

# FINANCIAL STATEMENTS

FOR THE YEAR ENDED

June 30, 2014



# VCU

VIRGINIA COMMONWEALTH UNIVERSITY

**Make it real.**

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## MANAGEMENT DISCUSSION AND ANALYSIS

## MANAGEMENT DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2014 (unaudited)

Virginia Commonwealth University's Management Discussion and Analysis (MD&A) provides a discussion and overview of the financial performance during the fiscal year ended June 30, 2014, with comparative information presented for the fiscal year ended June 30, 2013. 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.

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.

### Understanding the Financial Statements

The MD&A focuses on VCU and is intended to foster a greater understanding of VCU's financial activities. Since this presentation includes summarized formats it should be read in conjunction with the financial statements which have the following four components:

**Statement of Net Position** presents a snapshot of VCU's assets and liabilities under the accrual basis of accounting at the end of each fiscal year presented. The Statement of Net Position helps the reader understand the type and amounts of assets available to support operations, how much VCU owes to vendors and bond holders and net position delineated based upon their availability for future expenditures.

**Statement of Revenues, Expenses and Changes in Net Position** presents VCU's revenues and expenses categorized between operating, non-operating and other related activities. The Statement of Revenues, Expenses and Changes in Net Position reports VCU's operating results for each fiscal year presented.

**Statement of Cash Flows (SCF)** provides information about VCU's sources (receipts) and uses (payments) of cash during the fiscal year. The SCF classifies sources and uses of cash into four categories, assists in determining whether VCU has the ability to generate future net cash flows to meet its obligations as they come due and in determining the need for external financing.

**Notes to the Financial Statements (Notes)** provide additional information to clarify and expand on the financial statements.

In 2014, VCU adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which impacted deferred bond costs and deferred inflows and outflows. Amounts in management's discussion and analysis have been restated, where applicable, to reflect the impact of the adoption of GASB 65.

The MD&A provides objective analysis of VCU's financial activities based on currently known facts, decisions and conditions. The MD&A discusses the current year results in comparison to the prior year. To see discussions relating to the prior year, refer to last year's annual financial report on VCU's website.

### Statement of Net Position

The term “Net Position” refers to the difference between total assets and deferred outflows to total liabilities and deferred inflows, as an indicator of VCU’s financial condition. Changes in net position that occur over time indicate improvement or deterioration in VCU’s financial condition.

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.

#### CONDENSED STATEMENT OF NET POSITION

as of June 30,	2014	2013, as restated	\$ Change	% Change
Current and other assets and deferred outflows	\$746,177,954	\$684,466,233	\$61,711,721	9%
Capital assets – net	982,219,535	982,974,634	(755,099)	(0%)
Total assets and deferred outflows	1,728,397,489	1,667,440,867	60,956,622	4%
Current liabilities	178,382,013	186,020,761	(7,638,748)	(4%)
Long term liabilities and deferred inflows	543,554,529	535,091,650	8,462,879	2%
Total liabilities and deferred inflows	721,936,542	721,112,411	824,131	0%
Net Position:				
Net investment in capital assets	607,952,480	598,072,683	9,879,797	2%
Restricted	96,180,447	90,483,473	5,696,974	6%
Unrestricted	302,328,020	257,772,300	44,555,720	17%
Total net position	\$1,006,460,947	\$946,328,456	\$60,132,491	6%

- ◆ Current and other assets and deferred outflows increases were in cash, principally the unspent bond proceeds on the Ryland Housing projects and higher investments, which were partially the result of unrealized gains.
- ◆ Current liabilities decreased due to lower retainage payable on major construction projects and a reduction in bond proceeds due to the VCU Real Estate Foundation. This was partially offset by an increase for the current portion of the debt on the Ryland Housing project and an increase in unearned revenue on grants.
- ◆ Noncurrent liabilities increased due to the issuance of debt for the Ryland Housing project.
- ◆ Total assets grew by a greater margin than total liabilities, with net position increasing correspondingly.

### Total Net Position

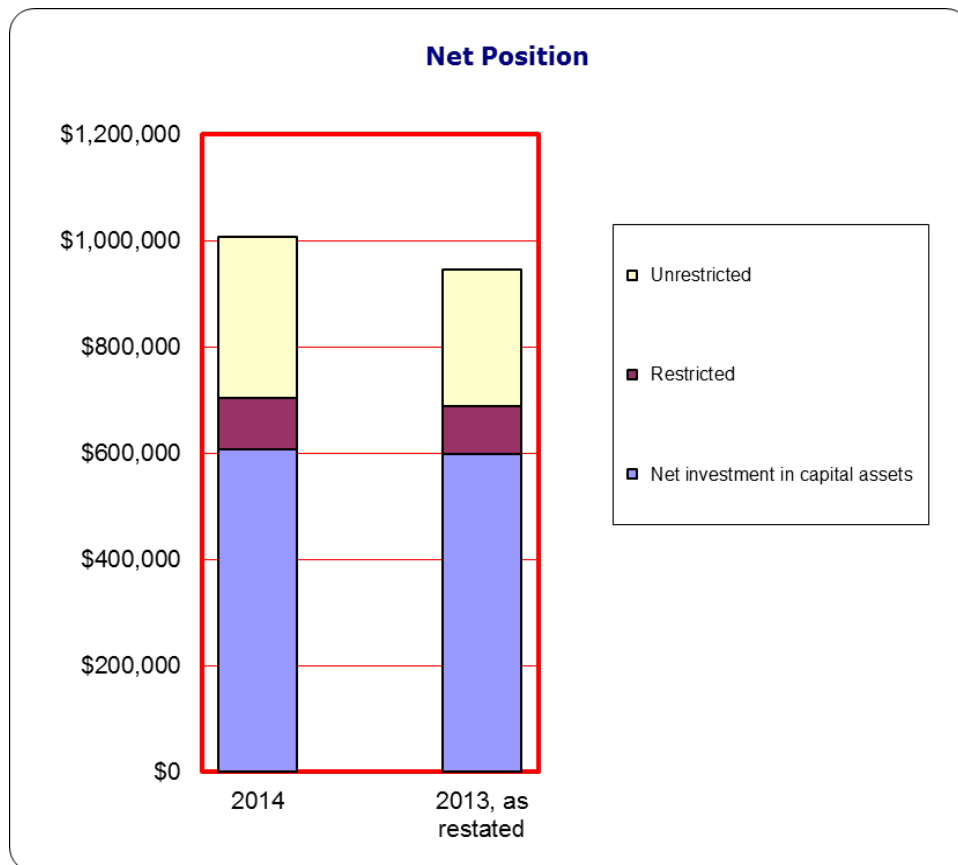
Net position is divided into three major categories:

Net investment in capital assets provide the University’s equity in property, plant and equipment owned by the University.

Restricted net position is divided into two categories: nonexpendable and expendable. The corpus of nonexpendable restricted net position is only available for investment purposes. Expendable restricted net position is available for expenditure by the University but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets.

Unrestricted net position is available resources to the University for any lawful purpose.

The following graph and table illustrates the changes in the make-up of net position, as restated, between 2014 and 2013:



## TOTAL NET POSITION

as of June 30,	2014	2013, as restated	\$ Change	% Change
Net investment in capital assets	\$ 607,952,480	\$ 598,072,683	\$ 9,879,797	2%
Restricted	96,180,447	90,483,473	5,696,974	6%
Unrestricted	302,328,020	257,772,300	44,555,720	17%
Total Net Position	\$ 1,006,460,947	\$ 946,328,456	\$ 60,132,491	6%

- ◆ Net investment in capital assets increased due to land and equipment purchases, as well as new construction projects.
- ◆ Restricted net position increased due to increases in the value of endowments and investments.
- ◆ Unrestricted net position increased due to auxiliary operations, overhead funds, reserves for capital renovations and unrealized gains in investments.

### Statement of Revenues, Expenses and Changes in Net Position

Due to the classification of certain revenues as non-operating revenue, VCU shows a loss from operations. State appropriations, while budgeted for operations, are considered non-operating revenues according to Governmental Accounting Standards Board (GASB) Statement 35 and are reflected accordingly in the non-operating section of the Statement of Revenues, Expenses and Changes in Net Position, even though these funds are used solely for operating purposes.

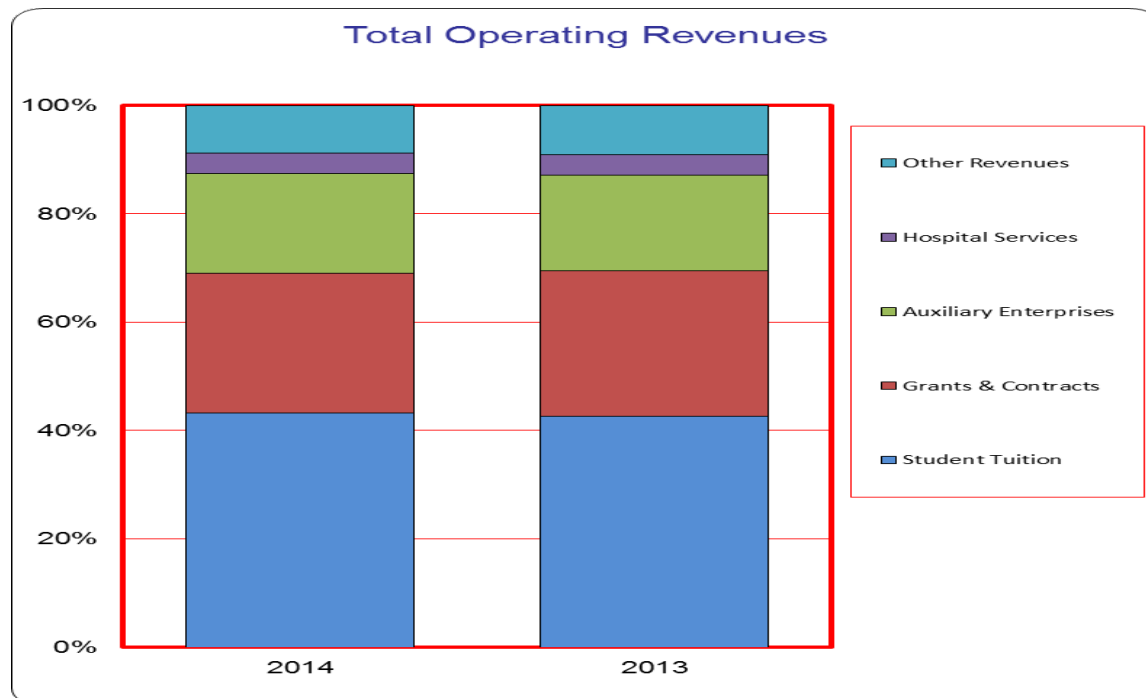
The following is a summarized schedule of the revenues and expenses for the University:

## CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Year Ended June 30,	2014	2013, as restated	\$ Change	% Change
Operating revenue	\$ 668,936,893	\$643,986,519	\$24,950,374	4%
Operating expense	934,269,516	888,519,748	45,749,768	5%
Operating loss	(265,332,623)	(244,533,229)	(20,799,394)	9%
Non-operating revenues, net of expenses	288,511,695	253,025,962	35,485,733	14%
Other Revenues	36,953,419	52,945,079	(15,991,660)	(30%)
Increase in net position	60,132,491	61,437,812	(1,305,321)	(2%)
Net position - beginning of year	946,328,456	884,890,644	61,437,812	7%
Net position - end of year	\$1,006,460,947	\$946,328,456	\$60,132,491	6%

## Revenues

Operating revenues increased \$25 million, or 4%, in 2014 compared to the prior year.



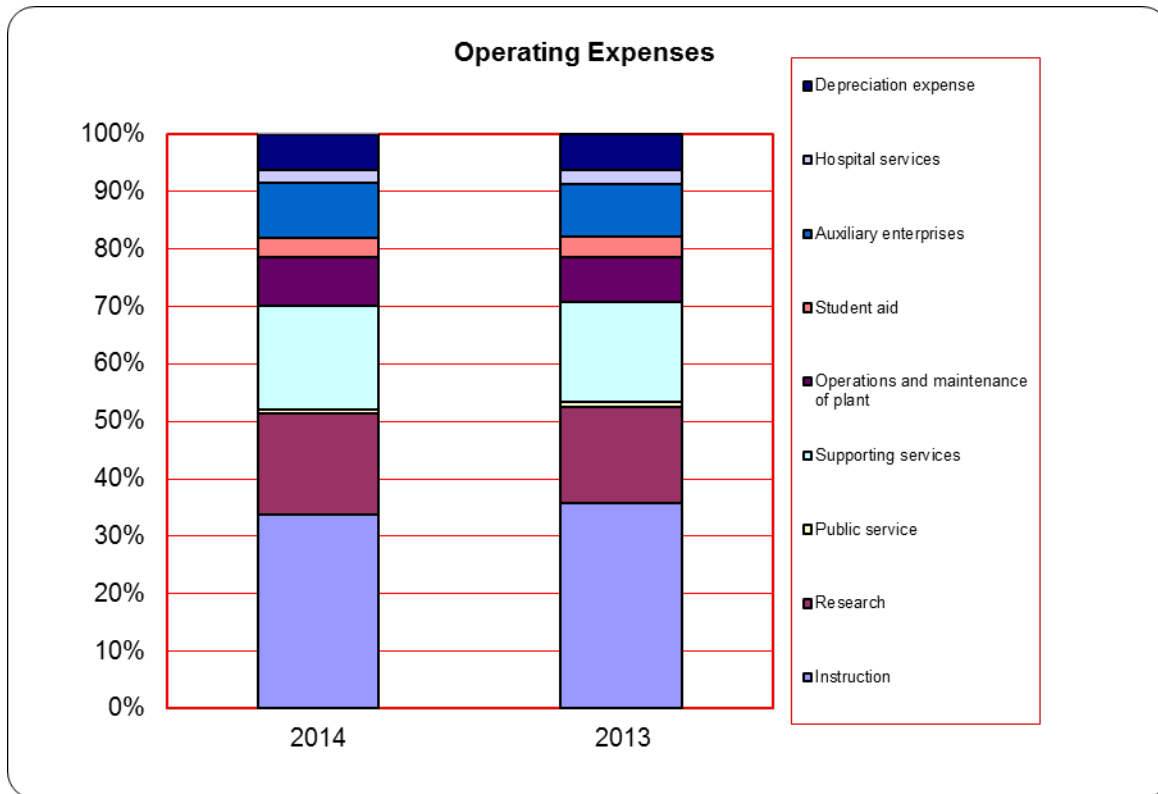
TOTAL OPERATING REVENUES				
For the Year Ended June 30,	2014	2013	\$ Change	% Change
Student Tuition	\$ 289,330,651	\$ 274,977,715	\$ 14,352,936	5%
Grants & contracts	172,064,750	172,135,757	(71,007)	0%
Auxiliary enterprises	123,454,651	114,373,160	9,081,491	8%
Hospital services	25,307,640	24,177,564	1,130,076	5%
Other revenues	58,779,201	58,322,323	456,878	1%
<b>Total Operating Revenues</b>	<b>\$ 668,936,893</b>	<b>\$ 643,986,519</b>	<b>\$ 24,950,374</b>	<b>4%</b>

- Operating revenues grew principally due to increases in tuition and fees and increased demand for auxiliary services.



