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

Consolidated Financial Statements

June 30, 2010 and 2009

(With Independent Auditors' Report Thereon)

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

Table of Contents

KPMG LLP
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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, 2010 and 2009, 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, 2010 and 2009, 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.

As discussed in note 1 to the consolidated financial statements, the Authority completed a merger with Children's Hospital on June 30, 2010. The merger was accounted for under the pooling-of-interests accounting method. Accordingly, the Authority's consolidated financial statements have been restated to include the financial position, changes in net assets and cash flows of Children's Hospital.

As discussed in note 2(l) to the consolidated financial statements, the Authority has changed its method of accounting for derivative financial instruments due to the adoption of Governmental Accounting Standards Board Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*.

The accompanying Management's Discussion and Analysis on pages 3 through 14 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

September 30, 2010

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, 2010 and 2009. Please read it in conjunction with the Authority's consolidated financial statements, which begin on page 15.

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 20 and 21. 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, 2010 and 2009 into their consolidated financial statements for the years ended June 30, 2010 and 2009. The Authority's consolidated financial statements include MCV Hospitals (MCVH), Children's Hospital (Children's), 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, 2010 Compared to June 30, 2009

Financial Highlights

- The Authority's net assets increased by $116.5 million, or 15.4%, 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 $32.7 million, or 3.1%, 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 $132.4 million, or 25.7%, from prior year due to continued growth in enrollment and premium increases.
- The Authority's operating expenses increased by $170.1 million, or 11.4%, from prior year. Approximately $36.4 million of this increase is the result of increased personnel costs associated with service expansion and market conditions. Virginia Premier's continued network expansion also resulted in a $104.6 million increase in medical claims expense.

(Continued)

- The Authority showed income from operations for the year ended June 30, 2010 of $89.0 million, a $6.7 million decrease from operating income of $95.7 million for the year ended June 30, 2009.
- The major capital expenditures for the Authority in 2010 related to the renovations to Main and North Hospitals, purchase of radiology, cardiology, and surgery equipment, investments in information systems infrastructure, 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.

(Continued)

As indicated in Table 1 below, the Authority's total assets and deferred outflows exceeded total liabilities by $872.1 million as of June 30, 2010. Of these net assets, 20.8% ($181.2 million) are related to capital assets, 2.1% ($18.5 million) are restricted funds, and the remaining 77.1% ($672.4 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	
	2010	**2009**
Current assets	$ 663,902	599,811
Capital assets, net	465,177	483,078
Other noncurrent assets	270,459	196,659
Total assets	1,399,538	1,279,548
Deferred outflows	39,292	28,780
Total assets and deferred outflows	1,438,830	1,308,328
Current liabilities	208,371	192,400
Long-term liabilities	358,370	360,345
Total liabilities	566,741	552,745
Net assets:		
Invested in capital assets, net of related debt	181,156	187,477
Restricted:		
Expendable	1,474	1,418
Nonexpendable	17,008	16,336
Unrestricted	672,451	550,352
Total net assets	$ 872,089	755,583

Table 2

Virginia Commonwealth University
Health System Authority

Condensed Statements of Revenues, Expenses and Changes in Net Assets

(In thousands)

	Year ended June 30	
	2010	**2009**
Operating revenues:		
Net patient service revenue	$ 1,070,841	1,038,168
Premiums earned	647,751	515,309
Other operating revenues	26,475	28,145
Total operating revenues	1,745,067	1,581,622
Operating expenses:		
Salaries, wages and employee benefits	653,179	616,750
Medical claims expense	571,449	466,828
Supplies	218,851	198,091
Depreciation and amortization	58,487	53,006
Other operating expenses	154,107	151,296
Total operating expenses	1,656,073	1,485,971
Operating income	88,994	95,651
Net nonoperating income (expenses)	29,893	(32,615)
Excess of revenues over expenses before other changes in net assets	118,887	63,036
Other changes in net assets	(2,381)	(7,078)
Increase in net assets	116,506	55,958
Beginning net assets	755,583	699,625
Ending net assets	$ 872,089	755,583

The Authority's operating revenues increased by 10.3% ($163.4 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 11.4% ($170.1 million). Personnel costs are the largest single cost of the Authority, comprising 39.4% of operating costs in 2010. An increase in personnel-related costs of $36.4 million, or 5.9%, 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 $104.6 million in medical claims expense from Virginia Premier and CCHP and a $20.8 million increase in supplies expense.

(Continued)

Capital Asset and Debt Administration

Capital Assets

The Authority's capital assets decreased by $17.9 million, or 3.7%, over prior year amounts.

Table 3

Virginia Commonwealth University
Health System Authority

Capital Assets

(In thousands)

	June 30	
	2010	**2009**
Land and improvements	$ 4,617	4,617
Buildings and fixed equipment	534,919	496,565
Moveable equipment	313,346	295,691
Construction in progress	10,895	27,619
	863,777	824,492
Accumulated depreciation	(398,600)	(341,414)
Total	$ 465,177	483,078

Table 4

Virginia Commonwealth University
Health System Authority

Schedule of Additions and Retirements

(In thousands)

	Year ended June 30	
	2010	**2009**
Capital assets, beginning of year	$ 483,078	464,981
Additions	41,128	69,990
Disposals, net of accumulated depreciation	(103)	(431)
Depreciation	(58,926)	(51,462)
Capital assets, end of year	$ 465,177	483,078

(Continued)

Major projects capitalized include (in millions):

		Year ended June 30	
		2010	2009
Construction and infrastructure of Critical Care Hospital including equipment	$	—	25.6
Parking lot		—	3.0
Office building		4.7	8.9
Investments in information system infrastructure, business systems and equipment		4.6	7.5
Radiology and cardiology equipment		1.4	2.5
Surgery equipment		2.3	2.2
Pharmacy renovations		2.6	—
Renovations of Main and North Hospitals		12.6	—
Major renovation projects		6.3	5.6
Purchase and replacement of moveable equipment		6.6	14.7
	$	41.1	70.0

The Authority has a five-year capital plan, which includes a budget of $99.8 million of expenditures in fiscal year 2011.

