KPMG

VIRGINIA COMMONWEALTH UNIVERSITY
HEALTH SYSTEM AUTHORITY

(A Component Unit of Virginia Commonwealth University)

Consolidated Financial Statements

June 30, 2009 and 2008

(With Independent Auditors' Report Thereon)

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

Table of Contents

KPMG LLP
Suite 2000
1021 East Cary Street
Richmond, VA 23219-4023

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 years ended June 30, 2009 and 2008, 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 audits.

We conducted our audits 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 audits provide 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, 2009 and 2008, and the respective results of their operations, changes in their net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

The accompanying Management's 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

October 20, 2009

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, 2009 and 2008. 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 consolidated 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 (VCU), a component unit of the Commonwealth of Virginia. VCU incorporates the Authority's statements for the years ended June 30, 2009 and 2008 into their consolidated financial statements for the years ended June 30, 2009 and 2008. 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. Carolina Crescent Health Plan (CCHP) is a wholly owned subsidiary of UHS.

June 30, 2009 Compared to June 30, 2008

Financial Highlights

- The Authority's net assets increased by $39.6 million, or 5.9%, 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 by $51.9 million, or 5.4%, 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 and CCHP increased by $130.9 million, or 34.1%, from prior year due to continued growth in enrollment and premium increases.
- The Authority's operating expenses increased by $174.8 million, or 13.6%, from prior year. Approximately $25.1 million of this increase is the result of increased personnel costs associated with service expansion and market conditions. Virginia Premier's and CCHP's continued network expansion also resulted in a $112.6 million increase in medical claims expense.

- The Authority showed income from operations for the year ended June 30, 2009 of $97.5 million, a $8.0 million increase from operating income of $89.5 million for the year ended June 30, 2008.
- The major capital expenditures for the Authority in 2009 related to the construction of a Critical Care Hospital, purchase of radiology, cardiology, and surgery equipment, investments in information systems infrastructure, business systems and equipment, and facility renovations.
- The Authority provides service to the majority of indigent patients in the region. 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 $714.0 million as of June 30, 2009. Of these net assets, 24.6% ($175.3 million) are related to capital assets, 2.1% ($15.2 million) are restricted funds, and the remaining 73.3% ($523.5 million) are unrestricted funds, which can be used for ongoing operations of the Authority.

Table 1

Virginia Commonwealth University
Health System Authority

Condensed Statements of Assets, Liabilities and Net Assets

(In thousands)

	June 30	
	2009	**2008**
Current assets	$ 591,016	413,460
Capital assets, net	470,888	453,537
Other noncurrent assets	197,678	337,853
Total assets	1,259,582	1,204,850
Current liabilities	189,004	181,825
Long-term liabilities	356,612	348,609
Total liabilities	545,616	530,434
Net assets:		
Invested in capital assets, net of related debt	175,288	214,389
Restricted:		
Expendable	906	901
Nonexpendable	14,284	18,247
Unrestricted	523,488	440,879
Total net assets	$ 713,966	674,416

(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	
		2009	**2008**
Operating revenues:			
Net patient service revenue	$	1,017,942	966,062
Premiums earned		515,309	384,381
Other operating revenues		27,775	27,778
Total operating revenues		1,561,026	1,378,221
Operating expenses:			
Salaries, wages and employee benefits		599,796	574,666
Medical claims expense		467,925	355,330
Supplies		196,304	182,414
Depreciation and amortization		51,869	43,146
Other operating expenses		147,593	133,162
Total operating expenses		1,463,487	1,288,718
Operating income		97,539	89,503
Net nonoperating expenses		(51,438)	(44,118)
Excess of revenues over expenses before other changes in net assets		46,101	45,385
Other changes in net assets		(6,551)	(4,052)
Increase in net assets		39,550	41,333
Beginning net assets		674,416	633,083
Ending net assets	$	713,966	674,416

(Continued)

The Authority's operating revenues increased by 13.3% ($182.8 million) over the prior year. This increase in revenues resulted from the expansion of Virginia Premier and CCHP, third-party payor settlements, changes in pricing for MCVH and MCVAP, and the mix of hospital and physician services. Total operating expenses increased 13.6% ($174.8 million). Personnel costs are the largest single cost of the Authority, comprising 41.0% of operating costs. An increase in personnel-related costs of $25.1 million, or 4.4%, 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 $112.6 million in medical claims expense from Virginia Premier's and CCHP's network expansion and a $13.9 million increase in supplies expense.

Capital Asset and Debt Administration

Capital Assets

The Authority's capital assets increased by $17.4 million, or 3.8%, over prior year amounts.

Table 3

Virginia Commonwealth University
Health System Authority

Capital Assets

(In thousands)

	June 30 2009	June 30 2008
Land and improvements	$ 4,562	1,599
Buildings and fixed equipment	478,202	306,064
Moveable equipment	276,580	234,815
Construction in progress	27,611	176,826
	786,955	719,304
Accumulated depreciation	(316,067)	(265,767)
Total	$ 470,888	453,537

(Continued)

Table 4

**Virginia Commonwealth University
Health System Authority**

Schedule of Additions and Retirements

(In thousands)

		Year ended June 30	
		2009	**2008**
Capital assets, beginning of year	$	453,537	391,997
Additions		68,106	103,606
Disposals, net of accumulated depreciation		(431)	—
Depreciation		(50,324)	(42,066)
Capital assets, end of year	$	470,888	453,537

Major projects capitalized include (in millions):

		Year ended June 30	
		2009	**2008**
Construction and infrastructure of Critical Care Hospital including equipment	$	25.6	54.2
Parking lot		3.0	—
Office building		8.9	—
Investments in information system infrastructure, business systems and equipment		7.5	25.0
Radiology and cardiology equipment		2.5	6.6
Surgery equipment		2.2	2.0
Major renovation projects		4.4	10.1
Purchase and replacement of moveable equipment		14.0	5.7
	$	68.1	103.6

The Authority has a five-year capital plan, which includes a budget of $42.8 million of expenditures in fiscal year 2010.

