VIRGINIA COMMONWEALTH UNIVERSITY

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED

June 30, 2008

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Management's Discussion and Analysis
(Unaudited)

Virginia Commonwealth University's Management Discussion and Analysis (MD&A) provides a discussion and analysis of the financial performance during the fiscal year ended June 30, 2008, with comparative information presented for the fiscal year ended June 30, 2007. While maintaining its financial health is crucial to the long-term viability of the University, the primary mission of a public institution of higher education is to provide education, research and public service. Therefore, net assets are accumulated only as required to ensure that there are sufficient reserve funds for future operations and implementation of new programs.

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

Using the Annual Report

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

The Statement of Net Assets

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

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

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

	2008	2007	Increase (Decrease)
Current and other assets	$ 375,716,364	$ 402,905,736	$ (27,189,372)
Capital assets – net	735,424,371	609,282,553	126,141,818
Total assets	1,111,140,735	1,012,188,289	98,952,446
Current liabilities	133,500,479	126,365,822	7,134,657
Long term liabilities	389,383,236	356,628,569	32,754,667
Total liabilities	$ 522,883,715	$ 482,994,391	$ 39,889,324

	2008	2007	Increase (Decrease)
Net Assets:			
Invested in capital assets, net of related debt	423,905,324	335,857,677	88,047,647
Restricted	39,310,241	48,501,959	(9,191,718)
Unrestricted	125,041,455	144,834,262	(19,792,807)
Total Net Assets	$ 588,257,020	$ 529,193,898	$ 59,063,122

- The University's current and other assets decreased due to reductions in Higher Education Equipment Trust Fund and capital appropriations receivable. Bond proceeds were used to fund capital projects. Capital assets increased due to the completion of the School of Business, School of Engineering, Theatre Row renovations, and the Monroe Park Deck.
- Current and other liabilities increased principally due to security lending transactions held by the Treasurer of Virginia.
- Long term liabilities increased due to higher debt. Debt is discussed in more detail below.
- Total assets grew by a greater margin than total liabilities, with net assets increasing correspondingly.

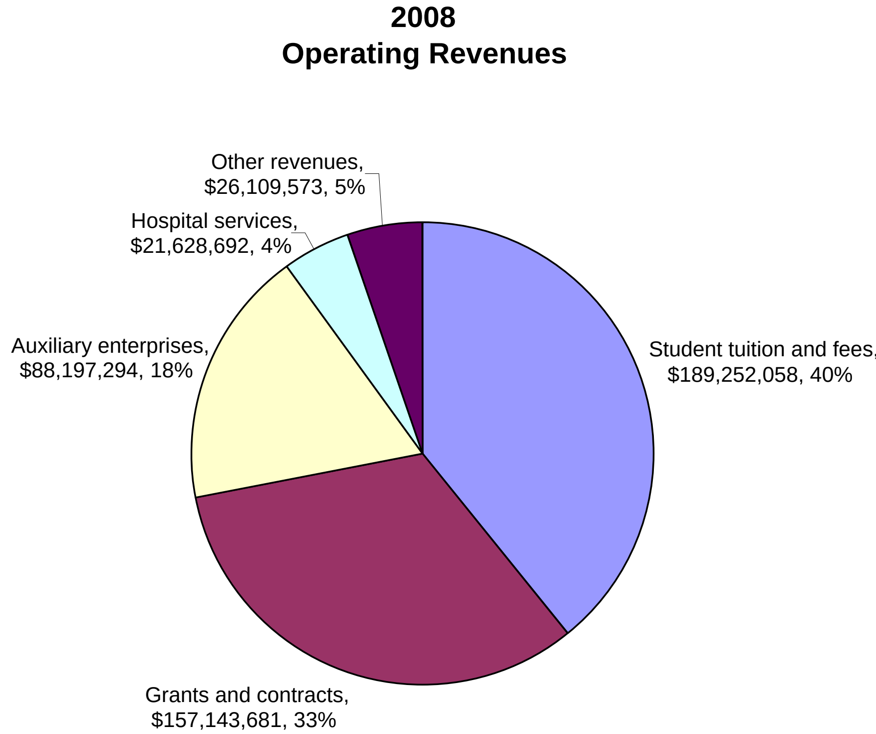
The Statement of Revenues, Expenses, and Changes in Net Assets

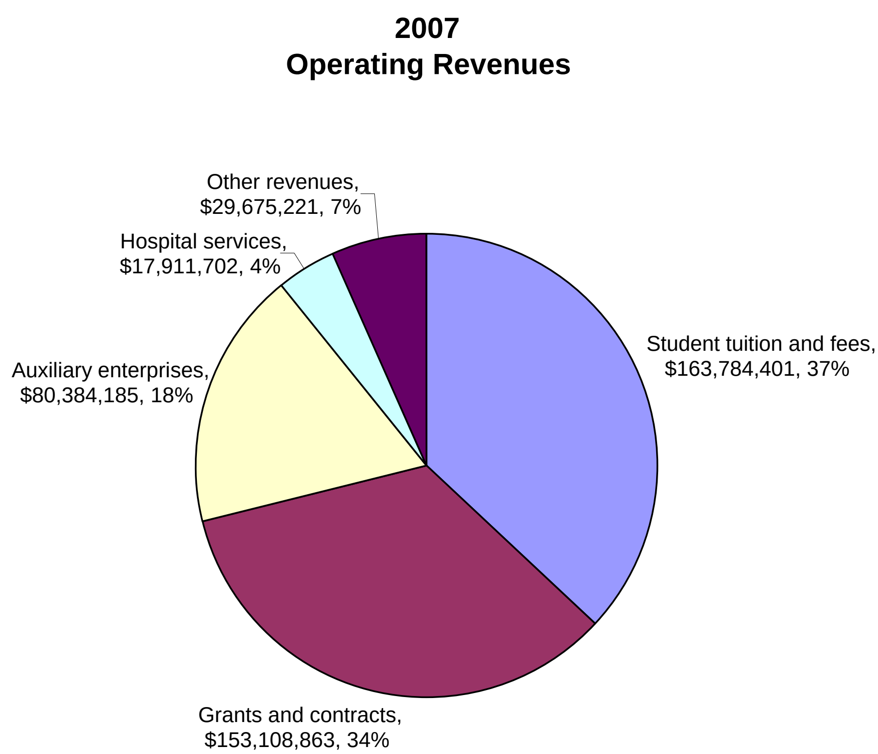
The Statement of Revenues, Expenses, and Changes in Net Assets presents the operating results, as well as the nonoperating revenues and expenses. State appropriations, while budgeted for operations, are considered non-operating revenues according to generally accepted accounting principles.

The following is a summarized schedule of the revenues and expenses for the University, for the year ended June 30, 2008, with comparative data for the year ended June 30, 2007.

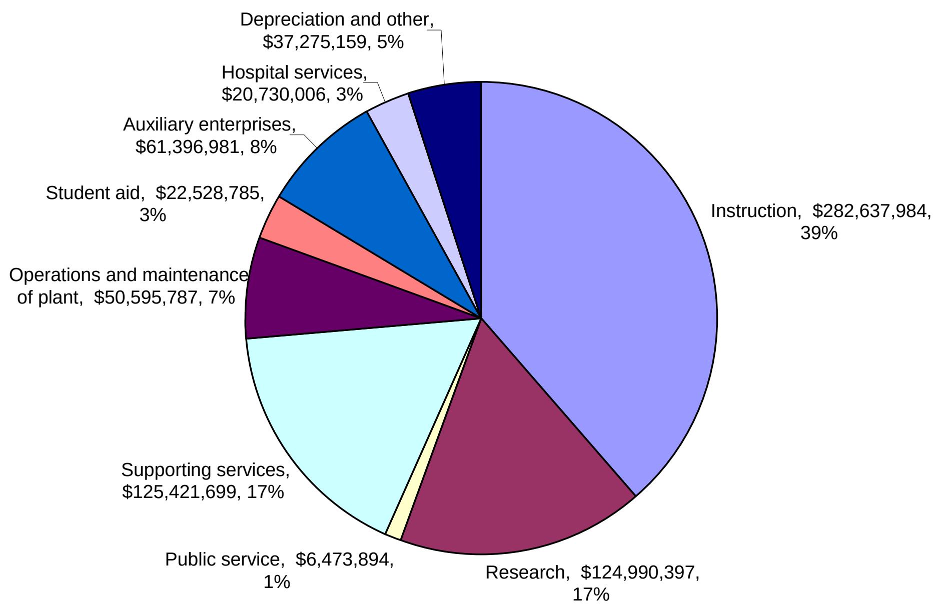
		University	
	2008	2007	Increase (Decrease)
Operating revenue	$ 482,331,298	$ 444,864,372	$ 37,466,926
Operating expense	732,050,692	693,415,677	38,635,015
Operating loss	(249,719,394)	(248,551,305)	(1,168,089)
Nonoperating revenues (expenses):			
State appropriations	226,444,533	215,835,426	10,609,107
Gifts	26,895,557	24,325,960	2,569,597
Investment income (net of investment expense)	8,418,973	14,998,358	(6,579,385)
Interest on capital asset-related debt	(12,352,880)	(12,646,649)	293,769
Pell revenue	11,881,585	11,265,805	615,780
Other	(2,633,125)	426,859	(3,059,984)
Net non-operating revenues	258,654,643	254,205,759	4,448,884
Income before other revenues	8,935,249	5,654,454	3,280,795
Additions to permanent endowments	2,280	1,012,993	(1,010,713)
Capital appropriations	55,686,503	53,284,290	2,402,213
Capital gifts	3,455,177	3,779,185	(324,008)
Extraordinary item – capital appropriations	(9,016,087)	-	(9,016,087)
Increase in net assets	59,063,122	63,730,922	(4,667,800)
Net assets - beginning of year	529,193,898	465,462,976	63,730,922
Net assets - end of year	$ 588,257,020	$ 529,193,898	$ 59,063,122

