VIRGINIA COMMONWEALTH UNIVERSITY

REPORT ON AUDIT FOR YEAR ENDED

JUNE 30, 2006

APA
Auditor of
Public Accounts
COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of Virginia Commonwealth University for the year ended June 30, 2006, 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; and

- instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

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INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

Improve the Procedures for Small Purchase Charge Cards

We found Small Purchase Charge Card (SPCC) cardholders that were not in compliance with Virginia Commonwealth University's (University) and the Commonwealth of Virginia's (Commonwealth) policies and procedures. We found a cardholder had not prepared accurate and complete monthly reconciliations. The reconciliations did not include items from the credit card statement or determine why items on the log did not appear on the statement. The cardholder also had not maintained proper support for all purchases and had bills that included sales tax paid on tax exempt items. We found another cardholder had not certified the reconciliation of the monthly statement to the purchase log and supporting documentation and the supervisor had not approved the reconciliation timely.

If cardholders do not perform monthly reconciliations in a timely manner, billing errors would go unnoticed and undisputed. Cardholders only have a 90-day time period in which to dispute erroneous charges with the credit card company. Further, if cardholders do not maintain proper support such as invoices or receipts for purchases, it inhibits the ability of the cardholder or agency to return items and decreases the likelihood of resolving potential billing errors or disputes. The payment of tax on tax exempt items is in noncompliance with the SPCC Policies and Procedures as set forth in the CAPP Manual.

We recommend that SPCC supervisors and reviewers assume a more active role in their respective departments for approving cardholders' monthly reconciliations. Cardholders should maintain a purchase log and perform a monthly reconciliation of the credit card statement to the purchase log and invoices in a timely manner. The cardholder and supervisor or reviewer must sign and approve the reconciliation timely after receipt of the monthly statement. Cardholders should maintain proper supporting documentation for all purchases. Supervisors should not approve reconciliations unless they are accurate and complete with all supporting documentation. When placing orders, the cardholder should notify the merchant of the University's tax exempt status. If a vendor mistakenly charges sales tax, the cardholder must request a credit of the tax. We recommend that the SPCC cardholders and supervisors or reviewers with findings should take additional training on the Small Purchase Charge Card program.

Departments Should Resolve Cash Reconciliation Items Timely

The General Accounting Department needs to improve the process for resolving reconciling items with University's departments. During the two prior audits, we noted reconciling items up to a year old and there was no evidence of supervisory review. In addition, we found that the monthly State cash and University Cash reconciliations are not reconciled to General Ledger.

In response to this finding, the University implemented procedures, which included a revision to the bank reconciliation format, required the Manager and Assistant Controller of General Accounting to sign off the monthly reconciliations, and accelerated the clearing of reconciling items. However, there still remain fifty-four reconciling differences over a year old due to untimely resolution by the various departments. General Accounting often needs information from the departments to properly clear reconciling items.

Untimely resolution of reconciling items exposes the University to the risk of intentional and unintentional errors made by the bank or University employees. Additionally, the volume of reconciling items carried forward each month decreases the efficiency of the reconciliation process. The University should improve its bank reconciliation process to require resolution of reconciling items on a monthly basis.

Ensure Timely Utility Payments

We reviewed several utilities vouchers and found that the University made late payments for electricity and water and sewer services. We noted multiple instances in which the vendor assessed the University late payment fees. It appeared that, in many instances, the University made payments every other month instead of monthly. We also noted cases where the University paid more than the balance due on the account and, in one case, the voucher paid for three months of bills for a single account number. The University should establish internal procedures for identifying and expediting utility payments to avoid late payment penalties.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Virginia Commonwealth University's Management Discussion and Analysis (MD&A) provides a discussion and analysis of the financial performance during the fiscal year ended June 30, 2006, with comparative information presented for the fiscal year ended June 30, 2005. While maintaining its financial health is crucial to the long-term viability of the University, the primary mission of a public institution of higher education is to provide education, research and public service. Therefore, net assets are accumulated only as required to ensure that there are sufficient reserve funds for future operations and implementation of new programs.

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

Using the Annual Report

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

The Statement of Net Assets

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

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

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

	2006	2005	Increase/ (Decrease)
ASSETS			
Current and other assets	$358,622,190	$327,989,447	$30,632,743
Capital assets – net	522,984,415	456,431,201	66,553,214
Total assets	881,606,605	784,420,648	97,185,957
LIABILITIES			
Current and other liabilities	73,892,493	96,337,509	(22,445,016)
Long term liabilities	337,224,705	258,209,937	79,014,768
Total liabilities	411,117,198	354,547,446	56,569,752
NET ASSETS			
Invested in capital assets, net of related debt	301,948,202	268,569,491	33,378,711
Restricted	32,292,436	32,434,805	(142,369)
Unrestricted	136,248,769	128,868,906	7,379,863
Total net assets	$470,489,407	$429,873,202	$40,616,205

- The University's current and other assets increased due to higher appropriations receivable and cash equivalents. The increase in cash equivalents is due to unspent bond proceeds.
- Capital assets increased due to additional equipment purchases and construction of the Massey Cancer Center Addition and completion of Rhoads Hall.
- Current and other liabilities decreased principally due to lower vendor accounts payable and accrued wages. Accrued wages were lower due to payment of the June 30 payroll in fiscal year 2006.
- Long term liabilities increased due to higher debt. Debt is discussed in more detail below.
- Total assets grew by a greater margin than total liabilities, with net assets increasing correspondingly.

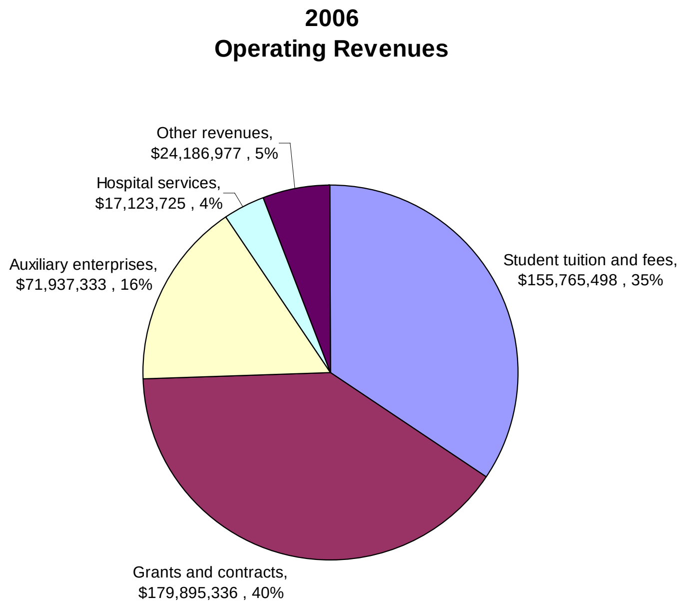
The Statement of Revenues, Expenses, and Changes in Net Assets

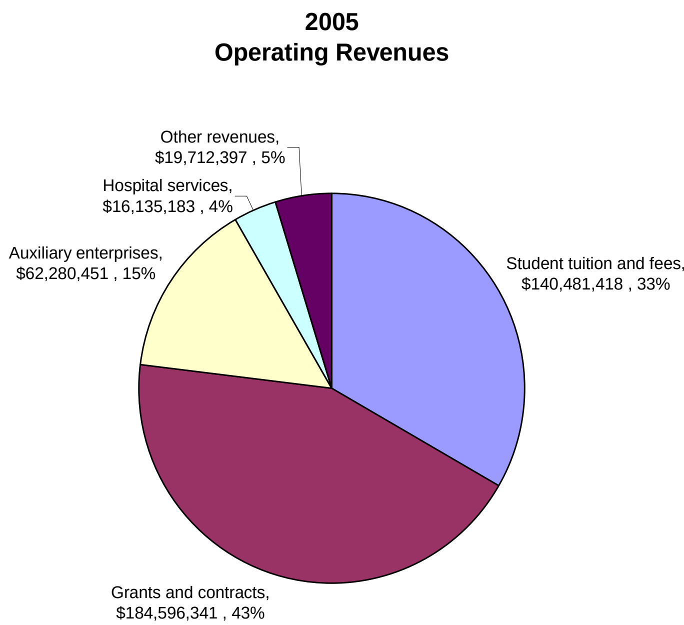
The Statement of Revenues, Expenses, and Changes in Net Assets presents the operating results, as well as the non-operating revenues and expenses. State appropriations, while budgeted for operations, are considered non-operating revenues according to generally accepted accounting principles.

The following is a summarized schedule of the revenues and expenses for the University, for the year ended June 30, 2006, with comparative data for the year ended June 30, 2005.

