VIRGINIA COMMONWEALTH UNIVERSITY HEALTH SYSTEM AUTHORITY

(A Component Unit of Virginia Commonwealth University)

Consolidated Financial Statements

June 30, 2007 and 2006

(With Independent Auditors' Report Thereon)

VIRGINIA COMMONWEALTH UNIVERSITY
HEALTH SYSTEM AUTHORITY
(A Component Unit of Virginia Commonwealth University)

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Independent Auditors' Report

The Board of Directors
Virginia Commonwealth University
Health System Authority:

We have audited the accompanying consolidated financial statements of the enterprise funds and pension trust funds of Virginia Commonwealth University Health System Authority (the Authority), a component unit of Virginia Commonwealth University, as of and for the year ended June 30, 2007, as listed in the accompanying table of contents. These consolidated financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The accompanying consolidated financial statements of the enterprise funds and pension trust funds of the Authority as of and for the year ended June 30, 2006 were audited by other auditors whose report thereon dated August 31, 2006, expressed an unqualified opinion.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the respective financial position of the enterprise funds and pension trust funds of Virginia Commonwealth University Health System Authority as of June 30, 2007, and the respective results of their operations, changes in their net assets and their cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

The accompanying Management Discussion and Analysis on pages 2 through 12 is not a required part of the basic consolidated financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit the information and express no opinion on it.

KPMG LLP

November 9, 2007

This discussion and analysis of Virginia Commonwealth University Health System Authority's (VCUHSA or the Authority) financial performance provides an overview of VCUHSA's consolidated financial activities for the fiscal years ended June 30, 2007 and 2006. Please read it in conjunction with the Authority's consolidated financial statements which begin on page 13.

Financial Statement Overview

The consolidated financial statements herein are comprised of the consolidated balance sheets, consolidated statements of revenues, expenses and changes in net assets, and consolidated statements of cash flows. These consolidated financial statements and related notes provide information about the activities of the Authority, including resources held by the Authority but restricted for specific purposes by contributors, grantors, or enabling legislation.

The Authority is the trustee, or fiduciary, for its employees' pension plans. The Authority's pension plan activities are reported in separate balance sheets and statements of changes in net assets on pages 18 and 19. The Authority excludes these activities from the other consolidated financial statements because the Authority cannot use these assets to finance its operations. The Authority is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The Authority is an enterprise fund of Virginia Commonwealth University, a component unit of the Commonwealth of Virginia. Virginia Commonwealth University incorporates the Authority's statements for the years ended June 30, 2007 and 2006 into their financial statements for the years ended June 30, 2007 and 2006. The Authority's consolidated financial statements include MCV Hospitals (MCVH), University Health Services, Inc. (UHS) and MCV Associated Physicians (MCVAP). Virginia Premier Health Plan, Inc. (Virginia Premier) is a wholly owned subsidiary of UHS Managed Care, Inc., which is a wholly owned subsidiary of UHS.

June 30, 2007 compared to June 30, 2006

Financial Highlights

- The Authority's net assets increased by $98.9 million, or 18.5%, over prior year as a result of this year's activity.
- Patient service revenue comprises the majority of the Authority's revenues. Net patient service revenue increased $79.4 million, or 10.3%, from prior year due to an increase in volume of selected hospital services, reimbursement increases, and improvement of revenue processes.
- Premiums earned by Virginia Premier increased $34.9 million, or 11.1%, from prior year due to continued growth in enrollment and premium increases.
- The Authority's operating expenses increased $82.1 million, or 7.7%, from prior year. Approximately $32.7 million of this increase is the result of increased personnel costs associated with service expansion and market conditions. Virginia Premier's continued network expansion also resulted in a $32.3 million increase in medical claims expense.
- The Authority showed income from operations for the year ended June 30, 2007 of $82.4 million, a $36.2 million increase from operating income of $46.2 million for the year ended June 30, 2006.

- The major capital expenditures for the Authority in 2007 related to the construction of a Critical Care Hospital, purchase of radiology and cardiology equipment, investments in information systems infrastructure, business systems and equipment, and facility renovations.
- The Authority contributed $18.4 million to MCV Foundation in support of the academic and research mission of Virginia Commonwealth University.
- The Authority provides service to the majority of indigent patients in the region and approximately 30% of the Commonwealth's indigent health care. The Authority operates Virginia Coordinated Care, a program that provides health care to the indigent population utilizing cost saving managed care principles.

As indicated in Table 1 below, the Authority's total assets exceeded total liabilities by $633.1 million as of June 30, 2007. Of these net assets, 33.8% ($213.9 million) are related to capital assets, $21.6 million are restricted funds, and the remaining $397.6 million are unrestricted funds, which can be used for on-going operations of the Authority.

Table 1

Virginia Commonwealth University
Health System Authority

Condensed Statements of Assets, Liabilities and Net Assets

(In thousands)

	June 30	
	2007	2006
Current assets	$ 399,556	339,309
Capital assets, net	391,997	325,661
Other noncurrent assets	274,163	266,110
Total assets	1,065,716	931,080
Current liabilities	225,461	188,188
Long-term liabilities	207,172	208,706
Total liabilities	432,633	396,894
Net assets:		
Invested in capital assets, net of related debt	213,885	196,950
Restricted:		
Expendable	895	596
Nonexpendable	20,710	18,937
Unrestricted	397,593	317,703
Total net assets	$ 633,083	534,186

(Continued)

Table 2

**Virginia Commonwealth University
Health System Authority**

Condensed Statements of Revenues, Expenses and Changes in Net Assets

(In thousands)

		Year ended June 30	
		2007	**2006**
Operating revenues:			
Net patient service revenue	$	851,765	772,401
Premiums earned		350,610	315,686
Other operating revenues		28,183	24,140
Total operating revenues		1,230,558	1,112,227
Operating expenses:			
Salaries, wages and employee benefits		509,544	476,889
Medical claims expense		285,314	253,021
Supplies		169,692	164,053
Depreciation and amortization		39,978	36,262
Other operating expenses		143,669	135,840
Total operating expenses		1,148,197	1,066,065
Operating income		82,361	46,162
Net nonoperating revenues		17,567	16,875
Excess of revenues over expenses before other changes in net assets		99,928	63,037
Other changes in net assets		(1,031)	(2,905)
Increase in net assets		98,897	60,132
Beginning net assets		534,186	474,054
Ending net assets	$	633,083	534,186

The Authority's operating revenues increased by 10.6% ($118.3 million) over the prior year. This increase in revenues resulted from the expansion of Virginia Premier, changes in pricing for MCVH and MCVAP, and the mix of hospital and physician services. Total operating expenses increased 7.7% ($82.1 million). Personnel costs are the largest single cost of the Authority, comprising 44.4% of operating costs. An increase in personnel–related costs of $32.7 million, or 6.8%, from prior year reflects both the salary adjustments required to meet market demands and the required staff levels to meet both quality and volume initiatives. The growth of nonpersonnel expenses resulted from an increase of $32.3 million in medical claims expense from Virginia Premier's network expansion and a $5.6 million increase in supplies expense.

(Continued)

Capital Asset and Debt Administration

Capital Assets

The Authority's capital assets increased by $66.3 million, or 20.4%, over prior year amounts.

Table 3

Virginia Commonwealth University
Health System Authority

Capital Assets

(In thousands)

	June 30	
	2007	**2006**
Land and improvements	$ 1,599	1,592
Buildings and fixed equipment	296,401	320,480
Moveable equipment	193,485	297,062
Construction in progress	124,213	49,684
	615,698	668,818
Accumulated depreciation	(223,701)	(343,157)
Total	$ 391,997	325,661

Table 4

Virginia Commonwealth University
Health System Authority

Schedule of Additions and Retirements

(In thousands)

	Year ended June 30	
	2007	**2006**
Capital assets, beginning of year	$ 325,661	299,372
Additions	106,401	63,642
Disposals, net of accumulated depreciation	(318)	(1,140)
Depreciation	(39,747)	(36,213)
Capital assets, end of year	$ 391,997	325,661

(Continued)

Major projects capitalized include (in millions):

		Year ended June 30	
		2007	**2006**
Construction of Critical Care Hospital	$	62.3	24.9
Investments in information systems infrastructure, business systems, and equipment		14.0	13.3
Radiology and cardiology equipment		7.4	7.4
Major renovation projects		14.0	10.8
Purchase and replacement of moveable equipment		8.7	7.2
	$	106.4	63.6

The Authority has a five-year capital plan which, includes a budget of $94.2 million of expenditures in fiscal year 2008. A major current initiative is the construction of a Critical Care Hospital that will house intensive care units, operating suites, and other services.

