VIRGINIA COMMONWEALTH UNIVERSITY

REPORT ON AUDIT

FOR THE YEAR ENDED

JUNE 30, 2005

APA
Auditor of
Public Accounts
COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of Virginia Commonwealth University for the year ended June 30, 2005, found the following:

- the financial statements are presented fairly, in accordance with generally accepted accounting principles;

- internal control matters that we consider to be reportable conditions; however, we do not consider these to be material weaknesses;

- an instance of noncompliance or other matter that is required to be reported under Government Auditing Standards; and

- the University has not taken adequate corrective action with respect to the previously reported finding, "Ensure Cash Reconciling Items are Resolved Timely." The University did take adequate corrective action with respect to audit findings reported in the prior year not repeated in this report.

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INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

Improve Cash Reconciliation Process

The University's General Accounting Department does not have an adequate process for preparing the monthly cash reconciliations. During the prior audit, we noted reconciling items dating back seven years. In response to our finding, the University wrote off or adjusted these old reconciling items; however, they failed to implement procedures for the review and timely correction of reconciling differences.

During this audit, we found the bank reconciliations contained reconciling items up to a year old. Untimely resolution of reconciling items exposes the University to the risk of intentional and unintentional errors made by the bank or by University employees. Additionally, the volume of reconciling items carried forward each month decreases the efficiency of the reconciliation process. There is also no evidence of a supervisory review of the reconciliations which increases the risk of inaccurate reconciliations and untimely resolution of reconciling items.

Furthermore, the monthly State cash and University cash reconciliations are not reconciled to the general ledger, but to a "shadow bank account." The "shadow" account reflects transactions for receipts and disbursements recorded by the Cashiering department. The general ledger account reflects transactions recorded by the various University departments and reports the amount for cash on the financial statements. Because the accounting system records cash transactions in two areas, there are reconciling items between the bank and the shadow account and between the shadow account and the general ledger. Since the general ledger reports cash for financial reporting purposes, the monthly reconciliations should show the amounts in the bank and reconcile through to the amounts in the shadow bank account and then to the general ledger.

While we were able to determine the accuracy of the amount reported in total for cash on the financial statements, adequate internal controls and best practices dictate that bank statements be reconciled to the general ledger. Failure to properly reconcile bank accounts and resolve differences increases the risk of errors and fraud, and could result in the misstatement of cash. The University should develop a bank reconciliation process that efficiently and effectively reconciles the bank statements to the general ledger. This process should include a requirement to resolve reconciling items on a monthly basis and management should perform an appropriate review to ensure that the General Accounting Department performed a complete, accurate, and timely reconciliation and followed up on and cleared reconciling items.

Comply with HIPAA Security Requirements

The University has not approved Health Insurance Portability and Accountability Act (HIPAA) compliant policies and procedures and has not completed their review of HIPAA compliance for data in all academic departments. The deadline for compliance with the HIPAA security rule was April 20, 2005.

The University, working through an established Affiliated Covered Entity with the VCU Health System, developed a set of security policies and procedures for University management approval. The University's legal department is still reviewing these policies. Additionally, the University's information systems security team is currently performing risk assessments for all academic departments to identify and classify sensitive or confidential data not stored in the University data center. The security team will determine through these risk assessments if stored data is compliant with the newly developed HIPAA policies and procedures.

We encourage the University to approve HIPAA compliant policies and procedures as quickly as possible and to continue to progress in ensuring compliance with the HIPAA security requirements.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

The Management's Discussion and Analysis (MD&A) provides a discussion and analysis of the financial performance during the fiscal year ended June 30, 2005, with comparative information presented for the fiscal year ended June 30, 2004. While maintaining its financial health is crucial to the long-term viability of the University, the primary mission of a public institution of higher education is to provide education, research, and public service. Therefore, net assets are accumulated only as required to ensure that there are sufficient reserve funds for future operations and implementation of new programs.

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

Using the Annual Report

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

The Statement of Net Assets

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

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

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

	2005	2004	Increase (Decrease)
ASSETS			
Current and other assets	$327,989,447	$318,194,587	$ 9,794,860
Capital assets – net	456,431,201	411,457,489	44,973,712
Total assets	784,420,648	729,652,076	54,768,572
LIABILITIES			
Current and other liabilities	96,337,509	93,299,340	3,038,169
Long term liabilities	258,209,937	255,338,248	2,871,689
Total liabilities	354,547,446	348,637,588	5,909,858
NET ASSETS			
Net Assets:			
Invested in capital assets, net of related debt	268,569,491	255,523,256	13,046,235
Restricted	32,434,805	30,364,843	2,069,962
Unrestricted	128,868,906	95,126,389	33,742,517
Total Net Assets	$429,873,202	$381,014,488	$48,858,714

- The University's current and other assets increased due to higher receivables and cash and cash equivalents.
- Capital assets increased due to additional equipment purchases and construction-in-progress.
- Current and other liabilities increased principally due to higher vendor accounts payable.
- Long term liabilities increased due to higher debt.
- Total assets grew by a greater margin than total liabilities, with net assets increasing correspondingly.

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

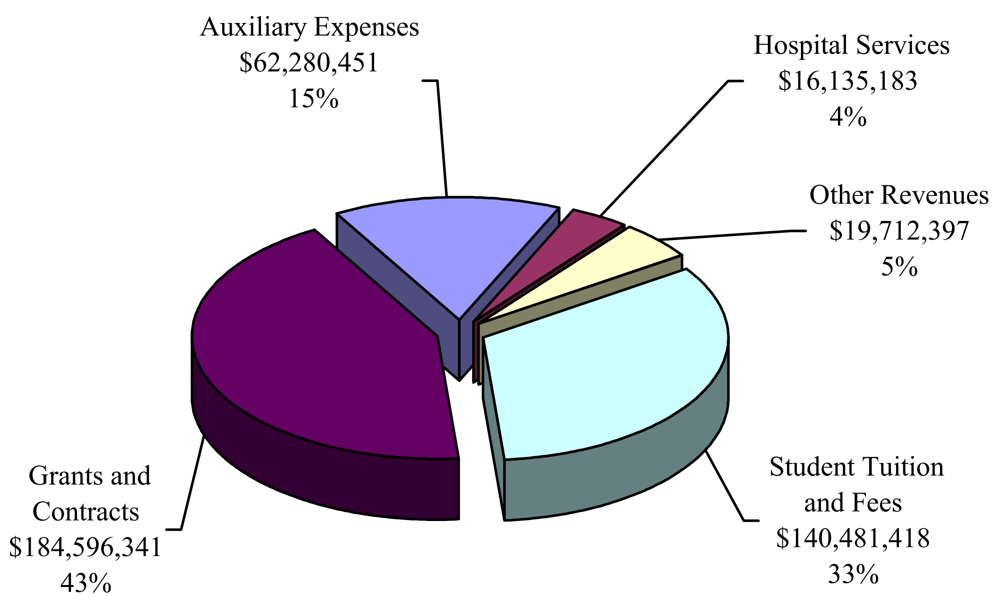
The Statement of Revenues, Expenses, and Changes in Net Assets presents the operating results, as well as the nonoperating revenues and expenses. State appropriations, while budgeted for operations, are considered non-operating revenues according to generally accepted accounting principles.

The following is a summarized schedule of the revenues and expenses for the University, for the year ended June 30, 2005, with comparative data for the year ended June 30, 2004:

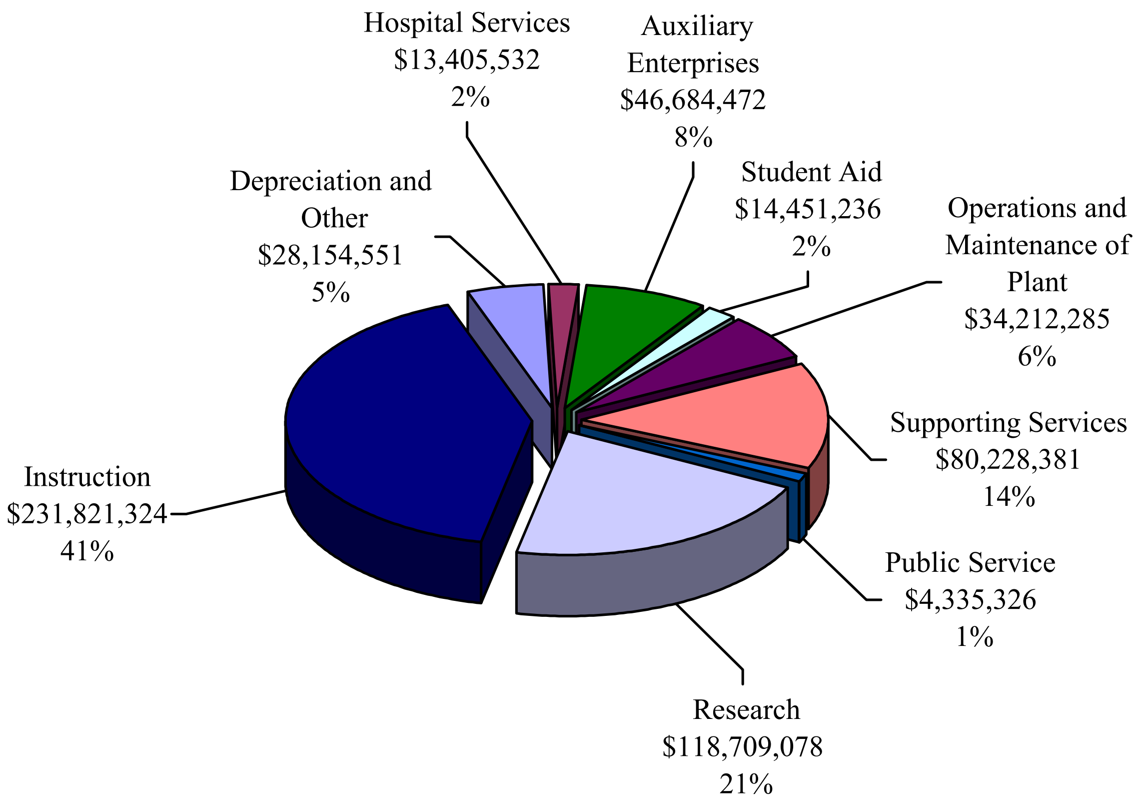
	2005	2004	Increase (Decrease)
Operating revenue	$ 423,205,790	$ 375,460,530	$ 47,745,260
Operating expense	571,702,185	509,237,911	62,464,274
Operating loss	(148,496,395)	(133,777,381)	(14,719,014)
Nonoperating revenues (expenses):			
State appropriations	169,672,005	154,275,981	15,396,024
Investment income (net of investment expense)	4,762,426	4,521,221	241,205
Interest on capital asset-related debt	(7,695,077)	(8,797,810)	1,102,733
Gifts	18,344,687	15,953,944	2,390,743
Other	933,797	-	933,797
Net non-operating revenues (expenses)	186,017,838	165,953,336	20,064,502
Income before other revenues:	37,521,443	32,175,955	5,345,488
Additions to permanent endowments	10,840	223,941	(213,101)
Capital appropriations	10,888,782	15,484,497	(4,595,715)
Capital gifts	437,649	20,647	417,002
Increase in net assets	48,858,714	47,905,040	953,674
Net assets - beginning of year	381,014,488	333,109,448	47,905,040
Net assets - end of year	$ 429,873,202	$ 381,014,488	$ 48,858,714

