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VIRGINIA COMMONWEALTH UNIVERSITY
HEALTH SYSTEM AUTHORITY

(A Component Unit of Virginia Commonwealth University)

Combined Financial Statements

June 30, 2012 and 2011

(With Independent Auditors' Report Thereon)

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

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KPMG LLP
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Richmond, VA 23219-4023

Independent Auditors' Report

The Board of Directors
Virginia Commonwealth University
Health System Authority:

We have audited the accompanying combined financial statements of the enterprise fund and pension trust fund 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, 2012 and 2011, as listed in the accompanying table of contents. These combined financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these combined 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 combined financial statements referred to above present fairly, in all material respects, the respective financial position of the enterprise fund and pension trust fund of Virginia Commonwealth University Health System Authority as of June 30, 2012 and 2011, and the respective results of their operations, changes in their net position and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

U.S. generally accepted accounting principles require that Management's Discussion and Analysis on pages 3 through 14 be presented to supplement the basic combined financial statements. Such information, although not a part of the basic combined financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic combined financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic combined financial statements, and other knowledge we obtained during our audit of the basic combined financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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Our audits were made for the purpose of forming an opinion on the basic combined financial statements taken as a whole. The supplementary information included in schedules 1 and 2 is presented for the purpose of additional analysis and is not a required part of the basic combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to auditing procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

KPMG LLP

September 11, 2012

This discussion and analysis of Virginia Commonwealth University Health System Authority's (VCUHSA or the Authority) financial performance provides an overview of VCUHSA's combined financial activities for the fiscal years ended June 30, 2012 and 2011. Please read it in conjunction with the Authority's combined financial statements, which begin on page 15.

Financial Statement Overview

The combined financial statements herein are comprised of the combined statements of net position, combined statements of revenues, expenses and changes in net position, and combined statements of cash flows. These combined 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' self-directed pension plans. The Authority's pension plan activities are reported in separate combined statements of net position and statements of changes in net position on pages 20 and 21. The Authority excludes these activities from the other combined financial statements because the Authority cannot use these assets to finance its operations as the funds belong to employees. The Authority is responsible for ensuring that the assets reported in this fund 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, 2012 and 2011 into their combined financial statements for the years then ended. The Authority's combined financial statements include MCV Hospitals (MCVH), Children's Hospital (Children's), University Health Services, Inc. (UHS), Virginia Premier Health Plan (Virginia Premier), and MCV Associated Physicians (MCVAP). Carolina Crescent Health Plan (CCHP) is a wholly owned subsidiary of UHS.

June 30, 2012 Compared to June 30, 2011

Financial Highlights

- The Authority's net position increased by $128.8 million, or 12.5%, over prior year as a result of this year's activity.
- Patient service revenue comprises the majority of the Authority's revenues. Net patient service revenue increased by $116.8 million, or 10.3%, from prior year due to an increase in volume of selected hospital and outpatient services, reimbursement increases, and improvement of revenue processes. Regulatory changes and governmental reduction acts have significant effects on MCVH's reimbursement rates given its high mix of government payors.
- Premiums earned by Virginia Premier decreased by $49.3 million, or 8.8%, from prior year due to a rate decrease from the Department of Medical Assistance Services (DMAS) as well as a decrease in enrollment driven by DMAS directed decrease of 12,000 members in the Roanoke region.
- The Authority's operating expenses increased by $78.0 million, or 4.9%, from prior year. This increase is largely due to personnel costs which make up 45% of total operating expense.

- The Authority showed income from operations for the year ended June 30, 2012 of $133.2 million, a $12.0 million decrease from operating income of $145.2 million for the year ended June 30, 2011.
- The major capital expenditures for the Authority in 2012 related to investments in information systems infrastructure, purchase and replacement of medical equipment, modernization of MCVH's emergency department and other 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 $1,161.8 million as of June 30, 2012. Of this net position 17.3% ($200.7 million) are related to capital assets, 1.7% ($20.0 million) are restricted funds, and the remaining 81.0% ($941.1 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 Net Position

(In thousands)

		June 30	
		2012	**2011**
Current assets	$	850,257	703,428
Capital assets, net		463,442	452,832
Other noncurrent assets		491,134	356,443
Total assets		1,804,833	1,512,703
Deferred outflows		64,081	31,805
Total assets and deferred outflows	$	1,868,914	1,544,508

Table 1
Virginia Commonwealth University
Health System Authority

Condensed Statements of Net Position

(In thousands)