Debt

Table 5

Virginia Commonwealth University
Health System Authority

Debt

(In thousands)

		June 30	
		2007	**2006**
General Revenue Bonds Series 2005	$	100,000	100,000
General Revenue Bonds Series 1998		58,830	61,005
Construction debt		1,990	2,163
Capital leases		11,396	12,041
Total	$	172,216	175,209

At June 30, 2007, the Authority had $172.2 million in bonds, construction debt, and capital leases, as shown in Table 5. Additional information regarding the Authority's debt is included in note 5 to the consolidated financial statements.

June 30, 2006 compared to June 30, 2005

Financial Highlights

- The Authority's net assets increased by $60.1 million, or 12.7%, over prior year as a result of this year's activity.
- Net patient service revenue increased $42.4 million, or 5.8%, from prior year due to an increase in volume of selected hospital services, reimbursement increases, and improvement of revenue processes.
- Premiums earned by Virginia Premier increased $39.5 million, or 14.3%, from prior year due to continued growth in enrollment and premium increases.
- The Authority's operating expenses increased $100.3 million, or 10.4%, from prior year. Approximately $30.4 million of this increase is the result of increased personnel costs associated with service expansion and market conditions. Virginia Premier's continued network expansion resulted in a $37.1 million increase in medical claims expense.
- The Authority showed income from operations for the year ended June 30, 2006 of $46.2 million, a $20.9 million decrease from operating income of $67.1 million for the year ended June 30, 2005.
- The major capital expenditures for the Authority in 2006 related to the ongoing construction of a Critical Care Hospital, purchase of radiology, cardiology, and radiation oncology equipment, investments in information systems infrastructure, business systems and equipment, and facility renovations.
- The Authority contributed $2.6 million to MCV Foundation in support of the academic and research mission of the University.
- The Authority provides service to the majority of indigent patients in the region and approximately 30% of the Commonwealth's indigent health care. The Authority operates Virginia Coordinated Care, a program that provides health care to the indigent population utilizing cost saving managed care principles.

VIRGINIA COMMONWEALTH UNIVERSITY
HEALTH SYSTEM AUTHORITY
(A Component Unit of Virginia Commonwealth University)

Management's Discussion and Analysis

June 30, 2007 and 2006

As indicated in Table 1 below, the Authority's total assets exceeded total liabilities by $534.2 million as of June 30, 2006. Of these net assets, over 36.9% ($197.0 million) are related to capital assets, $19.5 million are restricted funds, and the remaining $317.7 million are unrestricted funds, which can be used for on-going operations of the Authority.

Table 1

Virginia Commonwealth University
Health System Authority

Condensed Statements of Assets, Liabilities and Net Assets

(In thousands)

		June 30	
		2006	**2005**
Current assets	$	339,309	289,393
Capital assets, net		325,661	299,372
Other noncurrent assets		266,110	191,673
Total assets		931,080	780,438
Current liabilities		188,188	194,317
Long-term liabilities		208,706	112,067
Total liabilities		396,894	306,384
Net assets:			
Invested in capital assets, net of related debt		196,950	219,207
Restricted:			
Expendable		596	599
Nonexpendable		18,937	18,150
Unrestricted		317,703	236,098
Total net assets	$	534,186	474,054

(Continued)

Table 2

**Virginia Commonwealth University
Health System Authority**

Condensed Statements of Revenues, Expenses and Changes in Net Assets

(In thousands)

		Year ended June 30	
		2006	2005
Operating revenues:			
Net patient service revenue	$	772,401	729,973
Premiums earned		315,686	276,216
Other operating revenues		24,140	26,611
Total operating revenues		1,112,227	1,032,800
Operating expenses:			
Salaries, wages and employee benefits		476,889	446,477
Medical claims expense		253,021	215,903
Supplies		164,053	143,299
Depreciation and amortization		36,262	33,780
Other operating expenses		135,840	126,281
Total operating expenses		1,066,065	965,740
Operating income		46,162	67,060
Net nonoperating revenues (expenses)		16,875	(6,524)
Excess of revenues over expenses before other changes in net assets		63,037	60,536
Other changes in net assets		(2,905)	(71)
Increase in net assets		60,132	60,465
Beginning net assets		474,054	413,589
Ending net assets	$	534,186	474,054

The Authority's operating revenues increased by 7.7% ($79.4 million) over the prior year. This increase in revenues resulted from the expansion of Virginia Premier, changes in pricing for the Hospital and MCVAP, and the mix of hospital and physician services. Total operating expenses increased 10.4% ($100.3 million). Personnel costs are the largest single cost of the Authority, comprising 44.7% of operating costs. An increase in personnel related costs of $30.4 million, or 6.8%, from prior year reflects both the salary adjustments required to meet market demands and the required staff levels to meet both quality and volume initiatives. The growth of nonpersonnel expenses resulted from an increase of $37.1 million in medical claims expense from Virginia Premier's network expansion and a $20.8 million increase in supplies.

(Continued)

Capital Asset and Debt Administration

Capital Assets

The Authority's capital assets had increased by $26.3 million, or 8.8%, over prior year amounts.

Table 3

Virginia Commonwealth University
Health System Authority

Capital Assets

(In thousands)

	June 30	
	2006	**2005**
Land and improvements	$ 1,592	1,716
Buildings and fixed equipment	320,480	310,972
Moveable equipment	297,062	270,656
Construction in progress	49,684	24,935
	668,818	608,279
Accumulated depreciation	(343,157)	(308,907)
Total	$ 325,661	299,372

Table 4

Virginia Commonwealth University
Health System Authority

Schedule of Additions and Retirements

(In thousands)

	Year ended June 30	
	2006	**2005**
Capital assets, beginning of year	$ 299,372	276,728
Additions	63,642	58,825
Disposals, net of accumulated depreciation	(1,140)	(2,648)
Depreciation	(36,213)	(33,533)
Capital assets, end of year	$ 325,661	299,372

(Continued)

Major projects capitalized include (in millions):

		Year ended June 30	
		2006	2005
Construction in progress of Critical Care Hospital	$	24.9	9.8
Performance Improvement Program for building heating and cooling/utility systems for the hospital and clinic buildings		—	4.8
Emergency generator replacement		—	4.7
Investments in information systems infrastructure, business systems, and equipment		13.3	—
Information system projects in process		—	4.3
Radiology, cardiology and radiation oncology equipment		7.4	8.2
Major renovation projects		10.8	13.6
Purchase and replacement of moveable equipment		7.2	13.4
	$	63.6	58.8

The Authority has a five-year capital plan which, includes a budget of $91.6 million of expenditures in fiscal year 2007. A major initiative that began in the spring of 2005 is the construction of a Critical Care Hospital that will house intensive care units, operating suites, and other services.

Debt

Table 5

Virginia Commonwealth University
Health System Authority

Debt

(In thousands)

		June 30	
		2006	2005
General Revenue Bonds Series 2005	$	100,000	—
General Revenue Bonds Series 1998		61,005	63,085
Construction debt		2,163	2,317
Capital leases		12,041	15,681
Total	$	175,209	81,083

(Continued)

At June 30, 2006, the Authority had $175.2 million in bonds, construction debt, and capital leases, as shown in Table 5. In December 2005, MCVH issued an additional $100,000,000 of General Revenue Bonds. These bonds were issued as auction rate securities in three series and initially will bear interest rates at auction rates established for seven-day auction periods. Ambac Assurance Corporation insures the Bond Series 2005. MCVH also entered into a forward interest rate swap that will expire on December 15, 2015. Additional information regarding the Authority's debt and interest rate swap is included in notes 5 and 6, respectively, to the consolidated financial statements.

Contacting the Authority's Financial Management

This financial report is designed to provide the reader with a general overview of the Authority's finances. If you have questions about this report or need additional financial information, contact the office of the Chief Financial Officer at PO Box 980510, Richmond, Virginia 23298.

