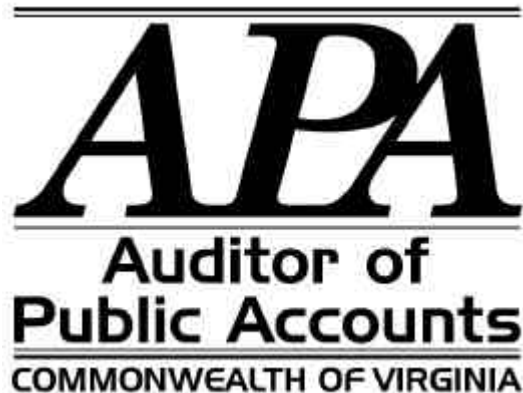


**VIRGINIA COMMONWEALTH UNIVERSITY
RICHMOND, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2001**



AUDIT SUMMARY

Our audit of Virginia Commonwealth University for the year ended June 30, 2001, found:

- the financial statements are presented fairly, in accordance with generally accepted accounting principles;
- internal control matters that we consider reportable conditions; however, we do not consider any of these to be material weaknesses;
- no instances of noncompliance required to be reported; and
- the University has not taken adequate corrective action with respect to the previously reported finding entitled "Terminate Inactive Employees From Payroll System." Adequate corrective action was taken with respect to audit findings reported in the prior year that are not repeated in this report.

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UNIVERSITY OFFICIALS

January 19, 2002

The Honorable Mark R. Warner
Governor of Virginia

The Honorable Vincent F. Callahan, Jr.
Chairman, Joint Legislative Audit
and Review Commission

Board of Visitors
Virginia Commonwealth University

We have audited the accounts and records of **Virginia Commonwealth University**, as of and for the year ended June 30, 2001, and submit herewith our complete reports on financial statements and compliance and internal control over financial reporting.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the balance sheet of Virginia Commonwealth University, a component unit of the Commonwealth of Virginia, as of June 30, 2001, and the related statement of changes in fund balances and statement of current funds revenues, expenditures, and other changes for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Virginia Commonwealth University Health System Authority, a component unit of Virginia Commonwealth University discussed in Note 1, which statements reflect total assets and revenues of \$547,491,439 and \$641,465,198, respectively, as of and for the year ended June 30, 2001. The financial statements of this component unit were audited by other auditors whose report thereon has been furnished to us and our opinion, insofar as it relates to the amounts included for the component unit, is based solely upon the report 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. 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 report of the other auditors provides a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Virginia Commonwealth University as of June 30, 2001, and the changes in fund balances and current funds revenues, expenditures, and other changes for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Auxiliary Enterprises Revenues, Expenditures, and Changes in Fund Balances is presented for the purpose of additional analysis and is not a required part of the financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, such information is fairly presented in all material respects in relation to the financial statements taken as a whole.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements of Virginia Commonwealth University as of and for the year ended June 30, 2001, we considered internal controls over financial reporting and tested compliance with certain provisions of laws, regulations, contracts, and grants 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.

Compliance

As part of obtaining reasonable assurance about whether Virginia Commonwealth University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Virginia Commonwealth University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Virginia Commonwealth University's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions, entitled "Terminate Inactive Employees From Payroll System," "Improve Controls over Cash Collection," and "Prioritize Timely and Accurate Financial Reporting" are described in the section titled "Internal Control Findings and Recommendations."

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

Status of Prior Findings

Virginia Commonwealth University has not taken adequate corrective action with respect to the previously reported finding “Terminate Inactive Employees From Payroll System.” Accordingly, we included this finding in the section entitled “Internal Control Findings and Recommendations.” Virginia Commonwealth University has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this report.

The “Independent Auditor’s Report on Compliance and on Internal Control Over Financial Reporting” is intended solely for the information and use of the Governor and General Assembly of Virginia, Virginia Commonwealth University's Board of Visitors and management, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on April 11, 2002.

AUDITOR OF PUBLIC ACCOUNTS

PBB/kva
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INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

Terminate Inactive Employees From Payroll System

According to University policy and procedures, the Human Resource Department should change the status of employees who have no payroll activity in the most recent three months from Active to Terminated status in the Human Resource System. The exception to this procedure is if a department notifies the Human Resource Department in writing not to change the employee's status. During our review, we found several employees had remained on the system as active after 90 days or more of payroll inactivity, although the department had not requested an exception.

Inactive employees maintained on the payroll system may result in improper payments. Further, failure to remove inactive employees from the system increases the risk of improper security access. University management should ensure that all departments adhere to the policies and procedures regarding inactive employees.

Improve Controls over Cash Collection

University policy requires cash receipts over \$100 be deposited by the next business day. Our review of seven cash collections points found two departments that were not consistently complying with this policy.

The University has written policy and procedures regarding the handling of cash transactions and training is available. However, it is the responsibility of departmental management to ensure there is an awareness and commitment to strong internal controls over cash receipts. These controls are necessary to prevent mishandling of funds and safeguard against loss.

Prioritize Timely and Accurate Financial Reporting

The University did not complete the financial information necessary to attest to the annual financial statements until seven months after year-end. University management has not made the timely reporting of its annual financial information a priority. While this decision does not affect internal interim financial reports, this year's delay is unusual. Further, much of the delay arises from University financial personnel not receiving accurate, complete and timely information from the Virginia Commonwealth University Health System Authority and some of the related foundations.

In addition, when University financial personnel did receive the information, material errors were identified and they did not correct them. Staff stated that they could not change the information, since the entity had made the audit reports available to the public. These types of errors clearly highlight the need to provide University financial personnel the authority necessary to coordinate and resolve these matters in a more timely manner.

The University needs to make it a priority to complete accurate and comprehensive financial statements by November 1 of each year. As part of this deadline, the University wants these statements to undergo audit and have it completed by December, which will require the staff to gather and accumulate financial information that should result in little or no changes during the audit process. To accomplish this, University management must address the timely, accurate, and complete reporting of all the foundations and the Virginia Commonwealth University Health System Authority. Without these entities providing the information that the University financial staff needs, they cannot achieve the timely and accurate completion of the University's annual financial report.

VIRGINIA COMMONWEALTH UNIVERSITY
BALANCE SHEET
As of June 30, 2001

ASSETS	Current Funds		
	Unrestricted	Restricted	Loan Funds
Cash (Note 2)	\$ 42,745,025	\$ 11,103,037	\$ 1,620,271
Investments (Note 2)	40,462,289	-	-
Receivables (Note 4)	6,152,988	9,685,695	23,014,831
Inventories	142,610	-	-
Prepaid expenses and other assets	2,621,071	13,524	-
Appropriations receivable	12,533,487	152,000	-
Due from other funds	6,153,577	6,842,060	449,497
Investment in plant (Note 4)	-	-	-
Deferred bond issue costs	-	-	-
Total assets	\$ 110,811,047	\$ 27,796,316	\$ 25,084,599
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued expenditures	\$ 33,333,641	\$ 6,994,015	\$ -
Accrued compensated absences	23,520,631	-	-
Deferred compensation (Note 5)	1,843,042	-	-
Deposits and deferred revenue	9,403,452	-	-
Due to other funds	10,699,047	1,642,400	-
Notes payable	-	-	-
Long-term debt (Note 6)	3,679,227	-	-
Deposits held in custody for others	-	-	-
Total liabilities	82,479,040	8,636,415	-
Fund balances:			
Unrestricted current funds	28,332,007	-	-
Restricted current funds	-	19,159,901	-
Loan funds, U.S. Government grants	-	-	20,940,622
Loan funds, University - restricted	-	-	4,143,977
Endowment funds	-	-	-
Quasi-endowment funds - unrestricted	-	-	-
Unexpended plant funds	-	-	-
Retirement of indebtedness	-	-	-
Net investment in plant	-	-	-
Total fund balances	28,332,007	19,159,901	25,084,599
Total liabilities and fund balances	\$ 110,811,047	\$ 27,796,316	\$ 25,084,599

The accompanying Notes to Financial Statements are an integral part of this statement.