The following graphs present operating revenues and expenses for fiscal years 2008 and 2007:

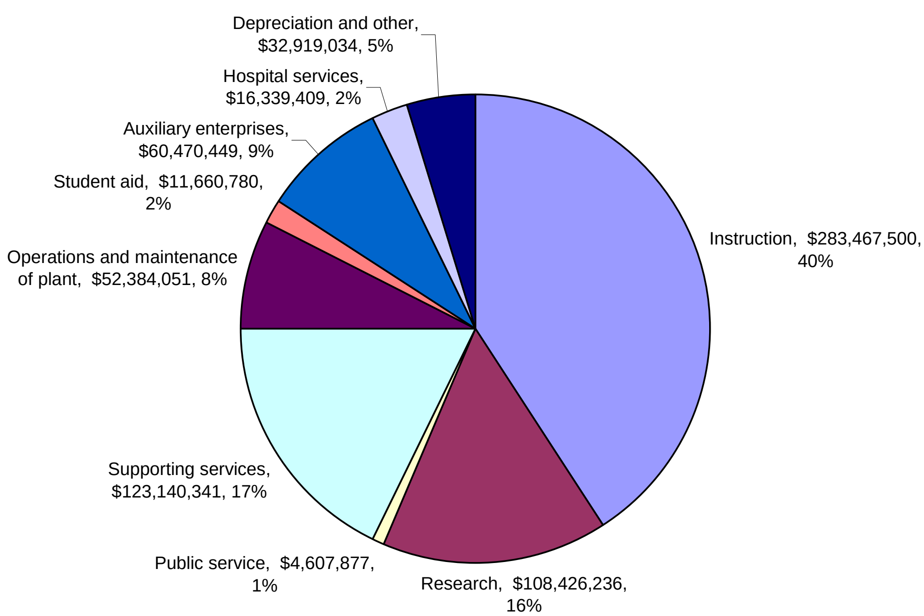




2008
Operating Expenses



2007
Operating Expenses



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

The Statement of Cash Flows

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

The following is a summary Statement of Cash Flows for the University for the year ended June 30, 2008, with comparative data for the year ended June 30, 2007. For more detailed information, see the accompanying Statement of Cash Flows.

	University		
	2008	2007	Increase (Decrease)
Cash provided (used) by:			
Operating activities	$ (223,669,734)	$ (187,145,367)	$ (36,524,367)
Noncapital financing activities	269,969,559	249,202,633	20,766,926
Capital and related financing activities	(79,187,196)	(64,417,669)	(14,769,527)
Investing activities	19,847,689	8,823,577	11,024,112
Net increase in cash	(13,039,682)	6,463,174	(19,502,856)
Cash, beginning of year, as restated	182,948,803	176,485,629	6,463,174
Cash, end of year	$ 169,909,121	$ 182,948,803	$ (13,039,682)

- The University's operating cash flows decreased primarily due to reduced vendor accruals.
- Cash from noncapital financing activities increased due to higher state appropriations.
- Cash from capital and related financing activities decreased due to additional purchases of capital assets.
- Cash from investing activities increased due to the sale and maturity of investments.

Capital Assets and Debt Administration

Capital Assets

Presented next is the schedule of capital assets net of depreciation. Depreciation expense totaled $37.3 million for the University.

	University	
	2008	2007
Land	$ 40,371,413	$ 33,886,928
Land improvements and infrastructure	9,964,415	6,637,681
Buildings	488,919,791	380,787,026
Equipment	57,944,743	57,753,899
Library books	15,242,784	13,824,495
Construction in progress	122,981,225	116,392,524
Total	$ 735,424,371	$ 609,282,553

- Completed capital projects include the Monroe Park Campus Residential Housing and Parking Deck, School of Business and Phase II of the School of Engineering.

Debt

At June 30, 2008, the University had $364.6 million in debt outstanding.

- The University issued a bond in the amount of $15.5 million to finance a portion of the Monroe Park housing project.
- The University issued a note to VCBA in the amount of $23.3 million to finance a portion of the Monroe Park and MCV Campus Recreation Facility projects.

Future Financial Effects

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

- State General Fund appropriations were originally projected to increase to $221.6 million for fiscal year 2009.

- Because state revenues are projected to be lower than expected, the Governor imposed general fund reductions on Virginia agencies and institutions for fiscal year 2009. Reductions for institutions of higher education are based on the institution's level of base adequacy funding and the percent of students eligible for federal financial aid. VCU's reduction, when financial aid is eliminated from the calculation of general fund support, for each year of the 2008-10 biennium was 5 percent of general fund support, or $10,136,448.

- Tuition and fee revenues are projected to increase by $25.6 million in fiscal year 2009 based on the Board of Visitors approved increase in tuition and mandatory fee rates of 9.4% for resident undergraduate students and projected enrollment growth of .5%.

- New facilities opening in fiscal year 2009 include the Monroe Park Campus Addition Housing Complex, Recreation Center Facilities, Medical Sciences Building II, School of Dentistry Addition and the School of Engineering Institute for Life and Health Sciences.

- In January 2009, the University expects to issue a note to the Virginia College Building Authority (VCBA) in the amount of $45,000,000. The proceeds of the note will be used to finance a portion of the Recreation Center project and a portion of the Medical Sciences Building II.

FINANCIAL STATEMENTS

VIRGINIA COMMONWEALTH UNIVERSITY
STATEMENT OF NET ASSETS
As of June 30, 2008

	University	VCU Health System Authority
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	$ 141,094,535	$ 53,770,743
Short-term investments (Note 2)	13,223,995	229,925,508
Accounts receivable:		
Student, Net of allowance of $3,326,841	6,919,346	-
Sponsors	27,671,124	-
Patient, Net of allowance of $92,053,406	-	165,863,563
Contributions and gifts, Net of allowance of $319,865	-	-
Due from component units	7,131,342	-
Due from VCBA	9,271,752	-
Due from Commonwealth of Virginia	31,135,114	-
Due from VCU Foundation	-	-
Student loans receivable, current portion	2,888,157	-
Other assets	3,447,645	16,881,125
Total current assets	242,783,010	466,440,939
Noncurrent assets:		
Restricted cash and cash equivalents	30,220,217	-
Endowment investments (Note 2)	-	-
Other investments (Note 2)	24,170,202	269,993,086
Contributions and gifts, Net of discount and allowance of $3,598,025	-	-
Student loans receivable, Net of allowance of $3,168,118	22,912,400	-
Loans receivable	-	-
Due from component units	53,788,268	716,173
Other long-term assets	1,842,267	14,162,975
Nondepreciable capital assets (Note 4)	163,352,638	178,424,709
Depreciable capital assets (Note 4)	572,071,733	275,112,395
Total noncurrrent assets	868,357,725	738,409,338
Total assets	1,111,140,735	1,204,850,277
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities (Note 6)	78,449,913	137,614,888
Deferred revenue (Note 7)	18,627,096	-
Due to component units	-	13,439,342
Due to Commonwealth of VA	2,786,374	-
Long-term liabilities - current portion (Note 8)	33,637,096	30,770,893
Total current liabilities	133,500,479	181,825,123
Noncurrent liabilities:		
Funds held for others (Note 5)	26,786,121	-
Due to component units	-	1,613,195
Other	-	17,904,273
Long-term liabilities (Note 8)	362,597,115	329,091,404
Total noncurrent liabilities	389,383,236	348,608,872
Total liabilities	522,883,715	530,433,995

MCV Foundation	VCU Foundation	VCU Real Estate Foundation	VCU School of Business Foundation	VCU School of Engineering Foundation	Eliminations	Total
$ 38,820,000	$ 5,326,996	$ 2,899,053	$ 228,116	$ 794,436	$ -	$ 242,933,879
-	-	-	-	-	-	243,149,503
-	-	-	-	-	-	6,919,346
-	-	-	-	-	-	27,671,124
-	-	-	-	-	-	165,863,563
3,721,000	1,415,002	54,505	4,017,358	6,540,333	-	15,748,198
7,000,000	-	2,160,476	3,503,036	2,051,812	(21,846,666)	-
-	-	-	-	-	-	9,271,752
-	-	-	-	-	-	31,135,114
-	-	-	-	-	-	-
50,000	-	-	-	-	-	2,938,157
-	9,985	1,353,149	23,787	1,226,339	(1,351,119)	21,590,911
49,591,000	6,751,983	6,467,183	7,772,297	10,612,920	(23,197,785)	767,221,547
45,696,000	11,735,194	5,451,522	4,840,766	5,367,698	-	103,311,397
158,778,000	29,915,643	-	11,799,374	4,228,005	-	204,721,022
119,566,000	30,906,151	-	13,636,498	67,434,404	-	525,706,341
3,745,000	2,590,260	-	7,099,478	2,658,356	-	16,093,094
-	-	-	-	-	-	22,912,400
955,000	-	-	-	-	-	955,000
-	-	-	-	-	(54,504,441)	-
52,000	-	693,933	389,302	927,687	(1,123,232)	16,944,932
217,000	-	11,092,697	-	1,057,317	-	354,144,361
1,574,000	-	52,940,619	39,583,986	59,640,250	(110,556,479)	890,366,504
330,583,000	75,147,248	70,178,771	77,349,404	141,313,717	(166,184,152)	2,135,155,051
380,174,000	81,899,231	76,645,954	85,121,701	151,926,637	(189,381,937)	2,902,376,598
5,749,000	12,575	1,024,067	92,560	186,356	-	223,129,359
-	-	4,383,264	25,700	-	(5,734,383)	17,301,677
-	2,160,476	3,586,267	-	1,240,000	(20,426,085)	-
-	-	-	-	-	-	2,786,374
485,000	113,494	1,417,177	-	-	(677,517)	65,746,143
6,234,000	2,286,545	10,410,775	118,260	1,426,356	(26,837,985)	308,963,553
-	-	-	-	-	-	26,786,121
-	30,608,855	17,911,173	56,908,723	106,334,842	(213,376,788)	-
-	149,587	2,109,198	-	13	-	20,163,071
11,670,000	-	36,133,565	-	-	(17,216,073)	722,276,011
11,670,000	30,758,442	56,153,936	56,908,723	106,334,855	(230,592,861)	769,225,203
17,904,000	33,044,987	66,564,711	57,026,983	107,761,211	(257,430,846)	1,078,188,756

