

VIRGINIA COMMONWEALTH UNIVERSITY

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2007**

APA

**Auditor of
Public Accounts**

COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of Virginia Commonwealth University for the year ended June 30, 2007, found the following:

- the financial statements are presented fairly, in accordance with generally accepted accounting principles;
- an internal control matter that we consider to be a significant deficiency; however, we do not consider this to be a material weakness; and
- an instance of noncompliance or other matter that is required to be reported under Government Auditing Standards.

- TABLE OF CONTENTS -

	<u>Pages</u>
AUDIT SUMMARY	
INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS	1- 2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3- 9
FINANCIAL STATEMENTS:	
Statement of Net Assets	12-15
Statement of Revenues, Expenses, and Changes in Net Assets	16-17
Statement of Cash Flows	18-19
Notes to Financial Statements	21-54
INDEPENDENT AUDITOR'S REPORTS:	
Report on Financial Statements	55-56
Report on Internal Control over Financial Reporting and on Compliance and Other Matters	56-57
UNIVERSITY RESPONSE	58-60
UNIVERSITY OFFICIALS	61

INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

Clear Cash Reconciling Items Timely

The University's General Accounting Department needs to improve the process for matching reconciling items between Banner and the bank each month. As of the end of our field work in November, almost 4,000 unmatched reconciling items remained for the Master Concentration Account's June 2007 reconciliation.

In fiscal 2007, the University implemented Banner, a new accounting system, which includes a monthly reconciliation function. The reconciliation function automatically reconciles items between Banner and the bank tape by matching all items that have the same internal document number. Additionally, the reconciliation function lists items without matching internal document numbers, which General Accounting must then manually clear. General Accounting is not able to efficiently clear these items in order to identify the actual differences between the bank and general ledger, resulting in pages of unmatched items.

Last year, we cited the General Accounting Department for needing to improve the process for resolving reconciling items with the University's departments. Because of the volume of reconciling items that resulted from the transition to Banner, we are unable to determine whether the various departments are providing the information needed to properly clear the reconciling items.

Untimely preparation of reconciliations exposes the University to the risk of errors made by the bank or the University. Additionally, the volume of unmatched items carried forward each month decreases the efficiency of the reconciliation process. The University should improve its bank reconciliation process to readily identify what is outstanding between the bank and the general ledger each month for a timely and complete reconciliation.

Improve Employment Eligibility Verification Process

University employees and supervisors are not properly completing Employment Eligibility Verification forms (I-9) in accordance with guidance issued by the US Citizenship and Immigration Services of the US Department of Homeland Security. The guidance requires the employee to complete, sign, and date the form on or before the first day of employment. Additionally, the employer or designated representative must complete, sign, and date the form within three business days of employment.

In our sample of 10 I-9 forms completed during fiscal year 2007, we found one or more errors on six of the forms as follows:

- 20 percent failed to have information completed and signed on or before the employee's first day of work;
- 20 percent failed to have information reviewed and verified by employer within three business days of employee's first day of work;
- 30 percent of the time, the reviewer failed to list the document title, issuing authority, document number, and expiration date (where applicable) for documents used to establish the employee's identity; and
- 10 percent of the documents used to establish the employee's identity were not among the documents listed on the "List of Acceptable Documents" located on the back of the I-9 form.

The Human Resources Division should review the process to complete the I-9 forms, train human resources staff on the requirements of completing these forms, and develop procedures to continuously review all or a sample of forms for compliance with federal regulations. The federal government has increased its enforcement efforts requiring employers to ensure that all new employees are legally entitled to work in the United States. This increased enforcement makes it critical for the University to have a good process to complete I-9 forms in place. Furthermore, we encourage the University to continue to be cautious in the amount of documents it requests from each employee because employers requesting more than the minimum amount of documentation from employees could be subject to fines and penalties, as the US Department of Homeland Security considers it a form of harassment.

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, 2007, with comparative information presented for the fiscal year ended June 30, 2006. 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:

	<u>2007</u>	<u>2006</u> <u>As restated</u>	<u>Increase</u>
Current and other assets	\$ 402,905,736	\$ 353,674,069	\$ 49,231,667
Capital assets – net	<u>609,282,553</u>	<u>522,984,415</u>	<u>86,298,138</u>
Total assets	<u>1,012,188,289</u>	<u>876,658,484</u>	<u>135,529,805</u>
Current liabilities	126,365,822	73,892,493	52,473,329
Long term liabilities	<u>356,628,569</u>	<u>337,303,015</u>	<u>19,325,554</u>
Total liabilities	<u>482,994,391</u>	<u>411,195,508</u>	<u>71,798,883</u>
Net assets:			
Invested in capital assets, net of related debt	335,857,677	301,948,202	33,909,475
Restricted	48,501,959	22,146,485	26,355,474
Unrestricted	<u>144,834,262</u>	<u>141,368,289</u>	<u>3,465,973</u>
Total net assets	<u>\$ 529,193,898</u>	<u>\$ 465,462,976</u>	<u>\$ 63,730,922</u>

- The University's current and other assets increased due to higher cash and appropriations receivable for HEETF equipment and capital projects. Capital assets increased due to additional equipment purchases and construction of the School of Business, Phase II of the School of Engineering, Medical Sciences Building II, and the Monroe Park Campus Addition.
- Current and other liabilities increased principally due to higher vendor accounts payable and accrued wages. Vendor payables were reduced to zero for implementation of a new Finance system in fiscal year 2006. Accrued wages were higher due to payment of the June 30 payroll in fiscal year 2006. This payroll was accrued for fiscal year 2007.
- Long term liabilities increased due to higher debt. Debt is discussed in more detail below.
- Total assets grew by a greater margin than total liabilities, with net assets increasing correspondingly.

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

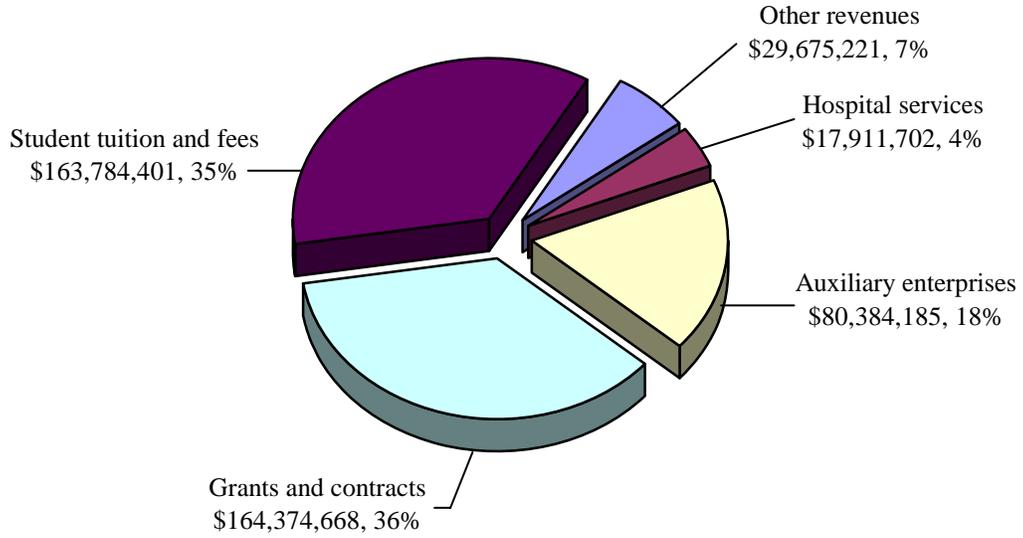
The Statement of Revenues, Expenses, and Changes in Net Assets presents the operating results, as well as the nonoperating revenues and expenses. State appropriations, while budgeted for operations, are considered non-operating revenues according to generally accepted accounting principles.

The following is a summarized schedule of the revenues and expenses for the University, for the year ended June 30, 2007, with comparative data for the year ended June 30, 2006.

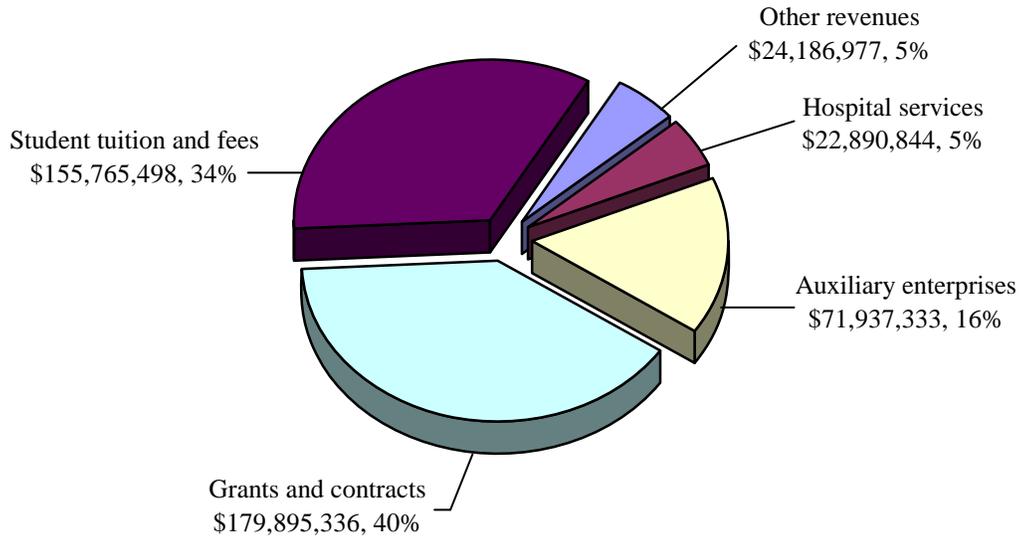
	<u>2007</u>	<u>2006 As restated</u>	<u>Increase/ (Decrease)</u>
Operating revenues	\$ 456,130,177	\$ 454,676,288	\$ 1,453,889
Operating expenses	<u>693,415,677</u>	<u>647,087,465</u>	<u>46,328,212</u>
Operating loss	<u>(237,285,500)</u>	<u>(192,411,177)</u>	<u>(44,874,323)</u>
Nonoperating revenues (expenses):			
State appropriations	215,835,426	193,013,755	22,821,671
Investment income (net of investment expense)	14,998,358	6,117,181	8,881,177
Interest on capital asset-related debt	(12,646,649)	(9,693,962)	(2,952,687)
Gifts	24,325,960	19,769,309	4,556,651
Other	<u>426,859</u>	<u>386,300</u>	<u>40,559</u>
Net nonoperating revenues	<u>242,939,954</u>	<u>209,592,583</u>	<u>33,347,371</u>
Income before other revenues	<u>5,654,454</u>	<u>17,181,406</u>	<u>(11,526,952)</u>
Additions to permanent endowments	1,012,993	8,111	1,004,882
Capital appropriations	53,284,290	13,980,407	39,303,883
Capital gifts	<u>3,779,185</u>	<u>4,419,850</u>	<u>(640,665)</u>
Increase in net assets	<u>63,730,922</u>	<u>35,589,774</u>	<u>28,141,148</u>
Net assets - beginning of year, restated	<u>465,462,976</u>	<u>429,873,202</u>	<u>35,589,774</u>
Net assets - end of year	<u>\$ 529,193,898</u>	<u>\$ 465,462,976</u>	<u>\$ 63,730,922</u>

The following graphs present operating revenues and expenses for fiscal years 2007 and 2006.

