VCU | Virginia Commonwealth University

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

June 30, 2013

VIRGINIA COMMONWEALTH UNIVERSITY

Make it real.

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MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013
(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, 2013, with comparative information presented for the fiscal year ended June 30, 2012. 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 known 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 deferred outflows to total liabilities and deferred inflows, 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,	2013	2012	$ Change	% Change
Current and other assets	$664,462,199	$659,345,022	$5,117,177	1%
Capital assets – net	982,974,634	919,323,916	63,650,718	7%
Total assets and deferred outflows	1,647,436,833	1,578,668,938	68,767,895	4%
Current liabilities	186,020,761	168,419,386	17,601,375	10%
Long term liabilities	512,599,328	525,358,908	(12,759,580)	(2%)
Total liabilities and deferred inflows	698,620,089	693,778,294	4,841,795	1%
Net Position:				
Net investment in capital assets	599,889,311	553,099,976	46,789,335	8%
Restricted	90,483,473	72,873,483	17,609,990	24%
Unrestricted	258,443,960	258,917,185	(473,225)	(0%)
Total net position	$948,816,744	$884,890,644	$63,926,100	7%

- 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.
- Current liabilities increased due to retainage on major construction projects and bond proceeds due to the Virginia Commonwealth University Foundation, to fund the Art Station and West Grace Street office building projects.
- Total assets grew by a greater margin than total liabilities, with net position increasing correspondingly.

Total Net Position

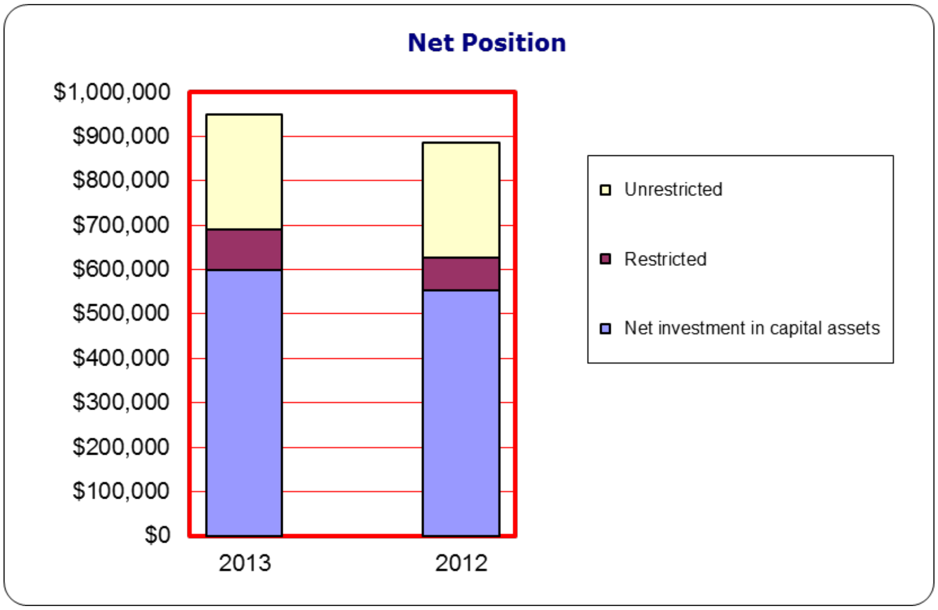
Net position is divided into three major categories:

Net investments in capital assets provide 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 is available resources to the University for any lawful purpose.

The following graph and table illustrates the changes in the make-up of net assets between 2013 and 2012:



TOTAL NET POSITION

as of June 30,	2013	2012	$ Change	% Change
Net investment in capital assets	$ 599,889,311	$ 553,099,976	$ 46,789,335	8%
Restricted	90,483,473	72,873,483	17,609,990	24%
Unrestricted	258,443,960	258,917,185	(473,225)	0%
Total Net Position	$ 948,816,744	$ 884,890,644	$ 63,926,100	7%

- Restricted net position increased due to increases in the Glasgow endowment and additional grants and contracts.

Statement of Revenues, Expenses and Changes in Net Position

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

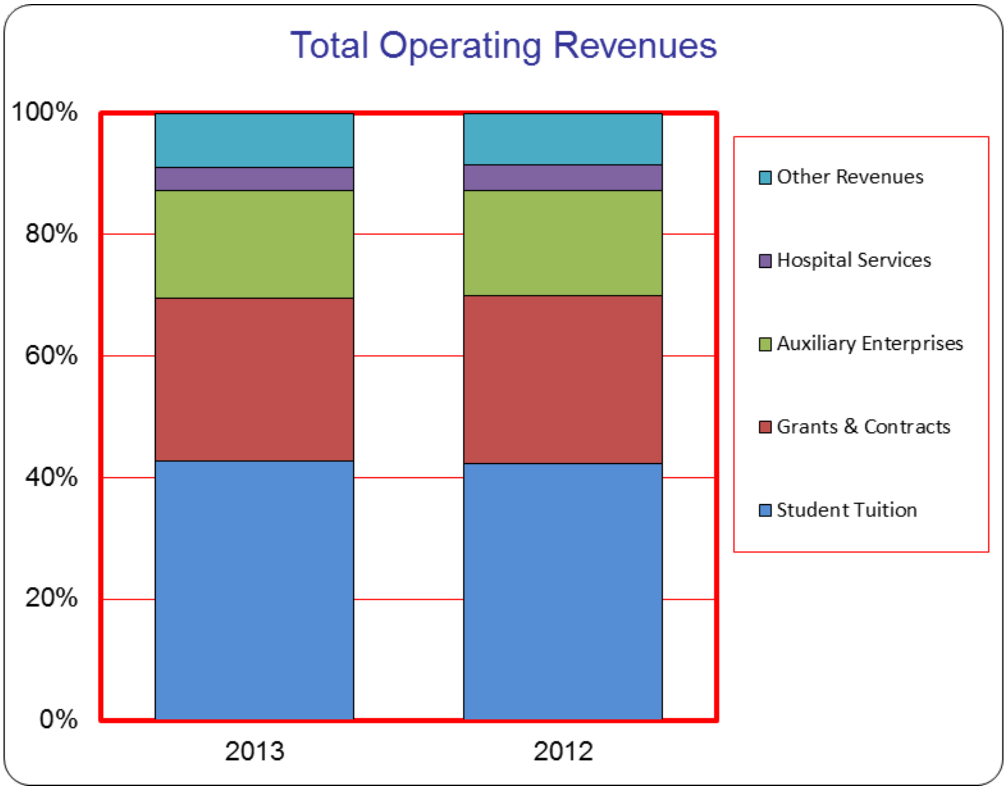
The following is a summarized schedule of the revenues and expenses for the University:

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Year Ended June 30,	2013	2012	$ Change	% Change
Operating revenue	$643,986,519	$626,750,881	$ 17,235,638	3%
Operating expense	886,031,460	821,372,511	64,658,949	8%
Operating loss	(242,044,941)	(194,621,630)	(47,423,311)	24%
Non-operating revenues, net of expenses	253,025,962	249,666,470	3,359,492	1%
Other Revenues	52,945,079	71,964,198	(19,019,119)	(26%)
Increase in net position	63,926,100	127,009,038	(63,082,938)	(50%)
Net position - beginning of year	884,890,644	757,881,606	127,009,038	17%
Net position - end of year	$948,816,744	$884,890,644	$ 63,926,100	7%

Revenues

Operating revenues increased $17 million, or 3%, in 2013 compared to the prior year.



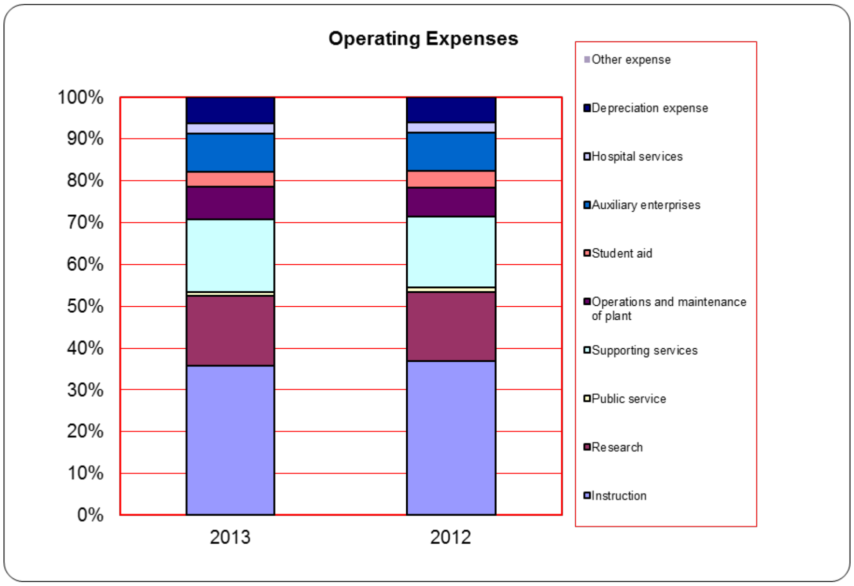
TOTAL OPERATING REVENUES

For the Year Ended June 30,	2013	2012	$ Change	% Change
Student tuition	$ 274,977,715	$ 264,342,415	$ 10,635,300	4%
Grants & contracts	172,135,757	173,866,282	(1,730,525)	(1%)
Auxiliary enterprises	114,373,160	108,094,573	6,278,587	6%
Hospital services	24,177,564	26,419,705	(2,242,141)	(8%)
Other revenues	58,322,323	54,027,906	4,294,417	8%
Total Operating Revenues	$ 643,986,519	$ 626,750,881	$ 17,235,638	3%

- Operating revenues increased due to increases in tuition and fees and increased demand for auxiliary services.
- This increase was partially offset by a reduction in hospital services revenue and grants and contracts revenue.