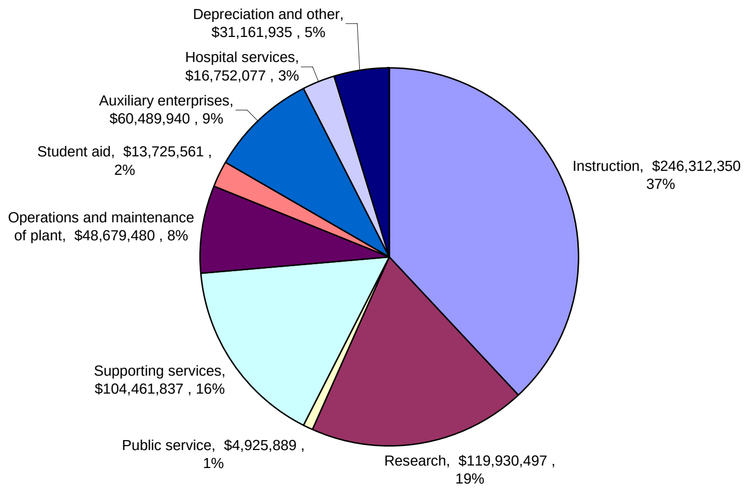
	2006	2005	Increase/ (Decrease)
Operating revenue	$448,908,869	$423,205,790	$25,703,079
Operating expense	646,439,566	571,702,185	74,737,381
Operating loss	(197,530,697)	(148,496,395)	(49,034,302)
Non-operating revenues/(expenses):			
State appropriations	193,013,755	169,672,005	23,341,750
Investment income/(net of investment expense)	6,117,181	4,762,426	1,354,755
Interest on capital asset-related debt	(9,693,962)	(7,695,077)	(1,998,885)
Gifts	19,769,309	18,344,687	1,424,622
Other	386,300	933,797	(547,497)
Net non-operating revenues/(expenses)	209,592,583	186,017,838	23,574,745
Income before other revenues:	12,061,886	37,521,443	(25,459,557)
Additions to permanent endowments	8,111	10,840	(2,729)
Capital appropriations	24,126,358	10,888,782	13,237,576
Capital gifts	4,419,850	437,649	3,982,201
Increase in net assets	40,616,205	48,858,714	(8,242,509)
Net assets - beginning of year	429,873,202	381,014,488	48,858,714
Net assets - end of year	$470,489,407	$429,873,202	$40,616,205

The following graphs present operating revenues and expenses for fiscal years 2006 and 2005.

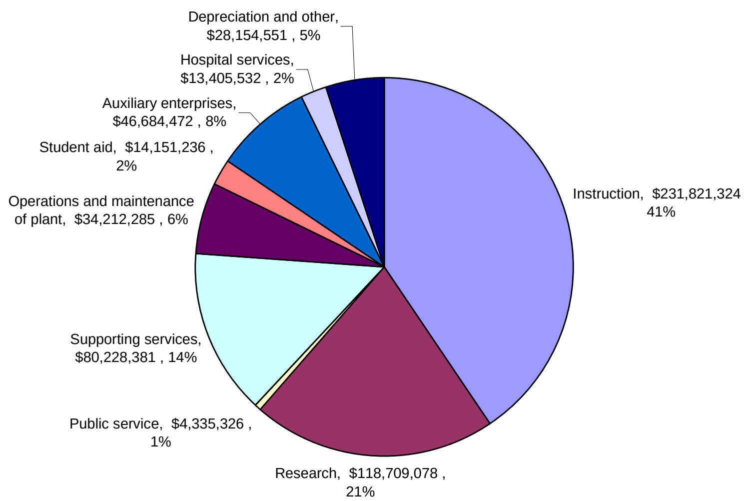




2006
Operating Expenses



2005
Operating Expenses



- Tuition and fees increased $15.3 million as the result of a 5% increase in full-time equivalent enrollment and fall semester tuition and fee increases of 5% for resident undergraduate students and 4.9% for resident graduate students.

- Grant and contract revenue decreased $3.9 million principally due to reduced spending on federal programs.

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

- Operating expenses increased $74.7 million due to salary increases and higher 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, 2006, with comparative data for the year ended June 30, 2005. For more detailed information, see the accompanying Statement of Cash Flows.

	2006	2005	Increase/ (Decrease)
Cash provided/(used) by:			
Operating activities	$(198,932,208)	$(118,351,639)	$(80,580,569)
Non-capital financing activities	213,164,822	187,420,715	25,744,107
Capital and related financing activities	5,362,420	(64,501,390)	69,863,810
Investing activities	1,584,527	4,185,019	(2,600,492)
Net increase in cash	21,179,561	8,752,705	12,426,856
Cash, beginning of year	176,862,029	168,109,324	8,752,705
Cash, end of year	$ 198,041,590	$ 176,862,029	$ 21,179,561

- 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 non-capital financing activities.

- The University issued $93 million of debt during the fiscal year, which was $68 million higher than the prior year. Therefore, cash from capital and related financing activities increased.

- Investment purchases exceeded proceeds from sales causing cash from investing activities to decrease.

Capital Assets and Debt Administration

Capital Assets

Presented next is the schedule of capital assets net of depreciation. Depreciation expense totaled $30.5 million for the University.

	2006	2005
Land	$ 31,690,925	$ 27,949,369
Land improvements and infrastructure	7,949,657	5,077,231
Buildings	367,349,277	308,220,733
Equipment	47,718,484	44,411,109
Library books	10,974,092	9,979,711
Construction in progress	57,301,980	60,793,048
Total	$522,984,415	$456,431,201

- The Massey Cancer Center Addition was completed in May 2006. Capital projects under construction include the School of Nursing, School of Business and Phase II of the School of Engineering.

Debt

At June 30, 2006, the University had $301.6 million in debt outstanding.

- The University issued bonds and notes payable in the amount of $92.7 million. The proceeds of the note were used to finance Hunton Hall, 8th Street Parking Deck, School of Business and Phase II of School of Engineering.

- Principal payments were $15.8 million.

Future Financial Effects

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

- State appropriations have been increased to $210.9 million for fiscal year 2007. This increase will bring the University to 91% of the base adequacy funding and cover an average compensation increase of 4 % for faculty and classified staff.

- In November 2006, the University issued a note to the Virginia College Building Authority (VCBA) in the amount of $38,785,000. The proceeds of the note will be used to finance Monroe Park Campus Residential Housing and Parking Deck and Game and Inland Fisheries Regional Headquarters.

- Major capital projects currently under construction are:

Project	Budget	Square Feet	Estimated Completion Date
School of Business	$42.4 million	130,000	November 2007
School of Engineering, Phase II	41.8 million	115,000	November 2007
School of Nursing	17.0 million	70,500	March 2007
Monroe Park Campus Parking Deck	15.6 million	277,000	December 2007
Monroe Park Campus Residential College	47.9 million	201,000	August 2008

- Tuition and fee revenues are projected to increase by $15.8 million in fiscal year 2007 based on the Board of Visitors approved increase in tuition and mandatory fee rates of 6.4% for resident students and projected enrollment growth of 3.3%.

- Increased costs on capital projects are projected to be $20.5 million. The University is requesting $13.7 million in additional state support, which will be supplemented with modest fee increases and other University resources.

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FINANCIAL STATEMENTS

VIRGINIA COMMONWEALTH UNIVERSITY
STATEMENT OF NET ASSETS
As of June 30, 2006

	University	VCU Health System Authority	MCV Foundation
ASSETS			
Current assets:			
Cash and cash equivalents (Note 2)	$ 130,578,947	$ 103,893,112	$ 13,961,000
Short-term investments (Note 2)	11,430,244	122,037,340	-
Accounts receivable:			
Student, Net of allowance of $2,295,129	7,170,899	-	-
Sponsors, Net of allowance of $200,000	16,439,113	-	-
Health Care, Net of allowance of $70,013,000	-	100,798,682	-
Contributions and gifts, Net of allowance of $247,749	-	-	1,362,000
Due from component units	951,464	-	-
Due from Commonwealth of Virginia	14,310,548	-	-
Student loans receivable, current portion	3,544,889	-	50,000
Other assets	3,610,308	12,607,707	114,000
Total current assets	188,036,412	339,336,841	15,487,000
Non-current assets:			
Restricted cash and cash equivalents	67,462,643	-	1,927,000
Endowment investments (Note 2)	-	-	136,208,000
Other investments (Note 2)	31,991,193	249,210,425	125,674,000
Contributions and gifts, Net of discount and allowance of $4,230,392	-	-	9,335,000
Student loans receivable, Net of allowance of $3,105,142	20,007,029	-	-
Loans receivable	-	-	661,000
Due from component units	49,503,684	716,173	-
Other long-term assets	1,621,229	16,155,800	-
Non-depreciable capital assets (Note 4)	88,992,905	51,276,803	-
Depreciable capital assets (Note 4)	433,991,510	274,384,344	1,992,000
Total non-current assets	693,570,193	591,743,545	275,797,000
Total assets	$ 881,606,605	$ 931,080,386	$ 291,284,000

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

VCU Foundation	VCU Real Estate Foundation	VCU School of Business Foundation	VCU School of Engineering Foundation	Eliminations	Total
$ 2,698,005	$ 1,916,310	$ 16,405,974	$ 37,193,883	$ (53,285,840)	$ 253,361,391
-	-	-	-	-	133,467,584
-	-	-	-	-	7,170,899
-	-	-	-	-	16,439,113
-	-	-	-	-	100,798,682
1,223,984	56,427	2,949,980	2,199,442	-	7,791,833
-	1,634,060	255,820	-	(2,841,344)	-
-	-	-	-	-	14,310,548
-	-	-	-	-	3,594,889
12,027	171,877	4,234	921,095	-	17,441,248
3,934,016	3,778,674	19,616,008	40,314,420	(56,127,184)	554,376,187
6,472,567	6,799,644	7,409,559	2,107,794		92,179,207
26,281,454	-	9,772,360	1,899,940	-	174,161,754
27,249,877	-	1,258,445	34,263,127	-	469,647,067
1,619,873	-	7,303,480	3,957,105	-	22,215,458
-	-	-	-	-	20,007,029
-	-	-	-	-	661,000
-	-	1,564,819	919,021	(52,703,697)	-
-	754,690	258,631	998,548	(1,257,179)	18,531,719
210,962	333,746	12,695,250	10,075,252	(20,842,502)	142,742,416
8,445	52,303,359	-	20,097,568	(18,917,635)	763,859,591
61,843,178	60,191,439	40,262,544	74,318,355	(93,721,013)	1,704,005,241
$ 65,777,194	$ 63,970,113	$ 59,878,552	$ 114,632,775	$ (149,848,197)	$ 2,258,381,428