**Expenses**

Operating expenses increased \$48.2 million, or 5%, over 2013 to \$934.3 million. The following chart summarizes operating expenses by functional classification:



**OPERATING EXPENSES BY FUNCTION**

For the Year Ended June 30,	2014	2013	\$ Change	% Change
Instruction	\$ 315,804,249	\$ 316,610,242	\$ (805,993)	0%
Research	164,344,662	149,129,815	15,214,847	10%
Public service	6,746,887	7,342,623	(595,736)	-8%
Supporting services	168,431,569	154,418,142	14,013,427	9%
Operations and maintenance of plant	78,093,843	68,482,327	9,611,516	14%
Student aid	31,891,138	31,185,637	705,501	2%
Auxiliary enterprises	88,834,229	82,374,894	6,459,335	8%
Hospital services	21,340,298	21,995,207	(654,909)	-3%
Depreciation expense	58,782,641	54,492,573	4,290,068	8%
<b>Total operating expenses</b>	<b>\$ 934,269,516</b>	<b>\$ 886,031,460</b>	<b>\$ 48,238,056</b>	<b>5%</b>

- ◆ Research expense has increased due to additional spending of institutional and state appropriations specifically earmarked for research.
- ◆ Supporting services increased primarily in the area of academic support for additional expenses related to curriculum development and start-up packages for faculty.
- ◆ Operations and maintenance of plant expenses have increased due to increased purchases of equipment and restoration of Sanger from flood damage.
- ◆ Auxiliary enterprise expenses increased due to increased demand for housing and dining.
- ◆ Depreciation expense increased due to the completion of multiple capital projects.

### Capital Assets and Related Financing Activities

#### Capital Assets

At June 30, 2014, VCU had \$1.635 billion in capital assets, less accumulated depreciation of \$653 million, for net capital assets of \$982 million. VCU is committed to a comprehensive program of capital initiatives in support of the University's strategic plan.

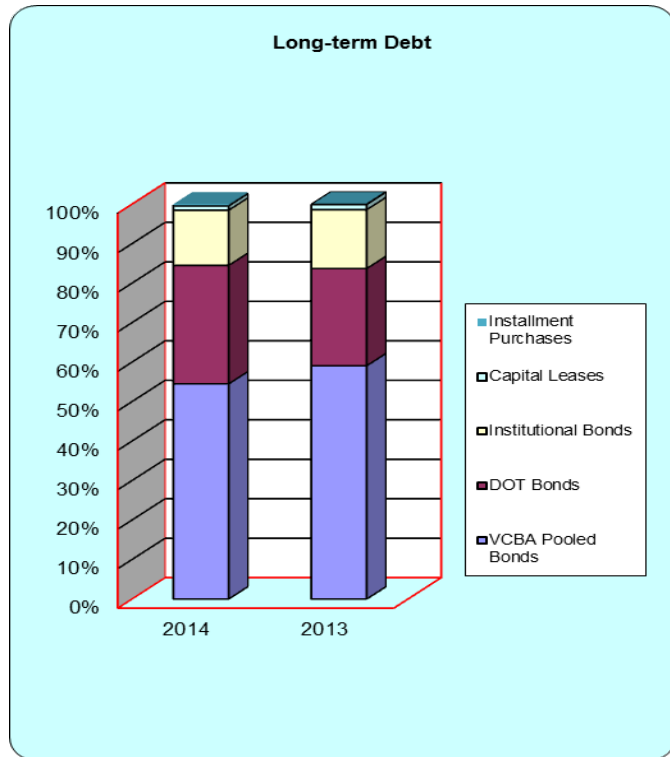
CAPITAL ASSETS, NET				
as of June 30,	2014	2013	\$ Change	% Change
Land	\$50,125,959	\$45,027,005	\$5,098,954	11%
Land Improvements and infrastructure	2,314,748	3,106,015	(791,267)	(25%)
Buildings	808,646,862	783,247,160	25,399,702	3%
Equipment	74,313,743	66,825,942	7,487,801	11%
Intangible (computer software)	1,023,930	2,033,866	(1,009,936)	(50%)
Library books	19,650,933	21,718,110	(2,067,177)	(10%)
Construction in progress	26,143,360	61,016,536	(34,873,176)	(57%)
<b>Total</b>	<b>\$982,219,535</b>	<b>\$982,974,634</b>	<b>(\$755,099)</b>	<b>(0%)</b>

- ◆ Land value increased due to the purchase of land on Grace St., 2 parcels on Marshall St., as well as a donation from the VCU Real Estate Foundation for land on Broad St. for the Institute for Contemporary Arts project.
- ◆ Building and equipment values increased due to the completion of W. Grace St. Housing, BioTech One renovations and the Pauley Heart Center. Accordingly, construction in progress has decreased due to these completed projects.

## Debt

At June 30, 2014, the University had \$513 million in long-term debt outstanding.

New General Revenue Pledge Bonds totaling \$37,235,000 were issued in January 2014. These bonds were issued to fund the capital construction of dormitories.



## Statement of Cash Flows

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

The statement is divided into four sections:

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

The following is a summary Statement of Cash Flows for the University for the years ended June 30, 2014 and 2013. For more detailed information, see the accompanying Statement of Cash Flows.

University	2014	2013	\$ Change	% Change
Cash provided (used) by:				
Operating activities	\$(189,304,927)	\$(193,572,820)	\$ 4,267,893	(2%)
Noncapital financing activities	278,488,055	273,569,285	4,918,770	2%
Capital and related financing activities	(54,745,259)	(85,149,013)	30,403,754	(36%)
Investing activities	(9,911,993)	(50,642,935)	40,730,942	(80%)
Net increase in cash	24,525,876	(55,795,483)	80,321,359	(144%)
Cash, beginning of year	77,566,504	133,361,987	(55,795,483)	(42%)
Cash, end of year	\$ 102,092,380	\$ 77,566,504	\$ 24,525,876	32%

- ◆ The change in capital and related financing activities is due to the decrease in new debt issuances of \$53.9 million. This along with a reduction in state appropriations for capital assets was offset by the reduction in the purchases of new capital assets.
- ◆ The change in investing activities is due to a \$418.2 million increase in proceeds from sales and a \$378.7 million decrease in cash due to purchases of investments, in addition to a \$1.2 million increase in investment income.

### Economic Outlook

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

- ◆ State General Fund appropriations were originally projected to be \$199.1 million for fiscal year 2015, but State revenue shortfalls have resulted in budget cuts for VCU of \$5.4M.
- ◆ Tuition and fee revenues are projected to increase by \$20.4 million in fiscal year 2015 based on the Board of Visitors approved increase in tuition and mandatory fee rates.

## FINANCIAL STATEMENTS

VIRGINIA COMMONWEALTH UNIVERSITY  
STATEMENT OF NET POSITION  
As of June 30, 2014

	University	VCU Health System Authority	MCV Foundation
<b>Current assets:</b>			
Cash and cash equivalents (Note 2)	\$ 54,535,021	\$ 350,605,539	\$ 647,000
Short-term investments (Note 2)	106,717,311	98,785,699	-
Accounts receivable:			
Student and other, Net of allowance of \$6,200,972	12,187,214	-	-
Sponsors	23,083,643	-	-
Patient, Net of allowance of \$247,645,297	-	198,990,508	-
Third-party and non-patient	-	75,290,250	-
Contributions and gifts, Net of allowance of \$731,478 (Note 23)	-	-	7,007,000
Due from component units	5,072,805	-	336,000
Due from VCBA	8,563,212	-	-
Due from VCU Foundation	-	-	-
Student loans receivable, current portion	2,923,822	-	17,000
Current portion of assets whose use is limited (Note 2)	-	6,350,000	-
Other assets	7,907,062	29,229,673	5,000
<b>Total current assets</b>	<b>220,990,090</b>	<b>759,251,669</b>	<b>8,012,000</b>
<b>Noncurrent assets:</b>			
Restricted cash and cash equivalents (Note 2)	47,557,359	-	16,375,000
Endowment investments (Note 2)	40,764,855	-	171,989,000
Other investments (Note 2)	260,930,235	36,868,191	269,166,000
Contributions and gifts, Net of discount and allowance of \$1,258,729 (Note 23)	-	-	11,241,000
Student loans receivable, Net of allowance of \$2,059,489	22,618,457	-	39,000
Due from component units	133,627,613	-	-
Assets whose use is limited, less current portion (Note 2)	-	1,134,708,840	-
Other long-term assets	-	44,898,202	1,387,000
Nondepreciable capital assets (Note 4)	76,269,319	126,732,360	217,000
Depreciable capital assets (Note 4)	905,950,216	421,781,255	1,217,000
<b>Total noncurrent assets</b>	<b>1,487,718,054</b>	<b>1,764,988,848</b>	<b>471,631,000</b>
<b>Total Assets</b>	<b>1,708,708,144</b>	<b>2,524,240,517</b>	<b>479,643,000</b>
Deferred Outflows	19,689,345	39,962,413	-
<b>Total Assets and Deferred Outflows</b>	<b>1,728,397,489</b>	<b>2,564,202,930</b>	<b>479,643,000</b>
<b>LIABILITIES</b>			
<b>Current liabilities:</b>			
Accounts payable and accrued liabilities (Note 6)	87,766,960	271,966,655	518,000
Unearned revenue	32,533,683	-	-
Due to component units	8,257,243	-	-
Due to Commonwealth of VA	-	-	-
Long-term liabilities - current portion (Note 8)	49,824,127	41,065,913	600,000
<b>Total current liabilities</b>	<b>178,382,013</b>	<b>313,032,568</b>	<b>1,118,000</b>
<b>Noncurrent liabilities:</b>			
Funds held for others (Note 5)	29,639,022	-	-
Due to component units	-	-	-
Other	9,185,593	54,617,074	3,532,000
Long-term liabilities (Note 8)	499,789,796	564,960,736	7,975,000
<b>Total noncurrent liabilities</b>	<b>538,614,411</b>	<b>619,577,810</b>	<b>11,507,000</b>
<b>Total liabilities</b>	<b>716,996,424</b>	<b>932,610,378</b>	<b>12,625,000</b>
Deferred Inflows	4,940,118	-	-
<b>Total Liabilities and Deferred Inflows</b>	<b>721,936,542</b>	<b>932,610,378</b>	<b>12,625,000</b>
<b>NET POSITION</b>			
Net investment in capital assets	607,952,480	237,318,036	1,434,000
Restricted for:			
Nonexpendable:			
Scholarships and fellowships	5,250,912	-	-
Departmental uses	43,996,067	20,792,477	175,651,000
Expendable:			
Scholarships and fellowships	10,307,607	-	-
Research	13,860,431	-	-
Departmental uses	17,653,956	1,792,028	236,794,000
Loans	5,111,474	-	-
Unrestricted	302,328,020	1,371,690,011	53,139,000
<b>Total net position</b>	<b>\$ 1,006,460,947</b>	<b>\$ 1,631,592,552</b>	<b>\$ 467,018,000</b>

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

VIRGINIA COMMONWEALTH UNIVERSITY  
STATEMENT OF NET POSITION  
As of June 30, 2014

	VCU Foundation	VCU Real Estate Foundation	VCU School of Business Foundation
<b>Current assets:</b>			
Cash and cash equivalents (Note 2)	\$ 2,646,587	\$ 7,508,181	\$ 6,576,911
Short-term investments (Note 2)	-	-	-
Accounts receivable:			
Student and other, Net of allowance of \$6,200,972	-	-	-
Sponsors	-	-	-
Patient, Net of allowance of \$247,645,297	-	-	-
Third-party and non-patient	-	-	-
Contributions and gifts, Net of allowance of \$731,478 (Note 23)	7,434,209	146,139	789,175
Due from component units	805,770	8,257,243	25,466
Due from VCBA	-	-	-
Due from VCU Foundation	-	-	-
Student loans receivable, current portion	-	-	-
Current portion of assets whose use is limited (Note 2)	-	-	-
Other assets	9,722	52,339	184,878
Total current assets	<u>10,896,288</u>	<u>15,963,902</u>	<u>7,576,430</u>
<b>Noncurrent assets:</b>			
Restricted cash and cash equivalents (Note 2)	39,595,120	-	5,724,363
Endowment investments (Note 2)	23,130,958	-	9,225,242
Other investments (Note 2)	38,720,890	-	26,945,274
Contributions and gifts, Net of discount and allowance of \$1,258,729 (Note 23)	15,164,236	-	154,520
Student loans receivable, Net of allowance of \$2,059,489	-	-	-
Due from component units	-	7,171,118	-
Assets whose use is limited, less current portion (Note 2)	-	-	-
Other long-term assets	-	347,510	173,602
Nondepreciable capital assets (Note 4)	-	21,402,054	3,503,036
Depreciable capital assets (Note 4)	-	35,334,848	31,544,364
Total noncurrent assets	<u>116,611,204</u>	<u>64,255,530</u>	<u>77,270,401</u>
<b>Total Assets</b>	<u>127,507,492</u>	<u>80,219,432</u>	<u>84,846,831</u>
Deferred Outflows	-	-	-
<b>Total Assets and Deferred Outflows</b>	<u>127,507,492</u>	<u>80,219,432</u>	<u>84,846,831</u>
<b>LIABILITIES</b>			
<b>Current liabilities:</b>			
Accounts payable and accrued liabilities (Note 6)	3,630	3,020,722	287,076
Unearned revenue	-	5,468,602	133,816
Due to component units	1,000,750	1,319,675	2,032,172
Due to Commonwealth of VA	-	-	-
Long-term liabilities - current portion (Note 8)	-	256,530	-
Total current liabilities	<u>1,004,380</u>	<u>10,065,529</u>	<u>2,453,064</u>
<b>Noncurrent liabilities:</b>			
Funds held for others (Note 5)	796,488	-	-
Due to component units	36,530,529	35,212,961	47,521,406
Other	400,888	2,030,180	-
Long-term liabilities (Note 8)	-	6,727,228	-
Total noncurrent liabilities	<u>37,727,905</u>	<u>43,970,369</u>	<u>47,521,406</u>
<b>Total liabilities</b>	<u>38,732,285</u>	<u>54,035,898</u>	<u>49,974,470</u>
Deferred Inflows	-	-	-
<b>Total Liabilities and Deferred Inflows</b>	<u>38,732,285</u>	<u>54,035,898</u>	<u>49,974,470</u>
<b>NET POSITION</b>			
Net investment in capital assets	-	15,226,249	10,721,002
Restricted for:			
Nonexpendable:			
Scholarships and fellowships	-	-	-
Departmental uses	23,334,944	-	9,904,099
Expendable:			
Scholarships and fellowships	-	-	-
Research	-	-	-
Departmental uses	62,788,361	-	12,324,475
Loans	-	-	-
Unrestricted	2,651,902	10,957,285	1,922,785
Total net position	<u>\$ 88,775,207</u>	<u>\$ 26,183,534</u>	<u>\$ 34,872,361</u>