(Continued)

Debt

Table 5

Virginia Commonwealth University
Health System Authority

Debt

(In thousands)

		June 30	
		2009	**2008**
General Revenue Bonds Series 2008	$	125,000	125,000
General Revenue Bonds Series 2005		100,000	100,000
General Revenue Bonds Series 1998		54,175	56,560
Construction debt		1,613	1,807
Capital leases		16,131	8,891
Total	$	296,919	292,258

At June 30, 2009, the Authority had $296.9 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, 2008 Compared to June 30, 2007

Financial Highlights

- The Authority's net assets increased by $41.3 million, or 6.5%, 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 by $114.3 million, or 13.4%, 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 and CCHP increased by $33.8 million, or 9.6%, from prior year due to continued growth in enrollment and premium increases.
- The Authority's operating expenses increased by $149.6 million, or 13.1%, from prior year. Approximately $65.1 million of this increase is the result of increased personnel costs associated with service expansion and market conditions. Virginia Premier's and CCHP's continued network expansion also resulted in a $70.0 million increase in medical claims expense.
- The Authority showed income from operations for the year ended June 30, 2008 of $89.5 million, a $2.0 million decrease from operating income of $91.5 million for the year ended June 30, 2007.

(Continued)

- The major capital expenditures for the Authority in 2008 related to the construction of a Critical Care Hospital, purchase of radiology, cardiology, and surgery equipment, investments in information systems infrastructure, business systems and equipment, and facility renovations.
- The Authority contributed $34.0 million to MCV Foundation in support of the educational mission and research activities of VCU.
- The Authority provides service to the majority of indigent patients in the region. 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 $674.4 million as of June 30, 2008. Of these net assets, 31.8% ($214.4 million) are related to capital assets, 2.8% ($19.1 million) are restricted funds, and the remaining 65.4% ($440.9 million) are unrestricted funds, which can be used for ongoing operations of the Authority.

Table 1

Virginia Commonwealth University
Health System Authority

Condensed Statements of Assets, Liabilities and Net Assets

(In thousands)

	June 30	
	2008	**2007**
Current assets	$ 413,460	399,556
Capital assets, net	453,537	391,997
Other noncurrent assets	337,853	274,163
Total assets	1,204,850	1,065,716
Current liabilities	181,825	225,461
Long-term liabilities	348,609	207,172
Total liabilities	530,434	432,633
Net assets:		
Invested in capital assets, net of related debt	214,389	213,885
Restricted:		
Expendable	901	895
Nonexpendable	18,247	20,710
Unrestricted	440,879	397,593
Total net assets	$ 674,416	633,083

(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 2008	Year ended June 30 2007
Operating revenues:		
Net patient service revenue	$ 966,062	851,765
Premiums earned	384,381	350,610
Other operating revenues	27,778	28,183
Total operating revenues	1,378,221	1,230,558
Operating expenses:		
Salaries, wages and employee benefits	574,666	509,544
Medical claims expense	355,330	285,314
Supplies	182,414	169,692
Depreciation and amortization	43,146	39,978
Other operating expenses	133,162	134,574
Total operating expenses	1,288,718	1,139,102
Operating income	89,503	91,456
Net nonoperating revenues (expenses)	(44,118)	8,472
Excess of revenues over expenses before other changes in net assets	45,385	99,928
Other changes in net assets	(4,052)	(1,031)
Increase in net assets	41,333	98,897
Beginning net assets	633,083	534,186
Ending net assets	$ 674,416	633,083

(Continued)

The Authority's operating revenues increased by 12.0% ($147.7 million) over the prior year. This increase in revenues resulted from the expansion of Virginia Premier and CCHP, third-party payor settlements, changes in pricing for MCVH and MCVAP, and the mix of hospital and physician services. Total operating expenses increased by 13.1% ($149.6 million). Personnel costs are the largest single cost of the Authority, comprising 44.6% of operating costs. An increase in personnel-related costs of $65.1 million, or 12.8%, 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 $70.0 million in medical claims expense from Virginia Premier's and CCHP's network expansion and a $12.7 million increase in supplies expense.

Capital Asset and Debt Administration

Capital Assets

The Authority's capital assets increased by $61.5 million, or 15.7%, over prior year amounts.

Table 3

Virginia Commonwealth University
Health System Authority

Capital Assets

(In thousands)

		June 30	
		2008	**2007**
Land and improvements	$	1,599	1,599
Buildings and fixed equipment		306,064	296,401
Moveable equipment		234,815	193,485
Construction in progress		176,826	124,213
		719,304	615,698
Accumulated depreciation		(265,767)	(223,701)
Total	$	453,537	391,997

(Continued)

Table 4

Virginia Commonwealth University
Health System Authority

Schedule of Additions and Retirements

(In thousands)

		Year ended June 30	
		2008	2007
Capital assets, beginning of year	$	391,997	325,661
Additions		103,606	106,401
Disposals, net of accumulated depreciation		—	(318)
Depreciation		(42,066)	(39,747)
Capital assets, end of year	$	453,537	391,997

Major projects capitalized include (in millions):

		Year ended June 30	
		2008	2007
Construction of Critical Care Hospital	$	54.2	62.3
Investments in information systems infrastructure, business systems, and equipment		25.0	14.0
Radiology, cardiology, and surgery equipment		8.6	7.4
Major renovation projects		10.1	14.0
Purchase and replacement of moveable equipment		5.7	8.7
	$	103.6	106.4

The Authority has a five-year capital plan, which includes a budget of $92.0 million of expenditures in fiscal year 2009. A major current initiative is the construction of a Critical Care Hospital that will house intensive care units, operating suites, and other services.