Debt

Table 5

Virginia Commonwealth University
Health System Authority

Debt

(In thousands)

		June 30	
		2010	2009
General Revenue Bonds Series 2008	$	124,225	125,000
General Revenue Bonds Series 2005		98,175	100,000
General Revenue Bonds Series 1998		51,675	54,175
Parking deck debt		1,417	1,613
Capital leases		10,227	16,131
Total	$	285,719	296,919

(Continued)

At June 30, 2010, the Authority had $285.7 million in bonds, parking deck 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, 2009 Compared to June 30, 2008

Financial Highlights

- The Authority's net assets increased by $56.0 million, or 8.0%, 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 $54.4 million, or 5.5%, 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 $176.7 million, or 13.5%, from prior year. Approximately $27.6 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 $111.5 million increase in medical claims expense.
- The Authority showed income from operations for the year ended June 30, 2009 of $95.7 million, a $8.5 million increase from operating income of $87.2 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 and deferred outflows exceeded total liabilities by $755.6 million as of June 30, 2009. Of these net assets, 24.8% ($187.5 million) are related to capital assets, 2.3% ($17.7 million) are restricted funds, and the remaining 72.9% ($550.4 million) are unrestricted funds, which can be used for ongoing operations of the Authority:

Table 1

Virginia Commonwealth University
Health System Authority

Balance Sheets – Enterprise Funds

(In thousands)

	June 30 2009	June 30 2008
Current assets	$ 599,811	417,731
Capital assets, net	483,078	464,981
Other noncurrent assets	196,659	341,241
Total assets	1,279,548	1,223,953
Deferred outflows	28,780	13,486
Total assets and deferred outflows	1,308,328	1,237,439
Current liabilities	192,400	185,913
Long-term liabilities	360,345	351,901
Total liabilities	552,745	537,814
Net assets:		
Invested in capital assets, net of related debt	187,477	225,833
Restricted:		
Expendable	1,418	1,940
Nonexpendable	16,336	20,297
Unrestricted	550,352	451,555
Total net assets	$ 755,583	699,625

(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	$	1,038,168	983,766
Premiums earned		515,309	384,381
Other operating revenues		28,145	28,399
Total operating revenues		1,581,622	1,396,546
Operating expenses:			
Salaries, wages and employee benefits		616,750	589,147
Medical claims expense		466,828	355,330
Supplies		198,091	186,666
Depreciation and amortization		53,006	44,149
Other operating expenses		151,296	134,006
Total operating expenses		1,485,971	1,309,298
Operating income		95,651	87,248
Net nonoperating expenses		(32,615)	(17,952)
Excess of revenues over expenses before other changes in net assets		63,036	69,296
Other changes in net assets		(7,078)	(11,715)
Increase in net assets		55,958	57,581
Beginning net assets		699,625	642,044
Ending net assets	$	755,583	699,625

The Authority's operating revenues increased by 13.3% ($185.1 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 13.5% ($176.7 million). Personnel costs are the largest single cost of the Authority, comprising 41.5% of operating costs in 2009. An increase in personnel-related costs of $27.6 million, or 4.7%, 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 $111.5 million in medical claims expense from Virginia Premier's and CCHP's network expansion and an $11.4 million increase in supplies expense.

Capital Asset and Debt Administration

Capital Assets

The Authority's capital assets increased by $18.1 million, or 3.9%, over prior year amounts.

Table 3

Virginia Commonwealth University
Health System Authority

Capital Assets

(In thousands)

		June 30	
		2009	**2008**
Land and improvements	$	4,617	1,654
Buildings and fixed equipment		496,565	323,410
Moveable equipment		295,691	252,720
Construction in progress		27,619	177,174
		824,492	754,958
Accumulated depreciation		(341,414)	(289,977)
Total	$	483,078	464,981

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	$	464,981	400,223
Additions		69,990	107,795
Disposals, net of accumulated depreciation		(431)	—
Depreciation		(51,462)	(43,037)
Capital assets, end of year	$	483,078	464,981

(Continued)

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		5.6	10.4
Purchase and replacement of moveable equipment		14.7	9.6
	$	70.0	107.8

The Authority has a five-year capital plan, which includes a budget of $42.8 million of expenditures in fiscal year 2009.

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.

(Continued)

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, 2010 and 2009

Assets and Deferred Outflows	2010	2009
Current assets:		
Cash and cash equivalents	$ 212,280,992	173,274,646
Restricted cash	167,655	178,936
Short-term investments	179,643,174	156,785,316
Patient accounts receivable, less allowances for doubtful accounts of $138,724,090 in 2010 and $129,422,295 in 2009	157,462,899	161,523,976
Settlements due from third-party payors	18,621,200	23,655,934
Premiums receivable	53,969,094	44,793,987
Other accounts receivable	10,238,712	11,335,021
Due from affiliates	11,018	—
Current portion of assets whose use is limited	9,541,985	8,579,486
Supplies and other current assets	21,964,996	19,683,604
Total current assets	663,901,725	599,810,906
Assets whose use is limited, less current portion	174,493,657	111,574,456
Long-term investments	88,526,013	75,369,634
Capital assets:		
Land and improvements	4,616,816	4,616,816
Depreciable capital assets, less accumulated depreciation of $398,600,039 in 2010 and $341,414,418 in 2009	460,560,031	478,460,975
Total capital assets	465,176,847	483,077,791
Other assets:		
Notes receivable from affiliates	716,173	716,173
Goodwill	—	4,424,899
Other assets	6,723,483	4,573,863
Total other assets	7,439,656	9,714,935
Total assets	1,399,537,898	1,279,547,722
Deferred outflows	39,292,301	28,780,434
Total assets and deferred outflows	$ 1,438,830,199	1,308,328,156

See accompanying notes to consolidated financial statements.