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

VIRGINIA COMMONWEALTH UNIVERSITY  
STATEMENT OF NET POSITION  
As of June 30, 2014

	VCU School of Engineering Foundation	Eliminations	Total
<b>Current assets:</b>			
Cash and cash equivalents (Note 2)	\$ 588,944	\$ -	\$ 423,108,183
Short-term investments (Note 2)	-	-	205,503,010
<b>Accounts receivable:</b>			
Student and other, Net of allowance of \$6,200,972	-	-	12,187,214
Sponsors	-	-	23,083,643
Patient, Net of allowance of \$247,645,297	-	-	198,990,508
Third-party and non-patient	-	-	75,290,250
Contributions and gifts, Net of allowance of \$731,478 (Note 23)	177,201	-	15,553,724
Due from component units	19,859	(14,517,143)	-
Due from VCBA	-	-	8,563,212
Due from VCU Foundation	-	-	-
Student loans receivable, current portion	-	-	2,940,822
Current portion of assets whose use is limited (Note 2)	-	-	6,350,000
Other assets	8,080	(1,013,394)	36,383,360
Total current assets	<u>794,084</u>	<u>(15,530,537)</u>	<u>1,007,953,926</u>
<b>Noncurrent assets:</b>			
Restricted cash and cash equivalents (Note 2)	101,063	-	109,352,905
Endowment investments (Note 2)	12,114,365	-	257,224,420
Other investments (Note 2)	69,587,764	-	702,218,354
Contributions and gifts, Net of discount and allowance of \$1,258,729 (Note 23)	863,431	-	27,423,187
Student loans receivable, Net of allowance of \$2,059,489	-	-	22,657,457
Due from component units	-	(140,798,731)	-
Assets whose use is limited, less current portion (Note 2)	-	-	1,134,708,840
Other long-term assets	1,979,381	-	48,785,695
Nondepreciable capital assets (Note 4)	5,912,659	-	234,036,428
Depreciable capital assets (Note 4)	45,883,436	(22,262,572)	1,419,448,547
Total noncurrent assets	<u>136,442,099</u>	<u>(163,061,303)</u>	<u>3,955,855,833</u>
Total Assets	<u>137,236,183</u>	<u>(178,591,840)</u>	<u>4,963,809,759</u>
Deferred Outflows	-	-	59,651,758
Total Assets and Deferred Outflows	<u>137,236,183</u>	<u>(178,591,840)</u>	<u>5,023,461,517</u>
<b>LIABILITIES</b>			
<b>Current liabilities:</b>			
Accounts payable and accrued liabilities (Note 6)	194,114	-	363,757,157
Unearned revenue	-	(4,483,671)	33,652,430
Due to component units	3,317,177	(15,927,017)	-
Due to Commonwealth of VA	-	-	-
Long-term liabilities - current portion (Note 8)	1,352,014	(1,103,966)	91,994,618
Total current liabilities	<u>4,863,305</u>	<u>(21,514,654)</u>	<u>489,404,205</u>
<b>Noncurrent liabilities:</b>			
Funds held for others (Note 5)	-	-	30,435,510
Due to component units	82,900,329	(202,165,225)	-
Other	-	-	69,765,735
Long-term liabilities (Note 8)	-	(12,441,175)	1,067,011,585
Total noncurrent liabilities	<u>82,900,329</u>	<u>(214,606,400)</u>	<u>1,167,212,830</u>
Total liabilities	<u>87,763,634</u>	<u>(236,121,054)</u>	<u>1,656,617,035</u>
Deferred Inflows	-	-	4,940,118
Total Liabilities and Deferred Inflows	<u>87,763,634</u>	<u>(236,121,054)</u>	<u>1,661,557,153</u>
<b>NET POSITION</b>			
Net investment in capital assets	1,709,712	(5,582,874)	868,778,605
<b>Restricted for:</b>			
<b>Nonexpendable:</b>			
Scholarships and fellowships	-	-	5,250,912
Departmental uses	12,333,824	-	286,012,411
<b>Expendable:</b>			
Scholarships and fellowships	-	-	10,307,607
Research	-	-	13,860,431
Departmental uses	5,181,551	-	336,534,371
Loans	-	-	5,111,474
Unrestricted	<u>30,247,462</u>	<u>63,112,088</u>	<u>1,836,048,553</u>
Total net position	<u>\$ 49,472,549</u>	<u>\$ 57,529,214</u>	<u>\$ 3,361,904,364</u>

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



VIRGINIA COMMONWEALTH UNIVERSITY  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
As of June 30, 2014

	University	VCU Health System Authority	MCV Foundation
<b>Operating revenues:</b>			
Student tuition and fees, Net of scholarship allowances of \$76,948,166	\$ 289,330,651	\$ -	\$ -
Federal grants and contracts	148,909,111	-	-
State grants and contracts	5,589,033	-	-
Local grants and contracts	222,736	-	-
Nongovernmental grants and contracts	17,343,870	-	-
Sales and services of educational departments	47,560,702	-	-
<b>Auxiliary enterprises:</b>			
Sales and services	78,316,296	-	-
Student fees, Net of scholarship allowances of \$3,889,263	45,138,355	-	-
Hospital services	25,307,640	2,242,156,829	-
Other revenues	11,218,499	-	2,668,000
<b>Total operating revenues</b>	<b>668,936,893</b>	<b>2,242,156,829</b>	<b>2,668,000</b>
<b>Operating expenses:</b>			
Instruction	315,804,249	-	-
Research	164,344,662	-	-
Public service	6,746,887	-	-
<b>Supporting services:</b>			
Academic support	88,836,157	-	29,660,000
Student services	14,867,958	-	-
Institutional support	64,727,454	-	2,528,000
Operations and maintenance of plant	78,093,843	-	-
Student aid	31,891,138	-	2,046,000
Auxiliary enterprises	88,834,229	-	-
Hospital services	21,340,298	2,003,858,266	-
Depreciation expense	58,782,641	67,096,893	52,000
Other expenses	-	-	999,000
<b>Total operating expenses</b>	<b>934,269,516</b>	<b>2,070,955,159</b>	<b>35,285,000</b>
Operating gain/(loss)	(265,332,623)	171,201,670	(32,617,000)
<b>Nonoperating revenues (expenses):</b>			
State appropriations (Note 21)	204,694,945	-	-
Gifts	41,986,817	3,367,100	18,984,000
Investment income, Net of investment expense of \$6,389,130	29,418,428	69,591,184	48,090,000
Interest on capital asset-related debt	(19,560,890)	(16,658,875)	-
Pell revenue	28,069,470	-	-
Other	3,902,925	2,302,964	-
<b>Net nonoperating revenues</b>	<b>288,511,695</b>	<b>58,602,373</b>	<b>67,074,000</b>
Income before other revenues and expenses	23,179,072	229,804,043	34,457,000
<b>Other Revenues</b>			
Additions to permanent endowments	1,017,847	-	6,672,000
Capital appropriations	34,724,245	-	-
Capital gifts and grants	1,211,327	-	-
Increase in beneficial interest in trusts	-	1,785,069	-
Other	-	17,851,228	1,269,000
<b>Increase (decrease) in net position</b>	<b>60,132,491</b>	<b>249,440,340</b>	<b>42,398,000</b>
Net position - Beginning of year	946,328,456	1,382,152,212	424,620,000
Net position - End of year	\$ 1,006,460,947	\$ 1,631,592,552	\$ 467,018,000

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

VIRGINIA COMMONWEALTH UNIVERSITY  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
As of June 30, 2014

	VCU Foundation	VCU Real Estate Foundation	VCU School of Business Foundation
<b>Operating revenues:</b>			
Student tuition and fees, Net of scholarship allowances of \$76,948,166	\$ -	\$ -	\$ -
Federal grants and contracts	-	-	-
State grants and contracts	-	-	-
Local grants and contracts	-	-	-
Nongovernmental grants and contracts	-	-	-
Sales and services of educational departments	-	-	-
<b>Auxiliary enterprises:</b>			
Sales and services	-	-	-
Student fees, Net of scholarship allowances of \$3,889,263	-	-	-
Hospital services	-	-	-
Other revenues	481,432	6,481,823	3,055,297
<b>Total operating revenues</b>	<b>481,432</b>	<b>6,481,823</b>	<b>3,055,297</b>
<b>Operating expenses:</b>			
Instruction	-	-	844,235
Research	-	-	-
Public service	-	-	-
<b>Supporting services:</b>			
Academic support	-	-	-
Student services	-	-	-
Institutional support	-	-	-
Operations and maintenance of plant	-	1,758,304	-
Student aid	-	-	-
Auxiliary enterprises	-	-	-
Hospital services	-	-	-
Depreciation expense	-	1,617,362	1,351,646
Other expenses	6,508,243	1,380,206	3,080,378
<b>Total operating expenses</b>	<b>6,508,243</b>	<b>4,755,872</b>	<b>5,276,259</b>
<b>Operating gain/(loss)</b>	<b>(6,026,811)</b>	<b>1,725,951</b>	<b>(2,220,962)</b>
<b>Nonoperating revenues (expenses):</b>			
State appropriations (Note 21)	-	-	-
Gifts	16,039,495	-	975,949
Investment income, Net of investment expense of \$6,389,130	4,179,172	200,099	5,124,275
Interest on capital asset-related debt	-	(1,060,585)	(1,013,032)
Pell revenue	-	-	-
Other	-	-	-
<b>Net nonoperating revenues</b>	<b>20,218,667</b>	<b>(860,486)</b>	<b>5,087,192</b>
<b>Income before other revenues and expenses</b>	<b>14,191,856</b>	<b>865,465</b>	<b>2,866,230</b>
<b>Other Revenues</b>			
Additions to permanent endowments	1,825,037	-	1,277,564
Capital appropriations	-	-	-
Capital gifts and grants	-	-	-
Increase in beneficial interest in trusts	9,213	-	-
Other	909,679	-	(904,164)
<b>Increase (decrease) in net position</b>	<b>16,935,785</b>	<b>865,465</b>	<b>3,239,630</b>
<b>Net position - Beginning of year</b>	<b>71,839,422</b>	<b>25,318,069</b>	<b>31,632,731</b>
<b>Net position - End of year</b>	<b>\$ 88,775,207</b>	<b>\$ 26,183,534</b>	<b>\$ 34,872,361</b>

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

VIRGINIA COMMONWEALTH UNIVERSITY  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
As of June 30, 2014

	VCU School of Engineering Foundation	Eliminations	Total
<b>Operating revenues:</b>			
Student tuition and fees, Net of scholarship allowances of \$76,948,166	\$ -	\$ (757,702)	\$ 288,572,949
Federal grants and contracts	-	-	148,909,111
State grants and contracts	-	-	5,589,033
Local grants and contracts	-	-	222,736
Nongovernmental grants and contracts	-	(221,785)	17,122,085
Sales and services of educational departments	-	(921,881)	46,638,821
<b>Auxiliary enterprises:</b>			
Sales and services	-	(1,868,871)	76,447,425
Student fees, Net of scholarship allowances of \$3,889,263	-	-	45,138,355
Hospital services	-	(24,485,157)	2,242,979,312
Other revenues	4,179,911	(10,895,516)	17,189,446
<b>Total operating revenues</b>	<b>4,179,911</b>	<b>(39,150,912)</b>	<b>2,888,809,273</b>
<b>Operating expenses:</b>			
Instruction	-	(12,679)	316,635,805
Research	-	(1,614,874)	162,729,788
Public service	-	(8,188)	6,738,699
<b>Supporting services:</b>			
Academic support	-	(25,952,636)	89,578,342
Student services	-	(17,345)	14,850,613
Institutional support	-	122,097	67,377,551
Operations and maintenance of plant	-	(1,966,804)	80,850,522
Student aid	-	-	33,937,138
Auxiliary enterprises	-	36,059	88,870,288
Hospital services	-	(28,083,615)	1,997,114,949
Depreciation expense	2,361,214	(1,135,776)	130,125,980
Other expenses	3,034,818	(13,732,615)	1,270,030
<b>Total operating expenses</b>	<b>5,396,032</b>	<b>(72,366,376)</b>	<b>2,990,079,705</b>
<b>Operating gain/(loss)</b>	<b>(1,216,121)</b>	<b>33,215,464</b>	<b>(101,270,432)</b>
<b>Nonoperating revenues (expenses):</b>			
State appropriations (Note 21)	-	-	204,694,945
Gifts	686,184	(39,182,722)	42,856,823
Investment income, Net of investment expense of \$6,389,130	9,198,872	(265)	165,801,765
Interest on capital asset-related debt	(2,161,596)	3,136,475	(37,318,503)
Pell revenue	-	-	28,069,470
Other	-	-	6,205,889
<b>Net nonoperating revenues</b>	<b>7,723,460</b>	<b>(36,046,512)</b>	<b>410,310,389</b>
<b>Income before other revenues and expenses</b>	<b>6,507,339</b>	<b>(2,831,048)</b>	<b>309,039,957</b>
<b>Other Revenues</b>			
Additions to permanent endowments	39,460	-	10,831,908
Capital appropriations	-	-	34,724,245
Capital gifts and grants	-	(1,211,327)	-
Increase in beneficial interest in trusts	-	-	1,794,282
Other	-	-	19,125,743
<b>Increase (decrease) in net position</b>	<b>6,546,799</b>	<b>(4,042,375)</b>	<b>375,516,135</b>
<b>Net position - Beginning of year</b>	<b>42,925,750</b>	<b>61,571,589</b>	<b>2,986,388,229</b>
<b>Net position - End of year</b>	<b>\$ 49,472,549</b>	<b>\$ 57,529,214</b>	<b>\$ 3,361,904,364</b>