		June 30	
		2012	**2011**
Current liabilities	$	247,315	198,609
Long-term liabilities		459,772	312,848
Total liabilities	$	707,087	511,457
Net position:			
Net investment in capital assets	$	200,709	228,560
Restricted:			
Expendable		1,456	1,856
Nonexpendable		18,517	19,197
Unrestricted		941,146	783,438
Total net position	$	1,161,828	1,033,051

Table 2
Virginia Commonwealth University
Health System Authority

Condensed Statements of Revenues, Expenses and Changes in Net Position

(In thousands)

		Year ended June 30	
		2012	**2011**
Operating revenues:			
Net patient service revenue	$	1,254,121	1,137,334
Premiums earned		512,248	561,574
Other operating revenues		28,433	29,825
Total operating revenues		1,794,802	1,728,733
Operating expenses:			
Salaries, wages and employee benefits		748,133	695,897
Medical claims expense		428,522	438,782
Supplies		245,895	229,259
Depreciation and amortization		58,309	60,640
Other operating expenses		180,746	158,984
Total operating expenses		1,661,605	1,583,562
Operating income		133,197	145,171
Net nonoperating income		448	14,450
Excess of revenues over expenses before other changes in net position		133,645	159,621
Other changes in net position		(4,868)	1,341
Increase in net position		128,777	160,962
Beginning net position		1,033,051	872,089
Ending net position	$	1,161,828	1,033,051

The Authority's operating revenues increased by 3.8% ($66.1 million) over the prior year. This increase in revenues resulted from changes in pricing for MCVH and MCVAP, the mix of hospital and physician services in conjunction with a decrease in premiums earned by Virginia Premier of $49.3 million. Total operating expenses increased 4.9% ($78.0 million). Personnel costs are the largest single cost of the Authority, comprising 45.0% of operating costs in 2012. An increase in personnel-related costs of $52.2 million, or 7.5%, 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.

(Continued)

Capital Asset and Debt Administration

Capital Assets

The Authority's capital assets decreased by $10.6 million, or 2.3%, over prior year amounts.

Table 3
Virginia Commonwealth University
Health System Authority

Capital Assets

(In thousands)

		June 30 2012	June 30 2011
Land and improvements	$	7,724	5,115
Buildings and fixed equipment		567,682	553,032
Moveable equipment		361,374	341,132
Construction in progress		37,815	10,138
		974,595	909,417
Accumulated depreciation		(511,153)	(456,585)
Total	$	463,442	452,832

Table 4
Virginia Commonwealth University
Health System Authority

Schedule of Additions and Retirements

(In thousands)

		Year ended June 30 2012	Year ended June 30 2011
Capital assets, beginning of year	$	452,832	465,177
Additions		68,987	47,849
Disposals, net of accumulated depreciation		(143)	(122)
Depreciation		(58,234)	(60,072)
Capital assets, end of year	$	463,442	452,832

(Continued)

Major projects capitalized include (in millions):

		Year ended June 30	
		2012	**2011**
Major renovation projects in emergency rooms	$	21.4	10.7
Purchase and replacement of moveable equipment		18.1	15.2
Office building and renovations		9.6	2.9
Radiology and cardiology equipment		9.6	6.9
Investments in information system infrastructure, business systems and equipment		6.4	8.5
Renovations of Main and North Hospitals		2.4	0.6
Surgery equipment		1.5	1.5
Pharmacy renovations		—	1.5
	$	69.0	47.8

The Authority has a five-year capital plan, which includes a budget of $152.6 million of expenditures in fiscal year 2013.

Debt

Table 5
Virginia Commonwealth University
Health System Authority

Debt

(In thousands)

		June 30	
		2012	**2011**
General Revenue Bonds Series 2011	$	121,037	—
General Revenue Bonds Series 2008		122,570	123,410
General Revenue Bonds Series 2005		92,325	94,350
Parking deck debt		990	1,210
Capital leases		3,401	6,427
Total	$	340,323	225,397

At June 30, 2012, the Authority had $340.3 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 combined financial statements.

(Continued)

June 30, 2011 Compared to June 30, 2010

Financial Highlights

- The Authority's net position increased by $161.0 million, or 18.5%, over prior year as a result of this year's activity.
- Patient service revenue comprises the majority of the Authority's revenues. Net patient service revenue increased by $66.5 million, or 6.2%, from prior year due to an increase in volume of selected hospital services, reimbursement increases, and improvement of revenue processes. Regulatory changes and governmental reduction acts have significant effects on MCVH's reimbursement rates given its high mix of government payors.
- Premiums earned by Virginia Premier increased by $63.9 million, or 12.9%, from prior year due to continued growth in enrollment and premium increases.
- The Authority's operating expenses decreased by $72.5 million, or 4.4%, from prior year. This decrease is the result of the sale of CCHP's members. Virginia Premier's continued network expansion also resulted in a $14.1 million increase in medical claims expense.
- The Authority showed income from operations for the year ended June 30, 2011 of $145.2 million, a $56.2 million increase from operating income of $89.0 million for the year ended June 30, 2010.
- The major capital expenditures for the Authority in 2011 related to investments in information systems infrastructure, purchase and replacement of medical equipment, modernization of MCVH's emergency department and other 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 $1,033.1 million as of June 30, 2011. Of this net position 22.1% ($228.6 million) are related to capital assets, 2.0% ($21.1 million) are restricted funds, and the remaining 75.9% ($783.4 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 Net Position