(Continued)

Debt

Table 5

Virginia Commonwealth University
Health System Authority

Debt

(In thousands)

		June 30	
		2008	**2007**
General Revenue Bonds Series 2008	$	125,000	—
General Revenue Bonds Series 2005		100,000	100,000
General Revenue Bonds Series 1998		56,560	58,830
Construction debt		1,807	1,990
Capital leases		8,891	11,396
Total	$	292,258	172,216

At June 30, 2008, the Authority had $292.3 million in bonds, construction debt, and capital leases, as shown in Table 5. In January 2008, MCVH issued $125,000,000 of General Revenue Bonds. These bonds were issued as variable rate securities in three series and backed by a letter of credit by BB&T. In 2008, MCVH converted its General Revenue Bonds Series 2005 from auction rate securities to variable rate securities. Additional information regarding the Authority's debt is included in note 5 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, 2009 and 2008

Assets		2009	2008
Current assets:			
Cash and cash equivalents	$	166,434,593	46,428,683
Restricted cash		178,936	7,342,060
Short-term investments		158,152,370	172,344,591
Patient accounts receivable, less allowances for doubtful accounts of $126,611,085 in 2009 and $92,053,406 in 2008		159,033,557	136,479,449
Settlements due from third-party payors		23,655,934	10,919,471
Premiums receivable		44,793,987	2,202,853
Other accounts receivable		11,730,825	16,261,790
Current portion of assets whose use is limited		8,579,486	4,600,000
Supplies and other current assets		18,455,978	16,881,125
Total current assets		591,015,666	413,460,022
Assets whose use is limited, less current portion		117,777,968	253,951,956
Long-term investments		70,472,345	69,022,047
Capital assets:			
Land and improvements		4,561,902	1,598,902
Depreciable capital assets, less accumulated depreciation of $316,067,231 in 2009 and $265,767,285 in 2008		466,326,037	451,938,202
Total capital assets		470,887,939	453,537,104
Other assets:			
Deferred financing costs, less accumulated amortization of $2,930,506 in 2009 and $1,422,918 in 2008		1,258,973	3,958,941
Notes receivable from affiliates		716,173	716,173
Goodwill		4,424,899	4,424,899
Other assets		3,027,674	5,779,135
Total other assets		9,427,719	14,879,148
Total assets	$	1,259,581,637	1,204,850,277

See accompanying notes to consolidated financial statements.

Liabilities and Net Assets	2009	2008
Current liabilities:		
Note payable	$ 13,500,000	—
Current portion of long-term debt and capital leases	11,200,106	5,769,370
Estimated medical claims payable	58,645,581	43,962,019
Trade accounts payable	26,938,198	24,871,413
Settlements due to third-party payors	—	26,403,608
Accrued salaries, wages and employee benefits	32,067,605	32,358,598
Accrued leave	21,140,329	20,595,477
Unearned premiums	7,816,717	1,394,754
Clinical earnings contribution due to VCU School of Medicine	—	6,245,388
Accrued interest payable	1,379,486	1,439,111
Due to affiliates	1,384,636	7,994,606
Current portion of estimated workers' compensation claims	2,200,000	2,100,000
Current portion of estimated losses on malpractice claims	2,500,000	2,500,000
Other accrued liabilities	10,231,501	6,190,779
Total current liabilities	189,004,159	181,825,123
Other liabilities:		
Long-term debt and capital leases, less current portion	285,718,760	286,488,524
Estimated workers' compensation claims	14,133,826	15,702,549
Estimated losses on malpractice claims	27,914,184	28,513,526
Other liabilities	28,844,388	17,904,273
Total liabilities	545,615,317	530,433,995
Net assets:		
Invested in capital assets, net of related debt	175,287,504	214,389,311
Restricted:		
Expendable	906,520	900,668
Nonexpendable permanent endowment	14,284,192	18,247,244
Unrestricted	523,488,104	440,879,059
Total net assets	713,966,320	674,416,282
Total liabilities and net assets	$ 1,259,581,637	1,204,850,277

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, 2009 and 2008

	2009	2008
Operating revenues:		
Net patient service revenue, net of uncollectible amounts	$ 1,017,941,779	966,062,350
Premiums earned	515,309,364	384,380,686
Other contract revenue	12,762,964	14,529,027
Medical consultation income	1,136,605	1,210,427
Other operating revenue	13,875,035	12,038,762
	1,561,025,747	1,378,221,252
Operating expenses:		
Salaries and wages	486,416,212	463,916,287
Employee benefits	113,379,405	110,750,034
Medical claims expense	467,924,780	355,329,616
Purchased services	62,560,075	54,575,242
Supplies	196,304,359	182,414,215
Other expenses	85,033,580	78,587,451
Provision for depreciation and amortization	51,868,620	43,145,794
	1,463,487,031	1,288,718,639
Operating income	97,538,716	89,502,613
Nonoperating revenues and expenses:		
Investment income (loss)	(25,051,252)	3,305,913
Interest expense	(9,718,077)	(5,169,714)
Other nonoperating expense, net	(19,985,765)	(15,179,189)
Donations and gifts	1,394,395	(34,737,615)
Total nonoperating revenues and expenses	(53,360,699)	(51,780,605)
Excess of revenues over expenses before income taxes and transfers to affiliates, other transfers and changes in beneficial interest in trusts	44,178,017	37,722,008
Income tax benefit	1,923,080	7,662,663
Excess of revenues over expenses before transfers to affiliates, other transfers and changes in beneficial interest in trusts	46,101,097	45,384,671
Transfers to affiliates	(2,588,007)	(1,493,401)
Other transfers	—	(95,255)
Decrease in beneficial interest in trusts	(3,963,052)	(2,462,738)
Increase in net assets	39,550,038	41,333,277
Net assets at beginning of year	674,416,282	633,083,005
Net assets at end of year	$ 713,966,320	674,416,282