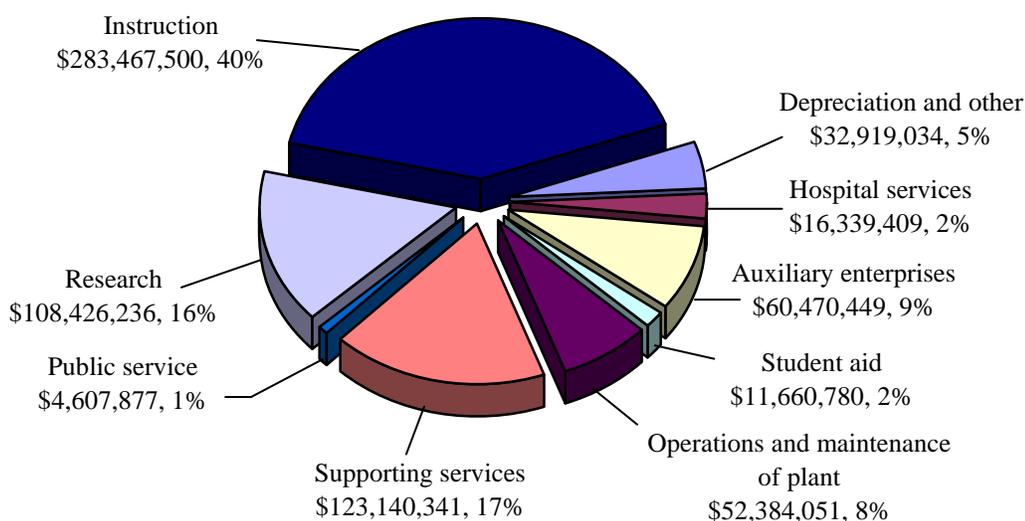
2007 Operating Revenues



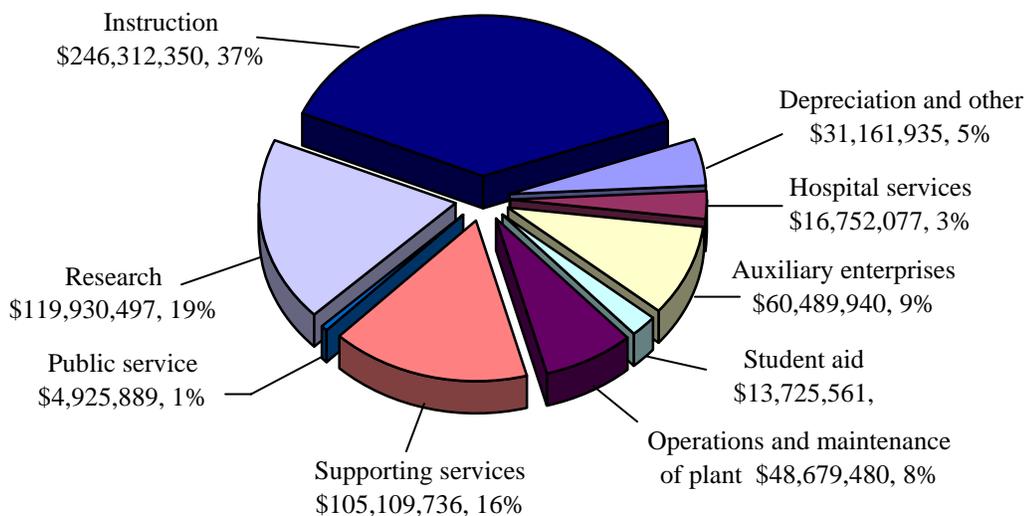
2006 Operating Revenues



2007 Operating Expenses



2006 Operating Expenses



- Tuition and fees increased \$8 million as the result of tuition and mandatory fee increases of 6.4 percent for resident undergraduate students.
- Auxiliary enterprise revenue increased due to increased demand for dining services, fees and other auxiliary operations.
- Operating expenses increased \$46.3 million due to salary increases and higher operation and maintenance of plant.

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, 2007, with comparative data for the year ended June 30, 2006. For more detailed information, see the accompanying Statement of Cash Flows.

	<u>2007</u>	<u>2006</u>	<u>Increase/ (Decrease)</u>
Cash provided (used) by:			
Operating activities	\$ (175,879,562)	\$ (198,932,208)	\$ 23,052,646
Noncapital financing activities	237,936,828	206,063,177	31,873,651
Capital and related financing activities	(45,365,059)	(4,783,531)	(40,581,528)
Investing activities	<u>8,591,829</u>	<u>1,584,527</u>	<u>7,007,302</u>
Net increase in cash	<u>25,284,036</u>	<u>3,931,965</u>	<u>21,352,071</u>
Cash, beginning of year, as restated	<u>180,793,994</u>	<u>176,862,029</u>	<u>3,931,965</u>
Cash, end of year	<u>\$ 206,078,030</u>	<u>\$ 180,793,994</u>	<u>\$ 25,284,036</u>

- The University's operating cash flows increased due to higher salary and vendor accruals.
- Cash from noncapital financing activities increased due to higher state appropriations and gifts.
- Cash from capital and related financing activities decreased due to reduced debt issuance of \$55 million that was partially offset by an increase in state appropriations for capital assets.
- Cash from investing activities increased due to higher investment income.

Capital Assets and Debt Administration

Capital Assets

Presented next is the schedule of capital assets net of depreciation. Depreciation expense totaled \$32.8 million for the University.

	<u>2007</u>	<u>2006</u>
Land	\$ 33,886,928	\$ 31,690,925
Land improvements and infrastructure	6,637,681	7,949,657
Buildings	380,787,026	367,349,277
Equipment	57,753,899	47,718,484
Library books	13,824,495	10,974,092
Construction in progress	<u>116,392,524</u>	<u>57,301,980</u>
Total	<u>\$609,282,553</u>	<u>\$ 522,984,415</u>

- The School of Nursing was completed in March 2007. Capital projects under construction include the Monroe Park Campus Residential Housing and Parking Deck, the School of Business, and Phase II of the School of Engineering.

Debt

At June 30, 2007, the University had \$330.2 million in debt outstanding.

- The University issued notes payable in the amount of \$38.8 million. The proceeds of the note will be used to finance the Monroe Park Campus Residential Housing and Parking Deck.
- Principal payments were \$11 million.

Future Financial Effects

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

- State appropriations were originally projected to increase to \$221.9 million for fiscal year 2008, which when combined with tuition revenues, would have brought VCU to 86 percent of base adequacy funding as calculated by the State Council for Higher Education in Virginia.
- Because state revenues are projected to be lower than expected, the Governor has imposed general fund reductions on Virginia agencies and institutions for fiscal year 2008. VCU's reduction is \$9,673,450, which brings the base adequacy funding to 84 percent. Reduction plans for the 2008-10 biennium will be developed during the state budget process.
- Tuition and fee revenues are projected to increase by \$21.4 million in fiscal year 2008 based on the Board of Visitors approved increase in tuition and mandatory fee rates of 6.5 percent for resident students and projected enrollment growth of 3.2 percent.
- The 2007-08 budget includes an average compensation increase of four percent for faculty and classified staff.
- In November 2007, the University issued a note to the Virginia College Building Authority (VCBA) in the amount of \$23,340,000. The proceeds of the note will be used to finance recreational facilities on both campuses.
- New facilities opening in fiscal year 2008 include the AdCenter, School of Business Building, the School of Engineering Building (Phase II), and the Monroe Park Campus Addition Parking Deck. The Monroe Park Campus Addition Housing Complex is expected to open in July 2008. The recreational facilities are expected to open in 2009.

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FINANCIAL STATEMENTS

VIRGINIA COMMONWEALTH UNIVERSITY
STATEMENT OF NET ASSETS
As of June 30, 2007

ASSETS	University	VCU Health System Authority
Current assets:		
Cash and cash equivalents (Note 2)	\$ 147,543,938	\$ 56,050,140
Short-term investments (Note 2)	12,785,997	195,977,357
Accounts receivable:		
Student, net of allowance of \$2,640,149	6,856,287	-
Sponsors, net of allowance of \$200,000	24,064,500	-
Patient, net of allowance of \$78,351,000	-	135,310,683
Contributions and gifts, net of allowance of \$231,531	-	-
Due from component units	8,826,247	431,040
Due from VCBA	18,069,451	-
Due from Commonwealth of Virginia	10,129,284	-
Student loans receivable, current portion	4,041,800	-
Other assets	3,299,542	11,786,763
Total current assets	<u>235,617,046</u>	<u>399,555,983</u>
Noncurrent assets:		
Restricted cash and cash equivalents	58,534,092	-
Endowment investments (Note 2)	-	-
Other investments (Note 2)	32,784,853	257,866,149
Contributions and gifts, net of discount and allowance of \$4,163,375	-	-
Student loans receivable, net of allowance of \$3,080,219	18,629,872	-
Loans receivable	-	-
Due from component units	55,671,705	716,173
Other long-term assets	1,668,168	15,581,035
Nondepreciable capital assets (Note 4)	150,279,452	125,811,934
Depreciable capital assets (Note 4)	459,003,101	266,185,189
Total noncurrent assets	<u>776,571,243</u>	<u>666,160,480</u>
Total assets	<u>1,012,188,289</u>	<u>1,065,716,463</u>
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities (Note 6)	75,185,002	187,868,036
Deferred revenue (Note 7)	17,542,532	-
Due to component units	572,307	8,152,567
Due to Commonwealth of Virginia	4,003,880	-
Long-term liabilities - current portion (Note 8)	29,062,101	29,440,166
Total current liabilities	<u>126,365,822</u>	<u>225,460,769</u>
Noncurrent liabilities:		
Funds held for others (Note 5)	25,935,608	-
Due to component units	-	1,807,148
Other	-	3,570,438
Long-term liabilities (Note 8)	330,692,961	201,795,103
Total noncurrent liabilities	<u>356,628,569</u>	<u>207,172,689</u>
Total liabilities	<u>482,994,391</u>	<u>432,633,458</u>