VIRGINIA COMMONWEALTH UNIVERSITY
STATEMENT OF NET ASSETS
As of June 30, 2006

	University	VCU Health System Authority	MCV Foundation
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	$ 33,943,705	$ 171,259,608	$ 4,666,336
Deferred revenue	22,501,363	-	-
Due to component units	-	172,679	-
Due to Commonwealth of VA	1,525,194		
Long-term liabilities - current portion (Note 8)	15,922,231	19,480,291	-
Total current liabilities	73,892,493	190,912,578	4,666,336
Non-current liabilities:			
Funds held for others (Note 5)	25,217,044	-	-
Due to component units	-	1,989,828	4,907,664
Other	-	601,670	-
Long-term liabilities (Note 8)	312,007,661	203,390,504	-
Total non-current liabilities	337,224,705	205,982,002	4,907,664
Total liabilities	411,117,198	396,894,580	9,574,000
NET ASSETS			
Invested in capital assets, net of related debt	301,948,202	196,949,584	1,992,000
Restricted for:			
Nonexpendable:			
Scholarships and fellowships	3,141,015	-	-
Departmental uses	505,287	18,937,324	136,208,000
Expendable:			
Scholarships and fellowships	3,933,652	-	-
Research	6,048,723	-	-
Departmental uses	14,196,631	596,073	120,259,000
Loans	4,747,502	-	-
Capital projects	(280,374)	-	-
Unrestricted	136,248,769	317,702,825	23,251,000
Total net assets	$ 470,489,407	$ 534,185,806	$ 281,710,000

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

VCU Foundation	VCU Real Estate Foundation	VCU School of Business Foundation	VCU School of Engineering Foundation	Eliminations	Total
$ 883	$ 797,956	$ 9,938	$ 267,550	$ 4,999	$ 210,950,975
-	165,015	8,150	-	-	22,674,528
1,889,880	649,919	111,895	1,205,393	(4,029,766)	-
					1,525,194
173,333	1,370,824	-	10,000	-	36,956,679
2,064,096	2,983,714	129,983	1,482,943	(4,024,767)	272,107,376
-	-	-	-	-	25,217,044
24,581,191	21,225,013	29,000,000	80,496,976	(162,200,672)	-
172,649	1,609,779	-	20	-	2,384,118
301,471	32,126,663	-	10,000	-	547,836,299
25,055,311	54,961,455	29,000,000	80,506,996	(162,200,672)	575,437,461
27,119,407	57,945,169	29,129,983	81,989,939	(166,225,439)	847,544,837
219,407	1,469,308	1,639,953	519,489	2,855,073	507,593,016
-	-	-	-	-	3,141,015
27,660,428	-	9,982,227	2,716,947	-	196,010,213
-	-	-	-	-	3,933,652
-	-	-	-	-	6,048,723
8,924,681	-	19,030,867	21,586,623	-	184,593,875
-	-	-	-	-	4,747,502
-	-	-	-	-	(280,374)
1,853,271	4,555,636	95,522	7,819,777	13,522,169	505,048,969
$ 38,657,787	$ 6,024,944	$ 30,748,569	$ 32,642,836	$ 16,377,242	$ 1,410,836,591

VIRGINIA COMMONWEALTH UNIVERSITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2006

	University	VCU Health System Authority	MCV Foundation
Operating revenues:			
Student tuition and fees			
(Net of scholarship allowances of $32,975,596)	$ 155,765,498	$ -	$ -
Federal grants and contracts	153,450,959	-	-
State grants and contracts	5,843,658	-	-
Local grants and contracts	647,983	-	-
Nongovernmental grants and contracts	19,952,736	-	-
Sales and services of educational departments	20,159,946	-	-
Contributions and gifts	-	-	
Auxiliary enterprises:			
Sales and services	48,213,786	-	-
Student fees (Net of scholarship allowances of $1,571,019)	23,723,547	-	-
Hospital services	17,123,725	1,112,227,267	-
Other revenues	4,027,031	-	2,011,000
Total operating revenues	448,908,869	1,112,227,267	2,011,000
Operating expenses:			
Instruction	246,312,350	-	-
Research	119,930,497	-	-
Public service	4,925,889	-	-
Supporting services:			
Academic support	47,161,202	-	23,062,000
Student services	9,606,147	-	-
Institutional support	47,694,488	-	1,070,000
Operations and maintenance of plant	48,679,480	-	-
Student aid	13,725,561	-	937,000
Auxiliary enterprises	60,489,940	-	
Hospital services	16,752,077	1,027,924,336	-
Depreciation expense	30,460,815	36,262,497	53,000
Other expenses	701,120	-	375,000
Total operating expenses	646,439,566	1,064,186,833	25,497,000
Operating gain/(loss)	$ (197,530,697)	$ 48,040,434	$ (23,486,000)

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

VCU Foundation	VCU Real Estate Foundation	VCU School of Business Foundation	VCU School of Engineering Foundation	Eliminations	Total
$ -	$ -	$ -	$ -	$ -	$ 155,765,498
-	-	-	-	-	153,450,959
-	-	-	-	-	5,843,658
-	-	-	-	-	647,983
-	-	-	-	(1,413,227)	18,539,509
-	-	-	-	(431,359)	19,728,587
-	-			-	-
-	-	-	-	(2,122,916)	46,090,870
-	-	-	-	-	23,723,547
-	-	-	-	(17,123,725)	1,112,227,267
440,882	8,310,337	820,358	1,369,316	(4,336,519)	12,642,405
440,882	8,310,337	820,358	1,369,316	(25,427,746)	1,548,660,283
-	-	533,191	-	(82,332)	246,763,209
-	-	-	-	(1,596,965)	118,333,532
-	-	-	-	-	4,925,889
-	-	-	-	(12,665,034)	57,558,168
-	-	-	-	(250)	9,605,897
-	-	-	-	247,946	49,012,434
-	3,138,816	-	-	(2,110,515)	49,707,781
-	-	-	-	-	14,662,561
-	-	-	-	(90,231)	60,399,709
-	-	-	-	(23,275,632)	1,021,400,781
5,630	1,947,770	1,771	913,593	(915,364)	68,729,712
27,155,270	147,857	(22,751,935)	6,188,028	(4,517,857)	7,297,483
27,160,900	5,234,443	(22,216,973)	7,101,621	(45,006,234)	1,708,397,156
$ (26,720,018)	$ 3,075,894	$ 23,037,331	$ (5,732,305)	$ 19,578,488	$ (159,736,873)

VIRGINIA COMMONWEALTH UNIVERSITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2006

	University	VCU Health System Authority	MCV Foundation
Non-operating revenues/(expenses):			
State appropriations (Note 22)	$ 193,013,755	$ -	$ -
Gifts	19,769,309	-	28,492,000
Investment income, Net of investment expense of $1,320,504	6,117,181	19,559,047	16,096,000
Interest on capital asset-related debt	(9,693,962)	(4,234,722)	-
Other	386,300	(2,684,027)	-
Net non-operating revenues	209,592,583	12,640,298	44,588,000
Income before other revenues/(expenses)	12,061,886	60,680,732	21,102,000
Other revenues:			
Additions to permanent endowments	8,111	-	3,644,000
Capital appropriations	24,126,358	-	-
Capital gifts	4,419,850	919,018	-
Increase in beneficial interest in trusts	-	782,736	-
Other		(2,250,350)	
Increase in net assets	40,616,205	60,132,136	24,746,000
Net assets - Beginning of year	429,873,202	474,053,670	256,964,000
Net assets - End of year	$ 470,489,407	$ 534,185,806	$ 281,710,000

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

VCU Foundation	VCU Real Estate Foundation	VCU School of Business Foundation	VCU School of Engineering Foundation	Eliminations	Total
$ -	$ -	$ -	$ -	$ -	$ 193,013,755
3,042,644	-	7,291,870	13,117,593	(18,908,669)	52,804,747
3,427,898	455,123	411,329	2,614,302	(817,478)	47,863,402
-	(2,561,479)	-	(1,309,885)	-	(17,800,048)
-	(333,421)	-	-	-	(2,631,148)
6,470,542	(2,439,777)	7,703,199	14,422,010	(19,726,147)	273,250,708
(20,249,476)	636,117	30,740,530	8,689,705	(147,659)	113,513,835
1,022,023	-	8,039	116,843	-	4,799,016
-	-	-	-	-	24,126,358
-	-	-	-	(3,250,350)	2,088,518
-	-	-	-	-	782,736
				2,250,350	-
(19,227,453)	636,117	30,748,569	8,806,548	(1,147,659)	145,310,463
57,885,240	5,388,827	-	23,836,288	17,524,901	1,265,526,128
$ 38,657,787	$ 6,024,944	$ 30,748,569	$ 32,642,836	$ 16,377,242	$ 1,410,836,591

VIRGINIA COMMONWEALTH UNIVERSITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2006

	University
Cash flows from operating activities:	
Tuition and fees	$ 155,270,028
Grants and contracts	180,986,394
Auxiliary enterprise charges	71,482,466
Sales and services of education departments	20,159,946
Hospital services charges	17,123,725
Payments to suppliers	(237,564,070)
Payments to employees	(409,594,340)
Loans issued to students	(3,629,799)
Collection of loans to students	4,027,943
Other receipts (payments)	2,805,499
Net cash used by operating activities	(198,932,208)
Cash flows from non-capital financing activities:	
State appropriations	193,013,755
Direct lending receipts	128,879,744
Direct lending disbursements	(128,879,744)
Agency receipts	37,385,847
Agency disbursements	(38,095,502)
Insurance recoveries	1,083,302
Gifts	19,777,420
Net cash provided by non-capital financing activities	213,164,822
Cash flows from capital financing activities:	
Proceeds from issuance of note payable	94,011,827
State appropriations for capital assets	24,126,358
Gifts for capital assets	3,475,350
Purchase of capital assets	(97,003,969)
Principal paid on capital-related debt	(9,702,762)
Interest paid on capital-related debt	(9,544,384)
Net cash provided by capital financing activities	$ 5,362,420
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	$ 123,199,451
Purchases of investments	(126,702,524)
Investment income	5,087,600
Net cash provided by investing activities	1,584,527
Net increase in cash	21,179,561
Cash and cash equivalents - Beginning of year	176,862,029
Cash and cash equivalents - End of year	$ 198,041,590

