

VIRGINIA COMMONWEALTH UNIVERSITY

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED

June 30, 2010



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MANAGEMENT DISCUSSION AND ANALYSIS
(Unaudited)

Virginia Commonwealth University is a public research University located in Richmond, the state capital of Virginia.

VCU was founded in 1838 as the medical department of Hamden-Sydney College, becoming the Medical College of Virginia in 1854. In 1968, the General Assembly merged MCV with the Richmond Professional Institute, founded in 1917, to create Virginia Commonwealth University.

Today more than 32,000 students pursue 216 degree and certificate program through VCU's 13 schools and one college. The VCU Health System supports the University's healthcare education, research and patient care mission.

With more than \$255 Million a year in sponsored research funding, VCU is a designated research University with high research by the Carnegie Foundation. Twenty-seven graduate and first-professional programs are ranked by U.S. News & World Report as among the best in the country.

The University is an agency of the Commonwealth of Virginia, and therefore included as a component unit in the Commonwealth of Virginia's Comprehensive Annual Financial Report. The 16 members of the VCU Board of Visitors govern University operations. Members are appointed by the Governor of Virginia.

Overview

Virginia Commonwealth University's unaudited Management Discussion and Analysis (MD&A) provides a discussion and analysis of the financial performance during the fiscal year ended June 30, 2010, with comparative information presented for the fiscal year ended June 30, 2009. 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 to assist readers in understanding the accompanying financial statements and notes. The financial statements, notes and this discussion are the responsibility of management.

Using the Annual Report

This financial 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.

The data presented aids readers in determining the assets available to the University for ongoing operations. It also allows readers to determine how much the University owes to vendors, investors, and lending institutions. The Statement of Net Assets also provides a picture of net assets available for the expenditure by the University.

Net assets are divided into three major categories:

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

	2010	2009	\$ CHANGE	% CHANGE
Current and other assets	\$445,729,412	\$437,528,576	\$8,200,836	2%
Capital assets – net	775,210,355	753,549,577	21,660,778	3%
Total assets	1,220,939,767	1,191,078,153	29,861,614	3%
Current liabilities	150,367,177	154,382,827	(4,015,650)	(3%)
Long term liabilities	398,037,252	418,592,423	(20,555,171)	(5%)
Total liabilities	548,404,429	572,975,250	(24,570,821)	(4%)
Net Assets:				
Invested in capital assets, net of related debt	485,411,400	466,683,967	24,106,755	5%
Restricted	33,359,011	33,613,294	(254,283)	(1%)
Unrestricted	153,764,927	117,805,642	30,579,963	26%
Total net assets	\$672,535,338	\$618,102,903	\$54,432,435	9%

- The University's current and others assets increased due to higher sponsored receivables.
- Capital assets increased due to completion of the Monroe Park and MCV Campus Recreation Center Facilities, and the 500 N. Harrison Academic Center.
- Current and other liabilities decreased principally due to a reduction in accounts payables and accrued liabilities.
- Long term liabilities decreased due to a reduction in debt. Debt is discussed in more detail below.
- Total assets grew by a greater margin than total liabilities, with net assets increasing correspondingly.

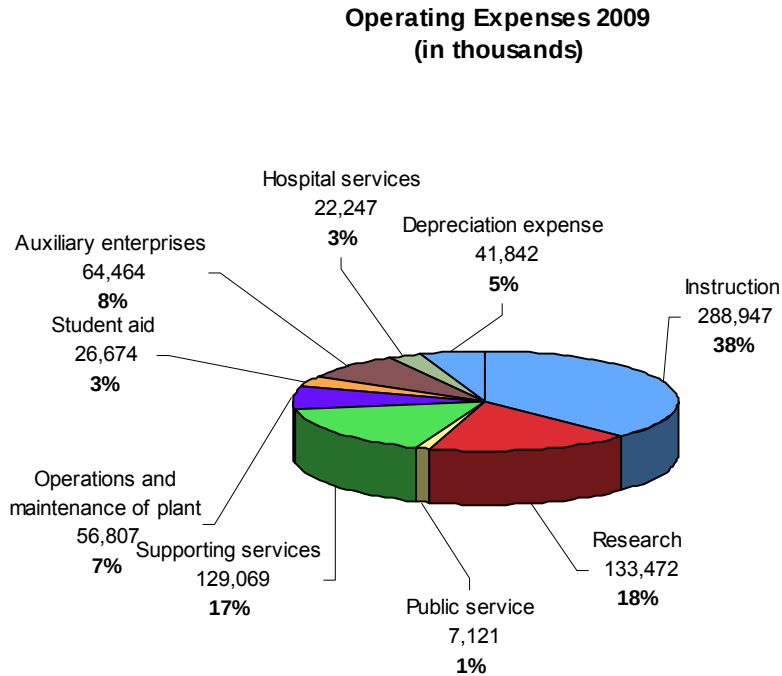
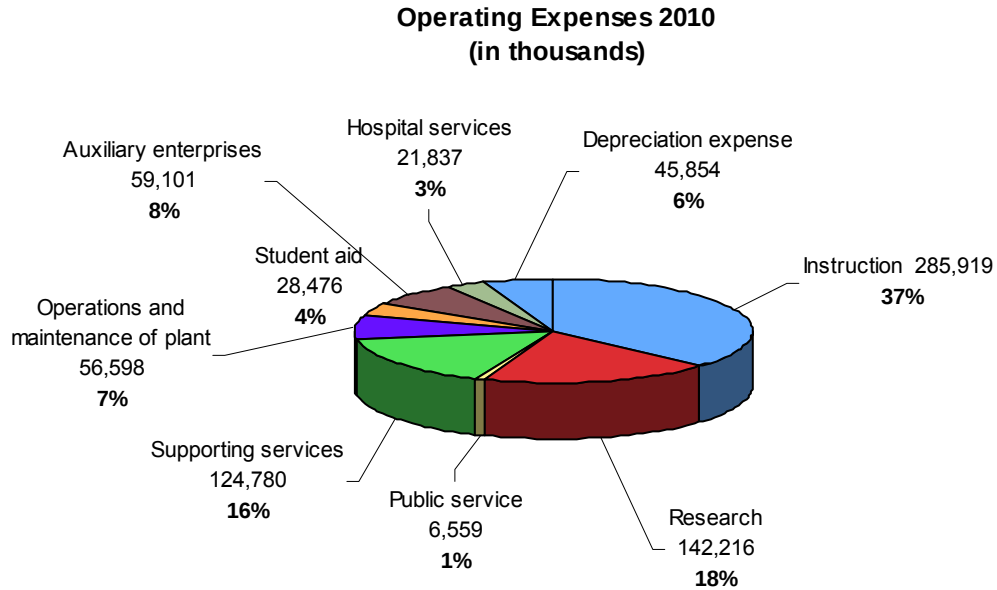
The Statement of Revenues, Expenses, and Changes in Net Assets

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 nonoperating revenues according to generally accepted accounting principles. The purpose of the statement is to present all revenues received and accrued, all expenses paid and accrued, and gains or losses from investment and capital assets.

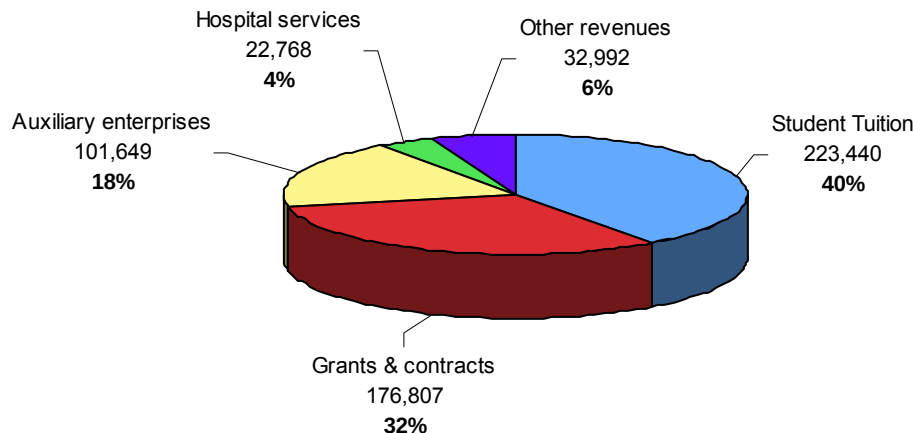
The following is a summarized schedule of the revenues and expenses for the University, for the year ended June 30, 2010, with comparative data for the year ended June 30, 2009.

University	2010	2009	\$ CHANGE	% CHANGE
Operating revenue	\$557,656,200	\$523,020,859	\$34,635,341	7%
Operating expense	771,339,572	770,644,093	695,479	0%
Operating loss	(213,683,372)	(247,623,234)	33,939,862	(14%)
Nonoperating revenues (expenses):				
State appropriations	184,351,393	218,801,967	(34,450,574)	(16%)
Federal Stimulus	13,743,963	-	13,743,963	N/A
Gifts	41,075,111	33,465,277	7,609,834	23%
Investment income (net of investment expense)	9,187,811	(1,364,341)	10,552,152	(773%)
Interest on capital asset-related debt	(14,685,005)	(11,236,599)	(3,448,406)	31%
Pell revenue	21,614,476	13,505,787	8,108,689	60%
Other	(1,432,209)	(11,227,960)	9,795,751	(87%)
Net nonoperating revenues	253,855,540	241,944,131	11,911,409	5%
Income before other revenues	40,172,168	(5,679,103)	45,851,271	(807%)
Capital appropriations	14,068,073	40,924,375	(26,856,302)	(66%)
Capital gifts	192,194	7,142,630	(6,950,436)	(97%)
Reduction of capital appropriations	-	(12,542,019)	12,542,019	N/A
Increase in net assets	54,432,435	29,845,883	24,586,552	82%
Net assets - beginning of year	618,102,903	588,257,020	29,845,883	5%
Net assets - end of year	\$672,535,338	\$618,102,903	\$54,432,435	9%

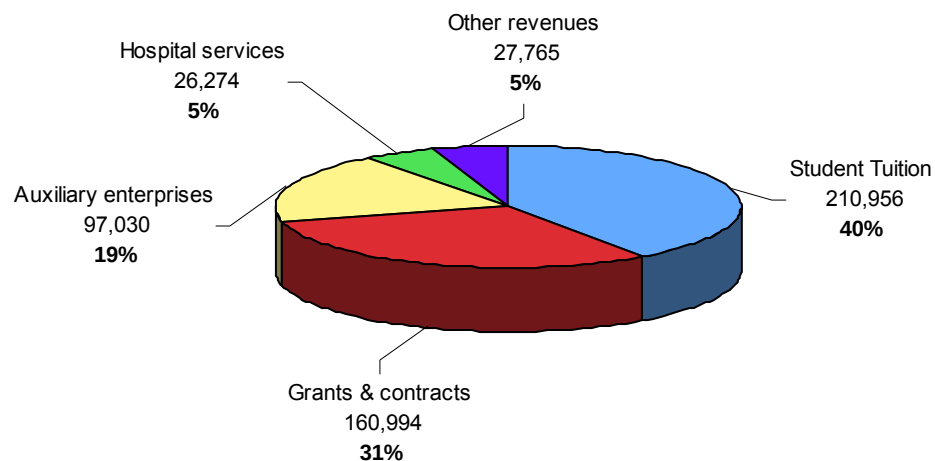
The following graphs present operating revenues and expenses for fiscal years 2010 and 2009:



**2010 Operating Revenues
 (in thousands)**



**Operating Revenues 2009
 (in thousands)**



- Tuition and fee increases translated to higher overall program revenues.
- Auxiliary enterprise revenue increased due to greater demand for dining services, fees and other auxiliary operations.
- Operating expenses are unchanged from 2009-10.
- Nonoperating revenues increased due to a strong market performance in 2009-10, receipt of funds from the American Recovery and Reinvestment Act of 2009 and Pell.