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, 2009 and 2008

		2009	2008
Cash flows from operating activities:			
Cash received from third-party payors and patients	$	956,247,600	917,201,317
Cash received from premiums		479,140,193	383,514,348
Cash paid to employees		(598,842,741)	(562,729,971)
Cash paid to suppliers		(337,735,328)	(313,132,077)
Cash paid to providers of health care services		(453,241,218)	(344,928,635)
Other operating cash receipts and payments, net		24,040,075	22,470,724
Net cash provided by operating activities		69,608,581	102,395,706
Cash flows from noncapital financing activities:			
Donations and gifts		(5,605,605)	(27,737,615)
Transfers to affiliates		(2,588,007)	(1,493,401)
Net cash used in noncapital financing activities		(8,193,612)	(29,231,016)
Cash flows from capital and related financing activities:			
Purchases of capital assets		(60,224,241)	(102,909,197)
Proceeds from issuance of note payable		13,500,000	—
Principal payments on note payable		—	(40,000,000)
Proceeds from bond issuance		—	125,000,000
Principal payments on long-term debt and capital lease obligations		(7,174,084)	(5,654,775)
Cash paid for interest		(9,777,702)	(5,226,464)
Cash paid for deferred financing costs		(23,197)	(1,086,283)
Other financing cash flows		(795,080)	(335,455)
Net cash used in capital and related financing activities		(64,494,304)	(30,212,174)
Cash flows from investing activities:			
Interest and dividends on investments		10,989,197	17,568,274
Purchases of investments		(527,752,868)	(610,504,874)
Proceeds from sales of investments		565,305,520	441,613,782
Net cash provided by (used in) investing activities		48,541,849	(151,322,818)
Net increase (decrease) in cash and cash equivalents		45,462,514	(108,370,302)
Cash and cash equivalents at beginning of year		146,977,925	255,348,227
Cash and cash equivalents at end of year	$	192,440,439	146,977,925
Reconciliation of cash and cash equivalents to the balance sheets – enterprise funds:			
Cash and cash equivalents	$	166,434,593	46,428,683
Restricted cash		178,936	7,342,060
Assets whose use is limited		25,826,910	93,207,182
Total cash and cash equivalents	$	192,440,439	146,977,925
Supplemental disclosure of noncash information:			
Assets acquired through capital lease obligations	$	11,835,056	696,727

(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, 2009 and 2008

		2009	2008
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	97,538,716	89,502,613
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization		51,868,620	43,145,794
Income tax benefit		1,923,080	7,662,663
Gain on disposal of capital assets		(357)	—
Changes in:			
Patient accounts receivable		(22,554,108)	(18,707,261)
Due to/from third-party payors		(39,140,071)	(30,153,772)
Premiums receivable		(42,591,134)	(866,338)
Other accounts receivable		4,530,965	(7,652,701)
Due to/from affiliates		390,030	800,680
Supplies and other assets		(1,540,717)	(5,122,655)
Estimated medical claims payable		14,683,562	10,400,981
Trade accounts payable		2,066,785	2,790,562
Accrued salaries, wages, and employee benefits		(290,993)	1,550,874
Accrued leave		544,852	1,880,042
Unearned premiums		6,421,963	1,394,754
Clinical earnings contribution to VCU School of Medicine		(6,245,388)	(1,724,499)
Estimated workers' compensation claims		(1,468,723)	6,406,796
Estimated losses on malpractice claims		(599,342)	115,559
Other accrued liabilities		4,070,841	971,614
Net cash provided by operating activities	$	69,608,581	102,395,706

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, 2009 and 2008

		2009	2008
Assets:			
Assets whose use is limited	$	90,894,304	96,623,544
Net assets:			
Reserve for employees' pension benefits	$	90,894,304	96,623,544

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, 2009 and 2008

	2009	2008
Beginning net assets	$ 96,623,544	91,533,733
Additions:		
Pension contributions	15,349,016	13,555,868
Total additions	15,349,016	13,555,868
Deductions:		
Pension benefit payments	(3,168,766)	(4,132,517)
Investment loss	(17,909,490)	(4,333,540)
Total deductions	(21,078,256)	(8,466,057)
Ending net assets	$ 90,894,304	96,623,544

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 805-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 VCU 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 for-profit, 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 and include 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 consolidated 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 economic 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) ***Restricted Cash***

Restricted cash consists of amounts owed to VCU SOM for clinical earnings contribution, Virginia Department of Health for the Care Connection program and Muscular Dystrophy Association for patient financial assistance.

(e) ***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, based on the underlying net asset value of the investment. Changes in market conditions and the economic environment may significantly impact the investments' net asset value and the carrying value of the Authority's interest. 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.

(f) ***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.

(g) ***Assets Whose Use is Limited***

Resources restricted for debt service under bond indenture agreements, 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, medical malpractice program and workers' compensation program 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.

(Continued)

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 $14,284,192 and $18,247,244 are restricted by donors for MCVH in perpetuity and are included in assets whose use is limited at June 30, 2009 and 2008, respectively, at fair value, which approximates the present value of the future cash receipts from the trust assets.

(h) Supplies Inventory

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

(i) 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.

(j) Deferred Financing Costs

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

(k) 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.

(l) 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. The Authority will implement GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, effective July 1, 2009. Implementation of this statement is not expected to have a material impact on the financial position or activities of the Authority.

(Continued)

(m) ***Estimated Medical Claims Payable***

Estimated medical claims payable is comprised of billed and unbilled medical obligations for VA Premier and CCHP 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.

(n) ***Accrued Leave***

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

(o) ***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. The clinical earnings contribution may be used for academic, research, clinical, or operational costs at the discretion of the Dean of the VCU SOM. Effective July 1, 2007, the Dean directed that all subsequent clinical earnings contributions remain designated unrestricted fund balance of MCVAP until such time as the amounts are needed for their required use. Unspent clinical earnings contributions totaled approximately $4,826,000 and $6,245,000 at June 30, 2009 and 2008, respectively.

(p) ***Estimated Workers' Compensation Claims***

The Authority is self-insured for workers' compensation and provides for the liability on a blended discounted and 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) ***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.

(r) ***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.