RECONCILIATION OF NET OPERATING EXPENSES TO NET CASH USED BY OPERATING ACTIVITIES:	
Operating gain/(loss)	(197,530,697)
Adjustments to reconcile net gain/(loss) to net cash used by operating activities:	
Depreciation expense	30,460,815
Provision for uncollectible accounts	67,639
Changes in assets and liabilities:	
Receivables	(12,073,762)
Other assets	(948,120)
Accounts payable	(21,250,495)
Deferred revenue	(469,442)
Compensated absences and deferred compensation	2,761,361
Deposits	(28,212)
Other liabilities	78,705
Net cash used by operating activities	$ (198,932,208)

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

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NOTES TO FINANCIAL STATEMENTS

VIRGINIA COMMONWEALTH UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Virginia Commonwealth University, a Carnegie Doctoral/Research University-Extensive, 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 30,000 undergraduate, graduate, and professional students pursue more than 180 degree and certificate programs on VCU's two campuses: the Monroe Park Campus, situated in the historic Fan District, and the Medical College of Virginia Campus (MCV) campus, located two miles east in the commercial and governmental district of downtown Richmond. The University's fifteen schools and one college include the School of Engineering, one of the largest Schools of Arts in the country, as well as the South's oldest School of Social Work. The University also is the site for the VCU Health System, one of the most comprehensive academic health centers in the nation. In addition, the University operates the VCU School of the Arts in Qatar, which offers degree programs in the design professions to the citizens of Qatar.

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

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

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

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

A. Reporting Entity

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

In accordance with Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, the financial statements include the Medical College of Virginia Foundation, Virginia Commonwealth University Foundation, Virginia Commonwealth University Real Estate Foundation, Virginia Commonwealth University School of Engineering Foundation, and Virginia Commonwealth University School of Business Foundation. Statement 39 provides additional guidance to determine whether certain organizations for which the University is not financially accountable should be reported as component units. Generally, it requires that an organization that raises and holds economic resources for the direct benefit of the University be reported as a component unit. As a result, where in the past the University presented summary financial information of certain of its foundations in the notes to the financial statements, the University is required under Statement No. 39 to include selected foundations in the body of its financial statements**.**

The Virginia Commonwealth University Health System Authority (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 (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 nonstock, not-for-profit charitable educational organization, functions as the group practice plan for those physicians and health care professionals who have faculty appointments in the VCU School of Medicine. 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, nonstock, 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 Medical College of Virginia Foundation (MCV Foundation) is a not-for-profit corporation organized to aid, strengthen, and extend the work, services and objectives of the MCV Campus of the University. This mission is achieved by receiving contributions, investing and managing funds, disbursing current funds and a portion of the total return on endowment, and providing information about the activities of the MCV Campus and the MCV Foundation. The MCV Foundation is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3).

The Virginia Commonwealth University Foundation (VCU Foundation) is a Virginia corporation, which functions as a nonprofit charitable foundation solely to assist and support 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 Foundation with the guidance of the University. The VCU Foundation manages and distributes current and endowment gifts for all schools, departments, and programs throughout the University with major emphasis on programs for the Monroe Park Campus.

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

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

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

The Virginia Commonwealth University School of Business Foundation is a Virginia corporation, which functions as a nonprofit charitable foundation solely to assist and support the University. The Foundation is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). The sole purpose of the Virginia Commonwealth University School of Business Foundation is to provide financial and other support to the School of Business 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 11:

- Virginia Biotechnology Research Park Authority
- Virginia Commonwealth University Alumni Association
- Medical College of Virginia Alumni Association of VCU
- 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. Allowance for Uncollectible Receivables

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

D. Pledges Receivable

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

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

E. Investments

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

F. Inventories

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

G. Investment Income

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

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

H. Accrued Compensated Absences

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

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

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

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

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

I. Capital Assets

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

The VCU School of Engineering Foundation and the VCU 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.

The VCU School of Business Foundation records property and equipment at cost for purchased items and at fair value for donated items.

J. Hospital Services

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

K. Uncompensated Care

The Authority provides care to patients who meet certain criteria under its indigent care policy at full established rates and at amounts less than its established rates. Because the Authority does not pursue collection from the patients, of these charges determined to qualify as uncompensated care, the charges are not reported as revenue. The costs of providing these services are included in the Authority's operating expenses. Uncompensated care, which represents the difference between charges of the services provided and the costs of those respective services, approximated $150,504,000 for the year ended June 30, 2006.

L. Net Patient Service Revenue

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

Settlements due to third parties include amounts that are currently under appeal with various federal and state agencies. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations.

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

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

- Medicare – Inpatient acute care services and defined capital costs rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates may vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient non-acute services, certain outpatient services and education related to Medicare beneficiaries are paid based on prospectively determined rates and a discounted cost reimbursement methodology. The Authority is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare fiscal intermediary. The Authority's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2002.

- <u>Medicaid</u> – Inpatient acute care services rendered to Medicaid program beneficiaries are paid at a per diem rate and APDRG (rates per discharge). Outpatient services rendered to Medicaid program beneficiaries are reimbursed on prospectively determined rates and a cost reimbursement methodology. In addition to inpatient and outpatient services provided to Medicaid program beneficiaries, Medicaid reimburses the Authority its costs related to services provided to indigent patients up to an amount which results in total Medicaid and indigent reimbursement to the Authority of $234 million in 2006. The Authority's Medicaid cost reports have been audited by the Medicaid program representative through June 30, 2001.

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

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 $42,400,000 in 2006, as a result of such settlements.

M. <u>Premiums Earned</u>

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

N. <u>Uncollectible Accounts</u>

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

O. <u>Estimated Medical Claims Payable</u>

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.

P. 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 of Virginia, 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 $18,912,000, 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.

Q. Scholarship Allowances and Student Aid

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

R. Intangibles

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

S. Revenue and Expense Classifications

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

Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts, and other revenue sources that are defined as non-operating 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.

Non-operating 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 of Virginia, 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 of Virginia.

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

As of June 30, 2006, the University held the following investments:

		Investment Maturities (In Years)			
Investment Type:	Fair Value	< 1	1-5	6-10	> 10
U.S. Treasury and agency securities	$ 7,592,433	$ 667,406	$ 3,656,933	$ 195,791	$3,072,303
Corporate notes	3,486,162	975,168	2,040,534	470,460	-
Corporate bonds	7,414,093	2,923,998	3,439,553	514,525	536,017
Commercial paper	395,133	395,133	-	-	-
Asset backed securities	4,118,888	-	3,421,812	307,712	389,364
Agency mortgage-backed securities	17,947,323	6,281,626	4,072,052	2,022,289	5,571,356
Common stock	920,217	N/A	N/A	N/A	N/A
Securities lending	577,112	577,112	-	-	-
Mutual and money market funds	970,076	970,076	-	-	-
Total	$43,421,437	$12,790,519	$16,630,884	$3,510,777	$9,569,040

As of June 30, 2006, the Moody's ratings of the University's investments in corporate notes and bonds were as follows:

Rating	Corporate Notes	Corporate Bonds
AAA	$ -	$ 535,891
AA1	456,829	300,210
AA2	486,893	379,921
AA3	262,199	2,419,404
A-1	321,502	1,204,543
A-2	1,253,217	919,034
A-3	590,497	1,436,722
Baa	115,025	218,368
Total	$3,486,162	$7,414,093

Authority:		Investment Maturities (In Years)			
Investment type:	Fair Value	<1	1-5	6-10	> 10
Cash and cash equivalents	$ 9,465,021	$ 9,465,021	$ -	$ -	$ -
Money market	13,921,248	13,921,248	-	-	-
Mutual funds	57,451,588	N/A	N/A	N/A	N/A
Marketable equity securities	21,365,151	N/A	N/A	N/A	N/A
U.S. Treasury and notes	30,508,077	16,070,036	5,027,505	3,013,673	6,396,863
Commercial paper	155,670,931	155,670,931	-	-	-
Asset backed securities	6,497,157	-	4,854,403	759,480	883,274
Agency backed mortgages	26,898,003	9,363,816	3,831,439	2,009,021	11,693,727
Corporate notes	20,093,429	6,257,467	9,015,398	3,924,186	896,378
Corporate bonds	9,816,409	1,808,077	3,692,712	1,513,296	2,802,324
Foreign bonds/notes					
Interest receivable	263,928	263,928	-	-	-
Beneficial interest in trust	18,911,931	-	-	-	18,911,931
Other	384,892	384,892	-	-	-
Total	$371,247,765	$213,205,416	$26,421,457	$11,219,656	$41,584,497

Investments held at the foundations as of June 30, 2006 were as follows:

	Fair Value	Cost
MCV Foundation:		
U. S. Treasury and agency securities	$ 79,522,000	$ 81,657,000
Common and preferred stocks	72,746,000	51,525,000
Corporate bonds	27,083,000	28,187,000
Index funds	82,346,000	54,130,000
Life income investment	185,000	185,000
Total	261,882,000	215,684,000
VCU Foundation:		
U. S. Treasury and agency securities	4,731,153	4,922,991
Common and preferred stocks	24,111,814	19,377,305
Corporate bonds	4,435,327	4,633,520
Index funds	20,253,037	18,025,509
Total	53,531,331	46,959,325
VCU School of Business Foundation:		
Common and preferred stocks	9,654,338	8,795,034
Mutual and money market funds	1,376,467	1,412,380
Total	11,030,805	10,207,414
VCU School of Engineering Foundation:		
Fundamental Managers Funds, L.P.	5,367,810	5,367,810
Private Advisors Small Company Buyout Fund, L.P.	924,815	924,815
Private Advisors Hedged Equity Fund, L.P.	2,589,016	2,589,016
Private Advisors Stable Value Fund, LTD	6,874,663	6,874,663
Blue Ridge Offshore Limited Partnership	9,800,763	9,800,763
Tiger Global, LTD	10,606,000	10,606,000
Total	$ 36,163,067	$ 36,163,067

3. JOINT VENTURES AND EQUITY INVESTMENTS

Investment in 7th and Marshall Corporation

Included in other long-term assets on the accompanying statement of net assets is a capital contribution to 7th and Marshall Corporation of $500,000. UHS and Hospital Hospitality House, Inc. are the sole members of the 7th and Marshall Corporation, a not-for-profit corporation formed to support the charitable, educational and scientific activities of UHS and Hospital Hospitality House, Inc. The 50% investment in 7th and Marshall Corporation is accounted for under the equity method of accounting. The investment is carried at $365,251.