Liabilities and Net Assets	2010	2009
Current liabilities:		
Note payable	$ 15,000,000	13,500,000
Current portion of long-term debt and capital leases	9,321,545	11,200,106
Estimated medical claims payable	63,697,510	58,645,581
Trade accounts payable	35,564,955	27,705,227
Settlements due to third-party payors	2,969,907	1,209,678
Accrued salaries, wages and employee benefits	40,796,830	32,893,742
Accrued leave	22,559,361	21,733,659
Unearned premiums	—	7,816,717
Accrued interest payable	1,316,986	1,379,486
Due to affiliates	1,637,016	1,384,339
Current portion of estimated workers' compensation claims	2,200,000	2,200,000
Current portion of estimated losses on malpractice claims	3,400,000	2,500,000
Other accrued liabilities	9,906,866	10,231,501
Total current liabilities	208,370,976	192,400,036
Other liabilities:		
Long-term debt and capital leases, less current portion	276,397,214	285,718,760
Estimated workers' compensation claims	14,807,095	14,133,826
Estimated losses on malpractice claims	23,509,910	27,914,184
Other liabilities	43,655,938	32,577,935
Total liabilities	566,741,133	552,744,741
Net assets:		
Invested in capital assets, net of related debt	181,155,734	187,477,356
Restricted:		
Expendable	1,473,712	1,418,337
Nonexpendable permanent endowment	17,008,599	16,336,114
Unrestricted	672,451,021	550,351,608
Total net assets	872,089,066	755,583,415
Total liabilities and net assets	$ 1,438,830,199	1,308,328,156

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, 2010 and 2009

	2010	2009
Operating revenues:		
Net patient service revenue, net of uncollectible amounts	$ 1,070,841,203	1,038,168,351
Premiums earned	647,750,731	515,309,364
Other contract revenue	12,466,628	12,362,964
Medical consultation income	1,172,929	1,136,605
Other operating revenue	12,835,727	14,644,962
	1,745,067,218	1,581,622,246
Operating expenses:		
Salaries and wages	523,631,320	500,566,722
Employee benefits	129,547,598	116,183,661
Medical claims expense	571,448,601	466,827,745
Purchased services	59,669,296	64,171,648
Supplies	218,851,396	198,091,103
Other expenses	94,438,423	87,124,095
Provision for depreciation and amortization	58,486,818	53,006,160
	1,656,073,452	1,485,971,134
Operating income	88,993,766	95,651,112
Nonoperating revenues and expenses:		
Investment income (loss)	24,776,938	(25,051,252)
Interest expense	(10,665,907)	(9,718,077)
Other nonoperating expense, net	(854,660)	(3,889,905)
Gain on sale of CCHP members	16,174,862	—
Donations and gifts	1,179,116	4,120,671
Total nonoperating revenues and expenses	30,610,349	(34,538,563)
Excess of revenues over expenses before income taxes and transfers to affiliates, other transfers and changes in beneficial interest in trusts	119,604,115	61,112,549
Income tax benefit (expense)	(716,906)	1,923,080
Excess of revenues over expenses before transfers to affiliates, other transfers and changes in beneficial interest in trusts	118,887,209	63,035,629
Transfers to affiliates	(3,067,411)	(2,588,007)
Other transfers	13,468	(525,863)
Increase (decrease) in beneficial interest in trusts	672,385	(3,963,052)
Increase in net assets	116,505,651	55,958,707
Net assets at beginning of year, as restated (note 2(l))	755,583,415	699,624,708
Net assets at end of year	$ 872,089,066	755,583,415

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, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Cash received from third-party payors and patients	$ 1,081,697,243	975,709,069
Cash received from premiums	630,758,907	479,140,193
Cash paid to employees	(641,066,667)	(615,533,763)
Cash paid to suppliers	(361,227,173)	(350,900,696)
Cash paid to providers of health care services	(566,396,672)	(452,144,183)
Other operating cash receipts and payments, net	17,786,857	31,273,168
Net cash provided by operating activities	161,552,495	67,543,788
Cash flows from noncapital financing activities:		
Donations and gifts	1,179,116	(2,879,329)
Transfers to affiliates	(3,067,411)	(2,588,007)
Net cash used in noncapital financing activities	(1,888,295)	(5,467,336)
Cash flows from capital and related financing activities:		
Purchases of capital assets	(41,127,677)	(57,699,526)
Proceeds from issuance of note payable	1,500,000	13,500,000
Principal payments on long-term debt and capital lease obligations	(11,200,107)	(7,174,084)
Cash paid for interest	(10,728,407)	(9,777,702)
Cash paid for deferred financing costs	—	(23,197)
Other financing cash flows	(841,192)	(4,412,143)
Net cash used in capital and related financing activities	(62,397,383)	(65,586,652)
Cash flows from investing activities:		
Interest and dividends on investments	8,314,695	10,989,197
Proceeds from sale of CCHP members	16,174,862	—
Purchases of investments	(381,654,554)	(526,320,486)
Proceeds from sales of investments	336,137,261	565,305,520
Net cash provided by (used in) investing activities	(21,027,736)	49,974,231
Net increase in cash and cash equivalents	76,239,081	46,464,031
Cash and cash equivalents at beginning of year	194,949,995	148,485,964
Cash and cash equivalents at end of year	$ 271,189,076	194,949,995
Reconciliation of cash and cash equivalents to the consolidated balance sheets – enterprise funds:		
Cash and cash equivalents	$ 212,280,992	173,274,646
Restricted cash	167,655	178,936
Assets whose use is limited	58,740,429	21,496,413
Total cash and cash equivalents	$ 271,189,076	194,949,995
Supplemental disclosure of noncash information:		
Assets acquired through capital lease obligations	$ —	11,835,056

(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, 2010 and 2009

		2010	2009
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	88,993,766	95,651,112
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization		58,486,818	53,006,160
Income tax benefit (expense)		(716,906)	1,923,080
Loss (gain) on disposal of capital assets		103,128	(28,263)
Goodwill impairment		4,424,899	—
Changes in:			
Patient accounts receivable		4,061,077	(22,916,385)
Due to/from third-party payors		6,794,963	(39,542,897)
Premiums receivable		(9,175,107)	(42,591,134)
Other accounts receivable		1,096,309	5,148,745
Due to/from affiliates		241,659	389,733
Supplies and other assets		(3,992,337)	(169,231)
Estimated medical claims payable		5,051,929	14,683,562
Trade accounts payable		7,859,728	1,590,440
Accrued salaries, wages, and employee benefits		7,903,088	(139,457)
Accrued leave		825,702	657,060
Unearned premiums		(7,816,717)	6,421,963
Clinical earnings contribution to VCU School of Medicine		—	(6,245,388)
Estimated workers' compensation claims		673,269	(1,468,723)
Estimated losses on malpractice claims		(3,504,274)	(599,342)
Other accrued liabilities		241,501	1,772,753
Net cash provided by operating activities	$	161,552,495	67,543,788