(In thousands)

		June 30	
		2011	**2010**
Current assets	$	703,428	663,902
Capital assets, net		452,832	465,177
Other noncurrent assets		356,443	270,459
Total assets		1,512,703	1,399,538
Deferred outflows		31,805	39,292
Total assets and deferred outflows	$	1,544,508	1,438,830
Current liabilities	$	198,609	208,371
Long-term liabilities		312,848	358,370
Total liabilities	$	511,457	566,741
Net position:			
Net investment in capital assets	$	228,560	181,156
Restricted:			
Expendable		1,856	1,474
Nonexpendable		19,197	17,008
Unrestricted		783,438	672,451
Total net position	$	1,033,051	872,089

(Continued)

Table 2
Virginia Commonwealth University
Health System Authority

Condensed Statements of Revenues, Expenses and Changes in Net Position

(In thousands)

		Year ended June 30	
		2011	**2010**
Operating revenues:			
Net patient service revenue	$	1,137,334	1,070,841
Premiums earned		561,574	647,751
Other operating revenues		29,825	26,475
Total operating revenues		1,728,733	1,745,067
Operating expenses:			
Salaries, wages and employee benefits		695,897	653,179
Medical claims expense		438,782	571,449
Supplies		229,259	218,851
Depreciation and amortization		60,640	58,487
Other operating expenses		158,984	154,107
Total operating expenses		1,583,562	1,656,073
Operating income		145,171	88,994
Net nonoperating income		14,450	29,893
Excess of revenues over expenses before other changes in net position		159,621	118,887
Other changes in net position		1,341	(2,381)
Increase in net position		160,962	116,506
Beginning net position		872,089	755,583
Ending net position	$	1,033,051	872,089

The Authority's operating revenues decreased by 1.0% ($16.3 million) over the prior year. This decrease in revenues resulted from the expansion of Virginia Premier, changes in pricing for MCVH and MCVAP, the mix of hospital and physician services and a decrease in premiums earned by CCHP of $149.9 million. In June 2010, CCHP sold its rights to serve Medicaid members in South Carolina. Total operating expenses decreased 4.4% ($72.5 million). Personnel costs are the largest single cost of the Authority, comprising 43.9% of operating costs in 2011. An increase in personnel-related costs of $42.7 million, or 6.5%, 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 decrease in nonpersonnel expenses resulted from the sale of CCHP's members which decreased medical claims expense $132.7 million from the prior year.

Capital Asset and Debt Administration

Capital Assets

The Authority's capital assets decreased by $12.3 million, or 2.7%, over prior year amounts.

Table 3
Virginia Commonwealth University
Health System Authority

Capital Assets

(In thousands)

		June 30	
		2011	**2010**
Land and improvements	$	5,115	4,617
Buildings and fixed equipment		553,032	534,919
Moveable equipment		341,132	313,346
Construction in progress		10,138	10,895
		909,417	863,777
Accumulated depreciation		(456,585)	(398,600)
Total	$	452,832	465,177

Table 4
Virginia Commonwealth University
Health System Authority

Schedule of Additions and Retirements

(In thousands)

		Year ended June 30	
		2011	**2010**
Capital assets, beginning of year	$	465,177	483,078
Additions		47,849	41,128
Disposals, net of accumulated depreciation		(122)	(103)
Depreciation		(60,072)	(58,926)
Capital assets, end of year	$	452,832	465,177

(Continued)

Major projects capitalized include (in millions):

		Year ended June 30	
		2011	**2010**
Office building and renovations	$	2.9	4.7
Investments in information system infrastructure, business systems and equipment		8.5	4.6
Radiology and cardiology equipment		6.9	1.4
Surgery equipment		1.5	2.3
Pharmacy renovations		1.5	2.6
Renovations of Main and North Hospitals		0.6	12.6
Major renovation projects		10.7	6.3
Purchase and replacement of moveable equipment		15.2	6.6
	$	47.8	41.1

The Authority has a five-year capital plan, which includes a budget of $101.1 million of expenditures in fiscal year 2012.