Endowment and Similar Funds	Plant Funds	Agency Funds	VCU Health System Authority	Total
\$ -	\$ 9,447,136	\$ (34,516)	\$ 37,945,279	\$ 102,826,232
27,313,250	7,113,996	-	162,010,477	236,900,012
-	-	39,143	113,160,242	152,052,899
-	-	-	9,603,312	9,745,922
-	-	-	7,973,803	10,608,398
-	1,848,917	-	-	14,534,404
-	2,169,799	1,237,691	-	16,852,624
-	613,890,975	-	215,589,285	829,480,260
-	809,203	-	1,209,041	2,018,244
<u>\$ 27,313,250</u>	<u>\$ 635,280,026</u>	<u>\$ 1,242,318</u>	<u>\$ 547,491,439</u>	<u>\$ 1,375,018,995</u>
\$ -	\$ 5,169,948	\$ 44,212	\$ 59,155,593	\$ 104,697,409
-	-	-	14,715,470	38,236,101
-	-	-	-	1,843,042
-	-	-	-	9,403,452
-	-	-	4,511,177	16,852,624
-	516,481	-	-	516,481
-	130,233,642	-	83,778,786	217,691,655
-	-	1,198,106	-	1,198,106
-	135,920,071	1,242,318	162,161,026	390,438,870
-	-	-	336,021,158	364,353,165
-	-	-	49,309,255	68,469,156
-	-	-	-	20,940,622
-	-	-	-	4,143,977
2,954,689	-	-	-	2,954,689
24,358,561	-	-	-	24,358,561
-	10,338,784	-	-	10,338,784
-	(648,234)	-	-	(648,234)
-	489,669,405	-	-	489,669,405
<u>27,313,250</u>	<u>499,359,955</u>	<u>-</u>	<u>385,330,413</u>	<u>984,580,125</u>
<u>\$ 27,313,250</u>	<u>\$ 635,280,026</u>	<u>\$ 1,242,318</u>	<u>\$ 547,491,439</u>	<u>\$ 1,375,018,995</u>

VIRGINIA COMMONWEALTH UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES
For Fiscal Year Ended June 30, 2001

	Current Funds	
	Unrestricted	Restricted
Revenues and other additions:		
Unrestricted current funds revenue	\$ 396,946,256	\$ -
State appropriations - restricted	-	11,080,234
Federal grants and contracts - restricted	-	179,609,338
State grants and contracts - restricted	-	7,926,616
Local grants and contracts - restricted	-	1,108,827
Private gifts, grants and contracts - restricted	-	18,531,761
Investment income - restricted	-	752,198
Interest on loans receivable	-	-
Retirement of indebtedness	-	-
Expended for plant facilities (including \$17,327,460 charged to current funds)	-	-
Other	-	8,160,385
Total revenues and other additions	396,946,256	227,169,359
Expenditures and other deductions:		
Educational and general expenditures	331,750,370	206,264,583
Auxiliary enterprise expenditures	36,482,841	-
Hospitals expenditures	15,916,843	-
Indirect costs recovered	-	18,013,394
Loan cancellations and write-offs	-	-
Administrative and collection costs	-	-
Expended for plant facilities (including \$5,036,144 not capitalized)	-	-
Retirement of indebtedness	-	-
Interest on indebtedness	-	-
Disposal of plant facilities	-	-
Net decrease in fair value of investments	425,122	-
Total expenditures and other deductions	384,575,176	224,277,977
Transfers among funds - additions/(deductions):		
Mandatory:		
Debt service	(10,243,612)	-
Federal student financial aid	(330,892)	265,729
Nonmandatory	(2,277,436)	(2,053,774)
Total transfers among funds	(12,851,940)	(1,788,045)
Net increase/(decrease) for year	(480,860)	1,103,337
Fund balances/(deficits) at beginning of year	28,812,867	18,056,564
Fund balances/(deficits) at end of year	\$ 28,332,007	\$ 19,159,901

The accompanying Notes to Financial Statements are an integral part of this statement.

Loan Funds	Endowment and Similar Funds	Plant Funds		
		Unexpended	Retirement of Indebtedness	Investment in Plant
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	10,796,017	3,208,705	-
247,006	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	44,807	53,422	2,151,441	-
24,138	-	125,569	547,923	-
575,765	-	-	-	-
-	-	-	-	9,403,425
-	-	-	-	37,870,369
59,787	1,101,244	2,814,361	-	-
906,696	1,146,051	13,789,369	5,908,069	47,273,794
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
(259,309)	-	-	-	-
3,487	-	-	-	-
-	-	25,579,053	-	-
-	-	-	9,403,425	-
-	-	-	6,949,077	-
-	-	-	-	25,532,600
-	2,382,098	-	-	-
(255,822)	2,382,098	25,579,053	16,352,502	25,532,600
-	-	(154,016)	10,397,628	-
65,163	-	-	-	-
-	(461,683)	4,796,043	(3,150)	-
65,163	(461,683)	4,642,027	10,394,478	-
1,227,681	(1,697,730)	(7,147,657)	(49,955)	21,741,194
23,856,918	29,010,980	17,486,441	(598,279)	467,928,211
\$ 25,084,599	\$ 27,313,250	\$ 10,338,784	\$ (648,234)	\$ 489,669,405

VIRGINIA COMMONWEALTH UNIVERSITY
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
For Fiscal Year Ended June 30, 2001

Revenues:	Unrestricted	Restricted	Total
Student tuition and fees	\$ 90,583,725	\$ -	\$ 90,583,725
State appropriations (Note 19)	180,388,723	10,940,368	191,329,091
Federal grants and contracts	15,757,184	163,682,960	179,440,144
State grants and contracts	198,530	7,070,985	7,269,515
Local grants and contracts	26,822	1,162,245	1,189,067
Private gifts, grants, and contracts	2,030,963	20,407,466	22,438,429
Income from trusts	589,869	655,600	1,245,469
Sales and services of educational departments	6,921,844	-	6,921,844
Auxiliary enterprises	47,646,660	-	47,646,660
Hospital services	17,852,265	-	17,852,265
Other sources	34,949,671	2,079,230	37,028,901
Total revenues	396,946,256	205,998,854	602,945,110
Expenditures and mandatory transfers:			
Educational and general:			
Instruction	179,589,630	24,333,510	203,923,140
Research	19,210,459	70,378,455	89,588,914
Public service	3,987,310	1,387,164	5,374,474
Academic support	53,196,702	1,269,917	54,466,619
Student services	9,393,273	320,517	9,713,790
Institutional support	31,831,996	650,394	32,482,390
Operation and maintenance of plant	28,538,978	107,465	28,646,443
Scholarships and fellowships	6,002,022	107,817,161	113,819,183
Educational and general expenditures	331,750,370	206,264,583	538,014,953
Mandatory transfers:			
Debt service	2,353,780	-	2,353,780
Federal student financial aid	330,892	(265,729)	65,163
Total educational and general	334,435,042	205,998,854	540,433,896
Auxiliary enterprises:			
Operating expenditures	36,482,841	-	36,482,841
Mandatory transfers for debt service	7,474,973	-	7,474,973
Total auxiliary enterprises	43,957,814	-	43,957,814
Hospitals:			
Operating expenditures	15,916,843	-	15,916,843
Mandatory transfers for debt service	414,859	-	414,859
Total hospitals	16,331,702	-	16,331,702
Total expenditures and mandatory transfers	394,724,558	205,998,854	600,723,412
Other transfers and additions/(deductions):			
Excess of restricted receipts over transfers to revenues	-	3,157,111	3,157,111
Net decrease in fair value of investments	(425,122)	-	(425,122)
Nonmandatory transfers from/(to) other funds	(2,277,436)	(2,053,774)	(4,331,210)
Net increase/(decrease) in fund balances	\$ (480,860)	\$ 1,103,337	\$ 622,477

The accompanying Notes to Financial Statements are an integral part of this statement.

THE VIRGINIA COMMONWEALTH UNIVERSITY HEALTH SYSTEM AUTHORITY-
A COMPONENT UNIT

COMBINED STATEMENT OF CHANGES IN FUND BALANCES - ALL FUND TYPES

For Fiscal Year Ended June 30, 2001

	Enterprise Funds		Pension Trust Fund
	Unrestricted Fund Balance	Restricted Fund Balance	Fund Balance Reserved for Employees' Pension Benefits
Balances at June 30, 2000	\$335,427,809	\$25,037,452	\$32,438,911
Excess of revenue and gains over expenses and losses	304,446	-	-
Restricted gifts and bequests	-	2,500	-
Income from funds held in trust	-	1,538,681	-
Decrease in beneficial interest in trusts	-	(5,483,140)	-
Pension contributions	-	-	4,570,333
Investment loss	-	(1,141)	(4,555,532)
Pension benefit payments	-	-	(2,682,849)
Transfer from VCU	250,000	-	-
Interfund transfers:			
To unrestricted fund for charity care reimbursement	-	(1,555,960)	-
Other changes in unrestricted fund balance	38,903	-	-
Balances at June 30, 2001	\$336,021,158	\$19,538,392	\$29,770,863

The accompanying Notes to Financial Statements are an integral part of this statement.