Expenses

Operating expenses increased $64.7 million, or 8%, over 2012 to $886 million. The following chart summarizes operating expenses by functional classification:



TOTAL OPERATING EXPENSES BY FUNCTION

For the Year Ended June 30,	2013	2012	$ Change	% Change
Instruction	$ 316,610,242	$ 302,445,443	$ 14,164,799	4.7%
Research	149,129,815	136,278,068	12,851,747	9.4%
Public service	7,342,623	8,121,259	(778,636)	(9.6%)
Supporting services	154,418,142	140,034,273	14,383,869	10.3%
Operations and maintenance of plant	68,482,327	57,189,291	11,293,036	19.7%
Student aid	31,185,637	32,851,387	(1,665,750)	(5.1%)
Auxiliary enterprises	82,374,894	74,337,785	8,037,109	10.8%
Hospital services	21,995,207	20,348,778	1,646,429	8.1%
Depreciation expense	54,492,573	49,760,599	4,731,974	9.5%
Other expense	-	5,628	(5,628)	
Total operating expenses	$ 886,031,460	$ 821,372,511	$ 64,658,949	7.9%

- The increase in instruction expense is attributed to additional faculty.
- Research expense has increased due to additional spending of institutional and state appropriations specifically earmarked for research.
- Supporting services incurred greater computer software maintenance expenses, travel and professional services.
- Operations and maintenance of plant expenses have increased due to increased purchases of equipment, property leases and installment purchases, and renovations.
- Auxiliary enterprise expenses increased due to increased demand for housing and dining.
- Depreciation expense increased due to the completion of multiple capital projects.

Capital Assets and Related Financing Activities

Capital Assets

At June 30, 2013, VCU had $1.598 billion in capital assets, less accumulated depreciation of $615 million, for net capital assets of $983 million. 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,	2013	2012	$ Change	% Change
Land	$45,027,005	$44,524,315	$502,690	1%
Land improvements and infrastructure	3,106,015	3,330,048	(224,033)	(7%)
Buildings	783,247,160	627,089,624	156,157,536	25%
Equipment	66,825,942	65,796,206	1,029,736	2%
Intangible (computer softw are)	2,033,866	2,209,445	(175,579)	(8%)
Library books	21,718,110	21,011,598	706,512	3%
Construction in progress	61,016,536	155,362,680	(94,346,144)	(61%)
Total Capital Assets	$982,974,634	$919,323,916	$63,650,718	7%

- Land value increased due to the purchase of 925 West Grace Street in November 2012.
- Building value increased due to the completion of a General Classroom Building, School of Medicine Building, McGlothlin Medical Center and the West Grace Street Housing and Parking Deck. Accordingly, construction in progress has decreased due to these completed projects.

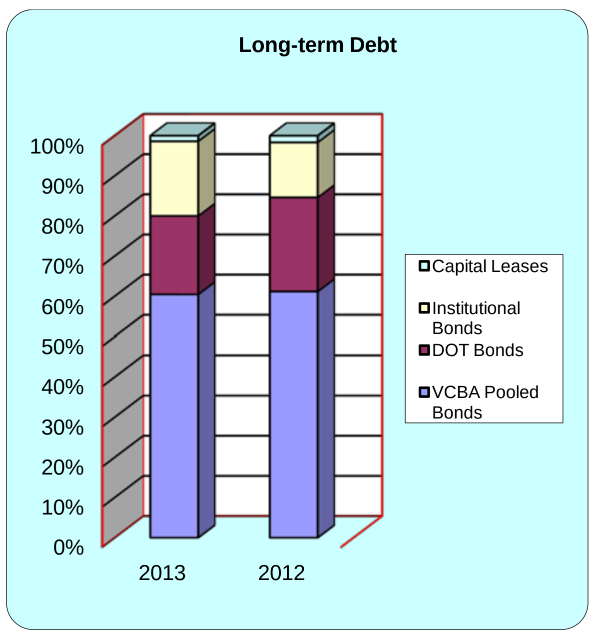
Debt

At June 30, 2013, the University had $480 million in long-term debt outstanding.

In November 2012 the University participated in a Virginia College Bond Authority (VCBA) issue to fund the Biotech renovation project ($3M).

In February 2013 and June 2013 the University issued new General Revenue Pledge Bonds for the following construction projects:

- Gilmer Street addition ($5.3M)
- Art Station ($6.5M)
- Grace Street office building ($11.9M)



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 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, 2013 and 2012. For more detailed information, see the accompanying Statement of Cash Flows.

University	2013	2012	$ Change	% Change
Cash provided (used) by:				
Operating activities	$ (193,572,820)	$ (135,361,341)	$ (58,211,479)	43%
Noncapital financing activities	273,569,285	292,897,401	(19,328,116)	(7%)
Capital and related financing activities	(85,149,013)	(60,192,792)	(24,956,221)	41%
Investing activities	(50,642,935)	(53,696,804)	3,053,869	(6%)
Net increase/(decrease) in cash	(55,795,483)	43,646,464	(99,441,947)	(228%)
Cash, beginning of year	133,361,987	89,715,523	43,646,464	49%
Cash, end of year	$ 77,566,504	$ 133,361,987	$ (55,795,483)	(42%)

- Cash flows from tuition and fees, auxiliary enterprises and sales and services are up from prior years; however this was offset by increased operating costs.
- The change in capital and related financing activities is due to the issuance of only $3 million in notes payable and $23.7 million in bonds in the current year versus $75.9 million in 2012. This decrease in proceeds from debt issuances was partially offset by an increase in state capital appropriations.
- Noncapital financing was unusually high in fiscal year 2012 due to the Glasgow endowment.

Economic Outlook

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

- State General Fund appropriations are projected at $193 million for fiscal year 2014.
- Tuition and fee revenues are projected to be $21.8 million higher in fiscal year 2014 based on the Board of Visitors approved increase in tuition and mandatory fee rates, as well as the implementation of a per credit hour charge for new undergraduate students.

FINANCIAL STATEMENTS

VIRGINIA COMMONWEALTH UNIVERSITY
STATEMENT OF NET POSITION
As of June 30, 2013

	University	VCU Health System Authority	MCV Foundation
Current assets:			
Cash and cash equivalents (Note 2)	$ 45,782,868	$ 392,293,436	$ 14,020,000
Short-term investments (Note 2)	180,440,947	377,631,400	-
Accounts receivable:			
Student and other, Net of allowance of $5,938,378	12,371,596	-	-
Sponsors	23,320,810	-	-
Patient, Net of allowance of $203,449,671	-	248,688,967	-
Contributions and gifts, Net of allowance of $282,302 (Note 23)	-	-	4,703,000
Due from component units	4,447,729	-	-
Due from VCBA	9,982,621		
Due from Commonwealth of Virginia	191,466	-	-
Due from VCU Foundation	-	-	
Student loans receivable, current portion	3,519,296	-	34,000
Other assets	3,228,487	28,638,203	7,789,000
Total current assets	283,285,820	1,047,252,006	26,546,000
Noncurrent assets:			
Restricted cash and cash equivalents (Note 2)	31,783,636	-	1,102,000
Endowment investments (Note 2)	42,058,378	-	165,686,000
Other investments (Note 2)	148,160,692	496,304,186	236,205,000
Contributions and gifts, Net of discount and allowance of $3,361,770 (Note 23)	-	-	12,992,000
Student loans receivable, Net of allowance of $2,062,166	22,383,685	-	58,000
Loans and other receivables	-	-	-
Due from component units	134,301,700	-	-
Other long-term assets	2,488,288	12,502,451	-
Nondepreciable capital assets (Note 4)	106,043,541	74,101,738	217,000
Depreciable capital assets (Note 4)	876,931,093	407,155,484	1,269,000
Total noncurrrent assets	1,364,151,013	990,063,859	417,529,000
Total Assets	1,647,436,833	2,037,315,865	444,075,000
Deferred Outflows	-	-	-
Total Assets and Deferred Outflows	1,647,436,833	2,037,315,865	444,075,000
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities (Note 6)	94,328,081	266,863,833	444,000
Deferred revenue	25,993,372	-	-
Due to component units	18,251,750	-	-
Due to Commonwealth of VA	-		
Long-term liabilities - current portion (Note 8)	47,447,558	33,819,773	605,000
Total current liabilities	186,020,761	300,683,606	1,049,000
Noncurrent liabilities:			
Funds held for others (Note 5)	31,767,886	-	7,769,000
Due to component units	-		-
Other	9,479,855	51,301,565	2,062,000
Long-term liabilities (Note 8)	466,755,407	303,178,482	8,575,000
Total noncurrent liabilities	508,003,148	354,480,047	18,406,000
Total liabilities	694,023,909	655,163,653	19,455,000
Deferred Inflows	4,596,180		
Total Liabilities and Deferred Inflows	698,620,089	655,163,653	19,455,000
NET POSITION			
Net investment in capital assets	599,889,311	213,072,648	1,486,000
Restricted for:			
Nonexpendable:			
Scholarships and fellowships	3,981,703	-	-
Departmental uses	43,859,395	19,239,747	168,314,000
Expendable:			
Scholarships and fellowships	11,665,981	-	-
Research	9,184,520	-	-
Departmental uses	16,602,921	1,859,627	209,640,000
Loans	5,188,953	-	-
Capital projects	-	-	-
Unrestricted	258,443,960	1,147,980,190	45,180,000
Total net position	$ 948,816,744	$ 1,382,152,212	$ 424,620,000