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

VIRGINIA COMMONWEALTH UNIVERSITY  
STATEMENT OF CASH FLOWS  
For the Year Ended June 30, 2014

	<u>University</u>
Cash flows from operating activities:	
Tuition and fees	\$ 289,835,865
Grants and contracts	177,227,232
Auxiliary enterprise charges	123,456,429
Sales and services of education departments	47,560,702
Hospital services charges	25,288,301
Payments to suppliers	(281,559,765)
Payments to employees	(584,166,917)
Loans issued to students	(2,581,067)
Collection of loans to students	2,296,177
Other receipts (payments)	13,338,116
Net cash used by operating activities	<u>(189,304,927)</u>
Cash flows from noncapital financing activities:	
State appropriations	204,886,411
Direct lending receipts	209,173,864
Direct lending disbursements	(209,173,864)
Agency receipts	40,665,863
Agency disbursements	(42,126,957)
Insurance recoveries	4,394,208
Pell revenue	28,069,470
Gifts	42,599,060
Net cash provided by noncapital financing activities	<u>278,488,055</u>
Cash flows from capital and related financing activities:	
Proceeds from issuance of note payable	52,821,335
Bond proceeds disbursed to VCUREF	(9,994,507)
Capital gifts	1,211,327
State appropriations for capital assets	36,143,654
Purchase of capital assets	(78,315,995)
Principal paid on capital-related debt	(36,899,897)
Interest paid on capital-related debt	(19,711,176)
Net cash used by capital financing activities	<u>(54,745,259)</u>
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	1,559,663,918
Investment income	10,531,761
Purchases of investments	(1,580,107,672)
Net cash used by investing activities	<u>(9,911,993)</u>
Net decrease in cash	24,525,876
Cash and cash equivalents - Beginning of year	<u>77,566,504</u>
Cash and cash equivalents - End of year	<u>\$ 102,092,380</u>

VIRGINIA COMMONWEALTH UNIVERSITY  
STATEMENT OF CASH FLOWS  
For the Year Ended June 30, 2014

RECONCILIATION OF NET OPERATING EXPENSES TO NET CASH USED BY OPERATING ACTIVITIES:	
Operating gain/(loss)	\$ (265,332,623)
Adjustments to reconcile net gain/(loss) to net cash used by operating activities:	
Depreciation expense	58,782,641
Provision for uncollectible accounts	254,512
Changes in assets and liabilities:	
Receivables	1,259,217
Other assets	(4,692,987)
Accounts payable and other liabilities	11,899,615
Deferred revenue	6,540,311
Compensated absences and deferred compensation	2,629,979
Deposits	(645,592)
Net cash used by operating activities	<u>\$ (189,304,927)</u>

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

## NOTES TO THE FINANCIAL STATEMENTS

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Virginia Commonwealth University is a public research university located in Richmond, the state capital of Virginia. VCU was founded in 1838 as the medical department of Hampden-Sydney College, becoming the Medical College of Virginia in 1854. In 1968, the General Assembly merged MCV with the Richmond Professional Institute, founded in 1917, to create Virginia Commonwealth University.

Today, more than 31,000 students pursue 222 degree and certificate programs through VCU's 13 schools and one college. The VCU Health System supports the University's health care education, research and patient care mission. VCU is designated as a research university with very high research activity by the Carnegie Foundation.

A broad array of university-approved centers and institutes of excellence, involving faculty from multiple disciplines in public policy, biotechnology and health care discoveries, supports the University's research mission. Thirty-four graduate and first-professional programs are ranked by U.S. News & World Report as among the best in the country.

The University's accounting policies conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), including all applicable GASB pronouncements.

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

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

The accompanying financial statements are prepared in accordance with generally accepted accounting principles as prescribed by GASB Statement 34 *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and GASB Statement 35 *Basic Financial Statements and Management's Discussion and Analysis of Public College and Universities*.

Because the University is a component unit of the Commonwealth of Virginia, it is included in the Comprehensive Annual Financial Report of the Commonwealth.

A. Reporting Entity

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

In accordance with GASB Statement 39, Determining Whether Certain Organizations Are Component Units and GASB Statement 61, The Financial Reporting Entity Omnibus, amendments to GASB Statement 14, 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 which are presented discretely in the accompanying financial statements. Statement 39 provides additional guidance to determine whether certain organizations for which the University is not financially accountable should be reported as component units. Generally, it requires that an organization that raises and holds economic resources for the direct benefit of the University be reported as a component unit. As a result, where in the past the University presented summary financial information of certain of its foundations in the notes to the financial statements, the University is required under Statement 39 to include selected foundations in the body of its financial statements.

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

The Authority's principal activity is the operation of the Medical College of Virginia Hospitals (MCVH), Virginia Premier Health Plan (VA Premier), University Health Services, Inc. and subsidiaries (UHS), Children's Hospital (Children's) and MCVAP. MCVH, a division of the Authority, is an approximately 800-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 with the Authority as sole corporate member, functions as the group practice plan for those physicians and health care professionals who have faculty appointments in the VCU School of Medicine (SOM). MCVH is the primary enterprise while VA Premier, UHS, Children's and MCVAP are component units of the Authority.

UHS, a component unit of the Authority, is a not-for-profit, non-stock, tax-exempt corporation, which was incorporated on January 26, 1995 to support the educational, scientific, and charitable purpose and activities of the University and, in particular, the activities of the SOM and MCVH. These activities include, but are not limited to, activities undertaken pursuant to Section 23-50.16B of the Code of Virginia. UHS is a component unit of the Authority due to the significance of the operational and financial relationship between the two entities.

VA Premier is a Medicaid health maintenance organization (HMO) whose primary purpose is to provide quality health care within a managed care framework.

Effective June 30, 2010, the Authority became the sole corporate member of Children's Hospital (Children's). As sole corporate member, the Authority holds certain reserve and related powers with respect to the governance, operations and corporate existence of Children's. Children's was created in 1920 and is a Virginia not-for-profit corporation. The 47-bed hospital provides pediatric specialty care to both inpatients and outpatients. The merger qualified and was accounted for under the pooling-of-interests accounting method.

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

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



The Virginia Commonwealth University Real Estate Foundation's subsidiary, the Art Station, LLC ("Art Station"), was established on April 30, 2013, for the purpose of incurring rehabilitation expenditures eligible for historic tax credits.

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

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

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

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

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

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

## B. Basis of Accounting

The financial statements of the University have been prepared using the economic resources measurement focus and the accrual basis including depreciation expense relating to capitalized fixed assets. Under the accrual basis, revenues are recognized when earned and expenses are recorded when an obligation has incurred. All significant intra-agency transactions have been eliminated.

Revenues, as reflected on the Statement of Revenues, Expenses and Changes in Net Position include all exchange and non-exchange transactions earned and in which all eligibility requirements have been satisfied, if measurable and probable for collections. Unearned revenue represents revenue collected but not earned as of June 30, 2014. This is primarily composed of revenue for grants and contracts and tuitions and fees. Revenues for the summer term are prorated on the basis of student class days occurring before and after June 30.

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 non-operating revenue.

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

H. Accrued Compensated Absences

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

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

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

Accrued compensatory leave lapses within 12 months from the date it is earned and once lapsed, may not be used or paid upon termination.

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

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

#### I. Capital Assets

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

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

The VCU Real Estate Foundation records the acquisition of equipment at cost, or if donated, at fair market value at the time of donation; however, transfers between related reporting entities are recorded at the carrying value at time of transfer. Depreciation is

computed using the straight-line method over the estimated lives of the equipment. The estimated useful lives for equipment are between 5 and 20 years.

The MCV Foundation records property and equipment at cost for purchased items and at fair value for donated items; however, transfers between related reporting entities are recorded at the carrying value at time of transfer. Acquisitions of fixed assets with a cost less than \$5,000 are expensed as acquired. Depreciation is computed on a straight-line basis over the estimated useful life of the asset. The estimated useful lives range between 3 and 39 years.

J. Hospital Services

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

K. Uncompensated Care

The Authority provides care to patients who meet certain criteria under its indigent care policy without charge or at amounts less than its established rates. Because the Authority does not pursue collection of charges determined to qualify as uncompensated care from the patients, they are not reported as revenue. The costs of providing these services are included in the Authority's operating expenses. Medicaid reimburses the Authority for a substantial portion of its costs of providing services to indigent patients. The estimated costs for the services provided for this care, net of reimbursement from the Commonwealth of Virginia, is approximately \$9,155,000 in 2014.

L. Net Patient Service Revenue

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

Settlements due to third parties include amounts that are currently under appeal with various federal and state agencies. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations. The effect of these settlement adjustments was to increase net patient service revenue by approximately \$35,936,000 in 2014. Settlements due to and from third-party payors include amounts that are currently under appeal with various federal and state agencies.

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 or discounted rates. Outpatient services rendered to Anthem subscribers are reimbursed at discounted rates or applicable fee schedule. The rates can be subject to retroactive adjustment based on quality standards or calculations above a predetermined charge increase percentage.
- ◆ 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, 2009.
- ◆ Medicaid – Inpatient acute care services rendered to Medicaid program beneficiaries are paid at a per diem rate and APDRG (rates per discharge) on an interim basis but eventually settle to a percentage of cost. 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 and its education mission up to an amount which results in total Medicaid and indigent reimbursement to the Authority of approximately \$413,755,000 in 2014. The Authority’s Medicaid cost reports have been audited by the Medicaid program representative through June 30, 2011.

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 Low Income Families with Children (LIFC), the Family Access to Medical Insurance Security (FAMIS) and Aged, Blind and Disabled (ABD) residents of Virginia on a prepaid basis through a health maintenance organization (HMO). VA Premier recognizes premiums received from DMAS for members in the period to which health care coverage relates.

N. Uncollectible Accounts

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

O. Estimated Medical Claims Payable

Estimated medical claims payable is comprised of billed and unbilled medical obligations for VA Premier Members that are unpaid at year-end. The estimate of costs incurred for unbilled services is based upon historical experience and actuarial calculations. Although considerable variability is inherent in such estimates, management believes that adequate provision has been made.

P. Net Position

GASB standards require the classification of net position into three components: net investment in capital assets, amounts that are restricted and amounts that are unrestricted. These classifications are defined as follows:

- ◆ Net investment in capital assets represents the net value of capital assets (property, plant and equipment) less the debt incurred to acquire or construct the asset. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt are included in this component.
- ◆ Nonexpendable restricted consists of gifts that have been received for endowment purposes, the corpus of which cannot be expended.
- ◆ Expendable restricted represents restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Assets may be restricted through external constraints imposed by grantors, contributors or creditors through bond covenants.
- ◆ Unrestricted is the net amount of assets, deferred outflows of resources, related liabilities and deferred inflows of resources that do not have external restrictions on the use of the funds.

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

When an expense is incurred when both restricted and unrestricted resources are available that are properly chargeable to the restricted resources, the University's policy is to apply the expense towards restricted resources before unrestricted resources.

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

The Authority's restricted net position consists principally of beneficial interests in perpetual trust funds established by split interest agreements. Split interest agreements are

trust agreements established by donors under which the Authority receives benefits that are shared with other beneficiaries. The trust agreements established by donors provide for a third party to hold the trust assets. These trusts do not permit donors to revoke their charitable contributions. Trust assets of \$18,369,873, 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.

Children's recognizes its beneficial interest in assets held by Children's Hospital Foundation by recording an equity interest equal to its share of net assets of the Children's Hospital Foundation. Equity interest of \$3,602,326 for June 30, 2014, is included in assets whose use is limited.

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. Revenue and Expense Classifications

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

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

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



S. Noncurrent Cash and Investments

Cash and investments that are externally restricted to make debt service payments, reserve funds, or purchase or construct capital and other noncurrent assets, are classified as noncurrent assets in the Statement of Net Position.

T. Cash and Cash Equivalents

Cash represents cash with the Treasurer of Virginia, on deposit, in receivable and undeposited receipts. This classification includes all highly liquid investments with an original maturity of 90 days or less.

U. Discounts, Premiums and Bond Issuance Costs

Notes and bonds payable on the Statement of Net Position are reported net of related discounts and premiums which are amortized over the life of the note or bond. Bond issue costs are expensed as incurred.

V. Deferred Outflows and Deferred Inflows

Included in the balance of deferred outflows of resources are deferred losses on refunding of debt. Included in deferred inflows of resources is the change in the fair market value of the current swap agreement and deferred gains on refunding of debt.

W. Recently Adopted Accounting Pronouncements

The University and the Authority adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65) which clarified the appropriate reporting of deferred outflows and inflows of resources. The adoption of GASB 65 was applied retroactively. As a result of the adoption, \$19,689,345 of the University's deferred debt refunding losses and \$42,052,303 of MCVH's deferred debt refunding losses, which were previously reported as a component of long term debt in the 2013 consolidated financial statements, were reclassified to deferred outflows of resources. Additionally, the University's deferred debt refunding gain in the amount of \$4,598 was reclassified from a component of long term debt to deferred inflows of resources in the Statement of Net Position.