(Continued)

(s) Operating Revenues and Expenses

The Authority's consolidated 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.

(t) 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 increase net patient service revenue by approximately $37,900,000 and $53,600,000 in 2009 and 2008, respectively. 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, 2004.

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, which results in total Medicaid and indigent reimbursement to the Authority of approximately $309,940,000 and $256,000,000 in 2009 and 2008, respectively. The Authority's Medicaid cost reports have been audited by the Medicaid program representative through June 30, 2007.

(u) *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. Medicaid reimburses the Authority for its costs of providing services to indigent patients. The charges of the services provided for this care, net of reimbursements from the Commonwealth of Virginia, approximated $176,123,000 and $152,602,000 for the years ended June 30, 2009 and 2008, respectively.

(v) *Premiums Earned*

VA Premier has contracts with the Virginia Department of Medical Assistance Services (DMAS) wherein VA Premier provides health care services to the Temporary Assistance for Needy Families (TANF), 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. CCHP has contracts with the South Carolina Department of Health and Human Services (DHHS) wherein CCHP provides healthcare services to TANF, ABD and Children's Medical Insurance Plan (SCHIP) residents of South Carolina through a health maintenance organization. Predominately all of UHS' premiums earned are from VA Premier's contracts with DMAS and CCHP's contracts with DHHS.

(w) *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 and CCHP are contingently liable for reinsurance losses to the extent that the reinsurance company cannot meet its obligations.

(x) ***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.

Beginning with the adoption of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), as of July 1, 2007, MCVAP and UHS recognize the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. Prior to the adoption of FIN 48, MCVAP and UHS recognized the effect of income tax positions only if such positions were probable of being sustained. At June 30, 2009 and 2008, MCVAP and UHS have no income tax positions that are not considered greater than 50% likely of being realized.

(y) ***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.

(z) ***Reclassifications***

Certain reclassifications have been made to the 2008 consolidated financial statements to conform to the 2009 consolidated financial statement presentation.

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

At June 30, 2009 and 2008, the carrying values of the Authority's deposits totaled $166,613,529 and $53,770,743, respectively, and the bank balances totaled $182,427,091 and $68,301,365, respectively. 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

(Continued)

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, investment companies, fixed income, stable value and cash. Investment companies primarily include investments in liquid marketable securities.

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. All portfolios were in compliance with this policy at June 30, 2009.

Concentration Risk: No individual investment represents more than 5% of the total investments balance.

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

	Fair value	
	2009	2008
Enterprise funds:		
Assets whose use is limited:		
Externally restricted under medical malpractice trust (MCVAP)	$ 34,204,628	36,779,304
Externally restricted by donor	14,284,192	18,247,244
Externally restricted under bond indenture	3,940,009	52,980,916
Externally restricted by insurance regulations	906,520	900,668
Internally restricted under medical malpractice (MCVH)	6,141,753	7,305,243
Internally restricted under workers compensation	7,808,662	9,689,745
Internally restricted by the board for capital acquisition	59,071,690	132,648,836
	$ 126,357,454	258,551,956
Investments	$ 228,624,715	241,366,638
Pension Trust funds:		
Externally restricted under pension plan agreement	$ 90,894,304	96,623,544

As of June 30, 2009, 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	$ 25,826,910	25,826,910	—	—	—
Commercial paper	2,784,284	2,784,284	—	—	—
Mutual funds	38,476,887	N/A	N/A	N/A	N/A
Index funds	31,330,086	N/A	N/A	N/A	N/A
Marketable equity securities	8,964,215	N/A	N/A	N/A	N/A
U.S. Treasury notes	83,973,962	74,606,012	6,891,819	1,655,921	820,210
Asset-backed securities	6,531,093	425,165	4,021,035	—	2,084,893
Agency-backed mortgages	27,898,447	4,369,436	7,223,197	1,801,301	14,504,513
Corporate notes	34,148,792	6,229,584	19,834,553	6,130,638	1,954,017
Corporate bonds	9,455,087	1,007,551	5,972,379	1,200,279	1,274,878
Beneficial interest in perpetual trust	14,284,192	—	—	—	14,284,192
Investment companies	66,738,501	N/A	N/A	N/A	N/A
Real estate	4,569,713	N/A	N/A	N/A	N/A
	$ 354,982,169	115,248,942	43,942,983	10,788,139	34,922,703

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

As of June 30, 2008, 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	$ 93,207,182	93,207,182	—	—	—
Mutual funds	83,040,377	N/A	N/A	N/A	N/A
Index funds	43,087,828	N/A	N/A	N/A	N/A
Marketable equity securities	17,215,326	N/A	N/A	N/A	N/A
U.S. Treasury notes	74,260,825	47,653,250	24,563,816	1,153,506	890,253
Asset-backed securities	3,066,300	—	1,184,639	547,516	1,334,145
Agency-backed mortgages	45,482,359	22,515,675	7,631,964	2,531,339	12,803,381
Corporate notes	26,848,968	6,893,635	12,237,493	5,551,341	2,166,499
Corporate bonds	3,132,427	61,006	1,219,115	512,517	1,339,789
Beneficial interest in perpetual trust	18,247,244	—	—	—	18,247,244
Investment companies	86,708,660	N/A	N/A	N/A	N/A
Real estate	5,621,098	N/A	N/A	N/A	N/A
	$ 499,918,594	170,330,748	46,837,027	10,296,219	36,781,311

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

The pension trust funds consist of participant – directed investments which are primarily in mutual funds.