The following graphs reflect fiscal year 2005 operating revenues and expenses by source:

Operating Revenues



Operating Expenses



- Tuition and fees increased $21.7 million as the result of a 6 percent increase in full-time equivalent enrollment and fall semester tuition and fee increases of 5.5 percent for resident undergraduate students and 5.1 percent for resident graduate students.

- Grant and contract revenue increased $18.1 million as a result of increased awards and the effect of the 49 percent facilities and administrative (indirect) cost rate.

- Auxiliary enterprise revenue increased due to increased demand for dining services and other auxiliary operations.

- Expenses increased $62.5 million, principally due to salary increases and higher research, operation and maintenance of plant, and auxiliary enterprise expenses.

The Statement of Cash Flows

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

The following is a summary Statement of Cash Flows for the University for the year ended June 30, 2005, with comparative data for the year ended June 30, 2004. For more detailed information, see the accompanying Statement of Cash Flows.

	2005	2004	Increase/ (Decrease)
Cash provided/(used) by:			
Operating activities	$(118,351,639)	$(106,790,062)	$(11,561,577)
No capital financing activities	187,420,715	172,480,943	14,939,772
Capital and related financing activities	(64,501,390)	(4,826,893)	(59,674,497)
Investing activities	4,185,019	(2,276,330)	6,461,349
Net increase in cash	8,752,705	58,587,658	(49,834,953)
Cash, beginning of year	168,109,324	109,521,666	58,587,658
Cash, end of year	$ 176,862,029	$ 168,109,324	$ 8,752,705

- The University's operating cash flows decreased due to higher operating expenditures. These expenditures are partially funded by increased state appropriations, which are included in noncapital financing activities.

- The University had higher capital expenditures from debt issued in fiscal year 2004, causing an increase in the use of cash from capital and related financing activities.

Capital Assets and Debt Administration

Capital Assets

Presented next is the schedule of capital assets net of depreciation. Depreciation expense totaled $27.9 million for the University:

	2005	2004
Land	$ 27,949,369	$ 27,949,369
Land improvements and infrastructure	5,077,231	5,328,399
Buildings	308,220,733	294,214,164
Equipment	44,411,109	35,390,561
Library books	9,979,711	11,000,072
Construction-in-progress	60,793,048	37,574,924
Total	$456,431,201	$411,457,489

- The Brandt Hall project was opened for the fall 2005 semester. Capital projects under construction include the Massey Cancer Center Addition and Sanger Hall Lab Renovations.

- The University has requested approval of a $55.6 million project to provide additional recreational facilities on both the Monroe Park Campus and the Medical College of Virginia (MCV) Campus to meet increased demand and to meet the strategic goal of creating an institutional focus on the student experience.

Debt

At June 30, 2005, the University had $222.6 million in debt outstanding.

- The University issued bonds and notes payable in the amount of $10.8 million, the proceeds of the note were used to finance Brandt Hall.

- The University issued $5.9 million in general revenue pledge bonds to refund, in advance of maturities, the University's outstanding Series 1998A, 1999A and 2000A bonds. By refunding the bonds, the University was able to generate present value savings of approximately $250,000.

- $7.8 million of the Commonwealth of Virginia (Commonwealth) revenue bonds (Section 9c bonds) were advance refunded, which generated approximately $300,000 in net present value savings.

<u>Future Financial Effects</u>

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

- State appropriations have been increased to $176.3 million for fiscal year 2006.

- There will be an average 4.5 percent salary increase for teaching and research faculty and an average 4.0 percent increase for adjunct faculty, administrative faculty, and graduate assistants. Classified staff will receive a 3.0 percent increase, plus a longevity adjustment of $50 for each full year of service for classified employees with five or more years of continuous state service.

- In November 2005, the University issued a note to the Virginia College Building Authority (VCBA) in the amount of $18,600,000. The proceeds of the note will be used to finance renovations at Sanger Hall and Hunton Hall and construction of the 8th Street Parking Deck.

- The Board of Visitors approved an increase in tuition and mandatory fee rates of 5 percent and less than 1 percent, respectively, for resident and nonresident students.

- The preliminary University Strategic Plan 2020 will be presented to the Board of Visitors in November 2005. The seven strategic directions to be addressed in the plan are as follows:

- Embracing a World-Class Student Experience
- Taking Our Position Among the Top Research Institutions
- Developing and Sustaining a World-Class Faculty
- Serving VCU's Many Communities
- Accelerating Our Entrepreneurial Spirit, Developing Resource Flexibility, and Assuring Accountability
- Developing a Global Presence
- Leveraging Our Strengths and Building Bridges through Interdisciplinary Activities

- The Virginia Restructured Higher Education Financial and Administrative Operations Act of 2005 (Act), effective July 1, 2005, requires the University to commit to higher education goals in eleven areas listed in the Act:
  - Student access and enrollment
  - Affordability
  - Program availability
  - Academic quality
  - Student retention and degrees conferred
  - Student access to four-year institutions through the Virginia Community College System
  - Economic development
  - Externally funded research
  - Student achievement and teacher development in elementary and secondary education
  - Six-year enrollment, academic, and financial planning
  - Operational efficiency

- The University's Board of Visitors, as required by the Act, passed a resolution committing to these goals on August 1, 2005.

- As required by the Act, the State Council of Higher Education for Virginia (SCHEV) has developed and recommended performance measures for the first nine areas. The measures are subject to approval by the Governor and the 2006 Session of the General Assembly. Following approval, SCHEV will work individually with each Virginia public college and university to define performance benchmarks for each area for fiscal year 2006-2007.

- For the tenth goal area, six-year plans, the Act required the University to prepare and forward six-year enrollment, academic and financial plans, beginning with fiscal year 2006-2007, by October 1, 2005, to SCHEV, the Secretary of Education, the Secretary of Finance, and the General Assembly.

- In the area of administrative and financial operational efficiency, the eleventh goal area, the Governor, as required by the Act, will propose performance benchmarks to the General Assembly by November 15, 2005.

- If the University successfully meets its performance benchmarks during fiscal year 2006-2007, it will be eligible to begin receiving the following benefits:

    - Interest on tuition, fees and other nongeneral fund Educational and General revenue deposited into the State Treasury
    - Reappropriation of unexpended year-end balances
    - A pro rata share of rebates earned by the state on purchase card purchases of $5,000 or less
    - A rebate of transaction fees on sole source procurements using vendors not registered with the state's Web-based eVA electronic procurement system

FINANCIAL STATEMENTS

VIRGINIA COMMONWEALTH UNIVERSITY
STATEMENT OF NET ASSETS
As of June 30, 2005

	University	VCU Health System Authority
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	$ 176,862,029	$ 113,844,437
Short-term investments (Note 2)	11,053,150	66,905,154
Accounts receivable:		
Student, net of allowance of $2,212,431	5,368,024	-
Sponsors, net of allowance of $200,000	18,868,745	-
Health Care, net of allowance of $23,050,000	-	95,378,316
Contributions and gifts	-	-
Due from component units	804,105	-
Due from Commonwealth of Virginia	1,030,798	-
Student loans receivable, current portion	4,419,777	-
Other assets	3,299,368	13,265,214
Total current assets	221,705,996	289,393,121
Noncurrent assets:		
Restricted cash and cash equivalents	-	-
Endowment investments (Note 2)	-	-
Other investments (Note 2)	31,617,648	183,323,385
Contributions and gifts, net of discount and allowance of $960,575	-	-
Student loans receivable, net of allowance of $3,255,679	19,530,285	-
Loans receivable	-	-
Due from component units	48,956,896	716,173
Other long-term assets	6,178,622	7,633,301
Nondepreciable capital assets (Note 4)	88,742,417	26,650,561
Depreciable capital assets, net (Note 4)	367,688,784	272,721,337
Total noncurrrent assets	562,714,652	491,044,757
Total assets	784,420,648	780,437,878

MCV Foundation	VCU Foundation	VCU Real Estate Foundation	VCU School of Engineering Foundation	Eliminations	Total
$ 25,035,000	$ 3,565,231	$ 478,208	$ 6,612,048	$ -	$ 326,396,953
-	-	-		-	77,958,304
-	-	-	-	-	5,368,024
-	-	-	-	-	18,868,745
-	-	-	-	-	95,378,316
3,742,000	3,615,316	162,082	2,644,664	-	10,164,062
-	-	1,360,983	-	(2,165,088)	-
-	-	-	-	-	1,030,798
-	-	-	-	-	4,419,777
-	12,027	1,000	767,084	-	17,344,693
28,777,000	7,192,574	2,002,273	10,023,796	(2,165,088)	556,929,672
-	7,207,341	7,023,257	598,176		14,828,774
123,819,000	32,089,339	-	1,786,885	-	157,695,224
104,019,000	26,793,267	-	22,031,875	-	367,785,175
5,823,000	9,818,271	-	5,047,825	-	20,689,096
-	-	-	-	-	19,530,285
545,000	-	-	-	-	545,000
-	-	-	-	(49,673,069)	-
52,000	-	797,417	914,009	(914,009)	14,661,340
	210,962	4,473,876	252,839		120,330,655
2,045,000	14,075	54,327,413	20,968,804	(19,788,871)	697,976,542
236,303,000	76,133,255	66,621,963	51,600,413	(70,375,949)	1,414,042,091
265,080,000	83,325,829	68,624,236	61,624,209	(72,541,037)	1,970,971,763