VIRGINIA COMMONWEALTH UNIVERSITY
HEALTH SYSTEM AUTHORITY
(A Component Unit of Virginia Commonwealth University)

Consolidated Balance Sheets – Enterprise Funds

June 30, 2007 and 2006

Assets	2007	2006
Current assets:		
Cash and cash equivalents	$ 56,050,140	69,390,783
Short-term investments	158,729,581	146,071,573
Patient accounts receivable, less allowances for uncollectible amounts of $78,351,000 in 2007 and $70,013,000 in 2006	117,772,188	95,091,013
Settlements due from third-party payors	7,592,891	—
Other accounts receivable	9,945,604	5,707,669
Due from affiliates	431,040	—
Current portion of assets whose use is limited	37,247,776	10,439,765
Supplies and other current assets	11,786,763	12,607,707
Total current assets	399,555,983	339,308,510
Assets whose use is limited, less current portion	205,272,014	201,463,055
Long-term investments	52,594,135	47,775,701
Capital assets:		
Land and improvements	1,598,902	1,592,425
Depreciable capital assets, less accumulated depreciation of $223,701,342 in 2007 and $343,157,452 in 2006	390,398,221	324,068,722
Total capital assets	391,997,123	325,661,147
Other assets:		
Deferred financing costs, less accumulated amortization of $443,923 in 2007 and $394,598 in 2006	3,851,652	4,031,672
Notes receivable from affiliates	716,173	716,173
Goodwill	4,424,899	4,424,899
Other assets	7,304,484	7,699,229
Total other assets	16,297,208	16,871,973
Total assets	$ 1,065,716,463	931,080,386

(Continued)

Liabilities and Net Assets	2007	2006
Current liabilities:		
Note payable	$ 40,000,000	—
Current portion of long-term debt and capital leases	5,546,411	5,724,387
Estimated medical claims payable	33,561,038	30,711,322
Trade accounts payable	22,080,851	31,633,879
Settlements due to third-party payors	53,230,800	55,943,286
Accrued salaries, wages and professional fees	30,807,724	28,945,143
Accrued leave	18,715,435	17,682,400
Clinical earnings contribution to VCU School of Medicine	7,969,887	5,845,729
Accrued interest payable	1,495,861	1,543,709
Due to affiliates	624,966	147,175
Current portion of estimated workers' compensation claims	2,161,000	1,851,000
Current portion of estimated losses on malpractice claims	3,200,000	3,200,000
Other accrued liabilities	6,066,796	4,960,019
Total current liabilities	225,460,769	188,188,049
Other liabilities:		
Long-term debt and capital leases, less current portion	166,669,531	169,484,233
Estimated workers' compensation claims	9,234,753	9,678,346
Estimated losses on malpractice claims	27,697,967	28,942,282
Other liabilities	3,570,438	601,670
Total liabilities	432,633,458	396,894,580
Net assets:		
Invested in capital assets, net of related debt	213,885,409	196,949,584
Restricted:		
Expendable	894,893	596,073
Nonexpendable permanent endowment	20,709,982	18,937,324
Unrestricted	397,592,721	317,702,825
Total net assets	633,083,005	534,185,806
Total liabilities and net assets	$ 1,065,716,463	931,080,386

See accompanying notes to consolidated financial statements.

VIRGINIA COMMONWEALTH UNIVERSITY
HEALTH SYSTEM AUTHORITY
(A Component Unit of Virginia Commonwealth University)

Consolidated Statements of Revenues, Expenses and Changes in Net Assets – Enterprise Funds

Years ended June 30, 2007 and 2006

	2007	2006
Operating revenues:		
Net patient service revenue, net of uncollectible amounts	$ 851,765,154	772,401,249
Premiums earned	350,610,263	315,686,397
Other contract revenue	14,860,954	13,244,249
Medical consultation income	1,440,297	1,773,227
Other operating revenue	11,881,626	9,122,145
	1,230,558,294	1,112,227,267
Operating expenses:		
Salaries and wages	414,814,189	390,579,785
Employee benefits	94,729,784	86,309,172
Medical claims expense	285,314,031	253,021,147
Purchased services	75,736,418	70,835,854
Supplies	169,691,745	164,052,754
Clinical earnings contribution to VCU School of Medicine	4,648,387	4,376,108
Other expenses	59,694,946	56,393,488
Provision for depreciation and amortization	39,978,451	36,262,497
Interest expense	3,589,752	4,234,722
	1,148,197,703	1,066,065,527
Operating income	82,360,591	46,161,740
Nonoperating revenues and expenses:		
Investment income	37,532,408	16,924,726
Other nonoperating income (expense), net	(1,359,920)	2,634,321
Donations and gifts	(18,604,632)	(2,684,027)
Total nonoperating revenues and expenses	17,567,856	16,875,020
Execess of revenues over expenses before transfers to affiliates, capital contributions and changes in beneficial interest in trusts	99,928,447	63,036,760
Transfers to affiliates	(2,866,784)	(4,606,378)
Contributions for purchases of capital assets	37,485	919,018
Increase in beneficial interest in trusts	1,798,051	782,736
Increase in net assets	98,897,199	60,132,136
Net assets at beginning of year	534,185,806	474,053,670
Net assets at end of year	$ 633,083,005	534,185,806

See accompanying notes to consolidated financial statements.

VIRGINIA COMMONWEALTH UNIVERSITY
HEALTH SYSTEM AUTHORITY
(A Component Unit of Virginia Commonwealth University)

Consolidated Statements of Cash Flows – Enterprise Funds

Years ended June 30, 2007 and 2006

		2007	2006
Cash flows from operating activities:			
Cash received from third-party payors and patients	$	818,778,602	786,433,231
Cash received from premiums		351,446,902	315,242,602
Cash paid to employees		(506,781,950)	(478,730,260)
Cash paid to suppliers		(316,314,157)	(295,994,403)
Cash paid to providers of health care services		(282,464,315)	(252,556,146)
Other operating cash receipts and payments, net		25,222,792	27,174,309
Net cash provided by operating activities		89,887,874	101,569,333
Cash flows from noncapital financing activities:			
Donations and gifts		(18,604,632)	(2,684,027)
Transfers to affiliates		(2,866,784)	(4,606,378)
Net cash used in noncapital financing activities		(21,471,416)	(7,290,405)
Cash flows from capital and related financing activities:			
Purchases of capital assets		(103,302,294)	(63,050,162)
Contributions for purchases of capital assets		37,485	919,018
Proceeds from issuance of note payable		40,000,000	—
Proceeds from bond issuance		—	100,000,000
Principal payments on long-term debt and capital lease obligations		(6,091,739)	(6,473,128)
Repayment of line of credit		—	(25,000,000)
Cash paid for interest		(3,637,600)	(4,280,483)
Cash paid for deferred financing costs		—	(3,162,350)
Net cash used in capital and related financing activities		(72,994,148)	(1,047,105)
Cash flows from investing activities:			
Interest and dividends on investments		20,319,817	16,924,726
Purchases of investments		(220,986,662)	(191,153,293)
Proceeds from sales of investments		334,555,839	54,033,473
Net cash provided by (used in) investing activities		133,888,994	(120,195,094)
Net increase (decrease) in cash and cash equivalents		129,311,304	(26,963,271)
Cash and cash equivalents at beginning of year		126,036,923	153,000,194
Cash and cash equivalents at end of year	$	255,348,227	126,036,923
Reconciliation of cash and cash equivalents to the balance sheets – enterprise funds:			
Cash and cash equivalents	$	56,050,140	69,390,783
Assets whose use is limited		199,298,087	56,646,140
Total cash and cash equivalents	$	255,348,227	126,036,923
Supplemental disclosure of noncash information –			
Assets acquired through capital lease obligations	$	3,099,061	598,343

(Continued)

VIRGINIA COMMONWEALTH UNIVERSITY
HEALTH SYSTEM AUTHORITY
(A Component Unit of Virginia Commonwealth University)

Consolidated Statements of Cash Flows – Enterprise Funds

Years ended June 30, 2007 and 2006

	2007	2006
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 82,360,591	46,161,740
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	39,978,451	36,262,497
Interest expense	3,589,752	4,234,722
Loss on disposal of capital assets	318,071	1,140,317
Changes in:		
Patient accounts receivable	(22,681,175)	(4,976,571)
Due to (from) third-party payors	(10,305,377)	19,008,553
Other accounts receivable	(4,237,935)	(443,795)
Due to (from) affiliates	46,751	(322,415)
Supplies and other assets	(195,354)	(2,240,495)
Estimated medical claims payable	2,849,716	465,001
Trade accounts payable	(9,553,028)	1,244,763
Accrued salaries, wages, and professional fees	1,862,581	(3,812,371)
Accrued leave	1,033,035	1,683,179
Clinical earnings contribution to VCU School of Medicine	2,124,158	3,157,538
Estimated workers' compensation claims	(133,593)	287,889
Estimated losses on malpractice claims	(1,244,315)	440,083
Other accrued liabilities	4,075,545	(721,302)
Net cash provided by operating activities	$ 89,887,874	101,569,333

See accompanying notes to consolidated financial statements.