MCV Foundation	VCU Foundation	VCU Real Estate Foundation	VCU School of Business Foundation	VCU School of Engineering Foundation	Eliminations	Total
\$ 30,320,000	\$ 3,301,909	\$ 2,954,947	\$ 935,308	\$ 16,975,938	\$ (16,991,816)	\$ 241,090,364
-	-	-	-	-	-	208,763,354
-	-	-	-	-	-	6,856,287
-	-	-	-	-	-	24,064,500
-	-	-	-	-	-	135,310,683
5,541,000	1,075,654	251,453	4,034,827	3,549,585	-	14,452,519
770,000	61,267	2,085,172	80,000	-	(12,253,726)	-
-	-	-	-	-	-	18,069,451
-	-	-	-	-	-	10,129,284
50,000	-	-	-	-	-	4,091,800
-	12,027	2,030	1,490	1,076,269	-	16,178,121
36,681,000	4,450,857	5,293,602	5,051,625	21,601,792	(29,245,542)	679,006,363
30,881,000	9,406,976	5,754,030	3,435,336	552,652	(448,071)	108,116,015
166,391,000	31,166,368	-	12,419,579	2,979,454	-	212,956,401
118,902,000	33,114,318	-	11,543,131	50,134,382	-	504,344,833
4,609,000	2,705,923	-	10,324,543	5,070,215	-	22,709,681
-	-	-	-	-	-	18,629,872
557,000	-	-	-	-	-	557,000
-	-	-	1,564,819	1,329,448	(59,282,145)	-
56,000	-	724,311	248,003	942,203	(1,190,206)	18,029,514
217,000	-	14,281,890	32,569,233	30,950,586	(63,533,968)	290,576,127
1,635,000	2,815	41,752,740	-	18,169,015	(18,046,399)	768,701,461
323,248,000	76,396,400	62,512,971	72,104,644	110,127,955	(142,500,789)	1,944,620,904
359,929,000	80,847,257	67,806,573	77,156,269	131,729,747	(171,746,331)	2,623,627,267
7,794,647	30,888	1,482,907	20,374	134,804	-	272,516,658
-	-	3,000,000	14,925	-	(3,000,000)	17,557,457
-	2,855,172	673,680	-	1,215,000	(13,468,726)	-
-	-	-	-	-	-	4,003,880
460,000	200,000	1,393,473	-	-	(460,000)	60,095,740
8,254,647	3,086,060	6,550,060	35,299	1,349,804	(16,928,726)	354,173,735
-	-	-	-	-	-	25,935,608
5,468,353	28,853,204	21,225,440	29,000,000	80,583,056	(166,937,201)	-
-	179,709	1,839,911	-	-	-	5,590,058
12,155,000	101,065	30,733,006	-	-	(12,155,000)	563,322,135
17,623,353	29,133,978	53,798,357	29,000,000	80,583,056	(179,092,201)	594,847,801
25,878,000	32,220,038	60,348,417	29,035,299	81,932,860	(196,020,927)	949,021,536

VIRGINIA COMMONWEALTH UNIVERSITY
STATEMENT OF NET ASSETS
As of June 30, 2007

NET ASSETS	University	VCU Health System Authority
Invested in capital assets, net of related debt	\$ 335,857,677	\$ 213,885,409
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	4,658,511	-
Departmental uses	533,093	20,709,982
Expendable:		
Scholarships and fellowships	3,323,473	-
Research	5,954,371	-
Departmental uses	13,757,651	894,893
Loans	4,769,165	-
Capital projects	15,505,695	-
Unrestricted	144,834,262	397,592,721
Total net assets	<u>\$ 529,193,898</u>	<u>\$ 633,083,005</u>

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

MCV Foundation	VCU Foundation	VCU Real Estate Foundation	VCU School of Business Foundation	VCU School of Engineering Foundation	Eliminations	Total
\$ 1,852,000	\$ 2,815	\$ 6,607,462	\$ 3,833,114	\$ 520,813	\$ (4,245,459)	\$ 560,303,659
-	-	-	-	-	-	4,658,511
166,391,000	32,430,004	-	13,840,779	4,762,991	-	238,667,849
-	-	-	-	-	-	3,323,473
-	-	-	-	-	-	5,954,371
135,274,000	13,078,531	-	28,546,822	30,156,329	-	221,708,226
-	-	-	-	-	-	4,769,165
-	-	-	-	-	-	15,505,695
30,534,000	3,115,869	850,694	1,900,255	14,356,754	28,520,055	619,714,782
\$ 334,051,000	\$ 48,627,219	\$ 7,458,156	\$ 48,120,970	\$ 49,796,887	\$ 24,274,596	\$ 1,674,605,731

VIRGINIA COMMONWEALTH UNIVERSITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2007

	University	VCU Health System Authority	MCV Foundation
Operating revenues:			
Student tuition and fees (Net of scholarship allowances of \$37,576,114)	\$ 163,784,401	\$ -	\$ -
Federal grants and contracts	132,270,686	-	-
State grants and contracts	12,408,130	-	-
Local grants and contracts	1,055,849	-	-
Nongovernmental grants and contracts	18,640,003	-	-
Sales and services of educational departments	22,845,653	-	-
Auxiliary enterprises:			
Sales and services	52,609,228	-	-
Student fees (Net of scholarship allowances of \$1,786,019)	27,774,957	-	-
Hospital services	17,911,702	1,230,558,294	-
Other revenues	6,829,568	-	1,192,000
Total operating revenues	456,130,177	1,230,558,294	1,192,000
Operating expenses:			
Instruction	283,467,500	-	-
Research	108,426,236	-	-
Public service	4,607,877	-	-
Supporting services:			
Academic support	61,278,237	-	23,256,000
Student services	10,021,967	-	-
Institutional support	51,840,137	-	1,242,000
Operations and maintenance of plant	52,384,051	-	-
Student aid	11,660,780	-	1,112,000
Auxiliary enterprises	60,470,449	-	-
Hospital services	16,339,409	1,104,629,500	-
Depreciation expense	32,817,789	39,978,451	78,000
Other expenses	101,245	-	372,000
Total operating expenses	693,415,677	1,144,607,951	26,060,000
Operating gain/(loss)	(237,285,500)	85,950,343	(24,868,000)
Nonoperating revenues (expenses):			
State appropriations (Note 22)	215,835,426	-	-
Gifts	24,325,960	-	40,687,000
Investment income, net of investment expense of \$1,152,810	14,998,358	36,172,488	40,480,000
Interest on capital asset-related debt	(12,646,649)	(3,589,752)	-
Other	426,859	(18,604,632)	591,000
Net nonoperating revenues	242,939,954	13,978,104	81,758,000
Income before other revenues and expenses	5,654,454	99,928,447	56,890,000
Other revenues:			
Additions to permanent endowments	1,012,993	-	8,516,000
Capital appropriations	53,284,290	-	-
Capital gifts and grants	3,779,185	37,485	-
Increase in beneficial interest in trusts	-	1,798,051	-
Other	-	(2,866,784)	-
Increase in net assets	63,730,922	98,897,199	65,406,000
Net assets - Beginning of year, as restated (Note 1)	465,462,976	534,185,806	268,645,000
Net assets - End of year	\$ 529,193,898	\$ 633,083,005	\$ 334,051,000

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

VCU Foundation	VCU Real Estate Foundation	VCU School of Business Foundation	VCU School of Engineering Foundation	Eliminations	Total
\$ -	\$ -	\$ -	\$ -	\$ (1,552,538)	\$ 162,231,863
-	-	-	-	-	132,270,686
-	-	-	-	-	12,408,130
-	-	-	-	-	1,055,849
-	-	-	-	(68,486)	18,571,517
-	-	-	-	(2,993,031)	19,852,622
-	-	-	-	(9,064)	52,600,164
-	-	-	-	(497,606)	27,277,351
-	-	-	-	(17,911,702)	1,230,558,294
472,827	8,800,342	656,266	1,364,652	(9,128,569)	10,187,086
472,827	8,800,342	656,266	1,364,652	(32,160,996)	1,667,013,562
-	-	591,642	-	(103,100)	283,956,042
-	-	-	-	(1,072,228)	107,354,008
-	-	-	-	(6,488)	4,601,389
-	-	-	-	(14,521,202)	70,013,035
-	-	-	-	-	10,021,967
-	-	-	-	(225)	53,081,912
-	3,700,148	-	-	(2,009,916)	54,074,283
-	-	-	-	-	12,772,780
-	-	-	-	(223,483)	60,246,966
-	-	-	-	(27,667,902)	1,093,301,007
5,630	2,072,416	8,857	927,581	(938,209)	74,950,515
4,878,634	533,427	692,028	1,713,004	(7,485,889)	804,449
4,884,264	6,305,991	1,292,527	2,640,585	(54,028,642)	1,825,178,353
(4,411,437)	2,494,351	(636,261)	(1,275,933)	21,867,646	(158,164,791)
-	-	-	-	-	215,835,426
7,304,119	-	7,655,894	6,541,899	(39,017,237)	47,497,635
5,991,813	767,995	3,564,087	11,150,684	(899,987)	112,225,438
-	(2,584,241)	-	(827,479)	827,479	(18,820,642)
587,071	755,107	-	-	18,604,632	2,360,037
13,883,003	(1,061,139)	11,219,981	16,865,104	(20,485,113)	359,097,894
9,471,566	1,433,212	10,583,720	15,589,171	1,382,533	200,933,103
497,866	-	2,943,168	1,564,880	-	14,534,907
-	-	-	-	-	53,284,290
-	-	3,845,513	-	(6,550,179)	1,112,004
-	-	-	-	-	1,798,051
-	-	-	-	-	(2,866,784)
9,969,432	1,433,212	17,372,401	17,154,051	(5,167,646)	268,795,571
38,657,787	6,024,944	30,748,569	32,642,836	29,442,242	1,405,810,160
\$ 48,627,219	\$ 7,458,156	\$ 48,120,970	\$ 49,796,887	\$ 24,274,596	\$ 1,674,605,731