GASB 65 also specified that certain debt issue charges no longer be capitalized and amortized over the life of the debt but expensed as incurred. This change was also applied retroactively resulting in a net position beginning balance restatement for VCU of \$2,488,288 which reclassified those charges from an asset to expense.

## 2. CASH, CASH EQUIVALENTS AND INVESTMENTS

The University's deposits and investments may be subject to the following risks:

- ◆ Custodial Credit Risk - This is the risk that in the event of the failure of a depository financial institution or financial counterparty, the agency will not be able to recover the value of its deposits or investments or recover collateral securities that are in the possession of an outside third party. The University had no exposure to custodial risk as of June 30, 2014.
- ◆ Interest Rate Risk - Interest rate risk is the risk that interest rate changes will adversely affect the fair value of an investment. The University holds investments where fair value may be adversely affected by changes in interest rates. The University invests in accordance with its Investment Policy, which establishes appropriate levels of interest rate exposure for each fixed-income fund through the use of a duration methodology. The Investment Policy regulates maximum duration of non-endowed funds for both individual securities and each separate fund, as outlined in the chart below.

	Individual Security	Fund
Primary Liquidity Pool	< 13 months	< 6 months
Short Duration Fund	< 5 years	< 120% of Merrill Lynch 1-3 year Gov't/Corp./ Index
Core Bond Fund	< 20 years	< 120% of Barclay's Capital Aggregate Index
TIPS Fund	< 20 years	< 120% of Barclay's TIPS Index
Emerging Market Debt Fund	< 20 years	< 120% of JPMorgan EMBI Global Diversified Index

- ◆ Credit Risk - This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University holds investments which carry varying levels or credit risk. The University invests in accordance with its Investment Policy, which establishes appropriate levels of credit risk though the use of minimum credit rating restrictions for individual securities in each fixed income fund.
- ◆ Concentration of Credit Risk - The risk of loss attributed to the magnitude of investments in a single issuer of fixed income securities. As of June 30, 2014, the University does not have investments in any one issuer (excluding investments issued or explicitly guaranteed by the U.S. Government and mutual fund or pool investments) representing 5 percent or more of its total investments.
- ◆ Foreign Currency Risk - The risk that investments denominated in foreign currencies may lose value due to adverse fluctuations in the value of the U.S. dollar relative to foreign currencies. The University may, at times, be exposed to limited amounts of currency risk through its investments in emerging market debt. Local denominated currency investments may total no more than one fourth of the University's Emerging Market Debt Fund and are limited to investment grade sovereign debt in highly liquid currencies.

### Cash and Cash Equivalents

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 investments. The University's investments are governed by an Investment Policy, adopted by its Board of Visitors. The primary investment objective is to provide a framework for prudent investment management, while allowing for sufficient flexibility to capture investment opportunities as they may incur. The investment policy is established by the Board of Visitors and is monitored by its Finance, Budget and Investment 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, negotiable certificates of deposit and negotiable bank notes of domestic banks, equities, hedge funds, alternative investments and private equities.

The Authority's investments are governed by an Investment Policy Statement, adopted by its Board of Directors. In accordance with this policy, MCVH's investment portfolio assets are allocated among the following asset classes: global equity, absolute strategies, fixed income, real estate, real assets, private equity and cash.

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

The University received \$31.230 million from the Margaret Branch Glasgow Trust on January 4, 2012, and \$4.057 million from the Arthur Glasgow Trust on February 6, 2012. Additional contributions in the amount of \$8.036 million were received during fiscal year 2013. This endowment is managed by JP Morgan. Net appreciation of the Margaret Glasgow Trust is recorded in the restricted-expendable net position to reflect the fact that the net appreciation must be spent in accordance with the stipulations set forth in the underlying endowment agreement. The Arthur

Glasgow Trust placed no restrictions on spending so the net appreciation is recorded as unrestricted net position. At June 30, 2014, net appreciation for the Glasgow Trust of \$4,664,390 was earned for the fiscal year.

The Glasgow Trust is governed by a separate Investment Policy, adopted by the VCU Board of Visitors. The long-term objective of the spending policy is to maintain the purchasing power of the Glasgow Endowed Fund with the goal of providing a predictable and sustainable level of income to support current operations. The rule should reflect best industry practices among endowment institutions. Under this policy, spending for a given year equals the sum of (i) 70% of spending in the previous year, adjusted for inflation as measured by the Higher Education Price Index (HEPI) for the 12 months prior to the start of the fiscal year, and (ii) 30 % of the trailing three-year average market value of the endowment investment pool multiplied by the long-term spending rate (currently 4.5%). Spending on gifts received in the previous fiscal year will receive a pro-rated amount based on the number of whole months each gift was included in the fund.

If the Glasgow Endowment falls underwater, the payout and distribution would be in compliance with Virginia's Uniform Prudent Management of Institutional Funds Act (§ 55-268.11 et seq., "UPMIFA").

As of June 30, 2014, the University held the following investments:

	Credit Rating	Fair Value	Investment Maturities (In Years)			
			<1	1 to 5	6 to 10	>10
U.S. Treasury and Agency Securities	AAA	\$ 26,625,769	\$ 6,431,503	\$ 12,351,428		\$ 7,842,838
<b>Corporate Notes</b>						
	AAA	199,950		199,950		
	AA1	411,113	210,017	201,096		
	AA2	201,094		201,094		
	AA3	2,388,356	100,118	2,288,238		
	A1	2,625,773		2,625,773		
	A2	1,921,907	1,289,851	632,056		
	A3	601,060	210,218	390,842		
	BAA2	1,776,683		1,776,683		
<b>Corporate Bonds</b>						
	AAA	1,365,115		1,365,115		
	AA1	175,449		175,449		
	AA2	5,187,399		5,187,399		
	AA3	3,570,224		3,570,224		
	A1	4,374,814		4,374,814		
	A2	8,113,850	1,471,600	6,642,250		
	A3	4,083,590	200,420	3,883,170		
	BAA1	1,338,482		1,338,482		
	BAA2	1,727,543		1,727,543		
<b>Asset Backed Securities</b>						
	AAA	32,145,822	1,733,413	25,947,434	1,426,113	3,038,862
<b>Agency Unsecured Bonds and Notes</b>						
	AAA	6,105,251	2,207,117	3,898,134		
<b>Agency Mortgage Backed Securities</b>						
	AAA	1,277,659			1,277,659	
<b>Mutual and Money Market Funds</b>						
	AAA	26,299,665	9,232,510		17,067,155	
	AA3	23,972,003			23,972,003	
	BB+	23,503,094			23,503,094	
	B	26,495,560			26,495,560	
<b>Other Assets:</b>						
Alternative Assets (Hedge Funds)	N/A	70,712,341				
Equity	N/A	94,474,007				
Fixed Income	N/A	36,738,828				
<b>Total</b>		<b>\$ 408,412,401</b>	<b>\$ 23,086,767</b>	<b>\$ 78,777,174</b>	<b>\$ 93,741,584</b>	<b>\$ 10,881,700</b>

N/A-Investment maturity not applicable to type of investments noted. Underlying securities are rated by Moody's, S&P or both agencies.

As of June 30, 2014, the Authority held the following investments:

Investment Type:	Fair Value	Investments Maturities (In Years)			
		<1	1-5	6-10	>10
U.S. Treasury and Agency Securities	\$ 110,429,754	\$ 72,226,379	\$ 24,248,297	\$ 4,395,175	\$ 9,559,903
Cash and cash equivalents	103,468,721	103,468,721	N/A	N/A	N/A
Corporate notes	60,245,730	12,710,547	39,101,289	5,887,179	2,546,715
Corporate bonds	46,604,204	13,369,389	20,902,480	4,401,459	7,930,876
Asset backed securities	22,398,069	603,896	18,526,419	690,302	2,577,452
Agency backed mortgages	27,332,790	4,590,832	4,539,346	3,919,933	14,282,679
Beneficial interest in perpetual trust	18,369,873	N/A	N/A	N/A	N/A
Equity interest in Foundation	3,602,326	N/A	N/A	N/A	N/A
Mutual funds	69,530,220	N/A	N/A	N/A	N/A
Index funds	53,528,066	N/A	N/A	N/A	N/A
Marketable equity securities	100,396,689	N/A	N/A	N/A	N/A
Real estate	9,226,773	N/A	N/A	N/A	N/A
Commercial paper	130,474,667	130,474,667	-	-	-
Investment companies	521,104,848	N/A	N/A	N/A	N/A
<b>Total</b>	<b>\$ 1,276,712,730</b>	<b>\$ 337,444,431</b>	<b>\$ 107,317,831</b>	<b>\$ 19,294,048</b>	<b>\$ 36,897,625</b>

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

As of June 30, 2014, the foundations held the following investments:

Investment Type:	VCU Foundation	VCU School of Business Foundation	VCU School of Engineering Foundation	Medical College of Virginia Foundation
US Treasury and Agency Securities	\$ -	\$ -		\$ 84,956,000
Common & Preferred Stocks	30,337,098	18,079,240		98,384,000
Corporate Bonds	10,257,308	6,403,631		14,952,000
Asset Backed Securities		-		1,221,000
Alternative Investments				
International Fund			15,839,013	50,583,000
Relative Value		1,917,111		
Hedge Funds	17,542,241		65,486,634	145,702,000
Opportunistic/Macro		1,524,737		
Long/Short Equities		4,046,522		
Event Driven/Merger		1,683,999		
Distressed Credit		966,067		
Buyout			376,482	
Emerging Markets				28,876,000
Private Equity				2,420,000
Real Estate Funds	2,709,225	1,549,209		11,673,000
Life Income Investment	1,005,976	-		2,388,000
Buyout Fund		-		
<b>Total</b>	<b>\$ 61,851,848</b>	<b>\$ 36,170,516</b>	<b>\$ 81,702,129</b>	<b>\$ 441,155,000</b>

### 3. JOINT VENTURES AND EQUITY INVESTMENTS

#### Investment in 7th and Marshall Corporation

Included in other long-term assets on the accompanying Statement of Net Position is a capital contribution to 7th and Marshall Corporation of \$500,000. UHS and Hospital Hospitality House, Inc. are the sole members of the 7th and Marshall Corporation, a not-for-profit corporation formed to support the charitable, educational and scientific activities of UHS and Hospital Hospitality House, Inc. The 50% investment in 7th and Marshall Corporation is accounted for under the equity method of accounting. The investment is carried at \$276,670.

#### Investment in Spotsylvania Radiation Therapy Center, LLC

Included in other long-term assets on the accompanying Statement of Net Position is a capital contribution to Spotsylvania Radiation Therapy Center, LLC in the amount of \$4,113,316. VCUHS and Spotsylvania Medical Center, Inc. formed this joint venture for the purpose of developing, owning and managing a radiation therapy center to provide access to high quality radiation therapy services to patients in the Spotsylvania region. The investment is carried at \$3,484,405.

#### Investment in South Hill Radiation Oncology Center, LLC

Included in other long-term assets on the accompanying Statement of Net Position is a capital contribution to South Hill Radiation Oncology Center, LLC in the amount of \$2,655,450. VCUHS and Community Memorial Health Center, Inc. formed this joint venture for the purpose of developing, owning and managing a radiation therapy center to provide access to high quality radiation therapy services to cancer patients in the South Hill community. The investment is carried at \$3,018,230.

4. CAPITAL ASSET

Capital asset activity for the year ended June 30, 2014 was as follows:

University:	Beginning Balance	Additions	Reductions	Ending Balance
<b>Nondepreciable capital assets:</b>				
Land	\$ 45,027,005	\$ 5,098,954	\$ -	\$ 50,125,959
Construction in Progress	61,016,536	30,038,769	64,911,945	26,143,360
Total nondepreciable capital assets	106,043,541	35,137,723	64,911,945	76,269,319
<b>Depreciable capital assets:</b>				
Land Improvements and infrastructure	19,522,886	-	14,175	19,508,711
Buildings	1,121,825,126	59,201,846	902,493	1,180,124,479
Equipment	190,577,792	26,163,736	21,931,307	194,810,221
Intangible Assets	9,967,707	111,987	1,528,941	8,550,753
Library Books	149,770,430	6,245,148	-	156,015,578
Total depreciable capital assets	1,491,663,941	91,722,717	24,376,916	1,559,009,742
<b>Less accumulated depreciation for:</b>				
Land Improvements and infrastructure	16,416,871	788,904	11,812	17,193,963
Buildings	338,577,966	33,649,973	750,322	371,477,617
Equipment	123,751,849	15,443,663	18,699,034	120,496,478
Intangible Assets	7,933,842	587,774	994,793	7,526,823
Library Books	128,052,320	8,312,325	-	136,364,645
Total accumulated depreciation	614,732,848	58,782,639	20,455,961	653,059,526
Total depreciable capital assets, net	876,931,093	32,940,078	3,920,955	905,950,216
Total capital assets - net	\$ 982,974,634	\$ 68,077,801	\$ 68,832,900	\$ 982,219,535

Interest capitalized as part of construction in progress was \$1,016,254

Authority:	Beginning Balance	Additions	Reductions	Ending Balance
<b>Nondepreciable capital assets:</b>				
Land	\$ 7,724,306	\$ 1,300,000	\$ 100,500	\$ 8,923,806
Construction in Progress	66,377,432	127,070,801	75,639,679	117,808,554
Total nondepreciable capital assets	74,101,738	128,370,801	75,740,179	126,732,360
<b>Depreciable capital assets:</b>				
Buildings	585,613,971	44,309,928	9,139,477	620,784,422
Equipment	299,656,285	31,824,832	4,483,882	326,997,235
Intangible Assets	85,272,384	4,994,281	10,750	90,255,915
Total depreciable capital assets	970,542,640	81,129,041	13,634,109	1,038,037,572
Less accumulated depreciation	563,387,156	66,205,109	13,335,948	616,256,317
Total depreciable capital assets, net	407,155,484	14,923,932	298,161	421,781,255
Total capital assets - net	\$ 481,257,222	\$ 143,294,733	\$ 76,038,340	\$ 548,513,615