VIRGINIA COMMONWEALTH UNIVERSITY
HEALTH SYSTEM AUTHORITY
(A Component Unit of Virginia Commonwealth University)

Consolidated Balance Sheets – Pension Trust Funds

June 30, 2007 and 2006

		2007	2006
Assets:			
Assets whose use is limited	$	91,533,733	71,168,709
Net assets:			
Reserve for employees' pension benefits	$	91,533,733	71,168,709

See accompanying notes to consolidated financial statements.

VIRGINIA COMMONWEALTH UNIVERSITY
HEALTH SYSTEM AUTHORITY
(A Component Unit of Virginia Commonwealth University)

Consolidated Statements of Changes in Net Assets – Pension Trust Funds

Years ended June 30, 2007 and 2006

		2007	2006
Beginning net assets	$	71,168,709	64,479,484
Additions:			
Pension contributions		11,520,153	10,116,734
Investment income		14,330,311	5,366,954
Total additions		25,850,464	15,483,688
Deductions:			
Pension benefit payments		(5,485,440)	(3,766,061)
Other		—	(5,028,402)
Total deductions		(5,485,440)	(8,794,463)
Ending net assets	$	91,533,733	71,168,709

See accompanying notes to consolidated financial statements.

(1) Reporting Entity

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), University Health Services, Inc. and subsidiaries (UHS), and MCVAP. MCVH, a division of the Authority, is an approximately 900-bed teaching hospital, which provides inpatient and outpatient services primarily to patients in the Commonwealth of Virginia. MCVAP, formed in 1991 as a nonstock, not-for-profit charitable educational organization, functions as the group practice plan for those physicians and health care professionals who have faculty appointments in the Virginia Commonwealth University (VCU) School of Medicine (SOM). MCVH, UHS, and MCVAP are included in the enterprise funds of the Authority.

UHS, a component unit of the Authority, is a not-for-profit, nonstock, tax-exempt corporation, which 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. Virginia Premier Health Plan, Inc. (VA Premier) is a wholly owned subsidiary of UHS Managed Care, Inc., which in turn is a wholly owned subsidiary of UHS. Carolina Crescent Health Plan, Inc. (CCHP) is a not-for-profit, wholly owned subsidiary of UHS. VA Premier and CCHP are Medicaid health maintenance organizations whose primary purpose is to provide quality health care within a managed care framework.

(2) Summary of Significant Accounting Policies

(a) Principles of Presentation

The accounts of the Authority are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenses, as appropriate.

The enterprise funds, which include the accounts of MCVH, UHS, and MCVAP, are used to account for the Authority's ongoing activities. Significant intercompany accounts and transactions have been eliminated in their consolidation.

The pension trust funds are used to account for assets held in trust for the benefit of the employees of MCVH, including the assets of the MCVH Authority Defined Contribution Plan and the Virginia

Commonwealth University Health System Authority Health Care Providers Defined Contribution Plan. These plans are sponsored by MCVH and the Authority and governed by the Board of Directors of MCVH and the Authority, respectively; therefore, the pension trust funds are included as a component unit of MCVH and the Authority.

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

Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis – for State and Local Governments* (Statement 34), established standards for external financial reporting for all state and local governmental entities, which includes a statement of net assets, a statement of activities and changes in net assets and a statement of cash flows. It requires the classification of net assets into three components – invested in capital assets, net of related debt; restricted; and unrestricted net assets. These classifications are defined as follows:

- *Invested in capital assets, net of related debt* – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.
- *Restricted net assets* – This component of net assets consists of constraints placed on net assets use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. Restricted net assets are either expendable or nonexpendable. Nonexpendable net assets are those that are required to be retained in perpetuity.
- *Unrestricted net assets* – This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

The accounting policies and practices of the Authority conform to U.S. generally accepted accounting principles applicable to a proprietary fund of a government unit. The financial statement presentation and significant accounting policies adopted by the Authority conform to general practice within the healthcare industry, as published by the American Institute of Certified Public Accountants in its audit and accounting guide, *Health Care Organizations*.

(b) Enterprise Fund Accounting

The Authority uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using economics resources measurement focus. Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not contradict or conflict with GASB pronouncements.

(c) Cash Equivalents

The Authority considers investments in highly liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents.

(d) Investments and Investment Income

Investments in marketable debt and equity securities are carried at fair value based on quoted market prices. Investments in nonreadily marketable securities, including limited investment companies and partnerships, are accounted for under the equity method, which approximates fair value. Short-term investments include investments that mature in less than one year.

Investment income, including net realized and unrealized gains or losses and the Authority's equity in earnings of nonreadily marketable securities, is recorded as nonoperating revenues or expenses. The income earned on nonexpendable restricted funds is restricted primarily for indigent care. Gains and losses from the sale of securities are recorded using specific identification.

(e) Allowance for Doubtful Accounts

The Authority records an allowance for doubtful accounts during the period in which collection is considered doubtful. Bad debt expense is included in net patient service revenue.

(f) Assets Whose Use is Limited

Resources restricted for debt service under bond indenture agreements, under malpractice trust agreement, by insurance regulations of the Commonwealth of Virginia and State of South Carolina, and under the pension plan agreement and unrestricted resources appropriated or designated by the Board of Directors for capital acquisition and for the future funding of MCVAP malpractice insurance are reported as assets whose use is limited and are carried at fair value. All assets whose use is limited, except for the portion required for the payment of current liabilities, are classified as noncurrent assets.

Restricted resources limited by donors to a specific period or purpose are also reported as assets whose use is limited. These assets consist principally of beneficial interests in perpetual trust funds established by split interest agreements. Split interest agreements are trust agreements established by donors under which the Authority receives benefits that are shared with other beneficiaries. The trust agreements established by donors provide for a third party to hold the trust assets. These trusts do not permit donors to revoke their charitable contributions. Trust assets of $20,709,982 and $18,937,324 are restricted by donors for MCVH in perpetuity and are included in assets whose use is limited at June 30, 2007 and 2006, respectively, at fair value, which approximates the present value of the future cash receipts from the trust assets.

(Continued)

(g) *Supplies Inventory*

Supplies inventory is stated at the lower of cost (first-in, first-out method) or market.

(h) *Capital Assets*

Capital assets are stated at cost or, if donated, at fair market value at the date of donation. The Authority capitalizes expenditures for equipment when the unit acquisition cost is $5,000 or greater and the estimated useful life is two years or more.

Depreciation on capital assets, including capital leases and excluding land and construction in progress, is computed over the estimated useful lives of the assets based on the straight-line method. The general range of estimated useful lives is 10 to 40 years for buildings and fixtures and 5 to 20 years for equipment. Expenditures for construction in progress are capitalized as incurred.

(i) *Deferred Financing Costs*

Incurred bond issuance costs are capitalized and amortized over the term of the related indebtedness using the effective interest method.

(j) *Goodwill*

Goodwill represents the excess of costs over fair value of assets acquired. Goodwill determined to have an indefinite useful life is not amortized but instead tested for impairment at least annually. The Authority assesses impairment by determining if the goodwill balance can be recovered through undiscounted future operating cash flows over its remaining life.

(k) *Derivative Financial Instruments*

The Authority recognizes the fair value of derivative financial instruments, currently consisting of interest rate swaps, as assets or liabilities in the accompanying consolidated balance sheets. The change in fair value of these instruments is included in other nonoperating income (expense) net, and the related cash settlements are included in interest expense.

(l) *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.

(m) *Accrued Leave*

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

(n) Clinical Earnings Contribution to VCU School of Medicine

Clinical earnings contribution represents amounts MCVAP is required to contribute to the VCU SOM in support of its academic and educational goals and is based on a percentage of MCVAP net patient service revenue, as defined in an agreement between MCVAP and VCU SOM.