(4) Capital Assets

Capital assets, and changes thereto, as of and for the year ended June 30, 2009, consisted of the following:

	Beginning balance	Additions	Transfers	Disposals	Ending balance
Land and improvements	$ 1,598,902	2,963,000	—	—	4,561,902
Buildings and fixed equipment	306,064,335	257,819	171,879,929	—	478,202,083
Moveable equipment	234,815,341	2,472,340	39,748,250	(455,469)	276,580,462
Construction in progress	176,825,811	62,413,091	(211,628,179)	—	27,610,723
	719,304,389	68,106,250	—	(455,469)	786,955,170
Less accumulated depreciation	(265,767,285)	(50,324,584)	—	24,638	(316,067,231)
	$ 453,537,104	17,781,666	—	(430,831)	470,887,939

Capital assets, and changes thereto, as of and for the year ended June 30, 2008, consisted of the following:

	Beginning balance	Additions	Transfers	Disposals	Ending balance
Land and improvements	$ 1,598,902	—	—	—	1,598,902
Buildings and fixed equipment	296,401,012	81,114	9,574,315	7,894	306,064,335
Moveable equipment	193,485,519	20,231,872	21,105,844	(7,894)	234,815,341
Construction in progress	124,213,032	83,292,938	(30,680,159)	—	176,825,811
	615,698,465	103,605,924	—	—	719,304,389
Less accumulated depreciation	(223,701,342)	(42,065,943)	—	—	(265,767,285)
	$ 391,997,123	61,539,981	—	—	453,537,104

(5) Long-Term Debt

Long-term debt, and changes thereto, as of and for the year ended June 30, 2009 is summarized below:

	Beginning balance	Additions	Reductions	Ending balance	Amounts due within one year
Series 2008 Bonds	$ 125,000,000	—	—	125,000,000	775,000
Series 2005 Bonds	100,000,000	—	—	100,000,000	1,825,000
Series 1998 Bonds	56,560,000	—	(2,385,000)	54,175,000	2,500,000
Construction debt	1,807,148	—	(193,953)	1,613,195	196,373
Capital leases	8,890,746	11,835,056	(4,595,131)	16,130,671	5,903,733
Total long-term debt	$ 292,257,894	11,835,056	(7,174,084)	296,918,866	11,200,106

Long-term debt, and changes thereto, as of and for the year ended June 30, 2008 is summarized below:

	Beginning balance	Additions	Reductions	Ending balance	Amounts due within one year
Series 2008 Bonds	$ —	125,000,000	—	125,000,000	—
Series 2005 Bonds	100,000,000	—	—	100,000,000	—
Series 1998 Bonds	58,830,000	—	(2,270,000)	56,560,000	2,385,000
Construction debt	1,989,828	—	(182,680)	1,807,148	193,954
Capital leases	11,396,114	696,727	(3,202,095)	8,890,746	3,190,416
Total long-term debt	$ 172,215,942	125,696,727	(5,654,775)	292,257,894	5,769,370

On January 3, 2008, MCVH issued $125,000,000 of variable rate demand bonds, comprised of Series 2008A, $55,000,000, Series 2008B, $35,000,000, and Series 2008C, $35,000,000. Each of these series of bonds is secured by an irrevocable, direct-pay letter of credit issued by Branch Banking and Trust Company to provide for the payment of principal and tender price of and interest on the Series 2008 bonds. This letter of credit expires in January 2013. The bonds bear variable rates of interest that reset daily based on the Securities Industry and Financial Markets Association (SIFMA) index (0.35% at June 30, 2009). The bonds are subject to mandatory sinking fund redemptions with principal amount varying between $775,000 on July 1, 2009 and $15,700,000 at maturity on July 1, 2037. MCVH used the proceeds of the bonds primarily to finance a portion of the costs of a new 11-story Critical Care Hospital to expand MCV Hospital's adult intensive care beds, emergency department, and private room capacity.

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 7-day internal, not to exceed 15% annum. In June 2008, the Series 2005 Bonds were converted from auction rate securities to variable rate demand bonds. In connection with the conversion, an irrevocable direct-pay letter of credit was obtained by the MCVH from Wachovia Bank N.A. to provide for the payment of principal and tender price of and interest on the Series 2005 bonds. This letter of credit expires in June 2011. The bonds bear variable rates of interest that reset daily based on the SIFMA index (0.35% at June 30, 2009).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.

MCVH's 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 MCVH, the University transferred to MCVH a parking deck and related construction debt. MCVH 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, 2009 follows:

	Series 2008 bonds	Series 2005 bonds	Series 1998 bonds	Construction debt	Capital leases	Total
2010	$ 775,000	1,825,000	2,500,000	196,373	5,903,733	11,200,106
2011	815,000	1,875,000	2,625,000	206,377	3,800,168	9,321,545
2012	840,000	1,950,000	2,760,000	220,107	3,026,067	8,796,174
2013	795,000	2,025,000	2,890,000	230,107	2,455,998	8,396,105
2014	910,000	2,100,000	3,030,000	238,834	944,705	7,223,539
2015 – 2019	5,075,000	11,625,000	17,670,000	521,397	—	34,891,397
2020 – 2024	6,280,000	13,800,000	22,700,000	—	—	42,780,000
2025 – 2029	7,615,000	44,650,000	—	—	—	52,265,000
2030 – 2034	42,515,000	20,150,000	—	—	—	62,665,000
2035 – 2038	59,380,000	—	—	—	—	59,380,000
Total	$ 125,000,000	100,000,000	54,175,000	1,613,195	16,130,671	296,918,866

A summary of future interest requirements of long-term debt as of June 30, 2009 follows:

	Series 2008 bonds	Series 2005 bonds	Series 1998 bonds	Construction debt	Total
2010	$ 370,230	304,343	2,633,971	77,984	3,386,528
2011	367,710	298,530	2,502,721	68,165	3,237,126
2012	365,325	292,485	2,370,241	57,847	3,085,898
2013	362,595	286,208	2,228,631	46,841	2,924,275
2014	359,790	279,698	2,077,131	35,336	2,751,955
2015 – 2019	1,752,465	1,292,701	7,723,976	34,096	10,803,238
2020 – 2024	1,662,480	1,092,828	2,443,087	—	5,198,395
2025 – 2029	1,552,425	598,611	—	—	2,151,036
2030 – 2034	1,085,505	31,775	—	—	1,117,280
2035 – 2038	139,545	—	—	—	139,545
Total	$ 8,018,070	4,477,179	21,979,758	320,269	34,795,276

MCVH is required to make interest and principal payments to the interest and principal accounts included in assets whose use is limited for the Series 2008, 2005 and Series 1998 Bonds. For the years ended June 30, 2009 and 2008, the Hospitals transferred approximately $7,847,000 and $10,162,000, respectively, to the bond service accounts.