THE VIRGINIA COMMONWEALTH UNIVERSITY HEALTH SYSTEM AUTHORITY-
A COMPONENT UNIT

COMBINED STATEMENT OF OPERATIONS AND CHANGES IN UNRESTRICTED FUND BALANCE

For Fiscal Year Ended June 30, 2001

Operating revenues:	
Net patient service revenue	\$559,911,323
Other contract revenue	5,624,234
Medical consultation income	1,247,573
Premiums earned	62,910,391
Other operating revenue	<u>11,771,677</u>
Total revenues	<u>641,465,198</u>
Operating expenses:	
Salaries and wages	259,078,430
Employee benefits	64,355,727
Purchased services	40,257,483
Medical claims expense	47,882,694
Clinical earnings contribution to VCU	3,154,773
Other distributions to VCU	26,281,994
Supplies	104,156,018
Other expenses	33,762,880
Provision for depreciation and amortization	22,830,171
Interest expense	1,032,332
Provision for uncollectible accounts	<u>43,055,392</u>
Total expenses	<u>645,847,894</u>
Operating loss	<u>(4,382,696)</u>
Nonoperating gains (losses):	
Investment income	5,810,456
Nonoperating gain	312,675
Loss on investments in joint ventures	<u>(1,435,989)</u>
Total nonoperating gains (losses)	<u>4,687,142</u>
Excess of revenues and gains over expenses and losses	304,446
Transfer from VCU	250,000
Other changes in unrestricted fund balance	<u>38,903</u>
Increase in unrestricted fund balance - Enterprise funds	<u>\$593,349</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

THE VIRGINIA COMMONWEALTH UNIVERSITY HEALTH SYSTEM AUTHORITY-
A COMPONENT UNIT

COMBINED STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS

For Fiscal Year Ended June 30, 2001

Cash flows from operating activities:	
Cash received from patients and third-party payors	\$ 585,871,284
Other operating cash receipts	12,474,956
Restricted investment income, gifts and bequests	1,540,040
Interfund transfer	(1,555,960)
Cash paid to suppliers and employees	<u>(570,480,418)</u>
Net cash provided by operating activities	<u>27,849,902</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(53,099,769)
Principal payments on long-term debt and capital lease obligations	(4,980,458)
Capital contributions	250,000
Interest expense	(1,032,332)
Decrease in accrued interest payable	<u>(107,007)</u>
Net cash used in capital and related financing activities	<u>(58,969,566)</u>
Cash flows from investing activities:	
Change in assets whose use is limited and investments	27,467,893
Investment income	5,810,456
Increase in investments in joint ventures	(375,000)
Payments received on notes receivable	56,023
Net realized and unrealized losses on investment	3,270,955
Nonoperating gain	312,675
Other	<u>45,903</u>
Net cash provided by investing activities	<u>36,588,905</u>
Net increase in cash and cash equivalents	<u>5,469,241</u>
Cash and cash equivalents at beginning of year	<u>32,476,038</u>
Cash and cash equivalents at end of year	<u>\$ 37,945,279</u>

THE VIRGINIA COMMONWEALTH UNIVERSITY HEALTH SYSTEM AUTHORITY-
A COMPONENT UNIT

COMBINED STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS (CONTINUED)

For Fiscal Year Ended June 30, 2001

Reconciliation of operating loss to net cash provided by operating activities:

Operating loss	\$ (4,382,696)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation and amortization	22,830,171
Provision for uncollectible accounts	43,055,392
Interfund transfer	(1,555,960)
Restricted investment income, gifts and bequests	1,540,040
Interest expense	1,032,332
Changes in operating assets and liabilities:	
Patient accounts receivable	(43,822,237)
Non-patient accounts receivable and due from affiliates	725,455
Inventories and prepaid expenses	(2,492,505)
Accrued salaries, wages, and professional fees	2,875,935
Accrued leave	2,079,924
Trade accounts payable	(627,831)
Clinical earnings contribution	(36,100)
Estimated losses on malpractice claims	4,390,041
Estimated medical claims payable	3,182,659
Other accrued expenses	291,255
Due to affiliate	(1,235,973)
Net cash provided by operating activities	<u>\$27,849,902</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

VIRGINIA COMMONWEALTH UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As one of only three Carnegie Doctoral/Research University-Extensive Universities in Virginia, Virginia Commonwealth University plays a significant role in providing a college-trained workforce, high quality health care, and cultural enrichment for the Richmond area and the Commonwealth.

More than 24,000 undergraduate, graduate, and professional students pursue 153 degree and certificate programs on VCU's two campuses: the Academic Campus, situated in the historic Fan District, and the Medical College of Virginia Campus, located two miles east in the commercial and governmental district of downtown Richmond. VCU's one college and ten schools include the School of Engineering, one of the largest School of the 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.

The financial statements of the University are prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board. The University uses the American Institute of Certified Public Accountants' industry audit guide, *Audits of Colleges and Universities* for accounting and financial reporting. Since 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 and component units of Virginia Commonwealth University. The Virginia Commonwealth University Intellectual Property Foundation is blended (consolidated) with University operations in the accompanying financial statements. Effective July 1, 2000, the Virginia Commonwealth University Health System Authority is discretely presented.

The Virginia Commonwealth University Health System Authority (the Authority - formerly the Medical College of Virginia Hospitals 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, the Authority's name was changed, as was its board structure. Concurrent with the legislation and certain changes to MCV Associated Physicians' (MCVAP) board structure, MCVAP became a blended component unit of the Authority. Management of the Authority consists of former members of management of the Medical College of Virginia Hospitals Authority and MCVAP prior to July 1, 2000.

The Authority's principal activity is the operation of the Medical College of Virginia Hospitals (the Hospitals), University Health Services, Inc. and Subsidiaries (UHS), and MCVAP. The Hospitals, a division of the Authority, is an approximately 900-bed teaching

hospital that provides inpatient and outpatient services primarily to patients in the Commonwealth of Virginia. MCVAP, formed in 1991 as a non-stock, not-for-profit charitable educational organization, functions as the group practice plan for those physicians and health care professionals who have faculty appointments in Virginia Commonwealth University School of Medicine. Separate financial statements for MCVAP may be obtained from MCVAP's corporate office. The Hospitals, UHS, and MCVAP are included in the enterprise funds of the Authority. The administrative offices of the Authority are located at 401 North 12th Street, 2nd Floor, Suite 2-300, Post Office Box 980510, Richmond, Virginia 23298. Ernst and Young, LLP audited the Authority and a separate report is available.

UHS, a component unit of the Authority, is a not-for-profit, non-stock, tax-exempt corporation which was incorporated on January 26, 1995 to support the educational, scientific, and charitable purposes and activities of the University and, in particular, the activities of the Medical College of Virginia and the Hospitals. These activities include, but are not limited to, activities undertaken pursuant to Section 23-50.16B of the Code of Virginia. UHS is a blended component unit of the Authority due to the significance of the operational and financial relationship between the two entities. Virginia Premier Health Plan, Inc. (VA Premier) is a wholly-owned subsidiary of UHS. VA Premier is a for-profit health maintenance organization (HMO) whose primary purpose is to provide quality health care within a managed care framework. The accounts of VA Premier are included in the consolidated financial statements of UHS. Separate consolidated financial statements for UHS may be obtained from UHS's corporate office.

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 8:

VCU Foundation	Medical College of Virginia Foundation
VCU Real Estate Foundation	M.C.V./V.C.U. Dental Faculty Practice
Virginia Biotechnology Research Park	Association
Authority	Virginia Commonwealth University School
Virginia Commonwealth University	of Engineering Foundation
Alumni Association	Medical College of Virginia Alumni
	Association of VCU

B. Basis of Accounting

The financial statements of the University have been prepared on the accrual basis, except for depreciation expense relating to capitalized fixed assets that is not recorded. For the Authority, expenses do not include expenditures for fixed assets or principal payment of debt, and depreciation is recorded in the financial statements. The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period and does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenses.