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

STATEMENT OF NET POSITION
As of June 30, 2013

	VCU Foundation	VCU Real Estate Foundation	VCU School of Business Foundation
Current assets:			
Cash and cash equivalents (Note 2)	$ 2,380,931	$ 11,357,838	$ 3,902,073
Short-term investments (Note 2)	-	-	-
Accounts receivable:			
Student and other, Net of allowance of $5,938,378	-	-	-
Sponsors	-	-	-
Patient, Net of allowance of $203,449,671	-	-	-
Contributions and gifts, Net of allowance of $282,302 (Note 23)	7,293,381	28,178	990,010
Due from component units	621,023	18,251,750	-
Due from VCBA			
Due from Commonwealth of Virginia	-	-	-
Due from VCU Foundation	-		
Student loans receivable, current portion	-	-	-
Other assets	9,066	7,805	100,638
Total current assets	10,304,401	29,645,571	4,992,721
Noncurrent assets:			
Restricted cash and cash equivalents (Note 2)	16,313,114	-	7,784,157
Endowment investments (Note 2)	21,298,420	-	8,623,887
Other investments (Note 2)	38,069,193	-	24,603,223
Contributions and gifts, Net of discount and allowance of $3,361,770 (Note 23)	14,197,913	-	551,692
Student loans receivable, Net of allowance of $2,062,166	-	-	-
Loans and other receivables	-	-	-
Due from component units	-	-	-
Other long-term assets	-	400,643	184,230
Nondepreciable capital assets (Note 4)	-	11,318,499	3,503,036
Depreciable capital assets (Note 4)	-	36,757,145	32,884,301
Total noncurrrent assets	89,878,640	48,476,287	78,134,526
Total Assets	100,183,041	78,121,858	83,127,247
Deferred Outflows	-	-	-
Total Assets and Deferred Outflows	100,183,041	78,121,858	83,127,247
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities (Note 6)	214,373	811,128	386,941
Deferred revenue	-	4,296,549	90,092
Due to component units	356,121	1,217,366	1,669,058
Due to Commonwealth of VA			
Long-term liabilities - current portion (Note 8)	-	4,213,241	-
Total current liabilities	570,494	10,538,284	2,146,091
Noncurrent liabilities:			
Funds held for others (Note 5)	1,162,203	-	-
Due to component units	26,505,857	36,532,634	49,348,425
Other	105,065	2,139,429	-
Long-term liabilities (Note 8)	-	3,593,442	-
Total noncurrent liabilities	27,773,125	42,265,505	49,348,425
Total liabilities	28,343,619	52,803,789	51,494,516
Deferred Inflows			
Total Liabilities and Deferred Inflows	28,343,619	52,803,789	51,494,516
NET POSITION			
Net investment in capital assets	-	15,178,819	11,091,567
Restricted for:			
Nonexpendable:			
Scholarships and fellowships	-	-	-
Departmental uses	22,470,304	-	8,672,358
Expendable:			
Scholarships and fellowships	-	-	-
Research	-	-	-
Departmental uses	47,055,566	-	11,899,258
Loans	-	-	-
Capital projects	-	-	-
Unrestricted	2,313,552	10,139,250	(30,452)
Total net position	$ 71,839,422	$ 25,318,069	$ 31,632,731

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

STATEMENT OF NET POSITION
As of June 30, 2013

	VCU School of Engineering Foundation	Eliminations	Total
Current assets:			
Cash and cash equivalents (Note 2)	$ 7,573,581	$ -	$ 477,310,727
Short-term investments (Note 2)	-	-	558,072,347
Accounts receivable:			
Student and other, Net of allowance of $5,938,378	-	-	12,371,596
Sponsors	-	-	23,320,810
Patient, Net of allowance of $203,449,671	-	-	248,688,967
Contributions and gifts, Net of allowance of $282,302 (Note 23)	206,720	-	13,221,289
Due from component units	-	(23,320,502)	-
Due from VCBA			9,982,621
Due from Commonwealth of Virginia	-	-	191,466
Due from VCU Foundation	-		-
Student loans receivable, current portion	-	-	3,553,296
Other assets	97,198	-	39,870,397
Total current assets	7,877,499	(23,320,502)	1,386,583,516
Noncurrent assets:			
Restricted cash and cash equivalents (Note 2)	2,676,262	-	59,659,169
Endowment investments (Note 2)	12,041,280	-	249,707,965
Other investments (Note 2)	53,599,831	-	996,942,125
Contributions and gifts, Net of discount and allowance of $3,361,770 (Note 23)	1,020,269	-	28,761,874
Student loans receivable, Net of allowance of $2,062,166	-	-	22,441,685
Loans and other receivables	-	-	-
Due from component units	-	(134,301,700)	-
Other long-term assets	2,039,486	(820,828)	16,794,270
Nondepreciable capital assets (Note 4)	5,912,659	-	201,096,473
Depreciable capital assets (Note 4)	48,156,449	(23,121,352)	1,380,032,120
Total noncurrrent assets	125,446,236	(158,243,880)	2,955,435,681
Total Assets	133,323,735	(181,564,382)	4,342,019,197
Deferred Outflows	-	-	-
Total Assets and Deferred Outflows	133,323,735	(181,564,382)	4,342,019,197
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities (Note 6)	239,529	-	363,287,885
Deferred revenue	-	(3,643,951)	26,736,062
Due to component units	2,998,244	(24,492,539)	-
Due to Commonwealth of VA			-
Long-term liabilities - current portion (Note 8)	-	(1,086,385)	84,999,187
Total current liabilities	3,237,773	(29,222,875)	475,023,134
Noncurrent liabilities:			
Funds held for others (Note 5)	-	-	40,699,089
Due to component units	87,160,212	(199,547,128)	-
Other	-	-	65,087,914
Long-term liabilities (Note 8)	-	(13,545,140)	768,557,191
Total noncurrent liabilities	87,160,212	(213,092,268)	874,344,194
Total liabilities	90,397,985	(242,315,143)	1,349,367,328
Deferred Inflows			4,596,180
Total Liabilities and Deferred Inflows	90,397,985	(242,315,143)	1,353,963,508
NET POSITION			
Net investment in capital assets	1,075,705	(5,809,060)	835,984,990
Restricted for:			
Nonexpendable:			
Scholarships and fellowships	-	-	3,981,703
Departmental uses	12,294,364	-	274,850,168
Expendable:			
Scholarships and fellowships	-	-	11,665,981
Research	-	-	9,184,520
Departmental uses	3,722,392	-	290,779,764
Loans	-	-	5,188,953
Capital projects	-	-	-
Unrestricted	25,833,289	66,559,821	1,556,419,610
Total net position	$ 42,925,750	$ 60,750,761	$ 2,988,055,689

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

VCU | Virginia Commonwealth University

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
As of June 30, 2013

	University	VCU Health System Authority	MCV Foundation
Operating revenues:			
Student tuition and fees, Net of scholarship allowances of $70,722,028	$ 274,977,715	$ -	$ -
Federal grants and contracts	148,822,892	-	-
State grants and contracts	5,496,201	-	-
Local grants and contracts	416,840	-	-
Nongovernmental grants and contracts	17,399,824	-	-
Sales and services of educational departments	49,371,529	-	-
Contributions and gifts	-	-	-
Auxiliary enterprises:			
Sales and services	70,936,046	-	-
Student fees, Net of scholarship allowances of $3,595,456	43,437,114	-	-
Hospital services	24,177,564	2,058,392,288	-
Other revenues	8,950,794	-	1,746,000
Total operating revenues	643,986,519	2,058,392,288	1,746,000
Operating expenses:			
Instruction	316,610,242	-	-
Research	149,129,815	-	-
Public service	7,342,623	-	-
Supporting services:			
Academic support	79,989,054	-	28,767,000
Student services	13,537,214	-	-
Institutional support	60,891,874	-	2,211,000
Operations and maintenance of plant	68,482,327	-	-
Student aid	31,185,637	-	2,035,000
Auxiliary enterprises	82,374,894	-	-
Hospital services	21,995,207	1,807,564,165	-
Depreciation expense	54,492,573	62,060,212	53,000
Other expenses	-	-	1,045,000
Total operating expenses	886,031,460	1,869,624,377	34,111,000
Operating gain/(loss)	(242,044,941)	188,767,911	(32,365,000)
Nonoperating revenues (expenses):			
State appropriations (Note 21)	194,224,452	-	-
Federal Stimulus	-		
Gifts	44,112,296	2,311,063	16,220,000
Investment income, Net of investment expense of $3,571,824	4,872,882	43,738,699	38,589,000
Interest on capital asset-related debt	(15,965,593)	(8,992,383)	-
Pell revenue	27,533,692	-	-
Other	(1,751,767)	-	-
Net nonoperating revenues	253,025,962	37,057,379	54,809,000
Income before other revenues and expenses	10,981,021	225,825,290	22,444,000
OTHER REVENUES			
Additions to permanent endowments	8,056,528	-	9,634,000
Capital appropriations	44,888,551	-	-
Capital gifts and grants	-	-	-
Increase in beneficial interest in trusts	-	1,127,245	-
Other		(6,628,077)	(707,000)
Reductions of capital appropriations	-		
Other capital appropriation reductions	-		
Increase (decrease) in net position	63,926,100	220,324,458	31,371,000
Net position - Beginning of year	884,890,644	1,161,827,754	393,249,000
Net position - End of year	$ 948,816,744	$ 1,382,152,212	$ 424,620,000