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 statement is divided into four sections:

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

The following is a summary Statement of Cash Flows for the University for the year ended June 30, 2010, with comparative data for the year ended June 30, 2009. For more detailed information, see the accompanying Statement of Cash Flows.

University	2010	2009	\$ Change
Cash provided (used) by:			
Operating activities	\$(151,613,326)	\$(176,454,899)	\$ 24,841,573
Noncapital financing activities	262,019,211	264,708,322	(2,689,111)
Capital and related financing activities	(90,969,284)	(79,787,441)	(11,181,843)
Investing activities	(143,385,024)	4,198,200	(147,583,224)
Net increase in cash	(123,948,423)	12,664,182	(136,612,605)
Cash, beginning of year	182,573,303	169,909,121	12,664,182
Cash, end of year	\$ 58,624,880	\$ 182,573,303	\$(123,948,423)

- The University's operating cash flows increased primarily due to higher program and auxiliary enterprise revenues.
- Noncapital financing activities decreased due to state appropriation reductions, partially offset by receipt of federal stimulus funds.
- Cash decreased as a result of investing activities. In fiscal year 2010, as a Tier III institution, VCU drew all cash balances formerly invested by the State Treasury and invested them with VCU's fund managers.

Capital Assets and Debt Administration

Capital Assets

Presented next is the schedule of capital assets net of depreciation. Depreciation expense totaled \$45.8 million for the University.

University	2010	2009	\$ Change	% Change
Land	\$ 41,413,669	\$ 40,371,413	\$ 1,042,256	3%
Land Improvements and infrastructure	4,376,908	3,752,890	624,018	17%
Buildings	615,970,118	561,926,486	54,043,632	10%
Equipment	62,076,350	59,651,418	2,424,932	4%
Intangible (computer software)	1,337,330	1,858,719	(521,389)	(28%)
Library books	19,023,335	17,379,555	1,643,780	9%
Construction in progress	31,012,645	68,609,095	(37,596,450)	(55%)
Total	\$ 775,210,355	\$ 753,549,576	\$ 21,660,779	3%

- Completed capital projects include the Monroe Park and MCV Campus Recreation Center Facilities, and the 500 N. Harrison Academic Center.

Debt

At June 30, 2010, the University had \$376.9 million in long-term debt outstanding.

Future Financial Effects

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

- State General Fund appropriations are projected at \$183 million for fiscal year 2011.
- The amount of federal funding underpinning Virginia Commonwealth University's operations will again temporarily increase in FY 2011, due to the passage of the American Recovery and Reinvestment Act of 2009. During the FY 2010 Session, the General Assembly directed \$20.2 million in funds from this Act (federal stimulus funds) be provided to the University to off-set general fund reductions. The actual amount of federal stimulus funds that were allocated to VCU in FY 2010 was \$13.8 million.
- Tuition and fee revenues are projected to increase by \$37.1 million in fiscal year 2011 based on the Board of Visitors approved increase in tuition and mandatory fee rates of 24% for undergraduate residents and 5% for undergraduate nonresidents.

FINANCIAL STATEMENTS

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STATEMENT OF NET ASSETS

As of June 30, 2010

	University	VCU Health System Authority	MCV Foundation
Current assets:			
Cash and cash equivalents (Note 2)	\$ 57,812,595	\$ 212,448,647	\$ 17,486,000
Short-term investments (Note 2)	122,273,915	189,185,159	-
Accounts receivable:			
Student, Net of allowance of \$4,796,053	8,646,416	-	-
Sponsors	33,341,559	-	-
Patient, Net of allowance of \$13,887,318	-	240,302,923	-
Contributions and gifts, Net of allowance of \$256,823	-	-	3,364,000
Due from component units	3,614,926	-	-
Due from VCBA	8,167,486	-	-
Due from Commonwealth of Virginia	927,264	-	-
Due from VCU Foundation	-	-	-
Student loans receivable, current portion	2,881,532	-	-
Other assets	2,282,554	21,964,996	5,823,000
Total current assets	239,948,247	663,901,725	26,673,000
Noncurrent assets:			
Restricted cash and cash equivalents	812,285	-	4,992,000
Endowment investments (Note 2)	-	-	137,737,000
Other investments (Note 2)	62,811,068	263,019,670	179,776,000
Contributions and gifts, Net of discount and allowance of \$2,648,843 (Note 23)	-	-	4,076,000
Student loans receivable, Net of allowance of \$3,323,007	23,100,914	-	-
Loans receivable	-	-	290,000
Due from component units	117,144,846	716,173	-
Other long-term assets	1,912,051	6,723,483	109,000
Nondepreciable capital assets (Note 4)	72,426,314	15,512,213	217,000
Depreciable capital assets (Note 4)	702,784,041	449,664,634	1,420,000
Total noncurrent assets	980,991,520	735,636,173	328,617,000
Total Assets	1,220,939,767	1,399,537,898	355,290,000
Deferred Outflows	9,522,930	39,292,301	-
Total Assets and Deferred Outflows	1,230,462,697	1,438,830,199	355,290,000
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities (Note 6)	66,022,021	170,416,672	623,000
Deferred revenue (Note 7)	37,546,681	-	-
Due to component units	-	473,398	-
Due to Commonwealth of VA	5,379,322	-	-
Long-term liabilities - current portion (Note 8)	41,419,153	37,480,906	525,000
Total current liabilities	150,367,177	208,370,976	1,148,000
Noncurrent liabilities:			
Funds held for others (Note 5)	27,925,848	-	-
Due to component units	-	-	-
Other	9,522,930	43,655,938	5,823,000
Long-term liabilities (Note 8)	370,111,404	314,714,219	10,645,000
Total noncurrent liabilities	407,560,182	358,370,157	16,468,000
Total liabilities	557,927,359	566,741,133	17,616,000
NET ASSETS			
Invested in capital assets, net of related debt	485,411,400	181,155,734	1,637,000
Restricted for:			
Nonexpendable:			
Scholarships and fellowships	3,386,157	-	-
Departmental uses	601,152	17,008,599	137,737,000
Expendable:			
Scholarships and fellowships	3,424,992	-	-
Research	9,829,438	-	-
Departmental uses	11,383,521	1,473,712	178,676,000
Loans	4,733,751	-	-
Capital projects	-	-	-
Unrestricted	153,764,927	672,451,021	19,624,000
Total net assets	\$ 672,535,338	\$ 872,089,066	\$ 337,674,000

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

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STATEMENT OF NET ASSETS As of June 30, 2010

	VCU Foundation	VCU Real Estate Foundation	VCU School of Business Foundation
Current assets:			
Cash and cash equivalents (Note 2)	\$ 2,370,245	\$ 4,272,652	\$ 7,348,243
Short-term investments (Note 2)	-	-	-
Accounts receivable:			
Student, Net of allowance of \$4,796,053	-	-	-
Sponsors	-	-	-
Patient, Net of allowance of \$13,887,318	-	-	-
Contributions and gifts, Net of allowance of \$256,823	2,271,469	109,659	1,824,359
Due from component units	-	-	-
Due from VCBA	-	-	-
Due from Commonwealth of Virginia	-	-	-
Due from VCU Foundation	-	-	-
Student loans receivable, current portion	-	-	-
Other assets	9,066	1,333,370	256,327
Total current assets	4,650,780	5,715,681	9,428,929
Noncurrent assets:			
Restricted cash and cash equivalents	10,204,340	7,159,028	1,197,179
Endowment investments (Note 2)	19,891,899	-	6,586,229
Other investments (Note 2)	32,855,585	-	17,560,528
Contributions and gifts, Net of discount and allowance of \$2,648,843 (Note 23)	3,777,186	-	3,354,511
Student loans receivable, Net of allowance of \$3,323,007	-	-	-
Loans receivable	-	-	-
Due from component units	-	-	-
Other long-term assets	-	633,175	216,117
Nondepreciable capital assets (Note 4)	-	8,613,868	3,503,036
Depreciable capital assets (Note 4)	-	49,284,488	36,904,112
Total noncurrent assets	66,729,010	65,690,559	69,321,712
Total Assets	71,379,790	71,406,240	78,750,641
Deferred Outflows	-	-	-
Total Assets and Deferred Outflows	71,379,790	71,406,240	78,750,641
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities (Note 6)	10,000	752,608	259,900
Deferred revenue (Note 7)	-	4,740,138	-
Due to component units	-	705,151	860,000
Due to Commonwealth of VA	-	-	-
Long-term liabilities - current portion (Note 8)	-	15,306,016	-
Total current liabilities	10,000	21,503,913	1,119,900
Noncurrent liabilities:			
Funds held for others (Note 5)	1,315,528	-	-
Due to component units	24,305,576	17,036,173	54,366,537
Other	162,842	-	-
Long-term liabilities (Note 8)	-	17,534,609	-
Total noncurrent liabilities	25,783,946	34,570,782	54,366,537
Total liabilities	25,793,946	56,074,695	55,486,437
NET ASSETS			
Invested in capital assets, net of related debt	-	8,925,906	12,538,265
Restricted for:			
Nonexpendable:			
Scholarships and fellowships	-	-	-
Departmental uses	21,036,915	-	7,713,227
Expendable:			
Scholarships and fellowships	-	-	-
Research	-	-	-
Departmental uses	22,441,755	-	4,950,562
Loans	-	-	-
Capital projects	-	-	-
Unrestricted	2,107,174	6,405,639	(1,937,850)
Total net assets	\$ 45,585,844	\$ 15,331,545	\$ 23,264,204

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

VCU | Virginia Commonwealth University
FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS
As of June 30, 2010