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, 2010 and 2009

		2010	2009
Assets:			
Assets whose use is limited	$	112,779,495	90,894,304
Net assets:			
Reserve for employees' pension benefits	$	112,779,495	90,894,304

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, 2010 and 2009

		2010	2009
Beginning net assets	$	90,894,304	96,623,544
Additions:			
Pension contributions		15,875,597	15,349,016
Investment gain		9,307,343	—
Total additions		25,182,940	15,349,016
Deductions:			
Pension benefit payments		(3,297,749)	(3,168,766)
Investment loss		—	(17,909,490)
Total deductions		(3,297,749)	(21,078,256)
Ending net assets	$	112,779,495	90,894,304

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 tax exempt as an integral part of the Commonwealth of Virginia. 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), Children's Hospital (Children's) 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, Children's, 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. In June 2010, CCHP sold its rights to serve Medicaid members pursuant to its contract with the State of South Carolina and will no longer underwrite new business in South Carolina. CCHP has certain claims run-out and transition obligations that will continue into 2011. Management intends to liquidate the remaining assets of CCHP subsequent to the claims run-out. The gain on sale of CCHP members of $16,174,862 is recorded in nonoperating revenues.

Effective June 30, 2010, the Authority became the sole corporate member of Children's. As sole corporate member, the Authority holds certain reserve and related powers with respect to the governance, operations and corporate existence of Children's. Children's was created in 1920 and is a Virginia not-for-profit corporation. The 47-bed hospital provides pediatric specialty care to both inpatients and outpatients. The merger qualified and was accounted for under the pooling-of-interests accounting method. Accordingly, the Authority's consolidated financial statements have been restated for 2009 to include the financial position, changes in net assets and cash flows of Children's. As a result of the merger, the Authority's 2009 consolidated assets increased $19,966,381, and consolidated net assets increased $12,836,661. Additionally, the Authority's 2009 consolidated increase in net assets increased $1,114,440, and consolidated net increase in cash and cash equivalents increased $94,997.

(Continued)

(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, MCVAP, and Children's, 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 is 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 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. Net patient service revenue includes an estimate of uncollectible charges which is a deduction from gross revenue. The cost associated with these charges is $13,887,318 and $22,742,510 for the years ended June 30, 2010 and 2009, respectively.

(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.

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 $14,956,577 and $14,284,192 are restricted by donors for MCVH in perpetuity and are included in assets whose use is limited at June 30, 2010 and 2009, respectively, at fair value, which approximates the present value of the future cash receipts from the trust assets.

Children's recognizes its beneficial interest in assets held by Children's Hospital Foundation (Foundation) by recording an equity interest equal to its share of the net assets of the Foundation. Equity interest in Foundation of $2,609,947 and $2,563,739 for June 30, 2010 and 2009, respectively, is included in assets whose use is limited.

(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.

(Continued)

Depreciation on capital assets, excluding land and construction in progress, is computed over the estimated useful lives of the assets based on the straight-line method. Assets under capital lease are amortized over the shorter of useful life or lease term. The general range of estimated useful lives is 10 to 40 years for buildings and fixed equipment and 3 to 20 years for moveable equipment. Expenditures for construction in progress are carried as nondepreciable assets, becoming capitalized when asset is placed in service.

(j) Deferred Financing Costs

Incurred bond issuance costs are capitalized and amortized over the term of the related indebtedness using the effective-interest method. Deferred financing costs are included in other assets.

(k) Goodwill

Goodwill represents the excess of costs over fair value of assets of businesses 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. In 2010, the Authority recognized goodwill impairment of $4,424,899, which is included in other expenses on the accompanying consolidated statement of revenues, expenses and changes in net assets.

(l) Derivative Financial Instruments

MCVH uses interest rate swap agreements to limit exposure to rising interest rates on its variable-rate debt. Interest rate differentials to be paid or received as a result of the swap agreements are accrued and recognized as an adjustment of interest expense related to the associated debts. Derivatives are recognized on the consolidated balance sheets at their fair value. MCVH assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are effective in offsetting changes in cash flows of hedged items. Changes in the fair value of a derivative that are effective and are designated and qualify as cash flow hedges are recorded as deferred inflows or outflows on the accompanying consolidated balance sheets.

The Authority adopted GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, on July 1, 2009. Prior to July 1, 2009, the Authority reflected the change in fair value of interest rate swap agreements in other nonoperating income (expense) under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*. As a result of the adoption of GASB Statement No. 53, the Authority has restated its consolidated balance sheet as of June 30, 2009 and consolidated statement of revenues, expenses and changes in net assets for the year ended June 30, 2009. Following is a summary of the effects of these changes:

	Before adjustments	Adjustments	As adjusted
Consolidated balance sheet – enterprise funds:			
Deferred outflows	$ —	28,780,434	28,780,434
Total assets and deferred outflows	1,279,547,722	28,780,434	1,308,328,156
Unrestricted net assets	521,571,174	28,780,434	550,351,608
Total net assets	726,802,981	28,780,434	755,583,415
Total liabilities and net assets	1,279,547,722	28,780,434	1,308,328,156
Consolidated statement of revenues, expenses and changes in net assets – enterprise funds:			
Other nonoperating expense	$ (19,184,135)	15,294,230	(3,889,905)
Total nonoperating revenues and expenses	(49,832,793)	15,294,230	(34,538,563)
Excess of revenues over expenses before transfers and changes in beneficial interest in trusts	47,741,399	15,294,230	63,035,629
Increase in net assets	40,664,477	15,294,230	55,958,707
Net assets at beginning of year	686,138,504	13,486,204	699,624,708
Net assets at end of year	726,802,981	28,780,434	755,583,415

(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) 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.