VIRGINIA COMMONWEALTH UNIVERSITY
STATEMENT OF NET ASSETS
As of June 30, 2005

	University	VCU Health System Authority
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	56,998,374	176,128,123
Deferred revenue	22,970,805	-
Due to component units	-	1,024,590
Due to Commonwealth of Virginia	2,588,633	-
Long-term liabilities - current portion (Note 8)	13,779,697	17,163,941
Total current liabilities	96,337,509	194,316,654
Noncurrent liabilities:		
Funds held for others (Note 5)	25,876,002	-
Due to component units	-	2,162,507
Other	-	601,670
Long-term liabilities (Note 8)	232,333,935	109,303,377
Total noncurrent liabilities	258,209,937	112,067,554
Total liabilities	354,547,446	306,384,208
NET ASSETS		
Invested in capital assets, net of related debt	268,569,491	218,288,493
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	2,950,001	-
Departmental uses	512,259	18,149,556
Expendable:		
Scholarships and fellowships	3,653,734	-
Research	7,039,951	-
Departmental uses	13,106,458	598,745
Loans	4,728,002	-
Capital projects	444,400	-
Unrestricted	128,868,906	237,016,876
Total net assets	$ 429,873,202	$ 474,053,670

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

MCV Foundation	VCU Foundation	VCU Real Estate Foundation	VCU School of Engineering Foundation	Eliminations	Total
3,411,186	-	1,096,551	-	814	237,635,048
-	-	-	-	-	22,970,805
-	1,360,983	249,919	23,630,107	(26,265,599)	-
					2,588,633
-	173,981	2,703,557	10,000	-	33,831,176
3,411,186	1,534,964	4,050,027	23,640,107	(26,264,785)	297,025,662
-	-	-	-	-	25,876,002
4,704,814	23,274,865	19,531,173	14,127,794	(63,801,153)	-
-	161,101	1,401,016	20	-	2,163,807
-	469,659	38,253,193	20,000	-	380,380,164
4,704,814	23,905,625	59,185,382	14,147,814	(63,801,153)	408,419,973
8,116,000	25,440,589	63,235,409	37,787,921	(90,065,938)	705,445,635
2,045,000	225,037	(173,044)	(1,778,815)	2,927,227	490,103,389
-	-	-	-	-	2,950,001
123,819,000	34,207,104	-	2,546,095	-	179,234,014
-	-	-	-	-	3,653,734
-	-	-	-	-	7,039,951
108,593,000	21,707,439	-	9,720,533	-	153,726,175
-	-	-	-	-	4,728,002
-	-	-	-	-	444,400
22,507,000	1,745,660	5,561,871	13,348,475	14,597,674	423,646,462
$ 256,964,000	$ 57,885,240	$ 5,388,827	$ 23,836,288	$ 17,524,901	$ 1,265,526,128

VIRGINIA COMMONWEALTH UNIVERSITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
As of June 30, 2005

	University	VCU Health System Authority
Operating revenues:		
Student tuition and fees, net of scholarship allowances of $29,870,417	$ 140,481,418	$ -
Federal grants and contracts	155,131,930	-
State grants and contracts	7,843,195	-
Local grants and contracts	903,229	-
Nongovernmental grants and contracts	20,717,987	-
Sales and services of educational departments	15,381,192	-
Auxiliary enterprises:		
Sales and services	41,012,477	-
Student fees, net of scholarship allowances of $1,539,855	21,267,974	-
Hospital services	16,135,183	1,032,799,705
Other revenues	4,331,205	-
Total operating revenues	423,205,790	1,032,799,705
Operating expenses:		
Instruction	231,821,324	-
Research	118,709,078	-
Public service	4,335,326	-
Supporting services:		
Academic support	29,833,801	-
Student services	8,513,387	-
Institutional support	41,881,193	-
Operations and maintenance of plant	34,212,285	-
Student aid	14,151,236	-
Auxiliary enterprises	46,684,472	-
Hospital services	13,405,532	932,397,747
Depreciation expense	27,883,162	33,780,386
Other expenses	271,389	-
Total operating expenses	571,702,185	966,178,133
Operating gain/(loss)	(148,496,395)	66,621,572

MCV Foundation	VCU Foundation	VCU Real Estate Foundation	VCU School of Engineering Foundation	Eliminations	Total
$ -	$ -	$ -	$ -	$ (906,428)	$ 139,574,990
-	-	-	-	-	155,131,930
-	-	-	-	-	7,843,195
-	-	-	-	-	903,229
-	-	-	-	(1,416,748)	19,301,239
-	-	-	-	(315,538)	15,065,654
-	-	-	-	(2,500,008)	38,512,469
-	-	-	-	-	21,267,974
-	-	-	-	(2,888,878)	1,046,046,010
1,249,000	1,044,806	7,998,065	1,369,820	(7,747,097)	8,245,799
1,249,000	1,044,806	7,998,065	1,369,820	(15,774,697)	1,451,892,489
-	539,269	-	-	(40,675)	232,319,918
-	-	-	-	(1,795,696)	116,913,382
-	-	-	-	(17,632)	4,317,694
21,210,000	-	-	-	(10,264,587)	40,779,214
-	-	-	-	-	8,513,387
1,034,000	-	-	-	(2,088)	42,913,105
-	-	2,970,336	28,809	(1,993,709)	35,217,721
1,094,000	-	-	-	-	15,245,236
-	-	-	-	(110,515)	46,573,957
-	-	-	-	(9,113,069)	936,690,210
80,000	-	1,793,149	910,795	(910,795)	63,536,697
783,000	3,975,249	372,228	1,473,558	(4,132,831)	2,742,593
24,201,000	4,514,518	5,135,713	2,413,162	(28,381,597)	1,545,763,114
(22,952,000)	(3,469,712)	2,862,352	(1,043,342)	12,606,900	(93,870,625)

VIRGINIA COMMONWEALTH UNIVERSITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
As of June 30, 2005

	University	VCU Health System Authority
Nonoperating revenues/(expenses):		
State appropriations (Note 21)	169,672,005	-
Gifts	18,344,687	-
Investment income, net of investment expense of $123,539	4,762,426	9,108,983
Interest on capital asset-related debt	(7,695,077)	(4,458,512)
Other	933,797	(13,633,213)
Net nonoperating revenues	186,017,838	(8,982,742)
Income before other revenues	37,521,443	57,638,830
Other revenues:		
Additions to permanent endowments	10,840	-
Capital appropriations	10,888,782	-
Capital gifts	437,649	1,980,696
Decrease in beneficial interest in trusts	-	845,007
Increase in net assets	48,858,714	60,464,533
Net assets - Beginning of year	381,014,488	413,589,137
Net assets - End of year	$ 429,873,202	$ 474,053,670

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

	MCV Foundation	VCU Foundation	VCU Real Estate Foundation	VCU School of Engineering Foundation	Eliminations	Total
	-	-	-	-	-	169,672,005
	30,114,000	14,592,380	-	3,177,692	(26,066,939)	40,161,820
	15,264,000	2,968,867	256,212	1,881,267	(170,380)	34,071,375
	-	-	(2,204,808)	(1,279,300)	-	(15,637,697)
	-	-	-	(1,495,487)	13,572,700	(622,203)
	45,378,000	17,561,247	(1,948,596)	2,284,172	(12,664,619)	227,645,300
	22,426,000	14,091,535	913,756	1,240,830	(57,719)	133,774,675
	2,979,000	297,685	-	255,654	-	3,543,179
	-	-	-	-	-	10,888,782
	-	-	-	-	-	2,418,345
	-	-	-	-	-	845,007
	25,405,000	14,389,220	913,756	1,496,484	(57,719)	151,469,988
	231,559,000	43,496,020	4,475,071	22,339,804	17,582,620	1,114,056,140
	$ 256,964,000	$ 57,885,240	$ 5,388,827	$ 23,836,288	$ 17,524,901	$ 1,265,526,128

VIRGINIA COMMONWEALTH UNIVERSITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2005

	University
Cash flows from operating activities:	
Tuition and fees	$ 140,760,552
Grants and contracts	178,557,100
Auxiliary enterprise charges	62,373,496
Hospital services charges	16,135,183
Payments to suppliers	(170,756,446)
Payments to employees	(364,826,110)
Loans issued to students	(4,049,288)
Collection of loans to students	4,474,879
Other receipts	18,978,995
Net cash used by operating activities	(118,351,639)
Cash flows from noncapital financing activities:	
State appropriations	169,672,005
Direct lending receipts	124,792,905
Direct lending disbursements	(124,792,905)
Gifts	17,944,846
Virginia Commonwealth University Health System Authority loan repayment	196,792
Noncapital long term-debt payments	(392,928)
Net cash provided by noncapital financing activities	187,420,715
Cash flows from capital financing activities:	
Proceeds from issuance of note payable	25,559,274
State appropriations for capital assets	10,888,782
Gifts for capital assets	437,649
Purchase of capital assets	(70,432,111)
Principal paid on capital-related debt	(22,191,267)
Interest paid on capital-related debt	(8,763,717)
Net cash used by capital financing activities	(64,501,390)

VIRGINIA COMMONWEALTH UNIVERSITY
STATEMENT OF CASH FLOWS (Continued)
For the Year Ended June 30, 2005

		University
Cash flows from investing activities:		
Proceeds from sales and maturities of investments		130,225,858
Purchases of investments		(129,148,156)
Investment income		3,107,317
Net cash provided by investing activities		4,185,019
Net increase in cash		8,752,705
Cash and cash equivalents - Beginning of year (As restated - Note 25)		168,109,324
Cash and cash equivalents - End of year	$	176,862,029
RECONCILIATION OF NET OPERATING EXPENSES TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating gain/(loss)	$	(148,496,395)
Adjustments to reconcile net gain/(loss) to net cash used by operating activities:		
Depreciation expense		27,883,162
Provision for uncollectible accounts		71,078
Changes in assets and liabilities:		
Receivables		(822,782)
Other assets		(294,836)
Accounts payable		5,238,658
Deferred revenue		(3,493,540)
Compensated absences and deferred compensation		(858,440)
Deposits		143,397
Other liabilities		2,278,059
Net cash used by operating activities	$	(118,351,639)

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

NOTES TO FINANCIAL STATEMENTS

VIRGINIA COMMONWEALTH UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As one of only three Carnegie Doctoral/Research University-Extensive Universities in Virginia, The 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 29,000 undergraduate, graduate, and professional students pursue more than 181 degree and certificate programs on the University's two campuses: the Monroe Park Campus, situated in the historic Fan District, and the Medical College of Virginia (MCV) Campus, located two miles east in the commercial and governmental district of downtown Richmond. The University's 15 schools and one college include the School of Engineering, one of the largest School of Arts in the country, as well as the South's oldest School of Social Work. The University also is the site for the Virginia Commonwealth University Health System Authority (Authority), one of the most comprehensive academic health centers in the nation. In addition, the University operates the Virginia Commonwealth University School of the Arts in Qatar, which offers degree programs in the design professions to the citizens of Qatar.