(o) Estimated Workers' Compensation Claims

The Authority is self insured for workers' compensation and provides for the liability on an undiscounted basis, based on the ultimate cost of known claims and claims incurred but not yet reported. The liability includes assumptions and factors related to the frequency and severity of claims, claims development history, and claims settlement practices. The portion of the balance expected to be paid beyond one year is classified as long-term.

(p) Estimated Losses on Malpractice Claims

The Authority is self insured for medical malpractice and provides for the liability on an undiscounted basis, based on the ultimate cost of known claims and claims incurred but not yet reported. The liability includes assumptions and factors related to the frequency and severity of claims, claims development history, and claims settlement practices. The portion of the balance expected to be paid beyond one year is classified as long-term.

(q) Restricted Net Assets

Restricted net assets are those whose use by the Authority has been limited by donors to a specific time period or purpose. Restricted amounts primarily relate to the Authority's beneficial interest in two trust agreements, the income of which accrues to the Authority for use in providing indigent and other patient care. Restricted gifts of cash and other assets are reported at fair value at the date of the gift.

(r) Operating Revenues and Expenses

The Authority's statement of revenues, expenses and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Authority's principal activity. Nonexchange revenues, including investment income, contributions received for purposes other than capital asset acquisition, and changes in the fair value of derivative instruments are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services. Donations and gifts represent amounts given to other nonprofit organizations, including MCV Foundation, and are reported as nonoperating expenses.

(s) Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as adjustments and settlements become known or as years are no longer subject to such audits, reviews, appeals, and investigations. The effect of these settlement adjustments was to decrease net patient service revenue by approximately $7,100,000 in 2007 and $12,300,000 in 2006 as a result of such settlements. Settlements due to and from third party payors include amounts that are currently under appeal with various federal and state agencies.

The Authority has agreements with third-party payors that provide for payments at amounts different from its established rates. A summary of payment arrangements with major third-party payors follows:

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

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

Medicaid – Inpatient acute care services rendered to Medicaid program beneficiaries are paid at a per diem rate and APDRG (rates per discharge). Outpatient services rendered to Medicaid program beneficiaries are reimbursed on prospectively determined rates and a cost reimbursement methodology. In addition to inpatient and outpatient services provided to Medicaid program beneficiaries, Medicaid reimburses the Authority its costs related to services provided to indigent patients up to an amount, which results in total Medicaid and indigent reimbursement to the Authority of approximately $255,600,000 and $233,800,000 in 2007 and 2006, respectively. The Authority's Medicaid cost reports have been audited by the Medicaid program representative through June 30, 2005.

(t) Charity Care

The Authority provides care to patients who meet certain criteria under its indigent care policy without charge or at amounts less than its established rates. Because the Authority does not pursue collection of 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. Charity care, which represents the difference between charges of the services provided and the costs of those respective services, approximated $127,017,000 and $123,020,000 for the years ended June 30, 2007 and 2006, respectively.

(u) Premiums Earned

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

(v) Medical Claims Expense

Medical claims expense is recognized as services are provided, including estimated amounts for claims incurred but not yet reported. Reinsurance premiums and benefits paid or provided are accounted for on a basis consistent with the accounting for the original policies issued and the terms of the reinsurance contract. VA Premier is contingently liable for reinsurance losses to the extent that the reinsurance company cannot meet its obligations.

(w) Income Taxes

MCVAP and UHS are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying consolidated financial statements.

The provision for income taxes of UHS's wholly owned, taxable subsidiaries is determined using the asset and liability method based on tax laws, as currently enacted. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Income tax expense is included in other expenses in the statements of revenues, expenses and changes in net assets.

(x) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions affecting the reported amounts of assets, liabilities, revenues and expenses, as well as disclosure of contingent assets and liabilities. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include valuation of patient accounts receivable, medical claims payable, self-insurance liabilities, third-party settlements, and the carrying amount of capital assets and investments.

(y) Reclassifications

Certain reclassifications have been made to the 2006 consolidated financial statements to conform to the 2007 consolidated financial statement presentation.

(3) Cash, Cash Equivalents, Current and Long-Term Investments and Assets Whose Use is Limited

At June 30, 2007 and 2006, the carrying values of the Authority's deposits totaled $56,050,140 and $69,390,783, respectively, and the bank balances totaled $72,927,207 and $71,013,630, respectively.

(Continued)

Deposits are placed with banks and savings and loan institutions and are protected by federal depository insurance or collateral held under the provisions of the Virginia Security for Public Deposits Act (the Act). Under the Act, banks holding public deposits in excess of the amounts insured by the FDIC Bank Insurance Fund must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. Savings and loan institutions are required to collateralize 100% of deposits in excess of FDIC Savings Association Insurance Fund limits. The State Treasury Board can assess additional collateral from participating financial institutions to cover collateral shortfalls in the event of default and is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks and savings and loans.

In accordance with the Authority's Statement of Spending and Investment Policy, adopted by its Board of Directors, the Authority can invest assets within specified target levels of investment and returns in the following asset classes: U.S. Large Cap equity, U.S. Small Cap equity, international equity, alternatives, fixed income, stable value and cash.

Interest Rate Risk: The Authority's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

Credit Risk: The Authority's investment policy requires that the overall weighted average of each fixed income portfolio be rated AA or higher.

Assets whose use is limited and investments are summarized as follows at June 30:

		Fair value	
		2007	2006
Enterprise Funds:			
Assets whose use is limited:			
Externally restricted under medical malpractice trust (MCVAP)	$	35,394,918	30,026,533
Externally restricted under note payable		30,252,576	—
Externally restricted by donor		20,709,982	18,937,324
Externally restricted under medical malpractice trust (MCVH)		7,824,797	7,324,178
Externally restricted under bond indenture		3,770,998	46,184,097
Externally restricted by insurance regulations		894,893	596,073
Internally restricted by the board for capital acquisition		143,671,626	108,834,615
	$	242,519,790	211,902,820
Investments	$	211,323,716	193,847,274
Pension Trust Funds:			
Externally restricted under pension plan agreement	$	91,533,733	71,168,709

(Continued)

As of June 30, 2007, investments (including assets whose use is limited) mature as follows:

		Investment Maturities (in years)			
	Fair value	Less than 1	1 to 5	6 to 10	More than 10
Cash and cash equivalents	$ 199,298,087	199,298,087	—	—	—
Mutual funds	3,795,699	N/A	N/A	N/A	N/A
Index funds	34,675,232	N/A	N/A	N/A	N/A
Marketable equity securities	59,340,623	N/A	N/A	N/A	N/A
U.S. Treasury notes	65,134,663	57,580,253	2,986,179	2,265,991	2,302,240
Asset–backed securities	7,876,821	—	3,733,421	2,425,391	1,718,009
Agency–backed mortgages	35,461,160	10,698,999	3,995,700	2,819,771	17,946,690
Corporate notes	21,230,177	7,165,675	9,014,721	4,019,157	1,030,624
Corporate bonds	3,441,635	831,418	759,860	536,461	1,313,896
Beneficial interest in perpetual trust	20,709,982	—	—	—	20,709,982
Real estate	2,879,427	N/A	N/A	N/A	N/A
	$ 453,843,506	275,574,432	20,489,881	12,066,771	45,021,441

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

As of June 30, 2006, investments (including assets whose use is limited) mature as follows:

		Investment Maturities (in years)			
	Fair value	Less than 1	1 to 5	6 to 10	More than 10
Cash and cash equivalents	$ 56,646,140	56,646,140	—	—	—
Mutual funds	24,787,789	N/A	N/A	N/A	N/A
Marketable equity securities	21,365,151	N/A	N/A	N/A	N/A
U.S. Treasury notes	64,414,334	50,572,275	5,027,505	3,013,673	6,396,863
Commercial paper	155,670,931	155,670,931	—	—	—
Asset–backed securities	6,497,157	—	4,854,403	759,480	883,274
Agency–backed mortgages	26,898,003	9,363,816	3,831,439	2,009,021	11,693,727
Corporate notes	20,093,429	6,257,467	9,015,398	3,924,186	896,378
Corporate bonds	9,816,409	1,808,077	3,692,712	1,513,296	2,802,324
Beneficial interest in perpetual trust	18,911,931	—	—	—	18,911,931
Other	648,820	648,820	—	—	—
	$ 405,750,094	280,967,526	26,421,457	11,219,656	41,584,497