VIRGINIA COMMONWEALTH UNIVERSITY
STATEMENT OF NET ASSETS
As of June 30, 2008

NET ASSETS	University	VCU Health System Authority
Invested in capital assets, net of related debt	$ 423,905,324	$ 214,389,311
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	4,219,780	-
Departmental uses	640,339	18,247,244
Expendable:		
Scholarships and fellowships	3,052,711	-
Research	9,588,699	-
Departmental uses	16,249,710	900,668
Loans	4,776,465	-
Capital projects	782,537	-
Unrestricted	125,041,455	440,879,059
Total net assets	$ 588,257,020	$ 674,416,282

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

	MCV Foundation	VCU Foundation	VCU Real Estate Foundation	VCU School of Business Foundation	VCU School of Engineering Foundation	Eliminations	Total
	$ 1,791,000	$ -	$ 9,561,507	$ 10,821,360	$ (4,124,746)	$ (11,191,121)	$ 645,152,635
	-	-	-	-	-	-	4,219,780
	158,778,000	31,040,229	-	12,993,177	13,290,310	-	234,989,299
	-	-	-	-	-	-	3,052,711
	-	-	-	-	-	-	9,588,699
	173,045,000	14,776,655	-	28,594,864	33,777,174	-	267,344,071
	-	-	-	-	-	-	4,776,465
	-	-	-	-	-	-	782,537
	28,656,000	3,037,360	519,736	(24,314,683)	1,222,688	79,240,030	654,281,645
	$ 362,270,000	$ 48,854,244	$ 10,081,243	$ 28,094,718	$ 44,165,426	$ 68,048,909	$ 1,824,187,842

VIRGINIA COMMONWEALTH UNIVERSITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2008

	University	VCU Health System Authority	MCV Foundation
Operating revenues:			
Student tuition and fees (Net of scholarship allowances of $39,158,530)	$ 189,252,058	$ -	$ -
Federal grants and contracts	130,967,159	-	-
State grants and contracts	8,093,731	-	-
Local grants and contracts	1,178,297	-	-
Nongovernmental grants and contracts	16,904,494	-	-
Sales and services of educational departments	23,159,096	-	-
Contributions and gifts	-	-	-
Auxiliary enterprises:			
Sales and services	53,637,654	-	-
Student fees (Net of scholarship allowances of $2,452,345)	34,559,640	-	-
Hospital services	21,628,692	1,378,221,252	-
Other revenues	2,950,477	-	3,425,000
Total operating revenues	482,331,298	1,378,221,252	3,425,000
Operating expenses:			
Instruction	282,637,984	-	-
Research	124,990,397	-	-
Public service	6,473,894	-	-
Supporting services:			
Academic support	59,189,269	-	23,354,000
Student services	12,915,280	-	-
Institutional support	53,317,150	-	1,574,000
Operations and maintenance of plant	50,595,787	-	-
Student aid	22,528,785	-	1,909,000
Auxiliary enterprises	61,396,981	-	-
Hospital services	20,730,006	1,245,572,845	-
Depreciation expense	37,269,258	43,145,794	87,000
Other expenses	5,901	-	928,000
Total operating expenses	732,050,692	1,288,718,639	27,852,000
Operating gain/(loss)	(249,719,394)	89,502,613	(24,427,000)
Nonoperating revenues (expenses):			
State appropriations (Note 22)	226,444,533	-	-
Gifts	26,895,557	-	57,026,000
Investment income, Net of investment expense of $2,004,062	8,418,973	3,305,913	(8,854,000)
Interest on capital asset-related debt	(12,352,880)	(5,169,714)	-
Pell revenue	11,881,585	-	-
Other	(2,633,125)	(49,916,804)	42,000
Net nonoperating revenues	258,654,643	(51,780,605)	48,214,000
Income before other revenues and expenses	8,935,249	37,722,008	23,787,000
Other revenues:			
Additions to permanent endowments	2,280	-	4,432,000
Capital appropriations	55,686,503	-	-
Capital gifts and grants	3,455,177	(95,255)	-
Increase in beneficial interest in trusts	-	(2,462,738)	-
Other	-	6,169,262	-
Reductions of capital appropriations	(2,200,000)	-	-
Other capital appropriation reductions	(6,816,087)	-	-
Increase in net assets	59,063,122	41,333,277	28,219,000
Net assets - Beginning of year	529,193,898	633,083,005	334,051,000
Net assets - End of year	$ 588,257,020	$ 674,416,282	$ 362,270,000

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

VCU Foundation	VCU Real Estate Foundation	VCU School of Business Foundation	VCU School of Engineering Foundation	Eliminations	Total
$ -	$ -	$ -	$ -	$ (1,811,971)	$ 187,440,087
-	-	-	-	-	130,967,159
-	-	-	-	(100,036)	7,993,695
-	-	-	-	(33,000)	1,145,297
-	-	-	-	(5,525)	16,898,969
-	-	-	-	(1,065,267)	22,093,829
-	-	-	-	-	-
-	-	-	-	(3,939,294)	49,698,360
-	-	-	-	(3,192)	34,556,448
-	-	-	-	(21,628,692)	1,378,221,252
543,612	10,903,723	1,617,662	2,261,471	(8,757,861)	12,944,084
543,612	10,903,723	1,617,662	2,261,471	(37,344,838)	1,841,959,180
-	-	600,562	-	(144,009)	283,094,537
-	-	-	-	(916,511)	124,073,886
-	-	-	-	(8,643)	6,465,251
-	-	-	-	(18,682,176)	63,861,093
-	-	-	-	(14,552)	12,900,728
-	-	-	-	69,731	54,960,881
-	3,262,298	-	-	(2,988,820)	50,869,265
-	-	-	-	-	24,437,785
-	-	-	-	(125,547)	61,271,434
-	-	-	-	(30,426,198)	1,235,876,653
2,815	1,998,134	624,767	1,645,250	(2,398,859)	82,374,159
4,741,785	550,019	30,286,844	28,711,782	(61,845,669)	3,378,662
4,744,600	5,810,451	31,512,173	30,357,032	(117,481,253)	2,003,564,334
(4,200,988)	5,093,272	(29,894,511)	(28,095,561)	80,136,415	(161,605,154)
-	-	-	-	-	226,444,533
4,385,622	-	1,296,597	1,316,682	(58,724,626)	32,195,832
(747,911)	174,315	(1,002,185)	15,604,465	(1,083,668)	15,815,902
-	(2,635,872)	(341,030)	(1,345,004)	2,192,708	(19,651,792)
-	-	-	-	-	11,881,585
-	(8,628)	-	-	34,521,423	(17,995,134)
3,637,711	(2,470,185)	(46,618)	15,576,143	(23,094,163)	248,690,926
(563,277)	2,623,087	(29,941,129)	(12,519,418)	57,042,252	87,085,772
790,302	-	102,115	6,887,957	-	12,214,654
-	-	-	-	-	55,686,503
-	-	9,812,762	-	(13,267,939)	(95,255)
-	-	-	-	-	(2,462,738)
-	-	-	-	-	6,169,262
-	-	-	-	-	(2,200,000)
-	-	-	-	-	(6,816,087)
227,025	2,623,087	(20,026,252)	(5,631,461)	43,774,313	149,582,111
48,627,219	7,458,156	48,120,970	49,796,887	24,274,596	1,674,605,731
$ 48,854,244	$ 10,081,243	$ 28,094,718	$ 44,165,426	$ 68,048,909	$ 1,824,187,842

VIRGINIA COMMONWEALTH UNIVERSITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2008