4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

University:	Beginning Balance	Additions	Reductions	Ending Balance
Non-depreciable capital assets:				
Land	$ 27,949,369	$ 3,741,556	$ -	$ 31,690,925
Construction in progress	60,793,048	78,598,643	82,089,711	57,301,980
Total non-depreciable capital assets	88,742,417	82,340,199	82,089,711	88,992,905
Depreciable capital assets:				
Land improvements and infrastructure	14,277,488	4,043,761	69,879	18,251,370
Buildings	489,083,109	73,586,144	4,773,304	557,895,949
Equipment	104,991,271	14,414,387	3,626,137	115,779,521
Library books	88,044,478	5,643,376	5,620	93,682,234
Total depreciable capital assets	696,396,346	97,687,668	8,474,940	785,609,074
Less accumulated depreciation for:				
Land improvements and infrastructure	9,200,257	1,164,887	63,431	10,301,713
Buildings	180,862,377	14,028,680	4,344,385	190,546,672
Equipment	60,580,162	10,618,252	3,137,377	68,061,037
Library books	78,064,766	4,648,996	5,620	82,708,142
Total accumulated depreciation	328,707,562	30,460,815	7,550,813	351,617,564
Total depreciable capital assets, net	367,688,784	67,226,853	924,127	433,991,510
Total capital assets - net	456,431,201	149,567,052	83,013,838	522,984,415
Authority:				
Land	1,716,025	-	123,600	1,592,425
Construction in progress	24,934,536	1,210,961	16,461,119	49,684,378
Total non-depreciable capital assets	26,650,561	41,210,961	16,584,719	51,276,803
Buildings	310,902,751	10,393,485	816,770	320,479,466
Equipment	270,725,620	28,098,478	1,761,767	297,062,331
Total depreciable capital assets	581,628,371	38,491,963	2,578,537	617,541,797

Less accumulated depreciation for:				
Buildings	126,139,526	14,453,189	278,919	140,313,796
Equipment	182,767,508	21,759,985	1,683,836	202,843,657
Total accumulated depreciation	308,907,034	36,213,174	1,962,755	343,157,453
Total depreciable capital assets, net	272,721,337	2,278,789	615,782	274,384,344
Total capital assets - net	299,371,898	43,489,750	17,200,501	325,661,147
MCV Foundation:				
Property and equipment – net depreciation	2,045,000	-	53,000	1,992,000
VCU Foundation:				
Property and equipment – net Depreciation	14,075	-	5,630	8,445
Land and building-not depreciated	210,962	-	-	210,962
Total	225,037	-	5,630	219,407
VCU Real Estate Foundation:				
Land and Buildings	60,719,294	6,724,833	7,095,580	60,348,547
Construction in progress	4,473,876	-	4,140,130	333,746
Total cost of capital assets	65,193,170	6,724,833	11,235,710	60,682,293
Less accumulated depreciation	6,391,881	1,917,399	264,092	8,045,188
Total capital assets – net	58,801,289	4,807,434	10,971,618	52,637,105
VCU School of Business Foundation:				
Construction in progress	-	12,695,250	-	12,695,250
Less included on University	-	12,695,250	-	12,695,250
Total capital assets – net	-	-	-	-
VCU School of Engineering Foundation:				
Land and Buildings	26,994,859	1,928,000	-	28,922,859
Construction in progress	252,839	7,894,413	-	8,147,252
Total cost of capital assets	27,247,698	9,822,413	-	37,070,111
Less accumulated depreciation	6,026,055	871,236	-	6,897,291
Total before eliminations	21,221,643	8,951,177	-	30,172,820
Less included on University	19,788,871	7,276,016	-	27,064,887
Total capital assets – net	$ 1,432,772	$ 1,675,161	$ -	$ 3,107,933

GASB 42, *Accounting and Reporting for the Impairment of Capital Assets and for Insurance Recoveries,* effective for periods beginning after December 15, 2004, requires disclosure of insurance recoveries for circumstances other than impairment of capital assets. Fiscal year 2006 insurance recoveries of $1,083,302 are reported as other non-operating income.

5. FUNDS HELD FOR OTHERS

At June 30, 2006, the University held deposits for others, which are composed of the following:

	Funds Held for Others
Federal loan programs	$23,142,373
Student organizations and others	2,074,671
Total	$25,217,044

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consisted of the following as of June 30, 2006:

Vendor payables	$15,644,379
Retainage payable	2,553,042
Accrued wages	12,734,346
Securities lending obligation	1,160,280
Interest payable	1,851,658
Total	$33,943,705

7. DEFERRED REVENUE

Deferred Revenue consisted of the following as of June 30, 2006:

Prepaid tuition and Fees	$ 7,843,762
Grants and contracts	14,657,601
Total	$22,501,363

8. LONG TERM LIABILITIES

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

Bonds Payable

The Commonwealth of Virginia issues bonds for agencies and institutions of the Commonwealth. The University has received a portion of the proceeds to fund capital construction. The University recognizes a liability associated with its share of the bonds and remits principal and interest payments related to this liability to the Treasurer of Virginia. The General Revenue Pledge Bonds (Section 9d Bonds) carry interest rates of 1.5% - 5.75% and are due through 2033. New General Revenue Pledge Series 2006 A Bonds in the amount of $74,800,000 were issued in fiscal year 2006. These bonds have a variable interest rate. The proceeds will be used to finance Phase II of the School of Engineering and the School of Business. See Note 24 for more information on the variable rate debt. The Commonwealth of Virginia Revenue Bonds (Section 9c Bonds) carry interest rates of 2.0% to 5.5% and are payable through 2017. Included in the total General Revenue Pledge Bonds are outstanding bonds payable in the amount of $18,425,000, which will be repaid by the VCU Real Estate Foundation. Of the total Commonwealth of Virginia Revenue Bonds, outstanding bonds payable in the amount of $2,157,508 will be repaid by the Authority.

Virginia College Building Authority

The VCBA issues Educational Facilities Revenue Bonds (Public Higher Education Financing Program). As a participating institution in this program, the University issued a note payable to the VCBA. This note, along with the notes of other institutions, is held by the VCBA as security for the Educational Facilities Revenue Bonds. For accounting purposes, the financing arrangement is considered to represent a note payable. The notes have interest rates of 2% to 6%. The University issued a note to VCBA in the amount of $17,855,000 in November 2005 to finance the 8th Street Parking Deck, Hunton Hall and Sanger Hall Renovations.

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 11, 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 Commonwealth of Virginia issued General Obligation Refunding bonds, Series 2006A to advance refund 1996 Series General Obligations Bonds, of which the University had a share. The University's share of the Series 2006A bonds issued was $.3 million. The University's share of debt that was advance refunded was $.3 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	$ 63,595,000	$ 75,214,938	$ 6,029,542	$132,780,396	$ 3,425,001
Commonwealth of Virginia:					
Revenue bonds	20,718,413	335,000	2,179,305	18,874,108	1,921,028
Total bonds payable	84,313,413	75,549,938	8,208,847	151,654,504	5,346,029
Notes payable:					
Virginia College Building Authority	122,078,342	18,933,521	6,127,953	134,883,910	4,775,000
Capital Leases:					
Virginia Public Building Authority	11,016,517	-	933,327	10,083,190	985,141
Virginia Biotechnology Research Park Authority	4,929,484	-	287,299	4,642,185	315,813
Total capital leases	15,946,001	-	1,220,626	14,725,375	1,300,954
Installment purchases	228,700	411,701	282,834	357,567	157,182
Total long-term debt	222,566,456	94,895,160	15,840,260	301,621,356	11,579,165
Compensated absences	20,736,428	18,051,284	15,461,412	23,326,300	3,498,945
Deferred compensation	2,810,748	1,126,321	954,833	2,982,236	844,121
Total	$246,113,632	$114,072,765	$ 32,256,505	$327,929,892	$15,922,231
Authority:					
Bonds payable:					
General revenue pledge bonds	$63,085,000	$100,000,000	$ 2,080,000	$161,005,000	$ 2,175,000
Capital leases	7,156,134	-	1,313,636	5,842,498	1,354,634
Installment purchases	8,524,764	598,343	2,924,492	6,198,615	2,022,074
Total long-term debt	78,765,898	100,598,343	6,318,128	173,046,113	5,551,708
Estimated losses on malpractice Claims	31,702,200	7,117,517	6,677,435	32,142,282	3,200,000
Compensated absences	15,999,220	3,017,572	1,334,392	17,682,400	10,728,583
Total	$126,467,318	$110,733,432	$ 14,329,955	$222,870,795	$19,480,291
VCU Foundation:					
Notes payable	$ 643,640	$ -	$ 168,836	$ 474,804	$ 173,333
VCU Real Estate Foundation:					
Tax exempt bonds payable	$ 20,460,000	$ -	$ 441,000	$ 20,019,000	$ 463,000
Notes payable	20,496,750	4,028,551	11,046,814	13,478,487	907,824
Total	$ 40,956,750	$ 4,028,551	$ 11,487,814	$ 33,497,487	$ 1,370,824
VCU School of Engineering Foundation:					
Notes payable	$ 30,000	$ -	$ 10,000	$ 20,000	$ 10,000

