonds. The swap has a notional amount of \$75,000,000, which declines over time to \$8,000,000 at the maturity date of July 1, 2030. MCVH pays a fixed rate of 3.499% and the counterparty pays 67% of LIBOR (0.16% as of June 30, 2012). The payments are settled monthly at the first of each month. Payments or receipts under the terms of the swap are recorded as nonoperating revenue or expense. At June 30, 2012 the fair market value of the swap of \$17,746,158 is included in deferred outflows and in other liabilities in the accompanying consolidated balance sheets. For the years ended June 30, 2012 the change in fair value of the swap was approximately \$8,847,000.

The fair values of the derivatives were calculated by Wells Fargo and Bank of America using proprietary pricing models.

The swaps are used as cash flow hedges by MCVH in order to provide a hedge against changes in interest rates on a similar amount of the MCVH's variable-rate debt.

MCVH is exposed to interest rate risk on its interest rate swap. On its pay-fixed, receive-variable interest rate swap, as the LIBOR index decreases, the University's net payment on the swap increases.

Below are debt service requirements of MCVH's debt and net receipts/payments on associated derivative instruments. These amounts assume that current variable and reference rates on the hedging instruments will remain the same for their terms. As these rates vary, net receipt/payments on the hedging instruments will vary.

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.

Following is a reconciliation of the net position of the foundations.

VCU School of Engineering Foundation

| | |
|---|----------------------|
| Net position per Foundation financial statements | \$ 34,053,176 |
| Add: unrealized loss on interest rate swap | 8,776,335 |
| Net position as report on the University's financial statements | <u>\$ 42,829,511</u> |

VCU School of Business Foundation

| | |
|---|----------------------|
| Net position per Foundation financial statements | \$ 18,671,992 |
| Add: unrealized loss on interest rate swap | 5,504,449 |
| Net position as report on the University's financial statements | <u>\$ 24,176,441</u> |

25. SUBSEQUENT EVENTS

In November 2012, the University issued a note to VCBA in the amount of \$3,000,000. The proceeds of the note will be used to finance the renovation of BioTech One. The note bears an interest rate of 3.6% and is payable in fiscal years 2014-2033.



Commonwealth of Virginia

Auditor of Public Accounts

Walter J. Kucharski
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

December 3, 2012

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable John M. O'Bannon, III
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 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, 2012, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the component units of the University, which are discussed in Note 1. 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 previously 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, 2012, 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 2 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

In accordance with Government Auditing Standards, we have also issued our report dated December 3, 2012 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

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