MCV Foundation:	Beginning Balance	Additions	Reductions	Ending Balance
Land	\$ 217,000	\$ -	\$ -	\$ 217,000
Property and Equipment	2,070,000	-	7,000	2,063,000
Total capital assets	2,287,000	-	7,000	2,280,000
Less accumulated depreciation	801,000	52,000	7,000	846,000
Total capital assets - net	\$ 1,486,000	\$ (52,000)	\$ -	\$ 1,434,000

VCU Real Estate Foundation:	Beginning Balance	Additions	Reductions	Ending Balance
<b>Nondepreciable capital assets:</b>				
Land	\$ 9,555,638	\$ 365,330	\$ 1,211,327	\$ 8,709,641
Construction in Progress	1,762,861	11,102,620	173,068	12,692,413
Total nondepreciable capital assets	11,318,499	11,467,950	1,384,395	21,402,054
<b>Depreciable capital assets:</b>				
Buildings	46,591,012	157,694	28,082	46,720,624
Equipment	1,112,164	-	-	1,112,164
Total depreciable capital assets	47,703,176	157,694	28,082	47,832,788
Less accumulated depreciation	10,946,030	1,551,910	-	12,497,940
Total before eliminations	48,075,645	10,073,734	1,412,477	56,736,902
Less included on University	9,073,367	2,472	-	9,075,839
Total capital assets - net	\$ 39,002,278	\$ 10,071,262	\$ 1,412,477	\$ 47,661,063



VCU School of Business Foundation:				
Land	\$ 3,503,036	\$ -	\$ -	\$ 3,503,036
Buildings and Equipment	40,198,124	-	-	40,198,124
Total capital assets	43,701,160	-	-	43,701,160
Less accumulated depreciation	7,313,823	1,339,937	-	8,653,760
Total capital assets - net	<u>\$ 36,387,337</u>	<u>\$ (1,339,937)</u>	<u>\$ -</u>	<u>\$ 35,047,400</u>
VCU School of Engineering Foundation:				
Land	\$ 5,912,659	\$ -	\$ -	\$ 5,912,659
Buildings and Equipment	68,997,682	23,577	-	69,021,259
Total capital assets	74,910,341	23,577	-	74,933,918
Less accumulated depreciation	20,841,233	2,296,590	-	23,137,823
Total before eliminations	54,069,108	(2,273,013)	-	51,796,095
Less included on University	14,047,985	-	861,252	13,186,733
Total capital assets - net	<u>\$ 40,021,123</u>	<u>\$ (2,273,013)</u>	<u>\$ (861,252)</u>	<u>\$ 38,609,362</u>

GASB 42, *Accounting and Reporting for the Impairment of Capital Assets and for Insurance Recoveries*, effective for periods beginning after December 15, 2004, requires disclosure of insurance recoveries for circumstances other than impairment of capital assets. Fiscal year 2014 insurance recoveries of \$7,102,000 are reported as other non-operating income.

GASB 51, *Accounting and Reporting for Intangible Assets*, effective for periods beginning after June 15, 2009, requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. These include but are not limited to easements, water rights, timber rights, patents, trademarks and computer software. Intangible assets for the University and the Authority were previously included in the values for equipment.

## 5. FUNDS HELD FOR OTHERS

At June 30, 2014, the University held deposits for others, which are composed of the following:

	Funds held for others
Federal loan programs	\$ 25,675,649
Student organizations and others	3,963,373
Total	<u>\$ 29,639,022</u>

**6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Accounts payable and accrued liabilities consisted of the following as of June 30, 2014:

Vender payables	\$ 37,163,962
Retainage payable	605,286
Accrued wages	45,488,361
Interest payable	<u>4,509,351</u>
 Total	 \$ 87,766,960

**7. UNEARNED REVENUE**

Unearned revenue consisted of the following as of June 30, 2014:

Prepaid tuition and fees	\$ 11,525,362
Grants and contracts	17,970,167
Other cash advances	<u>3,038,154</u>
	\$ 32,533,683

**8. LONG TERM LIABILITIES**

Long term liabilities consist of bonds, notes payable, capital leases, installment purchases, delayed 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) issued either by the Commonwealth or the University carry interest rates of 1.5% to 5% and are due through 2043. Included in the total General Revenue Pledge Bonds are outstanding bonds payable in the amount of \$18,775,000, which will be repaid by the VCU Real Estate Foundation.

New General Revenue Pledge Bonds totaling \$37,235,000 were issued in January. These bonds were issued to fund the capital construction of dormitories. These bonds carry interest rates of 2% - 4.5% and are due May 1, 2043.

### General Obligation Bonds

Section 9(c) bonds are general obligation bonds issued by the Commonwealth on behalf of the University, which are secured by the net revenues of the completed project and the full faith, credit and taxing power of the Commonwealth. The General Obligation Bonds carry interest rates of 2% to 5% and are due through 2037. Of the total Commonwealth general obligation bonds outstanding, bonds payable in the amount of \$520,442 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 3% to 5%.

### 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% to 5.75%.

### Ad Center Development LLC

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

### Defeasance of Debt

In the current year, the University issued an additional \$12,230,000 in General Revenue Pledge bonds to current refund \$12,030,000 of 2004 Series A General Revenue Pledge Bonds. The net proceeds were placed with an escrow agent to provide for all future debt service payments on these bonds. As a result, the bonds are considered to be defeased and the University has removed the liability for those from the Statement of Net Position. The University obtained an economic gain of \$1,148,574 for the current refunding.

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.

In the current year, the Commonwealth of Virginia issued General Obligation Refunding bonds, Series 2014B to refund its General Obligation Bonds Series 2004B, of which the University had a share. This refunding obtained an economic gain of \$343,911 which is the net present value of the \$351,741 cash savings.

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

University :	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable:					
General Revenue Pledge Bonds Commonwealth of Virginia	\$ 123,842,087	\$ 50,186,364	\$ (20,030,248)	\$ 153,998,203	\$ 7,899,675
Revenue Bonds	74,949,073	2,634,970	(5,873,619)	71,710,424	2,937,816
Total bonds payable	198,791,160	52,821,334	(25,903,867)	225,708,627	10,837,491
Notes payable:					
Virginia College Building Authority	297,087,128	-	(17,478,017)	279,609,111	15,120,000
Capital leases:					
Virginia Public Building Authority	1,906,858	-	(798,672)	1,108,186	540,117
AD Center Development LLC	4,688,120	-	(238,422)	4,449,698	248,840
Total capital leases	6,594,978	-	(1,037,094)	5,557,884	788,957
Installment purchases	335,945	2,089,018	(207,319)	2,217,644	443,665
Total long-term debt	502,809,211	54,910,352	(44,626,297)	513,093,266	27,190,113
Compensated absences	31,654,445	28,467,370	(26,510,279)	33,611,536	21,682,306
Deferred compensation	2,236,233	2,110,289	(1,437,401)	2,909,121	951,708
Total	<u>\$ 536,699,889</u>	<u>\$ 85,488,011</u>	<u>\$ (72,573,977)</u>	<u>\$ 549,613,923</u>	<u>\$ 49,824,127</u>
Authority:					
General Revenue Pledge Bonds	\$ 311,297,965	\$ 200,000,000	\$ (54,373)	\$ 511,243,592	\$ 4,560,000
Notes Payable	763,406	19,815,600	(558,569)	20,020,437	841,254
Capital leases	-	-	-	-	-
Installment purchases	944,705	2,099,200	(1,075,905)	1,968,000	524,800
Total long-term debt	313,006,076	221,914,800	(1,688,847)	533,232,029	5,926,054
Estimated losses on malpractice					
Claims	23,931,413	6,620,524	(4,360,268)	26,191,669	4,250,000
Workers Compensation	15,080,964	4,753,821	(2,021,693)	17,813,092	2,100,000
Compensated absences	27,032,105	45,452,917	(43,695,163)	28,789,859	28,789,859
Total	<u>\$ 379,050,558</u>	<u>\$ 278,742,062</u>	<u>\$ (51,765,971)</u>	<u>\$ 606,026,649</u>	<u>\$ 41,065,913</u>
MCV Foundation:					
Note Payable	\$ 9,180,000	\$ -	\$ (605,000)	\$ 8,575,000	\$ 600,000
VCU Real Estate Foundation:					
Notes payable	\$ 4,024,683	\$ -	\$ (653,763)	\$ 3,370,920	\$ 14,631
Tax exempt bonds payable	3,782,000	-	(169,162)	3,612,838	241,899
Total	<u>\$ 7,806,683</u>	<u>\$ -</u>	<u>\$ (822,925)</u>	<u>\$ 6,983,758</u>	<u>\$ 256,530</u>

Long-term debt matures as follows:

	Fiscal Year	Revenue Bonds	Notes Payable	Capital Leases	Installment Purchases	Total
<u>University:</u>						
	2015	\$ 10,837,491	\$ 15,120,000	\$ 1,018,223	\$ 443,665	\$ 27,419,379
	2016	10,681,815	15,860,000	1,018,471	452,241	28,012,527
	2017	9,409,887	16,635,000	436,200	460,897	26,941,984
	2018	8,826,785	17,405,000	436,200	426,100	27,094,085
	2019	9,639,484	18,255,000	436,200	434,741	28,765,425
	2020-2024	47,745,035	93,535,004	2,181,000	-	143,461,039
	2025-2029	53,686,993	67,380,000	1,526,700	-	122,593,693
	2030-2034	45,466,242	16,805,000	-	-	62,271,242
	2035-2039	16,755,000	-	-	-	16,755,000
	2040-2043	8,735,000	-	-	-	8,735,000
	Less Interest			(1,495,110)		(1,495,110)
	Add Premium	3,924,895	18,614,107	-	-	22,539,002
	Total	<u>\$ 225,708,627</u>	<u>\$ 279,609,111</u>	<u>\$ 5,557,884</u>	<u>\$ 2,217,644</u>	<u>\$ 513,093,266</u>
<u>Authority:</u>						
	2015	\$ 4,560,000	\$ 841,254	\$ -	\$ 524,800	\$ 5,926,054
	2016	4,705,000	806,361	-	524,800	6,036,161
	2017	5,370,000	541,044	-	524,800	6,435,844
	2018	5,550,000	541,044	-	393,600	6,484,644
	2019	5,680,000	560,290	-	-	6,240,290
	2020-2024	67,175,000	4,182,982	-	-	71,357,982
	2025-2029	61,020,000	4,665,778	-	-	65,685,778
	2030-2034	81,475,000	2,499,886	-	-	83,974,886
	2035-2039	88,660,000	2,692,077	-	-	91,352,077
	2040-2044	186,120,000	2,689,721	-	-	188,809,721
	Premium	928,592	-	-	-	928,592
	Total	<u>\$ 511,243,592</u>	<u>\$ 20,020,437</u>	<u>\$ -</u>	<u>\$ 1,968,000</u>	<u>\$ 533,232,029</u>
<u>MCV Foundation:</u>						
	2015	-	600,000	-	-	600,000
	2016	-	635,000	-	-	635,000
	2017	-	665,000	-	-	665,000
	2018	-	695,000	-	-	695,000
	2019	-	730,000	-	-	730,000
	Thereafter	-	5,250,000	-	-	5,250,000
	Total	<u>\$ -</u>	<u>\$ 8,575,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,575,000</u>
<u>VCU Real Estate Foundation:</u>						
	2015	\$ 241,899	\$ 14,631	\$ -	\$ -	\$ 256,530
	2016	251,278	13,636	-	-	264,914
	2017	261,021	3,342,653	-	-	3,603,674
	2018	271,141	-	-	-	271,141
	2019	281,654	-	-	-	281,654
	Thereafter	2,305,845	-	-	-	2,305,845
	Total	<u>\$ 3,612,838</u>	<u>\$ 3,370,920</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,983,758</u>

A summary of future interest requirements as of June 30, 2014 follows:

Fiscal Year	Revenue Bonds	Notes Payable	Total
<u>University:</u>			
2015	\$ 6,650,556	\$ 11,543,677	\$ 18,194,233
2016	6,314,315	10,822,110	17,136,425
2017	5,989,111	10,009,495	15,998,606
2018	5,748,514	9,242,507	14,991,021
2019	5,548,627	8,390,218	13,938,845
2020-2024	24,181,434	28,578,025	52,759,459
2025-2029	17,623,558	10,127,244	27,750,802
2030-2034	9,987,051	1,013,175	11,000,226
2035-2039	3,711,649	-	3,711,649
2040-2044	1,004,400	-	1,004,400
<u>Total</u>	<u>\$ 86,759,215</u>	<u>\$ 89,726,451</u>	<u>\$ 176,485,666</u>

<u>Authority:</u>			
2015	\$ 16,084,906	\$ 302,693	\$ 16,387,599
2016	15,995,144	285,989	16,281,133
2017	15,898,479	265,917	16,164,396
2018	15,785,823	257,760	16,043,583
2019	15,656,229	250,024	15,906,253
2020-2024	75,470,610	1,100,479	76,571,089
2025-2029	64,557,720	753,384	65,311,104
2030-2034	57,786,455	500,770	58,287,225
2035-2039	49,380,321	308,574	49,688,895
2040-2044	37,832,613	101,764	37,934,377
<u>Total</u>	<u>\$ 364,448,300</u>	<u>\$ 4,127,354</u>	<u>\$ 368,575,654</u>

**9. VIRGINIA COMMONWEALTH UNIVERSITY FACULTY EARLY RETIREMENT INCENTIVE PLAN**

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

professors, which continues until the faculty member leaves the University, is dismissed for cause or is terminated due to a financial crisis.

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

As of June 30, 2014, 53 faculty members were enrolled in the plan. Payments during fiscal year 2014 were \$1,437,401. The present value of future Plan payment schedule follows:

<u>Fiscal Year</u>	<u>Plan Obligations</u>
2015	\$ 951,708
2016	681,738
2017	575,522
2018	465,493
2019	173,748
2020	60,912
Total	<u>\$ 2,909,121</u>

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

**University**

Employees of the University are employees of the Commonwealth of Virginia. 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, 2014, were \$194,778,673. The University's total payroll costs for the year were \$476,145,766.

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, including the VALORS and hybrid plans, were \$17,320,389 for the year ended June 30, 2014.