Debt

Table 5
Virginia Commonwealth University
Health System Authority

Debt

(In thousands)

		June 30	
		2011	**2010**
General Revenue Bonds Series 2008	$	123,410	124,225
General Revenue Bonds Series 2005		94,350	98,175
General Revenue Bonds Series 1998		—	51,675
Parking deck debt		1,210	1,417
Capital leases		6,427	10,227
Total	$	225,397	285,719

At June 30, 2011, the Authority had $225.4 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 combined financial statements.

Contacting the Authority's Financial Management

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

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

Combined Statements of Net Position – Enterprise Fund

June 30, 2012 and 2011

Assets and Deferred Outflows	2012	2011
Current assets:		
Cash and cash equivalents	$ 203,645,154	287,506,506
Restricted cash	84,036	139,695
Short-term investments	387,648,541	202,121,495
Patient accounts receivable, less allowances for doubtful accounts of $203,449,671 in 2012 and $169,276,358 in 2011	172,789,410	170,846,292
Settlements due from third-party payors	1,553,207	1,594,499
Premiums receivable	47,860,988	3,694,981
Other accounts receivable	5,421,349	7,444,144
Due from affiliates	514,837	154,804
Current portion of assets whose use is limited	5,500,000	6,200,000
Supplies and other current assets	25,239,553	23,725,335
Total current assets	850,257,075	703,427,751
Capital assets:		
Land and improvements	7,724,306	5,114,816
Depreciable capital assets, less accumulated depreciation of $511,153,003 in 2012 and $456,585,489 in 2011	417,902,975	437,578,519
Construction in progress	37,815,089	10,138,217
Total capital assets	463,442,370	452,831,552
Other assets:		
Assets whose use is limited, less current portion	325,011,530	197,643,148
Long-term investments	127,881,858	117,329,239
Other receivables	32,872,635	33,588,808
Other assets	5,367,936	7,882,894
Total other assets	491,133,959	356,444,089
Total assets	1,804,833,404	1,512,703,392
Deferred outflows – Accumulated change in fair value of hedging derivatives	64,081,370	31,805,159
Total assets and deferred outflows	$ 1,868,914,774	1,544,508,551

See accompanying notes to combined financial statements.

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

Combined Statements of Net Position – Enterprise Fund

June 30, 2012 and 2011

Liabilities and Net Position	**2012**	**2011**
Current liabilities:		
Current portion of long-term debt and capital leases	$ 5,581,105	6,111,174
Estimated medical claims payable	42,721,288	49,075,641
Trade accounts payable	37,576,257	30,470,882
Settlements due to third-party payors	53,814,773	5,448,527
Accrued salaries, wages and employee benefits	50,068,153	43,043,280
Accrued leave	26,278,318	24,351,931
Accrued interest payable	3,708,472	596,115
Due to affiliates	1,877,832	11,190,131
Current portion of estimated workers' compensation claims	2,000,000	2,200,000
Current portion of estimated losses on malpractice claims	3,500,000	4,000,000
Other accrued liabilities	20,188,799	22,121,669
Total current liabilities	247,314,997	198,609,350
Other liabilities:		
Long-term debt and capital leases, less current portion	334,742,273	219,286,041
Estimated workers' compensation claims	15,526,727	16,208,983
Estimated losses on malpractice claims	19,967,619	19,501,213
Fair value of hedging derivatives	64,081,370	31,805,159
Other liabilities	25,454,034	26,046,503
Total liabilities	707,087,020	511,457,249
Net position:		
Net investment in capital assets	200,709,637	228,559,930
Restricted:		
Expendable	1,455,722	1,856,193
Nonexpendable permanent endowment	18,516,990	19,197,161
Unrestricted	941,145,405	783,438,018
Total net position	1,161,827,754	1,033,051,302
Total liabilities and net position	$ 1,868,914,774	1,544,508,551

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

Combined Statements of Revenues, Expenses and
Changes in Net Position – Enterprise Fund