(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) Clinical Earnings Contribution to VCU School of Medicine

MCVAP is required to make a clinical earnings contribution to the VCU SOM in support of its academic and educational goals. This contribution is based on a percentage of net patient service revenue, as defined. The clinical earnings contribution may be used for academic, research, clinical or operational costs at the discretion of the Dean of the VCU SOM. The Dean has directed that all clinical earnings contributions remain a designated unrestricted fund balance of MCVAP until such time as the amounts are needed for the required purpose. Unspent clinical earnings contributions totaled approximately $6,708,000 and $4,826,000 at June 30, 2010 and 2009, respectively, and are included in unrestricted net assets in the accompanying consolidated balance sheets.

(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.

(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 and contributions received for purposes other than capital asset acquisition, 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 $7,000,000 and $38,468,000 in 2010 and 2009, 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 $321,618,000 and $309,940,000 in 2010 and 2009, respectively. The Authority's Medicaid cost reports have been audited by the Medicaid program representative through June 30, 2008.

(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 a substantial portion of 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 $231,589,000 and $176,123,000 for the years ended June 30, 2010 and 2009, respectively.

Children's assists lower-income patients, as part of its charity mission, by participating in the Virginia Medicaid program. Payments under the Medicaid program are at amounts less than Children's charges. The excess of gross charges over reimbursement approximated $10,950,000 and $6,617,000 for the years ended June 30, 2010 and 2009, 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

UHS, Children's and MCVAP 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.

UHS, Children's and MCVAP 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. At June 30, 2010 and 2009, UHS, Children's and MCVAP 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 2009 consolidated financial statements to conform to the 2010 consolidated financial statement presentation.

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

At June 30, 2010 and 2009, the carrying values of the Authority's deposits totaled $212,448,647 and $173,453,582, respectively, and the bank balances totaled $221,895,507 and $184,259,791, respectively. Deposits are placed with banks and savings and loan institutions and are protected by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act (the Act). In 2010, the Authority's depository institution withdrew from the State's collateral pool. In accordance with the Act, the depository institution pledged collateral with a market value equal to 105% percent of the Authority's deposits with a third-party trustee in the name of the Treasurer of the Commonwealth of Virginia. In the event that the banking institution fails, the Treasurer will take possession of the collateral, liquidate it and reimburse the Authority up to the value of its deposits. In 2009, the Authority's depository institution participated in the State's collateral pool, whereby 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, 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, 2010.

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	
	2010	**2009**
Enterprise funds:		
Assets whose use is limited:		
Externally restricted by donor	$ 14,956,577	14,284,192
Externally restricted under bond indenture	3,945,653	3,940,009
Externally restricted by insurance regulations	915,787	906,520
Externally restricted by Foundation	2,609,947	2,563,739
Internally restricted for medical malpractice (MCVAP)	21,932,471	25,437,377
Internally restricted for medical malpractice (MCVH)	7,504,353	6,141,753
Internally restricted for workers compensation	8,720,420	7,808,662
Internally restricted for capital acquisition	123,450,434	59,071,690
	$ 184,035,642	120,153,942
Investments	$ 268,169,187	232,154,950
Pension trust funds:		
Externally restricted under pension plan agreement	$ 112,779,495	90,894,304

As of June 30, 2010, 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	$ 58,740,429	58,740,429	—	—	—
Commercial paper	19,945,600	19,945,600	—	—	—
U.S. Treasury notes	78,744,383	67,579,283	7,189,092	2,101,010	1,874,998
Asset-backed securities	16,648,740	662,439	13,033,248	517,387	2,435,666
Agency-backed mortgages	25,830,818	4,808,277	8,224,551	3,282,372	9,515,618
Corporate notes	41,505,440	12,178,627	20,054,735	7,576,956	1,695,122
Corporate bonds	13,507,516	2,482,256	8,046,551	1,615,947	1,362,762
Beneficial interest in perpetual trust	14,956,577	N/A	N/A	N/A	N/A
Equity interest in Foundation	2,609,947	N/A	N/A	N/A	N/A
Mutual funds	45,551,847	N/A	N/A	N/A	N/A
Index funds	30,007,130	N/A	N/A	N/A	N/A
Marketable equity securities	9,280,705	N/A	N/A	N/A	N/A
Investment companies	88,566,686	N/A	N/A	N/A	N/A
Real estate	6,309,011	N/A	N/A	N/A	N/A
	$ 452,204,829	166,396,911	56,548,177	15,093,672	16,884,166

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

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	$ 21,496,413	21,496,413	—	—	—
Commercial paper	2,784,284	2,784,284	—	—	—
U.S. Treasury notes	83,067,443	73,699,493	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	N/A	N/A	N/A	N/A
Equity interest in Foundation	2,563,739	N/A	N/A	N/A	N/A
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
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
	$ 352,308,892	110,011,926	43,942,983	10,788,139	20,638,511

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

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

(4) Capital Assets

Capital assets, and changes thereto, as of and for the year ended June 30, 2010, consisted of the following:

	Beginning balance	Additions	Transfers	Disposals	Ending balance
Land and improvements	$ 4,616,816	—	—	—	4,616,816
Buildings and fixed equipment	496,564,769	109,853	38,285,882	(41,815)	534,918,689
Moveable equipment	295,691,608	1,486,270	17,969,292	(1,801,185)	313,345,985
Construction in progress	27,619,016	39,531,554	(56,255,174)	—	10,895,396
	824,492,209	41,127,677	—	(1,843,000)	863,776,886
Less accumulated depreciation	(341,414,418)	(58,925,493)	—	1,739,872	(398,600,039)
	$ 483,077,791	(17,797,816)	—	(103,128)	465,176,847