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 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. Fund Accounting

To ensure observance of limitations and restrictions placed on the use of resources, the accounts are maintained in accordance with the principles of “fund accounting.” Resources are classified for accounting and reporting purposes into funds that may be used for the activities or objectives specified. Separate accounts are maintained for each fund. Funds having similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

Within each group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds allocated for specific purposes by action of the Board of Visitors. Externally-restricted funds may be utilized only in accordance with the purposes established by the source of such funds and are in contrast with unrestricted funds, of which the governing board retains full control to use in achieving any of its institutional purposes.

All gains and losses arising from the sale, collection, or other disposition of investments and other non-cash assets associated with the above restricted or unrestricted funds are accounted for in the fund that owned such assets. Ordinary income derived from investments, receivables, and the like, is accounted for in current unrestricted funds, except for income derived from investment of endowment funds, which is accounted for in the fund to which it is restricted, or if unrestricted, as revenue in the unrestricted current funds.

Unrestricted revenue is accounted for in the unrestricted current fund. Restricted gifts, grants, appropriations, and other restricted resources are accounted for in the appropriate restricted funds. Restricted current funds are reported as revenues and expenditures when expended for current operating purposes.

The Authority’s pension trust fund is used to account for assets held in trust by Fidelity Investments, The Variable Annuity Life Insurance Company (Valic), and Teachers Insurance and Annuity Association College Retirement Equities Fund (TIAA/CREF) for the benefit of the employees of the Authority. The pension plan is sponsored by the Authority and governed by the Board of Directors of the Authority; therefore, the pension plan is included as a blended component unit of the Authority.

The financial statements of the pension trust fund are prepared using the accrual basis of accounting. Employer contributions to the plan are recognized when due. Benefits are recognized when due and payable in accordance with the terms of the plan.

D. Investments

Investments are reported at fair value (market), if purchased, or fair market value at the date of receipt, if received as a gift.

E. Inventories

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

F. Assets Whose Use is Limited

The Authority's cash and investment balances include resources restricted for debt service under a bond indenture agreement, unrestricted resources appropriated or designated by the Board of Directors for capital acquisition and for the future funding of the MCVAP malpractice insurance trust fund. On June 30, 2001, these assets totaled \$7,492,938, \$69,754,184, and \$11,541,405, respectively. These balances also include Authority resources restricted under the MCV malpractice trust agreement, resources restricted by insurance regulations of the Commonwealth of Virginia, and resources restricted under the pension plan agreement are reported as assets whose use is limited and are carried at fair value. As of June 30, 2001, these amounts were \$3,679,197, \$594,229, and \$29,770,863, respectively.

Restricted Authority resources limited by donors to a specific period or purpose are reported as assets. These 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 \$19,519,000 are restricted by donors for the Authority in perpetuity and are included in assets whose use is limited at June 30, 2001 at fair value, which approximates the present value of the future cash receipts from the trust assets.

G. Investment Income

The Authority's investment income and net realized and unrealized gains or losses on investment transactions of general funds are recorded as nonoperating revenue, and investment transactions of restricted funds are added to the restricted fund balances in the restricted funds. This income is restricted primarily for indigent care.

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 five 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. 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 may carry forward up to 384 hours of annual leave from one year to the next. Classified employees may carry over up to 432 hours of unused annual leave balances. Upon termination, unused annual leave balances, up to 336 hours for classified employees and 288 hours for faculty, are paid in full.

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. Annual and compensatory leave balances are paid in full upon termination. 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 five or more years of service.

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

I. Due From/Due To Other Funds

For investment purposes, the University pools cash balances not held by the Treasurer of Virginia. All investments and the activity related to the invested balances, including the risk of loss and realization of gain, are recognized in Current Unrestricted Funds.

Amounts due from the Authority to the University are related to the clinical earnings contribution and debt payments to be made to the University in connection with assets transferred at the creation of the Authority.

J. Investment in Plant

Plant assets are stated at cost or, if donated, at fair market value on the date of acquisition. Expenditures are capitalized for equipment when the unit acquisition cost is \$5,000 or greater and the estimated useful life is two years or more. The University makes no provision for depreciation. The Authority records 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. Expenditures for construction in progress are capitalized as incurred. Interest expense relating to construction is capitalized net of interest income earned on resources set aside for this purpose.

University current funds used to finance plant assets are accounted for as expenditures for the normal replacement of movable equipment and library books; mandatory transfers for required provisions for debt service; and transfers of a nonmandatory nature for all other cases. Plant assets at the time of disposal revert to the Commonwealth of Virginia for disposition.

K. Hospital Services

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.

L. Charity 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 amounts determined to qualify as charity care, they are not reported as revenue. The costs and expenses incurred in providing these services are included in operating expenses. Charges written off to charity care for the year ended June 30, 2001, measured at established rates, approximated \$160,197,000 (see Note 13).

M. Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, and includes estimated retroactive adjustments due to future audits, reviews and investigations.

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.

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

- *Trigon*. Inpatient acute care services rendered to Trigon subscribers are paid at a per diem rate or discounted rate. Outpatient services rendered to Trigon 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 vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient nonacute 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, 1998.

- *Medicaid.* Inpatient acute care services rendered to Medicaid program beneficiaries are paid at a per diem rate. 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 for services provided to indigent patients up to an amount, which results in total Medicaid and indigent reimbursement to the Authority of \$176.9 million in 2001. The Authority's Medicaid cost reports have been audited by a Medicaid program representative through June 30, 1999.

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

Provisions for possible adjustments of cost reports have been estimated and reflected in the accompanying financial statements as considered appropriate. The difference in any year between the originally estimated amount and the final determination is reported in the year of determination as an adjustment to net patient service revenue. Net patient service revenue was decreased by approximately \$6,400,000 in 2001 as a result of such settlements.

N. Premiums Earned

VA Premier has contracts with the Virginia Department of Medical Assistance Services (DMAS) wherein VA Premier provides health care services to the Aid for Families with Dependent Children (AFDC), the Children's Medical Services Insurance Plan and Aged, Blind and Disabled residents of Virginia through a health maintenance organization. VA Premier recognizes premiums received from DMAS for members in the period to which health care coverage relates. All of VA Premier's premiums were earned from contracts with DMAS.

O. Uncollectible Accounts

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

P. Estimated Medical Claims Payable

VA Premier provides for the liability arising from services rendered to HMO members but unpaid at year-end based upon the experience of VA Premier and cost-per-member trends. Although considerable variability is inherent in such estimates, management believes that the

liability is adequate. Any required revisions to these estimates are reflected in operations of the period in which such revisions are determined.

Q. Intangibles

The Authority's prepaid expenses and other assets include \$4,891,647 of goodwill. The goodwill arises from the acquisition of VA Premier and is being amortized over ten years using the straight-line method.

2. CASH AND INVESTMENTS

Cash

All cash is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.1-359 et seq. of the Code of Virginia or covered by federal depository insurance.

Investments

The University's non-state funds, other than endowment and quasi-endowment funds, are managed by professional investment managers. The University's investment objective is to ensure the preservation of capital with sufficient liquidity to meet operating expenditure 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, collateralized mortgage obligations, obligations of any agency or instrumentality of the United States, certificates of deposit and bank notes of domestic banks, collateralized 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. The allocation of assets at June 30, 2001, is 27 percent high-quality cash equivalents with maturities of less than one year and 73 percent high-quality fixed income securities.

In accordance with the bond resolutions 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.

The investments at June 30, 2001, that are represented by specific identifiable investment securities are classified as to the level of risk assumed at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the University or its agents in the University's name. Category 2 includes uninsured and unregistered investments for which the securities are held in the broker's or dealer's trust department or safekeeping agent in the University's name. None of the University's investments meets this classification requirement. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or safekeeping agent, but not in the University's name.

For management purposes, Endowment and Quasi-Endowment funds are held in the investment pools of the VCU Foundation, the VCU Real Estate Foundation, or the MCV Foundation. These funds

remain the property of the University. The investment pools consist of cash equivalents, bonds, preferred and common stocks, and real estate.

Due to the cyclical nature of tuition and fee collections, the University's investment in overnight repurchase agreements for which the underlying securities were held by the dealer fluctuates significantly during the year. As a result, the amounts that were in category 3 at those times were substantially higher than at year-end.