VIRGINIA COMMONWEALTH UNIVERSITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2007

	University
Cash flows from operating activities:	
Tuition and fees	\$ 164,677,619
Grants and contracts	151,120,746
Auxiliary enterprise charges	80,911,701
Sales and services of education departments	22,845,653
Hospital services charges	17,911,702
Payments to suppliers	(195,555,029)
Payments to employees	(422,708,784)
Loans issued to students	(3,560,430)
Collection of loans to students	4,440,676
Other receipts	4,036,585
	(175,879,562)
Net cash used by operating activities	
Cash flows from noncapital financing activities:	
State appropriations	210,928,814
Direct lending receipts	133,029,687
Direct lending disbursements	(133,029,687)
Agency receipts	35,849,795
Agency disbursements	(34,973,398)
Insurance recoveries	792,664
Gifts	25,338,953
	237,936,828
Net cash provided by noncapital financing activities	
Cash flows from capital financing activities:	
Proceeds from issuance of note payable	39,290,062
State appropriations for capital assets	45,121,247
Gifts for capital assets	3,779,185
Purchase of capital assets	(110,157,768)
Principal paid on capital-related debt	(11,018,018)
Interest paid on capital-related debt	(12,379,767)
	(45,365,059)
Net cash used by capital financing activities	
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	106,797,078
Investment income	11,930,194
Purchases of investments	(110,135,443)
	8,591,829
Net cash provided by investing activities	
Net increase in cash	25,284,036
Cash and cash equivalents - Beginning of year, as restated	180,793,994
Cash and cash equivalents - End of year	\$ 206,078,030

RECONCILIATION OF NET OPERATING EXPENSES TO NET CASH
USED BY OPERATING ACTIVITIES:

Operating loss	\$ (237,285,500)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation expense	32,817,789
Provision for uncollectible accounts	319,897
Changes in assets and liabilities:	
Receivables	(2,497,960)
Other assets	(384,072)
Accounts payable	32,458,356
Deferred revenue	(4,958,831)
Compensated absences and deferred compensation	3,238,199
Deposits	(187,362)
Other liabilities	599,922
	<hr/>
Net cash used by operating activities	<u>\$ (175,879,562)</u>

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

NOTES TO FINANCIAL STATEMENTS

VIRGINIA COMMONWEALTH UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Virginia Commonwealth University (VCU), 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 190 degree and certificate programs on VCU's two campuses: the Monroe Park Campus, situated in the historic Fan District, and the Medical College of Virginia Campus (MCV Campus), located two miles east in the commercial and governmental district of downtown Richmond. VCU's fifteen schools and one college include the School of Engineering, one of the largest 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 with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), including all FASB statements and interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued, unless those pronouncements conflict with or contradict GASB pronouncements.

The accounting policies of the 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 39 to include selected foundations in the body of its financial statements.

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

The Authority's principal activity is the operation of the Medical College of Virginia Hospitals (the Hospitals), University Health Services, Inc. and Subsidiaries (UHS) and MCV Associated Physicians (MCVAP). The Hospitals, a division of the Authority, is an approximately 900-bed teaching hospital which provides inpatient and outpatient services primarily to patients in the Commonwealth of Virginia. MCVAP, formed in 1991 as a non-stock, not-for-profit charitable educational organization, functions as the group practice plan for those physicians and health care professionals who have faculty appointments in the Virginia Commonwealth University (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, non-stock, tax-exempt corporation, which supports the educational, scientific, and charitable purposes and activities of the University and, in particular, the activities of the MCV Campus and the Hospitals. These activities include, but are not limited to, activities undertaken pursuant to Section 23-50.16B of the Code of Virginia. UHS is a blended component unit of the Authority due to the significance of the operational and financial relationship between the two entities. Virginia Premier Health Plan, Inc. (VA Premier) is a wholly owned subsidiary of UHS. VA Premier is a for-profit health maintenance organization (HMO) whose primary purpose is to provide quality health care within a managed care framework.

The 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 Partnership Authority
- Virginia Commonwealth University Alumni Association

- Medical College of Virginia Alumni Association of VCU
- MCV/VCU Dental Faculty Practice Association

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

B. Basis of Accounting

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

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

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

C. Allowance for Uncollectible Receivables

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

D. Pledges Receivable

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

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

E. Investments

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

F. Inventories

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

G. Investment Income

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

It is the practice of the 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 five hours of leave each pay period regardless of the length of state service, and nine month faculty accrue 48 hours per semester. One VSDP option permitted eligible employees to convert accumulated sick leave balances to short-term disability credits. The other allowed for the conversion of sick leave balances to VRS service credit. The University was not required to currently fund the cost of conversion to VRS service credit. Enrollment in the VSDP is irrevocable, and no additional enrollments are planned. Under VSDP, unused VSDP sick leave and family and personal leave balances do not carry forward from one year to the next, and employees are not paid for unused balances upon termination. The converted short-term disability credits of classified employees are payable upon termination in accordance with the Commonwealth of Virginia’s sick leave payout policy discussed below. Faculty who converted sick leave balances to short-term disability credits are not compensated for these balances at termination.

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

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

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

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

I. 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 five to 20 years for equipment. The estimated useful life of library books is five years. The general range of estimated useful lives is 10 to 25 years for land improvements and infrastructure. Expenditures for construction in progress are capitalized as incurred and reflected in net investment in plant. Interest expense relating to construction is capitalized net of interest income earned on resources set aside for this purpose. Capital assets at the time of disposal revert to the Commonwealth of Virginia for disposition.

The VCU School of Engineering Foundation, VCU School of Business Foundation, and the VCU Foundation record the acquisition of real estate at cost, or if donated, at fair market value at the time of donation. 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 five 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 three and 39 years.

J. Hospital Services

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

K. Uncompensated Care

The Authority provides care to patients who meet certain criteria under its indigent care policy without charge or at amounts less than its established rates. Because the Authority does not pursue collection of charges determined to qualify as uncompensated care from the patients, they are not reported as revenue. The costs of providing these services are included in the Authority's operating expenses. Uncompensated care, which represents the difference between charges of the services provided and the costs of those respective services, approximated \$127,417,000 for the year ended June 30, 2007.

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. The effect of these settlement adjustments was to decrease net patient service revenue by approximately \$7,100,000 in 2007.

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.
- Medicaid – Inpatient acute care services rendered to Medicaid program beneficiaries are paid at a per diem rate and APDRG (rates per discharge). Outpatient services rendered to Medicaid program beneficiaries are reimbursed on prospectively determined rates and a cost reimbursement methodology. In addition to inpatient and outpatient services provided to Medicaid program beneficiaries, Medicaid reimburses the Authority its costs related to services provided to indigent patients up to an amount which results in total Medicaid

and indigent reimbursement to the Authority of \$256 million in 2007. The Authority's Medicaid cost reports have been audited by the Medicaid program representative through June 30, 2005.

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

M. Premiums Earned

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

N. Uncollectible Accounts

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

O. Estimated Medical Claims Payable

VA Premier provides for the liability arising from services rendered to 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 \$20,709,982, 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.

Beginning net assets of VCU have been restated for a reporting guideline change for Treasury Reimbursement Programs, as well as, adjustments for patent development expenses, agency fund reclassification, and VCUHS receivables:

Net assets as of June 30, 2006	\$ 470,489,407
Restatement for Treasury's reimbursement programs	(10,145,951)
Adjustments for:	
Patent development expenses	(647,899)
Agency funds	(78,310)
VCUHS receivable	<u>5,845,729</u>
Net assets as of July 1, 2006 restated	<u>\$ 465,462,976</u>

MCVF net assets have been restated to record a debt service obligation on the Massey Cancer Center.

Net assets as of June 30, 2006	\$ 281,710,000
Restatement for debt obligation	<u>(13,065,000)</u>
Net assets as of July 1, 2006 restated	<u>\$ 268,645,000</u>

This debt service obligation is eliminated in the combined financial statements.

Q. Scholarship Allowances and Student Aid

Financial aid to students is reported in the financial statements under the alternative method as prescribed by the National Association of College and University Business Officers (NACUBO). Certain aid (loans, funds provided to students as awarded by third parties and Federal Direct Lending) is accounted for as third party payments (credited to the student's account as if the student made the payment). All other aid is reflected in the financial statements as operating expenses or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to the student in the form of reduced tuition. Under the alternative method, these amounts are

computed on a total university basis by allocating the cash payments to students, excluding payments for services, on the ratio of all aid to the aid not considered to be third party aid.

R. Intangibles

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

S. Revenue and Expense Classifications

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

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

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

2. CASH AND INVESTMENTS

Cash

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

Investments

Professional investment managers manage the University's non-state funds, other than endowment and funds internally designated to function as an endowment. The University's investment objective is to ensure the preservation of asset values with sufficient liquidity to meet cash disbursement requirements. The investment policy of the University is established by the Board of Visitors and is monitored by its Finance, Investment, and Property Committee. Investment managers may invest in the following types of investments: direct obligations of the United States; obligations unconditionally guaranteed by the United States, including collateralized mortgage obligations; obligations of any agency or instrumentality of the United States; repurchase agreements; banker's acceptances; commercial paper issued by domestic corporations; money market funds; corporate notes of domestic corporations; fully hedged debt obligations of sovereign governments and companies; obligations of the Commonwealth 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, 2007, the University held the following investments:

Investment Type	Fair Value	Investment Maturities (In Years)			
		< 1	1-5	6-10	> 10
U.S. Treasury and Agency Securities	\$ 4,049,805	\$ 561	\$ 1,364,160	\$ 695,711	\$ 1,989,373
Corporate Notes	5,411,673	2,486,090	2,119,862	522,949	282,772
Corporate Bonds	5,815,086	1,496,961	3,038,596	789,176	490,353
Commercial Paper	661,814	661,814	-	-	-
Asset Backed Securities	4,913,700	-	3,016,973	1,624,282	272,445
Agency Mortgage Backed Securities	19,898,673	7,136,750	2,044,494	1,245,415	9,472,014
Securities Lending	1,384,445	1,384,445	-	-	-
Mutual and Money Market Funds	3,435,654	3,435,654	-	-	-
Total	<u>\$ 45,570,850</u>	<u>\$16,602,275</u>	<u>\$ 11,584,085</u>	<u>\$4,877,533</u>	<u>\$12,506,957</u>