	VCU School of Engineering Foundation	Eliminations	Total
Current assets:			
Cash and cash equivalents (Note 2)	\$ 5,746,630	\$ -	\$ 307,485,012
Short-term investments (Note 2)	-	-	311,459,074
Accounts receivable:			
Student, Net of allowance of \$4,796,053	-	-	8,646,416
Sponsors	-	-	33,341,559
Patient, Net of allowance of \$13,887,318	-	-	240,302,923
Contributions and gifts, Net of allowance of \$256,823	1,606,999	-	9,176,486
Due from component units	-	(3,614,926)	-
Due from VCBA	-	-	8,167,486
Due from Commonwealth of Virginia	-	-	927,264
Due from VCU Foundation	-	-	-
Student loans receivable, current portion	-	-	2,881,532
Other assets	103,980	(1,329,863)	30,443,430
Total current assets	7,457,609	(4,944,789)	952,831,182
Noncurrent assets:			
Restricted cash and cash equivalents	-	-	24,364,832
Endowment investments (Note 2)	7,694,354	-	171,909,482
Other investments (Note 2)	53,611,846	-	609,634,697
Contributions and gifts, Net of discount and allowance of \$2,648,843 (Note 23)	520,371	-	11,728,068
Student loans receivable, Net of allowance of \$3,323,007	-	-	23,100,914
Loans receivable	-	-	290,000
Due from component units	-	(117,861,019)	0
Other long-term assets	2,322,261	(1,027,368)	10,888,719
Nondepreciable capital assets (Note 4)	3,112,659	-	92,489,693
Depreciable capital assets (Note 4)	55,046,219	(26,395,829)	1,279,603,062
Total noncurrent assets	122,307,710	(145,284,216)	2,224,009,468
Total Assets	129,765,319	(150,229,005)	3,176,840,650
Deferred Outflows	-	-	48,815,231
Total Assets and Deferred Outflows	129,765,319	(150,229,005)	3,225,655,881
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities (Note 6)	252,599	-	238,336,800
Deferred revenue (Note 7)	-	(5,441,377)	36,845,442
Due to component units	2,665,000	(4,703,549)	-
Due to Commonwealth of VA	-	-	5,379,322
Long-term liabilities - current portion (Note 8)	-	(941,087)	93,789,988
Total current liabilities	2,917,599	(11,086,013)	374,351,552
Noncurrent liabilities:			
Funds held for others (Note 5)	-	-	29,241,376
Due to component units	98,126,756	(193,835,042)	-
Other	-	-	59,164,710
Long-term liabilities (Note 8)	-	(16,990,877)	696,014,355
Total noncurrent liabilities	98,126,756	(210,825,919)	784,420,441
Total liabilities	101,044,355	(221,911,932)	1,158,771,993
NET ASSETS			
Invested in capital assets, net of related debt	(2,814,871)	(22,078,054)	664,775,380
Restricted for:			
Nonexpendable:			
Scholarships and fellowships	-	-	3,386,157
Departmental uses	12,349,327	-	196,446,220
Expendable:			
Scholarships and fellowships	-	-	3,424,992
Research	-	-	9,829,438
Departmental uses	1,116,794	-	220,042,344
Loans	-	-	4,733,751
Capital projects	-	-	-
Unrestricted	18,069,714	93,760,981	964,245,606
Total net assets	\$ 28,720,964	\$ 71,682,927	\$ 2,066,883,888

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

FINANCIAL STATEMENTS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

For the year ended June 30, 2010

	University	VCU Health System Authority	MCV Foundation
Operating revenues:			
Student tuition and fees (Net of scholarship allowances of \$50,532,453)	\$ 223,440,288	\$ -	\$ -
Federal grants and contracts	152,586,323	-	-
State grants and contracts	6,844,076	-	-
Local grants and contracts	665,494	-	-
Nongovernmental grants and contracts	16,711,541	-	-
Sales and services of educational departments	24,766,495	-	-
Contributions and gifts	-	-	-
Auxiliary enterprises:			
Sales and services	60,036,379	-	-
Student fees (Net of scholarship allowances of \$2,849,050)	41,612,675	-	-
Hospital services	22,767,857	1,745,067,218	-
Other revenues	8,225,072	-	1,908,000
Total operating revenues	557,656,200	1,745,067,218	1,908,000
Operating expenses:			
Instruction	285,919,081	-	-
Research	142,215,713	-	-
Public service	6,559,002	-	-
Supporting services:			
Academic support	58,029,142	-	27,176,000
Student services	14,832,088	-	-
Institutional support	51,919,335	-	2,244,000
Operations and maintenance of plant	56,597,533	-	-
Student aid	28,476,104	-	1,958,000
Auxiliary enterprises	59,100,955	-	-
Hospital services	21,836,936	1,597,586,634	-
Depreciation expense	45,853,683	58,486,818	64,000
Other expenses	-	-	139,000
Total operating expenses	771,339,572	1,656,073,452	31,581,000
Operating gain/(loss)	(213,683,372)	88,993,766	(29,673,000)
Nonoperating revenues (expenses):			
State appropriations (Note 21)	184,351,393	-	-
Federal Stimulus	13,743,963	-	-
Gifts	41,075,111	1,179,116	15,444,000
Investment income, Net of investment expense of \$2,368,161	9,187,811	23,922,278	25,943,000
Interest on capital asset-related debt	(14,685,005)	(10,665,907)	-
Pell revenue	21,614,476	-	-
Other	(1,432,209)	16,174,862	-
Net nonoperating revenues	253,855,540	30,610,349	41,387,000
Income before other revenues and expenses	40,172,168	119,604,115	11,714,000
OTHER REVENUES			
Additions to permanent endowments	-	-	4,698,000
Capital appropriations	14,068,073	-	-
Capital gifts and grants	192,194	-	-
Increase in beneficial interest in trusts	-	672,385	-
Other	-	(3,770,849)	-
Reductions of capital appropriations	-	-	-
Other capital appropriation reductions	-	-	-
Increase in net assets	54,432,435	116,505,651	16,412,000
Net assets - Beginning of year, as restated	618,102,903	755,583,415	321,262,000
Net assets - End of year	\$ 672,535,338	\$ 872,089,066	\$ 337,674,000

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

FINANCIAL STATEMENTS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

For the year ended June 30, 2010

	VCU Foundation	VCU Real Estate Foundation	VCU School of Business Foundation
Operating revenues:			
Student tuition and fees (Net of scholarship allowances of \$50,532,453)	\$ -	\$ -	\$ -
Federal grants and contracts	-	-	-
State grants and contracts	-	-	-
Local grants and contracts	-	-	-
Nongovernmental grants and contracts	-	-	-
Sales and services of educational departments	-	-	-
Contributions and gifts	-	-	-
Auxiliary enterprises:			
Sales and services	-	-	-
Student fees (Net of scholarship allowances of \$2,849,050)	-	-	-
Hospital services	-	-	-
Other revenues	255,621	11,010,661	3,619,646
Total operating revenues	255,621	11,010,661	3,619,646
Operating expenses:			
Instruction	-	-	751,453
Research	-	-	-
Public service	-	-	-
Supporting services:			
Academic support	-	-	-
Student services	-	-	-
Institutional support	-	-	-
Operations and maintenance of plant	-	3,594,550	-
Student aid	-	-	-
Auxiliary enterprises	-	-	-
Hospital services	-	-	-
Depreciation expense	-	2,228,962	1,351,646
Other expenses	4,529,091	482,170	2,435,853
Total operating expenses	4,529,091	6,305,682	4,538,952
Operating gain/(loss)	(4,273,470)	4,704,979	(919,306)
Nonoperating revenues (expenses):			
State appropriations (Note 21)	-	-	-
Federal Stimulus	-	-	-
Gifts	4,593,517	-	986,068
Investment income, Net of investment expense of \$2,368,161	2,634,798	839,387	2,374,686
Interest on capital asset-related debt	-	(2,128,268)	(1,197,421)
Pell revenue	-	-	-
Other	-	-	-
Net nonoperating revenues	7,228,315	(1,288,881)	2,163,333
Income before other revenues and expenses	2,954,845	3,416,098	1,244,027
OTHER REVENUES			
Additions to permanent endowments	363,445	-	-
Capital appropriations	-	-	-
Capital gifts and grants	-	-	-
Increase in beneficial interest in trusts	-	-	-
Other	-	-	-
Reductions of capital appropriations	-	-	-
Other capital appropriation reductions	-	-	-
Increase in net assets	3,318,290	3,416,098	1,244,027
Net assets - Beginning of year, as restated	42,267,554	11,915,447	22,020,177
Net assets - End of year	\$ 45,585,844	\$ 15,331,545	\$ 23,264,204

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

FINANCIAL STATEMENTS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

For the year ended June 30, 2010

	VCU School of Engineering Foundation	Eliminations	Total
Operating revenues:			
Student tuition and fees (Net of scholarship allowances of \$50,532,453)	\$ -	\$ (2,177,319)	\$ 221,262,969
Federal grants and contracts	-	(210,757)	152,375,566
State grants and contracts	-	-	6,844,076
Local grants and contracts	-	-	665,494
Nongovernmental grants and contracts	-	(60,448)	16,651,093
Sales and services of educational departments	-	(895,012)	23,871,483
Contributions and gifts	-	-	-
Auxiliary enterprises:			
Sales and services	-	(505,024)	59,531,355
Student fees (Net of scholarship allowances of \$2,849,050)	-	-	41,612,675
Hospital services	-	(15,836,210)	1,751,998,865
Other revenues	3,176,245	(9,798,229)	18,397,016
Total operating revenues	3,176,245	(29,482,999)	2,293,210,592
Operating expenses:			
Instruction	-	(167,363)	286,503,171
Research	-	(2,076,863)	140,138,850
Public service	-	(62,935)	6,496,067
Supporting services:			
Academic support	-	(21,546,092)	63,659,050
Student services	-	(4,789)	14,827,299
Institutional support	-	(32,889)	54,130,446
Operations and maintenance of plant	-	(3,279,909)	56,912,174
Student aid	-	(145)	30,433,959
Auxiliary enterprises	-	(147,973)	58,952,982
Hospital services	-	(17,826,150)	1,601,597,420
Depreciation expense	2,355,825	(1,187,201)	109,153,733
Other expenses	3,399,519	(9,407,291)	1,578,342
Total operating expenses	5,755,344	(55,739,600)	2,424,383,493
Operating gain/(loss)	(2,579,099)	26,256,601	(131,172,901)
Nonoperating revenues (expenses):			
State appropriations (Note 21)	-	-	184,351,393
Federal Stimulus	-	-	13,743,963
Gifts	1,821,047	(33,361,352)	31,737,507
Investment income, Net of investment expense of \$2,368,161	2,103,066	-	67,005,026
Interest on capital asset-related debt	(2,658,915)	3,972,023	(27,363,493)
Pell revenue	-	-	21,614,476
Other	-	-	14,742,653
Net nonoperating revenues	1,265,198	(29,389,329)	305,831,525
Income before other revenues and expenses	(1,313,901)	(3,132,728)	174,658,624
OTHER REVENUES			
Additions to permanent endowments	1,265,865	-	6,327,310
Capital appropriations	-	-	14,068,073
Capital gifts and grants	-	-	192,194
Increase in beneficial interest in trusts	-	-	672,385
Other	-	-	(3,770,849)
Reductions of capital appropriations	-	-	-
Other capital appropriation reductions	-	-	-
Increase in net assets	(48,036)	(3,132,728)	192,147,737
Net assets - Beginning of year, as restated	28,769,000	74,815,655	1,874,736,151
Net assets - End of year	\$ 28,720,964	\$ 71,682,927	\$ 2,066,883,888