The Series 2008, 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.

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:

	2009		2008	
	Carrying value	Fair value	Carrying value	Fair value
Long-term obligations	$ 280,788,195	284,581,792	283,367,148	280,110,261

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

	2009	2008
Total interest incurred	$ 11,494,540	10,219,384
Less interest capitalized as part of construction in progress	1,776,463	5,049,670
	$ 9,718,077	5,169,714

Interest income from unexpended proceeds totaling approximately $504,000 and $688,000 was capitalized during 2009 and 2008, respectively, as reductions of construction-in-progress costs.

For the years ended June 30, 2009 and 2008, the Authority paid approximately $9,778,000 and $5,226,000, 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 the Series 2008 tax-exempt bonds (note 5). 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 (0.31% as of June 30, 2009). The payments are settled monthly at the first of each month. 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, 2009 and 2008, the fair market value of the swap of $21,241,844 and $10,715,998, respectively, is included with other liabilities in the accompanying consolidated balance sheets. 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 income or expense. Payments or receipts under the terms of the swap are also recorded as nonoperating revenue or expense. For the years ended June 30, 2009 and 2008, MCVH recognized nonoperating expense related to the change in fair value of the swap of approximately $10,526,000 and $10,000,000, respectively.

In December 2005, MCVH entered into an interest rate swap agreement in conjunction with the issuance of its Series 2005 tax-exempt bonds (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 (0.31% as of June 30, 2009). The payments are settled monthly at the first of each month. At June 30, 2009 and 2008, the fair market value of the swap of $7,538,590 and $2,770,206, respectively, is included with other liabilities in the accompanying consolidated balance sheets. 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 income or expense. Payments or receipts under the terms of the swap are also recorded as nonoperating revenue or expense. For the years ended June 30, 2009 and 2008, MCVH recognized nonoperating expense related to the change in fair value of the swap of approximately $4,768,000 and $4,900,000, respectively.

(7) Note Payable

At June 30, 2009, MCVH had a $13,500,000 note payable with a bank, the proceeds from which were loaned to VA Premier and CCHP so they could maintain required regulatory capital levels. MCVH will make monthly interest payments at the 30-day LIBOR rate plus 100 basis points (1.31% at June 30, 2009). The principal amount of the note is due April 30, 2010.

(8) Operating Leases

Total expense under operating leases was approximately $9,816,000 and $8,340,000 in 2009 and 2008, respectively. Future minimum lease payments for noncancelable operating leases are as follows:

2010	$ 9,629,398
2011	7,677,708
2012	6,162,146
2013	3,715,550
2014 – 2017	2,647,772
	$ 29,832,574

(9) Commitments

Estimated costs to complete construction in progress for capital assets at June 30, 2009 are approximately $16,300,000. Commitments primarily relate to the purchase of medical equipment, information system infrastructure, and various other projects.

(10) Contingencies

(a) *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:

		2009	2008
Estimated malpractice losses at beginning of year	$	5,677,591	6,258,231
Malpractice claims expense, net of actuarial adjustments		(435,769)	(77,423)
Malpractice claims settled		(265,015)	(503,217)
Estimated malpractice losses at end of year	$	4,976,807	5,677,591

Investments have been set aside based on actuarially determined reserves and are included in assets whose use is limited in the accompanying consolidated balance sheets – enterprise funds. At June 30, 2009 and 2008, the funds internally restricted for MCVH include $6,141,753 and $7,305,243,

(Continued)

respectively, for claims and related legal expenses for reported and unreported incidents occurring since July 1, 1998.

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, 2009.

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:

		2009	2008
Estimated malpractice losses at beginning of year	$	25,335,935	24,639,736
Malpractice claims expense		1,611,873	1,687,299
Malpractice claims settled		(1,510,431)	(991,100)
Estimated malpractice losses at end of year	$	25,437,377	25,335,935

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, 2009 and 2008, the medical malpractice trust fund for MCVAP includes $34,204,628 and $36,779,304, 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, 2009.

UHS

UHS 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 $2,000,000 in the annual aggregate. The coverage limit for the professional liability policy is $7,000,000 in the annual aggregate. Management does not believe the amount of liability for any claims incurred but unreported as of June 30, 2009 is significant.

(b) 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 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 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:

		2009	2008
Estimated workers' compensation losses at beginning of year	$	17,802,549	11,395,753
Workers' compensation expense		699,017	8,505,434
Workers' compensation claims settled		(2,167,740)	(2,098,638)
Estimated workers' compensation losses at end of year	$	16,333,826	17,802,549

Investments have been set aside based on actuarially determined reserves and are included in assets whose use is limited in the accompanying consolidated balance sheets – enterprise funds. At June 30, 2009 and 2008, the funds internally restricated includes $7,808,662 and $9,689,745, 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 or unasserted claims, if any, at June 30, 2009.

(Continued)

(11) Net Patient Service Revenue

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

	2009	2008
Gross patient revenue:		
Inpatient	$ 1,360,329,673	1,262,542,972
Outpatient	912,943,739	767,779,336
Total gross patient service revenue	2,273,273,412	2,030,322,308
Less uncompensated care and contractual allowances	(1,386,359,105)	(1,186,025,074)
MCVH net patient service revenue	886,914,307	844,297,234
MCVAP net patient service revenue	131,027,472	121,765,116
Consolidated net patient service revenue	$ 1,017,941,779	966,062,350

(12) Estimated Medical Claims Payable

Medical 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 and CCHP'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, 2009 include an estimate of claims that have been incurred but not reported.