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, 2013

	VCU Foundation	VCU Real Estate Foundation	VCU School of Business Foundation
Operating revenues:			
Student tuition and fees, Net of scholarship allowances of $70,722,028	$ -	$ -	$ -
Federal grants and contracts	-	-	-
State grants and contracts	-	-	-
Local grants and contracts	-	-	-
Nongovernmental grants and contracts	-	-	-
Sales and services of educational departments	-	-	-
Contributions and gifts	-	-	
Auxiliary enterprises:			
Sales and services	-	-	-
Student fees, Net of scholarship allowances of $3,595,456	-	-	-
Hospital services	-	-	-
Other revenues	516,676	5,971,851	2,829,298
Total operating revenues	516,676	5,971,851	2,829,298
Operating expenses:			
Instruction	-	-	760,820
Research	-	-	-
Public service	-	-	-
Supporting services:			
Academic support	-	-	-
Student services	-	-	-
Institutional support	-	-	-
Operations and maintenance of plant	-	1,687,411	-
Student aid	-	-	-
Auxiliary enterprises	-	-	-
Hospital services	-	-	-
Depreciation expense	-	1,857,067	1,351,646
Other expenses	8,968,028	150,482	3,103,648
Total operating expenses	8,968,028	3,694,960	5,216,114
Operating gain/(loss)	(8,451,352)	2,276,891	(2,386,816)
Nonoperating revenues (expenses):			
State appropriations (Note 21)	-	-	-
Federal Stimulus			
Gifts	21,219,897	-	2,427,302
Investment income, Net of investment expense of $3,571,824	3,428,399	7,222	4,017,701
Interest on capital asset-related debt	-	(1,308,184)	(1,089,225)
Pell revenue	-	-	-
Other	-	-	-
Net nonoperating revenues	24,648,296	(1,300,962)	5,355,778
Income before other revenues and expenses	16,196,944	975,929	2,968,962
OTHER REVENUES			
Additions to permanent endowments	1,035,421	-	214,316
Capital appropriations	-	-	-
Capital gifts and grants	-	869,652	-
Increase in beneficial interest in trusts	-	-	-
Other	(4,305,213)		4,273,012
Reductions of capital appropriations			
Other capital appropriation reductions			
Increase (decrease) in net position	12,927,152	1,845,581	7,456,290
Net position - Beginning of year	58,912,270	23,472,488	24,176,441
Net position - End of year	$ 71,839,422	$ 25,318,069	$ 31,632,731

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, 2013

	VCU School of Engineering Foundation	Eliminations	Total
Operating revenues:			
Student tuition and fees, Net of scholarship allowances of $70,722,028	$ -	$ (281,934)	$ 274,695,781
Federal grants and contracts	-	-	148,822,892
State grants and contracts	-	(16,667)	5,479,534
Local grants and contracts	-	-	416,840
Nongovernmental grants and contracts	-	(574)	17,399,250
Sales and services of educational departments	-	(483,098)	48,888,431
Contributions and gifts		-	-
Auxiliary enterprises:			
Sales and services	-	(1,532,975)	69,403,071
Student fees, Net of scholarship allowances of $3,595,456	-	-	43,437,114
Hospital services	-	(24,177,564)	2,058,392,288
Other revenues	3,514,311	(9,933,004)	13,595,926
Total operating revenues	3,514,311	(36,425,816)	2,680,531,127
Operating expenses:			
Instruction	-	(5,775)	317,365,287
Research	-	(1,644,445)	147,485,370
Public service	-	(5,492)	7,337,131
Supporting services:			
Academic support	-	(25,338,616)	83,417,438
Student services	-	(106)	13,537,108
Institutional support	-	37,384	63,140,258
Operations and maintenance of plant	-	(2,459,271)	67,710,467
Student aid	-	(100)	33,220,537
Auxiliary enterprises	-	(29,316)	82,345,578
Hospital services	-	(25,789,960)	1,803,769,412
Depreciation expense	2,354,808	(1,207,094)	120,962,212
Other expenses	3,107,681	(13,301,303)	3,073,536
Total operating expenses	5,462,489	(69,744,094)	2,743,364,334
Operating gain/(loss)	(1,948,178)	33,318,278	(62,833,207)
Nonoperating revenues (expenses):			
State appropriations (Note 21)	-	-	194,224,452
Federal Stimulus			-
Gifts	1,596,357	(40,656,170)	47,230,745
Investment income, Net of investment expense of $3,571,824	2,797,294	-	97,451,197
Interest on capital asset-related debt	(2,372,062)	3,659,820	(26,067,627)
Pell revenue	-		27,533,692
Other	-	869,652	(882,115)
Net nonoperating revenues	2,021,589	(36,126,698)	339,490,344
Income before other revenues and expenses	73,411	(2,808,420)	276,657,137
OTHER REVENUES			
Additions to permanent endowments	22,828	-	18,963,093
Capital appropriations	-	-	44,888,551
Capital gifts and grants	-	(869,652)	-
Increase in beneficial interest in trusts	-	-	1,127,245
Other		-	(7,367,278)
Reductions of capital appropriations			-
Other capital appropriation reductions			-
Increase (decrease) in net position	96,239	(3,678,072)	334,268,748
Net position - Beginning of year	42,829,511	64,428,833	2,653,786,941
Net position - End of year	$ 42,925,750	$ 60,750,761	$ 2,988,055,689

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, 2013

		University
Cash flows from operating activities:		
Tuition and fees	$	275,399,327
Grants and contracts		168,362,309
Auxiliary enterprise charges		114,431,628
Sales and services of education departments		49,371,529
Hospital services charges		24,115,193
Payments to suppliers		(274,946,065)
Payments to employees		(554,998,762)
Loans issued to students		(3,554,681)
Collection of loans to students		3,699,955
Other receipts (payments)		4,546,747
Net cash used by operating activities		(193,572,820)
Cash flows from noncapital financing activities:		
State appropriations		192,968,883
Direct lending receipts		213,559,058
Direct lending disbursements		(213,559,058)
Agency receipts		37,592,145
Agency disbursements		(36,817,645)
Insurance recoveries		274,734
Pell revenue		27,533,692
Gifts		52,017,476
Net cash provided by noncapital financing activities		273,569,284
Cash flows from capital and related financing activities:		
Proceeds from issuance of note payable		106,742,694
State appropriations for capital assets		45,079,545
Purchase of capital assets		(114,489,852)
Principal paid on capital-related debt		(106,646,998)
Interest paid on capital-related debt		(15,834,402)
Net cash used by capital financing activities		(85,149,013)
Cash flows from investing activities:		
Proceeds from sales and maturities of investments		1,141,458,601
Investment income		9,304,563
Purchases of investments		(1,201,406,099)
Net cash used by investing activities		(50,642,935)
Net decrease in cash		(55,795,483)
Cash and cash equivalents - Beginning of year		133,361,987
Cash and cash equivalents - End of year	$	77,566,504

VIRGINIA COMMONWEALTH UNIVERSITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2013

RECONCILIATION OF NET OPERATING EXPENSES TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating gain/(loss)	$	(242,044,941)
Adjustments to reconcile net gain/(loss) to net cash used by operating activities:		
Depreciation expense		54,492,573
Provision for uncollectible accounts		308,746
Changes in assets and liabilities:		
Receivables		26,105
Other assets		(52,926)
Accounts payable and other liabilities		(179,585)
Deferred revenue		(8,254,405)
Compensated absences and deferred compensation		1,687,059
Deposits		444,554
Other liabilities		-
Net cash used by operating activities	$	(193,572,820)

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 223 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 to 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 and Accounting Principles Board Opinions, 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 which are presented discretely in the accompanying financial statements. 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.

VA Premier is a Medicaid health maintenance organization (HMO) whose primary purpose is to provide quality health care within a managed care framework.

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. This organization was dissolved effective November 29, 2012. Its activities through that date are included in these financial statements.

Art Station, LLC ("Art Station"), another subsidiary of the Virginia Commonwealth University Real Estate Foundation was established on April 30, 2013, for the purpose of incurring rehabilitation expenditures eligible for historic tax credits.

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 using the economic resources measurement focus and the accrual basis including depreciation expense relating to capitalized fixed assets. Under the accrual basis, revenues are recognized when earned and expenses are recorded when an obligation has incurred. All significant intra-agency transactions have been eliminated.

Revenues, as reflected on the Statement of Revenues, Expenses and Changes in Net Position include all exchange and nonexchange transactions earned and in which all eligibility requirements have been satisfied, if measurable and probable for collections. Deferred revenue represents revenue collected but not earned as of June 30, 2013. This is primarily composed of revenue for grants and contracts and tuitions and fees. Revenues for the summer term are prorated on the basis of student class days occurring before and after June 30.

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 $5,000 are expensed as acquired. Depreciation is computed on a straight-line basis over the estimated useful life of the asset. 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 $10,541,000 in 2013.

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 $54,478,000 in 2013. 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 $386,965,000 in 2013. 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

Estimated medical claims payable is comprised of billed and unbilled medical obligations for VA Premier Members that are unpaid at year-end. The estimate of costs incurred for unbilled services is based upon historical experience and actuarial calculations. Although considerable variability is inherent in such estimates, management believes that adequate provision has been made.

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:

- Net investment in capital assets 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.

When an expense is incurred when both restricted and unrestricted resources are available that are properly chargeable to the restricted resources, the University's policy is to apply the expense towards restricted resources before unrestricted resources.

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 resources restricted under the workers' compensation program, 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 $16,847,143, 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 $3,339,987 for June 30, 2013, 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.

S. Noncurrent Cash and Investments

Cash and investments that are externally restricted to make debt service payments, reserve funds, or purchase or construct capital and other noncurrent assets, are classified as noncurrent assets in the Statement of Net Position.

T. Cash and Cash Equivalents

Cash represents cash with the Treasurer of Virginia, on deposit, in receivable and undeposited receipts. This classification includes all highly liquid investments with an original maturity of 90 days or less.