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

FINANCIAL STATEMENTS

STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2010

	University
Cash flows from operating activities:	
Tuition and fees	\$ 226,145,100
Grants and contracts	173,878,967
Auxiliary enterprise charges	101,691,966
Sales and services of education departments	25,445,257
Hospital services charges	22,658,825
Payments to suppliers	(218,147,209)
Payments to employees	(490,881,329)
Loans issued to students	3,240,067
Collection of loans to students	(3,551,618)
Other receipts (payments)	7,906,648
Net cash used by operating activities	<u>(151,613,326)</u>
Cash flows from noncapital financing activities:	
State appropriations	184,351,893
Federal Stimulus	13,743,963
Direct lending receipts	199,093,646
Direct lending disbursements	(198,441,284)
Agency receipts	35,252,323
Agency disbursements	(34,755,285)
Insurance recoveries	84,368
Pell revenue	21,614,476
Gifts	41,075,111
Net cash provided by noncapital financing activities	<u>262,019,211</u>
Cash flows from capital financing activities:	
State appropriations for capital assets	16,706,116
Gifts for capital assets	192,194
Purchase of capital assets	(75,371,041)
Principal paid on capital-related debt	(17,686,945)
Interest paid on capital-related debt	(14,809,608)
Net cash used by capital financing activities	<u>(90,969,284)</u>
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	1,162,200,346
Investment income	4,711,110
Purchases of investments	(1,310,296,480)
Net cash used by investing activities	<u>(143,385,024)</u>
Net decrease in cash	(123,948,423)
Cash and cash equivalents - Beginning of year, as restated	<u>182,573,303</u>
Cash and cash equivalents - End of year	<u>\$ 58,624,880</u>

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2010

RECONCILIATION OF NET OPERATING EXPENSES TO NET CASH

USED BY OPERATING ACTIVITIES:

Operating gain/(loss)	\$	(213,683,372)
Adjustments to reconcile net gain/(loss) to net cash used by operating activities:		
Depreciation expense		45,853,683
Provision for uncollectible accounts		548,439
Changes in assets and liabilities:		
Receivables		1,632,088
Other assets		920,533
Accounts payable and other liabilities		5,134,668
Deferred revenue		7,480,958
Compensated absences and deferred compensation		499,677
Net cash used by operating activities	\$	<u>(151,613,326)</u>

RESTATEMENT OF BEGINNING CASH AND CASH EQUIVALENTS:

Cash and Cash Equivalents per Statement of Net Assets as of June 30, 2009	\$	187,832,088
Less:		
Securities Lending Cash Equivalents		5,258,785
Capital Appropriations Available reclassified		-
Cash and Cash Equivalents - Beginning of Year, as restated	\$	<u>182,573,303</u>

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

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

More than 32,000 undergraduate, graduate, and professional students pursue more than 216 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 13 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 to generally accepted accounting principles as prescribed by GASB, including all FASB statements and interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued, unless those pronouncements conflict with or contradict GASB pronouncements.

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

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

A. Reporting Entity

The accompanying financial statements include the accounts of all organizational units of Virginia Commonwealth University and the Virginia Commonwealth University Intellectual Property Foundation, a component unit

which is blended (consolidated) with University operations. These statements are presented as stand-alone statements of the University.

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

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

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

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

Effective June 30, 2010, the Authority became the sole corporate member of Children's Hospital (Children's). As sole corporate member, the Authority holds certain reserve and related powers with respect to the governance, operations and corporate existence of Children's. Children's was created in 1920 and is a Virginia not-for-profit corporation. The 47-bed hospital provides pediatric specialty care to both inpatients and outpatients. The merger qualified and was accounted for under the pooling-of-interests accounting method. Accordingly, the Authority's consolidated financial statements have been restated for 2009 to include the financial position, changes in net assets and cash flows of Children's. As a result of the merger, the Authority's 2009 consolidated assets increased \$19,966,381, and consolidated net assets increased \$12,836,661. Additionally, the Authority's 2009 consolidated increase in net assets increased \$1,114,440, and consolidated net increase in cash and cash equivalents increased \$94,997.

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

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

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

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

The Virginia Commonwealth University Real Estate Foundation's controlled affiliate, Monroe Park Campus Corporation, is a Virginia nonstock corporation, which functions as a nonprofit organization solely to support the Virginia Commonwealth University Real Estate Foundation. The Monroe Park Campus

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

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

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

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

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

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

B. Basis of Accounting

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

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

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

C. Allowance for Uncollectible Receivables

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

D. Pledges Receivable

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

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

E. Investments

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

F. Inventories

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

G. Investment Income

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

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

H. Accrued Compensated Absences

University full-time classified, part-time classified and faculty employed on or after January 1, 1999 who are also active members of the Virginia Retirement

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

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

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

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

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

I. Capital Assets

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

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

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

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

J. Hospital Services

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

K. Uncompensated Care

The Authority provides care to patients who meet certain criteria under its indigent care policy without charge or at amounts less than its established rates. Because the Authority does not pursue collection of charges determined to qualify as uncompensated care from the patients, they are not reported as revenue. The costs of providing these services are included in the Authority's operating expenses. Uncompensated care, which represents the difference between charges of the services provided and the costs of those respective services, approximated \$231,589,000 for the year ended June 30, 2010.

L. Net Patient Service Revenue

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

Settlements due to third parties include amounts that are currently under appeal with various federal and state agencies. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. The effect of these settlement adjustments was to increase net patient service revenue by approximately \$7,000,000 in 2010.

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

- Anthem – Inpatient acute care services rendered to Anthem subscribers are paid at rates per discharge (DRGs) or discounted rates. Outpatient services rendered to Anthem subscribers are reimbursed at discounted rates or applicable fee schedule. The rates are not subject to retroactive adjustment.
- Medicare – Inpatient acute care services and defined capital costs rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates may vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient non-acute services, certain outpatient services and education related to Medicare beneficiaries are paid based on prospectively determined rates and a discounted cost reimbursement methodology. The Authority is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare fiscal intermediary. The Authority's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2004.

- Medicaid – Inpatient acute care services rendered to Medicaid program beneficiaries are paid at a per diem rate and APDRG (rates per discharge). Outpatient services rendered to Medicaid program beneficiaries are reimbursed on prospectively determined rates and a cost reimbursement methodology. In addition to inpatient and outpatient services provided to Medicaid program beneficiaries, Medicaid reimburses the Authority its costs related to services provided to indigent patients up to an amount which results in total Medicaid and indigent reimbursement to the Authority of approximately \$321,618,000 in 2010. The Authority's Medicaid cost reports have been audited by the Medicaid program representative through June 30, 2007.

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

M. Premiums Earned

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

N. Uncollectible Accounts

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

O. Estimated Medical Claims Payable

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

P. Net Assets

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

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

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

The Authority's restricted net assets consist principally of beneficial interests in perpetual trust funds established by split interest agreements. Split interest agreements are trust agreements established by donors under which the Authority receives benefits that are shared with other beneficiaries. The trust agreements established by donors provide for a third party to hold the trust assets. These trusts do not permit donors to revoke their charitable contributions. Trust assets of \$14,956,577, 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.

The Authority adopted GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, on July 1, 2009. Prior to July 1, 2009, the Authority reflected the change in fair value of interest rate swap agreements in other nonoperating income (expense) under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*. As a result of the adoption of GASB Statement No. 53, the Authority has restated its consolidated balance sheet as of June 30, 2009 and consolidated statement of revenues, expenses and changes in net assets for the year ended June 30, 2009. Following is a summary of the effects of these changes:

	Before adjustments	Adjustments	As adjusted
Consolidated balance sheet - enterprise funds:			
Deferred outflows	\$ -	\$ 28,780,434	\$ 28,780,434
Total assets and deferred outflows	1,276,547,722	28,780,434	1,305,328,156
Unrestricted net assets	521,571,174	28,780,434	550,351,608
Total net assets	726,802,981	28,780,434	755,583,415
Total liabilities and net assets	1,279,547,722	28,780,434	1,308,328,156
Consolidate statement of revenue, expenses and changes in net assets - enterprise funds:			
Other nonoperating expenses	(19,184,135)	15,294,230	(3,889,905)
Total nonoperating revenues and expenses	(49,832,793)	15,294,230	(34,538,563)
Excess of revenues over expenses before transfers and changes in beneficial interest in trusts	47,741,399	15,294,230	63,035,629
Increase in net assets	40,664,477	15,294,230	55,958,707
Net assets at beginning of year	686,138,504	13,486,204	699,624,708
Net assets at end of year	\$ 726,802,981	\$ 28,780,434	\$ 755,583,415

The net assets of VCU Foundation have been restated to correct an error made in the prior year for assets held by the Foundation that are owned by the VCU Alumni Association that had been previously reported as assets of the Foundations.

Net assets as of June 30, 2009	\$ 43,799,893
Less restatements for assets held for others	<u>1,532,339</u>
Net assets as of July 1, 2010 restated	\$ 42,267,554

Q. Scholarship Allowances and Student Aid

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

R. Intangibles

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

S. Revenue and Expense Classifications

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

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

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

2. CASH AND INVESTMENTS

Cash

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

Investments

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

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

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

As of June 30, 2010, the University held the following investments:

Investment Type	Fair Value	Investment Maturities (In Years)			
		< 1	1 - 5	6 - 10	> 10
U.S. Treasury and Agency Securities	\$ 49,118,702	\$ 4,899,804	\$ 42,891,859	\$ 391,547	\$ 935,492
Corporate Notes	4,684,442	4,679,359	-	5,083	-
Corporate Bonds	44,083,236	16,726,599	23,690,723	2,280,834	1,385,080
Commercial Paper	2,397,900	2,397,900	-	-	-
Asset Backed Securities	24,252,818	-	21,451,519	2,801,299	-
Agency Mortgage Backed Securities	18,822,089	3,245,875	3,608,241	1,744,307	10,223,666
Municipal Bonds	886,261	-	777,983	-	108,278
Mutual and Money Market Funds	40,839,535	3,303,311	-	37,536,224	-
Total	\$ 185,084,983	\$ 35,252,848	\$ 92,420,325	\$ 44,759,294	\$ 12,652,516

As of June 30, 2010, the Moody's ratings of the University's investments in corporate notes and bonds were as follows:

Rating	Corporate Notes	Corporate Bonds
AAA	\$ -	\$ 8,776,897
AA1	-	4,469,551
AA2	912,901	3,427,900
AA3	1,177,526	3,827,348
A-1	410,876	6,622,182
A-2	1,507,059	11,600,099
A-3	676,080	3,768,955
Baa1	-	769,625
Baa2	-	739,547
Baa3	-	81,132
Total	\$ 4,684,442	\$ 44,083,236

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NOTES TO FINANCIAL STATEMENTS

Authority:		Investment Maturities (In Years)			
Investment Type	Fair Value	<1	1 - 5	6 - 10	>10
Cash and Cash Equivalents	\$ 58,740,429	\$ 58,740,429	\$ -	\$ -	\$ -
Commercial Paper	19,945,600	19,945,000	-	-	-
Mutual Funds	45,551,847	N/A	N/A	N/A	N/A
Index Funds	30,007,130	N/A	N/A	N/A	N/A
Marketable Equity Securities	9,280,705	N/A	N/A	N/A	N/A
U.S. Treasury Notes	78,744,383	67,579,283	7,189,092	2,101,010	1,874,998
Asset backed securities	16,648,740	662,439	13,033,248	517,387	2,435,666
Agency backed mortgages	25,830,818	4,808,277	8,224,551	3,282,372	9,515,618
Corporate notes	41,505,440	12,178,627	20,054,735	7,576,956	1,695,122
Corporate bonds	13,507,516	2,482,256	8,046,551	1,615,947	1,362,762
Beneficial interest in trust	14,956,577	N/A	N/A	N/A	N/A
Equity interest in Foundation	2,609,947	N/A	N/A	N/A	N/A
Investment Companies	88,566,686	N/A	N/A	N/A	N/A
Real Estate	6,309,011	N/A	N/A	N/A	N/A
Totals	<u>\$ 452,204,829</u>	<u>\$ 166,396,311</u>	<u>\$ 56,548,177</u>	<u>\$ 15,093,672</u>	<u>\$ 16,884,166</u>