(Continued)

The following table provides a reconciliation of the beginning and ending claims payable balances for the years ended June 30:

	2009	2008
Balance at July 1	$ 43,962,019	33,561,038
Add provision for claims occurring in:		
Current year	471,495,551	357,936,389
Prior years	(3,570,771)	(2,606,773)
Incurred losses during the current year	467,924,780	355,329,616
Deduct payments for claims occurring in:		
Current year	(414,481,791)	(315,195,408)
Prior years	(38,759,427)	(29,733,227)
Claims payments during the current year	(453,241,218)	(344,928,635)
Balance at June 30	$ 58,645,581	43,962,019

VA Premier and CCHP have stop-loss arrangements 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 certain hospital claims in excess of $275,000 subject to certain limitations and an annual limit of $1,000,000 per enrollee and a lifetime limit of $2,000,000 per enrollee. The CCHP contract provides coverage for 100% of certain hospital claims in excess of $150,000 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 $1,172,000 and $1,121,000 were included in other expenses for the years ended June 30, 2009 and 2008, respectively. Reinsurance recoveries of approximately $626,000 and $136,000 were included in medical claims expense for the years ended June 30, 2009 and 2008, respectively.

(13) Related-Parties

(a) *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 99-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. In 2008, MCVH's share of unspent construction project funds, $496,439, was distributed back to MCVH from VCU. MCVH's remaining commitment through 2026 is approximately $7,799,000.

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

		2009	2008
Payments by VCU to MCVH:			
Operation and maintenance – buildings (five-year lease)	$	3,266,490	3,266,490
Return of unspent construction project funds		—	446,439
Clinical information systems		1,630,000	—
Total payments by VCU to MCVH	$	4,896,490	3,712,929
Payments by MCVH to VCU:			
Graduate education services	$	57,978	57,978
Nonphysician clinical support		3,843,731	3,886,585
Administrative support		6,546,584	6,062,467
Rent on the short-term space		3,032,434	3,032,434
Principal and interest on parking deck debt		741,368	307,200
Use of steam plant		585,371	595,858
Total payments by MCVH to VCU	$	14,807,466	13,942,522

(b) Medical College of Virginia Foundation

During the years ended June 30, 2009 and 2008, the Authority donated $95,000 and $34,500,000, respectively, to the MCV Foundation. These gifts were made in support of the educational and research mission of VCU and its School of Medicine. 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. The MCV Foundation provided $1,516,000 to MCVAP for the year ended June 30, 2009. The gift from MCV Foundation was unrestricted and will be used to support the clinical departments.

(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

(a) 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, 2009 and 2008 for these plans were approximately $5,737,000 and $5,583,000, 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, 2009 and 2008, there were 4,868 and 4,658 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, 2009 and 2008 were approximately $13,405,000 and $12,395,000, 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, 2009 and 2008, there were five 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, 2009 and 2008 were approximately $35,000 and $33,900, respectively.

(Continued)

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	
	2009	**2008**
Fidelity Investments	$ 49,453,590	53,038,301
TIAA/CREF	33,029,178	34,499,454
The Variable Annuity Life Insurance Company (VALIC)	8,411,536	9,085,789
	$ 90,894,304	96,623,544

(b) 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 $9,296,000 and $8,636,000 for the years ended June 30, 2009 and 2008, 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 plus 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, 2009 and 2008 were $1,787,000 and $1,667,000, respectively.

(c) *UHS*

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 biweekly pay periods. In addition, VA Premier contributes 3% of the employee's compensation after each biweekly payroll effective when the employee begins employment. Employees are fully vested after four years of service in which the employees have at least 1,000 hours of service each year. VA Premier's expense for its contributions to this plan was approximately $549,000 and $685,000, for the years ended 2009 and 2008, respectively.

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 $68,000 and $36,000, for the years ended 2009 and 2008, respectively.

(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:

	2009	2008
Medicare	19%	19%
Anthem	19%	18
Medicaid	20%	18
Other	42%	45
	100%	100%

Revenue from the Medicare and Medicaid/Indigent programs accounted for approximately 21% and 32%, respectively, of the Authority's net patient service revenue for the year ended June 30, 2009 (23% and 31%, respectively, for the year ended June 30, 2008). 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.

(Continued)

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:

		2009	2008
Federal:			
Current	$	(2,346,112)	(6,291,550)
Deferred		693,996	(99,176)
	$	(1,652,116)	(6,390,726)
State:			
Current	$	(278,053)	(1,206,776)
Deferred		7,089	(65,161)
	$	(270,964)	(1,271,937)

Net deferred tax liabilities as of June 30, 2009 and 2008 were $787,313 and $86,228, respectively, and are included in other accrued liabilities on the accompanying consolidated balance sheets. The tax effects of temporary differences that gave rise to significant portions of the deferred tax assets and deferred tax liabilities at June 30, 2009 and 2008 were as follows:

		2009	2008
Deferred tax assets:			
Charitable loss carryforward	$	626,537	620,826
Property and equipment		292,127	175,270
Estimated medical claims payable		343,164	319,225
Total deferred tax assets		1,261,828	1,115,321
Deferred tax liabilities:			
Goodwill		(1,443,634)	(1,201,549)
State income taxes receivable		(519,690)	—
Unrealized gain on investments		(85,817)	—
Total deferred tax liabilities		(2,049,141)	(1,201,549)
Net deferred tax liabilities	$	(787,313)	(86,228)

As of June 30, 2009, 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, 2009 and 2008 were $4,165,473 and $8,190,737, respectively, and are included in other accounts receivable in the accompanying consolidated balance sheets.

During the years ended June 30, 2009 and 2008, VA Premier paid no income taxes as a result of taxable losses.

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.

(18) Subsequent Events

The Authority has evaluated subsequent events for potential recognition and/or disclosure in the June 30, 2009 consolidated financial statements through October 20, 2009, the date the consolidated financial statements were available to be issued.