U. Discounts, Premiums and Bond Issuance Costs

Notes and bonds payable on the Statement of Net Position are reported net of related discounts, premiums and deferred gains and losses on debt refunding, which are amortized over the life of the note or bond. Bond issue costs are also amortized on the life of the bond on a straight-line basis and are reported as a noncurrent asset.

V. Deferred Outflows and Deferred Inflows

In the current year, the University incurred deferred outflows and deferred inflows related to its derivative instrument. The beginning balance of deferred outflows represented the fair market value of the swap as of June 30, 2012. This deferred outflow was eliminated when the hedging relationship was terminated in November 2013. The deferred inflow represents the change in the fair market value of the swap between the reestablishment of hedge fund accounting date and June 30, 2013.

2. CASH AND INVESTMENTS

The University's deposits and investments may be subject to the following risks:

- Custodial Credit Risk – This is the risk that in the event of the failure of a depository financial institution or financial counterparty, the agency will not be able to recover the value of its deposits or investments or recover collateral securities that are in the possession of an outside third party. The University had no exposure to custodial risk as of June 30, 2013.
- Interest Rate Risk – Interest rate risk is the risk that interest rate changes will adversely affect the fair value of an investment. The University holds investments where fair value may be adversely affected by changes in interest rates. The University invests in accordance with its Investment Policy, which establishes appropriate levels of interest rate exposure for each fixed-income fund through the use of a duration methodology. The Investment Policy regulates maximum duration of non-endowed funds for both individual securities and each separate fund, as outlined in the chart below.

	Individual Security	Fund
Primary Liquidity Pool	< 13 months	< 6 months
Short Duration Fund	< 5 years	< 120% of Merrill Lynch 1-3 year Gov't/Corp. Index
Core Bond Fund	< 20 years	< 120% of Barclays Capital Aggregate Index
TIPS Fund	< 20 years	< 120% of Barclays TIPS Index
Emerging Market Debt Fund	< 20 years	< 120% of JPMorgan EMBI Global Diversified Index

- Credit Risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University holds investments which carry varying levels or credit risk. The University invests in accordance with its Investment Policy, which establishes appropriate levels of credit risk though the use of minimum credit rating restrictions for individual securities in each fixed income fund.
- Concentration of Credit Risk – The risk of loss attributed to the magnitude of investments in a single issuer of fixed income securities. As of June 30, 2013, the University does not have investments in any one issuer (excluding investments issued or explicitly guaranteed by the U.S. Government and mutual fund or pool investments) representing 5 percent or more of its total investments.
- Foreign Currency Risk – The risk that investments denominated in foreign currencies may lose value due to adverse fluctuations in the value of the U.S. dollar relative to foreign currencies. The University may, at times, be exposed to limited amounts of currency risk through its investments in emerging market debt. Local denominated currency investments may total no more than one fourth of the University's Emerging Market Debt Fund and are limited to investment grade sovereign debt in highly liquid currencies.

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 investments. The University's investments are governed by an Investment Policy, adopted by its Board of Directors. The primary investment objective is to provide a framework for prudent investment management, while allowing for sufficient flexibility to capture investment opportunities as they may incur. The investment policy is established by the Board of Visitors and is monitored by its Finance, Budget and Investment 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, negotiable certificates of deposit and negotiable bank notes of domestic banks, equities, hedge funds, alternative investments and private equities.

The Authority's investments are governed by a Statement of Spending and Investment Policy, adopted by its Board of Directors. In accordance the Authority's Investment Policy, 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, VCU School of Engineering 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. Additional contributions in the amount of $8.036 million were received during the fiscal year. 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, 2013, net appreciation for the Glasgow Trust of $2,649,228 was earned for the fiscal year.

The Glasgow Trust is governed by a separate Investment Policy, adopted by the VCU Board of Directors. 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 4.5%). 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, 2013, the University held the following investments:

	Credit Rating	Fair Value	Investment Maturities (In Years) <1	1 to 5	6 to 10	>10
U.S. Treasury and Agency Securities						
	AAA	63,877,227	11,245,762	28,459,512	454,231	23,717,722
Corporate Notes						
	AAA	1,047,841	400,932	646,909	-	-
	AA1	210,443	-	210,443	-	-
	AA2	301,011	301,011	-	-	-
	AA3	4,192,555	1,513,763	2,678,792	-	-
	A1	4,496,625	551,391	3,498,444	116,684	330,106
	A2	4,344,250	1,170,112	3,078,770	95,368	-
	A3	246,699	-	29,689	217,010	-
	BAA1	80,594	-	80,594	-	-
	BAA2	2,329,178	623,410	1,528,256	177,512	-
Corporate Bonds						
	AAA	1,133,607	-	1,094,262	-	39,345
	AA1	1,075,428	629,181	175,427	270,820	-
	AA2	8,569,984	-	8,078,206	168,490	323,288
	AA3	5,499,128	3,453,159	1,594,876	386,135	64,958
	A1	8,317,397	1,066,125	6,584,469	314,407	352,396
	A2	13,081,456	4,589,850	7,922,865	337,417	231,324
	A3	7,326,708	100,113	4,671,707	1,606,482	948,406
	BAA1	5,802,815	1,097,063	2,793,448	1,456,834	455,470
	BAA2	6,462,140	-	3,173,220	2,785,743	503,177
	BAA3	351,884	-	184,511	167,373	-
Municipal Securities						
	AAA	1,079,708	1,079,708	-	-	-
	AA1	82,831	-	-	82,831	-
	AA2	58,772	-	-	58,772	-
	AA3	29,401	-	-	-	29,401
	A1	444,493	-	-	-	444,493
	A3	32,421	-	32,421	-	-
Asset Backed Securities						
	AAA	68,592,573	15,719	45,460,275	7,154,621	15,961,958
	AA3	192,647	-	-	-	192,647
Agency Unsecured Bonds and Notes						
	AAA	10,344,889	4,598,652	5,432,161	18,818	295,258
Agency Mortgage Backed Securities						
	AAA	5,228,007	2,247,926	843,817	1,846,170	290,094
Mutual and Money Market Funds					-	-
	AAA	20,790,531	20,790,531	-	-	-
	N/A	54,485,948	-	-	54,485,948	-
	N/A	24,943,345	-	-	-	24,943,345
Alternative Assets:						
Hedge Funds	N/A	16,052,691				
Equity	N/A	21,395,274				
Fixed Income	N/A	8,159,516				
Total		**370,660,017**	**55,474,408**	**128,253,074**	**72,201,666**	**69,123,388**

N/A-Investment maturity not applicable to type of investments noted. Underlying securities are rated by Moodys, S&P or both agencies.

As of June 30, 2013, 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	$ 113,120,636	$ 5,459,391	$ 20,749,113	$ 42,762,887	$ 44,149,245
Cash and cash equivalents	69,272,837	69,272,837	N/A	N/A	N/A
Corporate notes	47,834,074	17,055,671	21,743,027	6,788,407	2,246,969
Corporate bonds	24,903,912	4,530,701	13,306,205	3,550,263	3,516,743
Asset backed securities	23,401,147	N/A	19,037,566	1,250,148	3,113,433
Agency backed mortgates	30,005,398	4,627,468	5,376,979	2,521,897	17,479,054
Beneficial interest in perptual trust	16,847,143	N/A	N/A	N/A	N/A
Equity interest in Foundation	3,339,987	N/A	N/A	N/A	N/A
Mutual funds	65,415,753	N/A	N/A	N/A	N/A
Index funds	82,712,979	N/A	N/A	N/A	N/A
Marketable equity securities	38,757,108	N/A	N/A	N/A	N/A
Real estate	15,463,149	N/A	N/A	N/A	N/A
Commercial paper	198,390,959	198,390,959	-	-	-
Investment companies	144,470,504	N/A	N/A	N/A	N/A
Total	$ 873,935,586	$ 299,337,027	$ 80,212,890	$ 56,873,602	$ 70,505,444

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

As of June 30, 2013, 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	$ 797,887	$ 1,762,272	$ -	$ 67,534,000
Common & Preferred Stocks	4,827,022	2,153,665	-	101,058,000
Corporate Bonds	4,471,988	2,425,505	-	30,582,000
Asset Backed Securities	2,711,777	279,073	-	3,658,000
Mutual and Money Market Funds	4,489,107	10,984,860	-	
Index Funds	9,775,223		-	-
Alternative Investments				
Emerging Markets	1,308,147	1,209,333		7,358,000
Hedged Equity Funds	20,682,428	9,751,746	13,180,583	136,927,000
International	4,979,083	2,140,313	51,852,898	31,326,000
Real Estate Funds	5,225,086	2,520,343	-	22,085,000
Life Income Investment		-	-	1,363,000
Buyout Fund	99,865	-	607,630	-
Total	$ 59,367,613	$ 33,227,110	$ 65,641,111	$ 401,891,000

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 $287,735.

Investment in Spotsylvania Radiation Therapy Center, LLC

Included in other long-term assets on the accompanying Statement of Net Position is a capital contribution to Spotsylvania Radiation Therapy Center, LLC in the amount of $4,113,316. VCUHS and Spotsylvania Medical Center, Inc. formed this joint venture for the purpose of developing, owning and managing a radiation therapy center to provide access to high quality radiation therapy services to patients in the Spotsylvania region. The investment is carried at $4,113,316.

Investment in South Hill Radiation Oncology Center, LLC

Included in other long-term assets on the accompanying Statement of Net Position is a capital contribution to South Hill Radiation Oncology Center, LLC in the amount of $2,655,450. VCUHS and Community Memorial Health Center, Inc. formed this joint venture for the purpose of developing, owning and managing a radiation therapy center to provide access to high quality radiation therapy services to cancer patients in the South Hill community. The investment is carried at $2,599,063.