Years ended June 30, 2012 and 2011

	2012	2011
Operating revenues:		
Net patient service revenue, net of uncollectible amounts	$ 1,254,120,493	1,137,333,593
Premiums earned	512,248,225	561,574,205
Other contract revenue	12,701,015	13,382,330
Medical consultation income	957,961	1,009,491
Other operating revenue	14,774,431	15,433,453
	1,794,802,125	1,728,733,072
Operating expenses:		
Salaries and wages	584,765,748	549,837,476
Employee benefits	163,367,316	146,060,223
Medical claims expense	428,522,082	438,781,808
Purchased services	75,778,144	66,553,742
Supplies	245,895,096	229,259,395
Other expenses	104,967,569	92,430,093
Provision for depreciation and amortization	58,309,249	60,639,788
	1,661,605,204	1,583,562,525
Operating income	133,196,921	145,170,547
Nonoperating revenues and expenses:		
Investment income	9,387,903	34,455,203
Interest expense	(7,306,771)	(8,842,007)
Other nonoperating income or expense, net	(444,595)	12,246,648
Donations and gifts	3,008,850	(7,735,569)
Total nonoperating revenues and expenses	4,645,387	30,124,275
Excess of revenues over expenses before income tax expense	137,842,308	175,294,822
Income tax expense	(4,197,613)	(15,674,344)
Excess of revenues over expenses	133,644,695	159,620,478
Transfers to affiliates	(2,017,143)	(2,723,989)
Other	(1,895,428)	1,877,185
Increase (decrease) in beneficial interest in trusts	(955,672)	2,188,562
Increase in net position	128,776,452	160,962,236
Net position at beginning of year	1,033,051,302	872,089,066
Net position at end of year	$ 1,161,827,754	1,033,051,302

See accompanying notes to combined financial statements.

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

Combined Statements of Cash Flows – Enterprise Fund

Years ended June 30, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Cash received from third-party payors and patients	$ 1,300,584,913	1,143,455,521
Cash received from premiums	468,082,218	611,848,318
Cash paid to employees	(738,585,072)	(688,461,491)
Cash paid to suppliers	(415,854,340)	(400,318,164)
Cash paid to providers of health care services	(434,876,435)	(453,403,677)
Other operating cash receipts and payments, net	17,572,161	28,543,227
Net cash provided by operating activities	196,923,445	241,663,734
Cash flows from noncapital financing activities:		
Donations and gifts	(6,491,150)	1,764,431
Transfers to affiliates and other transfers	(2,017,143)	(846,804)
Net cash provided by (used in) noncapital financing activities	(8,508,293)	917,627
Cash flows from capital and related financing activities:		
Purchases of capital assets	(65,916,226)	(47,848,875)
Proceeds from issuance of bond	121,069,055	—
Principal payments on notes payable	—	(15,000,000)
Principal payments on long-term debt and capital lease obligations	(6,111,174)	(60,321,544)
Cash paid for interest	(7,296,905)	(9,562,878)
Cash paid for deferred financing costs	(969,889)	—
Other financing cash flows	1,208,792	(205,222)
Net cash provided by (used in) capital and related financing activities	41,983,653	(132,938,519)
Cash flows from investing activities:		
Interest and dividends on investments	8,524,899	7,628,214
Purchases of investments	(603,674,860)	(326,764,232)
Proceeds from sales of investments	301,122,501	288,000,495
Net cash used in investing activities	(294,027,460)	(31,135,523)
Net increase (decrease) in cash and cash equivalents	(63,628,655)	78,507,319
Cash and cash equivalents at beginning of year	349,696,395	271,189,076
Cash and cash equivalents at end of year	$ 286,067,740	349,696,395
Reconciliation of cash and cash equivalents to the combined statements of net position – enterprise fund:		
Cash and cash equivalents	$ 203,645,154	287,506,506
Restricted cash	84,036	139,695
Assets whose use is limited	82,338,550	62,050,194
Total cash and cash equivalents	$ 286,067,740	349,696,395

(Continued)

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

Combined Statements of Cash Flows – Enterprise Fund

Years ended June 30, 2012 and 2011

		2012	2011
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	133,196,921	145,170,547
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization		58,309,249	60,639,788
Income tax expense		(4,197,613)	(15,674,344)
Loss on disposal of capital assets		143,235	122,288
Changes in:			
Patient accounts receivable		(1,943,118)	(13,383,393)
Due to/from third-party payors		48,407,538	19,505,321
Premiums receivable		(44,166,007)	50,274,113
Other accounts receivable		2,022,795	2,794,568
Due to/from affiliates		(172,332)	(90,671)
Supplies and other assets		1,894,326	(3,487,656)
Estimated medical claims payable		(6,354,353)	(14,621,869)
Trade accounts payable		7,105,375	(5,094,073)
Accrued salaries, wages, and employee benefits		7,024,873	2,246,450
Accrued leave		1,926,387	1,792,570
Estimated workers' compensation claims		(882,256)	1,401,888
Estimated losses on malpractice claims		(33,594)	(3,408,697)
Other accrued liabilities		(5,357,981)	13,476,904
Net cash provided by operating activities	$	196,923,445	241,663,734
Supplemental disclosure of noncash information:			
Interest expense capitalized related to acquisition of capital assets	$	3,102,491	—

See accompanying notes to combined financial statements.