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

Investments held at the foundations as of June 30, 2010 were as follows:

	Fair Value	Cost
MCV Foundation:		
U.S. Treasury and Agency Securities	\$ 115,904,000	\$ 112,923,000
Common and Preferred Stocks	91,827,000	86,096,000
Corporate Bonds	29,161,000	27,013,000
Alternative Investments	80,621,000	70,069,000
Total	<u>\$ 317,513,000</u>	<u>\$ 296,101,000</u>
VCU Foundation:		
U.S. Treasury and Agency Securities	\$ 2,826,801	\$ 2,611,159
Common and Preferred Stocks	23,953,682	27,676,052
Corporate Bonds	5,009,434	4,706,781
Alternative Investments	20,906,925	18,776,844
Life Income Investment	50,642	50,642
Total	<u>\$ 52,747,484</u>	<u>\$ 53,821,478</u>

VCU School of Business Foundation:

U.S. Treasury and Agency Securities	\$ 452,651	\$ 418,393
Common and Preferred Stocks	9,205,071	11,514,943
Corporate Bonds	5,051,203	4,740,656
Alternative Investments	9,437,832	9,395,623
Total	<u>\$ 24,146,757</u>	<u>\$ 26,069,615</u>

VCU School of Engineering Foundation:

Barlow	\$ 9,900,032	\$ 5,114,617
Valiant	7,504,224	6,135,458
Private Advisors Small Co. Buyout Fund	1,144,947	970,255
Private Advisors Hedged Equity Fund, L.P.	4,780,266	4,000,000
Private Advisors Stable Value Fund, LTD	9,508,749	7,000,000
Blue Ridge Offshore Limited Partnership	13,676,210	5,898,227
Tiger Global, LTD	14,791,772	9,500,000
Total	<u>\$ 61,306,200</u>	<u>\$ 38,618,557</u>

3. JOINT VENTURES AND EQUITY INVESTMENTS

Investment in 7th and Marshall Corporation

Included in other long-term assets on the accompanying statement of net assets is a capital contribution to 7th and Marshall Corporation of \$500,000. UHS and Hospital Hospitality House, Inc. are the sole members of the 7th and Marshall Corporation, a not-for-profit corporation formed to support the charitable, educational and scientific activities of UHS and Hospital Hospitality House, Inc. The 50% investment in 7th and Marshall Corporation is accounted for under the equity method of accounting. The investment is carried at \$320,931.

4. CAPITAL ASSET

Capital asset activity for the year ended June 30, 2010 was as follows:

University:	Beginning Balance	Additions	Reductions	Ending Balance
Non-depreciable capital assets:				
Land	\$ 40,371,413	\$ 1,042,256	\$ -	\$ 41,413,669
Construction in progress	68,609,095	45,984,438	(83,580,888)	31,012,645
Total non-depreciable capital assets	108,980,508	47,026,694	(83,580,888)	72,426,314
Depreciable capital assets:				
Land Improvements and infrastructure	16,882,865	1,356,552	-	18,239,417
Buildings	803,433,809	79,402,975	(2,221,100)	880,615,684
Equipment	149,018,287	16,335,537	(3,222,069)	162,131,755
Intangible Assets	7,720,555	340,194	-	8,060,749
Library Books	115,346,493	8,313,015	-	123,659,508
Total depreciable capital assets	1,092,402,009	105,748,273	(5,443,169)	1,192,707,113
Less accumulated depreciation for:				
Land Improvements and infrastructure	(13,129,975)	(732,534)	-	(13,862,509)
Buildings	(241,507,323)	(24,251,500)	1,113,257	(264,645,566)
Equipment	(89,366,870)	(13,338,830)	2,650,295	(100,055,405)
Intangible Assets	(5,861,836)	(861,583)	-	(6,723,419)
Library Books	(97,966,938)	(6,669,235)	-	(104,636,173)
Total accumulated depreciation	(447,832,942)	(45,853,682)	3,763,552	(489,923,072)
Total depreciable capital assets, net	644,569,067	59,894,591	(1,679,617)	702,784,041
Total capital assets - net	\$ 753,549,575	\$ 109,921,285	\$ (85,260,505)	\$ 775,210,355

Interest capitalized as part of construction in progress was \$1,256,276.

Authority:				
Land	\$ 4,616,816	\$ -	\$ -	\$ 4,616,816
Construction in progress	27,619,016	39,531,555	56,255,174	10,895,397
Total non-depreciable capital assets	32,235,832	39,531,555	56,255,174	15,512,213
Buildings	496,564,769	38,395,734	(41,815)	534,918,688
Equipment	220,990,469	15,337,204	(1,801,184)	234,526,489
Intangible Assets	74,701,139	4,118,357	-	78,819,496
Total depreciable capital assets	792,256,377	57,851,295	(1,842,999)	848,264,673
Less accumulated depreciation	(341,414,418)	(58,925,492)	1,739,871	(398,600,039)
Total depreciable capital assets, net	450,841,959	(1,074,197)	(103,128)	449,664,634
Total capital assets - net	\$ 483,077,791	\$ 38,457,358	\$ 56,358,302	\$ 465,176,847

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NOTES TO FINANCIAL STATEMENTS

	Beginning Balance	Additions	Reductions	Ending Balance
MCV Foundation:				
Land	\$ 217,000	\$ -	\$ -	\$ 217,000
Property and equipment - net				
Depreciation	1,484,000	(64,000)	-	1,420,000
Total capital assets - net	<u>\$ 1,701,000</u>	<u>\$(64,000)</u>	<u>\$ -</u>	<u>\$ 1,637,000</u>
VCU Real Estate Foundation:				
Non-depreciable capital assets:				
Land	\$8,689,108	\$311,790	\$(387,030)	\$8,613,868
Construction in progress	-	-	-	-
Total non-depreciable capital assets	8,689,108	311,790	(387,030)	8,613,868
Depreciable capital assets:				
Buildings	61,820,590	732,892	-	62,553,482
Equipment	2,605,287	-	-	2,605,287
Total depreciable capital assets	64,425,877	732,892	-	65,158,769
Less accumulated depreciation	(13,675,696)	(2,198,585)	-	(15,874,281)
Total before eliminations	59,439,289	(1,153,903)	(387,030)	57,898,356
Less included on University	(10,020,175)		256,087	(9,764,088)
Total capital assets - net	<u>\$49,419,114</u>	<u>\$(1,153,903)</u>	<u>\$(130,943)</u>	<u>\$48,134,268</u>
VCU School of Business Foundation:				
Land	\$3,503,036	\$ -	\$ -	\$3,503,036
Buildings and equipment	40,198,124	11,709	-	40,209,833
Total capital assets	43,701,160	11,709	-	43,712,869
Less accumulated depreciation	(1,954,075)	(1,351,646)	-	(3,305,721)
Total capital assets - net	<u>\$41,747,085</u>	<u>\$(1,339,937)</u>	<u>\$ -</u>	<u>\$40,407,148</u>
VCU School of Engineering Foundation:				
Land	\$3,112,659	\$ -	\$ -	\$ 3,112,659
Buildings and equipment	68,997,682	58,384	-	69,056,066
Total capital assets	72,110,341	58,384	-	72,168,725
Less accumulated depreciation	(11,654,022)	(2,355,825)	-	(14,009,847)
Total before eliminations	60,456,319	(2,297,441)	-	58,158,878
Less included on University	(17,493,844)	-	862,103	(16,631,741)
Total capital assets - net	<u>\$42,962,475</u>	<u>\$(2,297,441)</u>	<u>\$862,103</u>	<u>\$ 41,527,137</u>

GASB 42, *Accounting and Reporting for the Impairment of Capital Assets and for Insurance Recoveries*, effective for periods beginning after December 15, 2004, requires disclosure of insurance recoveries for circumstances other than impairment of capital assets. Fiscal year 2010 insurance recoveries of \$84,368 are reported as other nonoperating income.

GASB 51, *Accounting and Reporting for Intangible Assets*, effective for periods beginning after June 15, 2009, requires that all intangible assets not specifically

NOTES TO FINANCIAL STATEMENTS

excluded by its scope provisions be classified as capital assets. These include but are not limited to easements, water rights, timber rights, patents, trademarks and computer software. Intangible assets for the University and the Authority were previously included in the values for equipment.

As of June 30, 2010, VCU Health System Authority became the sole corporate member of Children's Hospital. Total capital assets net of depreciation for Children's Hospital were \$12,189,852. This amount was not included in the Authority balances at June 30, 2009, but is included in the beginning balances for 2010.

5. FUNDS HELD FOR OTHERS

At June 30, 2010, the University held deposits for others, which are composed of the following:

	Funds Held for Others
Federal loan programs	\$ 25,053,549
Student organizations and others	2,872,299
Total	<u>\$ 27,925,848</u>

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consisted of the following as of June 30, 2010:

Vendor payables	\$ 24,456,015
Retainage payable	540,212
Accrued wages	38,331,404
Interest payable	<u>2,694,390</u>
Total	<u>\$ 66,022,021</u>

7. DEFERRED REVENUE

Deferred Revenue consisted of the following as of June 30, 2010:

Prepaid tuition and Fees	\$ 12,053,754
Grants and contracts	23,763,064
Rent	<u>1,729,863</u>
Total	<u>\$ 37,546,681</u>

8. LONG TERM LIABILITIES

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

Bonds Payable

The Commonwealth of Virginia issues bonds for agencies and institutions of the Commonwealth. The University has received a portion of the proceeds to fund capital construction. The University recognizes a liability associated with its share of the bonds and remits principal and interest payments related to this liability to the Treasurer of Virginia. The General Revenue Pledge Bonds (Section 9d Bonds) carry interest rates of 1.5% - 5.00% and are due through 2033. Included in the total General Revenue Pledge Bonds are outstanding bonds payable in the amount of \$16,765,000, 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 \$1,416,821 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.

Virginia College Building Authority

The Virginia College Building Authority (VCBA) issues Educational Facilities Revenue Bonds (Public Higher Education Financing Program). As a participating institution in this program, the University issued a note payable to the VCBA. This note, along with the notes of other institutions, is held by the VCBA as security for the Educational Facilities Revenue Bonds. For accounting purposes, the financing arrangement is considered to represent a note payable. The notes have interest rates of 2% to 6%.