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

(4) Capital Assets

Capital assets, and changes thereto, as of and for the year ended June 30, 2007, consisted of the following:

	Beginning balance	Additions	Transfers	Disposals	Ending balance
Land and improvements	$ 1,592,425	303,075	—	(296,598)	1,598,902
Buildings and fixed equipment	320,479,465	1,378,538	9,881,409	(35,338,400)	296,401,012
Moveable equipment	297,062,331	20,246,010	63,669	(123,886,491)	193,485,519
Construction in progress	49,684,378	84,473,732	(9,945,078)	—	124,213,032
	668,818,599	106,401,355	—	(159,521,489)	615,698,465
Less accumulated depreciation	(343,157,452)	(39,747,308)	—	159,203,418	(223,701,342)
	$ 325,661,147	66,654,047	—	(318,071)	391,997,123

Capital assets, and changes thereto, as of and for the year ended June 30, 2006, consisted of the following:

	Beginning balance	Additions	Transfers	Disposals	Ending balance
Land and improvements	$ 1,716,025	—	—	(123,600)	1,592,425
Buildings and fixed equipment	310,972,032	2,193,587	8,130,616	(816,770)	320,479,465
Moveable equipment	270,656,339	21,999,184	6,168,574	(1,761,766)	297,062,331
Construction in progress	24,934,536	39,449,968	(14,299,190)	(400,936)	49,684,378
	608,278,932	63,642,739	—	(3,103,072)	668,818,599
Less accumulated depreciation	(308,907,034)	(36,213,173)	—	1,962,755	(343,157,452)
	$ 299,371,898	27,429,566	—	(1,140,317)	325,661,147

(5) Long-Term Debt

Long-term debt, and changes thereto, as of and for the year ended June 30, 2007 is summarized below:

	Beginning Balance	Additions	Reductions	Ending balance	Amounts due within one year
Series 2005 Bonds	$ 100,000,000	—	—	100,000,000	—
Series 1998 Bonds	61,005,000	—	(2,175,000)	58,830,000	2,270,000
Construction debt	2,162,507	—	(172,679)	1,989,828	182,680
Capital leases	12,041,113	3,099,061	(3,744,060)	11,396,114	3,093,731
Total long-term debt	$ 175,208,620	3,099,061	(6,091,739)	172,215,942	5,546,411

Long-term debt, and changes thereto, as of and for the year ended June 30, 2006 is summarized below:

		Beginning Balance	Additions	Reductions	Ending balance	Amounts due within one year
Series 2005 Bonds	$	—	100,000,000	—	100,000,000	—
Series 1998 Bonds		63,085,000	—	(2,080,000)	61,005,000	2,175,000
Construction debt		2,317,507	—	(155,000)	2,162,507	172,679
Capital leases		15,680,898	598,343	(4,238,128)	12,041,113	3,376,708
Total long-term debt	$	81,083,405	100,598,343	(6,473,128)	175,208,620	5,724,387

In December 2005, MCVH issued $100,000,000 of General Revenue Bonds, Series 2005 to fund a portion of the cost of constructing a new Critical Care Hospital, refund existing indebtedness of MCVH and pay certain costs of issuance of the Series 2005 Bonds. The bonds were issued at face value with interest rates determined at auction at a seven-day interval, not to exceed 15% per annum (the rate averaged 3.66% at June 30, 2007). The bonds are convertible to an auction period of a different length at the option of MCVH under certain conditions. The bonds are subject to mandatory sinking fund redemptions with principal amounts varying between $1,825,000 on July 1, 2009 and $10,250,000 at maturity on July 1, 2030.

In December 2005, University Health Services, Inc., and its subsidiaries, UHS at Stony Point, Inc. and UHS Managed Care, Inc., were removed as members of the Obligated Group under the Series 1998 and 2005 General Revenue Bonds.

The Hospitals' General Revenue Bonds, Series 1998, are secured by revenues of the Authority and are due in various installments from July 1, 2004 through July 1, 2023. Interest rates range from 4.40% to 5.25%, payable semiannually in January and July.

In conjunction with the transfer agreement associated with the formation of the Authority, the University transferred to the Authority a parking deck, and related construction debt. The Authority assumed responsibility for payments on the associated construction debt. Debt is payable to the University in installments beginning in 2003 through 2016. The interest rates range from 5.375% to 5.9%.

A summary of future principal requirements of long-term debt as of June 30, 2007 follows:

	Series 2005 bonds	Series 1998 bonds	Construction debt	Capital leases	Total
2008	$ —	2,270,000	182,680	3,093,731	5,546,411
2009	—	2,385,000	193,954	3,058,335	5,637,289
2010	1,825,000	2,500,000	196,373	3,452,880	7,974,253
2011	1,875,000	2,625,000	206,377	1,305,215	6,011,592
2012	1,950,000	2,760,000	220,107	485,953	5,416,060
2013 – 2017	10,875,000	15,980,000	990,337	—	27,845,337
2018 – 2022	12,875,000	20,545,000	—	—	33,420,000
2023 – 2027	31,675,000	9,765,000	—	—	41,440,000
2028 – 2031	38,925,000	—	—	—	38,925,000
Total	$ 100,000,000	58,830,000	1,989,828	11,396,114	172,215,942

A summary of future interest requirements of long-term debt as of June 30, 2007 follows:

	Series 2005 bonds	Series 1998 bonds	Construction debt	Total
2008	$ 3,274,000	2,878,221	93,126	6,245,347
2009	3,274,000	2,758,971	85,742	6,118,713
2010	3,214,250	2,633,971	77,984	5,926,205
2011	3,152,862	2,502,721	68,165	5,723,748
2012	3,089,019	2,370,241	57,847	5,517,107
2013 – 2017	14,401,509	9,503,113	116,273	24,020,895
2018 – 2022	12,429,742	4,713,206	—	17,142,948
2023 – 2027	9,029,693	256,506	—	9,286,199
2028 – 2031	1,967,674	—	—	1,967,674
Total	$ 53,832,749	27,616,950	499,137	81,948,836

The Hospitals are required to make interest and principal payments to the interest and principal accounts included in assets whose use is limited for the Series 2005 and Series 1998 Bonds. For the years ended June 30, 2007 and 2006, the Hospitals transferred approximately $5,258,000 and $5,261,000, respectively, to the bond service accounts.

The Series 2005 and 1998 bond agreements place restrictions on future borrowings and require certain minimum insurance coverage. The related agreements also contain certain covenants, including a requirement that charges to patients are maintained at a level which will produce income available for debt service, as defined by the bond resolutions, in each fiscal year equal to or greater than 125% of maximum total annual debt service in each fiscal year.

(Continued)

The fair value of long-term debt (excluding capital leases), estimated based on the quoted market prices for the same or similar issues or discounted cash flow analyses, is as follows at June 30:

	2007		2006	
	Carrying value	Fair value	Carrying value	Fair value
Long-term obligations	$ 160,819,828	162,823,841	163,167,507	164,394,092

Interest expense for the years ended June 30 is summarized as follows:

	2007	2006
Total interest incurred	$ 5,715,922	5,869,646
Less interest capitalized as part of construction in progress	2,126,170	1,634,924
	$ 3,589,752	4,234,722

Interest income from unexpended proceeds totaling approximately $1,378,000 and $1,070,000 was capitalized during 2007 and 2006, respective, as reductions of construction in progress costs.

For the year ended June 30, 2007 and 2006, the Authority paid approximately $3,638,000 and $4,280,000, respectively, for interest (net of amounts capitalized).

(6) Derivative Instruments

In June 2007, MCVH entered into an interest rate swap agreement in anticipation of the issuance of tax-exempt bonds in November 2007. The swap has a notional amount of $125,000,000, 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 (3.56% as of June 30, 2007). The payments are settled monthly at the first of each month. Financial Accounting Standards Board (FASB) Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, requires companies to recognize their derivative instruments as either assets or liabilities in the balance sheet at fair value. At June 30, 2007, the fair market value of the swap is included with other noncurrent assets in the accompanying consolidated balance sheet – enterprise funds. Changes in the fair market value of the swap are reported on the accompanying consolidated statements of revenues, expenses and changes in net assets – enterprise funds as nonoperating revenue or expense. As the swap agreement is not designated as an effective cash flow hedge, any payments or receipts under the terms of the swap are also recorded as nonoperating revenue or expense. For the year ended June 30, 2007, the Authority recognized nonoperating expense related to the change in fair value of the swap of approximately $700,000.