Long-term debt matures as follows:

	Fiscal Year	Revenue Bonds	Notes Payable	Capital Leases	Installment Purchases	Total
University:						
	2007	$ 5,346,029	$ 4,775,000	$ 2,246,869	$ 157,182	$ 12,525,080
	2008	5,476,146	5,050,000	2,245,505	139,983	12,911,634
	2009	8,007,231	5,300,000	2,244,255	60,402	15,611,888
	2010	8,022,900	5,510,000	2,244,956	-	15,777,856
	2011	8,302,183	5,790,000	2,244,332	-	16,336,515
	2012-2016	40,334,031	33,450,000	8,388,518	-	82,172,549
	2017-2021	29,105,591	40,600,000	-	-	69,705,591
	2022-2026	23,595,000	29,185,000	-	-	52,780,000
	2027-2031	23,555,000	-	-	-	23,555,000
	2032-2036	2,240,000	-	-	-	2,240,000
Add:	Unamortized Premium	1,819,775	5,797,469	-	-	7,617,244
Less:	Deferred Charge	(4,149,382)	(573,559)	-	-	(4,722,941)
Less:	Interest	-	-	(4,889,060)	-	(4,889,060)
	Total	$151,654,504	$134,883,910	$14,725,375	$ 357,567	$301,621,356
Authority:						
	2007	$ 2,175,000	$ -	$ 1,523,791	$ 2,022,074	$ 5,720,865
	2008	2,270,000	-	1,523,792	1,066,605	4,860,397
	2009	2,385,000	-	1,411,816	1,067,788	4,864,604
	2010	4,325,000	-	1,432,103	1,104,692	6,861,795
	2011	4,500,000	-	438,386	707,732	5,646,118
	2012-2016	25,715,000	-	-	229,724	25,944,724
	2017-2021	31,990,000	-	-	-	31,990,000
	2022-2026	39,795,000	-	-	-	39,795,000
	2027-2031	47,850,000	-	-	-	47,850,000
Less:	Interest	-	-	(487,390)	-	(487,390)
	Total	$161,005,000	$ -	$ 5,842,498	$6,198,615	$173,046,113
VCU Foundation:						
	2007	$ -	$ 173,333	$ -	$ -	$173,333
	2008	-	301,471	-	-	301,471
	Total	$ -	$ 474,804	$ -	$ -	$474,804
VCU Real Estate Foundation:						
	2007	$ 463,000	$ 907,824	$ -	$ -	$1,370,824
	2008	485,000	12,473,290	-	-	12,958,290
	2009	508,000	9,177	-	-	517,177
	2010	536,000	9,939	-	-	545,939
	2011	559,000	10,763	-	-	569,763
	Thereafter	17,468,000	67,494	-	-	17,535,494
	Total	$ 20,019,000	$ 13,478,487	$ -	$ -	$ 33,497,487
VCU School of Engineering Foundation:						
	2007	$ -	$ 10,000	$ -	$ -	$ 10,000
	2008	-	10,000	-	-	10,000
	Total	$ -	$ 20,000	$ -	$ -	$ 20,000

A summary of future interest requirements is as follows:

	Fiscal Year	Revenue Bonds	Notes Payable	Total
University:				
	2007	$ 3,116,413	$ 7,566,302	$ 10,682,715
	2008	2,961,938	8,579,888	11,541,826
	2009	2,813,092	8,364,046	11,177,138
	2010	2,649,518	8,117,845	10,767,363
	2011	2,460,229	7,760,892	10,221,121
	2012-2016	8,981,257	32,830,097	41,811,354
	2017-2021	4,149,307	21,112,057	25,261,364
	2022-2026	2,217,338	9,038,742	11,256,080
	2027-2031	1,232,387	2,500,986	3,733,373
	2032-2036	160,787	-	160,787
	Total	$30,742,266	$105,870,855	$136,613,121
Authority:				
	2007	$ 6,265,721	$ -	$ 6,265,721
	2008	6,152,221	-	6,152,221
	2009	6,032,971	-	6,032,971
	2010	5,848,221	-	5,848,221
	2011	5,655,583	-	5,655,583
	2012-2016	22,707,281	-	22,707,281
	2017-2021	18,617,408	-	18,617,408
	2022-2026	10,823,694	-	10,823,694
	2027-2031	3,242,079	-	3,242,079
	Total	$ 85,345,179	$ -	$ 85,345,179

9. VIRGINIA COMMONWEALTH UNIVERSITY FACULTY EARLY RETIREMENT INCENTIVE PLAN

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

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

As of June 30, 2006, 57 faculty members were enrolled in the Plan. Payments during fiscal year 2006 were $954,832. The present value of future Plan payments schedule follows:

Fiscal Year	Plan Obligations
2007	$ 844,121
2008	776,920
2009	551,640
2010	447,773
2011	294,427
2012-2016	67,355
Total	$2,982,236

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

University

Substantially all full-time classified salaried and certain full-time faculty employees of the University participate in the defined benefit retirement plan administered by the 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 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, 2006 were $160,889,407. The University's total payroll costs for the year were $325,672,889.

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

The University's total VRS contributions were $18,352,926 for the year ended June 30, 2006, which included the 5% employee contribution assumed by the employer.

The VRS does not measure assets and pension benefit obligations separately for individual state institutions. The Comprehensive Annual Financial Report of the Commonwealth of Virginia provides disclosure of the Commonwealth's unfunded pension benefit obligation at June 30, 2006. The same report contains historical trend information showing VRS's progress in accumulating sufficient assets to pay benefits when due.

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

Individual contracts issued under the plans provide for full and immediate vesting of both the University's and the employee's contributions. Contributions to other retirement plans were calculated using the base salary $125,178,587 in fiscal year 2006. Total pension costs under these plans were $13,018,573 in fiscal year 2006.

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

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

Authority

Prior to July 1, 1997, employees of the Authority were employees of the Commonwealth. These employees are eligible to participate in a defined benefit pension plan administered by the VRS. The VRS also administers life insurance and health-related plans for retired employees. Information relating to these plans is available at the statewide level only in the Commonwealth of Virginia's Comprehensive Annual Financial Report. The Commonwealth, not the Authority, has overall responsibility for these plans. Total pension costs for the year were approximately $4,745,000.

Effective July 1, 1997, the Hospital established the Medical College of Virginia Hospitals Authority Defined Contribution Plan. Effective July 1, 2000, the Plan Sponsor and the Employer became a part of the Virginia Commonwealth University Health System Authority. The Plan was amended and restated effective January 1, 2002 and is now referred to as the VCUHS Retirement Plan. All employees, excluding Housestaff, working at least 20 hours a week in a benefit-eligible position are eligible to participate in the Plan. At June 30, 2006, there were 4,164 participants in the Plan. Per the Plan document as approved by the Hospital's Board of Directors, the Hospital contributes up to 10% of the participant's salary to the Plan not to exceed the lesser of (a) the amount in accordance with Code 415(d), or (b) one hundred percent (100%) of the Participant's Compensation for such limitation year. Total contributions to the Plan for the years ended June 30, 2006 were approximately $10,062,000. The Hospital shall have the right at anytime, and without the consent of any party, to terminate the Plan in its entirety. Any changes to the provisions of the Plan, including the contribution requirements, must be approved in writing by the Hospital's Board of Directors.

The Authority has also established the Virginia Commonwealth University Health System Authority Health Care Providers Defined Contribution Plan (HCP Plan). All persons hired as a health care provider on or after July 1, 1993 and prior to July 1, 1997 and working at least 35 hours of service per week are eligible to participate in the HCP Plan. At June 30, 2006, there were 6 participants in the HCP Plan. All significant provisions of the HCP Plan, including the contribution requirements, are similar to the Plan. Total contributions to the HCP Plan for the years ended June 30, 2006 were approximately $29,900.

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

	2006
Fidelity Investments	$37,815,903
TIAA/CREF	26,243,571
VALLIC	7,109,235
Net assets available for plan benefits	$71,168,709

MCVAP sponsors the MCVAP 401(a) Retirement Plan (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 $6,211,000 for the year.

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

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

The contributions to the VCUHS 401(a) Plan and the VCUHS 457(b) Plan were $2,212,000. 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% of their compensation. VA Premier will match 50% of the employees' contributions up to 4% of the employees' compensation. Matching will occur based on the bi-weekly pay periods. In addition, VA Premier contributes 3% of the employee's compensation after each bi-weekly payroll effective when the employee begins employment. Employees are fully vested after 4 years of service in which the employees have at least 1,000 hours of service each year. The total expense to VA Premier was approximately $430,000.

11. RELATED PARTIES

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

Virginia Biotechnology Research Park 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 $204,561 in 2006 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 $72,010 in 2006 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 of VCU. The Association promotes and coordinates the delivery of superior patient care at the School of Dentistry.

12. FUNDS HELD IN TRUST BY OTHERS

Under the provisions of the wills of certain benefactors, the University's portion of principal sums with market values of $16,305,830 at June 30, 2006, was held in trust by others. These assets are not included in the University's balance sheet.

13. COMMITMENTS

The University and the Authority are party to various construction commitments. At June 30, 2006, the remaining commitments were $119,247,110 for the University and approximately $89,000,000 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, 2006, was $5,077,581 for the University and $6,574,000 for the Authority. In addition, the University reimburses the Commonwealth of Virginia $168,580 annually for the use of space in a facility owned by the Commonwealth.