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	$ 1,653,816	2,963,000	—	—	4,616,816
Buildings and fixed equipment	323,410,017	934,779	172,219,973	—	496,564,769
Moveable equipment	252,719,646	3,679,181	39,748,250	(455,469)	295,691,608
Construction in progress	177,174,144	62,413,095	(211,968,223)	—	27,619,016
	754,957,623	69,990,055	—	(455,469)	824,492,209
Less accumulated depreciation	(289,976,932)	(51,462,124)	—	24,638	(341,414,418)
	$ 464,980,691	18,527,931	—	(430,831)	483,077,791

(5) Long-Term Debt

Long-term debt, and changes thereto, as of and for the year ended June 30, 2010 is summarized below:

	Beginning balance	Additions	Reductions	Ending balance	Amounts due within one year
Series 2008 Bonds	$ 125,000,000	—	(775,000)	124,225,000	815,000
Series 2005 Bonds	100,000,000	—	(1,825,000)	98,175,000	1,875,000
Series 1998 Bonds	54,175,000	—	(2,500,000)	51,675,000	2,625,000
Parking deck debt	1,613,195	—	(196,374)	1,416,821	206,377
Capital leases	16,130,671	—	(5,903,733)	10,226,938	3,800,168
Total long-term debt	$ 296,918,866	—	(11,200,107)	285,718,759	9,321,545

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
Parking deck 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

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 (0.17% at June 30, 2010). The bonds are subject to mandatory sinking fund redemptions with principal amount varying between $815,000 on July 1, 2010 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 MCVH'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 interval, not to exceed 15% per 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 (0.14% at June 30, 2010).The bonds are subject to mandatory sinking fund redemptions with principal amounts varying between $1,875,000 on July 1, 2010 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, VCU transferred to MCVH a parking deck and related construction debt. MCVH assumed responsibility for payments on the associated construction debt. Debt is payable to VCU 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, 2010 follows:

	Series 2008 Bonds	Series 2005 Bonds	Series 1998 Bonds	Parking deck debt	Capital leases	Total
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	935,000	2,175,000	3,185,000	253,836	—	6,548,836
2016 – 2020	5,300,000	12,025,000	18,580,000	267,560	—	36,172,560
2021 – 2025	6,475,000	19,550,000	18,605,000	—	—	44,630,000
2026 – 2030	7,990,000	46,225,000	—	—	—	54,215,000
2031 – 2035	54,795,000	10,250,000	—	—	—	65,045,000
2036 – 2038	45,370,000	—	—	—	—	45,370,000
Total	$ 124,225,000	98,175,000	51,675,000	1,416,821	10,226,938	285,718,759

A summary of future interest requirements of long-term debt as of June 30, 2010 follows:

	Series 2008 Bonds	Series 2005 Bonds	Series 1998 Bonds	Parking deck debt	Total
2011	$ 208,369	179,265	2,502,721	68,165	2,958,520
2012	207,018	175,418	2,370,241	57,847	2,810,524
2013	205,471	171,428	2,228,631	46,841	2,652,371
2014	203,881	167,295	2,077,131	35,336	2,483,643
2015	202,215	163,020	1,909,919	23,394	2,298,548
2016 – 2020	983,705	745,798	6,767,563	10,702	8,507,768
2021 – 2025	930,588	584,202	1,489,581	—	3,004,371
2026 – 2030	865,538	188,147	—	—	1,053,685
2031 – 2035	500,301	—	—	—	500,301
2036 – 2038	26,690	—	—	—	26,690
Total	$ 4,333,776	2,374,573	19,345,787	242,285	26,296,421

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, 2010 and 2009, the Hospitals transferred approximately $8,325,000 and $7,847,000, 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:

	2010		2009	
	Carrying value	Fair value	Carrying value	Fair value
Long-term obligations	$ 275,491,821	277,137,667	280,788,195	284,581,792

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

	2010	2009
Total interest incurred	$ 10,665,907	11,494,540
Less interest capitalized as part of construction in progress	—	1,776,463
	$ 10,665,907	9,718,077

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

For the years ended June 30, 2010 and 2009, the Authority paid approximately $10,728,000 and $9,778,000, respectively, for interest (net of amounts capitalized).

(6) Derivative Instruments

In June 2007, MCVH entered into two interest rate swap agreements in anticipation of the issuance of the Series 2008 tax-exempt bonds (note 5). The swaps have a combined 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 (0.23% as of June 30, 2010). The payments are settled monthly at the first of each month. Payments or receipts under the terms of the swap are recorded as nonoperating revenue or expense. At June 30, 2010 and 2009, the fair market value of the swaps of $28,290,281 and $21,241,844, respectively, is included in deferred outflows and in other liabilities in the accompanying consolidated balance sheets. For the years ended June 30, 2010 and 2009, the change in fair value of the swaps was approximately $7,048,000 and $10,526,000, 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 (0.23% as of June 30, 2010). The payments are settled monthly at the first of each month. Payments or receipts under the terms of the swap are recorded as nonoperating revenue or expense. At June 30, 2010 and 2009, the fair market value of the swap of $11,002,020 and $7,538,590, respectively, is included in deferred outflows and in other liabilities in the accompanying consolidated balance sheets. For the years ended June 30, 2010 and 2009, the change in fair value of the swap was approximately $3,463,000 and $4,768,000, respectively.

(7) Note Payable

At June 30, 2010 and 2009, MCVH had a bank note payable of $15,000,000 and $13,500,000, respectively. The proceeds from the note 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 (1.35% at June 30, 2010). The principal amount of the note is due April 30, 2011.

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(8) Operating Leases

Total expense under operating leases was approximately $11,032,000 and $10,088,000 in 2010 and 2009, respectively. Future minimum lease payments for noncancelable operating leases are as follows:

2011	$	9,829,951
2012		7,483,957
2013		4,393,271
2014		1,698,878
2015		1,374,523
2016 – 2017		1,159,435
	$	25,940,015

(9) Commitments

Estimated costs to complete construction in progress for capital assets at June 30, 2010 are approximately $23,700,000. 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:

		2010	2009
Estimated malpractice losses at beginning of year	$	4,976,807	5,677,591
Malpractice claims expense, net of actuarial adjustments		1,168,055	(435,769)
Malpractice claims settled		(1,167,423)	(265,015)
Estimated malpractice losses at end of year	$	4,977,439	4,976,807

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, 2010 and 2009, the funds internally restricted for MCVH include $7,504,353 and $6,141,753, 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, 2010.