	University
Cash flows from operating activities:	
Tuition and fees	$ 190,153,276
Grants and contracts	153,660,961
Auxiliary enterprise charges	87,795,568
Sales and services of education departments	23,159,096
Hospital services charges	21,628,692
Payments to suppliers	(240,297,657)
Payments to employees	(462,505,785)
Loans issued to students	(5,717,467)
Collection of loans to students	3,982,135
Other receipts (payments)	4,471,447
Net cash used by operating activities	(223,669,734)
Cash flows from noncapital financing activities:	
State appropriations	231,489,935
Direct lending receipts	155,214,034
Direct lending disbursements	(155,214,034)
Agency receipts	34,518,889
Agency disbursements	(35,067,358)
Insurance recoveries	328,671
Pell revenue	11,881,585
Gifts	26,817,837
Net cash provided by noncapital financing activities	269,969,559
Cash flows from capital financing activities:	
Proceeds from issuance of note payable	37,411,969
State appropriations for capital assets	58,005,542
Gifts for capital assets	3,455,177
Purchase of capital assets	(154,119,147)
Principal paid on capital-related debt	(11,846,570)
Interest paid on capital-related debt	(12,094,167)
Net cash used by capital financing activities	(79,187,196)
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	160,288,230
Investment income	10,176,255
Purchases of investments	(150,616,796)
Net cash provided by investing activities	19,847,689
Net increase in cash	(13,039,682)
Cash and cash equivalents - Beginning of year, as restated	182,948,803
Cash and cash equivalents - End of year	$ 169,909,121

VIRGINIA COMMONWEALTH UNIVERSITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2008

RECONCILIATION OF NET OPERATING EXPENSES TO NET CASH USED BY OPERATING ACTIVITIES:	
Operating gain/(loss)	$ (249,719,394)
Adjustments to reconcile net gain/(loss) to net cash used by operating activities:	
Depreciation expense	37,269,258
Provision for uncollectible accounts	574,591
Changes in assets and liabilities:	
Receivables	(11,476,106)
Other assets	(148,103)
Accounts payable	(4,245,280)
Deferred revenue	1,084,564
Compensated absences and deferred compensation	2,058,831
Deposits	1,393,553
Other liabilities	(461,648)
Net cash used by operating activities	$ (223,669,734)
RECONCILIATION OF CASH AND CASH EQUIVALENTS:	
Cash and Cash Equivalents per Statement of Net Assets	$ 171,314,752
Less: Securities Lending Cash Equivalents	1,405,631
Cash and Cash Equivalents - End of year	$ 169,909,121
RESTATEMENT OF BEGINNING CASH AND CASH EQUIVALENTS:	
Cash and Cash Equivalents per Statement of Net Assets as of June 30, 2007	$ 206,078,030
Less:	
Securities Lending Cash Equivalents	351,420
Capital Appropriations Available reclassified	22,777,807
Cash and Cash Equivalents - Beginning of Year, as restated	$ 182,948,803

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

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Virginia Commonwealth University (VCU) is the largest university in Virginia and ranks among the top 100 universities in the country in sponsored research.

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

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

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

The accounting policies of the Medical College of Virginia Foundation, Virginia Commonwealth University Foundation, Virginia Commonwealth University Real Estate Foundation, Virginia Commonwealth University School of Engineering Foundation and Virginia Commonwealth University School of Business 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. <u>Reporting Entity</u>

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

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

The 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.

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

UHS, a component unit of the Authority, is a not-for-profit, nonstock, tax-exempt corporation, which supports 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 blended component unit of the Authority due to the significance of the operational and financial relationship between the two entities. Virginia Premier Health Plan, Inc. (VA Premier) is a wholly owned subsidiary of UHS Managed Care, Inc., which in turn is a wholly owned subsidiary of UHS. Carolina Crescent Health Plan, Inc. (CCHP) is a not-for-profit, wholly owned subsidiary of UHS. VA Premier and CCHP are Medicaid health maintenance organizations whose primary purpose is to provide quality health care within a managed care framework.

The Medical College of Virginia Foundation (MCV Foundation) is a not-for-profit corporation organized to aid, strengthen, and extend the work, services and objectives of the MCV Campus of the University. This mission is achieved by receiving contributions, investing and managing funds, disbursing current funds and a portion of the total return on endowment, and providing information about the activities of the MCV Campus and the MCV Foundation. The MCV Foundation is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3).

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

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

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

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

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

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

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

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

B. Basis of Accounting

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

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

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

C. Allowance for Uncollectible Receivables

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

D. Pledges Receivable

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

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

E. Investments

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

F. Inventories

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

G. Investment Income

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

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

H. Accrued Compensated Absences

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

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

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

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

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

I. Capital Assets

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

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

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

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

J. Hospital Services

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

K. Uncompensated Care

The Authority provides care to patients who meet certain criteria under its indigent care policy without charge or at amounts less than its established rates. Because the Authority does not pursue collection of charges determined to qualify as uncompensated care from the patients, they are not reported as revenue. The costs of providing these services are included in the Authority's operating expenses. Uncompensated care, which represents the difference between charges of the services provided and the costs of those respective services, approximated $152,602,000 for the year ended June 30, 2008.

L. Net Patient Service Revenue

Net patient service revenue is reported in hospital services at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party 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 $53,600,000 in 2008.

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

- Anthem – Inpatient acute care services rendered to Anthem subscribers are paid at rates per discharge (DRGs) or discounted rates. Outpatient services rendered to Anthem subscribers are reimbursed at discounted rates or applicable fee schedule. The rates are not subject to retroactive adjustment.

- Medicare – Inpatient acute care services and defined capital costs rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates may vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient non-acute services, certain outpatient services and education related to Medicare beneficiaries are paid based on prospectively determined rates and a discounted cost reimbursement methodology. The Authority is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare fiscal intermediary. The Authority's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2003.

- 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 $256 million in 2008. The Authority's Medicaid cost reports have been audited by the Medicaid program representative through June 30, 2006.

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

M. Premiums Earned

VA Premier has contracts with the Virginia Department of Medical Assistance Services (DMAS) wherein VA Premier provides health care services to the Aid for Families with Dependent Children (AFDC), the Children's Medical Services Insurance Plan (CMSIP), 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. All of VA Premier's premiums were earned from contracts with DMAS.

N. Uncollectible Accounts

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

O. Estimated Medical Claims Payable

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

P. Net Assets

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

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

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

The Authority's restricted net assets consist principally of beneficial interests in perpetual trust funds established by split interest agreements. Split interest agreements are trust agreements established by donors under which the Authority receives benefits that are shared with other beneficiaries. The trust agreements established by donors provide for a third party to hold the trust assets. These trusts do not permit donors to revoke their charitable contributions. Trust assets of $18,247,244, which are restricted by donors for the Authority in perpetuity, are reported at fair value, which approximates the present value of the future cash receipts from the trust assets.

Q. Scholarship Allowances and Student Aid

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

R. Intangibles

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

S. Revenue and Expense Classifications

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

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

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

2. CASH AND INVESTMENTS

Cash

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

Investments and cash equivalents held by the Treasurer of Virginia represent the Department's allocated share of cash collateral received and reinvested and securities received for the State Treasury's securities lending program. Information related to the credit risk of these investments and the State Treasury's securities lending program is available on a statewide level in the Commonwealth of Virginia's *Comprehensive Annual Financial Report*.

Investments

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

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

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

As of June 30, 2008, the University held the following investments:

		Investment Maturities (In Years)			
Investment Type	Fair Value	< 1	1-5	6-10	> 10
U.S. Treasury and Agency Securities	$ 5,050,682	$ -	$ 3,718,956	$ 260,898	$ 1,070,828
Corporate Notes	4,111,343	2,032,854	1,605,001	331,820	141,668
Corporate Bonds	5,151,109	306,944	3,188,704	761,324	894,137
Commercial Paper	-	-	-	-	-
Asset Backed Securities	2,696,915	-	2,359,189	298,314	39,412
Agency Mortgage Backed Securities	13,958,357	4,162,208	1,981,658	6,984	7,807,507
Common Stock	-	-	-	-	-
Securities Lending	5,295,025	5,295,025	-	-	-
Mutual and Money Market Funds	1,130,766	1,130,766	-	-	-
Total	$ 37,394,197	$ 12,927,797	$ 12,853,508	$ 1,659,340	$ 9,953,552

As of June 30, 2008, the Moody's ratings of the University's investments in corporate notes and bonds were as follows:

Rating	Corporate Notes	Corporate Bonds
AAA	$ 601,751	$ 205,487
AA1	250,730	167,330
AA2	453,260	74,203
AA3	1,796,650	782,117
A-1	618,521	800,336
A-2	326,398	1,917,457
A-3	64,033	1,135,870
Baa	-	68,309
Total	$ 4,111,343	$ 5,151,109

Authority:		Investment Maturities (In Years)			
Investment Type	Fair Value	< 1	1-5	6-10	> 10
Cash and Cash Equivalents	$ 93,207,182	$ 93,207,182	$ -	$ -	$ -
Mutual Funds	83,040,377	N/A	N/A	N/A	N/A
Index Funds	43,087,828	N/A	N/A	N/A	N/A
Marketable Equity Securities	17,215,326	N/A	N/A	N/A	N/A
U.S. Treasury Notes	74,260,825	47,653,250	24,563,816	1,153,506	890,253
Asset Backed Securities	3,066,300	-	1,184,639	547,516	1,334,145
Agency Backed Mortgages	45,482,359	22,515,675	7,631,964	2,531,339	12,803,381
Corporate Notes	26,848,968	6,893,635	12,237,493	5,551,341	2,166,499
Corporate Bonds	3,132,427	61,006	1,219,115	512,517	1,339,789
Beneficial Interest in Trust	18,247,244	-	-	-	18,247,244
Other	86,708,660	N/A	N/A	N/A	N/A
Real Estate	5,621,098	N/A	N/A	N/A	N/A
	$ 499,918,594	$170,330,748	$46,837,027	$10,296,219	$36,781,311

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

Investments held at the foundations as of June 30, 2008 were as follows:

	Fair Value	Cost
MCV Foundation:		
U. S. Treasury and Agency Securities	$ 38,303,000	$ 38,215,000
Common and Preferred Stocks	156,176,000	130,257,000
Corporate Bonds	32,304,000	32,748,000
Index Funds	51,376,000	26,213,000
Life Income Investment	185,000	185,000
Total	$ 278,344,000	$227,618,000
VCU Foundation:		
U. S. Treasury and Agency Securities	$ 4,136,462	$ 4,155,183
Common and Preferred Stocks	51,731,851	45,603,792
Corporate Bonds	4,930,497	5,094,264
Life Income Investment	22,984	22,984
Total	$ 60,821,794	$ 54,876,223

	Fair Value	Cost
VCU School of Business Foundation:		
Common and Preferred Stocks	$ 11,796,950	$ 12,048,605
Mutual and Money Market Funds	4,655,484	4,754,036
Other investments	8,983,438	7,884,566
Total	$ 25,435,872	$ 24,687,207
VCU School of Engineering Foundation:		
Fundamental Managers Funds, L.P.	$ 6,874,074	$ 6,874,074
Private Advisors Small Company Buyout Fund, L.P.	892,625	892,625
Private Advisors Hedged Equity Fund, L.P.	3,233,417	3,233,417
Private Advisors Stable Value Fund, LTD	7,777,992	7,777,992
Blue Ridge Offshore Limited Partnership	18,877,834	18,877,834
Tiger Global, LTD	23,687,126	23,687,126
TIFF	6,366,563	6,366,563
Mutual and Money Market Funds	3,952,778	3,952,778
Total	$ 71,662,409	$ 71,662,409

3. JOINT VENTURES AND EQUITY INVESTMENTS

Investment in 7th and Marshall Corporation

Included in other long-term assets on the accompanying statement of net assets is a capital contribution to 7th and Marshall Corporation of $500,000. UHS and Hospital Hospitality House, Inc. are the sole members of the 7th and Marshall Corporation, a not-for-profit corporation formed to support the charitable, educational and scientific activities of UHS and Hospital Hospitality House, Inc. The 50% investment in 7th and Marshall Corporation is accounted for under the equity method of accounting. The investment is carried at $354,123.

4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008 was as follows:

University:	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable capital assets:				
Land	$ 33,886,928	$ 6,484,485	$ -	$ 40,371,413
Construction in progress	116,392,524	145,597,628	139,008,927	122,981,225
Total nondepreciable capital assets	150,279,452	152,082,113	139,008,927	163,352,638
Depreciable capital assets:				
Land improvements and infrastructure	18,251,370	4,486,994	227,657	22,510,707
Buildings	586,669,880	128,234,165	3,723,310	711,180,735
Equipment	135,983,953	14,050,694	8,357,711	141,676,936
Library books	100,971,812	6,341,782	-	107,313,594
Total depreciable capital assets	841,877,015	153,113,635	12,308,678	982,681,972
Less accumulated depreciation for:				
Land improvements and infrastructure	11,613,689	1,155,436	222,833	12,546,292
Buildings	205,882,854	18,158,342	1,780,252	222,260,944
Equipment	78,230,054	13,031,987	7,529,848	83,732,193
Library books	87,147,317	4,923,493	-	92,070,810
Total accumulated depreciation	382,873,914	37,269,258	9,532,933	410,610,239
Total depreciable capital assets, net	459,003,101	115,844,377	2,775,745	572,071,733
Total capital assets - net	$609,282,553	$267,926,490	$141,784,672	$735,424,371

Interest capitalized as part of construction in progress was $2,494,558.

Authority:	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable capital assets:				
Land	$ 1,598,902	$ -	$ -	$ 1,598,902
Construction in progress	124,213,032	83,292,934	30,680,159	176,825,807
Total nondepreciable capital assets	125,811,934	83,292,934	30,680,159	178,424,709
Depreciable capital assets:				
Buildings	296,401,012	9,663,323	-	306,064,335
Equipment	193,485,519	41,337,716	7,894	234,815,341
Total depreciable capital assets	489,886,531	51,001,039	7,894	540,879,676
Less accumulated depreciation	223,701,342	42,065,939	-	265,767,281
Total depreciable capital assets, net	266,185,189	8,935,100	7,894	275,112,395
Total capital assets - net	$ 391,997,123	$ 92,228,034	$30,688,053	$453,537,104

MCV Foundation:				
Land	$ 217,000	$ -	$ -	$ 217,000
Property and equipment – net Depreciation	1,635,000	31,000	92,000	1,574,000
Total capital assets - net	$ 1,852,000	$ 31,000	$ 92,000	$ 1,791,000

VCU Foundation:				
Depreciable capital assets:				
Equipment (net)	$ 2,815	$ -	$ 2,815	$ -
Total capital assets - net	$ 2,815	$ -	$ 2,815	$ -

VCU Real Estate Foundation:				
Nondepreciable capital assets:				
Land	$ 10,046,986	$ 1,331,173	$ 285,462	$ 11,092,697
Construction in progress	4,234,904	6,317,073	10,551,977	-
Total nondepreciable capital assets	14,281,890	7,648,246	10,837,439	11,092,697
Depreciable capital assets:				
Buildings	48,649,061	14,245,713	1,120,039	61,774,735
Equipment	2,605,287	-	-	2,605,287
Total depreciable capital assets	51,254,348	14,245,713	1,120,039	64,380,022
Less accumulated depreciation	9,501,608	1,967,756	29,961	11,439,403
Total depreciable capital assets, net	41,752,740	12,277,957	1,090,078	52,940,619
Total before eliminations	56,034,630	19,926,203	11,927,517	64,033,316
Less included on University	-	10,274,926	-	10,274,926
Total capital assets – net	$ 56,034,630	$ 9,651,277	$ 11,927,517	$ 53,758,390

VCU School of Business Foundation:				
Nondepreciable capital assets:				
Construction in progress	$ 32,569,233	$ -	$ 32,569,233	$ -
Total nondepreciable capital assets	32,569,233	-	32,569,233	-
Depreciable capital assets:				
Buildings	-	40,198,124	-	40,198,124
Total depreciable capital assets	-	40,198,124	-	40,198,124
Less accumulated depreciation	-	614,138	-	614,138
Total depreciable capital assets, net	-	39,583,986	-	39,583,986
Total before eliminations	32,569,233	39,583,986	32,569,233	39,583,986
Less included on University	32,569,233	39,583,986	32,569,233	39,583,986
Total capital assets - net	$ -	$ -	$ -	$ -

	Beginning Balance	Additions	Reductions	Ending Balance
VCU School of Engineering Foundation:				
Nondepreciable capital assets:				
Land	$ 2,985,851	$ -	$ 1,928,534	$ 1,057,317
Construction in progress	27,964,735	-	27,964,735	-
Total nondepreciable capital assets	30,950,586	-	29,893,269	1,057,317
Depreciable capital assets:				
Buildings	25,937,542	43,060,140	-	68,997,682
Total depreciable capital assets	25,937,542	43,060,140	-	68,997,682
Less accumulated depreciation	7,768,527	1,588,905	-	9,357,432
Total depreciable capital assets, net	18,169,015	41,471,235	-	59,640,250
Total before eliminations	49,119,601	41,471,235	29,893,269	60,697,567
Less included on University	46,011,668	14,685,899	-	60,697,567
Total capital assets - net	$ 3,107,933	$ 26,785,336	$ 29,893,269	$ -

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 2008 insurance recoveries of $328,671 are reported as other non-operating income.

5. FUNDS HELD FOR OTHERS

At June 30, 2008, the University held deposits for others, which are composed of the following:

	Funds Held for Others
Federal loan programs	$ 24,348,564
Student organizations and others	2,437,557
Total	$ 26,786,121

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consisted of the following as of June 30, 2008:

Vendor payables	$ 29,631,812
Retainage payable	4,789,208
Accrued wages	34,890,936
Securities lending obligation	6,700,656
Interest payable	2,437,301
Total	$ 78,449,913

7. DEFERRED REVENUE

Deferred Revenue consisted of the following as of June 30, 2008:

Prepaid tuition and fees	$ 9,874,126
Grants and contracts	8,752,970
Total	$ 18,627,096

8. LONG TERM LIABILITIES

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

Bonds Payable

The Commonwealth of Virginia issues bonds for agencies and institutions of the Commonwealth. The University has received a portion of the proceeds to fund capital construction. The University recognizes a liability associated with its share of the bonds and remits principal and interest payments related to this liability to the Treasurer of Virginia. The General Revenue Pledge Bonds (Section 9d Bonds) carry interest rates of 1.5% - 5.00% and are due through 2033. Included in the total General Revenue Pledge Bonds are outstanding bonds payable in the amount of $17,615,000, which will be repaid by the VCU Real Estate Foundation. Of the total Commonwealth of Virginia Revenue Bonds, outstanding bonds payable in the amount of $1,807,149 will be repaid by the Authority.

General Obligation Bonds

Section 9(c) bonds are general obligation bonds issued by the Commonwealth on behalf of the University, which are secured by the net revenues of the completed project and the full faith, credit and taxing power of the Commonwealth. In November 2007, Commonwealth of Virginia 9(c) General Obligation Bonds were issued to finance a portion of the Monroe Park Housing project. The principal amount of $15,525,000, with an interest rate ranging from 4% - 5%, is due through 2037.