As of June 30, 2007, the Moody's ratings of the University's investments in corporate notes and bonds were as follows:

Rating	Corporate Notes	Corporate Bonds
AAA	\$ 596,817	\$ 233,146
AA1	461,402	671,773
AA2	1,140,719	270,721
AA3	1,720,508	251,406
A-1	444,564	1,212,947
A-2	684,221	1,788,680
A-3	363,442	1,339,531
Baa	-	46,882
Total	<u>\$5,411,673</u>	<u>\$ 5,815,086</u>

Investment Maturities (In Years)

Authority:

Investment Type:	<u>Fair Value</u>	<u>< 1</u>	<u>1-5</u>	<u>6-10</u>	<u>> 10</u>
Cash and cash equivalents	\$200,192,980	\$200,192,980	\$ -	\$ -	\$ -
Mutual funds	3,900,806	N/A	N/A	N/A	N/A
Index funds	34,675,232	N/A	N/A	N/A	N/A
Marketable equity securities	59,340,623	N/A	N/A	N/A	N/A
U.S. Treasury notes	65,134,663	57,580,253	2,986,179	2,265,991	2,302,240
Asset backed securities	7,876,821		3,733,421	2,425,391	1,718,009
Agency backed mortgages	35,461,160	10,698,999	3,995,700	2,819,771	17,946,690
Corporate notes	21,230,177	7,165,675	9,014,721	4,019,157	1,030,624
Corporate bonds	3,441,635	831,418	759,860	536,461	1,313,896
Real estate	2,879,427	N/A	N/A	N/A	N/A
Beneficial interest in trust	<u>20,709,982</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,709,982</u>
Total	<u>\$454,843,506</u>	<u>\$276,469,325</u>	<u>\$20,489,881</u>	<u>\$12,066,771</u>	<u>\$45,021,441</u>

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

Investments held at the foundations as of June 30, 2007 were as follows:

	<u>Fair Value</u>	<u>Cost</u>
MCV Foundation:		
U. S. Treasury and agency securities	\$ 40,189,000	\$ 41,080,000
Common and preferred stocks	143,864,000	119,475,000
Corporate bonds	25,127,000	25,808,000
Index funds	64,686,000	29,853,000
Life income investment	185,000	185,000
Mutual and money market funds	<u>11,242,000</u>	<u>11,242,000</u>
Total	<u>\$ 285,293,000</u>	<u>\$ 227,643,000</u>
VCU Foundation:		
U. S. Treasury and agency securities	\$ 4,447,251	\$ 4,573,870
Common and preferred stocks	55,843,321	44,983,086
Corporate bonds	3,979,970	4,124,124
Life income investment	<u>10,144</u>	<u>10,144</u>
Total	<u>\$ 64,280,686</u>	<u>\$ 53,691,224</u>
VCU School of Business Foundation:		
Common and preferred stocks	\$ 14,640,570	\$ 12,294,619
Mutual and money market funds	3,350,948	3,420,113
Other investments	<u>5,971,192</u>	<u>5,198,108</u>
Total	<u>\$ 23,962,710</u>	<u>\$ 20,912,840</u>
VCU School of Engineering Foundation:		
Fundamental Managers Funds, L.P.	\$ 6,552,095	\$ 6,552,095
Private Advisors Small Company Buyout Fund, L.P.	771,868	771,868
Private Advisors Hedged Equity Fund, L.P.	3,123,171	3,123,171
Private Advisors Stable Value Fund, LTD	7,676,826	7,676,826
Blue Ridge Offshore Limited Partnership	12,932,385	12,932,385
Tiger Global, LTD	15,269,561	15,269,561
TIFF	6,292,474	6,292,474
Mutual and money market funds	<u>495,456</u>	<u>495,456</u>
Total	<u>\$ 53,113,836</u>	<u>\$ 53,113,836</u>

3. JOINT VENTURES AND EQUITY INVESTMENTS

Investment in 7th and Marshall Corporation

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

4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007 was as follows:

University:	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Nondepreciable capital assets:				
Land	\$ 31,690,925	\$ 2,196,003	\$ -	\$ 33,886,928
Construction in progress	<u>57,301,980</u>	<u>90,448,895</u>	<u>31,358,351</u>	<u>116,392,524</u>
Total nondepreciable capital assets	<u>88,992,905</u>	<u>92,644,898</u>	<u>31,358,351</u>	<u>150,279,452</u>
Depreciable capital assets:				
Land improvements and infrastructure	18,251,370	-	-	18,251,370
Buildings	557,895,949	28,936,090	162,159	586,669,880
Equipment	115,779,521	21,899,039	1,694,607	135,983,953
Library books	<u>93,682,234</u>	<u>7,289,578</u>	<u>-</u>	<u>100,971,812</u>
Total depreciable capital assets	<u>785,609,074</u>	<u>58,124,707</u>	<u>1,856,766</u>	<u>841,877,015</u>
Less accumulated depreciation for:				
Land improvements and infrastructure	10,301,713	1,311,976	-	11,613,689
Buildings	190,546,672	15,463,622	127,440	205,882,854
Equipment	68,061,037	11,603,015	1,433,998	78,230,054
Library books	<u>82,708,142</u>	<u>4,439,175</u>	<u>-</u>	<u>87,147,317</u>
Total accumulated depreciation	<u>351,617,564</u>	<u>32,817,788</u>	<u>1,561,438</u>	<u>382,873,914</u>
Total depreciable capital assets, net	<u>433,991,510</u>	<u>25,306,919</u>	<u>295,328</u>	<u>459,003,101</u>
Total capital assets - net	<u>\$522,984,415</u>	<u>\$117,951,817</u>	<u>\$31,653,679</u>	<u>\$609,282,553</u>

Interest capitalized as part of construction in progress was \$94,762.

	Beginning Balance	Additions	Reductions	Ending Balance
:				
VCU Health System Authority:				
Land	\$ 1,592,425	\$ 303,075	\$ 296,598	\$ 1,598,902
Construction in progress	<u>49,684,378</u>	<u>84,473,732</u>	<u>9,945,078</u>	<u>124,213,032</u>
Total nondepreciable capital assets	<u>51,276,803</u>	<u>84,776,807</u>	<u>10,241,676</u>	<u>125,811,934</u>
Buildings	320,479,466	11,259,947	35,338,400	296,401,013
Equipment	<u>297,062,331</u>	<u>20,309,679</u>	<u>123,886,491</u>	<u>193,485,519</u>
Total depreciable capital assets	<u>617,541,797</u>	<u>31,569,626</u>	<u>159,224,891</u>	<u>489,886,532</u>
Less accumulated depreciation for:				
Buildings	140,313,796	16,357,954	35,411,375	121,260,375
Equipment	<u>202,843,657</u>	<u>23,392,041</u>	<u>123,794,730</u>	<u>102,440,968</u>
Total accumulated depreciation	<u>343,157,453</u>	<u>39,749,995</u>	<u>159,206,105</u>	<u>223,701,343</u>
Total depreciable capital assets, net	<u>274,384,344</u>	<u>(8,180,369)</u>	<u>18,786</u>	<u>266,185,189</u>
Total capital assets - net	<u>\$ 325,661,147</u>	<u>\$ 76,596,438</u>	<u>\$ 10,260,462</u>	<u>\$ 391,997,123</u>
MCV Foundation:				
Land	\$ 217,000	\$ -	\$ -	\$ 217,000
Property and equipment – net of depreciation	<u>1,775,000</u>	<u>122,000</u>	<u>262,000</u>	<u>1,635,000</u>
Total capital assets - net	<u>\$ 1,992,000</u>	<u>\$ 122,000</u>	<u>\$ 262,000</u>	<u>\$ 1,852,000</u>
VCU Foundation:				
Property and equipment – net of depreciation	\$ 8,445	\$ -	\$ 5,630	\$ 2,815
Land and building - not depreciated	<u>210,962</u>	<u>-</u>	<u>210,962</u>	<u>-</u>
Total	<u>\$ 219,407</u>	<u>\$ -</u>	<u>\$ 216,592</u>	<u>\$ 2,815</u>
VCU Real Estate Foundation:				
Land	\$ 9,737,784	\$ 309,202	\$ -	\$ 10,046,986
Buildings and equipment	50,610,763	1,981,989	1,338,404	51,254,348
Construction in progress	<u>333,746</u>	<u>3,901,158</u>	<u>-</u>	<u>4,234,904</u>
Total cost of capital assets	<u>60,682,293</u>	<u>6,192,349</u>	<u>1,338,404</u>	<u>65,536,238</u>
Less accumulated depreciation	<u>8,045,188</u>	<u>2,042,038</u>	<u>585,618</u>	<u>9,501,608</u>
Total capital assets – net	<u>\$ 52,637,105</u>	<u>\$ 4,150,311</u>	<u>\$ 752,786</u>	<u>\$ 56,034,630</u>

	Beginning Balance	Additions	Reductions	Ending Balance
VCU School of Business Foundation:				
Construction in progress	\$ 12,695,250	\$ 19,873,983	\$ -	\$ 32,569,233
Less included on University	<u>12,695,250</u>	<u>19,873,983</u>	<u>-</u>	<u>32,569,233</u>
Total capital assets - net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
VCU School of Engineering Foundation:				
Land	\$ 2,985,851	\$ -	\$ -	\$ 2,985,851
Buildings and equipment	25,937,008	534	-	25,937,542
Construction in progress	<u>8,147,252</u>	<u>19,817,483</u>	<u>-</u>	<u>27,964,735</u>
Total cost of capital assets	<u>37,070,111</u>	<u>19,818,017</u>	<u>-</u>	<u>56,888,128</u>
Less accumulated depreciation	<u>6,897,291</u>	<u>871,236</u>	<u>-</u>	<u>7,768,527</u>
Total before eliminations	<u>30,172,820</u>	<u>18,946,781</u>	<u>-</u>	<u>49,119,601</u>
Less included on University	<u>27,064,887</u>	<u>18,946,781</u>	<u>-</u>	<u>46,011,668</u>
Total capital assets - net	<u>\$ 3,107,933</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,107,933</u>

GASB Statement 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 2007 insurance recoveries of \$792,664 are included in other non-operating income.