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

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

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

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

A. Reporting Entity

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

In accordance with Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, the financial statements include the MCV Foundation, Virginia Commonwealth University Foundation, Virginia Commonwealth University Real Estate Foundation, and Virginia Commonwealth University School of Engineering Foundation. Statement 39 provides additional guidance to determine whether certain organizations for which the University is not financially accountable should be reported as component units. Generally, it requires an organization that raises and holds economic resources for the direct benefit of the University be reported as a component unit.

The Authority is a public corporate body and political subdivision of the Commonwealth of Virginia created and established by an Act of the General Assembly of the Commonwealth of Virginia during 1996. The Authority is a tax-exempt, not-for-profit organization under the provisions of Internal Revenue Code Section 115.

The Authority's principal activity is the operation of the Medical College of Virginia Hospitals (the Hospitals), University Health Services, Inc. and Subsidiaries (UHS) and MCV Associated Physicians (MCVAP). The Hospitals, a division of the Authority, is an approximately 900-bed teaching hospital which provides inpatient and outpatient services primarily to patients in the Commonwealth of Virginia. MCVAP, formed in 1991 as a 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.

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

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

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

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

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

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 10:

- Virginia Biotechnology Research Park Authority
- University Alumni Association
- MCV Alumni Association of the University
- MCV/VCU Dental Faculty Practice Association

B. Basis of Accounting

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

Pursuant to 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 FASB that do not contradict or conflict with GASB pronouncements, including those issued after November 30, 1989. The University applies only those FASB pronouncements issued prior to November 30, 1989.

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

C. Cash and Cash Equivalents

In accordance with the GASB Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting,* cash and cash equivalents consist of cash on hand, money market funds, and temporary highly liquid investments with and original maturity of three months or less.

D. Allowance for Uncollectible Receivables

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

E. Pledges Receivable

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

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

F. Investments

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

G. Inventories

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

H. Investment Income

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

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

I. 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. Enrollment in the VSDP is irrevocable, and no additional enrollments are planned. Under VSDP, unused VSDP sick leave, and family and personal leave, balances do not carry forward from one year to the next, and employees are not paid for unused balances upon termination. The converted short-term disability credits of classified employees are payable upon termination in accordance with the Commonwealth's sick leave payout policy discussed below. Faculty who converted sick leave balances to short-term disability credits are not compensated for these balances at termination.

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

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

The University records a liability for all unused annual, non-VSDP sick and compensatory leave and unused short-term disability credits as well as related fringe benefits. 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 '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.

J. Capital Assets

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

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

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

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

K. Hospital Services

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

L. Uncompensated Care

The Authority provides care to patients who meet certain criteria under its indigent care policy without charge or at amounts less than its established rates. Because the Authority does not pursue collection of amounts determined to qualify as uncompensated care, the charges are not reported as revenue. The costs of providing these services are included in operating expenses. Uncompensated care, which represents the difference between charges of the services provided and the costs of those respective services, approximated $145,810,000 for the year ended June 30, 2005.

M. Net Patient Service Revenue

Net patient service revenue is reported in hospital services at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, 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 payers follows:

- Anthem Inpatient acute care services rendered to Anthem subscribers are paid at a per diem rate or discounted rate. Outpatient services rendered to Anthem subscribers are reimbursed at discounted rates or applicable fee schedule. The rates are not subject to retroactive adjustment.

- Medicare Inpatient acute care services and defined capital costs rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates may vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient non-acute services, certain outpatient services and education related to Medicare beneficiaries are paid based on prospectively determined rates and a discounted cost reimbursement methodology. The Authority is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare fiscal intermediary. The Authority's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2001.

- 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 $217 million in 2005. The Authority's Medicaid cost reports have been audited by the Medicaid program representative through June 30, 2002.

In accordance with the third-party payer agreements, the difference between payment for services and the Authority's standard billing rates results in contractual adjustments. Contractual adjustments are recorded as deductions from patient service revenue in the period in which the related services are rendered. The annual settlements of reimbursement for patient's 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 increased by approximately $5,800,000 in 2005, 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 (CMSIP) and Aged, Blind and Disabled (ABD) residents of Virginia through a health maintenance organization (HMO). VA Premier recognizes premiums received from DMAS for members in the period to which health care coverage relates. All of VA Premier's premiums were earned from contracts with DMAS.

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. Net Assets

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

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

The Authority's investment balances include resources restricted for debt service under a bond indenture agreement, resources restricted under malpractice trust agreement, resources restricted by insurance regulations of the Commonwealth, and resources restricted under the pension plan agreement.

The Authority's restricted net assets consist principally of beneficial interests in perpetual trust funds established by split interest agreements. Split interest agreements are trust agreements established by donors under which the Authority receives benefits that are shared with other beneficiaries. The trust agreements established by donors provide for a third party to hold the trust assets. These trusts do not permit donors to revoke their charitable contributions. Trust assets of $18,151,000, which are restricted by donors for the Authority in perpetuity, are reported at fair value, which approximates the present value of the future cash receipts from the trust assets.

R. Scholarship Allowances and Student Aid

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

S. Intangibles

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

T. Revenue and Expense Classifications

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

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

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

2. CASH AND INVESTMENTS

Cash

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

Investments

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

In accordance with 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.

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

As of June 30, 2005, the University held the following investments:

Investment Type:	Fair Value	Investment Maturities (In Years) <1	1-5	6-10	>10
U.S. treasury and agency securities	$12,262,737	$ 3,745,666	$ 6,215,145	$ 387,186	$1,914,740
Corporate notes	2,706,283	506,694	1,572,433	627,156	-
Corporate bonds	6,118,923	1,771,548	3,293,739	631,472	422,164
Commercial paper	1,046,186	1,046,186	-	-	-
Municipal securities	124,430	-	-	-	124,430
Asset backed securities	4,250,587	670,547	2,941,337	294,957	343,746
Agency mortgage backed securities	13,935,208	3,054,469	560,009	3,353,008	6,967,722
Common stock	701,011	N/A	N/A	N/A	N/A
Securities lending	601,615	601,615	-	-	-
Mutual and money market funds	923,818	817,938	105,880	-	-
Total	$42,670,798	$12,214,663	$14,688,543	$5,293,779	$9,772,802

As of June 30, 2005, the Moody's ratings of the University's investments in corporate notes and bonds, commercial paper and municipal securities were as follows:

Rating	Corporate Notes	Corporate Bonds	Commercial Paper	Municipal Securities
AAA	$ -	$ 259,519	$ -	$ -
AA	332,660	1,590,951	1,046,186	124,430
A-1	1,372,858	1,785,152	-	-
A-2	557,223	1,479,009	-	-
A-3	443,542	948,413	-	-
BAA	-	55,879	-	-
Total	$2,706,283	$6,118,923	$1,046,186	$124,430

Authority:

Investment Type:	Fair Value	Investment Maturities (In Years) <1	1-5	6-10	>10
Cash and cash equivalents	$ 39,155,757	$ 39,155,757	$ -	$ -	$ -
Money market	571,314	571,314	-	-	-
Mutual funds	15,542,628	N/A	N/A	N/A	N/A
Marketable equity securities	5,892,865	N/A	N/A	N/A	N/A
U.S. treasury notes	58,750,643	29,136,894	19,050,857	2,597,569	7,965,323
Commercial paper	30,206,281	30,206,281	-	-	-
Asset backed securities	10,398,335	-	6,770,110	2,793,414	834,811
Agency backed mortgages	44,090,502	19,323,008	6,039,063	5,756,135	12,972,296
Corporate notes	18,428,609	1,804,185	10,904,810	5,128,177	591,437
Corporate bonds	8,364,365	1,848,685	2,273,174	2,120,379	2,122,127
Foreign bonds/notes	544,382			488,594	55,788
Interest receivable	153,663	153,663	-	-	-
Beneficial interest in trust	18,129,195	-	-	-	18,129,195
Total	$250,228,539	$122,199,787	$45,038,014	$18,884,268	$42,670,977

Investments held at the foundations as of June 30, 2005 were as follows:

	Fair Value	Cost
MCV Foundation:		
U. S. treasury and agency securities	$ 57,912,000	$ 57,702,000
Common and preferred stocks	62,901,000	47,465,000
Corporate bonds	30,370,000	30,085,000
Index funds	75,501,000	52,770,000
Life income investment	204,000	204,000
Real estate	950,000	950,000
Total	$227,838,000	$189,176,000
VCU Foundation:		
U. S. treasury and agency securities	$ 4,627,935	$ 4,623,036
Common and preferred stocks	25,630,345	22,790,041
Corporate bonds	5,986,963	5,892,053
Index funds	22,637,363	21,637,494
Total	$ 58,882,606	$ 54,942,624
VCU School of Engineering Foundation:		
Common and preferred stocks	$ 356,333	$ 306,676
Fundamental managers funds, L.P.	13,567,562	13,567,562
Private advisors small company buyout fund, L.P.	782,500	782,500
Private advisors hedged equity fund, L.P.	2,693,095	2,693,095
Private advisors stable value fund, LTD	6,419,270	6,419,270
Total	$ 23,818,760	$ 23,769,103

3. JOINT VENTURES AND EQUITY INVESTMENTS

Investment in 7th and Marshall Corporation

Included in other long-term assets on the accompanying statement of net assets is a capital contribution to 7th and Marshall Corporation of $500,000. UHS and Hospital Hospitality House, Inc. are the sole members of the 7th and Marshall Corporation, a not-for-profit corporation formed to support the charitable, educational and scientific activities of UHS and Hospital Hospitality House, Inc. The 50 percent investment in 7th and Marshall Corporation is accounted for under the equity method of accounting. The investment is carried at $376,251.