The VRS does not measure assets and pension benefit obligations separately for individual state institutions. Information related to this plan is available at the statewide level only and can be found in the Commonwealth of Virginia's Comprehensive Annual Financial Report (CAFR). The Commonwealth, not the University has the overall responsibility for contributions to this plan. The CAFR provides disclosure of the Commonwealth's unfunded pension benefit obligation at June 30, 2014. The same report contains historical trend information showing VRS's progress in accumulating sufficient assets to pay benefits when due.

Full-time faculty and certain administrative staff are eligible to participate in other retirement plans. These are fixed-contribution programs where the retirement benefits received are based upon the employer (5.4%) and employee (5%) contributions (all of which are paid by the University for faculty hired before July 1, 2010) plus interest and dividends. For faculty hired on or after July 1, 2010, the 5% employee contribution is paid by the employee, and the employer contribution, paid by the University, is 8.5%. The two providers are TIAA-CREF and Fidelity.

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 \$184,723,388 in fiscal year 2014. Total pension costs under these plans were \$18,277,219 in fiscal year 2014.

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

The Deferred Compensation Plan (DCP) gives full and part-time faculty and staff who contribute at least \$10 each pay period through the Tax Deferred Annuity Program (TDA) a matching contribution of 50%, up to a maximum of \$20 each pay period, of the amount faculty and staff contribute through the TDA Program. The Deferred Compensation Plan is a qualified defined contribution plan under Section 401(a) of the Internal Revenue Code. Total employer contributions under the Deferred Compensation Plan including both VRS and other retirement plan participants were approximately \$1,681,790 for the fiscal year ending 2014.



Authority

Prior to July 1, 1997, employees of the MCVH 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 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 MCVH, has overall responsibility for these plans. Total pension costs paid to the Commonwealth for the years ended June 30, 2014, for these plans were approximately \$5,950,000.

Effective July 1, 1997, MCVH established the MCVH Authority Defined Contribution Plan (the Plan). Effective July 1, 2000, MCVH became a part of the Authority. The Plan was amended and restated effective January 1, 2002, and is now referred to as the VCUHS Retirement Plan (VCUHS 401(a) Plan). All employees, excluding house staff, working at least 20 hours a week in a benefit-eligible position are eligible to participate in the VCUHS 401(a) Plan. At June 30, 2014, there were 6,159 participants in the VCUHS 401(a) Plan. Per the VCUHS 401(a) Plan document as approved by the Authority’s Board of Directors, MCVH contributes up to 10% of the participant’s salary to the VCUHS 401(a) Plan not to exceed the lesser of (a) the amount in accordance with Code 415(d), or (b) one hundred percent (100%) of the Participant’s Compensation for such limitation year. Contributions are a function of the employee’s age plus years of service per the table below. Total contributions to the VCUHS 401(a) Plan for year ended June 30, 2014, were approximately \$19,736,000. MCVH shall have the right at any time, and without the consent of any party, to terminate the VCUHS 401(a) Plan in its entirety. Any changes to the provisions of the VCUHS 401(a) Plan, including the contribution requirements, must be approved in writing by the Authority’s Board of Directors. MCVH also sponsors the VCUHS Savings Plan (VCUHS 457(b) Plan); a savings plan that represents employee contributions and employees may also receive a 2% matching contribution in their VCUHS 401(a) Plan based on their 457(b) contribution.

<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

MCVH has also established 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, 2014, there were four 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, 2014, were approximately \$31,000.

The Plan and the HCP Plan use the accrual basis of accounting, and the Plan assets, which consist of mutual funds, are carried at fair market value. The fair market values of the mutual funds are based on quoted market prices. Investments with investment managers are as follows:

Fidelity Investments	\$ 159,694,664
TIAA/CREF	78,062,591
VALIC	<u>13,524,172</u>
Net assets available for plan benefits	<u>\$ 251,281,427</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 and the MCVAP 403(b) Salary Deferral Plan (the 403(b) Plan), a salary deferral plan that represent physician contributions. Contributions to the 401(a) Plan by MCVAP, as determined annually at the discretion of the Board of Directors, were approximately \$14,249,000 for the year ended June 30, 2014.

MCVAP also participates in the VCUHS 401(a) Retirement Plan (the VCUHS 401(a) Plan), a defined contribution plan, which covers all benefited nonclinical provider employees of MCVAP; the VCUHS Savings Plan (VCUHS 457(b) Plan), a savings plan that represents employee contribution and the MCVAP 403(b) Supplemental Plan (the 403(b) Highly Compensated Plan), a noncontributory defined contribution plan for highly compensated employees. The VCUHS 401(a) Plan contributions (as a percentage of employee's salary) 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) Savings Plan. Employees may also receive a 2% matching contribution in their VCUHS 401(a) Plan based on their 457(b) contribution.

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

Contributions to the plans for the years ended June 30, 2014, were approximately \$3,550,000.

Effective August 1, 1999, VA Premier adopted a 401(k) plan, for which Fidelity Investments is the trustee. Employees become eligible to participate in the plan after completing one year of service, during which the employee completes 1,000 hours of service. There is no minimum service or age requirement to be in the 401(k) plan. Employees may contribute 1% to 90% of their compensation. VA Premier will match 50% of the employee's contributions up to 4% of the employee's compensation. Matching will occur based on the bi-weekly pay periods. In addition, VA Premier contributes 3% of the employee's compensation (Safe Harbor contribution) and may make additional contributions (Profit Sharing contributions) at the option of the Board of Directors in an annual installment at the end of the year. Employees are fully vested after 4 years of service in which the employee begins employment. VA Premier's expense for its contributions to this plan was approximately \$1,644,000 year ended 2014 for the 534 covered employees.

Children's has a noncontributory defined benefit pension plan (Pension Plan) covering substantially all Children's employees. The Pension Plan provides benefits that are based on the five consecutive years for which an employee's compensation is highest. Children's funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as Children's may determine to be appropriate from time to time. Effective June 30, 2010, Children's decided to freeze all future benefit accruals for those who were active plan participants. The Pension Plan is also frozen to new participants as of that date.

The measurement date for determining the Pension Plan's funded status is June 30. The Pension's projected benefit obligation was \$15,775,856 as of June 30, 2014. The Pension Plan's fair value of plan assets was \$9,717,169 as of June 30, 2014. The Pension Plan's unfunded liability of \$6,058,687 as of June 30, 2014, is included in other liabilities on the accompanying consolidated statements of net position.

## 11. RELATED PARTIES

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

### 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 \$431,177 in 2014 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 \$655,102 in 2014 as the principal source of funding for the Association's operation.

#### MCV/VCU Dental Faculty Practice Association

The Association, also known as Dentistry@VCU, 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.

VCU provides the facilities for the Association including housekeeping, utilities and maintenance, without charge. VCU also provides the equipment used in providing patient care; any equipment purchased by the Corporation conveys to VCU. The Association purchased equipment of \$144,637 in the year ended June 30, 2014.

The Association reimburses VCU for certain other expenses including personnel, telephone, postage, payroll, physical repairs for the building and supplies. These payments were \$2,467,945 for the year ended June 30, 2014.

The Association paid for VCU Dental School related payroll and fringe totaling \$1,878,563 for the year ended June 30, 2014. Additionally, the Association was reimbursed by the School for payroll and fringe in the amount of \$1,821,545 in the year ended June 30, 2014.

#### 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 Authority does not have taxing powers. Operations are funded from lease and ancillary service revenues. Bond issuances, long-term notes payable, line of credit debt, appropriations from the Commonwealth, voluntary assessments from property owners located in the Research Park and contract support payments from VCU have funded both the operations and the acquisition and construction of capital assets.

In November, 2011, the Authority entered into a lease agreement with Virginia Commonwealth University for the use of the real property, building, and improvements located at 800 East Leigh Street, otherwise known as Biotech Center. Biotech Center is the property from which the Authority conducts the majority of its operations. The rent under the lease agreement was \$30 and was paid in a lump sum at the beginning of the lease; therefore, there is no related rent expense represented within these financial statements. The lease term ends November 2041.

**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 \$15,287,083 at June 30, 2014, was held in trust by others. These assets are not included in the University's balance sheet.

**13. COMMITMENTS**

The University, VCU Real Estate Foundation and the Authority are party to various construction commitments. At June 30, 2014, the remaining commitments were \$81,421,352 for the University, \$7,431,417 for the Real Estate Foundation and approximately \$39,000,000 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, 2014, was \$6,633,191 for the University and \$10,239,776 for the Authority.

The University has, as of June 30, 2014, the following total future minimum rental payments due under the above leases:

Fiscal Year	University	Authority
2015	\$ 4,204,821	\$ 8,952,514
2016	2,827,228	6,979,807
2017	1,962,264	5,378,652
2018	1,593,272	3,430,597
2019	998,822	1,371,619
2020-2024	2,816,924	402,518
2025-2029	833,105	
	\$ 15,236,436	\$ 26,515,707

**14. LITIGATION**

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

**15. TRANSACTIONS BETWEEN COMPONENT UNITS**

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

The VCU Foundation, the VCU School of Business Foundation and the VCU School of Engineering Foundation hold the University's investments that function as endowments, both true

and quasi. As of June 30, 2014, the VCU Foundation and VCU School of Engineering Foundation held University investments of \$28,330,520 and \$7,150,378, respectively. VCU School of Business Foundation held investments of \$1,149,546. The University has a due from component units for these investments, which is eliminated in the total column.

The VCU Foundation also holds investments for the VCU Intellectual Properties Foundation in the amount of \$1,028,891 and for the VCU Real Estate Foundation in the amount of \$7,171,118. The University has a due from component units for these investments, which is eliminated in the total column.

The VCU School of Engineering Foundation has constructed two buildings with the proceeds of debt issued by the University. The School of Engineering Foundation transfers sufficient funds to the University annually to fund the debt service. The annual transfer is recorded on the University as a gift received. The University includes one of the buildings and the liability for both buildings on the Statement of Net Position. The VCU School of Engineering Foundation has the phase I building, deferred bond issuance costs, prepaid bond interest, a liability and an accrued contribution to the University on their financial statements which are eliminated in the Statement of Net Position.

The VCU School of Business Foundation has constructed a building with the proceeds of debt issued by the University. The School of Business Foundation transfers sufficient funds to the University annually to fund the debt service. The University has the liability for the outstanding debt on the Statement of Net Position. The VCU School of Business Foundation has deferred issuance costs, a liability and an accrued contribution to the University on their financial statements which are eliminated in the Statement of Net Position.

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

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

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

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

**16. CONTINGENCIES**

Through June 30, 1990, the MCVH (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, 2014, that may result in the assertion of additional claims. In addition, there may be other claims from unreported incidents arising from services provided to patients. Management of MCVH accrues estimated losses on malpractice claims to the extent they fall within the limits of the MCVH's self-insurance program or exceed the limits of the excess insurance coverage in place at the date of the claim. The undiscounted liability is actuarially determined using industry data and MCVH's historical experience.

Investments have been set aside for payment of malpractice claims and related expenses based on actuarially determined reserves. At June 30, 2014, the internally restricted funds for the Hospitals include approximately \$3,397,214 for that purpose.

The Authority believes that its consolidated financial position would not be materially affected by the difference between the amounts recorded and the ultimate cost related to asserted or unasserted MCVH claims, if any, at June 30, 2014.

In addition, MCVAP is self-insured for all malpractice claims. There have been malpractice claims asserted against MCVAP by various claimants. The claims are in various stages of processing and some may ultimately be brought to trial. There are also known incidents that have occurred that may result in the assertion of additional claims. In addition there may be other claims from unreported incidents arising from services provided to patients. Management of MCVAP accrues estimated losses on malpractice claims. The undiscounted liability is actuarially determined using industry data and MCVAP's historical experience. Assets whose use is limited of \$22,794,455 have

been internally restricted as of June 30, 2014, for payment of claims and related legal expenses for reported and unreported incidents.

The Authority believes that its combined financial position would not be materially affected by the difference between the amounts recorded and the ultimate cost related to asserted and unasserted MCVAP claims, if any, at June 30, 2014.

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 limit for the professional liability policy is \$10 million in the annual aggregate. Management does not believe the amount of liability for any claims incurred but unreported as of June 30, 2014, is significant.

Children's Hospital maintains professional liability insurance coverage on the claims-made basis. Should Children's not renew its policy or replace it with equivalent insurance, occurrences during its term but asserted after its term will be uninsured, unless Children's obtains tail coverage.

The Authority believes that its combined financial position would not be materially affected by the ultimate cost related to unasserted claims, if any, at June 30, 2014.

#### 17. STOP-LOSS COVERAGE

VA Premier has a stop-loss arrangement to limit losses on individual claims. These contracts provide stop-loss coverage for all enrollee claims. The VA Premier contract provides coverage for 90% of all inpatient and outpatient services, physician services and drug related services in excess of \$375,000 subject to certain limitations and a lifetime limit of \$5,000,000 per enrollee. Premiums paid to the reinsurer for the year ended June 30, 2014, were approximately \$2,956,000, and are included in other expenses in the accompanying consolidated statement of revenues, expenses and changes in net position. Benefits of approximately \$2,829,000 were provided by the reinsurer for the year ended June 30, 2014, and are netted with medical claims expense in the accompanying consolidated statement of revenues, expenses and changes in net position.

#### 18. INDEMNIFICATIONS

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 limited by the Code of Virginia. The Foundation has a Director and Officer insurance policy that further limits its exposure and enables the Organization to recover a portion of any future amounts paid.



**19. NET PATIENT SERVICE REVENUE**

The Authority's patient service revenue is as follows for the year ended June 30, 2014:

Gross patient revenue:	
Inpatient	\$ 2,195,311,542
Outpatient	<u>1,545,731,340</u>
	3,741,042,882
Provision for uncompensated care and contractual adjustments	<u>(2,455,940,566)</u>
Net patient service revenue (Hospitals)	1,285,102,316
MCVAP's net patient service revenue	185,613,441
Children's patient service revenue	29,629,985
Eliminations	<u>(5,958,895)</u>
Consolidated net patient service revenue	<u><u>\$ 1,494,386,847</u></u>

**20. ESTIMATED MEDICAL CLAIMS PAYABLE**

Claims expenses and liabilities arising from services rendered to VA Premier's HMO members are reported when it is probable that services have been provided and the amount of the claim can be reasonably estimated. The claims payable includes an estimate of claims that have been incurred but not reported. At June 30, 2014, the amount of these liabilities included in accounts payable and accrued liabilities was \$60,251,182.