5. FUNDS HELD FOR OTHERS

At June 30, 2007, the University held deposits for others, which are composed of the following:

	Funds Held for Others
Federal loan programs	\$ 22,955,011
Student organizations and others	<u>2,980,597</u>
Total	<u>\$ 25,935,608</u>

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consisted of the following as of June 30, 2007:

Vendor payables	\$ 40,209,692
Retainage payable	4,106,676
Accrued wages	26,919,969
Securities lending obligation	1,735,865
Interest payable	<u>2,212,800</u>
Total	<u>\$ 75,185,002</u>

7. DEFERRED REVENUE

Deferred revenue consisted of the following as of June 30, 2007:

Prepaid tuition and Fees	\$ 8,913,466
Grants and contracts	<u>8,629,066</u>
Total	<u>\$ 17,542,532</u>

8. LONG TERM LIABILITIES

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

Bonds Payable

The Commonwealth of Virginia issues bonds for agencies and institutions of the Commonwealth. The University has received a portion of the proceeds to fund capital construction. The University recognizes a liability associated with its share of the bonds and remits principal and interest payments related to this liability to the Treasurer of Virginia. The General Revenue Pledge Bonds (Section 9d Bonds) carry interest rates of 1.5 percent - 5.75 percent and are due through 2033. Included in the total General Revenue Pledge Bonds are outstanding bonds payable in the amount of \$18,025,000, which will be repaid by the VCU Real Estate Foundation. Of the total Commonwealth of Virginia Revenue Bonds, outstanding bonds payable in the amount of \$1,989,829 will be repaid by the Authority.

Virginia College Building Authority

The Virginia College Building Authority (VCBA) issues Educational Facilities Revenue Bonds (Public Higher Education Financing Program). As a participating institution in this program, the University issued a note payable to the VCBA. This note, along with the notes of other institutions, is held by the VCBA as security for the Educational Facilities Revenue Bonds. For accounting purposes, the financing arrangement is considered to represent a note payable. The notes have interest rates of two percent to six percent. The University issued a note to VCBA in the amount of \$38,785,000 in November 2006 to finance the Monroe Park Campus Parking Deck and Housing Facility and the Game and Inland Fisheries Regional Headquarters.

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 Partnership Authority

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

Defeasance of Debt

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

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
University:					
Bonds payable:					
General revenue pledge bonds Commonwealth of Virginia Revenue bonds	\$132,780,396	\$ -	\$ 3,111,160	\$129,669,236	\$ 3,490,001
	<u>18,874,108</u>	<u>-</u>	<u>1,921,028</u>	<u>16,953,080</u>	<u>1,986,145</u>
Total bonds payable	<u>151,654,504</u>	<u>-</u>	<u>5,032,188</u>	<u>146,622,316</u>	<u>5,476,146</u>
Notes payable:					
Virginia College Building Authority	<u>134,883,910</u>	<u>39,290,062</u>	<u>5,061,226</u>	<u>169,112,746</u>	<u>5,050,000</u>
Capital leases:					
Virginia Public Building Authority	10,083,190	-	985,141	9,098,049	1,040,337
Virginia Biotechnology Research Park Partnership Authority	<u>4,642,185</u>	<u>162,059</u>	<u>315,813</u>	<u>4,488,431</u>	<u>355,163</u>
Total capital leases	<u>14,725,375</u>	<u>162,059</u>	<u>1,300,954</u>	<u>13,586,480</u>	<u>1,395,500</u>
Installment purchases	<u>357,567</u>	<u>702,932</u>	<u>173,714</u>	<u>886,785</u>	<u>280,617</u>
Total long-term debt	<u>301,621,356</u>	<u>40,155,053</u>	<u>11,568,082</u>	<u>330,208,327</u>	<u>12,202,263</u>
Compensated absences	23,326,300	11,893,691	9,140,332	26,079,659	15,876,166
Deferred compensation	<u>2,982,236</u>	<u>1,529,807</u>	<u>1,044,967</u>	<u>3,467,076</u>	<u>983,672</u>
Total	<u>\$327,929,892</u>	<u>\$53,578,551</u>	<u>\$21,753,381</u>	<u>\$359,755,062</u>	<u>\$ 29,062,101</u>

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Authority:					
Bonds payable:					
General revenue pledge bonds	\$161,005,000	\$ 2,270,000	\$ 4,445,000	\$ 158,830,000	\$ 2,270,000
Capital leases	5,842,498	-	1,354,634	4,487,864	1,397,145
Installment purchases	<u>6,198,615</u>	<u>3,099,062</u>	<u>2,389,427</u>	<u>6,908,250</u>	<u>1,696,586</u>
Total long-term debt	<u>173,046,113</u>	<u>5,369,062</u>	<u>8,189,061</u>	<u>170,226,114</u>	<u>5,363,731</u>
Estimated losses on malpractice					
Claims	32,142,282	3,087,514	4,331,829	30,897,967	3,200,000
Workers compensation	-	13,246,947	1,851,194	11,395,753	2,161,000
Compensated absences	<u>17,682,400</u>	<u>27,620,282</u>	<u>26,587,247</u>	<u>18,715,435</u>	<u>18,715,435</u>
Total	<u>\$222,870,795</u>	<u>\$49,323,805</u>	<u>\$40,959,331</u>	<u>\$231,235,269</u>	<u>\$29,440,166</u>
VCU Foundation:					
Notes payable	<u>\$ 474,804</u>	<u>\$ -</u>	<u>\$ 173,739</u>	<u>\$ 301,065</u>	<u>\$ 200,000</u>
VCU Real Estate Foundation:					
Tax exempt bonds payable	\$ 20,019,000	\$ -	\$ 463,000	\$ 19,556,000	\$ 485,000
Notes payable	<u>13,478,487</u>	<u>-</u>	<u>908,008</u>	<u>12,570,479</u>	<u>908,473</u>
Total	<u>\$ 33,497,487</u>	<u>\$ -</u>	<u>\$ 1,371,008</u>	<u>\$ 32,126,479</u>	<u>\$ 1,393,473</u>

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

Long-term debt matures as follows:

	<u>Fiscal Year</u>	<u>Revenue Bonds</u>	<u>Notes Payable</u>	<u>Capital Leases</u>	<u>Installment Purchases</u>	<u>Total</u>
University:						
	2008	\$ 5,476,146	\$ 5,050,000	\$ 2,268,565	\$ 280,617	\$ 13,075,328
	2009	5,632,231	6,485,000	2,269,344	186,017	14,572,592
	2010	8,167,900	6,745,000	2,265,228	144,081	17,322,209
	2011	8,212,183	7,080,000	2,259,637	135,599	17,687,419
	2012	8,273,166	7,410,000	2,253,865	140,471	18,077,502
	2013-2017	37,511,457	43,035,000	6,348,363	-	86,894,820
	2018-2022	26,665,000	50,620,000	-	-	77,285,000
	2023-2027	23,775,000	34,400,000	-	-	58,175,000
	2028-2032	23,780,000	2,845,000	-	-	26,625,000
	2033-2037	1,145,000	-	-	-	1,145,000
Add:	Unamortized Premium	1,718,677	5,959,612	-	-	7,678,289
Less:	Deferred charge	(3,734,444)	(516,866)	-	-	(4,251,310)
Less:	Interest	<u>-</u>	<u>-</u>	<u>(4,078,522)</u>	<u>-</u>	<u>(4,078,522)</u>
Total		<u>\$146,622,316</u>	<u>\$169,112,746</u>	<u>\$ 13,586,480</u>	<u>\$ 886,785</u>	<u>\$ 330,208,327</u>

	Fiscal Year	Revenue Bonds	Notes Payable	Capital Leases	Installment Purchases	Total
Authority:	2008	\$ 2,270,000	\$ -	\$ 1,523,791	\$ 1,696,585	\$ 5,490,376
	2009	2,385,000	-	1,411,816	1,716,537	5,513,353
	2010	4,325,000	-	1,755,772	1,703,958	7,784,730
	2011	4,500,000	-	-	1,305,217	5,805,217
	2012	4,710,000	-	-	485,953	5,195,953
	2013-2017	26,855,000	-	-	-	26,855,000
	2018-2022	33,420,000	-	-	-	33,420,000
	2023-2027	41,440,000	-	-	-	41,440,000
	2028-2032	38,925,000	-	-	-	38,925,000
Less:	Interest	-	-	(203,515)	-	(203,515)
Total		<u>\$158,830,000</u>	<u>\$ -</u>	<u>\$ 4,487,864</u>	<u>\$ 6,908,250</u>	<u>\$ 170,226,114</u>
VCU Foundation:	2008	-	200,000	-	-	200,000
	2009	-	<u>101,065</u>	-	-	<u>101,065</u>
Total		<u>\$ -</u>	<u>\$ 301,065</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 301,065</u>
VCU Real Estate Foundation:	2008	\$ 485,000	\$ 908,473	\$ -	\$ -	\$ 1,393,473
	2009	508,000	909,177	-	-	1,417,177
	2010	536,000	909,939	-	-	1,445,939
	2011	559,000	9,775,397	-	-	10,334,397
	2012	588,000	11,657	-	-	599,657
	Thereafter	<u>16,880,000</u>	<u>55,836</u>	-	-	<u>16,935,836</u>
Total		<u>\$ 19,556,000</u>	<u>\$ 12,570,479</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 32,126,479</u>

A summary of future interest requirements is as follows:

	Fiscal Year	Revenue Bonds	Notes Payable	Total
University:	2008	\$ 5,606,866	\$ 7,659,235	\$ 13,266,101
	2009	5,465,266	7,412,447	12,877,713
	2010	5,294,446	7,125,092	12,419,538
	2011	5,021,177	6,795,169	11,816,346
	2012	4,737,056	6,436,997	11,174,053
	2013-2017	18,925,042	26,086,154	45,011,196
	2018-2022	12,169,947	14,260,544	26,430,491
	2023-2027	7,522,754	3,276,046	10,798,800
	2028-2032	2,690,867	42,675	2,733,542
	2033-2037	<u>54,388</u>	-	<u>54,388</u>
Total		<u>\$ 67,487,809</u>	<u>\$79,094,359</u>	<u>\$146,582,168</u>

Authority:	<u>Fiscal Year</u>	<u>Revenue Bonds</u>	<u>Notes Payable</u>	<u>Total</u>
	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	5,459,260	-	5,459,260
	2013-2017	23,904,622	-	23,904,622
	2018-2022	17,142,948	-	17,142,948
	2023-2027	9,286,199	-	9,286,199
	2028-2032	<u>1,967,674</u>	<u>-</u>	<u>1,967,674</u>
	Total	<u>\$ 81,449,699</u>	<u>\$ -</u>	<u>\$ 81,449,699</u>

9. VIRGINIA COMMONWEALTH UNIVERSITY FACULTY EARLY RETIREMENT INCENTIVE PLAN

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

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

As of June 30, 2007, 53 faculty members were enrolled in the Plan. Payments during fiscal year 2007 were \$1,044,967. The present value of future Plan payments schedule follows:

<u>Fiscal Year</u>	<u>Plan Obligations</u>
2008	\$ 983,671
2009	823,076
2010	732,517
2011	564,401
2012	319,726
2013	<u>43,685</u>
Total	<u>\$ 3,467,076</u>

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

University

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

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

The University's payroll costs, excluding accrued payroll, for employees covered by the VRS for the year ended June 30, 2007, were \$146,650,046. The University's total payroll costs for the year were \$337,258,447.