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

Combined Statements of Net Position – Pension Trust Fund

June 30, 2012 and 2011

		2012	2011
Assets:			
Assets whose use is limited	$	164,636,441	148,757,724
Net position:			
Reserve for employees' pension benefits	$	164,636,441	148,757,724

See accompanying notes to combined financial statements.

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

Combined Statements of Changes in Net Position – Pension Trust Fund

Years ended June 30, 2012 and 2011

	2012	2011
Beginning net position	$ 148,757,724	112,779,495
Additions:		
Pension contributions	21,702,874	18,183,397
Investment gain, net	1,106,223	23,681,379
Total additions	22,809,097	41,864,776
Deductions:		
Pension benefit payments	(6,930,380)	(5,886,547)
Total deductions	(6,930,380)	(5,886,547)
Ending net position	$ 164,636,441	148,757,724

See accompanying notes to combined 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), Virginia Premier Health Plan (VA Premier), University Health Services, Inc. and subsidiaries (UHS), Children's Hospital (Children's) and MCVAP. MCVH, a division of the Authority, is an approximately 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 with the Authority as sole corporate member, functions as the group practice plan for those physicians and health care professionals who have faculty appointments in the Virginia Commonwealth University (VCU) School of Medicine (SOM). MCVH, VA Premier, UHS, Children's, and MCVAP are included in the enterprise fund 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.

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

Effective June 30, 2010, the Authority became the sole corporate member of Children's. 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.

(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, deferred outflows, liabilities, net position, revenues, and expenses, as appropriate.

The enterprise fund, which includes the combined accounts of MCVH, VA Premier, UHS, MCVAP, and Children's, is used to account for the Authority's ongoing activities. Significant intercompany accounts and transactions have been eliminated in their combination.

(Continued)

The pension trust fund is used to account for assets held in trust for the benefit of the employees of MCVH and includes the assets of the MCVH Authority Defined Contribution Plan and the Virginia Commonwealth University Health System Authority Health Care Providers Defined Contribution Plan (the HCP 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 fund is included as a component unit of MCVH and the Authority.

The combined financial statements of the pension trust fund 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.

The Governmental Accounting Standards Board (GASB) establishes standards for external financial reporting for all state and local governmental entities. These standards require a statement of net position, a statement of activities and changes in net position and a statement of cash flows. They also require the classification of net position into three components – net investment in capital assets; amounts that are restricted; and amounts that are unrestricted. These classifications are defined as follows:

- *Net investment in capital assets* – This component consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included in this component. If there are significant unspent related debt proceeds or deferred inflows of resources at the end of the reporting period, the portion of the debt or deferred inflows of resources attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Instead, that portion of the debt or deferred inflows of resources is included in the same component as the unspent amount.
- *Restricted* – This component consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Assets may be restricted 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 assets are either expendable or nonexpendable. Nonexpendable assets are those that are required to be retained in perpetuity.
- *Unrestricted* – This component is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

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*.

(Continued)

(b) Enterprise Fund Accounting

The Authority uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using economic resources measurement focus. 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 estimated cost associated with these charges, based on the latest information available as of the date the June 30, 2012 financial statements were available to be issued, is $13,046,882 and $13,388,190 for the years ended June 30, 2012 and 2011, respectively.

(Continued)

(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 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 $16,189,468 and $17,145,139 are restricted by donors for MCVH in perpetuity and are included in assets whose use is limited at June 30, 2012 and 2011, respectively, at fair value.

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 $2,870,417 and $2,996,275 for June 30, 2012 and 2011, 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.

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 the 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 on the accompanying combined statements of net position.

(k) Derivative Financial Instruments

The Authority 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 combined statements of net position at their fair value. The Authority 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 combined statements of net position.

(l) Estimated Medical Claims Payable

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

(m) Accrued Leave

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

(n) 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.

(o) 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.

(Continued)

(p) Clinical Earnings Contribution to VCU School of Medicine

MCVAP is required to make clinical earnings contribution transfers to the VCU SOM in support of its academic and educational goals. This transfer is based on a percentage of net patient service revenue, as defined, and 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 $14,490,000 and $10,835,000 at June 30, 2012 and 2011, respectively, and are included in unrestricted assets in the accompanying combined statements of net position.

(q) Operating Revenues and Expenses

The Authority's combined statement of revenues, expenses and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care and other core services. 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.

(r) 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 $19,059,000 in 2012 and decrease net patient service revenue by approximately $780,000 in 2011. 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 can be subject to retroactive adjustments based on quality standards or calculations above a predetermined charge increase percentage.