4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
University:				
Nondepreciable capital assets:				
Land	$ 27,949,369	$ -	$ -	$ 27,949,369
Construction-in-progress	37,574,924	51,025,806	27,807,682	60,793,048
Total nondepreciable assets	65,524,293	51,025,806	27,807,682	88,742,417
Depreciable assets:				
Land improvements and infrastructure	13,569,966	727,922	20,400	14,277,488
Buildings	462,495,643	27,079,760	492,294	489,083,109
Equipment	97,687,801	18,613,794	11,310,324	104,991,271
Library books	84,077,956	3,966,522	-	88,044,478
Total cost of capital assets	657,831,366	50,387,998	11,823,018	696,396,346
Less accumulated depreciation for:				
Land improvements and infrastructure	8,241,567	979,090	20,400	9,200,257
Buildings	168,281,479	13,047,051	466,154	180,862,376
Equipment	62,297,240	8,870,138	10,587,216	60,580,162
Library books	73,077,884	4,986,882	-	78,064,766
Total accumulated depreciation	311,898,170	27,883,161	11,073,770	328,707,561
Total depreciable capital assets, net	345,933,196	22,504,836	749,248	367,688,784
Total capital assets – net	$411,457,489	$73,530,642	$28,556,930	$456,431,201
Authority:				
Land	$ 2,683,248	$ -	$ 967,223	$ 1,716,025
Buildings	295,260,184	15,642,567	-	310,902,751
Equipment	253,750,153	22,709,879	5,734,412	270,725,620
Construction-in-progress	4,461,741	29,807,548	9,334,753	24,934,536
Total cost of capital assets	556,155,326	68,159,994	16,036,388	608,278,932
Less accumulated depreciation for:				
Buildings	112,517,802	13,621,724	-	126,139,526
Equipment	166,909,899	19,911,219	4,053,610	182,767,508
Total accumulated depreciation	279,427,701	33,532,943	4,053,610	308,907,034
Total capital assets – net	$276,727,625	$34,627,051	$11,982,778	$299,371,898
MCV Foundation:				
Property and equipment – net:				
Depreciation	$ 2,103,000	$ 21,000	$ 79,000	$ 2,045,000

	Beginning Balance	Additions	Reductions	Ending Balance
VCU Foundation:				
Property and equipment – net:				
Depreciation	-	16,890	2,815	14,075
Land and building-not depreciated	210,962	-	-	210,962
Total	$ 210,962	$ 16,890	$ 2,815	$ 225,037
VCU Real Estate Foundation:				
Land and buildings	$ 53,380,315	$ 7,338,979	$ -	$ 60,719,294
Construction-in-progress	-	4,473,876	-	4,473,876
Total cost of capital assets	53,380,315	11,812,855	-	65,193,170
Less accumulated depreciation	4,625,890	1,765,991	-	6,391,881
Total capital assets – net	$ 48,754,425	$10,046,864	$ -	$ 58,801,289
VCU School of Engineering Foundation:				
Land and buildings	$ 26,994,859	$ -	$ -	$ 26,994,859
Construction-in-progress	225,227	27,612	-	252,839
Total cost of capital assets	27,220,086	27,612	-	27,247,698
Less accumulated depreciation	5,154,819	871,236	-	6,026,055
Total before eliminations	22,065,267	(843,624)	-	21,221,643
Less included on University	20,660,107	(871,236)	-	19,788,871
Total capital assets - net	$ 1,405,160	$ 27,612	$ -	$ 1,432,772

5. FUNDS HELD FOR OTHERS

At June 30, 2005, the University held deposits for others, which are composed of the following:

	Funds held for others
Federal loan programs	$23,170,584
Student organizations and others	2,705,418
Total	$25,876,002

6. VIRGINIA COMMONWEALTH UNIVERSITY FACULTY EARLY RETIREMENT INCENTIVE PLAN

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

The Plan provides an annuity for five years from the date of retirement equal to 20 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, 2005, 62 faculty members were enrolled in the Plan. Payments during fiscal year 2005 were $950,073. The present value of future Plan payments schedule follows:

Fiscal Year	Plan Obligations
2006	$ 822,408
2007	734,873
2008	588,540
2009	349,703
2010	241,749
2011-2015	73,475
Total	$2,810,748

7. VIRGINIA COMMONWEALTH UNIVERSITY FACULTY ALTERNATIVE SEVERANCE OPTION

The University established a Faculty Alternative Severance Option Policy (FASO) whereby certain University faculty are eligible to receive defined severance benefits or, in some instances, enhanced retirement benefits (VRS employees only) upon their resignation or retirement from the University. Participating academic and administrative units must develop business plans designed to achieve strategic budget reductions, program modifications and/or the elimination of positions. Faculty who hold certain teaching, research, administrative and/or professional faculty positions in areas that are targeted in the business plans for modification or reduction and meet the eligibility criteria defined in the policy are eligible. FASO is not an early retirement program.

Under FASO, severance benefits include severance pay for up to 36 weeks of University salary depending on years of continuous service and employer contributions for health and life insurance coverage for up to 12 months. Enhanced retirement benefits are available through the VRS Defined Benefit Retirement Program with retirement income based on average salary, age, and length of service. In lieu of the severance benefits, eligible faculty may elect to have the University purchase additional years of age or service credit, thereby enhancing their overall VRS retirement income. All benefits under this program were paid during fiscal year 2005.

8. LONG TERM LIABILITIES

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

Bonds Payable

The Commonwealth issues bonds for agencies and institutions of the Commonwealth. The University has received a portion of the proceeds to fund capital construction. The University recognizes a liability associated with its share of the bonds and remits principal and interest payments related to this liability to the Treasurer of Virginia. The General Revenue Pledge Bonds (Section 9d Bonds) carry interest rates of 1.5 percent to 5.75 percent and are due through 2033. The Commonwealth Revenue Bonds (Section 9c Bonds) carry interest rates of 2.5 percent to 5.5 percent and are payable through 2017. Included in the total General Revenue Pledge Bonds are outstanding bonds payable in the amount of $18,815,000, which will be repaid by the VCU Real Estate Foundation. Of the total Commonwealth Revenue Bonds, outstanding bonds payable in the amount of $2,317,508 will be repaid by the Authority.

Virginia College Building Authority

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

Virginia Public Building Authority

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

Virginia Biotechnology Research Park Authority

As more fully described in Note 10, the University occupies space owned by the Virginia Biotechnology Research Park Authority. For accounting purposes, this arrangement is considered to be a capital lease with an imputed interest rate of 9 percent.

Defeasance of Debt

In the current year, the University issued a $5.9 million note payable with an average interest rate of 5% to advance refund $5.9 million of 1998A, 1999A and 2000A Series VCBA bonds with an average interest rate of 5.41%. The net proceeds of $6.5 million were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1998A, 1999A and 2000A Series bonds issued by the VCBA. As a result, the VCBA bonds are considered to be defeased and the University has removed the liability for those notes from the statement of net assets. The University obtained an economic gain of $300,000 from the advance refunding. The 2004A and 2004B Series VCBA Educational Revenue Bonds were issued at a premium of $600,000 in excess of the face value of the bonds. That premium is reported in the long-term debt section of the financial statements.

In the current, year, the Commonwealth of Virginia issued General Obligation Refunding bonds, Series 2004 B to advance refund 1997 Series General Obligations Bonds, of which the University had a share. The University's share of the Series 2004 B bonds issued was $7.7 million. The University's share of debt that was advance refunded was $7.8 million.

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

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

University:	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable:					
General revenue pledge bonds	$ 66,745,000	$ -	$ 3,150,000	$ 63,595,000	$ 3,285,000
Commonwealth of Virginia Revenue bonds	23,004,307	7,722,965	10,008,859	20,718,413	1,839,301
Total bonds payable	89,749,307	7,722,965	13,158,859	84,313,413	5,124,301
Notes payable:					
Virginia College Building Authority	112,972,607	17,836,309	8,730,574	122,078,342	3,285,000
Capital leases:					
Virginia Public Building Authority	11,901,825	-	885,308	11,016,517	933,327
Virginia Biotechnology Research Park Authority	5,190,842	-	261,358	4,929,484	287,299
Total capital leases	17,092,667	-	1,146,666	15,946,001	1,220,626
Installment purchases	460,724	11,645	243,669	228,700	216,898
Total long-term debt	220,275,305	25,570,919	23,279,768	222,566,456	9,846,825
Compensated absences	20,306,074	16,047,086	15,616,732	20,736,428	3,110,464
Deferred compensation	4,099,543	1,218,080	2,506,875	2,810,748	822,408
Total	$244,680,922	$42,836,085	$41,403,375	$246,113,632	$13,779,697
Authority:					
Bonds payable:					
General Revenue Pledge Bonds	$ 65,080,000	$ -	$ 1,995,000	$ 63,085,000	$ 2,080,000
Capital leases	2,270,246	6,663,746	1,777,858	7,156,134	1,313,635
Installment purchases	7,078,906	4,181,362	2,735,504	8,524,764	2,850,203
Total long-term debt	74,429,152	10,845,108	6,508,362	78,765,898	6,243,838
Estimated losses on malpractice claims	24,907,942	8,729,241	1,934,983	31,702,200	1,500,000
Compensated absences	15,125,237	2,504,349	1,630,366	15,999,220	9,420,103
Total	$114,462,331	$22,078,698	$10,073,711	$126,467,318	$17,163,941
VCU Foundation:					
Notes payable	$ 818,306	$ -	$ 174,666	$ 643,640	$ 173,981