Virginia Public Building Authority

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

Virginia Biotechnology Research Park Partnership Authority

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

Ad Center Development LLC

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

Defeasance of Debt

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

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

University :	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable:					
General Revenue pledge Bonds	\$123,246,912	\$ -	\$ 5,691,161	\$ 117,555,751	\$ 5,955,001
Commonwealth of Virginia Revenue Bonds	<u>28,342,344</u>	<u>-</u>	<u>2,468,149</u>	<u>25,874,195</u>	<u>2,520,685</u>
Total bonds payable	<u>151,589,256</u>	<u>-</u>	<u>8,159,310</u>	<u>143,429,946</u>	<u>8,475,686</u>
Notes payable:					
Virginia College Building Authority	<u>226,403,505</u>	<u>-</u>	<u>9,417,744</u>	<u>216,985,761</u>	<u>9,375,000</u>
Capital leases:					
Virginia College Building Authority	6,957,734	-	1,163,523	5,794,211	1,227,371
Virginia Biotechnology Research Park Partnership Authority	3,740,735	-	426,458	3,314,277	463,593
AD Center Development LLC	5,546,073	-	200,930	5,345,143	209,710
912-914 West Grace St.	157,294	-	93,023	64,271	64,271
10 North Brunswick St.	<u>1,369,525</u>	<u>-</u>	<u>243,462</u>	<u>1,126,063</u>	<u>263,245</u>
Total capital leases	<u>17,771,361</u>	<u>-</u>	<u>2,127,396</u>	<u>15,643,965</u>	<u>2,228,190</u>
Installment purchases	<u>2,096,758</u>	<u>-</u>	<u>1,164,969</u>	<u>931,789</u>	<u>237,898</u>
Total long-term debt	<u>397,860,880</u>	<u>-</u>	<u>20,869,419</u>	<u>376,991,461</u>	<u>20,316,774</u>
Compensated absences	28,887,272	9,226,290	8,806,432	29,307,130	19,609,423
Deferred compensation	<u>5,152,150</u>	<u>1,709,965</u>	<u>1,630,149</u>	<u>5,231,966</u>	<u>1,492,956</u>
Total	<u>\$ 431,900,302</u>	<u>\$ 10,936,255</u>	<u>\$ 31,306,000</u>	<u>\$ 411,053,557</u>	<u>\$ 41,419,153</u>

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NOTES TO FINANCIAL STATEMENTS

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Authority:					
General Revenue pledge					
Bonds	\$ 279,175,000	\$ -	\$ 5,100,000	\$ 274,075,000	\$ 5,315,000
Notes Payable	1,613,195	-	196,374	1,416,821	206,377
Capital leases	1,748,922	-	1,748,922	-	-
Installment purchases	14,381,749	-	4,154,811	10,226,938	3,800,168
 Total long-term debt	 296,918,866	 -	 11,200,107	 285,718,759	 9,321,545
Estimated losses on malpractice					
Claims	30,414,184	788,149	4,292,423	26,909,910	3,400,000
Workers Compensation	16,333,826	3,383,461	2,710,192	17,007,095	2,200,000
Compensated absences	21,733,659	35,241,969	34,416,267	22,559,361	22,559,361
 Total	 \$ 365,400,535	 \$ 39,413,579	 \$ 52,618,989	 \$ 352,195,125	 \$ 37,480,906

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
MCV Foundation:					
Note Payable	\$ 11,670,000	\$ -	\$ 500,000	\$ 11,170,000	\$ 525,000

VCU Real Estate Foundation:					
Notes payable	\$ 16,918,087	\$ -	\$ 2,104,462	\$ 14,813,625	\$ 14,747,016
Tax exempt bonds payable	18,563,000	-	536,000	18,027,000	559,000
Total	\$ 35,481,087	\$ -	\$ 2,640,462	\$ 32,840,625	\$ 15,306,016

Long-term debt matures as follows:

	Fiscal Year	Revenue Bonds	Notes Payable	Capital Leases	Installment Purchases	Total
University:						
	2011	\$ 8,475,686	\$ 9,375,000	\$ 3,067,693	\$ 237,898	\$ 21,156,277
	2012	8,554,052	9,805,000	3,005,806	241,474	21,606,332
	2013	8,763,552	10,270,000	3,008,376	245,105	22,287,033
	2014	7,978,540	10,790,000	2,333,681	207,312	21,309,533
	2015	8,356,873	11,335,000	1,754,008	-	21,445,881
	2016-2020	31,940,301	64,080,000	3,344,864	-	99,365,165
	2021-2025	26,320,000	64,880,000	2,181,000	-	93,381,000
	2026-2030	30,035,000	29,045,000	1,090,500	-	60,170,500
	2031-2035	12,025,000	-	-	-	12,025,000
	2036-2039	1,830,000	-	-	-	1,830,000
Add: Unamortized		1,640,574	8,329,167	-	-	9,969,471
Premium		-	-	-	-	-
Deferred						
Charge		(2,489,632)	(923,406)	-	-	(3,413,038)
Less: Interest		-	-	(4,141,963)	-	(4,141,963)
Total		\$ 143,429,946	\$ 216,985,761	\$ 15,643,965	\$ 931,789	\$ 376,991,461

VCU | Virginia Commonwealth University
NOTES TO FINANCIAL STATEMENTS

	Fiscal Year	Revenue Bonds	Notes Payable	Capital Leases	Installment Purchases	Total
Authority:						
	2011	\$ 5,315,000	\$ 206,377	\$ -	\$ 3,800,168	\$ 9,321,545
	2012	5,550,000	220,107	-	3,026,067	8,796,174
	2013	5,710,000	230,107	-	2,455,998	8,396,105
	2014	6,040,000	238,834	-	944,705	7,223,539
	2015	6,295,000	253,836	-	-	6,548,836
	2016-2020	35,905,000	267,560	-	-	36,172,560
	2021-2025	44,630,000	-	-	-	44,630,000
	2026-2030	54,215,000	-	-	-	54,215,000
	2031-2035	65,045,000	-	-	-	65,045,000
	2036-2039	45,370,000	-	-	-	45,370,000
Less: Interest		-	-	-	-	-
Total		<u>\$ 274,075,000</u>	<u>\$ 1,416,821</u>	<u>\$ -</u>	<u>\$ 10,226,938</u>	<u>\$ 285,718,759</u>
	Fiscal Year	Revenue Bonds	Notes Payable	Capital Leases	Installment Purchases	Total
MCV Foundation:						
	2011	\$ -	\$ 525,000	\$ -	\$ -	\$ 525,000
	2012	-	550,000	-	-	550,000
	2013	-	575,000	-	-	575,000
	2014	-	605,000	-	-	605,000
	2015	-	635,000	-	-	635,000
Thereafter		-	8,280,000	-	-	8,280,000
Total		<u>\$ -</u>	<u>\$ 11,170,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,170,000</u>
VCU Real Estate Foundation:						
	2011	\$ 559,000	\$ 14,747,016	\$ -	\$ -	\$ 15,306,016
	2012	588,000	11,657	-	-	599,657
	2013	613,000	12,624	-	-	625,624
	2014	642,000	13,672	-	-	655,672
	2015	678,000	13,762	-	-	691,762
Thereafter		14,947,000	14,894	-	-	14,961,894
Total		<u>\$ 18,027,000</u>	<u>\$ 14,813,625</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 32,840,625</u>

A summary of future interest requirements as of June 30, 2010 follows:

	Fiscal Year	Revenue Bonds	Notes Payable	Total
University:				
	2011	\$ 5,710,882	\$ 9,578,793	\$ 15,289,675
	2012	5,409,343	9,121,698	14,531,041
	2013	5,099,871	8,625,725	13,725,596
	2014	4,778,330	8,108,713	12,887,043
	2015	4,421,741	7,588,663	12,010,404
	2016-2020	17,372,452	29,439,734	46,812,186
	2021-2025	11,664,745	13,629,568	25,294,313
	2026-2030	6,522,055	2,062,250	8,584,305
	2031-2035	1,490,303	-	1,490,303
	2036-2039	131,337	-	131,337
	Total	<u>\$ 62,601,059</u>	<u>\$ 88,155,144</u>	<u>\$ 150,756,203</u>
Authority:				
	2011	\$ 2,890,355	\$ 68,165	\$ 2,958,520
	2012	2,752,677	57,847	2,810,524
	2013	2,605,530	46,841	2,652,371
	2014	2,448,307	35,336	2,483,643
	2015	2,275,154	23,394	2,298,548
	2016-2020	8,497,066	10,702	8,507,768
	2021-2025	3,004,371	-	3,004,371
	2026-2030	1,053,685	-	1,053,685
	2031-2035	500,301	-	500,301
	2036-2039	26,690	-	26,690
	Total	<u>\$ 26,054,136</u>	<u>\$ 242,285</u>	<u>\$ 26,296,421</u>

9. VIRGINIA COMMONWEALTH UNIVERSITY FACULTY EARLY RETIREMENT INCENTIVE PLAN

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

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

As of June 30, 2010, 85 faculty members were enrolled in the Plan. Payments during fiscal year 2010 were \$1,630,150. The present value of future Plan payments schedule follows:

<u>Fiscal Year</u>	<u>Plan Obligations</u>
2011	\$ 1,492,956
2012	1,343,736
2013	1,113,318
2014	826,476
2015	402,191
2016	49,431
2017	<u>3,858</u>
Total	<u>\$ 5,231,966</u>

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

University

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

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

The University's payroll costs, excluding accrued payroll, for employees covered by the VRS for the year ended June 30, 2010 were \$167,717,927. The University's total payroll costs for the year were \$403,866,756.

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 \$18,899,622 for the year ended June 30, 2010, 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, 2010. 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 \$149,262,217 in fiscal year 2010. Total pension costs under these plans were \$15,493,192 in fiscal year 2010.

The state participates in the VRS administered statewide group life insurance program, which provides post employment life insurance benefits to eligible retired and terminated employees. The state also provides health care credits against the monthly health insurance premiums of its retirees who have at least 15 years of state service and participate in the state health plan. Also, the long-term disability benefit provided by the "Virginia Sickness and Disability Program" (VSDP) is administered by VRS information related to these plans is available at the statewide level in the Comprehensive Annual Financial Report of the Commonwealth.

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

Authority

Prior to July 1, 1997, employees of the Authority were employees of the Commonwealth of Virginia (the Commonwealth). These employees are eligible to participate in a defined benefit pension plan administered by the VRS. The VRS also administers life insurance and health-related plans for retired employees. Information relating to these plans is available at the statewide level only in the Commonwealth of Virginia's Comprehensive Annual Financial Report. The Commonwealth, not the Authority, has overall responsibility for these plans. Total pension costs for the year were approximately \$4,611,000.

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, 2010, there were 4,632 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. Contributions are a function of the employee's age plus years of service per the table below. Total contributions to the Plan for year ended June 30,

NOTES TO FINANCIAL STATEMENTS

2010 were approximately \$14,577,000. 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 also sponsors the VCUHS Savings Plan (VCUHS 457(b) Plan), a savings plan that represents employee contributions and employees may also receive a 2% matching contribution in their VCUHS 401(a) Plan based on their 457(b) contribution.

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

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, 2010, 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, 2010 were approximately \$36,000.

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

	2010
Fidelity Investments	\$ 63,934,942
TIAA/CREF	38,583,186
VALIC	10,261,367
Net assets available for plan benefits	\$ 112,779,495

MCVAP sponsors the MCVAP 401(a) Retirement Plan (the 401(a) Plan), a noncontributory, defined contribution plan which covers substantially all full-time clinical provider employees of MCVAP and the MCVAP 403(b) Salary Deferral Plan, a salary deferral plan that represent physical contributions. Contributions to the 401(a) Plan by MCVAP, as determined annually at the discretion of the Board of Directors, were approximately \$10,524,000 for the year.