Virginia College Building Authority

The Virginia College Building Authority (VCBA) issues Educational Facilities Revenue Bonds (Public Higher Education Financing Program). As a participating institution in this program, the University issued a note payable to the VCBA. This note, along with the notes of other institutions, is held by the VCBA as security for the Educational Facilities Revenue Bonds. For accounting purposes, the financing arrangement is considered to represent a note payable. The notes have interest rates of 2% - 6%. The University issued a note to VCBA in the amount of $23,340,000 in November 2007 to finance a portion of the Monroe Park and MCV Campus Recreation Facility projects.

Virginia Public Building Authority

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

Virginia Biotechnology Research Park Partnership Authority

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

Ad Center Development LLC

The University leases space for the VCU 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 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 University issued $19.3 million notes payable with an average interest rate of 4.2% to advance refund $18.8 million of 1998A, 2000A and 2002A Series VCBA bonds with an average interest rate of 5.1%. The net proceeds of $19.7 million were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1998A, 2000A and 2002A Series bonds issued by the VCBA. As a result, the VCBA bonds are considered to be defeased and the University has removed the liability for those notes from the statement of net assets. The University obtained an economic gain of $900,000 from the advance refunding. The 2007B Series VCBA Educational Revenue Bonds were issued at a premium of $400,000 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	$ 129,669,236	$ -	$ 3,176,163	$126,493,073	$ 3,560,000
Commonwealth of Virginia Revenue Bonds	16,953,080	15,651,404	1,988,644	30,615,840	2,332,231
Total bonds payable	146,622,316	15,651,404	5,164,807	157,108,913	5,892,231
Notes payable:					
Virginia College Building Authority	169,112,746	43,301,546	24,115,681	188,298,611	7,250,000
Capital leases:					
Virginia Public Building Authority	9,098,049	-	1,040,337	8,057,712	1,099,979
Virginia Biotechnology Research Park Partnership Authority	4,488,431	-	355,163	4,133,268	392,532
Ad Center Development LLC	-	5,831,804	93,214	5,738,590	192,517
Total capital leases	13,586,480	5,831,804	1,488,714	17,929,570	1,685,028
Installment purchases	886,785	820,836	416,070	1,291,551	336,888
Total long-term debt	330,208,327	65,605,590	31,185,272	364,628,645	15,164,147
Compensated absences	26,079,659	10,243,163	8,808,418	27,514,404	17,478,768
Deferred compensation	3,467,076	1,863,359	1,239,273	4,091,162	994,181
Total	$ 359,755,062	$ 77,712,112	$ 41,232,963	$396,234,211	$33,637,096

Authority:	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Revenue Pledge Bonds	$ 158,830,000	$ 125,000,000	$ 2,270,000	$281,560,000	$ 2,385,000
Capital leases	4,487,864	-	1,397,144	3,090,720	1,341,799
Installment purchases	6,908,250	696,725	1,804,950	5,800,025	1,848,617
Total long-term debt	170,226,114	125,696,725	5,472,094	290,450,745	5,575,416
Estimated losses on malpractice Claims	30,897,967	1,609,876	1,494,317	31,013,526	2,500,000
Workers Compensation	11,395,753	8,505,434	2,098,638	17,802,549	2,100,000
Compensated absences	18,715,435	33,157,075	31,277,033	20,595,477	20,595,477
Total	$ 231,235,269	$ 168,969,110	$ 40,342,082	$359,862,297	$ 30,770,893
MCV Foundation:					
Notes payable	$ 12,615,000	$ -	$ 460,000	$ 12,155,000	$ 485,000
VCU Foundation:					
Notes payable	$ 301,065	$ -	$ 187,571	$ 113,494	$ 113,494
VCU Real Estate Foundation:					
Tax exempt bonds payable	$ 9,556,000	$ -	$ 485,000	$ 19,071,000	$ 508,000
Notes payable	12,570,479	6,817,736	908,473	18,479,742	909,177
Total	$ 32,126,479	$ 6,817,736	$ 1,393,473	$ 37,550,742	$ 1,417,177

Long-term debt matures as follows:

		Fiscal Year	Revenue Bonds	Notes Payable	Capital Leases	Installment Purchases	Total
University:							
		2009	$ 5,892,231	$ 7,250,000	$ 2,705,544	$ 336,888	$ 16,184,663
		2010	8,442,900	7,550,000	2,701,428	306,659	19,000,987
		2011	8,502,183	7,915,000	2,695,836	303,837	19,416,856
		2012	8,578,165	8,290,000	2,690,065	314,567	19,872,797
		2013	8,785,742	8,690,000	2,683,162	29,600	20,188,504
		2014-2018	36,165,714	50,410,000	6,282,401	-	92,858,115
		2019-2023	28,065,000	57,315,000	2,181,000	-	87,561,000
		2024-2028	27,640,000	35,030,000	1,962,900	-	64,632,900
		2029-2033	23,115,000	-	-	-	23,115,000
		2034-2038	3,500,000	-	-	-	3,500,000
	Add:	Unamortized Premium	1,741,483	7,014,657	-	-	8,756,140
	Less:	Deferred Charge	(3,319,505)	(1,166,046)	-	-	(4,485,551)
	Less:	Interest	-	-	(5,972,766)	-	(5,972,766)
		Total	$157,108,913	$188,298,611	$ 17,929,570	$ 1,291,551	$364,628,645

	Fiscal Year	Revenue Bonds	Notes Payable	Capital Leases	Installment Purchases	Total
Authority:						
	2009	$ 2,385,000	$ -	$ 1,411,816	$ 1,848,617	$ 5,645,433
	2010	5,100,000	-	1,755,772	1,841,631	8,697,403
	2011	5,315,000	-	-	1,448,714	6,763,714
	2012	5,550,000	-	-	635,525	6,185,525
	2013	5,710,000	-	-	25,538	5,735,538
	2014-2018	32,970,000	-	-	-	32,970,000
	2019-2023	40,905,000	-	-	-	40,905,000
	2024-2028	50,365,000	-	-	-	50,365,000
	2029-2033	60,385,000	-	-	-	60,385,000
	2034-2038	72,875,000	-	-	-	72,875,000
Less:	Interest	-	-	(76,868)	-	(76,868)
	Total	$ 281,560,000	$ -	$ 3,090,720	$ 5,800,025	$ 290,450,745
MCV Foundation:						
	2009	$ -	$ 485,000	$ -	$ -	$ 485,000
	2010	-	500,000	-	-	500,000
	2011	-	525,000	-	-	525,000
	2012	-	550,000	-	-	550,000
	2013	-	575,000	-	-	575,000
	Thereafter	-	9,520,000	-	-	9,520,000
	Total	$ -	$ 12,155,000	$ -	$ -	$ 12,155,000
VCU Foundation:						
	2009	$ -	$ 113,494	$ -	$ -	$ 113,494
	Total	$ -	$ 113,494	$ -	$ -	$ 113,494
VCU Real Estate Foundation:						
	2009	$ 508,000	$ 909,177	$ -	$ -	$ 1,417,177
	2010	536,000	909,939	-	-	1,445,939
	2011	559,000	16,593,955	-	-	17,152,955
	2012	588,000	11,657	-	-	599,657
	2013	613,000	12,624	-	-	625,624
	Thereafter	16,267,000	42,390	-	-	16,309,390
	Total	$ 19,071,000	$ 18,479,742	$ -	$ -	$ 37,550,742

A summary of future interest requirements is as follows:

	Fiscal Year	Revenue Bonds	Notes Payable	Total
University:				
	2009	$ 6,183,535	$ 8,384,541	$ 14,568,076
	2010	5,999,715	8,058,611	14,058,326
	2011	5,712,696	7,688,364	13,401,060
	2012	5,414,075	7,287,994	12,702,069
	2013	5,106,949	6,863,946	11,970,895
	2014-2018	20,393,096	27,383,102	47,776,198
	2019-2023	13,755,658	14,378,360	28,134,018
	2024-2028	8,679,303	2,907,184	11,586,487
	2029-2033	3,127,779	-	3,127,779
	2034-2038	425,125	-	425,125
	Total	$ 74,797,931	$ 82,952,102	$ 157,750,033
Authority:				
	2009	$ 7,552,653	$ -	$ 7,552,653
	2010	7,378,527	-	7,378,527
	2011	7,196,394	-	7,196,394
	2012	7,013,179	-	7,013,179
	2013	6,816,625	-	6,816,625
	2014-2018	30,682,606	-	30,682,606
	2019-2023	23,940,418	-	23,940,418
	2024-2028	17,086,583	-	17,086,583
	2029-2033	11,496,191	-	11,496,191
	2034-2038	2,502,948	-	2,502,948
	Total	$ 121,666,124	$ -	$ 121,666,124

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, 2008, 57 faculty members were enrolled in the Plan. Payments during fiscal year 2008 were $1,239,273. The present value of future Plan payments schedule follows:

Fiscal Year	Plan Obligations
2009	$ 994,181
2010	1,030,792
2011	874,567
2012	666,749
2013	406,636
2014	109,898
2015	3,186
2016	3,383
2017	1,770
Total	$ 4,091,162

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

University

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

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

The University's payroll costs, excluding accrued payroll, for employees covered by the VRS for the year ended June 30, 2008 were $162,858,619. The University's total payroll costs for the year were $374,075,551.

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

The University's total VRS contributions were $18,436,300 for the year ended June 30, 2008, which included the 5% employee contribution assumed by the employer.

The VRS does not measure assets and pension benefit obligations separately for individual state institutions. The *Comprehensive Annual Financial Report* of the Commonwealth of Virginia provides disclosure of the Commonwealth's unfunded pension benefit obligation at June 30, 2008. The same report contains historical trend information showing VRS's progress in accumulating sufficient assets to pay benefits when due.