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 \$18,397,498 for the year ended June 30, 2007, which included the 5 percent 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, 2007. The same report contains historical trend information showing VRS's progress in accumulating sufficient assets to pay benefits when due.

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

Individual contracts issued under the plans provide for full and immediate vesting of both the University's and the employee's contributions. Contributions to other retirement plans were calculated using the base salary \$124,565,337 in fiscal year 2007. Total pension costs under these plans were \$12,954,795 in fiscal year 2007.

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 percent, up to a maximum of \$20 each pay period, of the amount faculty and staff contribute through the TDA Program.

Authority

Prior to July 1, 1997, employees of the Authority were employees of the Commonwealth of Virginia (the Commonwealth). These employees are eligible to participate in a defined benefit pension plan administered by the VRS. The VRS also administers life insurance and health-related plans for retired employees. Information relating to these plans is available at the statewide level only in the Commonwealth of Virginia’s Comprehensive Annual Financial Report. The Commonwealth, not the Authority, has overall responsibility for these plans. Total pension costs for the year were approximately \$5,572,000.

Effective July 1, 1997, the Hospital established the Medical College of Virginia Hospitals Authority Defined Contribution Plan (the Plan). Effective July 1, 2000, the Plan Sponsor and the Employer became a part of the Virginia Commonwealth University Health System Authority. The Plan was amended and restated effective January 1, 2002, and is now referred to as the VCUHS Retirement Plan. All employees, excluding house staff, working at least 20 hours a week in a benefit-eligible position are eligible to participate in the Plan. At June 30, 2007, there were 4,694 participants in the Plan. Per the Plan document as approved by the Hospital’s Board of Directors, the Hospital contributes up to 10 percent 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 percent) of the Participant’s Compensation for such limitation year. Total contributions to the Plan for year ended June 30, 2007, were approximately \$10,490,000. The Hospital shall have the right at anytime, and without the consent of any party, to terminate the Plan in its entirety. Any changes to the provisions of the Plan, including the contribution requirements, must be approved in writing by the Hospital’s Board of Directors.

The Authority has also established the Virginia Commonwealth University Health System Authority Health Care Providers Defined Contribution Plan (the HCP Plan). All persons hired as a health care provider on or after July 1, 1993, and prior to July 1, 1997, and working at least 35 hours of service per week are eligible to participate in the HCP Plan. At June 30, 2007, there were six participants in the HCP Plan. All significant provisions of the HCP Plan, including the contribution requirements, are similar to the Plan. Total contributions to the HCP Plan for the year ended June 30, 2007 were approximately \$30,400.

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

	<u>2007</u>
Fidelity Investments	\$ 49,849,984
TIAA/CREF	30,930,145
VALIC	<u>8,987,570</u>
Net assets available for plan benefits	<u>\$ 89,767,699</u>

MCVAP sponsors the MCVAP 401(a) Retirement Plan (the 401(a) Plan), a noncontributory, defined contribution plan which covers substantially all full-time clinical provider employees of MCVAP. Contributions to the 401(a) Plan by MCVAP, as determined annually at the discretion of the Board of Directors, were approximately \$6,923,000 for the year.

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

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

Contributions to the plans for the year ended June 30, 2007, were \$1,570,000.

Effective August 1, 1999, VA Premier adopted a 401(k) plan, for which Fidelity Investments is the trustee. Employees may enter into the plan on the first day of the month coinciding with or following the date on which the employee begins employment. There is no minimum service or age requirement to be in the 401(k) plan. Employees may contribute one percent to 15 percent of their compensation. VA Premier will match 50 percent of the employee's contributions up to four percent of the employee's compensation. Matching will occur based on the bi-weekly pay periods. In addition, VA Premier contributes three percent of the employee's compensation after each bi-weekly payroll effective when the employee begins employment. Employees are fully vested after four years of service in which the employees have at least 1,000 hours of service each year. VA Premier's expense for its contributions to this plan was approximately \$669,000 for the year.

Effective June 2007, CCHP adopted a 401(k) plan, for which Fidelity Investments is the trustee. All terms are consistent with the VA Premier 401(k) plan. CCHP's expense for its contributions to this plan was approximately \$5,000 for the year.

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 independent certified public accounting firms. Each organization is described below.

Virginia Biotechnology Research Park Partnership Authority

The primary purpose of the Virginia Biotechnology Research Park Partnership Authority is to expand knowledge pertaining to scientific and technological research and development among public and private entities and promote the economic and industrial development of the City of Richmond and the Commonwealth of Virginia. The University currently occupies 43,414 square feet of Biotech One under a capital lease as shown in Note 8.

Medical College of Virginia Alumni Association of VCU

The purpose of the Medical College of Virginia Alumni Association of VCU is to organize alumni activities for Virginia Commonwealth University. The University provided funding of \$224,843 in 2007 as the principal source of funding for the Association's operation.

Virginia Commonwealth University Alumni Association

The Association was formed for educational purposes to further the best interests of the University, its alumni and students. The University provided funding of \$66,918 in 2007 as the principal source of funding for the Association's operation.

MCV/VCU Dental Faculty Practice Association

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

12. FUNDS HELD IN TRUST BY OTHERS

Under the provisions of the wills of certain benefactors, the University's portion of principal sums with market values of \$23,012,973 at June 30, 2007, 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, 2007, the remaining commitments were \$65,796,331 for the University and approximately \$71,000,000 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, 2007, was \$7,398,490 for the University and \$8,624,591 for the Authority.

The University and the Authority have, as of June 30, 2007, the following total future minimum rental payments due under the above leases.

<u>Fiscal Year</u>	<u>University</u>	<u>Authority</u>
2008	\$ 4,881,353	\$ 6,007,715
2009	4,333,169	4,646,476
2010	3,561,323	3,582,440
2011	2,648,704	2,309,348
2012	1,332,027	1,369,704
2013-2017	3,483,820	209,683
2018-2022	2,240,849	18,586
2023-2027	<u>1,722,262</u>	<u>-</u>
Total future minimum rental payments	<u>\$ 24,203,507</u>	<u>\$ 18,143,952</u>

14. LITIGATION

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

15. TRANSACTIONS BETWEEN COMPONENT UNITS

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

The VCU Foundation and the MCV Foundation hold the University's investments that function as endowments, both true and quasi. As of June 30, 2007, the VCU Foundation and the MCV Foundation held University investments of \$28,853,204 and \$5,468,353 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 Authority, 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 Authority 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 2007, a note will be issued to VCBA in the amount of \$23,340,000. The proceeds will be used to finance recreational facilities. The note bears interest rates ranging from 4.5 percent to 5 percent payable in the years 2009 through 2028.

17. CONTINGENCIES

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

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

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

There have been malpractice claims asserted against the Hospitals by various claimants. The claims are in various stages of processing and some may ultimately be brought to trial. There are also known incidents that have occurred through June 30, 2007, 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, 2007. At June 30, 2007, 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, 2007, includes approximately \$6,258,231 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, 2007, the medical malpractice trust fund for the Hospitals includes approximately \$7,824,797.

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

In addition, MCVAP was self-insured for any claims in excess of its insurance coverage with URIC. The Board sets aside funds to be used to fund estimated losses based on actuarially determined reserves. At June 30, 2007, assets whose use is limited includes \$35,394,918 that will be used to fund malpractice claims. Also, estimated losses on malpractice claims included approximately \$24,639,736 at June 30, 2007, in addition to the amount recorded under the URIC agreement.

Estimated claims liabilities are recorded based on factors such as actual claims history and the percentage of certainty that actual losses will not exceed the reserve recorded. During the fiscal year ended June 30, 2007, the accrual for estimated claims was calculated based on an assumption of 90 percent certainty (90 percent confidence level) that the actual losses related to professional liability would not exceed the reserve recorded.

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

VA Premier maintains general and professional liability policies. The general liability policy in force is occurrence-based. The coverage under the professional liability policy is on a claims-made basis and must be renewed or replaced with the equivalent insurance if claims incurred during its terms, but asserted after its expiration, are to be insured. Coverage limits for the general liability policy are \$1 million per occurrence and \$3 million annual aggregate. The coverage limits for the professional liability policy are \$5 million per medical incident and \$5 million annual aggregate. Management does not believe the amount of liability for any claims incurred but unreported as of June 30, 2007 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 percent of certain hospital claims in excess of \$100,000 subject to certain limitations and an annual limit of \$1,000,000 per enrollee and a lifetime limit of \$2,000,000 per enrollee. Stop-loss premiums net of reinsurance recoveries of approximately \$418,000 are included as a reduction in medical claims expense for the year ended June 30, 2007.

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, 2007:

Gross Patient Revenue:	
Inpatient:	
Routine services	\$ 210,461,802
Ancillary services	953,574,377
Outpatient:	
Emergency	85,016,081
Special medical	<u>587,323,614</u>
Total gross patient service revenue	1,836,375,874
Provision for uncompensated care and contractual adjustments	<u>(1,096,072,825)</u>
Net patient service revenue (Hospitals)	740,303,049
MCVAP's net patient service revenue	<u>111,462,105</u>
Net patient service revenue (Authority)	<u>\$ 851,765,154</u>

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, 2007, the amount of these liabilities included in accounts payable and accrued liabilities was \$33,561,038. 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, 2007:

Original legislative appropriation per Chapter 3:	
Educational and general programs	\$185,724,515
Higher education student financial assistance	14,830,410
Supplemental adjustments:	
Financial assistance for Eminent Scholars	379,774
Reversion of Eminent Scholars	(14,390)
Virginia Department of Health	400,000
General Fund central transfers	4,615,304
Higher Education Equipment Trust Fund	12,052,284
Steam plant debt service	601,426
VIVA – Virtual Library of Virginia	28,363
Reappropriation of Higher Ed Student Financial Assistance	106,823
Reversion of Higher Ed Student Financial Assistance	(163,946)
Reversion to General Fund Ch. 2 Section 3-1.01 X, Y, and Z.	(401,647)
Reversion of Capital Fee	(94,125)
School of Engineering Expansion	3,000,000
FY2006 additional payroll allotment	(6,236,038)
Governor’s Research Initiative	3,100,000
Governor’s Research Initiative Reversion	(2,118,327)
Virginia Doctoral Nursing Student Loan Program	<u>25,000</u>
Adjusted appropriation	<u>\$215,835,426</u>

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

MCVH has a note payable used to fund capital expenditures. MCVH makes monthly interest payments at the one-month LIBOR rate less 60 basis points (4.72 percent at June 30, 2007). The maturity date of the note payable is May 1, 2008. It is anticipated that this note payable will be replaced by permanent financing prior to maturity. At June 30, 2007, the balance due on the note payable was \$40,000,000.