MCVAP sponsors the VCUHS 401(a) Retirement Plan (the VCUHS 401(a) Plan), a defined contribution plan which covers all non-medical employees of MCVAP and the VCUHS 457(b) Retirement Plan (VCUHS 457(b) Plan), a salary reduction plan that represents employee contributions. These plans became effective on January 1, 2002 and replaced the MCVAP 403(b) plan for all non-medical staff. The 401(a) Plan contributions are a function of the employee's age plus years of service per the table

below. MCVAP employees may contribute to the VCUHS 457(b) Salary Reduction Plan. Employees may also receive a 2% matching contribution in their VCUHS 401(a) Plan based on their 457(b) salary reduction contribution.

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, 2010 were \$1,864,000.

Effective August 1, 1999, VA Premier adopted a 401(k) plan, for which Fidelity Investments is the trustee. Employees become eligible to participate in the plan after completing one year of service. There is no minimum service or age requirement to be in the 401(k) plan. Employees may contribute 1% to 15% of their compensation. VA Premier will match 50% of the employee's contributions up to 4% of the employee's compensation. Matching will occur based on the bi-weekly pay periods. In addition, VA Premier contributes 3% of the employee's compensation after each bi-weekly payroll effective when the employee begins employment. Employees are fully vested after 4 years of service in which the employees have at least 1,000 hours of service each year. VA Premier's expense for its contributions to this plan was approximately \$921,000 for the year ended 2010.

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 \$196,000 for the year ended 2010.

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

The measurement date for determining the Pension Plan's funded status is June 30. The Pension's projected benefit obligation was \$9,981,170 as of June 30, 2010. The Pension Plan's fair value of plan assets was \$6,072,391 as of June 30, 2010. The Pension Plan's unfunded liability of \$3,908,779 as of June 30, 2010, is included in other liabilities on the accompanying consolidated balance sheets.

Children's also maintains a retirement plan under Internal Revenue Code Section 401(k) for its employees. All full-time employees with at least one full year of employment are eligible for participation in the 401(k) plan. Contributions are made at the discretion of the Children's Board of Directors. The employer contributions for 2010 were approximately \$204,000. Effective June 30, 2010, the 401(k) plan was frozen. Once Internal Revenue Service approval is received, plan participants will receive a distribution of their account balance.

11. RELATED PARTIES

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

Virginia Biotechnology Research Park Partnership Authority

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

Medical College of Virginia Alumni Association of VCU

The purpose of the Medical College of Virginia Alumni Association of VCU is to organize alumni activities for Virginia Commonwealth University. The University provided funding of \$237,434 in 2010 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 \$66,345 in 2010 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 \$12,463,960.88 at June 30, 2010, 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, 2010, the remaining commitments were \$49,414,535 for the University and approximately \$23,700,000 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, 2010 was \$7,177,333 for the University and \$11,032,000 for the Authority.

The University has, as of June 30, 2010 the following total future minimum rental payments due under the above leases.

<u>Fiscal Year</u>	<u>University</u>	<u>Authority</u>
2011	\$ 4,836,428	\$ 9,829,951
2012	3,422,986	7,483,957
2013	2,374,688	4,393,271
2014	1,491,217	1,698,878
2015	1,024,984	1,374,523
2016-2020	2,441,013	1,159,435
2021-2025	2,155,342	-
2026-2030	430,161	-
Total future minimum rental payments	\$ <u>18,176,819</u>	\$ <u>25,940,015</u>

14. LITIGATION

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

15. TRANSACTIONS BETWEEN COMPONENT UNITS

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

The VCU Foundation, the VCU School of Business 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, 2010, the VCU Foundation and VCU School of Engineering Foundation held University investments of \$23,449,869 and \$4,355,453 respectively. VCU School of Business Foundation held investments of \$758,373. The University has a due from component units for these investments, which is eliminated in the total column.

The VCU Foundation also holds investments for the VCU Intellectual Properties Foundation in the amount of \$855,707. The University has a due from component units for these investments, which is eliminated in the total column.

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

Net Assets. The VCU School of Engineering Foundation has the phase I building, deferred bond issuance costs, prepaid bond interest, a liability and an accrued contribution to the University on their financial statements which are eliminated in the Statement of Net 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 deferred issuance costs, a liability and an accrued contribution to the University on their financial statements which are eliminated in the Statement of Net Assets.

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

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

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

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

16. CONTINGENCIES

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

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

Effective July 1, 1998, the Hospitals became self-insured. Professional liability limits of \$1 million per incident and \$3 million in aggregate are self-insured. Excess insurance coverage up to \$10 million was provided by The Reciprocal of America (the Reciprocal), a multi provider reciprocal insurance company until June 30, 2002. In

connection with the self-administered plan effective July 1, 2002, an excess professional liability policy for the Hospitals was written by Columbia Casualty Group of the CNA Insurance Group. This policy covers losses in excess of the reciprocal limits for an additional annual aggregate amount of \$5 million. Effective July 1, 2003, the Hospitals no longer maintain excess professional liability coverage.

There have been malpractice claims asserted against the Hospitals by various claimants. The claims are in various stages of processing and some may ultimately be brought to trial. There are also known incidents that have occurred through June 30, 2010 that may result in the assertion of additional claims. In addition, there may be other claims from unreported incidents arising from services provided to patients. Management of MCVH accrues estimated losses on malpractice claims to the extent they fall within the limits of the MCVH's self-insurance program or exceed the limits of the excess insurance coverage in place at the date of the claim. The undiscounted liability is actuarially determined using industry data and MCVH's historical experience.

Investments have been set aside for payment of malpractice claims and related expenses based on actuarially determined reserves. At June 30, 2010, the internally restricted funds for the Hospitals include approximately \$7,504,353 for this purpose.

The Authority believes that its consolidated financial position would not be materially affected by the difference between the amounts recorded and the ultimate cost related to asserted or unasserted MCVH claims, if any, at June 30, 2010.

In addition, MCVAP is self-insured for all malpractice claims. There have been malpractice claims asserted against MCVAP by various claimants. The claims are in various stages of processing and some may ultimately be brought to trial. There are also known incidents that have occurred that may result in the assertion of additional claims. In addition there may be other claims from unreported incidents arising from services provided to patients. Management of MCVAP accrues estimated losses on malpractice claims. The undiscounted liability is actuarially determined using industry data and MCVAP's historical experience. Assets whose use is limited of \$21,932,471 have been internally restricted as of June 30, 2010, for payment of claims and related legal expenses for reported and unreported incidents.

The Authority believes that its consolidated financial position would not be materially affected by the difference between the amounts recorded and the ultimate cost related to asserted and unasserted MCVAP claims, if any, at June 30, 2010.

UHS maintains general and professional liability policies. The general liability policy in force is occurrence-based. The coverage under the professional liability policy is on a claims-made basis and must be renewed or replaced with the equivalent insurance if claims incurred during its terms, but asserted after its expiration, are to be insured. Coverage limits for the general liability policy are \$1 million per occurrence and \$2 million annual aggregate. The coverage limit for the professional liability policy is \$7 million in the annual aggregate. Management does not believe the amount of liability for any claims incurred but unreported as of June 30, 2010 is significant.

Children's Hospital maintains professional liability insurance coverage on the claims-made basis. Should Children's not renew its policy or replace it with equivalent

insurance, occurrences during its term but asserted after its term will be uninsured, unless Children's obtains tail coverage.

The Authority believes that its consolidated financial position would not be materially affected by the ultimate cost related to unasserted claims, if any, at June 30, 2010.

17. STOP-LOSS COVERAGE

VA Premier and CCHP have stop-loss arrangements to limit losses on individual claims. These contracts provide stop-loss coverage for all enrollee claims. The VA Premier contract provides coverage for 90% of all inpatient and outpatient services, physician services, and drug related services in excess of \$300,000 subject to certain limitations and an annual limit of \$2,000,000 per enrollee and a lifetime limit of \$5,000,000 per enrollee. The CCHP contract provides coverage for 100% of all inpatient and outpatient services, physician services, and drug related services in excess of \$250,000 subject to certain limitations and an annual limit of \$2,000,000 per enrollee and a lifetime limit of \$5,000,000 per enrollee. The amounts receivable from the reinsurer were \$5,027 at June 30, 2010, all of which related to paid claims. Premiums paid to the reinsurer for the year ended June 30, 2010 were approximately \$1,619,000, and are included in other expenses in the accompanying consolidated statements of revenues, expenses and changes in net assets. Benefits of approximately \$577,000 were provided by the reinsurer for the year ended June 30, 2010, and are netted with medical claims expense in the accompanying consolidated statements of revenues, expenses, and changes in net assets.

18. INDEMNIFICATIONS

As permitted or required under Virginia law, the MCV Foundation has certain obligations to indemnify its current and former officers and directors for certain events or occurrences while the officer or director is, or was serving, at the Foundation's request in such capacities. The maximum liability under these obligations is unlimited; however, the Foundation has a Director and Officer insurance policy that limits its exposure and enables the Foundation to recover a portion of any future amounts paid.

19. NET PATIENT SERVICE REVENUE

The Authority's patient service revenue is as follows for the year ended June 30, 2010:

Gross Patient Revenue:	
Inpatient	\$ 1,505,953,453
Outpatient	<u>1,046,714,318</u>
Total gross patient service revenue	2,552,667,771
 Provision for uncompensated care and contractual adjustments	 <u>(1,642,001,283)</u>
 Net patient service revenue (Hospitals)	 910,666,488
 MCVAP's net patient service revenue	 136,680,646
Children's patient service revenue	<u>23,494,069</u>
 Consolidated net patient service revenue	 <u><u>\$ 1,070,841,203</u></u>

20. ESTIMATED MEDICAL CLAIMS PAYABLE

Claims expenses and liabilities arising from services rendered to VA Premier's and CCHP's HMO members are reported when it is probable that services have been provided and the amount of the claim can be reasonably estimated. The claims payable includes an estimate of claims that have been incurred but not reported. At June 30, 2010 the amount of these liabilities included in accounts payable and accrued liabilities was \$63,697,510.