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

Individual contracts issued under the plans provide for full and immediate vesting of both the University's and the employee's contributions. Contributions to other retirement plans were calculated using the base salary $137,566,211 in fiscal year 2008. Total pension costs under these plans were $14,306,886 in fiscal year 2008.

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

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

Authority

Prior to July 1, 1997, employees of the Authority were employees of the Commonwealth of Virginia (the Commonwealth). These employees are eligible to participate in a defined benefit pension plan administered by the VRS. The VRS also administers life insurance and health-related plans for retired employees. Information relating to these plans is available at the statewide level only in the Commonwealth of Virginia's *Comprehensive Annual Financial Report*. The Commonwealth, not the Authority, has overall responsibility for these plans. Total pension costs for the year were approximately $5,583,000.

Effective July 1, 1997, the Hospital established the Medical College of Virginia Hospitals Authority Defined Contribution Plan (the Plan). Effective July 1, 2000, the Plan Sponsor and the Employer became a part of the Virginia Commonwealth University Health System Authority. The Plan was amended and restated effective January 1, 2002 and is now referred to as the VCUHS Retirement Plan. All employees, excluding house staff, working at least 20 hours a week in a benefit-eligible position are eligible to participate in the Plan. At June 30, 2008, there were 4,658 participants in the Plan. Per the Plan document as approved by the Hospital's Board of Directors, the Hospital contributes up to 10% of the participant's salary to the Plan not to exceed the lesser of (a) the amount in accordance with Code 415(d), or (b) one hundred percent (100%) of the Participant's Compensation for such limitation year. Total contributions to the Plan for year ended June 30, 2008 were approximately $12,395,000. The Hospital shall have the right at anytime, and without the consent of any party, to terminate the Plan in its entirety. Any changes to the provisions of the Plan, including the contribution requirements, must be approved in writing by the Hospital's Board of Directors.

The Authority has also established the Virginia Commonwealth University Health System Authority Health Care Providers Defined Contribution Plan (the HCP Plan). All persons hired as a health care provider on or after July 1, 1993 and prior to July 1, 1997 and working at least 35 hours of service per week are eligible to participate in the HCP Plan. At June 30, 2008, there were 5 participants in the HCP Plan. All significant provisions of the HCP Plan, including the contribution requirements, are similar to the Plan. Total contributions to the HCP Plan for the year ended June 30, 2008 were approximately $33,900.

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

	2008
Fidelity Investments	$ 53,038,301
TIAA/CREF	34,499,454
VALIC	9,085,789
Net assets available for plan benefits	$ 96,623,544

MCVAP sponsors the MCVAP 401(a) Retirement Plan (the 401(a) Plan), a noncontributory, defined contribution plan which covers substantially all full-time clinical provider employees of MCVAP. Contributions to the 401(a) Plan by MCVAP, as determined annually at the discretion of the Board of Directors, were approximately $8,636,000 for the year.

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

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

Contributions to the plans for the year ended June 30, 2008 were $1,667,000.

Effective August 1, 1999, VA Premier adopted a 401(k) plan, for which Fidelity Investments is the trustee. Employees may enter into the plan on the first day of the month coinciding with or following the date on which the employee begins employment. There is no minimum service or age requirement to be in the 401(k) plan. Employees may contribute 1% to 15% of their compensation. VA Premier will match 50% of the employee's contributions up to 4% of the employee's compensation. Matching will occur based on the bi-weekly pay periods. In addition, VA Premier contributes 3% of the employee's compensation after each bi-weekly payroll effective when the employee begins employment. Employees are fully vested after 4 years of service in which the employees have at least 1,000 hours of service each year. VA Premier's expense for its contributions to this plan was approximately $685,000 for the year ended 2008.

Effective June 2007, CCHP adopted a 401(k) plan, for which Fidelity Investments is the trustee. All terms are consistent with the VA Premier 401(k) plan. CCHP's expense for its contributions to this plan was approximately $36,000 for the year ended 2008.

11. RELATED PARTIES

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

Virginia Biotechnology Research Park Partnership Authority

The primary purpose of the Virginia Biotechnology Research Park Partnership Authority is to expand knowledge pertaining to scientific and technological research and development among public and private entities and promote the economic and industrial development of the City of Richmond and the Commonwealth of Virginia. The University currently occupies 56,391 square feet of Biotech One under a capital lease as shown in Note 8.

Medical College of Virginia Alumni Association of VCU

The purpose of the Medical College of Virginia Alumni Association of VCU is to organize alumni activities for Virginia Commonwealth University. The University provided funding of $245,500 in 2008 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 $54,374 in 2008 as the principal source of funding for the Association's operation.

MCV/VCU Dental Faculty Practice Association

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

12. FUNDS HELD IN TRUST BY OTHERS

Under the provisions of the wills of certain benefactors, the University's portion of principal sums with market values of $15,696,199 at June 30, 2008, 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, 2008, the remaining commitments were $106,881,887 for the University and approximately $43,200,000 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, 2008, was $7,611,367 for the University and $8,340,000 for the Authority.

The University has, as of June 30, 2008, the following total future minimum rental payments due under the above leases.

Fiscal Year	University	Authority
2009	$ 6,351,235	$ 8,063,058
2010	5,277,312	6,266,360
2011	3,629,713	4,660,753
2012	2,191,870	3,696,044
2013	1,373,955	2,395,934
2014-2018	3,463,779	4,806,792
2019-2023	2,174,917	-
2024-2028	1,290,712	-
Total future minimum rental payments	$ 25,753,493	$ 29,888,941

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 and the VCU School of Engineering Foundation hold the University's investments that function as endowments, both true and quasi. As of June 30, 2008, the VCU Foundation and VCU School of Engineering Foundation held University investments of $29,668,217 and $4,371,218 respectively. 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 completed buildings are leased to the University for $1 each per year. The School of Engineering Foundation transfers sufficient funds to the University annually to fund the debt service. The University has the buildings and the liability for the outstanding debt on the Statement of Net Assets. The annual transfer is recorded on the University as a gift received. The VCU School of Engineering Foundation has the building, deferred bond issuance costs, prepaid bond interest, a liability to the University, and an accrued contribution to the University on their financial statements which are eliminated in the Statement of Net Assets.

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

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

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

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

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

16. SUBSEQUENT EVENT

Due to the downturn in financial markets after June 30, 2008, the University has conducted a review of its exposure to realized and unrealized losses on its investment portfolio. The University's investment policy, established by the Board of Visitors and monitored by the board's Finance, Investment and Property Committee, requires that its public funds be invested in accordance with the Investment of Public Funds Act, Section 2.2-4500 through 2.2-4516, et seq., Code of Virginia.

The portfolio structure and investment policy of the Cash Management Operating Pool (CMOP) incorporates features that are designed to help mitigate risk. With respect to portfolio structure, the assets of the CMOP are allocated between three (3) investment managers. The managers are directed to construct their portfolios around different segments of the yield curve, ensuring diversification. In addition, each manager is given guidelines, outlined in the CMOP investment policy, that allow them the flexibility to react to market conditions, but simultaneously places limitations on them so that no two (2) investment managers will migrate to similar portfolios. An independent investment consultant provides quarterly reports on the performance of the managers, the portfolio characteristics of each manager and their compliance with policy guidelines. The Commonwealth's restrictions with respect to quality ratings also help to mitigate risk. As a result of these strategies, the market value of the assets held in the CMOP has been stable, with June 30, 2008 and November 14, 2008 balances of $31,695,752 and $31,728,024 respectively.

Investments held by related entities are managed by separate governing bodies for the benefit of the University. Each related entity maintains an investment policy, as established by its governing body and monitored by a separate Investment Committee. The Investment Committee meets periodically to review individual manager and total fund performance, asset allocations, and recent market developments. With respect to portfolio structure, investments held by related entities are diversified between equities, fixed income and alternative investments. As a result of a significant downturn in financial markets, the value of assets held by related entities has declined from $526,613,446 in fiscal year 2008 to approximately $437,749,485 as of November 14, 2008. If November investment information was not available, September and October statements were used to establish estimates.

The University's Series 2006 A&B bonds continue to be remarketed on a daily basis. Although the conditions in the credit markets remain difficult, the University has seen its variable rates return to a level on par with rates that existed prior to the credit crisis. Any changes in interest rates associated with variable rate debt have not had a significant dollar impact on the University's portfolio. The University and its Board continue to monitor the situation closely.

In January 2009, the University expects to issue a note to the VCBA in the amount of $45,000,000. The proceeds of the note will be used to finance a portion of the Recreation Center project and a portion of the Medical Sciences Building II.

17. CONTINGENCIES

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

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

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

There have been malpractice claims asserted against the Hospitals by various claimants. The claims are in various stages of processing and some may ultimately be brought to trial. There are also known incidents that have occurred through June 30, 2008 that may result in the assertion of additional claims. In addition, there may be other claims from unreported incidents arising from services provided to patients through June 30, 2008. At June 30, 2008, the Hospitals' management accrued professional liability losses to the extent they fall within the limits of the Hospitals' self-insurance program or exceed the limits of the excess insurance coverage. The liability for medical malpractice at June 30, 2008 includes approximately $5,677,591 for claims and related legal expenses for reported and unreported incidents occurring since July 1, 1998. The liability (undiscounted) was actuarially determined combining industry data and the Hospitals' historical experience.

A revocable trust has been established and is funded for payment of malpractice claims and related expenses. At June 30, 2008, the medical malpractice trust fund for the Hospitals includes approximately $7,305,243.