Medicare – Inpatient acute care services and defined capital costs rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates 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 final 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) on an interim basis but eventually settled to a percentage of cost. Outpatient services rendered to Medicaid program beneficiaries are reimbursed on prospectively determined rates and a cost reimbursement methodology. In addition to inpatient and outpatient services provided to Medicaid program beneficiaries, Medicaid reimburses the Authority most of its costs related to services provided to indigent patients and its education mission, which results in total Medicaid and indigent reimbursement to the Authority of approximately $378,400,000 and $346,200,000 in 2012 and 2011, respectively. The Authority's Medicaid cost reports have been audited by the Medicaid program representative through June 30, 2010.

(s) 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 estimated costs for the services provided for this care, net of reimbursement from the Commonwealth of Virginia, approximated $12,673,000 and $5,426,000 for the years ended June 30, 2012 and 2011, respectively.

(t) 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 HMO. VA Premier recognizes premiums received from DMAS for members in the period to which health care coverage relates.

(u) Medical Claims Expense

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

(v) 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 combined financial statements.

The provision for income taxes of VA Premier 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.

In May 2011, VA Premier applied with the IRS to convert to not-for-profit status effective July 1, 2010 and paid $1,400,000 in estimated taxes associated with the conversion. Under U.S. GAAP, VA Premier will continue to record a tax provision as though it were a for-profit entity until such time that the IRS approves the application for not-for-profit status.

The Authority recognizes 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, 2012 and 2011, the Authority has no income tax positions that are not considered greater than 50% likely of being realized.

(w) Use of Estimates

The preparation of combined 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, valuation of deferred tax assets, medical claims payable, self-insurance liabilities, third-party settlements, and the carrying amount of capital assets, derivative financial instruments and investments.

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

At June 30, 2012 and 2011, the carrying values of the Authority's deposits totaled $203,645,154 and $287,506,506, respectively, and the bank balances totaled $222,481,435 and $304,743,917, 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 accordance with the Act, the depository institution pledged collateral with a market value equal to 105% 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 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 – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of a fixed income investment. 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 – Credit risk is the risk that a fixed income issuer or other investment counterparty will not fulfill their obligations as required by the investment security. To mitigate credit risk, the Authority's investment policy requires that the overall weighted average quality of each fixed income portfolio be rated AA or better. All portfolios were in compliance with this policy at June 30, 2012.

Credit Concentration Risk – Credit concentration risk results from not adequately diversifying investments. Under the Authority's investment policy, the securities of any one issuer are limited to 5% at cost and 7% at market of the portfolio. At June 30, 2012, no investment in any one corporation or single issuer exceeded 5% of the outstanding shares or total issue at the time of purchase, respectively.

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

	Fair value	
	2012	**2011**
Enterprise funds:		
Assets whose use is limited:		
Externally restricted by donors	$ 16,189,468	17,145,139
Externally restricted under bond indenture	75,614,038	3,666
Externally restricted by insurance regulations	912,827	911,940
Externally restricted by Foundation	2,870,417	2,996,275
Internally restricted for medical malpractice (MCVAP)	19,686,337	19,553,185
Internally restricted for medical malpractice (MCVH)	3,781,282	3,948,028
Internally restricted for workers' compensation	17,526,727	18,408,983
Internally restricted for capital acquisition	193,930,434	140,875,932
	$ 330,511,530	203,843,148
Investments	$ 515,530,399	319,450,734
Pension trust funds:		
Externally restricted under pension plan agreement	$ 164,636,441	148,757,724

As of June 30, 2012, investments (including assets whose use is limited) mature as follows:

	Fair value	Investment maturities (in years) Less than 1	1 to 5	6 to 10	More than 10
Cash and cash equivalents	$ 82,338,550	82,338,550	—	—	—
U.S. Treasury notes	94,377,974	75,454,172	15,585,347	1,219,811	2,118,644
Asset-backed securities	24,420,268	1,180,827	16,750,893	2,114,692	4,373,856
Agency-backed mortgages	40,419,103	9,154,038	12,273,978	2,630,031	16,361,056
Commercial paper	249,918,933	249,918,933	—	—	—
Corporate notes	61,222,772	22,514,681	26,675,668	9,526,378	2,506,045
Corporate bonds	20,054,079	4,308,620	9,575,967	2,414,394	3,755,098
Beneficial interest in perpetual trust	16,189,468	N/A	N/A	N/A	N/A
Equity interest in Foundation	2,870,417	N/A	N/A	N/A	N/A
Mutual funds	64,843,739	N/A	N/A	N/A	N/A
Index funds	48,860,702	N/A	N/A	N/A	N/A
Marketable equity securities	15,004,120	N/A	N/A	N/A	N/A
Investment companies	109,536,821	N/A	N/A	N/A	N/A
Repurchase agreements	1,550,000	N/A	N/A	N/A	N/A
Real estate	14,434,983	N/A	N/A	N/A	N/A
	$ 846,041,929	444,869,821	80,861,853	17,905,306	29,114,699