21. STATE APPROPRIATIONS

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

The following is a summary of the state appropriations for the year ended June 30, 2010:

Original legislative appropriation per Chapter 781:

Educational and general programs	\$198,509,480
Savings from Management Actions	(30,382,260)
Savings from Management Actions in the Fiscal Year 2010 Reduction Plan	(5,973,081)
Higher education student financial assistance	20,150,022
Governor's Research Initiative for Biomedical Engineering and Regenerative Medicine	1,162,500
Higher Education Research Initiative for Cancer Research	1,000,000

Supplemental adjustments:

College Scholarship Assistance Program- CSAP	416,304
Virtual Library of Virginia- VIVA	25,074
Virginia Doctoral Nursing Loan Program	50,000
Re-appropriation of FY09 GF Balances	529,581
Central Appropriation for Interest Earnings on Tuition and Fee Balances	888,317
Central Appropriation for Credit Card Rebate	138,496
Central Reductions for Health Insurance Ch 781 Item 472.10	(2,343,562)
Central Reductions for Health Insurance Ch 872 Items 472, 472.10, 475.10 and 435.10 (Non General Fund)	(3,034,667)
Central Reduction for Employee Compensation and Benefits Ch 781 Item 472	(172,121)
Central Reductions Health Insurance, Compensation, Special Payments Ch 872 Items 472, 472.10, 475.10 and 435.10	(2,897,162)
Higher Education Equipment Trust Fund 10	8,063,325
Steam Plant debt service	600,661
Virginia Military Survivors and Dependent Education Program	79,650
Brown vs. Board of Education Scholarship	4,054
Two Year College Transfer Grant Program	12,500
Eminent Scholars	196,517
Reversal of prior year interest accrual	(1,033,528)
HEETF NGF Payment Ch 781 Item 280 E.4.	(401,647)
Capital Fee for Out of State Students Ch 781 Item 280 E.3.	(1,237,060)

TOTAL

\$184,351,393

22. RISK MANAGEMENT

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; nonperformance of duty; injuries to employees; and natural disasters. The University participates in insurance plans maintained by the Commonwealth of Virginia. The state employee health care and worker's compensation plans are administered by the department of Human

NOTES TO FINANCIAL STATEMENTS

Resource Management and the risk management insurance plans are administered by the Department of Treasury, Division of Risk Management. Risk management insurance includes property, general liability, medical malpractice, faithful performance of duty bond, automobile, air and watercraft plans. The University pays premiums to each of these departments for its insurance coverage. The University also purchases certain contingency insurance coverage related to the VCU School of the Arts in Qatar. Information relating to the Commonwealth's insurance plans is available in the Commonwealth of Virginia's *Comprehensive Annual Financial Report*.

23. CONTRIBUTIONS RECEIVABLE

Contributions receivable as of June 30, 2010, are expected to be received as follows:

MCV Foundation:

Receivable in less than one year	\$3,398,000
Receivable in one to five years	3,449,000
Receivable in more than five years	<u>1,074,000</u>
	7,921,000
Less:	
Discounts	(402,000)
Allowances	<u>(79,000)</u>
Net Contribution Receivable	<u>\$7,440,000</u>

Discount rate between 3.91% and 4.32% were used in determining the present value of the contributions receivable.

VCU Foundation:

Receivable in less than one year	\$2,339,868
Receivable in one to five years	<u>5,504,972</u>
	7,844,840
Less:	
Discounts	(1,524,522)
Allowances	<u>(271,663)</u>
Net Contribution Receivable	<u>\$6,048,655</u>

Discount rate between 0.29% and 5.15% were used in determining the present value of the contributions receivable.

VCU Real Estate Foundation:

Receivable in less than one year	\$248,046
Less:	
Allowances	<u>(138,387)</u>
Net Contribution Receivable	<u>\$109,659</u>

VCU School of Business Foundation:

Receivable in less than one year	\$ 1,825,874
Receivable in one to five years	<u>3,747,350</u>
	5,573,224
Less:	
Discounts	(389,451)
Allowances	<u>(4,903)</u>
Net Contribution Receivable	<u>\$ 5,178,870</u>

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

VCU School of Engineering Foundation:

Receivable in less than one year	\$ 1,630,660
Receivable in one to five years	<u>601,450</u>
	2,232,110
Less:	
Discounts	(72,344)
Allowances	<u>(32,396)</u>
Net Contribution Receivable	<u>\$ 2,127,370</u>

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

24. DERIVATIVE INSTRUMENT

In December 2005, VCU entered into an interest rate swap agreement in anticipation of the issuance of General Revenue Pledge Bonds, Series 2006A and Series 2006B, which carry variable interest rates. The swap has a notional amount of \$75,000,000, which declines over time to \$5,035,000 at the termination date of November 1, 2030. VCU pays a fixed rate of 3.436% and the counterparty pays 67% of LIBOR (0.23% as of June 30, 2010). The payments are settled monthly at the first of each month. Payments or receipts under the terms of the swap are recorded as nonoperating revenue or expense. At June 30, 2010, the fair market value of the swap of \$9,522,930 is included in deferred outflows and in other liabilities in the accompanying consolidated balance sheets. For the year ended June 30, 2010, the change in fair value of the swap was \$2,949,071.

The fair value of the derivative was calculated by Deutsche Bank using undisclosed proprietary methods.

VCU uses interest rate swap agreements to limit exposure to rising interest rates on its variable rate debt.

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

Below are debt service requirements of the University's debt and net receipts/payments on associated derivative instruments. These amounts assume that

current variable and reference rates on the hedging instruments will remain the same for their terms. As these rates vary, net receipt/payments on the hedging instruments will vary.

Maturity	Principal	Variable Interest	Hedging Derivative Instruments, Net	Total
2011	\$ 2,230,000	\$ 144,850	\$ 2,318,080	\$ 4,692,930
2012	2,320,000	140,390	2,246,705	4,707,095
2013	2,410,000	135,750	2,172,450	4,718,200
2014	2,520,000	130,930	2,095,313	4,746,243
2015	2,625,000	125,980	2,014,657	4,765,637
2016-2020	14,870,000	546,180	8,740,689	24,156,869
2021-2025	18,255,000	384,480	6,152,954	24,792,434
2026-2030	22,360,000	186,100	2,978,217	25,524,317
2031-2035	4,835,000	9,670	154,752	4,999,422
Total	\$ 72,425,000	\$ 1,804,330	\$ 28,873,817	\$ 103,103,147

In June 2007, MCVH entered into two interest rate swap agreements in anticipation of the issuance of the Series 2008 tax-exempt bonds. The swaps have a combined notional amount of \$125,000,000, which declines over time to \$15,700,000 at the termination date of July 1, 2037. MCVH pays a fixed rate of 3.84% and the counterparty pays 67% of LIBOR (0.23% as of June 30, 2010). The payments are settled monthly at the first of each month. Payments or receipts under the terms of the swap are recorded as nonoperating revenue or expense. At June 30, 2010 the fair market value of the swap of \$28,290,281 is included in deferred outflows and in other liabilities in the accompanying consolidated balance sheets. For the year ended June 30, 2010 the change in fair value of the swaps was approximately \$7,048,000.

In December 2005, MCVH entered into an interest rate swap agreement in conjunction with the issuance of its Series 2005 tax-exempt bonds. The swap has a notional amount of \$75,000,000, which declines over time to \$8,000,000 at the maturity date of July 1, 2030. MCVH pays a fixed rate of 3.499% and the counterparty pays 67% of LIBOR (0.23% as of June 30, 2010). The payments are settled monthly at the first of each month. Payments or receipts under the terms of the swap are recorded as nonoperating revenue or expense. At June 30, 2010 the fair market value of the swap of \$11,002,020 is included in deferred outflows and in other liabilities in the accompanying consolidated balance sheets. For the years ended June 30, 2010 the change in fair value of the swap was approximately \$3,463,000.

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

MCVH uses interest rate swap agreements to limit exposure to rising interest rates on its variable rate debt.

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

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

Maturity	Principal	Interest	Hedging Derivative Instruments, Net	Total
2011	\$ 2,690,000	\$ 387,634	\$ 6,842,543	\$ 9,920,177
2012	2,790,000	382,436	6,748,405	9,920,841
2013	2,820,000	376,899	6,653,439	9,850,338
2014	3,010,000	371,176	6,551,866	9,933,042
2015	3,110,000	365,235	6,446,936	9,922,171
2016-2020	17,325,000	1,729,503	30,517,662	49,572,165
2021-2025	26,025,000	1,514,790	26,668,894	54,208,684
2026-2030	54,215,000	1,053,685	19,573,477	74,842,162
2031-2035	65,045,000	500,301	13,069,306	78,614,607
2036-2038	45,370,000	26,690	1,680,099	47,076,789
Total	\$ 222,400,000	\$ 6,708,349	\$ 124,752,627	\$ 353,860,976

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

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

VCU School of Engineering Foundation

Net Assets per Foundation financial statements	\$ 22,869,449
Add: Unrealized loss on interest rate swap	<u>5,851,515</u>
Net assets as reported on University's financial statements	<u>\$ 28,720,964</u>

VCU School of Business Foundation

Net Assets per Foundation financial statements	\$ 19,592,789
Add: Unrealized loss on interest rate swap	<u>3,671,415</u>
Net assets as reported on University's financial statements	<u>\$ 23,264,204</u>

25. SUBSEQUENT EVENTS

In November 2010, the University issued a note to VCBA in the amount of \$17,630,000. The proceeds of the note will be used to finance construction of Belvidere & Grace Street Parking Deck and Laurel & Grace Parking Deck. The note bears interest at a rate of 3.11% and is payable in the years 2011 – 2031.

In November 2010, the University issued a note to VCBA in the amount of \$5,590,000. The proceeds of the note will be used to finance Massey Cancer Center Vivarium Renovations. The note bears interest at a rate of 3.11% and is payable in the years 2011 – 2026.

In October 2010, the University issued a note to the Commonwealth of Virginia in the amount of \$29,130,000. The proceeds of the note will be used to finance construction of West Grace Street Housing Phase I. The note will bear interest at a rate of 2.66% and is payable in the years 2011 – 2035.

In November 2010, the Commonwealth of Virginia refunded VCBA bonds with new bond issuances totaling \$21,895,000 (University portion). The new bonds have coupon rates ranging from 2.00% to 5.00%. The refunding decreased the total debt service payments to be made by \$1,316,089.

On March 2, 2010, the Internal Revenue Service published an administrative determination that medical residents were excepted from Federal Insurance Contributions Act (FICA) payroll taxes under a student exception for tax periods ending on or before April 1, 2005. This determination was partial resolution of a longstanding dispute between the IRS and universities and teaching hospitals regarding payment of these payroll taxes.

In June 2010, the IRS began contacting the organizations that had filed protective FICA refund claims within the allowable statute of limitations with instructions for perfecting the amounts to be refunded. MCVH received its IRS notification on June 3, 2010, and expects to submit its refund claim covering the periods January 1, 1995 to March 31, 2004 before the end of the 2010 calendar year. This refund claim will be comprised of MCVH's portion of FICA taxes paid during the covered period, the medical resident portion of FICA taxes paid during the covered period where the medical residents have elected for MCVH to represent them in this process, plus statutory interest. There is no timeframe for when the IRS will respond to or pay the requested refund claim.

As of the date the consolidated financial statements were available to be issued, MCVH was in the initial stages of gathering documentation needed to perfect its claim and management was unable to estimate amounts potentially receivable, if any, under this determination. Any refund and interest money received for the medical residents being represented by MCVH will be passed through to the medical residents. Only the employer portion will be ultimately retained by MCVH.

INDEPENDENT AUDITOR'S REPORT



Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

December 15, 2010

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable Charles J. Colgan
Chairman, Joint Legislative Audit
And Review Commission

The Board of Visitors
Virginia Commonwealth University

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities and the discretely presented component units of Virginia Commonwealth University, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2010, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of University management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the component units of the University, which are discussed in Note 1. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the component units of the University, is based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and discretely presented component units of the University as of June 30, 2010, and the respective changes in

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

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

In accordance with Government Auditing Standards, we have also issued our report dated December 15, 2010, on our consideration of Virginia Commonwealth University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.


AUDITOR OF PUBLIC ACCOUNTS

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