Investments are reported at fair value (market). Categorization of Investment at June 30, 2001 is as follows:

	Category		Fair Value	Cost
	1	3		
University Investments:				
U.S. Government and U.S.				
Government agency securities	\$17,594,500	\$ -	\$17,594,500	\$17,390,286
Corporate notes	9,656,933	-	9,656,933	9,501,098
Commercial paper	777,676	-	777,676	772,949
Municipal bonds	395,858	-	395,858	383,755
Repurchase agreements	-	9,294,000	9,294,000	9,294,000
	<u>\$28,424,967</u>	<u>\$9,294,000</u>		
Mutual and money market funds			8,023,133	8,023,131
Investments held by the Treasurer of Virginia - Securities loans			817,922	817,922
Investments held by the VCU Intellectual Property Foundation			1,016,263	169,355
Investment pools held by:				
VCU Foundation			21,826,640	18,705,613
VCU Real Estate Foundation			1,000,000	1,000,000
MCV Foundation			4,486,610	2,837,316
Total University investments			<u>\$74,889,535</u>	<u>\$68,895,425</u>
Authority Investments:				
Unrestricted and Board designated:				
U.S. Government and U.S.				
Government agency securities	\$29,049,426	\$ -	\$29,049,426	\$28,650,684
Corporate notes	29,607,493	-	29,607,493	29,248,528
Commercial paper	23,359,883	-	23,359,883	23,183,359
Equity securities	13,694,332	-	13,694,332	18,030,802
	<u>\$95,711,134</u>	<u>\$ -</u>		
Mutual funds			5,223,724	5,614,500

Externally restricted:

U.S. Government and U.S.

Government agency securities	\$ 594,229	\$ -	\$ 594,229	\$ 594,229
Commercial paper	11,191,318	-	11,191,318	11,191,318
	<u>\$11,785,547</u>	<u>\$ -</u>		
Mutual funds			29,770,863	N/A
Beneficial interest in trust			19,519,209	19,519,209
Total Authority Investments			<u>162,010,477</u>	<u>136,032,629</u>
Total Investments			<u>\$236,900,012</u>	<u>\$204,928,054</u>

3. JOINT VENTURES AND EQUITY INVESTMENTS

The Authority has one-third ownership in Chesterfield Community Healthcare Center, Inc. (CCHC). CCHC provides ambulatory surgical and diagnostic services in Chesterfield County. Other partners in the joint venture are Bon Secours Richmond Health System and The Hospital Authority of the City of Petersburg, Virginia. The investment in CCHC is accounted for under the equity method of accounting. At June 30, 2000, the investment was carried at approximately \$1,436,000. An allowance was recorded for the entire investment in 2001.

UHS has become a joint venture partner with several organizations with net investments totaling approximately \$2,150,000 at June 30, 2001. The investments are noted below. Individual financial statements for each of the investments are available from UHS's corporate office.

Investment in Ownership Interest in Land and Buildings

Included in investments on the accompanying balance sheet is a \$978,000 investment representing a 25 percent interest in land and buildings owned by the VCU Real Estate Foundation (VCUREF). VCUREF is leasing the property in its entirety to VCU and the Hospitals to allow for consolidation of off-campus leases to a site closer to the VCU campus. A portion of the lease payments earned on the property are paid to UHS as a return on its investment. UHS accounts for this investment using the cost method of accounting. When the buildings are needed in the future for the Virginia Biotechnology Research Park, they will be sold to the Virginia Biotechnology Research Park Authority. The purchase price will be determined at the time of sale based upon appraisals received for the properties and negotiations between the VCU Real Estate Foundation and the purchaser.

Investment in Richmond Medical Commons, L.L.C.

UHS and the Richmond Eye & Ear Healthcare Alliance (REEH) entered a joint venture agreement on July 31, 1995, for the purpose of constructing and operating an ambulatory surgery center and related facility. As part of the joint venture agreement, UHS invested \$100,000 in Richmond Medical Commons, L.L.C. (RMC), a Virginia limited liability company. On August 27, 1996, UHS's investment in RMC was reduced to \$40,000 when UHS sold three-fifths of its interest in RMC to an outside third party. On September 30, 1999, UHS purchased an additional 30 percent interest in RMC. UHS's interest is included in investments in joint ventures on the

accompanying combined balance sheet as of June 30, 2001. RMC has filed an Application for Certificate of Public Need with the Virginia Department of Health for approval of the ambulatory surgery center and has received conditional approval. Upon final approval of the Certificate of Public Need, UHS has committed to contribute additional cash to the joint venture in an amount to be determined by agreement of both parties and UHS has also committed to purchase the Richmond Eye & Ear Hospital building and land for approximately \$6,000,000. UHS has made a down payment in the amount of \$100,000 with respect to such purchase. UHS contributed \$250,000 to RMC in 2001. The investment in RMC of approximately \$672,000 at June 30, 2001, is accounted for under the equity method of accounting. In 2001, UHS became a guarantor, along with REEH, of a six-year lease for RMC with aggregate payments totaling approximately \$4,770,000.

Investment in 7th and Marshall Corporation

Included in investments on the accompanying balance sheet 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 investment in 7th and Marshall Corporation is accounted for under the equity method of accounting.

Investment in Commonwealth Care of Virginia LLC

On September 25, 1997, Commonwealth Care of Virginia LLC (CCV), an independent practice association, amended and restated its operating agreement for the purpose of permitting the admission of UHS as a Class P member. Under the terms of the agreement as of September 25, 1997, the notes receivable from CCV of \$458,511, the related accrued interest receivable of \$76,447, and an additional investment of \$194,042 by UHS on September 25, 1997, in CCV were converted into 729 shares of Class P membership interests of \$729,000. The Class P membership interest is entitled to a quarterly preferred distribution of an amount equal to the prime rate of interest plus one percent times UHS's membership interests. The preferred distribution is deferred under certain conditions and is required to be paid before any bonus, withheld, holdback or similar pool distribution. The agreement also has provisions for 20 percent of sharing of sales proceeds with UHS in the event CCV experiences a change in control and options to buy back UHS membership interests if certain levels of income are achieved. The investment in CCV is accounted for under the cost method of accounting. At June 30, 2001, a valuation allowance of \$729,000 was recorded for the investment in CCV.

4. BALANCE SHEET DETAIL

Receivables

University:

Unrestricted current funds:

Student and other receivables, less allowance of \$1,885,000	\$ 4,491,008
Commonwealth of Virginia	<u>1,661,980</u>

Total unrestricted current funds	<u>6,152,988</u>
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Restricted current funds:	
Grants and contracts, less allowance of \$200,000	\$ 9,685,695
Loan fund:	
Student notes receivables, less allowance of \$3,953,435	23,014,831
Agency funds	<u>39,143</u>
Total University	<u>38,892,657</u>
Authority:	
Patient and third party, less allowance of \$27,561,000	109,079,794
Non-patient	3,786,344
Due from affiliates	22,176
Notes receivable	<u>271,928</u>
Total Authority	<u>113,160,242</u>
Total receivables	<u>\$152,052,899</u>
Investment in Plant	
University:	
Land and improvements	\$ 32,422,091
Buildings and fixed equipment	369,767,334
Moveable equipment	99,176,434
Library books	70,788,753
Construction in progress	<u>41,736,363</u>
Total University	<u>613,890,975</u>
Authority:	
Land and improvements	4,150,782
Buildings and fixed equipment	204,434,167
Moveable equipment	168,491,903
Construction in progress	67,271,235
Less allowance for depreciation	<u>(228,758,802)</u>
Total Authority	<u>215,589,285</u>
Total Investment in Plant	<u>\$829,480,260</u>

5. VIRGINIA COMMONWEALTH UNIVERSITY EARLY RETIREMENT PLAN FOR FACULTY

The University established the Virginia Commonwealth University Early Retirement 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 percent of the average University salary of the faculty members eligible to participate in the Plan, not to exceed 30 percent 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, 2001, 24 faculty members were enrolled in the Plan. Payments made during fiscal year 2001 were \$253,691. The present value of future Plan payment schedule follows:

Fiscal Year	Plan Obligations
2002	\$ 341,093
2003	395,026
2004	416,340
2005	405,738
2006	232,147
Later years	<u>52,698</u>
Total	<u><u>\$1,843,042</u></u>

6. LONG TERM DEBT

Long-term debt of the University consists of the following at June 30:

	<u>2001</u>
University Debt:	
Bonds Payable:	
4.25% to 5.75% General Revenue Pledge Bonds, Series 1995, 1996 and 1998 payable through 2021	\$ 51,240,000
3% to 8% Commonwealth of Virginia Revenue Bonds payable through 2017	<u>31,637,955</u>
Total bonds payable	<u>82,877,955</u>
Notes Payable:	
Virginia College Building Authority with interest rates of 3.15% to 6%	25,730,000
Capital Leases:	
Virginia College Building Authority with imputed interest rates of 7.26% to 8.39%	3,180,346
Virginia Public Building Authority with imputed interest rates of 2.25% to 5.85%	14,299,471
Biotechnology Research Park with imputed interest financing of 9.5%	<u>4,881,822</u>
Total capital leases	<u>22,361,639</u>
Installment Purchases:	
Obligations under installment purchase contracts with interest rates from 4.43% to 6.88%	<u>2,943,275</u>
Total University long-term debt	<u>133,912,869</u>

Authority Debt:

4.25% to 5.25 % Hospital Revenue Bonds, Series 1994D and 1998 payable through 2003	\$ 82,260,000
Capital leases	<u>1,518,786</u>
Total Authority long-term debt	<u>83,778,786</u>
Total long-term debt	<u>\$217,691,655</u>

Long-term debt matures as follows:

	Fiscal Year	Revenue Bonds	Notes Payable	Capital Leases	Installment Purchases	Total
University:						
	2002	\$ 5,020,253	\$ 790,000	\$ 3,139,491	\$ 503,125	\$ 9,452,869
	2003	4,752,675	920,000	1,943,595	571,623	8,187,893
	2004	5,054,389	945,000	1,039,339	591,106	7,629,834
	2005	4,254,832	990,000	1,103,941	565,554	6,914,327
	2006	4,216,745	1,030,000	1,173,661	613,284	7,033,690
	Later years	59,579,061	21,055,000	13,961,612	98,583	94,694,256
		<u>82,877,955</u>	<u>25,730,000</u>	<u>22,361,639</u>	<u>2,943,275</u>	<u>133,912,869</u>
Authority:						
	2002	5,470,000	-	610,331	-	6,080,331
	2003	5,695,000	-	272,713	-	5,967,713
	2004	8,010,000	-	278,132	-	8,288,132
	2005	2,080,000	-	186,490	-	2,266,490
	2006	2,175,000	-	67,758	-	2,242,758
	Later years	58,830,000	-	103,362	-	58,933,362
		<u>82,260,000</u>	<u>-</u>	<u>1,518,786</u>	<u>-</u>	<u>83,778,786</u>
Total		<u>\$165,137,955</u>	<u>\$25,730,000</u>	<u>\$23,880,425</u>	<u>\$2,943,275</u>	<u>\$217,691,655</u>

Commonwealth Revenue Bonds

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.

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 University participates in the Higher Education Equipment Trust Fund of the VCBA, an agency of the Commonwealth of Virginia (State). The Higher Education Equipment Trust Fund provides funds to public colleges and universities for equipment acquisition. The VCBA financed this program with State provided funds, which will not require repayment. However, debt obligations are outstanding for prior fiscal years. For accounting purposes, the financing arrangement for the outstanding debt is considered to represent a capital lease.

Virginia Public Building Authority

The University participates in a financing arrangement with the Virginia Public Building Authority for the construction of a steam plant adjacent to the MCV campus. The University considers this financing arrangement to be a capital lease.

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 prior years' defeasances are reported in the Comprehensive Annual Financial Report of the Commonwealth.

7. 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 plans 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 for 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, 2001 were \$127,874,478. The University's total payroll costs for the year then ended were \$264,600,434.

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 is established and disclosed in the Comprehensive Annual Financial Report of the Commonwealth of Virginia.

The University's total VRS contributions were \$13,321,526 for the year ended June 30, 2001, which included the 5 percent employee contribution assumed by the employer. These contributions represent 10.6 percent of covered payroll.

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, 2001. 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 percent, and employee, 5 percent, 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. Total pension costs under these plans were \$9,457,690 in fiscal year 2001. Contributions to other retirement plans were calculated using the base salary \$90,939,330.

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

The Deferred Compensation Program (DCP) gives eligible Participants (employees with at 12 consecutive months of salaried state service and who are making continuous deferrals of at least \$20 per pay period to a 403(b) retirement plan) a maximum of \$20 per pay period in matching Deferred Compensation savings.

Authority

Employees of the Authority prior to July 1, 1997 were employees of the Commonwealth of Virginia (the Commonwealth). These employees are eligible to participate in a defined benefit pension plan administered by the Virginia Retirement System (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 ended June 30, 2001 were approximately \$6,560,000.

Effective July 1, 1997, the Authority established the Virginia Commonwealth University Health System Authority Defined Contribution Plan (the Plan). All employees working at least 35 hours of service per week are eligible to participate in the Plan. At June 30, 2001 there were 2,180 participants in the Plan. Per the Plan document as approved by the Authority's Board of Directors, the Authority contributes up to 8 percent of the participant's salary to the Plan, up to a maximum of \$30,000. Total contributions to the Plan for the year ended June 30, 2001 were approximately \$4,601,000. The Authority 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 Authority's Board of Directors.

The Authority has also established the Virginia Commonwealth University Health System Authority Health Care Providers Defined Contribution Plan (the HCP Plan). All persons hired as a health care provider on or after July 1, 1993 and prior to July 1, 1997 and working at least 35 hours of service per week are eligible to participate in the HCP Plan. At June 30, 2001, there were 8 participants in the HCP Plan. All significant provisions of the HCP Plan, including the contribution

requirements, are similar to the Plan. Due to sufficient prior funding, no contributions were required in the current year.

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, if available, or estimated using quoted market prices for similar securities. Individual organizations that hold 5 percent or more of the assets at June 30, 2001 are as follows:

Fidelity Investments	\$14,745,453
TIAA/CREF	11,365,980
VALIC	<u>3,659,430</u>
Total	<u>\$29,770,863</u>

MCVAP sponsors the MCVAP 403(b) Retirement Fund (the 403(b) Plan), a defined contribution plan which covers substantially all non-medical employees of MCVAP. MCVAP's contribution to the 403(b) Plan (7.5 percent of participants' compensation) approximated \$2,907,000 for the year ended June 30, 2001.

MCVAP sponsors the MCVAP 401(a) Retirement Plan (the 401(a) Plan), a noncontributory, defined contribution plan which covers substantially all full-time, medical employees of MCVAP. Contributions to the 401(a) Plan by MCVAP, as determined annually at the discretion of the Board of Directors, were approximately \$3,769,000 for the year ended June 30, 2001.

Effective August 1, 1999, VA Premier adopted a 401(k) plan sponsored by Prudential Mutual Fund Management, Inc. Employees may enter into the plan on the first day of the month coinciding with or following the date on which the employee begins employment. There is no minimum service or age requirement to be in the 401(k) plan. Employees may contribute 1 percent to 15 percent of their compensation. VA Premier will match 50 percent of the employees' contributions up to four percent of the employees' compensation. Matching will occur based on the bi-weekly pay periods. In addition, VA Premier contributes three percent of the employee's compensation after each bi-weekly payroll effective when the employee begins employment. Employees are fully vested after four years of service in which the employees have at least 1,000 hours of service each year. The total expense to VA Premier in 2001 was \$169,000.

8. RELATED PARTIES

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

Medical College of Virginia Foundation

The foundation is organized to aid, strengthen, and extend the work, services, and objectives of the Virginia Commonwealth University Health System Authority and the Health Sciences Campus of Virginia Commonwealth University. This is achieved through the receipt of contributions, investment and management of funds, and the disbursement of current funds and a portion of the total return on endowment. The University and Authority received the financial benefit of \$17,005,000 from the foundation in 2001.

VCU Foundation

The foundation functions solely to assist and support the University. In that capacity, the foundation holds and manages endowment funds for the University. The University received the financial benefit of \$2,739,826 in 2001 from the foundation.

VCU Real Estate Foundation

The foundation functions solely to assist and support the University. The sole purpose of the foundation is to hold and manage real estate for the University. The foundation is also the owner and operator of the Broad Street Apartments, which provides housing to University students. The University received \$330,055 in 2001 from the foundation and has an operating lease liability of \$2,227,640.