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
VCU Real Estate Foundation:					
Tax exempt bonds payable	$ 15,540,000	$ 5,200,000	$ 280,000	$ 20,460,000	$ 441,000
Notes payable	15,850,761	6,805,535	2,159,546	20,496,750	2,262,557
Total	$ 31,390,761	$12,005,535	$ 2,439,546	$ 40,956,750	$ 2,703,557
VCU School of Engineering Foundation:					
Notes payable	$ 40,000	$ -	$ 10,000	$ 30,000	$ 10,000

Long-term debt matures as follows:

	Fiscal Year	Revenue Bonds	Notes Payable	Capital Leases	Installment Purchases	Total
University:						
	2006	$ 5,124,301	$ 3,285,000	$ 2,247,713	$ 216,898	$ 10,873,912
	2007	5,351,029	4,305,000	2,246,869	11,802	11,914,700
	2008	5,476,146	4,470,000	2,245,505	-	12,191,651
	2009	5,632,231	4,695,000	2,244,255	-	12,571,486
	2010	5,792,900	4,875,000	2,244,956	-	12,912,856
	2011-2015	28,496,505	28,220,000	9,673,017	-	66,389,522
	2016-2020	15,040,301	35,085,000	959,832	-	51,085,133
	2021-2025	5,560,000	27,980,000	-	-	33,540,000
	2026-2030	4,555,000	2,175,000	-	-	6,730,000
	2031-2035	3,285,000	-	-	-	3,285,000
Add: Unamortized Premium		-	6,988,342	-	-	6,988,342
Less: Interest		-	-	(5,916,146)	-	(5,916,146)
	Total	$84,313,413	$122,078,342	$15,946,001	$ 228,700	$222,566,456
Authority:						
	2006	2,080,000	-	1,523,792	2,850,203	6,453,995
	2007	2,175,000	-	1,523,791	1,907,638	5,606,429
	2008	2,270,000	-	1,523,792	948,361	4,742,153
	2009	2,385,000	-	1,411,816	945,608	4,742,424
	2010	2,500,000	-	1,432,104	978,444	4,910,548
	2011-2015	14,490,000	-	438,386	664,786	15,593,172
	2016-2020	18,580,000	-	-	229,724	18,809,724
	2021-2025	18,605,000	-	-	-	18,605,000
Less: Interest		-	-	(697,547)	-	(697,547)
	Total	$63,085,000	$ -	$ 7,156,134	$8,524,764	$ 78,765,898

	Fiscal Year	Revenue Bonds	Notes Payable	Capital Leases	Installment Purchases	Total
VCU Foundation:						
	2006	-	173,981	-	-	173,981
	2007	-	181,870	-	-	181,870
	2008	-	287,789	-	-	287,789
	Total	$ -	$ 643,640	$ -	$ -	$ 643,640
VCU Real Estate Foundation:						
	2006	441,000	2,262,557	-	-	2,703,557
	2007	463,000	907,824	-	-	1,370,824
	2008	485,000	17,229,046	-	-	17,714,046
	2009	508,000	9,177	-	-	517,177
	2010	536,000	9,939	-	-	545,939
	Thereafter	18,027,000	78,207	-	-	18,105,207
	Total	$20,460,000	$ 20,496,750	$ -	$ -	$ 40,956,750
VCU School of Engineering Foundation:						
	2006	-	$ 10,000	$ -	$ -	$ 10,000
	2007	-	10,000	-	-	10,000
	2008	-	10,000	-	-	10,000
	Total	$ -	$ 30,000	$ -	$ -	$ 30,000

A summary of future interest requirements is as follows:

	Fiscal Year	Revenue Bonds	Notes Payable	Total
University:				
	2006	$ 3,329,024	$ 5,439,455	$ 8,768,479
	2007	3,121,087	5,292,564	8,413,651
	2008	2,964,344	5,101,060	8,065,404
	2009	2,813,092	4,903,247	7,716,339
	2010	2,649,518	4,691,324	7,340,842
	2011-2015	10,138,442	19,491,990	29,630,432
	2016-2020	4,834,714	11,571,123	16,405,837
	2021-2025	2,462,575	3,319,171	5,781,746
	2026-2030	1,448,750	51,656	1,500,406
	2031-2035	316,825	-	316,825
	Total	$34,078,371	$59,861,590	$93,939,961

	Fiscal Year	Revenue Bonds	Notes Payable	Total
Authority:				
	2006	3,087,421	-	3,087,421
	2007	2,991,721	-	2,991,721
	2008	2,878,221	-	2,878,221
	2009	2,758,971	-	2,758,971
	2010	2,633,971	-	2,633,971
	2011-2015	11,088,643	-	11,088,643
	2016-2020	6,767,563	-	6,767,563
	2021-2025	1,489,581	-	1,489,581
	Total	$33,696,092	$ -	$33,696,092

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

University

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

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

The University's payroll costs, excluding accrued payroll, for employees covered by the VRS for the year ended June 30, 2005 were $136,514,206. The University's total payroll costs for the year were $307,550,310.

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 $17,302,048 for the year ended June 30, 2005, which included the 5 percent employee contribution assumed by the employer. These contributions represent 22 percent of covered payroll for law enforcement employees and 8.9 percent of covered payroll for employees covered by VRS.

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, 2005. 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. Contributions to other retirement plans were calculated using the base salary $109,521,587 in fiscal year 2005. Total pension costs under these plans were $11,390,245 in fiscal year 2005.

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

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

Authority

Prior to July 1, 1997, employees of the Authority were employees of the Commonwealth of Virginia (the Commonwealth). These employees are eligible to participate in a defined benefit pension plan administered by the 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 were approximately $4,879,800.

Effective July 1, 1997, the Authority established the Virginia Commonwealth University Health System Authority Defined Contribution Plan (the Plan). All employees working at least 20 hours of service per week are eligible to participate in the Plan. Per the Plan document, as approved by the Authority's Board of Directors, the Authority contributes up to 10 percent of the Participant's salary to the Plan not to exceed the lesser of the amount in accordance with Code 415(d) or 100 percent of the Participant's Compensation for such limitation year. Total contributions to the Plan for the year were approximately $8,217,000. The Authority shall have the right at anytime, and without the consent of any party, to terminate the Plan in its entirety. The Authority's Board of Directors must approve in writing any changes to the provisions of the Plan, including the contribution requirements.

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. All significant provisions of the HCP Plan, including the contribution requirements, are similar to the Plan. Total contributions to the HCP Plan for the year were approximately $30,400.

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

	2005
Fidelity Investments	$30,747,110
TIAA/CREF	22,494,953
VALLIC	11,237,421
Net assets available for plan benefits	$64,479,484

MCVAP sponsors the MCVAP 401(a) Retirement Plan (the 401(a) Plan), a noncontributory, defined contribution plan which covers substantially all full-time clinical provider employees of MCVAP. Contributions to the 401(a) Plan by MCVAP, as determined annually at the discretion of the Board of Directors, were approximately $5,288,000 for the year.

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

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

The contributions to the VCUHS 401(a) Plan and the VCUHS 457(b) Plan were $2,210,000. 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 to 15 percent of their compensation. VA Premier will match 50 percent of the employees' contributions up to 4 percent of the employees' compensation. Matching will occur based on the bi-weekly pay periods. In addition, VA Premier contributes 3 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 was approximately $463,000.

10. RELATED PARTIES

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

Virginia Biotechnology Research Park 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 34,439 square feet of Biotech One under a capital lease as shown in Note 8. 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.

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 $216,816 in 2005 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 $87,557 in 2005 as the principal source of funding for the Association's operation.

MCV/VCU Dental Faculty Practice Association

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

11. 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 $11,745,123 at June 30, 2005, was held in trust by others. These assets are not included in the University's balance sheet.

12. COMMITMENTS

The University and the Authority are party to various construction commitments. At June 30, 2005, the remaining commitments were $19,095,425 for the University and approximately $36,100,000 for the Authority.

The University also is committed under various operating leases (for buildings, computer equipment, business equipment, etc.). The University has renewal options on the leased assets for another similar term. In most cases, the University expects that, in the normal course of business, these leases will be replaced by similar leases. Rental expense for the fiscal year ended June 30, 2005, was $3,564,020 for the University and $7,352,000 for the Authority. In addition, the University reimburses the Commonwealth of Virginia $141,735 annually for the use of space in a facility owned by the Commonwealth.

The University has, as of June 30, 2005, the following total future minimum rental payments due under the above leases.

Fiscal Year	University	Authority
2006	$ 3,810,583	$3,799,477
2007	2,506,344	2,773,444
2008	1,586,636	1,790,100
2009	1,157,856	1,084,946
2010	585,090	-
2011-2015	416,074	-
2016-2020	224,206	-
Total	$10,233,198	$9,447,967

13. LITIGATION

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

14. TRANSACTIONS BETWEEN COMPONENT UNITS

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

The VCU Foundation and the MCV Foundation hold the University's investments that function as endowments, both true and quasi. As of June 30, 2005, the VCU Foundation and the MCV Foundation held University investments of $23,274,865 and $4,704,814 respectively. The University has a due from component units for these investments, which is eliminated in the total column.

The VCU School of Engineering Foundation has constructed a building, using the proceeds of debt issued by the University. The building is leased to the University for $1 per year. The VCU School of Engineering Foundation transfers sufficient funds to the University annually to fund the debt service. The University reports the building and the liability for the outstanding debt on the Statement of Net Assets. The annual transfer is recorded on the University as a gift received. The VCU School of Engineering Foundation reports the building, deferred bond issuance costs, prepaid bond interest, a liability to the University, and accrued contribution to the University on its financial statements, all of which are eliminated in the Statement of Net Assets.

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

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

The VCU Real Estate Foundation acquires facilities and rents them to the University and VCU Health System. Those rental expenses are eliminated from operations and maintenance expenses and other revenues. On February 1, 2003, the VCU Real Estate Foundation entered into a financing and support agreement with the University for the Broad and Belvidere student housing facility. Under the terms of the agreement, the VCU Real Estate Foundation agreed to develop and construct the project and provide for payment of debt service. In return, the University issued $19,200,000 of its tax-exempt general revenue pledge bonds, as shown in Note 8, to fund construction and agreed to operate the facility as part of its student housing system. The University reports the bonds as Long term liabilities on the Statement of Net Assets and the VCU Real Estate Foundation reports the bonds as a Due to the University on its financial statements. The Due to the University is eliminated from the VCU Real Estate Foundation's financial statements.