In December 2005, MCVH entered into an interest rate swap agreement in conjunction with the issuance of its Series 2005 tax-exempt bonds (see note 5). The swap has a notional amount of $75,000,000 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 (3.56% as of June 30, 2007). The payments are settled monthly at the first of each month. At June 30, 2007 and 2006, the fair market value of the swap is included with other noncurrent assets in the accompanying consolidated balance sheets – enterprise funds. Changes in the fair market value of the swap are reported on the accompanying consolidated statements of revenues, expenses and changes in net assets – enterprise funds as nonoperating revenue or expense. As the swap agreement is not designated as an effective cash flow hedge, any payments or receipts under the terms of the swap are also recorded as nonoperating revenue or expense. For the year ended June 30, 2007, the Authority recognized nonoperating expense related to the change in fair value of the swap of approximately $340,000. For the year ended June 30, 2006, the Authority recognized nonoperating income related to the change in fair value of the swap of approximately $2,500,000.

(7) Note Payable

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

(8) Operating Leases

Total expense under operating leases was approximately $6,450,000 and $6,574,000 in 2007 and 2006, respectively. Future minimum lease payments for noncancelable operating leases are as follows:

2008	$	6,007,715
2009		4,646,475
2010		3,582,440
2011		2,309,348
2012		1,369,704
2013–2014		228,269
	$	18,143,951

(9) Commitments

Estimated costs to complete construction in progress for capital assets at June 30, 2007 are approximately $71,000,000. Commitments primarily relate to the construction of a 300–unit bed tower, purchases of medical equipment, and various other projects.

(10) Contingencies

Professional Liability

MCVH

Through June 30, 1990, MCVH was insured under a claims-made policy with respect to institutional and professional liability, each with liability limits of $1,000,000 per incident and an aggregate annual liability limit of $3,000,000 in each policy year.

Effective July 1, 1990 and through June 30, 1998, MCVH was insured under a risk management plan with the Commonwealth of Virginia. This plan was also claims-made with institutional and professional liability limits of $1,000,000 per incident but no aggregate limit.

Effective July 1, 1998, MCVH became self-insured for professional liability with limits of $1,000,000 per incident and $3,000,000 in the aggregate. Excess insurance coverage up to $10,000,000 was provided by The Reciprocal of America (the Reciprocal), a multiprovider reciprocal insurance company until June 30, 2002. Effective July 1, 2002, an excess professional liability policy for MCVH was written by Columbia Casualty Group of the CNA Insurance Group. This policy covered losses in excess of the Reciprocal limits for an additional annual aggregate amount of $5,000,000. Effective July 1, 2003, MCVH no longer maintains excess professional liability coverage.

There have been malpractice claims asserted against MCVH 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 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.

Changes in MCVH's estimated losses on malpractice claims for the years ended June 30 were as follows:

		2007	2006
Estimated malpractice losses at beginning of year	$	6,669,062	6,920,000
Malpractice claims expense		249,667	174,862
Malpractice claims settled		(660,498)	(425,800)
Estimated malpractice losses at end of year	$	6,258,231	6,669,062

A revocable trust has been established and is funded based on actuarially determined reserves and is included in assets whose use is limited in the accompanying consolidated balance sheets – enterprise funds. At June 30, 2007 and 2006, the medical malpractice trust fund for MCVH includes $7,824,797 and $7,324,178, respectively, for claims and related legal expenses for reported and unreported incidents occurring since July 1, 1998.

(Continued)

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, 2007.

MCVAP

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.

Changes in MCVAP's estimated losses on malpractice claims for the years ended June 30 were as follows:

		2007	2006
Estimated malpractice losses at beginning of year	$	25,473,220	24,782,000
Malpractice claims expense		1,722,000	4,053,416
Malpractice claims settled		(2,555,484)	(3,362,196)
Estimated malpractice losses at end of year	$	24,639,736	25,473,220

A revocable trust has been established and is funded based on actuarially determined reserves and is included in assets whose use is limited in the accompanying consolidated balance sheets – enterprise funds. At June 30, 2007 and 2006, the medical malpractice trust fund for MCVAP includes $35,394,918 and $30,026,533, respectively, for claims and related legal expenses for reported and unreported incidents.

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 and unasserted MCVAP claims, if any, at June 30, 2007.

VA Premier

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 $1,000,000 per occurrence and $3,000,000 in the annual aggregate. The coverage limits for the professional liability policy are $5,000,000 per medical incident and $5,000,000 in the annual aggregate. Management does not believe the amount of liability for any claims incurred but unreported as of June 30, 2007 is significant.

Workers' Compensation

The Authority is self-insured for workers' compensation claims. The claims are in various stages of processing. In addition, there may be other claims from unreported incidents arising from services

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provided by employees. Management of the Authority accrues estimated losses on workers' compensation claims to the extent they fall within the limits of the Authority's self-insurance program. The undiscounted liability is actuarially determined using industry data and the Authority's historical experience.

Changes in the Authority's estimated losses on workers' compensation claims for the years ended June 30 were as follows:

		2007	2006
Estimated workers' compensation losses at beginning of year	$	11,529,346	11,241,457
Workers' compensation expense		1,701,472	2,399,623
Workers' compensation claims settled		(1,835,065)	(2,111,734)
Estimated workers' compensation losses at end of year	$	11,395,753	11,529,346

Other Contingencies

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

(Continued)

(11) Net Patient Service Revenue

The Authority's net patient service revenue is summarized as follows for the years ended June 30:

	Year ended June 30	
	2007	2006
Gross patient revenue:		
Inpatient:		
Routine services	$ 210,461,802	192,181,328
Ancillary services	953,574,377	861,937,658
Outpatient:		
Emergency	85,016,081	67,357,381
Special medical	587,323,614	510,720,335
Total gross patient service revenue	1,836,375,874	1,632,196,702
Less uncompensated care and contractual allowances	(1,096,072,825)	(964,790,940)
MCVH net patient service revenue	740,303,049	667,405,762
MCVAP net patient service revenue	111,462,105	104,995,487
Consolidated net patient service revenue	$ 851,765,154	772,401,249

(12) Estimated Medical Claims Payable

Claims payable represents management's best estimate of ultimate net cost of all reported and unreported claims incurred. The liability for unpaid claims is computed in accordance with generally accepted actuarial practices and is based upon authorized healthcare services and past claims payment experience, together with current factors, which in management's judgment, require recognition in the calculation. Changes in assumptions for medical and hospital costs, as well as changes in actual experience, could cause these estimates to change in the near term. Such changes are reflected in current operations.

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 amount of the claim can be reasonably estimated. The claims payable at June 30, 2007 include an estimate of claims that have been incurred but not reported.

VA Premier has a stop-loss arrangement to limit its losses on individual claims. This contract provides stop-loss coverage for all VA Premier enrollee claims. The contract provides coverage for 100% of certain hospital claims in excess of $100,000 subject to certain limitations and an annual limit of $1,000,000 per enrollee and a lifetime limit of $2,000,000 per enrollee. Stop-loss premiums of approximately $1,002,000 and $983,000 were included in other expenses for the years ending June 30, 2007 and 2006, respectively. Reinsurance recoveries of approximately $584,000 and $514,000 were included in medical claims expense for the years ended June 30, 2007 and 2006, respectively.

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(13) Related Parties

Virginia Commonwealth University

Effective July 1, 1997, MCVH and VCU entered into an affiliation agreement, which provides that each will support the mission of the other. VCU will provide clinical and administrative support to MCVH. MCVH will provide operational and maintenance support for certain buildings included in a renewable five-year lease agreement and will be the primary teaching hospital for VCU. VCU leased the patient care facilities to MCVH under a ninety-nine year lease for $1 per year. Additionally, MCVH leased space in other buildings from the VCU under a five-year lease with two five-year renewal options. Leased space in the West Hospital is renewed on an annual basis.