4. CAPITAL ASSET

Capital asset activity for the year ended June 30, 2013 was as follows:

University:	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable capital assets:				
Land	$ 44,524,315	$ 502,690	$ -	$ 45,027,005
Construction in Progress	155,362,680	100,858,166	195,204,310	61,016,536
Total nondepreciable capital assets	199,886,995	101,360,856	195,204,310	106,043,541
Depreciable capital assets:				
Land Improvements and infrastructure	18,887,297	635,589	-	19,522,886
Buildings	936,558,770	186,984,293	1,717,937	1,121,825,126
Equipment	187,385,392	18,003,968	14,811,568	190,577,792
Intangible Assets	9,790,095	613,585	435,973	9,967,707
Library Books	140,831,934	8,938,496	-	149,770,430
Total depreciable capital assets	1,293,453,488	215,175,931	16,965,478	1,491,663,941
Less accumulated depreciation for:				
Land Improvements and infrastructure	15,557,250	859,621	-	16,416,871
Buildings	309,469,146	29,955,711	846,891	338,577,966
Equipment	121,589,185	14,667,961	12,505,297	123,751,849
Intangible Assets	7,580,650	777,299	424,107	7,933,842
Library Books	119,820,336	8,231,984	-	128,052,320
Total accumulated depreciation	574,016,567	54,492,576	13,776,295	614,732,848
Total depreciable capital assets, net	719,436,921	160,683,355	3,189,183	876,931,093
Total capital assets - net	$ 919,323,916	$ 262,044,211	$ 198,393,493	$ 982,974,634

Interest capitalized as part of construction in progress was $3,712,726

Authority:	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable capital assets:				
Land	$ 7,724,306	$ -	$ -	$ 7,724,306
Construction in Progress	37,815,089	77,655,820	49,093,477	66,377,432
Total nondepreciable capital assets	45,539,395	77,655,820	49,093,477	74,101,738
Depreciable capital assets:				
Buildings	567,682,069	17,931,902	-	585,613,971
Equipment	276,315,851	32,000,371	8,659,937	299,656,285
Intangible Assets	85,058,058	369,476	155,150	85,272,384
Total depreciable capital assets	929,055,978	50,301,749	8,815,087	970,542,640
Less accumulated depreciation	511,153,003	61,043,092	8,808,939	563,387,156
Total depreciable capital assets, net	417,902,975	(10,741,343)	6,148	407,155,484
Total capital assets - net	$ 463,442,370	$ 66,914,477	$ 49,099,625	$ 481,257,222

MCV Foundation:	Beginning Balance	Additions	Reductions	Ending Balance
Land	$ 217,000	$ -	$ -	$ 217,000
Property and Equipment	2,070,000	-	-	2,070,000
Total capital assets	2,287,000	-	-	2,287,000
Less accumulated depreciation	748,000	53,000	-	801,000
Total capital assets - net	$ 1,539,000	$ (53,000)	$ -	$ 1,486,000

VCU Real Estate Foundation:	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable capital assets:				
Land	$ 6,069,371	$ 3,486,267	$ -	$ 9,555,638
Construction in Progress	4,790,666	4,058,665	7,086,470	1,762,861
Total nondepreciable capital assets	10,860,037	7,544,932	7,086,470	11,318,499
Depreciable capital assets:				
Buildings	39,210,700	7,380,312	-	46,591,012
Equipment	605,287	506,877	-	1,112,164
Total depreciable capital assets	39,815,987	7,887,189	-	47,703,176
Less accumulated depreciation	9,422,952	1,523,078	-	10,946,030
Total before eliminations	41,253,072	13,909,043	7,086,470	48,075,645
Less included on University	9,350,363	-	276,996	9,073,367
Total capital assets - net	$ 31,902,709	$ 13,909,043	$ 6,809,474	$ 39,002,278

VCU School of Business Foundation:	Beginning Balance	Additions	Reductions	Ending Balance
Land	$ 3,503,036	$ -	$ -	$ 3,503,036
Buildings and Equipment	40,198,124	-	-	40,198,124
Total capital assets	43,701,160	-	-	43,701,160
Less accumulated depreciation	5,973,886	1,339,937	-	7,313,823
Total capital assets - net	$ 37,727,274	$ (1,339,937)	$ -	$ 36,387,337

VCU School of Engineering Foundation:	Beginning Balance	Additions	Reductions	Ending Balance
Land	$ 5,912,659	$ -	$ -	$ 5,912,659
Buildings and Equipment	68,997,682	-	-	68,997,682
Total capital assets	74,910,341	-	-	74,910,341
Less accumulated depreciation	18,544,643	2,296,590	-	20,841,233
Total before eliminations	56,365,698	(2,296,590)	-	54,069,108
Less included on University	14,909,237	-	861,252	14,047,985
Total capital assets - net	$ 41,456,461	$ (2,296,590)	$ (861,252)	$ 40,021,123

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 2013 insurance recoveries of $274,734 are reported as other non-operating 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, 2013, the University held deposits for others, which are composed of the following:

Federal loan programs	$ 26,321,241
Student organizations and others	5,446,645
Total	$ 31,767,886

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consisted of the following as of June 30, 2013:

Vender payables	$ 39,039,039
Retainage payable	8,276,395
Accrued wages	42,353,009
Interest payable	4,659,638
Total	$ 94,328,081

7. DEFERRED REVENUE

Deferred revenue consisted of the following as of June 30, 2013:

Prepaid tuition and fees	$ 12,948,520
Grants and contracts	13,044,852
Total	$ 25,993,372

8. LONG TERM LIABILITIES

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

Bonds Payable

The Commonwealth of Virginia issues bonds for agencies and institutions of the Commonwealth. The University has received a portion of the proceeds to fund capital construction. The University recognizes a liability associated with its share of the bonds and remits principal and interest payments related to this liability to the Treasurer of Virginia. The General Revenue Pledge Bonds (Section 9d Bonds) issued either by the Commonwealth or the University carry interest rates of 1.5% to 5% and are due through 2033. Included in the total General Revenue Pledge Bonds are outstanding bonds payable in the amount of $19,400,000, which will be repaid by the VCU Real Estate Foundation.

New General Revenue Pledge Bonds totaling $5,290,000 and $18,350,000 were issued in February and June 2013, respectively. These bonds were issued to fund capital construction of the Gilmer Street addition, Art Station and Grace Street office building projects. These bonds which will be repaid by the Real Estate Foundation carry interest rates of 2% - 5% and are due May 1, 2033.

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. The General Obligation Bonds carry interest rates of 2% to 5% and are due through 2037. Of the total Commonwealth general obligation bonds outstanding, bonds payable in the amount of $763,406 will be repaid by the Authority.

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 2012 the University issued a note to VCBA totaling $3,000,000 for the Biotech renovation project.

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% to 5.75%.

Ad Center Development LLC

The University leases space for the VCU Brand Center 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 an additional $14,815,000 in General Revenue Pledge bonds to advance refund $15,860,000 of 2003 Series A General Revenue Pledge Bonds. The net proceeds were placed with an escrow agent to provide for all future debt service payments on these bonds. As a result, the bonds are considered to be defeased and the University has removed the liability for those from the Statement of Net Position. The University obtained an economic gain of $3,775,627 for the advance refunding.

In November 2012, the University issued $65,665,000 in variable rate General Revenue Pledge bonds to refund $65,465,000 of 2006 Series A and B bonds. At that time, the Series A and B bonds were paid with the proceeds resulting in the defeasement of such bonds and the termination of the associated derivative instrument. In accordance with GASBS No. 53, this resulted in a reduction of bonds payable by the unamortized deferred refunding loss. Concurrently, the derivative instrument was reestablished and is now associated with the new 2012 Series A and B bonds. At June 30, 2013, the change in the fair market value of the swap since reestablishing hedge accounting was $4,596,181.

The future interest requirements on the variable rate portion of VCU's debt exclude any payments associated with the interest rate swap in the following charts. See footnote 24 for more details on this transaction.

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

In the current year, the Commonwealth of Virginia issued General Obligation Refunding bonds, Series 2013B to refund its General Obligation Bonds Series 2007B, of which the University had a share. This refunding obtained an economic gain of $237,240 and was issued at a premium of $694,338 in excess of the face value of the bonds. That premium is reported in the long-term debt section of the financial statements.