The University and VCU Health System support each other through the sharing of capabilities and resources. Reimbursements of costs are made between the entities to insure that each entity bears the proper portion of costs. Those transactions are eliminated between the revenue recorded and the expense category so that the expense is included in the expense category that reflects the service delivered to the student or public. In conjunction with a transfer agreement associated with the formation of the Authority, the University transferred to the Authority parking deck E. The Authority assumed responsibility for the payments on the associated construction debt. Debt is payable to the University in installments beginning 2003 through 2016. The parking deck and its related debt are reported on the Authority's financial statements. The related debt for the parking deck is recorded on the University's financial statements. The liability associated with the related debt is eliminated from the University's Statement of Net Assets.

15. SUBSEQUENT EVENT

In November 2005, the University issued a note to the Virginia College Building Authority (VCBA) in the amount of $18,600,000. The proceeds of the note will be used to finance the 8th Street Parking Deck, Hunton and Sanger Hall Renovations. The note bears interest at rates ranging from 3 percent to 5 percent payable in the years 2006 through 2026.

16. CONTINGENCIES

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

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

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

There have been malpractice claims asserted against the Hospitals by various claimants. The claims are in various stages of processing and some may ultimately be brought to trial. There are also known incidents that have occurred through June 30, 2005 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, 2005. At June 30, 2005, the Hospitals' management accrued professional liability losses to the extent they fall within the limits of the Hospitals' self-insurance program or exceed the limits of the excess insurance coverage. The liability for medical malpractice at June 30, 2005 includes approximately $6,920,000 for claims and related legal expenses for reported and unreported incidents occurring since July 1, 1998. The liability (discounted at 5 percent) was actuarially determined combining industry data and the Hospitals' historical experience.

A revocable trust has been established and is funded for payment of malpractice claims and related expenses. At June 30, 2005, the medical malpractice trust fund for the Hospitals includes approximately $6,904,000.

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

In addition, MCVAP was self-insured for any claims in excess of its insurance coverage with URIC. The Board set aside funds to be used to fund estimated losses based on actuarially determined reserves. At June 30, 2004, assets whose use is limited included $9,979,709 that was designated by the Board to fund malpractice claims. Also, estimated losses on malpractice claims (discounted at 5 percent) included $9,979,709 at June 30, 2004, in addition to the amount recorded under the URIC agreement.

During fiscal year 2005, MCVAP terminated its contract with the Universal Re-Insurance Company and became self-insured for all malpractice claims. As such, the Board sets aside funds to be used to fund estimated losses based on actuarially determined reserves. At June 30, 2005, assets whose use are limited include $28,256,780 that has been designated by the Board to fund malpractice claims. In addition, estimated losses on malpractice claims (discounted at 5 percent) were approximately $24,782,000 at June 30, 2005.

Estimated claims liabilities are recorded based on factors such as actual claims history and the percentage of certainty that actual losses will not exceed the reserve recorded. During the fiscal year ended June 30, 2005, the accrual for estimated claims was calculated based on an assumption of 90 percent certainty (90 percent confidence level) that the actual losses related to professional liability would not exceed the reserve recorded.

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

VA Premier maintains general and professional liability policies. The general liability policy in force is occurrence-based. The coverage under the professional liability policy is on a claims-made basis and must be renewed or replaced with the equivalent insurance if claims incurred during its terms, but asserted after its expiration, are to be insured. Coverage limits for the general liability policy are $1 million per occurrence and $3 million annual aggregate. The coverage limits for the professional liability policy are $5 million per medical incident and $5 million annual aggregate. Management does not believe the amount of liability for any claims incurred but unreported as of June 30, 2005 is significant.

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

17. STOP-LOSS COVERAGE

VA Premier has a stop-loss arrangement to limit its losses on individual claims. This contract provides stop-loss coverage for all VA Premier enrollee claims. This contract provides coverage for 100 percent of certain hospital claims in excess of $100,000 subject to certain limitations and an annual limit of $1,000,000 per enrollee and a lifetime limit of $2,000,000 per enrollee. Reinsurance recoveries net of stop-loss premiums of approximately $483,000 are included as a reduction in medical claims expense in the year.

18. INDEMNIFICATIONS

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

19. NET PATIENT SERVICE REVENUE

The Authority's patient service revenue is as follows for the year ended June 30, 2005:

Inpatient:	
Routine services	$179,593,338
Ancillary services	763,117,630
Outpatient:	
Emergency	54,082,918
Special medical	448,729,177
Total gross patient service revenue	1,445,523,063
Provision for indigent care and contractual adjustments	(770,557,425)
Provision for bad debts	(42,566,308)
Net patient service revenue (Hospitals)	632,399,330
MCVAP's net patient service revenue	97,573,238
Net patient service revenue (Authority)	$729,972,568

20. ESTIMATED MEDICAL CLAIMS PAYABLE

Claims expenses and liabilities arising from services rendered to VA Premier's HMO members are reported when it is probable that services have been provided and the amount of the claim can be reasonably estimated. The claims payable includes an estimate of claims that have been incurred but not reported. At June 30, the amount of these liabilities included in accounts payable and accrued liabilities was $30,246,321. This liability is VA Premier's best estimate based on available information.

21. STATE APPROPRIATIONS

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

The following is a summary of the state appropriations for the year ended June 30, 2005:

Original legislative appropriation per Chapter 4:	
Educational and general programs	$147,746,765
Higher education student financial assistance	11,599,345
Supplemental adjustments:	
Reappropriation of financial assistance for Eminent Scholars	361,884
Virginia Department of Health	300,000
General Fund central transfers	1,243,181
Steam plant debt service	602,198
Higher Education Equipment Trust Fund	6,977,247
Medicine and Neuroscience research support	1,979,250
VIVA – Virtual Library of Virginia	39,304
COVANET	1,874
Military Tuition Reimbursement	4,914
Higher Education Student Financial Assistance	9,933
Higher Education Equipment Trust Fund payment	(214,930)
Reversion to General Fund	(15,478)
Transfers from Higher Education Operating Fund	(963,482)
Adjusted appropriation	$169,672,005

23. RISK MANAGEMENT

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; nonperformance of duty; injuries to employees; and natural disasters. The University participates in insurance plans maintained by the Commonwealth of Virginia. The department of Human Resource Management administers the state employee health care and worker's compensation plans and the risk management insurance plans are administered by the department of Treasury, Division of Rick Management Risk management insurance includes property, general liability, medical malpractice, faithful performance of duty bond, automobile, air and watercraft plans. The University pays premiums to each of these departments for its insurance coverage. The University also purchases certain contingency insurance coverage related to the VCU School of the Arts in Qatar. Information relating to the Commonwealth's insurance plans is available in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

24. SHORT-TERM DEBT

The VCUHS has a line of credit used for capital expenditures until new bonds are issued. Activity during fiscal year ended June 30, 2005 was as follows.

	Beginning Balance	Increase	Decrease	Ending Balance
Short-term debt:	$25,000,000	$ -	$ -	$25,000,000

25. CONTRIBUTIONS RECEIVABLE

Contributions receivable as of June 30, 2005, are expected to be received as follows:

MCV Foundation*:	
Receivable in less than one year	$ 4,140,000
Receivable in one to five years	2,309,000
Receivable in mores then five years	4,134,000
	10,583,000
Less:	
Discounts	(1,018,000)
Net contributions receivable	$ 9,565,000
VCU Foundation**:	
Receivable in less than one year	$ 3,762,311
Receivable in one to five years	11,827,238
	15,589,549
Less:	
Discounts	(1,544,163)
Allowances	(611,799)
Net contributions receivable	$13,433,587
VCU Real Estate Foundation:	
Receivable in less than one year	$ 263,701
Less:	
Allowances	(101,619)
Net contributions receivable	$ 162,082
VCU School of Engineering Foundation***:	
Receivable in less than one year	$ 2,729,604
Receivable in one to five years	5,429,137
	8,158,741
Less:	
Discounts	(212,368)
Allowances	(253,884)
Net contributions receivable	$ 7,692,489

*Discount rates between 4.22% and 5.40% were used in determining the present value of the contributions receivable.

**Discount rates between 1.18% and 5.10% were used in determining the present value of the contributions receivable.

***Discount rates between 1.13% and 5.22% were used in determining the present value of the contributions receivable.

26. RESTATEMENT OF BEGINNING CASH AND CASH EQUIVALENTS

Beginning cash and cash equivalents originally reported in the University's financial statements as of June 30, 2004 have been restated to reflect further evaluation of assets.

Cash and cash equivalents as previously reported June 30, 2004	$129,484,984
Beginning balance adjustments:	
To correct for funds in State Non-Arbitrage Program previously recorded as investments	38,624,340
Cash and cash equivalents at July 1, 2004	$168,109,324

SUPPLEMENTARY INFORMATION

VIRGINIA COMMONWEALTH UNIVERSITY
SCHEDULE OF AUXILIARY ENTERPRISES - REVENUE AND EXPENDITURES
For The Year Ended June 30, 2005

	Athletics	Siegel Center	Food Services
Revenue:			
Student fees	$ -	$ -	$ -
University fee	7,017,759	2,103,500	-
Sales and services	1,567,064	1,475,049	10,878,920
Total revenue	8,584,823	3,578,549	10,878,920
Cost of sales	-	-	-
Net revenue	8,584,823	3,578,549	10,878,920
Expenditures:			
Personal services	2,893,326	402,753	230,804
Employee benefits	730,713	91,083	80,148
Contractual services	1,258,799	950,697	7,245,730
Supplies and materials	41,175	30,126	46,872
Equipment	56,677	38,283	16,836
Current charges and obligations	3,429,043	1,100,879	174,396
Miscellaneous	306,161	83,082	134,484
Operating expenses	8,715,894	2,696,903	7,929,270
Interdepartmental recoveries and charges	-	-	-
Net operating expenses	8,715,894	2,696,903	7,929,270
Excess/(deficiency) of revenues over/(under) operating expenses before transfers	(131,071)	881,646	2,949,650
Transfers:			
Mandatory	(232,694)	(1,584,601)	(842,864)
Nonmandatory	81,565	1,016,229	(821,002)
Excess/(deficiency) of revenus over/(under) expenditures and transfers	(282,200)	313,274	1,285,784
Beginning fund balance	(534,733)	1,868,111	2,510,747
Ending fund balance	$ (816,933)	$ 2,181,385	$ 3,796,531

Note: This schedule is prepared on the modified accrual basis of accounting and does not support the basic financial statements.