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:

		2010	2009
Estimated malpractice losses at beginning of year	$	25,437,377	25,335,935
Malpractice claims expense		(379,906)	1,611,873
Malpractice claims settled		(3,125,000)	(1,510,431)
Estimated malpractice losses at end of year	$	21,932,471	25,437,377

Assets whose use is limited of $21,932,471 and $25,437,377 have been internally restricted as of June 30, 2010 and 2009, respectively, for payment of 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, 2010.

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, 2010 is significant.

Children's

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

The Authority believes that its consolidated financial position would not be materially affected by the ultimate cost related to unasserted claims, if any, at June 30, 2010.

(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.

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

	2010	2009
Estimated workers' compensation losses at beginning of year	$ 16,333,826	17,802,549
Workers' compensation expense	3,383,461	699,017
Workers' compensation claims settled	(2,710,192)	(2,167,740)
Estimated workers' compensation losses at end of year	$ 17,007,095	16,333,826

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, 2010 and 2009, the funds internally restricted include $8,720,420 and $7,808,662, 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, 2010.

(11) Net Patient Service Revenue

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

	2010	2009
Gross patient revenue:		
Inpatient	$ 1,505,953,453	1,360,329,673
Outpatient	1,046,714,318	912,943,739
Total gross patient service revenue	2,552,667,771	2,273,273,412
Less uncompensated care and contractual allowances	(1,642,001,283)	(1,386,359,105)
MCVH net patient service revenue	910,666,488	886,914,307
MCVAP net patient service revenue	136,680,646	131,027,472
Children's patient service revenue	23,494,069	20,226,572
Consolidated net patient service revenue	$ 1,070,841,203	1,038,168,351

(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

(Continued)

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, 2010 include an estimate of claims that have been incurred but not reported.

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

	2010	2009
Balance at July 1	$ 58,645,581	43,962,019
Add provision for claims occurring in:		
Current year	568,410,948	470,398,516
Prior years	3,037,653	(3,570,771)
Incurred losses during the current year	571,448,601	466,827,745
Deduct payments for claims occurring in:		
Current year	(504,636,912)	(413,384,756)
Prior years	(61,759,760)	(38,759,427)
Claims payments during the current year	(566,396,672)	(452,144,183)
Balance at June 30	$ 63,697,510	58,645,581

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 all inpatient and outpatient services, physician services, and drug related services in excess of $300,000 subject to certain limitations and an annual limit of $2,000,000 per enrollee and a lifetime limit of $5,000,000 per enrollee. The CCHP contract provides coverage for 100% of all inpatient and outpatient services, physician services, and drug related services in excess of $250,000 subject to certain limitations and an annual limit of $2,000,000 per enrollee and a lifetime limit of $5,000,000 per enrollee. The amounts receivable from the reinsurer were $5,027 and $250,650, respectively, at June 30, 2010 and 2009, all of which related to paid claims. Premiums paid to the reinsurer for the years ended June 30, 2010 and 2009, were approximately $1,619,000 and $1,172,000, respectively, and are included in other expenses in the accompanying consolidated statements of revenues, expenses and changes in net assets. Benefits of approximately $577,000 and $626,000, were provided by the reinsurer for the years ended June 30, 2010 and 2009, respectively, and are netted with medical claims expense in the accompanying consolidated statements of revenues, expenses, and changes in net assets.

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(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 funded approximately $1,804,000 of the construction costs. In addition, MCVH agreed to assume responsibility for 50% of the payments on the associated construction debt. At June 30, 2010, MCVH's remaining commitment through 2026 is approximately $7,336,000.

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

		2010	2009
Payments by VCU to MCVH:			
Operation and maintenance – buildings (five-year lease)	$	3,278,691	3,266,490
Clinical information systems and related services		1,907,410	1,630,000
Total payments by VCU to MCVH	$	5,186,101	4,896,490
Payments by MCVH to VCU:			
Graduate education services	$	57,978	57,978
Nonphysician clinical support		3,956,095	3,843,731
Administrative support		6,488,258	6,546,584
Rent on short-term space		2,702,048	3,032,434
Principal and interest on parking deck debt		737,201	741,368
Use of steam plant		585,644	585,371
Total payments by MCVH to VCU	$	14,527,224	14,807,466

(b) Medical College of Virginia Foundation

During the years ended June 30, 2010 and 2009, the Authority donated $53,000 and $95,000, 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 $873,000 and $1,516,000 to MCVAP for the years ended June 30, 2010 and 2009, respectively. 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 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, 2010 and 2009 for these plans were approximately $4,611,000 and $5,737,000, 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 (VCUHS 401(a) Plan). All employees, excluding housestaff, working at least 20 hours a week in a benefit-eligible position are eligible to participate in the VCUHS 401(a) Plan. At June 30, 2010 and 2009, there were 4,632 and 4,868 participants in the VCUHS 401(a) Plan, respectively. Per the VCUHS 401(a) Plan document as approved by the Authority's Board of Directors, MCVH contributes up to 10% of the participant's salary to the VCUHS 401(a) Plan not to exceed the lesser of (a) the amount in accordance with Code 415(d), or (b) one hundred percent (100%) of the Participant's Compensation for such limitation year. Contributions are a function of the employee's age plus years of service per the table below. Total contributions to the VCUHS 401(a) Plan for the years ended June 30, 2010 and 2009 were approximately $14,577,000 and $13,405,000, respectively. MCVH shall have the right at any time, and without the consent of any party, to terminate the VCUHS 401(a) Plan in its entirety. Any changes to the provisions of the VCUHS 401(a) Plan, including the contribution requirements, must be approved in writing by the Authority's Board of Directors. MCVH also sponsors the VCUHS Savings Plan (VCUHS 457(b) Plan), a savings plan that represents employee contributions and employees may also receive a 2% matching contribution in their VCUHS 401(a) Plan based on their 457(b) contribution.