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	$ 106,073,428	$ 90,500,133	$ (87,852,295)	$ 108,721,266	$ 7,332,367
Commonwealth of Virginia Revenue Bonds	77,753,262	3,385,572	(6,702,484)	74,436,350	3,047,668
Total bonds payable	183,826,690	93,885,705	(94,554,779)	183,157,616	10,380,035
Notes payable:					
Virginia College Building Authority	302,704,854	3,365,162	(15,846,268)	290,223,748	14,560,000
Capital leases:					
Virginia Public Building Authority	3,271,965	-	(1,365,107)	1,906,858	798,672
AD Center Development LLC	4,916,567	-	(228,447)	4,688,120	238,422
Total capital leases	8,188,532	-	(1,593,554)	6,594,978	1,037,094
Installment purchases	207,319	128,626	-	335,945	194,752
Total long-term debt	494,927,395	97,379,493	(111,994,601)	480,312,287	26,171,881
Compensated absences	28,676,264	27,316,136	(24,337,955)	31,654,445	20,225,703
Deferred compensation	3,527,354	172,753	(1,463,874)	2,236,233	1,049,974
Total	$ 527,131,013	$ 124,868,382	$ (137,796,430)	$ 514,202,965	$ 47,447,558

Authority:	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Revenue Pledge Bonds	$ 335,932,337	$ 148,262,697	$ (214,949,372)	$ 269,245,662	$ -
Notes Payable	990,337	-	(226,931)	763,406	242,963
Capital leases	-			-	
Installment purchases	3,400,704	-	(2,455,999)	944,705	944,705
Total long-term debt	340,323,378	148,262,697	(217,632,302)	270,953,773	1,187,668
Estimated losses on malpractice Claims	23,467,619	5,796,954	(5,333,160)	23,931,413	3,500,000
Workers Compensation	17,526,727	-	(2,445,763)	15,080,964	2,100,000
Compensated absences	26,278,318	43,452,608	(42,698,821)	27,032,105	27,032,105
Total	$ 407,596,042	$ 197,512,259	$ (268,110,046)	$ 336,998,255	$ 33,819,773

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
MCV Foundation:					
Note Payable	$ 9,755,000	$ -	$ (575,000)	$ 9,180,000	$ 605,000
VCU Real Estate Foundation:					
Notes payable	$ 3,866,194	$ 158,489	$ -	$ 4,024,683	$ 3,996,241
Tax exempt bonds payable	3,990,000	-	(208,000)	3,782,000	217,000
Total	$ 7,856,194	$ 158,489	$ (208,000)	$ 7,806,683	$ 4,213,241

Long-term debt matures as follows:

	Fiscal Year	Revenue Bonds	Notes Payable	Capital Leases	Installment Purchases	Total
University:						
	2014	$ 10,380,035	$ 14,560,000	$1,037,094	$ 194,752	$ 26,171,881
	2015	10,917,838	15,120,000	788,957	55,023	26,881,818
	2016	10,438,241	15,860,000	827,783	42,904	27,168,928
	2017	9,124,898	16,635,000	271,063	43,266	26,074,227
	2018	8,496,785	17,405,000	282,908	-	26,184,693
	2019-2023	43,436,169	93,850,000	1,611,144	-	138,897,313
	2024-2028	46,022,389	76,555,000	1,776,029	-	124,353,418
	2029-2033	44,369,200	25,570,000	0	-	69,939,200
	2034-2038	11,795,000	-	-	-	11,795,000
	2039-2042	-	-	-	-	-
Add:	Unamortized Loss on Refunding	(13,619,867)	-	-	-	(13,619,867)
	Premium	3,810,602	21,532,124	-	-	25,342,726
Less:	Deferred Charge	(2,013,674)	(6,863,376)	-	-	(8,877,050)
	Total	$ 183,157,616	$ 290,223,748	$ 6,594,978	$ 335,945	$ 480,312,287
Authority:						
	2014	$ -	$ 242,963	$ 944,705	$ -	$ 1,187,668
	2015	4,560,000	255,126	-	-	4,815,126
	2016	4,705,000	265,317	-	-	4,970,317
	2017	5,370,000	-	-	-	5,370,000
	2018	5,550,000	-	-	-	5,550,000
	2019-2023	30,925,000	-	-	-	30,925,000
	2024-2028	54,785,000	-	-	-	54,785,000
	2029-2033	76,060,000	-	-	-	76,060,000
	2034-2038	100,830,000	-	-	-	100,830,000
	2039-2042	27,530,000	-	-	-	27,530,000
Add:	Unamortized Loss on Refunding	(42,052,303)				(42,052,303)
	Premium	982,965	-	-	-	982,965
	Total	$ 269,245,662	$ 763,406	$ 944,705	$ -	$ 270,953,773
MCV Foundation:						
	2014	$ -	$ 605,000	$ -	$ -	$ 605,000
	2015	-	600,000	-	-	600,000
	2016	-	635,000	-	-	635,000
	2017	-	665,000	-	-	665,000
	2018	-	695,000	-	-	695,000
	Thereafter	-	5,980,000	-	-	5,980,000
	Total	$ -	$ 9,180,000	$ -	$ -	$ 9,180,000
VCU Real Estate Foundation:						
	2014	$ 217,000	$ 3,996,241	$ -	$ -	$ 4,213,241
	2015	228,000	14,807	-	-	242,807
	2016	238,000	13,635	-	-	251,635
	2017	250,000	-	-	-	250,000
	2018	261,000	-	-	-	261,000
	Thereafter	2,588,000	-	-	-	2,588,000
	Total	$ 3,782,000	$ 4,024,683	$ -	$ -	$ 7,806,683

A summary of future interest requirements as of June 30, 2013 follows:

Fiscal Year	Revenue Bonds	Notes Payable	Total
University:			
2014	$ 5,757,415	$ 12,235,403	$ 17,992,818
2015	5,439,073	11,543,677	16,982,750
2016	5,036,584	10,822,110	15,858,694
2017	4,654,262	10,009,495	14,663,757
2018	4,363,782	9,242,507	13,606,289
2019-2023	18,112,643	33,047,347	51,159,990
2024-2028	12,461,929	13,139,678	25,601,607
2029-2033	6,421,974	1,921,638	8,343,612
2034-2038	1,063,440	-	1,063,440
Total	$ 63,311,102	$ 101,961,855	$ 165,272,957
Authority:			
2014	$ 6,709,776	$ 30,494	$ 6,740,270
2015	6,622,900	21,722	6,644,622
2016	6,535,970	12,699	6,548,669
2017	6,434,586	-	6,434,586
2018	6,320,831	-	6,320,831
2019-2023	29,537,102	-	29,537,102
2024-2028	25,068,497	-	25,068,497
2029-2033	18,546,302	-	18,546,302
2034-2038	10,299,216	-	10,299,216
2039-2042	2,037,513	-	2,037,513
Total	$ 118,112,693	$ 64,915	$ 118,177,608

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, 2013, 69 faculty members were enrolled in the plan. Payments during fiscal year 2013 were $1,463,874. The present value of future Plan payment schedule follows:

Fiscal Year	Plan Obligations
2014	$ 1,049,974
2015	636,774
2016	292,649
2017	172,612
2018	84,224
Total	$ 2,236,233

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

University

Employees of the University are employees of the Commonwealth of Virginia. 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, 2013, were $184,279,599. The University's total payroll costs for the year were $463,535,480.

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 $15,706,951 for the year ended June 30, 2013.

The VRS does not measure assets and pension benefit obligations separately for individual state institutions. Information related to this plan is available at the statewide level only and can be found in the Commonwealth of Virginia’s Comprehensive Annual Financial Report (CAFR). The Commonwealth, not the University has the overall responsibility for contributions to this plan. The CAFR provides disclosure of the Commonwealth's unfunded pension benefit obligation at June 30, 2013. 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%. The two providers are TIAA-CREF and Fidelity.

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 $168,810,939 in fiscal year 2013. Total pension costs under these plans were $16,972,563 in fiscal year 2013.

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. The Deferred Compensation Plan is a qualified defined contribution plan under Section 401(a) of the Internal Revenue Code. Employer contributions under the Deferred Compensation Plan were approximately $116,863 for the fiscal year ending 2013.

Authority

Prior to July 1, 1997, employees of the MCVH 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, 2013, for these plans were approximately $5,673,000.

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, 2013, there were 5,994 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 year ended June 30, 2013, were approximately $18,464,000. MCVH shall have the right at any time, 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.

Age + Years of Service	Employer Contribution (401(a) Plan)
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, 2013, 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, 2013, were approximately $31,000.

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	$ 124,279,650
VALIC	12,074,105
Net assets available for plan benefits	$ 136,353,755

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 physician contributions. Contributions to the 401(a) Plan by MCVAP, as determined annually at the discretion of the Board of Directors, were approximately $12,250,000 for the year ended June 30, 2013.

MCVAP also participates in 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.

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

Contributions to the plans for the years ended June 30, 2013, were approximately $3,550,000.

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 and may make additional contributions at the option of the Board of Directors in an annual installment at the end of the year. Employees are fully vested after 4 years of service in which the employee begins employment. VA Premier's expense for its contributions to this plan was approximately $1,376,000 year ended 2013.

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 30, 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 $14,881,461 as of June 30, 2013. The Pension Plan's fair value of plan assets was $8,896,294 as of June 30, 2013. The Pension Plan's unfunded liability of $5,985,167 as of June 30, 2013, is included in other liabilities on the accompanying consolidated statements of net position.

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 $275,990 in 2013 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 $167,853 in 2013 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 $13,901,342 at June 30, 2013, 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, 2013, the remaining commitments were $23,193,766 for the University and approximately $69,400,000 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, 2013, was $5,432,977 for the University and $10,908,000 for the Authority.

The University has, as of June 30, 2013, the following total future minimum rental payments due under the above leases:

Fiscal Year	University	Authority
2014	$ 5,997,615	$ 8,978,295
2015	2,841,211	7,103,064
2016	1,805,313	6,345,337
2017	1,036,086	5,025,183
2018	655,983	4,044,225
2019-2023	2,183,107	4,056,584
2024-2028	1,300,712	
	$ 15,820,027	$ 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, 2013, the VCU Foundation and VCU School of Engineering Foundation held University investments of $25,494,563 and $6,588,246, respectively. VCU School of Business Foundation held investments of $1,024,521. 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 $1,011,294. 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 other operating revenue.

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 MCVH (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, 2013, 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, 2013, the internally restricted funds for the Hospitals include approximately $3,599,225 for that 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 un-asserted MCVH claims, if any, at June 30, 2013.

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 $20,332,188 have been internally restricted as of June 30, 2013, for payment of claims and related legal expenses for reported and unreported incidents.

The Authority believes that its combined 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, 2013.

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 $5 million annual aggregate. The coverage limit for the professional liability policy is $7 million in the annual aggregate. Management does not believe the amount of liability for any claims incurred but unreported as of June 30, 2013, 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 combined financial position would not be materially affected by the ultimate cost related to un-asserted claims, if any, at June 30, 2013.