Virginia Commonwealth University School of Engineering Foundation

The foundation is organized exclusively for educational, scientific, and charitable purposes and to provide financial and other support to the University's School of Engineering. The University has issued \$26,895,000 of General Revenue Pledge Bonds for the purpose of constructing a School of Engineering Foundation building. The proceeds were advanced to the School of Engineering Foundation who, as owner of the property, constructed the building. The School of Engineering Foundation solicits contributions and remits funds to the University sufficient to retire the indebtedness including interest. The funds received from the School of Engineering Foundation will be recorded as contributions received. For accounting purposes, the University records a leasehold interest in Net Investment in Plant equal to the funds advanced. The University received financial support from the foundation of \$2,783,735 in 2001.

The following summarizes selected financial data, excluding data included in the University's financial statements, of the fund raising foundations which support the University, the Medical College of Virginia Foundation, the VCU Foundation, the VCU Real Estate Foundation and its controlled affiliate, and the Virginia Commonwealth University School of Engineering Foundation at June 30, 2001.

Assets:	
Cash and investments	\$234,921,677
Other assets	46,480,865
	<hr/>
Total assets	\$281,402,542
	<hr/>
Liabilities and fund balances:	
Accounts and loans payable	\$ 26,756,532
Net Assets	254,646,010
	<hr/>
Total liabilities and fund balances	\$281,402,542
	<hr/>
Revenues and other fund additions	\$ 24,276,655
	<hr/>
Expenditures and other fund deductions	\$ 26,397,436
	<hr/>

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 \$201,689 in 2001 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 \$119,983 in 2001 as the principal source of funding for the Association's operation.

Virginia Biotechnology Research Park Authority

The primary purpose of the Virginia Biotechnology Research Park 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 41,847 square feet of Biotech One under a capital lease as shown in Note 6. In addition, the University is committed to a twenty year Master Lease with the Authority, which guarantees monthly rent equal to the principal and interest necessary to amortize the outstanding debt associated with the construction of the facilities and any additional rent required. The maximum amount payable under this Lease for space not occupied by the University is \$543,235 annually during the first ten years of the Lease and \$1,278,200 annually for the remainder of the lease term.

M.C.V./V.C.U. 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.

9. 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 \$17,312,122 at June 30, 2001 was held in trust by others. These assets are not included in the University's balance sheet.

10. COMMITMENTS

The University and Authority are party to various construction commitments. The remaining commitments at June 30, 2001, were \$6,165,892 for the University and approximately \$31,000,000 for the Authority.

The University also is committed under various operating leases (for buildings, computer equipment, business equipment, etc.). In most cases, it is expected that, in the normal course of business, these leases will be renewed or replaced by similar leases. Rental expense for the fiscal year ended June 30, 2001, was \$1,965,476 for the University and \$3,537,093 for the Authority. In addition,

the University reimburses the Commonwealth of Virginia \$138,089 annually for the use of space in a facility owned by the Commonwealth.

The University and the Authority have, as of June 30, 2001, the following total future minimum rental payments due under the above leases:

Fiscal Year	University	Authority
2002	\$1,241,247	\$2,004,646
2003	1,151,006	1,347,253
2004	552,019	959,052
2005	366,279	476,692
2006	144,996	293,848
Later years	391,872	-
Total future minimum rental payments	<u>\$3,847,419</u>	<u>\$5,081,491</u>

Of the total minimum rental payments for the University, \$2,227,640 is to the VCU Real Estate Foundation, a related party.

11. LITIGATION

The University and Authority have been named as defendants 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 University's financial position.

12. 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 Authority insured itself under a self-insured professional liability, self-administered plan. This plan is claims made with professional liability limits of \$1 million per incident and \$3 million in aggregate with excess insurance coverage up to \$10 million, which is provided by the Reciprocal of America (the Reciprocal), a multiprovider reciprocal insurance company. A revocable trust has been established and is funded based on actuarially determined reserves. At June 30, 2001, the medical malpractice trust fund includes approximately \$3,679,000 for claims and related legal expenses for reported and unreported incidents occurring since July 1, 1998. There have been malpractice claims asserted against the Authority 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, 2001 that may result in the assertion of additional claims. In addition, there may be other claims from unreported incidents arising from services provided to patients through June 30, 2001. At June 30, 2001, the Authority's management accrued professional liability losses to the extent they fall within the limits of the Authority's self-insurance program or exceed the limits of the excess insurance coverage. The liability for medical malpractice at June 30, 2001 includes approximately \$5,016,000 for claims and related legal expenses for reported and unreported incidents occurring since July 1, 1998. The liability was actuarially determined combining industry data and the Authority's historical experience.

MCVAP's professional liability coverage is provided through a policy obtained from Universal Re-Insurance Company (URIC), a Bermuda insurance corporation. The policy provides coverage of \$1 million per occurrence and \$5 million in the aggregate. In response to recent legislative changes in the Commonwealth of Virginia regarding malpractice insurance liability limitations, MCVAP has increased its coverage with URIC effective August 1, 2000 to \$1,550,000 per occurrence and \$5,000,000 in the aggregate. MCVAP has increased its coverage with URIC effective August 1, 2001 to \$1,600,000 per occurrence and \$8,000,000 in the aggregate. Premiums paid by MCVAP to URIC are recorded as expense by MCVAP. Such premiums are maintained in an irrevocable trust fund administered by SunTrust Bank.

Through June 30, 2001, additional coverage is provided for aggregate claims in excess of \$5,000,000 up to \$25,000,000 through a policy with the Reciprocal. Annual aggregate claims in excess of \$25,000,000 are uninsured.

Effective July 1, 2001, MCVAP is insured under the Health System's self-insured and self-administered professional liability plan.

VA Premier maintains general and professional liability policies. The general liability policy in force is occurrence-based. The coverage under the professional liability policy is made on a claims-made basis and must be renewed or replaced with the equivalent insurance if claims incurred during its terms, but asserted after its expiration, are to be insured. Coverage limits for the general liability policy are \$1 million per occurrence and \$3 million annual aggregate. The coverage limits for the professional liability policy are \$6 million per medical incident and \$8 million annual aggregate.

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

In management's opinion, the claims made insurance coverage is adequate to cover the estimated ultimate liability which could result upon settlement of claims currently asserted against the Authority and the ultimate liability for medical incidents of which the Authority has knowledge but for which no claim has been asserted against the Authority. Based upon current historical data, management is of the opinion that the liability, if any, for unreported medical incidents would not have a material effect on the Authority's financial position.

13. NET PATIENT SERVICE REVENUE

The Authority's patient service revenue is as follows for the year ended June 30, 2001.

Gross Patient Revenue:	
Inpatient:	
Routine services	\$ 137,727,298
Ancillary services	451,497,224
Outpatient:	
Emergency	24,186,401
Special medical	212,468,197
Indigent care	<u>11,306,425</u>
Total gross patient service revenue	837,185,545
Provision for indigent care and contractual adjustments	<u>(362,011,639)</u>
Net patient service revenue (Hospitals)	475,173,906
MCVAP's net patient service revenue	<u>84,737,417</u>
Net patient service revenue (Authority)	<u><u>\$559,911,323</u></u>

The Hospitals received approximately \$90,700,000 in fiscal year 2001 for disproportionate share payments from the Department of Medical Assistance Services that were funded by the Commonwealth of Virginia for patients that are indigent. These payments are included in net patient service revenue as an adjustment of allowances for indigent care and contractual adjustments.

Amounts written off for indigent care, net of the disproportionate share payments in 2001, were approximately \$35,900,000.

14. ESTIMATED MEDICAL CLAIMS PAYABLE

The Authority's accounts payable and accrued expenditures include claims expenses and liabilities arising from services rendered to VA Premier's HMO members are reported when it is probable that services have been provided and the amount of the claim can be reasonably estimated. The claims payable at June 30, 2001, includes an estimate of claims that have been incurred but not reported. At June 30, 2001, the amount of these liabilities was \$7,733,167. This liability is VA Premier's best estimate based on available information.

15. TRANSACTIONS BETWEEN COMPONENT UNITS

Effective July 1, 1997, the Authority and the University, concurrently, entered into an affiliation agreement, which provides that each will support the mission of the other. The University will provide graduate medical education, clinical support, administrative support, and medical care of

indigent patients to the Authority. The Authority will provide operation and maintenance support for certain buildings included in a five-year lease agreement, residents for the Blackstone Family Practice Residency Training Program, and be the primary teaching hospital for the University.

The University leased the patient care facilities to the Authority under a 99-year lease for the greater of the annual debt service on the facilities or \$1 per year. Additionally, the Authority leased space in other buildings from the University under a five-year lease with two renewal options, except the West Hospital which is not included in the renewal options.