The University has, as of June 30, 2006, the following total future minimum rental payments due under the above leases.

Fiscal Year	University	Authority
2007	$ 4,018,634	$4,382,782
2008	2,927,809	3,186,181
2009	2,139,593	1,967,527
2010	1,677,038	270,954
2011	868,019	-
2012-2016	2,861,578	-
2017-2021	975,967	-
Total future minimum rental payments	$15,468,638	$9,807,444

14. LITIGATION

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

15. TRANSACTIONS BETWEEN COMPONENT UNITS

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

The VCU Foundation and the MCV Foundation hold the University's investments that function as endowments, both true and quasi. As of June 30, 2006, the VCU Foundation and the MCV Foundation held University investments of $24,581,191 and $4,907,664 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 one building and Phase II is under construction, with the proceeds of debt issued by the University. The completed building is leased to the University for $1 per year. The School of Engineering Foundation transfers sufficient funds to the University annually to fund the debt service. The University has the building, construction-in-progress, and the liability for the outstanding debt on the Statement of Net Assets. The annual transfer is recorded on the University as a gift received. The VCU School of Engineering Foundation has the unspent bond proceeds, construction-in-progress, the building, deferred bond issuance costs, prepaid bond interest, a liability to the University, and an accrued contribution to the University on their financial statements which are eliminated in the Statement of Net Assets.

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

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

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

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

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

16. SUBSEQUENT EVENT

In November 2006, the University issued a note to the VCBA in the amount of $38,785,000. The proceeds of the note will be used to finance construction of the Monroe Park Campus Residential Housing and Parking Deck and Game and Inland Fisheries Regional Headquarters. The note bears interest at rates ranging from 4% to 4.5% payable in the years 2027 through 2037.

17. CONTINGENCIES

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

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

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

There have been malpractice claims asserted against the Hospitals by various claimants. The claims are in various stages of processing and some may ultimately be brought to trial. There are also known incidents that have occurred through June 30, 2006 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, 2006. At June 30, 2006, 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, 2006 includes approximately $6,669,000 for claims and related legal expenses for reported and unreported incidents occurring since July 1, 1998. The liability (undiscounted) was actuarially determined combining industry data and the Hospitals' historical experience.

A revocable trust has been established and is funded for payment of malpractice claims and related expenses. At June 30, 2006, the medical malpractice trust fund for the Hospitals includes approximately $7,324,000.

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%) as of June 30, 2004. There were no premiums paid during 2005 related to this arrangement.

In addition, MCVAP was self-insured for any claims in excess of its insurance coverage with URIC. The Board sets aside funds to be used to fund estimated losses based on actuarially determined reserves. At June 30, 2006, assets whose use is limited includes $30,026,533 that will be used to fund malpractice claims. Also, estimated losses on malpractice claims included approximately $25,500,000 at June 30, 2006, 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, 2006, assets whose use is limited includes $28,256,780 that has been designated by the Board to fund malpractice claims. Also, estimated losses on malpractice claims (discounted at 5%) were approximately $24,782,000 at June 30, 2006.

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, 2006, the accrual for estimated claims was calculated based on an assumption of 90% certainty (90% confidence level) that the actual losses related to professional liability would not exceed the reserve recorded.

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

VA Premier maintains general and professional liability policies. The general liability policy in force is occurrence-based. The coverage under the professional liability policy is on a claims-made basis and must be renewed or replaced with the equivalent insurance if claims incurred during its terms, but asserted after its expiration, are to be insured. Coverage limits for the general liability policy are $1 million per occurrence and $3 million annual aggregate. The coverage limits for the professional liability policy are $5 million per medical incident and $5 million annual aggregate. Management does not believe the amount of liability for any claims incurred but unreported as of June 30, 2006 is significant.

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

18. STOP-LOSS COVERAGE

VA Premier has a stop-loss arrangement to limit its losses on individual claims. This contract provides stop-loss coverage for all VA Premier enrollee claims. This contract provides coverage for 100% of certain hospital claims in excess of $100,000 subject to certain limitations and an annual limit of $1,000,000 per enrollee and a lifetime limit of $2,000,000 per enrollee. Stop-loss premiums net of reinsurance recoveries of approximately $470,000 are included as a reduction in medical claims expense for the year ended June 30, 2006.

19. INDEMNIFICATIONS

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

20. NET PATIENT SERVICE REVENUE

The Authority's patient service revenue is as follows for the year ended June 30, 2006:

Gross Patient Revenue:	
Inpatient:	
Routine services	$ 192,181,328
Ancillary services	861,937,658
Outpatient:	
Emergency	67,357,381
Special medical	510,720,335
Total gross patient service revenue	1,632,196,702
Provision for indigent care, contractual adjustments, and bad debt	(964,790,940)
Net patient service revenue (Hospitals)	667,405,762
MCVAP's net patient service revenue	107,195,487
Net patient service revenue (Authority)	$ 774,601,249

21.

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, 2006 the amount of these liabilities included in accounts payable and accrued liabilities was $30,711,322. This liability is VA Premier's best estimate based on available information.

22. STATE APPROPRIATIONS

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

The following is a summary of the state appropriations for the year ended June 30, 2006:

Original legislative appropriation per Chapter 2:	
Educational and general programs	$160,436,297
Higher education student financial assistance	12,508,500
Supplemental adjustments:	
Financial assistance for Eminent Scholars	375,753
Reversion of Eminent Scholars	(18,531)
Virginia Department of Health	400,000
General Fund central transfers	3,587,996
Steam plant debt service	601,763
Higher Education Equipment Trust Fund	7,826,161
Re-appropriation of Medicine and Neuroscience research support	1,979,250
Reverse receivable for re-appropriation of Medicine & Neuroscience	(1,980,000)
VIVA – Virtual Library of Virginia	36,378
Re-appropriation of COVANET	1,874
COVANET	2,817
Military Tuition Reimbursement	8,156
Re-appropriation Higher Ed Student Financial Assistance FY2005	15,477
Reversion of Higher Ed Student Financial Assistance	(106,823)
Reversion to General Fund Ch. 2 Section 3-1.01 X. Y. and Z.	(891,243)
Reversion Capital Fee	(94,125)
School of Engineering expansion	2,000,000
Grace Harris Leadership Institute	100,000
FY2006 additional payroll allotment	6,221,528
Transfers from Higher Education Operating Fund	2,527
Adjusted appropriation	$193,013,755

23. RISK MANAGEMENT

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

24. SHORT-TERM DEBT

The VCUHS has an unsecured line of credit used for capital expenditures until new bonds are issued. Activity during fiscal year ended June 30, 2006 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, 2006, are expected to be received as follows.

MCV Foundation*:	
Receivable in less than one year	$ 1,554,000
Receivable in one to five years	7,392,000
Receivable in more than five years	3,262,000
	12,208,000
Less:	
Discounts	(1,511,000)
Net contributions receivable	$10,697,000
VCU Foundation**:	
Receivable in less than one year	$ 1,244,558
Receivable in one to five years	3,679,984
	4,924,542
Less:	
Discounts	(1,996,114)
Allowances	(84,571)
Net contributions receivable	$ 2,843,857
VCU Real Estate Foundation**:	
Receivable in less than one year	$138,266
Less:	
Allowances	(81,839)
Net contributions receivable	$ 56,427
VCU School of Business Foundation**:	
Receivable in less than one year	$ 2,964,214
Receivable in one to five years	7,738,704
	10,702,918
Less:	
Discounts	(397,874)
Allowances	(51,584)
Net contributions receivable	$10,253,460
VCU School of Engineering Foundation***:	
Receivable in less than one year	$ 2,220,383
Receivable in one to five years	4,373,162
	6,593,545
Less:	
Discounts	(374,811)
Allowances	(62,187)
Net contributions receivable	$ 6,156,547

*Discount rate of 5.2% was 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. DERIVATIVE INSTRUMENT

In December 2005, the University entered into an interest rate swap agreement in conjunction with the issuance of its Series 2005B tax-exempt bonds (see Note 7). The swap has a notional amount of $75,000,000 which declines over time to $5,035,000 at the maturity date of November 1, 2029. The University pays a fixed rate of 3.436% and the counterparty pays 67% of LIBOR.

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

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

VCU School of Engineering Foundation

Net assets per foundation financial statements	$34,185,861
Less: Unrealized gain on interest rate swap	1,543,025
Net assets as reported on University's financial statements	$32,642,836

VCU School of Business Foundation

Net assets per foundation financial statements	$31,716,518
Less: Unrealized gain on interest rate swap	967,949
Net assets as reported on University's financial statements	$30,748,569

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SUPPLEMENTARY INFORMATION

VIRGINIA COMMONWEALTH UNIVERSITY
SCHEDULE OF AUXILIARY ENTERPRISES - REVENUES AND EXPENDITURES
For the Year Ended June 30, 2006