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 $375,000 subject to certain limitations and a lifetime limit of $5,000,000 per enrollee. Premiums paid to the reinsurer for the year ended June 30, 2013, were approximately $3,173,000, and are included in other expenses in the accompanying consolidated statement of revenues, expenses and changes in net position. Benefits of approximately $2,664,000 were provided by the reinsurer for the year ended June 30, 2013, and are netted with medical claims expense in the accompanying consolidated statement 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, 2013:

Gross Patient Revenue	
Inpatient	$ 1,963,031,657
Outpatient	1,378,105,409
Total gross patient service revenue	3,341,137,066
Provision for uncompensated care and contractual adjustments	(2,168,783,027)
Net patient service revenue (Hospitals)	1,172,354,039
MCVAP's net patient service revenue	186,503,950
Children's patient service revenue	28,999,740
Eliminations	(41,889,623)
Consolidated net patient service revenue	$ 1,345,968,106

20. ESTIMATED MEDICAL CLAIMS PAYABLE

Claims expenses and liabilities arising from services rendered to VA Premier'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, 2013, the amount of these liabilities included in accounts payable and accrued liabilities was $52,397,760.

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, 2013:

Original legislative appropriation per Chapter 806:	
Educational and general programs	$ 150,550,117
Higher education student financial assistance	22,659,509
Governor's Research Initiative for Biomedical Engineering and Regenerative Medicine	1,162,500
Higher Education Research Initiative for Cancer Research	7,500,000
Biotechnology Research Park	250,000
Planning for new Virginia Treatment Center for Children facility	250,000
Supplemental adjustments:	
College Scholarship Assistance Program- CSAP	361,727
Line of Duty Act	820
Virtual Library of Virginia- VIVA	23,571
Central Reappropriations Distributions	6,596,861
Virginia Military Survivors and Dependent Education Program	105,500
Brown vs. Board of Education Scholarship	15,253
Two Year College Transfer Grant Program	69,500
State reversion non general fund (Chapter 806)	(14,239)
Higher Education Equipment Trust Fund 11 Chapter 806 Item 254	7,969,949
Steam Plant debt service	599,414
HEETF NGF Payment Ch 806 Item 280	(401,647)
Capital Fee for Out of State Students Ch 806 Item 280	(1,714,383)
Central Capital Planning Fund reclassification	(1,760,000)
Total	$ 194,224,452

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

MCV Foundation:	
Receivable in less than one year	$ 4,749,000
Receivable in one to five years	8,477,000
Receivable in more than five years	6,152,000
	19,378,000
Less:	
Discounts	(1,497,000)
Allowances	(186,000)
Net Contribution Receivable	$ 17,695,000

Discount rate of 3.52% was used in determining the present value of the contributions receivable.

VCU Foundation:	
Receivable in less than one year	$ 7,611,580
Receivable in one to five years	16,327,047
	23,938,627
Less:	
Discounts	(1,404,691)
Allowances	(1,042,642)
Net Contribution Receivable	$ 21,491,294

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

VCU Real Estate Foundation:	
Receivable in less than one year	$ 91,993
Less:	
Allowances	(63,815)
Net Contribution Receivable	$ 28,178

VCU School of Business Foundation:	
Receivable in less than one year	$ 1,014,699
Receivable in one to five years	595,660
	1,610,359
Less:	
Discounts	(27,814)
Allowances	(40,843)
Net Contribution Receivable	$ 1,541,702

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

VCU School of Engineering Foundation:	
Receivable in less than one year	$ 208,715
Receivable in one to five years	1,087,581
	1,296,296
Less:	
Discounts	(56,912)
Allowances	(12,395)
Net Contribution Receivable	$ 1,226,989

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

24. DERIVATIVE INSTRUMENT

At June 30, 2013, the University had two fixed-payer interest rate swaps with a notional amount of $65,465,000, 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 was 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 (0.13% as of June 30, 2013). The payments are settled monthly at the first of each month. Payments or receipts under the terms of the swap are recorded as non-operating revenue or expense. At June 30, 2013, the change in the fair market value of the swap, since reestablishing hedge accounting, of $4,596,181 is included in deferred inflows and in the accompanying consolidated balance sheets.

In November 2012, the University refunded the Series 2006 A and B General Revenue bonds associated with these swaps. At that time, the hedging relationship between the interest rate swap agreements and the 2006 Series A and B bonds was terminated, and the accumulated change in fair value of the interest rate swaps was included in the calculation of the deferred loss on refunding. Concurrently, the University reestablished hedge accounting by designating the 2012 Series A and B bonds as the hedged debt.

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, 2013, the $65,465,000 notional amount of swaps outstanding had a negative market value of $9,479,855 recorded in other liabilities, representing the amount the University would pay if the swaps were terminated on that date.

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, 2013, 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 view 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 valued of both the hedge and hedged item. Conversely, the collective effect of the hedges and the hedged item serve 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 swaps' 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 its variable rate Series 2012A and 2012B 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
2014	2,520,000	514,097	2,164,198	5,198,295
2015	2,625,000	494,307	2,080,890	5,200,197
2016	2,735,000	473,693	1,994,110	5,202,803
2017	2,845,000	452,215	1,903,695	5,200,910
2018	2,970,000	429,873	1,809,641	5,209,514
2019-2023	16,820,000	1,779,372	7,490,642	26,090,014
2024-2028	20,630,000	1,061,372	4,468,071	26,159,443
2029-2031	14,320,000	226,402	953,087	15,499,489
Total	$ 65,465,000	$ 5,431,331	$ 22,864,333	$ 93,760,664

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 (0.129% as of June 30, 2013). The payments are settled monthly at the first of each month. Payments or receipts under the terms of the swap are recorded as non-operating revenue or expense. At June 30, 2013, the fair market value of the swap of $30,376,129 is included in other liabilities in the accompanying consolidated balance sheets. For the year ended June 30, 2013, the change in fair value of the swaps was approximately $15,959,000.

In June 2013, MCVH refunded the Series 2008 Bonds using proceeds of the Series 2013A Bonds. At that time, the hedging relationship between the interest rate swap agreements and the Series 2008 Bonds was terminated, and the accumulated change in fair value of the interest rate swaps was included in the calculation of the deferred loss on refunding. In June 2013, MCVH reestablished hedge accounting by designating the Series 2013A Bonds as the hedged debt.

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 (0.13% as of June 30, 2013). The payments are settled monthly at the first of each month. Payments or receipts under the terms of the swap are recorded as non-operating revenue or expense. At June 30, 2013, the fair market value of the swap of $11,676,174 is included in deferred outflows and in other liabilities in the accompanying consolidated balance sheets. For the years ended June 30, 2013, the change in fair value of the swap was approximately $6,070,000.

In June 2013, MCVH refunded the Series 2005 Bonds using proceeds of the Series 2013B Bonds. At that time, the hedging relationship between the interest rate swap agreement and the Series 2005 Bonds was terminated, and the accumulated change in fair value of the interest rate swap was included in the calculation of the deferred loss on refunding. In June 2013, MVCH reestablished hedge accounting by designating the Series 2013B Bonds as the hedged debt.

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.

Maturity	Principal	Interest	Hedging Derivative Instruments, Net	Total
2014		1,391,220	6,823,454	8,214,674
2015	2,160,000	1,352,344	6,747,500	10,259,844
2016	2,255,000	1,338,914	6,668,192	10,262,106
2017	2,845,000	1,313,280	6,568,872	10,727,152
2018	2,950,000	1,290,525	6,465,827	10,706,352
2019-2023	16,360,000	6,087,772	30,661,846	53,109,618
2024-2028	37,010,000	5,026,040	26,026,907	68,062,947
2029-2033	53,860,000	3,180,520	17,832,538	74,873,058
2034-2038	72,875,000	982,090	5,611,607	79,468,697
Total	$ 190,315,000	$ 21,962,705	$ 113,406,743	$ 325,684,448

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 assets of the foundations.

VCU School of Engineering Foundation	
Net assets per Foundation financial statements	$ 37,099,952
Add: Unrealized loss on interest rap swap	5,825,798
Net assets as reported on University's financial statements	$ 42,925,750

VCU School of Business Foundation	
Net assets per Foundation financial statements	$ 27,978,674
Add: Unrealized loss on interest rap swap	3,654,057
Net assets as reported on University's financial statements	$ 31,632,731

25. SUBSEQUENT EVENTS

In September 2013, the Board of Visitors gave approval to the University to issue up to $41 million in new debt for the Harrison and Grace Residence Hall project, which will add approximately 426 beds to the University's current housing inventory. This issuance is currently expected to occur January 2014.

In August 2013, the IRS approved VA Premier's application for not-for-profit status. As a result, VA Premier reversed income taxes payable and deferred tax assets and liabilities and recorded a gain on conversion of approximately $23,000,000.

The Real Estate Foundation executed a contract with a construction manager dated April 3, 2013, for pre-construction and selective demolition of a property which is being developed for use by the University's School of the Arts. Subsequent to year end, this contract was amended to include the scope of the entire project at a guaranteed maximum price of $3,440,786.

Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

October 31, 2013

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable John M. O'Bannon, III
Chairman, Joint Legislative Audit
and Review Commission

Board of Visitors
Virginia Commonwealth University

INDEPENDENT AUDITOR'S REPORT

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities and aggregate 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, 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented 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

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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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our opinions.

Opinion

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 aggregate discretely presented component units of Virginia Commonwealth University as of June 30, 2013, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 2 through 11 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated October 31, 2013, 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 in considering the University's internal control over financial reporting and compliance.

Mathew S. Marcelus

AUDITOR OF PUBLIC ACCOUNTS

EMS/alh

Board of Visitors

Administrative Officers