Gyms	Larrick Student Center	Parking and Transportation	Residence Halls	Stores and Shops	Student Commons	Student Health
$ 20	$ 373	$ -	$ -	$ -	$ -	$ -
2,700,098	214,987	2,168,514	200,000	-	3,573,386	1,116,164
310,487	442	7,967,916	13,641,133	2,478,011	150,386	3,501,353
3,010,605	215,802	10,136,430	13,841,133	2,478,011	3,723,772	4,617,517
-	-	-	-	1,146,598	-	-
3,010,605	215,802	10,136,430	13,841,133	1,331,413	3,723,772	4,617,517
1,157,533	133,386	1,578,773	3,507,482	173,682	1,198,298	2,580,647
196,280	38,057	429,558	854,154	48,591	288,256	671,008
159,781	3,254	1,406,673	1,754,608	289,819	284,295	330,952
176,979	16,091	150,958	286,292	(52,313)	97,533	357,063
150,315	1,453	235,010	456,990	4,494	221,138	53,610
397,217	43,816	3,167,022	3,734,328	86,654	830,047	175,178
77,048	8,292	325,895	466,306	30,292	129,218	166,577
2,315,153	244,349	7,293,889	11,060,160	581,219	3,048,785	4,335,035
(1,606)	-	(5,710)	(1,290)	-	(49,965)	(67)
2,313,547	244,349	7,288,179	11,058,870	581,219	2,998,820	4,334,968
697,058	(28,547)	2,848,251	2,782,263	750,194	724,952	282,549
(463,987)	-	(3,008,887)	(2,286,112)	-	(789,242)	(123,661)
-	-	643,430	1,417,618	(1,354,807)	6,491	-
233,071	(28,547)	482,794	1,913,769	(604,613)	(57,799)	158,888
1,766,483	(70,520)	4,217,514	770,817	1,643,687	1,086,338	(945,896)
$ 1,999,554	$ (99,067)	$ 4,700,308	$ 2,684,586	$ 1,039,074	$ 1,028,539	$ (787,008)

VIRGINIA COMMONWEALTH UNIVERSITY
SCHEDULE OF AUXILIARY ENTERPRISES - REVENUE AND EXPENDITURES (Continued)
For The Year Ended June 30, 2005

	Business Services Administration	Development Programs
Revenue:		
Student fees	$ -	$ -
University fee	-	150,565
Sales and services	26,727	-
Total revenue	26,727	150,565
Cost of sales	-	-
Net revenue	26,727	150,565
Expenditures:		
Personal services	426,330	214,155
Employee benefits	111,418	61,824
Contractual services	45,683	17,344
Supplies and materials	(405,924)	3,387
Equipment	9,101	3,693
Current charges and obligations	375,309	22,318
Miscellaneous	35,634	5,416
Operating expenses	597,551	328,137
Interdepartmental recoveries and charges	(704,553)	(161,841)
Net operating expenses	(107,002)	166,296
Excess/(deficiency) of revenues over/(under) operating expenses before transfers	133,729	(15,731)
Transfers:		
Mandatory	-	-
Nonmandatory	(287,235)	-
Excess/(deficiency) of revenus over/(under) expenditures and transfers	(153,506)	(15,731)
Beginning fund balance	(498,258)	86,398
Ending fund balance	$ (651,764)	$ 70,667

Note: This schedule is prepared on the modified accrual basis of accounting and does not support the basic financial statements.

Unassigned	Steam Plant	Total
$ 22,979,081	$ -	$ 22,979,474
(19,244,973)	-	-
(185,409)	4,038,184	45,850,263
3,548,699	4,038,184	68,829,737
-	-	1,146,598
3,548,699	4,038,184	67,683,139
8,425	550,694	15,056,288
706	172,015	3,773,811
1,716,227	615,142	16,079,004
(39,112)	558,615	1,267,742
6,102	-	1,253,702
(2,318,187)	2,083,334	13,301,354
148,264	89	1,916,758
(477,575)	3,979,889	52,648,659
-	-	(925,032)
(477,575)	3,979,889	51,723,627
4,026,274	58,295	15,959,512
(215,827)	-	(9,547,875)
(365,273)	-	337,016
3,445,174	58,295	6,748,653
6,857,869	106,580	18,865,137
$ 10,303,043	$ 164,875	$ 25,613,790

Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

January 9, 2006

The Honorable Mark R. Warner
Governor of Virginia

The Honorable Lacey E. Putney
Chairman, Joint Legislative Audit
and Review Commission

Board of Visitors
Virginia Commonwealth University

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying basic financial statements of **Virginia Commonwealth University**, a component unit of the Commonwealth of Virginia, and its aggregate discretely presented component units as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the component units of the University, which are discussed in Note 1A. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates the amounts included for the component units of the University is based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of University and of its aggregate discretely presented component units as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Virginia Commonwealth University. The Schedule of Auxiliary Enterprises – Revenues and Expenditures is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The information in the schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statement taken as a whole.

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

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions 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 the University's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions, entitled **"**Improve Cash Reconciliation Process" and "Comply with HIPAA Security Requirements**"** are described in the section titled "Internal Control and Compliance 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 caused by error or fraud 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 an instance of noncompliance or other matter that is required to be reported under Government Auditing Standards. The instance of noncompliance entitled "Comply with HIPAA Security Requirements**"** is described in the section titled "Internal Control and Compliance Findings and Recommendations."

Status of Prior Findings

The University has not taken adequate corrective action with respect to the previously reported findings "Ensure Cash Reconciling Items are Resolved Timely." Accordingly, we included this finding in the section entitled "Internal Control and Compliance Findings and Recommendations." The 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 Internal Control over Financial Reporting and on Compliance and Other Matters" is intended solely for the information and use of the Governor and General Assembly of Virginia, the 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 January 11, 2006.

AUDITOR OF PUBLIC ACCOUNTS

WHC:sks
sks: 46

During Virginia Commonwealth University's (VCU) annual audit, the Auditor of Public Accounts routinely considers internal controls to determine financial statement auditing procedures. Although the Auditor provides no assurance about internal controls, two reportable conditions are noted in his report.

The following internal control and compliance recommendations are included in the VCU Report on Audit for the year ended June 30, 2005:

1. Improve Cash Reconciliation Process
2. Comply with HIPAA Security Requirements

Although the Auditor's findings indicate conditions requiring management's attention, the conditions do not have a material effect on the financial statements.

Findings of the Auditor:

1. <u>Improve Cash Reconciliation Process</u>

The VCU General Accounting Department does not have an adequate process for preparing the monthly cash reconciliations. During the prior audit, we noted reconciling items dating back seven years. In response to our finding, the University wrote off or adjusted these old reconciling items; however, they failed to implement procedures for the review and timely correction of reconciling differences.

During this audit, we found the bank reconciliations contained reconciling items up to a year old. Untimely resolution of reconciling items exposes the University to the risk of intentional and unintentional errors made by the bank or by University employees. Additionally, the volume of reconciling items carried forward each month decreases the efficiency of the reconciliation process. There is also no evidence of a supervisory review of the reconciliations which increases the risk of inaccurate reconciliations and untimely resolution of reconciling items.

Furthermore, the monthly State cash and University cash reconciliations are not reconciled to the general ledger, but to a "shadow bank account." The "shadow" account reflects transactions for receipts and disbursements recorded by the Cashiering department. The general ledger account reflects transactions recorded by the various University departments and reports the amount for cash on the financial statements. Because the accounting system records cash transactions in two areas, there are reconciling items between the bank and the shadow account and between the shadow account and the general ledger. Since the general ledger reports cash for financial reporting purposes, the monthly reconciliations should show the amounts in the bank and reconcile through to the amounts in the shadow bank account and then to the general ledger.

While we were able to determine the accuracy of the amount reported in total for cash on the financial statements, adequate internal controls and best practices dictate that bank statements be reconciled to the general ledger. Failure to properly reconcile bank accounts and resolve differences increases the risk of errors and fraud, and could result in the misstatement of cash. VCU should develop a bank reconciliation process that efficiently and effectively reconciles the bank statements to the general ledger. This process should include a requirement to resolve reconciling items on a monthly basis, and management should perform an appropriate review to ensure that the General Accounting Department performed a complete, accurate, and timely reconciliation and followed up on and cleared reconciling items.

VCU Response:
The University has implemented several procedures to accelerate timely clearing of outstanding items. The signature of the Manager, General Accounting and Assistant Controller, General Accounting now documents supervisory review of the bank reconciliations. The bank reconciliation format is being revised to include a display of outstanding transactions between the shadow bank and the general ledger. This format change will be finalized for June 30, 2005 reconciliation by February 28, 2006 and subsequent reconciliations by April 30, 2006.

2. Comply with HIPAA Security Requirements

The University has not approved Health Insurance Portability and Accountability Act (HIPAA) compliant policies and procedures and has not completed their review of HIPAA compliance for data in all academic departments. The deadline for compliance with the HIPAA security rule was April 20, 2005.

The University, working through an established Affiliated Covered Entity (ACE) with the VCU Health System, developed a set of security policies and procedures for VCU management approval. The VCU legal department is still reviewing these policies. Additionally, the University's information systems security team is currently performing risk assessments for all academic departments to identify and classify sensitive or confidential data not stored in the University data center. The security team will determine through these risk assessments if stored data is compliant with the newly developed HIPAA policies and procedures.

We encourage the University to approve HIPAA compliant policies and procedures as quickly as possible and to continue to progress in ensuring compliance with the HIPAA security requirements.

VCU Response:
The ACE HIPAA policies were approved in October 2005. The VCU and VCUHS Security Teams are conducting IT Security Risk Assessments as an ongoing process based on the successful pilot assessments. These risk assessments will be included in the VCU Emergency Preparedness Planning process that requires annual updates by schools and departments.