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

In addition, MCVAP was self-insured for any claims in excess of its insurance coverage with URIC. The Board sets aside funds to be used to fund estimated losses based on actuarially determined reserves. At June 30, 2008, assets whose use is limited includes $36,779,304 that will be used to fund malpractice claims. Also, estimated losses on malpractice claims included approximately $25,335,935 at June 30, 2008, in addition to the amount recorded under the URIC agreement.

Estimated claims liabilities are recorded based on factors such as actual claims history and the percentage of certainty that actual losses will not exceed the reserve recorded. During the fiscal year ended June 30, 2008, the accrual for estimated claims was calculated based on an assumption of

90% certainty (90% confidence level) that the actual losses related to professional liability would not exceed the reserve recorded.

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

VA Premier maintains general and professional liability policies. The general liability policy in force is occurrence-based. The coverage under the professional liability policy is on a claims-made basis and must be renewed or replaced with the equivalent insurance if claims incurred during its terms, but asserted after its expiration, are to be insured. Coverage limits for the general liability policy are $1 million per occurrence and $3 million annual aggregate. The coverage limits for the professional liability policy are $5 million per medical incident and $5 million annual aggregate. Management does not believe the amount of liability for any claims incurred but unreported as of June 30, 2008 is significant.

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

18. STOP-LOSS COVERAGE

VA Premier has a stop-loss arrangement to limit its losses on individual claims. This contract provides stop-loss coverage for all VA Premier enrollee claims. This contract provides coverage for 100% of certain hospital claims in excess of $100,000 subject to certain limitations and an annual limit of $1,000,000 per enrollee and a lifetime limit of $2,000,000 per enrollee. Stop-loss premiums net of reinsurance recoveries of approximately $985,000 are included as a reduction in medical claims expense for the year ended June 30, 2008.

19. INDEMNIFICATIONS

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

20. NET PATIENT SERVICE REVENUE

The Authority's patient service revenue is as follows for the year ended June 30, 2008:

Gross Patient Revenue:	
Inpatient	$ 1,272,930,044
Outpatient	757,392,264
Total gross patient service revenue	2,030,322,308
Provision for uncompensated care and contractual adjustments	(1,186,025,074)
Net patient service revenue (Hospitals)	844,297,234
MCVAP's net patient service revenue	121,765,116
Net patient service revenue (Authority)	$ 966,062,350

21. Estimated Medical Claims Payable

Claims expenses and liabilities arising from services rendered to VA Premier's and CCHP's HMO members are reported when it is probable that services have been provided and the amount of the claim can be reasonably estimated. The claims payable includes an estimate of claims that have been incurred but not reported. At June 30, 2008 the amount of these liabilities included in accounts payable and accrued liabilities was $43,962,019. This liability is VA Premier's best estimate based on available information.

22. 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 state operating appropriations for the year ended June 30, 2008:

Original legislative appropriation per Chapter 3:	
Educational and general programs	$194,722,160
Higher education student financial assistance	16,887,154
Governor's Research Initiative for Biomedical Engineering and Regen. Medicine	3,100,000
Supplemental adjustments:	
Virginia Department of Health appropriation transfer for AHEC	400,000
Virtual Library of Virginia-VIVA	25,764
Central Transfer for Compensation and Benefit Supplements Ch 847 Item 461	8,939,689
Central Appropriation for Interest Earnings on Tuition and Fee Balances	2,022,593
Central Appropriation for Higher Education Restructuring	231,803
Higher Education Equipment Trust Fund	6,962,857
Steam Plant debt service	600,880
Reversion of Capital Project 236-17037	(302,235)
Reversion of Higher Ed Student Financial Assistance	(49,714)
Higher Education Research Initiative for Cancer Research	1,000,000
Budget Reductions per 2008 Reduction Plan Released 10/1/07	(9,673,450)
Central Appropriations for Tuition Incentive Fund	1,041,949
Virginia Military Survivors and Dependent Education Program	72,500
Brown vs Board of Education Scholarship	4,036
Virginia Doctoral Nursing Loan Program	50,000
GED Get Ready Program	1,321
Reappropriation from FY07 for VSFAP	162,146
Reappropriation from FY07 for Virginia Doctoral Nursing Loan	25,000
Reappropriation from FY07 for Governor's Research Initiative	2,093,030
Reappropriation from FY07 for Eminent Scholars	16,487
Department of Education Conditional Pilot License Program	149,960
Eminent Scholars	361,243
Reversal of prior year interest accrual	(1,709,885)
HEETF NGF Payment Ch 847 Item 276 E.4.	(401,647)
Capital Fee for Out of State Students Ch 847 Item 276 E.3.	(289,108)
	$226,444,533

23. 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*.

24. CONTRIBUTIONS RECEIVABLE

Contributions receivable as of June 30, 2008, are expected to be received as follows.

MCV Foundation:	
Receivable in less than one year	$ 3,721,000
Receivable in one to five years	2,978,000
Receivable in more than five years	1,503,000
	8,202,000
Less:	
Discounts	(584,000)
Allowances	(152,000)
Net Contributions Receivable	$ 7,466,000

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

VCU Foundation:	
Receivable in less than one year	$ 1,452,062
Receivable in one to five years	4,421,374
	5,873,436
Less:	
Discounts	(1,711,476)
Allowances	(156,698)
Net Contributions Receivable	$ 4,005,262

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

VCU Real Estate Foundation:	
Receivable in less than one year	$ 129,478
Less:	
Allowances	(74,973)
Net Contributions Receivable	$ 54,505

VCU School of Business Foundation:

Receivable in less than one year	$ 4,025,034
Receivable in one to five years	7,861,157
	11,886,191
Less:	
Discounts	(746,504)
Allowances	(22,851)
Net Contributions Receivable	$ 11,116,836

Discount rates between 1.18% 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	$ 6,636,489
Receivable in one to five years	3,031,588
	9,668,077
Less:	
Discounts	(329,307)
Allowances	(140,081)
Net Contributions Receivable	$ 9,198,689

Discount rates between 1.13% and 5.83% were used in determining the present value of the contributions receivable.

25. DERIVATIVE INSTRUMENT

In December 2005, the University entered into an interest rate swap agreement in conjunction with the issuance of its Series 2005B tax-exempt bonds (see Note 8). The swap has a notional amount of $75,000,000 which declines over time to $5,035,000 at the maturity date of November 1, 2029. The University pays a fixed rate of 3.436% and the counterparty pays 67% of LIBOR.

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

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

<u>VCU School of Engineering Foundation</u>

Net assets per Foundation financial statements	$ 45,506,157
Less: Unrealized gain on interest rate swap	1,340,731
Net assets as reported on University's financial statements	$ 44,165,426

<u>VCU School of Business Foundation</u>

Net assets per Foundation financial statements	$ 27,253,242
Add: Unrealized loss on interest rate swap	841,476
Net assets as reported on University's financial statements	$ 28,094,718

In June 2007, MCVH entered into an interest rate swap agreement in anticipation of the issuance of tax-exempt bonds in November 2007. The swap has a notional amount of $125 million, which declines over time to $15.7 million at the termination date of July 1, 2037. MCVH pays a fixed rate of 3.84% and the counterparty pays 67% of LIBOR (1.65% as of June 30, 2008). The payments are settled monthly at the first of each month. Financial Accounting Standards Board (FASB) Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, requires companies to recognize their derivative instruments as either assets or liabilities in the balance sheet at fair value. At June 30, 2008, the fair market value of the swap is included with other noncurrent assets in the accompanying consolidated balance sheet – enterprise funds. Changes in the fair market value of the swap are reported on the accompanying consolidated statements of revenues, expenses and changes in net assets – enterprise funds as nonoperating revenue or expense. As the swap agreement is not designated as an effective cash flow hedge, any payments or receipts under the terms of the swap are also recorded as nonoperating revenue or expense. For the year ended June 30, 2008, the Authority recognized nonoperating expense related to the change in fair value of the swap of approximately $10,000,000.

In December 2005, MCVH entered into an interest rate swap agreement in conjunction with the issuance of its Series 2005 tax-exempt bonds (see note 8). The swap has a notional amount of $75 million, which declines over time to $8 million at the maturity date of July 1, 2030. MCVH pays a fixed rate of 3.499% and the counterparty pays 67% of LIBOR (1.65% as of June 30, 2008). The payments are settled monthly at the first of each month. At June 30, 2008 the fair market value of the swap is included with other noncurrent assets in the accompanying consolidated balance sheets – enterprise funds. Changes in the fair market value of the swap are reported on the accompanying consolidated statements of revenues, expenses and changes in net assets – enterprise funds as nonoperating revenue or expense. As the swap agreement is not designated as an effective cash flow hedge, any payments or receipts under the terms of the swap are also recorded as nonoperating revenue or expense. For the year ended June 30, 2008, the Authority recognized nonoperating expense related to the change in fair value of the swap of approximately $4,900,000.

Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

December 15, 2008

The Honorable Timothy M. Kaine
Governor of Virginia

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

Board of Visitors
Virginia Commonwealth University

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities and the discretely presented component units of **Virginia Commonwealth University**, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2008, which collectively comprise the University's basic financial statements. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the component units of the University, which are discussed in Note 1. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates the amounts included for the component units of the University is based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and discretely presented component units of Virginia Commonwealth University as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with Government Auditing Standards, we have also issued our report dated December 15, 2008, on our consideration of Virginia Commonwealth University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Walter J Kucharski

AUDITOR OF PUBLIC ACCOUNTS

JHS/wdh