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Short-term debt	\$ -	\$ 40,000,000	\$ -	\$ 40,000,000

25. CONTRIBUTIONS RECEIVABLE

Contributions receivable as of June 30, 2007, are expected to be received as follows.

MCV Foundation:*	
Receivable in less than one year	\$ 5,597,000
Receivable in one to five years	2,966,000
Receivable in more than five years	<u>2,426,000</u>
	10,989,000
Less:	
Discounts	(729,000)
Allowances	<u>(110,000)</u>
Net contributions receivable	<u>\$ 10,150,000</u>
VCU Foundation:**	
Receivable in less than one year	\$ 1,102,214
Receivable in one to five years	<u>4,424,565</u>
	5,526,779
Less:	
Discounts	(1,606,736)
Allowances	<u>(138,466)</u>
Net contributions receivable	<u>\$ 3,781,577</u>
VCU Real Estate Foundation:	
Receivable in less than one year	\$ 356,422
Less:	
Allowances	<u>(104,969)</u>
Net contributions receivable	<u>\$ 251,453</u>
VCU School of Business Foundation:***	
Receivable in less than one year	\$ 4,045,369
Receivable in one to five years	<u>11,322,576</u>
	15,367,945
Less:	
Discounts	(968,392)
Allowances	<u>(40,183)</u>
Net contributions receivable	<u>\$ 14,359,370</u>
VCU School of Engineering Foundation:****	
Receivable in less than one year	\$ 3,583,071
Receivable in one to five years	<u>5,733,514</u>
	9,316,585
Less:	
Discounts	(609,717)
Allowances	<u>(87,068)</u>
Net contributions receivable	<u>\$ 8,619,800</u>

* Discount rate of 5.12 percent was used in determining the present value of the contributions receivable.

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

***Discount rates between 1.18 percent and 5.17 percent were used in determining the present value of the contributions receivable.

****Discount rates between 1.13 percent and 5.83 percent 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 percent and the counterparty pays 67 percent 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	\$ 51,186,305
Less: Unrealized gain on interest rate swap	<u>1,389,418</u>
Net assets as reported on University's financial statements	<u>\$ 49,796,887</u>

VCU School of Business Foundation

Net assets per Foundation financial statements	\$ 48,992,419
Less: Unrealized gain on interest rate swap	<u>871,449</u>
Net assets as reported on University's financial statements	<u>\$ 48,120,970</u>

In June 2007, MCVH entered into an interest rate swap agreement in anticipation of the issuance of tax-exempt bonds in November 2007. The swap has a notional amount of \$125 million, which declines over time to \$15.7 million at the termination date of July 1, 2037. MCVH pays a fixed rate of 3.84 percent and the counterparty pays 67 percent of LIBOR (3.56 percent as of June 30, 2007). The payments are settled monthly at the first of each month. FASB Statement 133, *Accounting for Derivative Instruments and Hedging Activities*, requires companies to recognize their derivative instruments as either assets or liabilities in the balance sheet at fair value. At June 30, 2007, the fair market value of the swap is included with other noncurrent assets in the accompanying consolidated balance sheet – enterprise funds. Changes in the fair market value of the swap are reported on the accompanying consolidated statements of revenues, expenses and changes in net assets – enterprise funds as nonoperating revenue or expense. As the swap agreement is not designated as an effective cash flow hedge, any payments or receipts under the terms of the swap are also recorded as nonoperating revenue or expense. For the year ended June 30, 2007, the Authority recognized nonoperating expense related to the change in fair value of the swap of approximately \$700,000.

In December 2005, MCVH entered into an interest rate swap agreement in conjunction with the issuance of its Series 2005 tax-exempt bonds (see Note 5). The swap has a notional amount of \$75 million, which declines over time to \$8 million at the maturity date of July 1, 2030. MCVH pays a fixed rate of 3.499 percent and the counterparty pays 67 percent of LIBOR (3.56 percent as of

June 30, 2007). The payments are settled monthly at the first of each month. At June 30, 2007, the fair market value of the swap is included with other noncurrent assets in the accompanying consolidated balance sheets – enterprise funds. Changes in the fair market value of the swap are reported on the accompanying statement of revenues, expenses, and changes in net assets –as nonoperating revenue or expense. As the swap agreement is not designated as an effective cash flow hedge, any payments or receipts under the terms of the swap are also recorded as nonoperating revenue or expense. For the year ended June 30, 2007, the Authority recognized nonoperating expense related to the change in fair value of the swap of approximately \$340,000. For the year ended June 30, 2006, the Authority recognized nonoperating income related to the change in fair value of the swap of approximately \$2,500,000.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

November 27, 2007

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 financial statements of the business-type activities and discretely presented component units of **Virginia Commonwealth University** (University), a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2007, which collectively comprise the University's basic financial statements 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 business-type activities and

discretely presented component units of Virginia Commonwealth University as of June 30 2007 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 three through nine 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.

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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency entitled "Clear Cash Reconciling Items Timely", which is described in the section titled "Internal Control and Compliance Findings and Recommendations" to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under Government Auditing Standards. An instance of noncompliance entitled "Improve Employment Eligibility Verification Process" is described in the section titled "Internal Control and Compliance Findings and Recommendations."

The University's response to the findings identified in our audit is included in the section entitled "University Response." We did not audit the University's response and, accordingly, we express no opinion on it.

Status of Prior Findings

The University has taken adequate corrective action with respect to audit findings reported in the prior year except as noted in the comment "Clear Cash Reconciling Items Timely" in the section titled "Internal Control and Compliance Findings and Recommendations."

Report Distribution and Exit Conference

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.

We discussed this report with management at an exit conference held on December 4, 2007.

AUDITOR OF PUBLIC ACCOUNTS

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

The following internal control and compliance recommendations are included in the VCU Report on Audit for the year ended June 30, 2007:

1. Clear Cash Reconciling Items Timely
2. Improve Employment Eligibility Verification Process

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. Clear Cash Reconciling Items Timely

The University's General Accounting Department needs to improve the process for matching reconciling items between Banner and the bank each month. As of the end of our field work in November, almost 4,000 unmatched reconciling items remained for the Master Concentration Account's June 2007 reconciliation.

In fiscal 2007, the University implemented Banner, a new accounting system, which includes a monthly reconciliation function. The reconciliation function automatically reconciles items between Banner and the bank tape by matching all items that have the same internal document number. Additionally, the reconciliation function list items without matching internal document numbers, which General Accounting must then manually clear. General Accounting is not able to efficiently clear these items in order to identify the actual differences between the bank and general ledger, resulting in pages of unmatched items.

Last year, we cited the General Accounting Department for needing to improve the process for resolving reconciling items with the University's departments. Because of the volume of reconciling items that resulted from the transition to Banner, we are unable to determine whether the various departments are providing the information needed to properly clear the reconciling items.

Untimely preparation of reconciliations exposes the University to the risk of errors made by the bank and or University. Additionally, the volume of unmatched items carried forward each month decreases the efficiency of the reconciliation process. The University should improve its bank reconciliation process to readily identify what is outstanding between the bank and general ledger each month for a timely and complete reconciliation.

VCU Response:

The General Accounting Department is working to improve the reconciliation process within the Banner environment. The department's goal is to have all reconcilable items with transaction dates greater than 90 days cleared by April 30, 2008, including the March 31, 2008 reconciliations. As we gain more experience in Banner, we will continue to evaluate and modify our processes and procedures to more effectively clear outstanding items and prepare timely and accurate month-end reconciliations.

2. Improve Employment Eligibility Verification Process

University employees and supervisors are not properly completing Employment Eligibility Verification forms (I-9) in accordance with guidance issued by the US Citizenship and Immigration Services of the US Department of Homeland Security. The guidance requires the employee to complete, sign and date the form on or before the first day of employment. Additionally, the employer or designated representative must complete, sign, and date the form within three business days of employment.

In our sample of 10 I-9 forms completed during fiscal year 2007, we found one or more errors on 6 of the forms as follows:

- 20 percent failed to have information completed and signed on or before the employee's first day of work.
- 20 percent failed to have information reviewed and verified by employer within 3 business days of employee's first day of work.
- 30 percent of the time, the reviewer failed to list the document title, issuing authority, document number, and expiration date (where applicable) for documents used to establish the employee's identity.
- 10 percent of the documents used to establish the employee's identity were not among the documents listed on the "List of Acceptable Documents" located on the back of the I-9 form.

The Human Resources Division should review the process to complete the I-9 forms, train human resources staff on the requirements of completing these forms, and develop procedures to continuously review all or a sample of forms for compliance with federal regulations. The federal government has increased its enforcement efforts requiring employers to ensure that all new employees are legally entitled to work in the United States. This increased enforcement makes it critical for the University to have a good process to complete I-9 forms in place. Furthermore, we encourage the University to continue to be cautious in the amount of documents it requests from each employee because employers requesting more than the minimum amount of documentation from employees could be subject to fines and penalties, as the US Department of Homeland Security considers it a form of harassment.

VCU Response:

Human Resources has implemented an annual training session, "Legal Aspects of Hiring," that focuses on I9s and other hiring requirements. The first sessions were held June/July 2007. A formal Personnel Administrator development program is being created that will highlight lawful employment practices and compliance. Human Resources has also developed a process to randomly audit departments throughout the year and review hiring actions for timeliness and accuracy. The program begins in January 2008.

VIRGINIA COMMONWEALTH UNIVERSITY

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