In connection with the VCU's construction of a parking deck at 8th and Duval Streets on MCVH's campus, MCVH agreed to fund approximately $2,250,000 of the construction costs and to assume responsibility for 50% of the payments on the associated construction debt. MCVH's total commitment through 2026 is approximately $8,723,000. This payment was recorded as a transfer to affiliates in the accompanying statement of revenues, expenses and changes in net assets for the year ended June 30, 2006.

Payments under the affiliation and lease agreements with VCU for the years ended June 30 were as follows:

		2007	2006
Payments by VCU to MCVH:			
Operation and maintenance – Buildings (5 year lease)	$	3,266,490	3,207,888
Payments by MCVH to VCU:			
Graduate education services		56,289	256,524
Nonphysician clinical support		3,455,776	3,688,715
Administrative support		6,350,818	6,011,049
Rent on the short-term space		3,012,047	3,070,647
Principal and interest on parking deck debt		699,021	268,423
Use of steam plant		586,390	586,719
Total paid by MCVH to VCU	$	14,160,341	13,882,077

Medical College of Virginia Foundation

During years ended June 30, 2007 and 2006, UHS donated $18,000,000 and $2,000,000, respectively, to the MCV Foundation. This gift was made in support of the educational and research mission of VCU and its School of Medicine. In addition, for the years ended June 30, 2007 and 2006, MCVAP donated $400,000 and $600,000, respectively, to the MCV Foundation. The MCV Foundation's mission is to inspire and steward philanthropy throughout the MCV Campus of VCU. These contributions were recorded in donations and gifts in the accompanying consolidated statements of revenue, expenses and changes in net assets.

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(14) Litigation

The Authority has been named as defendant in a number of lawsuits regarding matters generally incidental to the business. 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 Authority may be exposed will not have a material effect on the Authority's financial position or results of operations.

(15) Contributions to Pension Plan

MCVH

Prior to July 1, 1997, employees of 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 Virginia Retirement System (VRS). The VRS also administers life insurance and health-related plans for retired employees. Information relating to these plans is available at the statewide level only in the Commonwealth of Virginia's Comprehensive Annual Financial Report. The Commonwealth, not MCVH, has overall responsibility for these plans. Total pension costs paid to the Commonwealth for the years ended June 30, 2007 and 2006 for these plans were approximately \$5,572,000 and \$4,745,000, respectively.

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. All employees, excluding housestaff, working at least 20 hours a week in a benefit-eligible position are eligible to participate in the Plan. At June 30, 2007 and 2006, there were 4,694 and 4,164 participants in the Plan, respectively. Per the Plan document as approved by the MCVH Board of Directors, MCVH contributes up to 10% of the participant's salary to the Plan not to exceed the lesser of (a) the amount in accordance with Code 415(d), or (b) one hundred percent (100%) of the Participant's Compensation for such limitation year. Total contributions to the Plan for the years ended June 30, 2007 and 2006 were approximately \$10,490,000 and \$10,062,000, respectively. MCVH shall have the right at anytime, and without the consent of any party, to terminate the Plan in its entirety. Any changes to the provisions of the Plan, including the contribution requirements, must be approved in writing by the MCVH Board of Directors.

The Authority has also established the Virginia Commonwealth University Health System Authority Health Care Providers Defined Contribution Plan (the HCP Plan). All persons hired as a health care provider on or after July 1, 1993 and prior to July 1, 1997 and working at least 35 hours of service per week are eligible to participate in the HCP Plan. At June 30, 2007 and 2006, there were 6 participants in the HCP Plan. All significant provisions of the HCP Plan, including the contribution requirements, are similar to the Plan. Total contributions to the HCP Plan for the years ended June 30, 2007 and 2006 were approximately \$30,400 and \$29,900, respectively.

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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:

	June 30	
	2007	2006
Fidelity investments	$ 49,849,984	37,815,903
TIAA/CREF	32,696,179	26,243,571
The Variable Annuity Life Insurance Company (VALIC)	8,987,570	7,109,235
	$ 91,533,733	71,168,709

MCVAP

MCVAP sponsors the MCVAP 401(a) Retirement Plan (the 401(a) Plan), a noncontributory, defined contribution plan, which covers substantially all full-time clinical provider employees of MCVAP. Contributions to the 401(a) Plan by MCVAP, as determined annually at the discretion of the Board of Directors, were approximately $6,923,000 and $6,211,000 for the years ended June 30, 2007 and 2006, respectively.

MCVAP also sponsors the VCUHS 401(a) Retirement Plan (the VCUHS 401(a) Plan), a defined contribution plan which covers all nonmedical employees of MCVAP and the VCUHS 457(b) Retirement Plan (VCUHS 457(b) Plan), a salary reduction plan that represents employee contributions. The 401(a) Plan contributions (as a percentage of the 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) Salary Reduction Plan. Employees may also receive a 2% matching contribution in their VCUHS 401(a) Plan based on their 457(b) salary reduction contribution.

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

Contributions to the plans for the years ended June 30, 2007 and 2006 were $1,570,000 and $1,444,000, respectively.

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VA Premier

Effective August 1, 1999, VA Premier adopted a 401(k) plan, for which Fidelity Investments is the trustee. Employees may enter into the plan on the first day of the month coinciding with or following the date on which the employee begins employment. There is no minimum service or age requirement to be in the 401(k) plan. Employees may contribute 1% to 15% 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 after each bi-weekly payroll effective when the employee begins employment. Employees are fully vested after 4 years of service in which the employees have at least 1,000 hours of service each year. VA Premier's expense for its contributions to this plan was approximately $669,000 for the year ended 2007.

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

(16) Concentration of Credit Risk

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

	June 30	
	2007	2006
Medicare	23%	17%
Anthem	20	23
Medicaid	19	11
Other	38	49
	100%	100%

Revenue from the Medicare and Medicaid/Indigent programs accounted for approximately 23% and 18%, respectively, of the Authority's net patient service revenue for the year ended June 30, 2007 (22% and 19%, respectively, for the year ended June 30, 2006). Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates may change by a material amount in the near term.

(17) Federal Income Taxes

VA Premier files a consolidated income tax return with UHS Managed Care, Inc. for U.S. tax purposes. In accordance with the tax–sharing agreement with UHS Managed Care, Inc., VA Premier's federal tax provision is determined as if VA Premier was not part of the consolidated return.

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Actual income tax expense differs from the amount computed by applying the applicable U.S. corporate income tax rate of 35% to earnings before income taxes due to permanent differences, prior year current tax true-ups, and the effects of nondeductible deferred tax assets.

Income tax expense (benefit) for the years ended June 30 consisted of the following:

		June 30	
		2007	**2006**
Federal:			
Current	$	5,383,063	6,609,093
Deferred		(347,370)	152,796
	$	5,035,693	6,761,889
State:			
Current	$	698,356	1,100,299
Deferred		(228,331)	27,781
	$	470,025	1,128,080

Net deferred tax liabilities as of June 30, 2007 and 2006 were $250,565 and $826,266, respectively, and are included in other accrued liabilities on the accompanying consolidated balance sheet. The tax effects of temporary differences that gave rise to significant portions of the deferred tax assets and deferred tax liabilities at June 30, 2007 and 2006 were as follows:

		June 30	
		2007	**2006**
Deferred tax assets:			
Charitable loss carryforward	$	591,144	—
Estimated medical claims payable		252,153	—
Total deferred tax assets		843,297	—
Deferred tax liabilities:			
Goodwill		(959,466)	(719,226)
Property and equipment		(130,719)	(107,040)
Unrealized gain on investments		(3,677)	—
Total deferred tax liabilities		(1,093,862)	(826,266)
Net deferred tax liabilities	$	(250,565)	(826,266)

As of June 30, 2007, VA Premier has determined, based on projected taxable income, historical results, and projected reversals of deferred tax liabilities, that it is more likely than not that the deferred tax assets will be realized. Therefore, no valuation allowance has been recorded. Income taxes receivable as of June 30, 2007 and 2006 were $4,052,027 and $383,446, respectively.

During the years ended June 30, 2007 and 2006, VA Premier paid income taxes of approximately $9,174,000 and $7,839,000, respectively.

In March 2004, UHS and VA Premier requested a ruling from the Internal Revenue Service (IRS) to be treated as not-for-profit entities exempt from tax under Section 501(c)(3) of the Internal Revenue Code. Conversion to not-for-profit status may result in the payment of significant federal and state income taxes.