**21. STATE APPROPRIATIONS**

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

The following is a summary of the state appropriations for the year ended June 30, 2014:

Original legislative appropriation per Chapter 806:	
Educational and general programs	\$ 154,889,637
Higher education student financial assistance	24,070,183
Governor's Research Initiative for Biomedical Engineering and Regenerative Medicine	1,162,500
Higher Education Research Initiative for Cancer Research	8,500,000
Biotechnology Research Park	250,000
Parkinson's and Movement Disorder Center	250,000
Supplemental adjustments:	
CIT Grant Award	120,000
Central Appropriation for Credit Card Rebate	25,376
Virtual Library of Virginia- VIVA	21,603
Central Reappropriations Distributions	9,351,021
Virginia Military Survivors and Dependent Education Program	132,975
Brown vs. Board of Education Scholarship	3,460
Two Year College Transfer Grant Program	132,500
Higher Education Equipment Trust Fund 11 Chapter 806 Item 254	7,969,949
Steam Plant debt service	349,848
HEETF NGF Payment Ch 806 Item 280	(401,647)
Capital Fee for Out of State Students Ch 806 Item 280	(2,132,460)
Total	<u>\$ 204,694,945</u>

## 22. RISK MANAGEMENT

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

23. CONTRIBUTIONS RECEIVABLE

MCV Foundation:	
Receivable in less than one year	\$ 7,275,000
Receivable in one to five years	7,779,000
Receivable in more than five years	<u>5,116,000</u>
	20,170,000
Less:	
Discounts	(1,198,000)
Allowances	<u>(724,000)</u>
Net Contribution Receivable	<u>\$18,248,000</u>

Discount rate of 3.34% was used in determining the present value of the contributions receivable.

VCU Foundation:	
Receivable in less than one year	\$ 7,806,929
Receivable in one to five years	<u>16,023,761</u>
	23,830,690
Less:	
Discounts	(72,635)
Allowances	<u>(1,159,610)</u>
Net Contribution Receivable	<u>\$22,598,445</u>

Discount rate between 0.11% and 4.28% were used in determining the present value of the contributions receivable.

VCU Real Estate Foundation:	
Receivable in less than one year	\$ 200,097
Less:	
Allowances	<u>(53,958)</u>
Net Contribution Receivable	<u>\$ 146,139</u>

VCU School of Business Foundation:	
Receivable in less than one year	\$ 824,259
Receivable in one to five years	<u>169,735</u>
	993,994
Less:	
Discounts	(7,167)
Allowances	<u>(43,132)</u>
Net Contribution Receivable	<u>\$ 943,695</u>

Discount rate between 1.06% and 1.62% were used in determining the present value of the contributions receivable.

VCU School of Engineering Foundation:	
Receivable in less than one year	\$ 178,917
Receivable in one to five years	<u>916,360</u>
	1,095,277
Less:	
Discounts	(44,138)
Allowances	<u>(10,507)</u>
Net Contribution Receivable	<u>\$ 1,040,632</u>

Discount rate between .10% and 5.22% were used in determining the present value of the contributions receivable.

24. DERIVATIVE INSTRUMENT

At June 30, 2014, the University had two fixed-payer interest rate swaps with a notional amount of \$62,945,000, which declines to \$4,835,000 at the termination date of November 1, 2030. The swaps are used as cash flow hedges by the University in order to provide a hedge against changes in interest rates on a similar amount of the University's variable-rate debt. The fair value of the swaps was calculated by Deutsche Bank using undisclosed proprietary methods. The swaps were entered into at a zero market value and no payments were made or received when they were initiated.

The University pays a fixed rate of 3.436% and the counterparty pays 67% of LIBOR (0.102% as of June 30, 2014). The payments are settled monthly at the first of each month. Payments or receipts under the terms of the swap are recorded as non-operating revenue or expense. At June 30, 2014, the change in the fair market value of the swap, since reestablishing hedge accounting in November 2012, of \$4,890,441 is included in deferred inflows and in the accompanying consolidated balance sheets.

In November 2012, the University refunded the Series 2006 A and B General Revenue bonds associated with these swaps. At that time, the hedging relationship between the interest rate swap agreements and the 2006 Series A and B bonds was terminated, and the accumulated change in fair value of the interest rate swaps was included in the calculation of the deferred loss on refunding. With GASB 65, this deferred loss on refunding was reclassified as deferred outflows and is being amortized over the life of the swaps. Concurrently, the University reestablished hedge accounting by designating the 2012 Series A and B bonds as the hedged debt.

Risk

The use of derivatives may introduce certain risk for the University, including:

Credit risk is the risk that a counterparty will not settle an obligation in full, either when due or at any time thereafter. As of June 30, 2014, the \$62,945,000 notional amount of swaps outstanding had a negative market value of \$9,185,593 recorded in non-current liabilities, representing the amount the University would pay if the swaps were terminated on that date.

The fair values of the swaps were calculated by Deutsche Bank using undisclosed proprietary methods. The University would be exposed to credit risk of its swap counterparties any time the swaps had a positive market value. At June 30, 2014, the University had no credit risk related to its swaps.

Interest rate risk is the risk that an unexpected change in interest rates will negatively affect the collective value of a hedge and a hedged item. When viewed collectively, the hedges and the hedged item are subject to interest rate risk in that a change in interest rate will impact the collective market value of both the hedge and hedged item. Conversely, the collective effect of the hedges and the hedged item serve to reduce cash flow variability caused by changes in interest rates.

Basis risk arises when different indexes are used in connection with a derivative resulting in the hedge and hedged item not experiencing price changes in entirely opposite directions from each other. The University's swaps are deemed to be effective hedges of its variable-rate debt with an amount of basis risk that is within guidelines for establishing hedge effectiveness.

Termination risk arises when the unscheduled termination of a derivative could have an adverse effect on the University's strategy or could lead to potentially significant unscheduled payments. The University's derivative contract uses the international Swap Dealers Association Master Agreement, which included standard termination events, such as failure to pay and bankruptcy. The University or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If at the time of termination the swap has a negative market value, the University would be liable to the counterparty for a payment equal to the swaps' market value.

Rollover risk arises when a derivative associated with a hedged item does not extend all the way to the maturity date of the hedged item, thereby creating a gap in the protection otherwise afforded by the derivative. The University's hedges serve to hedge its variable rate Series 2012A and 2012B bonds maturing in November 2030.

Market-access risk arises when an entity enters into a derivative in anticipation of entering the credit market at a later date, but is ultimately prevented from doing so. The University has no market-access risk.

Foreign currency risk is the risk of a hedge's value changing due to changes in currency exchange rates. The University's derivatives have no foreign currency risk.

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

<b>Maturity</b>	<b>Principal</b>	<b>Variable Interest</b>	<b>Hedging Derivative Instruments, Net</b>	<b>Total</b>
2015	2,625,000	498,210	2,098,897	5,222,107
2016	2,735,000	477,433	2,011,368	5,223,801
2017	2,845,000	455,785	1,920,170	5,220,955
2018	2,970,000	433,267	1,825,302	5,228,569
2019	3,095,000	409,760	1,726,268	5,231,028
2020-2024	17,525,000	1,660,290	6,994,603	26,179,893
2025-2029	21,475,000	906,465	3,818,832	26,200,297
2030-2031	9,675,000	114,849	483,835	10,273,684
<b>Total</b>	<b>\$ 62,945,000</b>	<b>\$ 4,956,059</b>	<b>\$ 20,879,275</b>	<b>\$ 88,780,334</b>

In June 2007, MCVH entered into two interest rate swap agreements in anticipation of the issuance of the Series 2008 tax-exempt bonds. The swaps have a combined notional amount of \$120,397,500, which declines over time to \$15,700,000 at the termination date of July 1, 2037. MCVH pays a fixed rate of 3.84% and the counterparty pays 67% of LIBOR (0.102% as of June 30, 2014). The payments are settled monthly at the first of each month. Payments or receipts under the terms of the swap are recorded as non-operating revenue or expense. At June 30, 2014, the fair market value of the swap of \$30,932,019 is included in other liabilities in the accompanying consolidated statements of net position. For the year ended June 30, 2014, the change in fair value of the swaps was approximately \$555,890.

In June 2013, MCVH refunded the Series 2008 Bonds using proceeds of the Series 2013A Bonds. At that time, the hedging relationship between the interest rate swap agreements and the Series 2008 bonds was terminated, and the accumulated change in fair value of the interest rate swaps was included in the calculation of the deferred loss on refunding. In June 2013, MCVH reestablished hedge accounting by designating the Series 2013A Bonds as the hedged debt.

In December 2005, MCVH entered into an interest rate swap agreement in conjunction with the issuance of its Series 2005 tax-exempt bonds. The swap has a notional amount of \$69,450,000, which declines over time to \$8,000,000 at the maturity date of July 1, 2030. MCVH pays a fixed rate of 3.499% and the counterparty pays 67% of LIBOR (0.102% as of June 30, 2014). The payments are settled monthly at the first of each month. Payments or receipts under the terms of the swap are recorded as non-operating revenue or expense. At June 30, 2014, the fair market value of the swap of \$11,640,202 is included in deferred outflows and in other liabilities in the accompanying consolidated statements of net position. For the years ended June 30, 2014, the change in fair value of the swap was approximately \$35,972.

In June 2013, MCVH refunded the Series 2005 bonds using proceeds of the Series 2013B bonds. At that time, the hedging relationship between the interest rate swap agreement and the Series 2005 bonds was terminated, and the accumulated change in fair value of the interest rate swap was included in the calculation of the deferred loss on refunding. In June 2013, MVCH reestablished hedge accounting by designating the Series 2013B bonds as the hedged debt.

The fair values of the derivatives were calculated using the zero-coupon method, which considers known and projected contractual cash flows.

MCVH is exposed to interest rate risk on its interest rate swap. MCVH uses interest rate swap agreements to limit this exposure to rising interest rates on its variable-rate debt. On its pay-fixed, receive-variable interest rate swap, as the LIBOR index decreases, the net payment on the swap increases.

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

Maturity	Principal	Interest	Hedging	
			Instruments, Net	Total
2015	2,160,000	1,286,650	6,823,454	10,270,104
2016	2,255,000	1,270,388	6,747,500	10,272,888
2017	2,845,000	1,249,473	6,668,192	10,762,665
2018	2,950,000	1,227,817	6,568,872	10,746,689
2019	2,990,000	1,205,823	6,465,827	10,661,650
2020-2024	17,030,000	5,663,730	30,661,846	53,355,576
2025-2029	42,465,000	4,449,850	26,026,907	72,941,757
2030-2034	58,240,000	2,634,992	17,832,538	78,707,530
2035-2039	59,380,000	566,995	5,611,607	65,558,602
Total	<u>\$ 190,315,000</u>	<u>\$ 19,555,718</u>	<u>\$ 113,406,743</u>	<u>\$ 323,277,461</u>

Per FASB rules, the School of Business Foundation and the School of Engineering Foundation have recorded unrealized gain and losses on the interest rate swap and reduced or increased their liability by the amount of the gain or loss. The University records this amount in other liabilities.

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

<u>VCU School of Engineering Foundation</u>	
Net assets per Foundation financial statements	\$ 43,827,181
Add: Unrealized loss on interest rate swap	5,645,368
Net assets as reported on University's financial statements	<u>\$ 49,472,549</u>
<u>VCU School of Business Foundation</u>	
Net assets per Foundation financial statements	\$ 31,332,136
Add: Unrealized loss on interest rate swap	3,540,225
Net assets as reported on University's financial statements	<u>\$ 34,872,361</u>

## 25. SUBSEQUENT EVENTS

Effective July 1, 2014 the Authority and Community Memorial Health center (CMH), A Virginia not-for-profit, non-stock corporation located in South Hill, Virginia, entered in to an affiliation agreement. The Authority became the sole member of CMH and, in addition to other contractual obligations, has committed to invest \$75,000,000 in facility replacements and enhancements to assist CMH in carrying out certain strategic projects and initiatives to improve and enhance the delivery of health care services to the communities it serves as an affiliate of the Authority.

In late June the University closed on a \$60 million line of credit for the construction, equipping and furnishings of a basketball training facility, an Institute of Contemporary Art and a phase of renovation of Sanger Hall. Additionally, the line of credit can be used for other capital projects

authorized by the Board and other capital projects below the threshold of requiring Board approval.

In November, the first draw was submitted on this line of credit in the amount of \$3.7M for use toward the basketball practice facility, with interest payments due monthly.

In October it was announced that the VCU Health System, VCU and Bon Secours signed a memo of understanding with the Virginia Children's Hospital Alliance to begin negotiations toward an independent, free-standing children's hospital in the Richmond region. This memo recognizes the primary of VCU and the VCU Health System as managing partners of any academic affiliation arrangements involved in an independent, free-standing children's hospital.





Martha S. Mavredes, CPA  
Auditor of Public Accounts

# Commonwealth of Virginia

*Auditor of Public Accounts*

P.O. Box 1295  
Richmond, Virginia 23218

December 15, 2014

The Honorable Terence R. McAuliffe  
Governor of Virginia

The Honorable John C. Watkins  
Chairman, Joint Legislative Audit  
and Review Commission

Board of Visitors  
Virginia Commonwealth University

## INDEPENDENT AUDITOR'S REPORT

### 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, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component units of the University, which are discussed in Note 1. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the component units of the University, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the component units of the University that were audited by other auditors upon whose reports we are relying were audited in accordance with auditing standards generally accepted in the United States of America, but not in accordance with Government Auditing Standards.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinions.

#### *Opinion*

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, 2014, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

#### *Emphasis of Matter*

As discussed in Note 1 to the financial statements, the University adopted Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinions are not modified with respect to this matter.

#### *Other Matters*

#### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 2 through 11 be presented to supplement the basic

financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated December 15, 2014, on our consideration of Virginia Commonwealth University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the University's internal control over financial reporting and compliance.

  
AUDITOR OF PUBLIC ACCOUNTS

EMS/alh

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