	Athletics	Siegel Center	Food Services	Gyms	Larrick Student Center	Parking and Transportation
Revenue:						
Student fees	$ 1,601,048	$ 1,756,114	$ 1,906,265	$ 349,624	$ 1,015	$ 8,549,041
University fee	7,775,307	2,219,332	-	2,925,848	513,463	2,527,447
Sales and services	-	-	11,579,643	-	-	-
Total revenue	9,376,355	3,975,446	13,485,908	3,275,472	514,478	11,076,488
Cost of sales	-	-	-	-	-	-
Net revenue	9,376,355	3,975,446	13,485,908	3,275,472	514,478	11,076,488
Expenditures:						
Personal services	3,184,540	431,449	191,142	1,186,137	155,238	1,708,817
Employee benefits	852,966	108,375	76,738	205,889	29,686	503,166
Contractual services	1,529,716	1,597,279	9,244,037	165,377	18,128	1,618,167
Supplies and materials	57,067	69,084	52,987	262,658	5,943	72,858
Equipment	88,708	87,283	11,721	107,861	784	81,091
Current charges and obligations	3,645,195	1,127,136	242,683	394,271	20,893	5,599,342
Miscellaneous	366,658	98,275	155,508	92,754	61,220	303,857
Total operating expenses	9,724,850	3,518,881	9,974,816	2,414,947	291,892	9,887,298
Interdepartmental recoveries and charges	-	-	-	(620)	-	(4,680)
Net operating expenses	9,724,850	3,518,881	9,974,816	2,414,327	291,892	9,882,618
Excess/(deficiency) of revenues over/(under) operating expenses before transfers	(348,495)	456,565	3,511,092	861,145	222,586	1,193,870
Transfers:						
Mandatory	(244,975)	(1,781,433)	(523,165)	(513,145)	-	(3,125,686)
Non-mandatory	380,775	392,138	(2,693,178)	20,700	-	(2,960,383)
Excess/(deficiency) of revenues over/(under) expenditures and transfers	(212,695)	(932,730)	294,749	368,700	222,586	(4,892,199)
Beginning fund balance	(816,933)	2,181,385	3,796,531	1,999,554	(99,067)	4,700,308
Ending fund balance	$ (1,029,628)	$ 1,248,655	$ 4,091,280	$ 2,368,254	$ 123,519	$ (191,891)

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

Residence Halls	Stores and Shops	Student Commons	Student Health	Business Services Administratior	Development Programs	Unassigned	Steam Plant	Total
$ 1,826,018	$ 2,337,303	$ 212,866	$ 719,065	$ 35,630	$ -	$ 478,865	$ 3,816,121	$ 23,588,975
421,000	-	3,586,935	1,228,969	-	289,872	(21,488,173)	-	-
15,722,829	-	-	3,103,605	-	-	24,655,484	-	55,061,561
17,969,847	2,337,303	3,799,801	5,051,639	35,630	289,872	3,646,176	3,816,121	78,650,536
-	1,098,787	-	-	-	-	-	-	1,098,787
17,969,847	1,238,516	3,799,801	5,051,639	35,630	289,872	3,646,176	3,816,121	77,551,749
4,339,205	159,579	1,282,744	2,906,840	457,760	203,874	11,661	618,751	16,837,737
1,035,271	49,098	325,747	802,991	134,065	67,498	949	195,884	4,388,323
3,036,532	266,810	694,416	328,332	6,590	19,785	4,132,986	857,895	23,516,050
598,162	(68,753)	64,606	466,192	(217,462)	5,324	35,802	(36,408)	1,368,060
1,464,273	6,614	124,527	31,990	6,537	(1)	2,073	-	2,013,461
5,514,851	71,619	811,760	177,753	103,300	13,384	(3,695,843)	3,397,662	17,424,006
559,228	23,573	115,386	205,041	28,047	15,883	192,868	72	2,218,370
16,547,522	508,540	3,419,186	4,919,139	518,837	325,747	680,496	5,033,856	67,766,007
-	-	(370,653)	(72)	(720,607)	(33)	-	(12,756)	(1,109,421)
16,547,522	508,540	3,048,533	4,919,067	(201,770)	325,714	680,496	5,021,100	66,656,586
1,422,325	729,976	751,268	132,572	237,400	(35,842)	2,965,680	(1,204,979)	10,895,163
(2,584,982)	-	(865,302)	(130,188)	-	-	(219,361)	-	(9,988,237)
(2,000,000)	(339,777)	-	50,586	1,570	-	(385,959)	-	(7,533,528)
(3,162,657)	390,199	(114,034)	52,970	238,970	(35,842)	2,360,360	(1,204,979)	(6,626,602)
2,684,586	1,039,074	1,028,539	787,008	651,764	70,667	10,303,043	164,875	28,491,334
$ (478,071)	$ 1,429,273	$ 914,505	$ 839,978	$ 890,734	$ 34,825	$ 12,663,403	$ (1,040,104)	$ 21,864,732

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Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

December 1, 2006

The Honorable Timothy M. Kaine
Governor of Virginia

The Honorable Thomas K. Norment, Jr.
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** (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, 2006, 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 the University and of its aggregate discretely presented component units as of June 30, 2006, 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 3 through 10 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 the 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

Internal Control Over Financial Reporting

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 an opinion 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 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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. Instances of noncompliance and other matters, entitled "Improve the Procedures for Small Purchase Charge Cards" and "Ensure Timely Utilities Payments" are described in the section titled "Internal Control and Compliance Findings and Recommendations."

Status of Prior Findings

The University has taken adequate corrective action with respect to the audit findings reported in the prior year.

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 24, 2007.

[redacted]

AUDITOR OF PUBLIC ACCOUNTS

MSM:jab
jab:90

VCU

Monroe Park Campus

Virginia Commonwealth University

Senior Vice President for Finance and Administration

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January 24, 2007

David A. Von Moll
State Comptroller
Virginia Department of Accounts
P.O. Box 1971
Richmond, VA 23218

Subject: Response to Internal Control and Compliance Findings and Recommendations of the Auditor of Public Accounts

Dear David:

In compliance with the Commonwealth Accounting Policies and Procedures (CAPP) Manual, Section 10200, Financial Management, Virginia Commonwealth University (VCU) is submitting its response to the "Internal Control Findings and Recommendations" of the Auditor of Public Accounts' Report on Audit for the Year Ended June 30, 2006.

Should you have any questions or require additional information, please contact me at 828-6116.

Sincerely,

John M. Bennett
Senior Vice President for Finance and Administration

Enclosure

cc: The Honorable Dr. Thomas R. Morris
Walter J. Kucharski, Auditor of Public Accounts
Richard D. Brown, Department of Planning and Budget

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, three 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, 2006:

1. Improve the Procedures for Small Purchase Charge Cards
2. Departments Should Resolve Cash Reconciliation Items Timely
3. Ensure Timely Utility Payments

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. Improve the Procedures for Small Purchase Charge Cards

We found Small Purchase Charge Card (SPCC) cardholders that were not in compliance with the University and Commonwealth's policies and procedures. We found a cardholder had not prepared accurate and complete monthly reconciliations. The reconciliations did not include items from the credit card statement or determine why items on the log did not appear on the statement. The cardholder also had not maintained proper support for all purchases and had bills that included sales tax paid on tax exempt items. We found another cardholder had not certified the reconciliation of the monthly statement to the purchase log and supporting documentation and the supervisor had not approved the reconciliation timely.

If cardholders do not perform monthly reconciliations in a timely manner, billing errors would go unnoticed and undisputed. Cardholders only have a 90-day time period in which to dispute erroneous charges with the credit card company. Further, if cardholders do not maintain proper support such as invoices or receipts for purchases, it inhibits the ability of the cardholder or agency to return items and decreases the likelihood of resolving potential billing errors or disputes. The payment of tax on tax exempt items is in non-compliance with the SPCC Policies and Procedures as set forth in the CAPP Manual.

We recommend that SPCC supervisors and reviewers assume a more active role in their respective departments for approving cardholders' monthly reconciliations. Cardholders should maintain a purchase log and perform a monthly reconciliation of the credit card statement to the purchase log and invoices in a timely manner. The cardholder and supervisor or reviewer must sign and approve the reconciliation timely after receipt of the monthly statement. Cardholders should maintain proper supporting documentation for all purchases. Supervisors should not approve reconciliations unless they are accurate and complete with all supporting documentation. When placing orders, the cardholder should notify the merchant of the University's tax exempt status. If a vendor mistakenly charges sales tax, the cardholder must request a credit of the tax. We recommend that the SPCC cardholders and supervisors or reviewers with findings should take additional training on the Small Purchase Charge Card program.

VCU Response:
All Corporate Purchasing and Travel cardholders and supervisors are required to complete web-based training and pass a test before a card is issued. In order to ensure cardholders and supervisors continue to be informed regarding proper procedures, the web-based training and test must be completed by April 30, 2007 in order to retain cardholder privileges.

2. <u>Departments Should Resolve Cash Reconciliation Items Timely</u>

The General Accounting Department needs to improve the process for resolving reconciling items with University's departments. During the two prior audits, we noted reconciling items up to a year old and there were there was no evidence of supervisory review. In addition, we found that the monthly State cash and University Cash reconciliations are not reconciled to General Ledger.

In response to this finding, the University implemented procedures, which included a revision to the bank reconciliation format, required the Manager and Assistant Controller of General Accounting to sign off the monthly reconciliations, and accelerated the clearing of reconciling items. However, there still remain fifty-four reconciling differences over a year old due to untimely resolution by the various departments. General Accounting often needs information from the departments to properly clear reconciling items.

Untimely resolution of reconciling items exposes the University to the risk of intentional and unintentional errors made by the bank or University employees. Additionally, the volume of reconciling items carried forward each month decreases the efficiency of the reconciliation process. The University should improve its bank reconciliation process to require resolution of reconciling items on a monthly basis.

<u>VCU Response:</u>
The General Accounting Department will continue to strengthen and improve processes and communication with the University's departments to ensure timely resolution of reconciling items.

3. <u>Ensure Timely Utility Payments</u>

We reviewed several utilities vouchers and found that the University made late payments for electricity and water and sewer services. We noted multiple instances in which the vendor assessed the University late payment fees. It appeared that, in many instances, the University made payments every other month instead of monthly. We also noted cases where the University paid more than the balance due on the account and, in one case, the voucher paid for three months of bills for a single account number. The University should establish internal procedures for identifying and expediting utility payments to avoid late payment penalties.

<u>VCU Response:</u>
The University recognized the utility payment problem in March, 2006, prior to the APA audit, and took prompt corrective action to address the issue. Additionally, with the implementation of Banner Finance in July, revised procedures were implemented for timely processing of utility payments.

VIRGINIA COMMONWEALTH UNIVERSITY