Payments under the agreement with the University for the year ended June 30, 2001, were as follows:

By the University to the Authority:	
Operation and maintenance - Buildings (5 year lease)	\$ 2,760,623
Blackstone Family Practice Residency Training Program	<u>490,866</u>
 Total paid by the University to the Authority	 <u>\$ 3,251,489</u>
By the Authority to the University:	
Graduate education services	\$ 99,511
Non-physician clinical support	2,321,989
Administrative support	4,730,312
Rent on the short-term space	2,512,739
Principal and interest on parking deck debt	524,619
Use of steam plant	<u>573,484</u>
 Total paid by the Authority to the University	 <u>\$10,762,654</u>

16. SURETY BOND

The employees of the University and Authority were covered by a Faithful Performance Duty Bond administered by the Division of Risk Management, Commonwealth of Virginia, with liability limits of \$500,000 for each occurrence. Information relating to this policy is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

17. CONCENTRATION OF CREDIT RISK

The Authority grants credit without collateral to its patients, most of whom are area residents insured under third-party payor agreements. The composition of net receivables from patients and third-party payors is as follows as of June 30, 2001:

<u>Third-Party Payor's</u>	<u>Percentage</u>
Medicaid	19
Commercial	4
Medicare	15
Trigon	14
Other	<u>48</u>
	<u>100</u>

Revenue from the Medicare and Medicaid/Indigent programs accounted for approximately 25 percent and 33 percent, respectively, of the Authority's net patient service revenue for the year ended June 30, 2001. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

18. FEDERAL INCOME TAXES

VA Premier has a deferred tax asset resulting primarily from the tax benefit of a net operating loss carryforward. A valuation allowance for the same amount has been recorded due to the uncertainty regarding its realization.

VA Premier files income tax returns as of June 30, coinciding with the fiscal year end. VA Premier's net operating loss carryforwards are approximately \$5,579,000 at June 30, 2001. The net operating loss carryforwards expire beginning in the year 2012.

19. STATE APPROPRIATIONS – UNRESTRICTED FUNDS

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

The following is a summary of state appropriations by the University for the year ended June 30, 2001.

Academic Division:	
Legislative appropriation	\$175,244,684
HEETF Receivable	<u>5,144,039</u>
Total adjusted Academic Division	<u>\$180,388,723</u>

20. PENDING GASB STATEMENT

Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, issued June 1999 and GASB Statement No. 35, Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities, issued November 1999, will be effective for the Authority and University respectively, for the fiscal year ending June 30, 2002. These Statements impose new standards for financial reporting. The changes to the Authority's financial statements will be minimal since its activity is accounted for as a proprietary fund. However, the titles and formats of the University's financial statements will change significantly as a result of these Statements. The changes will include the recordation of depreciation for capital assets owned by the University, which is currently not reported on the financial statements. In addition, management will be required to provide a management's discussion and analysis that gives readers an analysis of the University's overall financial position and results of operations including a comparison of current

year results with the prior year. The University and the Authority have completed their assessments of the changes required by this Statement and are preparing for implementation.

VIRGINIA COMMONWEALTH UNIVERSITY
Schedule of Auxiliary Enterprises -Revenues,
Expenditures, and Changes in Fund Balances
For The Year Ended June 30, 2001

	Athletics	Siegel Center	Food Services	Gyms	Larrick Student Center	Parking and Transportation	Residence Halls
Revenue:							
Student fees	\$ -	\$ -	\$ 4,148,870	\$ -	\$ -	\$ -	\$ 7,418,134
University fee	5,400,476	2,210,813	-	1,929,497	189,497	1,838,437	70,000
Sales and services	1,178,810	1,160,611	1,544,362	233,731	-	5,935,791	261,280
Auxiliary interest earnings	-	-	-	-	-	-	-
Total revenue	6,579,286	3,371,424	5,693,232	2,163,228	189,497	7,774,228	7,749,414
Cost of sales	-	-	-	-	-	-	-
Net revenue	6,579,286	3,371,424	5,693,232	2,163,228	189,497	7,774,228	7,749,414
Expenditures:							
Personal services	2,127,137	298,552	141,158	988,298	121,995	1,176,263	2,490,722
Employee benefits	455,980	105,416	44,252	164,824	33,009	279,760	587,568
Contractual services	1,292,598	492,749	3,365,875	132,650	18,197	1,423,052	848,710
Supplies and materials	54,279	94,689	34,461	127,273	2,343	31,358	649,724
Equipment	83,684	15,462	79,207	218,270	28,989	297,502	280,529
Current charges and obligations	2,323,970	786,896	293,594	241,313	77,633	947,342	1,748,261
Miscellaneous	279,299	45,931	43,124	142,100	7,027	174,288	208,333
Operating expenses	6,616,947	1,839,695	4,001,671	2,014,728	289,193	4,329,565	6,813,847
Interdepartmental recoveries and charges	(57,237)	-	-	(359)	-	(66,725)	(9,751)
Net operating expenses	6,559,710	1,839,695	4,001,671	2,014,369	289,193	4,262,840	6,804,096
Excess (deficiency) of revenues over (under) operating expenses before transfers	19,576	1,531,729	1,691,561	148,859	(99,696)	3,511,388	945,318
Transfers:							
Mandatory	150,355	2,033,573	5,304	-	-	2,614,529	1,395,883
Nonmandatory	376,537	(1,344,774)	899,816	12,674	(4,705)	(365,003)	846,306
Net increase (decrease) for the year	(507,316)	842,930	786,441	136,185	(94,991)	1,261,862	(1,296,871)
Beginning fund balance	219,470	-	1,833,857	2,420,767	94,134	3,658,745	27,136
Ending fund balance	\$ (287,846)	\$ 842,930	\$ 2,620,298	\$ 2,556,952	\$ (857)	\$ 4,920,607	\$ (1,269,735)

Stores and Shops	Student Commons	Student Health	Business Services Administration	Development Programs	Unassigned	Dental Instrument Management Programs	Steam Plant	Total
\$ -	\$ -	\$ 2,164,519	\$ -	\$ -	\$ 16,039,782	\$ -	\$ -	\$ 29,771,305
-	2,649,263	184,923	-	132,643	(14,605,549)	995,596	-	995,596
2,660,322	79,838	376,366	16,229	-	669,182	-	2,240,724	16,357,246
-	-	-	-	-	522,514	-	-	522,514
2,660,322	2,729,101	2,725,808	16,229	132,643	2,625,929	995,596	2,240,724	47,646,660
1,542,010	-	-	-	-	-	-	-	1,542,010
1,118,312	2,729,101	2,725,808	16,229	132,643	2,625,929	995,596	2,240,724	46,104,650
168,750	852,491	1,315,168	228,877	89,065	7,099	89,305	387,977	10,482,857
34,201	190,526	332,685	40,932	28,782	573	20,375	97,587	2,416,470
138,688	273,524	282,365	26,443	9,603	1,623,630	(15,477)	714,541	10,627,148
68,999	121,291	285,917	129,710	11,197	(69,277)	51,214	323,630	1,916,808
610	86,474	91,658	50,594	819	400,866	95,061	450	1,730,175
32,825	450,155	48,658	39,741	3,002	342,307	13,053	1,307,920	8,656,670
15,444	52,229	79,894	853	8,281	26,426	18,341	-	1,101,570
459,517	2,026,690	2,436,345	517,150	150,749	2,331,624	271,872	2,832,105	36,931,698
-	(110,473)	200	(353,177)	(38,929)	(998,959)	-	(355,457)	(1,990,867)
459,517	1,916,217	2,436,545	163,973	111,820	1,332,665	271,872	2,476,648	34,940,831
658,795	812,884	289,263	(147,744)	20,823	1,293,264	723,724	(235,924)	11,163,819
-	1,099,498	-	-	-	175,831	-	-	7,474,973
335,846	(350,738)	164,288	521	(112)	658,728	798,431	-	2,027,815
322,949	64,124	124,975	(148,265)	20,935	458,705	(74,707)	(235,924)	1,661,031
1,505,880	332,657	103,841	181,736	(37,590)	2,806,260	74,259	(55,691)	13,165,461
\$ 1,828,829	\$ 396,781	\$ 228,816	\$ 33,471	\$ (16,655)	\$ 3,264,965	\$ (448)	\$ (291,615)	\$ 14,826,492

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