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

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, 2010 and 2009, 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, 2010 and 2009 were approximately $36,000 and $35,000, respectively.

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	
	2010	**2009**
Fidelity Investments	$ 63,934,942	49,453,590
TIAA/CREF	38,583,186	33,029,178
The Variable Annuity Life Insurance Company (VALIC)	10,261,367	8,411,536
	$ 112,779,495	90,894,304

(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 and the MCVAP 403(b) Salary Deferral Plan (the 403(b) Plan), a salary deferral plan that represents physician contributions. Contributions to the 401(a) Plan by MCVAP, as determined annually at the discretion of the Board of Directors, were approximately $10,524,000 and $9,296,000 for the years ended June 30, 2010 and 2009, respectively.

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

Age plus years of service	Employer contribution (VCUHS 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, 2010 and 2009 were approximately $1,864,000 and $1,787,000, respectively.

(c) UHS

Effective August 1, 1999, VA Premier adopted a 401(k) plan, for which Fidelity Investments is the trustee. Employees become eligible to participate after completing one year of service, during which the employee complete 1,000 hours of service. There is no minimum service or age requirement to be in the 401(k) plan. Employees may contribute 1% to 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 $921,000 and $549,000, for the years ended 2010 and 2009, 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 $196,000 and $68,000 for the years ended 2010 and 2009, respectively.

(d) Children's

Children's has a noncontributory defined benefit pension plan (Pension Plan) covering substantially all Children's employees. The Pension Plan provides benefits that are based on the five consecutive years for which an employee's compensation is highest. Children's funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as Children's may determine to be appropriate from time to time. Effective June 20, 2010, Children's decided to freeze all future benefit accruals for those who were active plan participants. The Pension Plan is also frozen to new participants as of that date.

The measurement date for determining the Pension Plan's funded status is June 30. The Pension Plan's projected benefit obligation was $9,981,170 and $8,549,150 as of June 30, 2010 and 2009, respectively. The Pension Plan's fair value of plan assets was $6,072,391 and $5,147,823 as of June 30, 2010 and 2009, respectively. The Pension Plan's unfunded liability of $3,908,779 and $3,401,327 as of June 30, 2010 and 2009, respectively, is included in other liabilities on the accompanying consolidated balance sheets.

Children's also maintains a retirement plan under Internal Revenue Code Section 401(k) for its employees. All full-time employees with at least one full year of employment are eligible for participation in the 401(k) plan. Contributions are made at the discretion of the Children's Board of Directors. The employer contributions for 2010 and 2009 were approximately $204,000 and $185,000, respectively. Effective June 30, 2010, the 401(k) plan was frozen. Once Internal Revenue Service approval is received, plan participants will receive a distribution of their account balance.

(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:

	2010	2009
Medicare	19%	19%
Anthem	19	19
Medicaid	20	21
Other	42	41
	100%	100%

Revenue from the Medicare and Medicaid/Indigent programs accounted for approximately 22% and 31%, respectively, of the Authority's net patient service revenue for the year ended June 30, 2010 (20% and 33%, respectively, for the year ended June 30, 2009). 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

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. Federal Corporate income tax rate of 35% to earnings before income taxes for the years ended June 30, 2010 and 2009, 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:

		2010	2009
Federal:			
Current	$	3,151,006	(2,346,112)
Deferred		(2,506,866)	693,996
	$	644,140	(1,652,116)
State:			
Current	$	435,169	(278,053)
Deferred		(362,403)	7,089
	$	72,766	(270,964)

Net deferred tax assets as of June 30, 2010 were $2,081,956 and are included in other assets on the accompanying consolidated balance sheet. Net deferred tax liabilities as of June 30, 2009 were $787,313 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, 2010 and 2009 were as follows:

		2010	2009
Deferred tax assets:			
Goodwill	$	847,296	—
Charitable loss carryforward		490,158	626,537
Property and equipment		382,603	292,127
Estimated medical claims payable		399,547	343,164
Total deferred tax assets		2,119,604	1,261,828
Deferred tax liabilities:			
Goodwill		—	(1,443,634)
Other		—	(519,690)
Unrealized gain on investments		(37,648)	(85,817)
Total deferred tax liabilities		(37,648)	(2,049,141)
Net deferred tax receivables (liabilities)	$	2,081,956	(787,313)

(Continued)

As of June 30, 2010, 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 payable as of June 30, 2010 were $861,054 and are included in other accrued liabilities in the accompanying consolidated balance sheet. Income taxes receivable as of June 30, 2009 were $4,165,473 and are included in other accounts receivable in the accompanying consolidated balance sheet.

During the years ended June 30, 2010 and 2009, VA Premier paid no income taxes as a result of taxable losses.

(18) Subsequent Events

On March 2, 2010, the Internal Revenue Service published an administrative determination that medical residents were excepted from Federal Insurance Contributions Act (FICA) payroll taxes under a student exception for tax periods ending on or before April 1, 2005. This determination was partial resolution of a longstanding dispute between the IRS and universities and teaching hospitals regarding payment of these payroll taxes.

In June 2010, the IRS began contacting the organizations that had filed protective FICA refund claims within the allowable statute of limitations with instructions for perfecting the amounts to be refunded. MCVH received its IRS notification on June 3, 2010, and expects to submit its refund claim covering the periods January 1, 1995 to March 31, 2004 before the end of the 2010 calendar year. This refund claim will be comprised of MCVH's portion of FICA taxes paid during the covered period, the medical resident portion of FICA taxes paid during the covered period where the medical residents have elected for MCVH to represent them in this process, plus statutory interest. There is no timeframe for when the IRS will respond to or pay the requested refund claim.

As of the date the consolidated financial statements were available to be issued, MCVH was in the initial stages of gathering documentation needed to perfect its claim and management was unable to estimate amounts potentially receivable, if any, under this determination. Any refund and interest money received for the medical residents being represented by MCVH will be passed through to the medical residents. Only the employer portion will be ultimately retained by MCVH.

The Authority has evaluated subsequent events for potential recognition and/or disclosure in the June 30, 2010 consolidated financial statements through September 30, 2010, the date the consolidated financial statements were available to be issued.