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

As of June 30, 2011, investments (including assets whose use is limited) mature as follows:

	Fair value	Investment maturities (in years) Less than 1	1 to 5	6 to 10	More than 10
Cash and cash equivalents	$ 62,050,194	62,050,194	—	—	—
U.S. Treasury notes	103,304,129	85,003,921	15,674,385	1,032,942	1,592,881
Asset-backed securities	22,217,104	146,608	17,679,874	691,771	3,698,851
Agency-backed mortgages	24,790,310	652,214	10,689,794	2,788,795	10,659,507
Corporate notes	52,244,926	13,473,317	31,565,219	5,960,771	1,245,619
Corporate bonds	14,724,445	675,615	11,075,850	1,352,495	1,620,485
Beneficial interest in perpetual trust	17,145,139	N/A	N/A	N/A	N/A
Equity interest in Foundation	2,996,275	N/A	N/A	N/A	N/A
Mutual funds	59,542,042	N/A	N/A	N/A	N/A
Index funds	43,279,127	N/A	N/A	N/A	N/A
Marketable equity securities	12,720,647	N/A	N/A	N/A	N/A
Investment companies	100,717,627	N/A	N/A	N/A	N/A
Real estate	7,561,917	N/A	N/A	N/A	N/A
	$ 523,293,882	162,001,869	86,685,122	11,826,774	18,817,343

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

The pension trust funds consist of participant-directed investments, which are primarily in publicly traded mutual funds.

(4) Capital Assets

Capital assets, and changes thereto, as of and for the year ended June 30, 2012, consisted of the following:

	Beginning balance	Additions	Transfers	Disposals	Ending balance
Land and improvements	$ 5,114,816	2,609,490	—	—	7,724,306
Buildings and fixed equipment	553,031,937	1,186,049	13,534,108	(70,025)	567,682,069
Moveable equipment	341,132,071	1,786,599	22,193,881	(3,738,642)	361,373,909
Construction in progress	10,138,217	63,404,861	(35,727,989)	—	37,815,089
	909,417,041	68,986,999	—	(3,808,667)	974,595,373
Less accumulated depreciation	(456,585,489)	(58,232,946)	—	3,665,432	(511,153,003)
	$ 452,831,552	10,754,053	—	(143,235)	463,442,370

Capital assets, and changes thereto, as of and for the year ended June 30, 2011, consisted of the following:

	Beginning balance	Additions	Transfers	Disposals	Ending balance
Land and improvements	$ 4,616,816	498,000	—	—	5,114,816
Buildings and fixed equipment	534,918,689	267,701	17,957,484	(111,937)	553,031,937
Moveable equipment	313,345,985	1,475,784	28,407,085	(2,096,783)	341,132,071
Construction in progress	10,895,396	45,607,390	(46,364,569)	—	10,138,217
	863,776,886	47,848,875	—	(2,208,720)	909,417,041
Less accumulated depreciation	(398,600,039)	(60,071,882)	—	2,086,432	(456,585,489)
	$ 465,176,847	(12,223,007)	—	(122,288)	452,831,552

(5) Long-Term Debt

Long-term debt, and changes thereto, as of and for the year ended June 30, 2012, is summarized below:

	Beginning balance	Additions	Reductions	Ending balance	Amounts due within one year
Series 2011 Bonds	$ —	120,000,000	—	120,000,000	—
Premium on Series 2011 Bonds	—	1,069,055	(31,718)	1,037,337	—
Series 2008 Bonds	123,410,000	—	(840,000)	122,570,000	795,000
Series 2005 Bonds	94,350,000	—	(2,025,000)	92,325,000	2,100,000
Parking deck debt	1,210,444	—	(220,107)	990,337	230,107
Capital leases	6,426,771	—	(3,026,067)	3,400,704	2,455,998
Total long-term debt	$ 225,397,215	121,069,055	(6,142,892)	340,323,378	5,581,105

Long-term debt, and changes thereto, as of and for the year ended June 30, 2011, is summarized below:

	Beginning balance	Additions	Reductions	Ending balance	Amounts due within one year
Series 2008 Bonds	$ 124,225,000	—	(815,000)	123,410,000	840,000
Series 2005 Bonds	98,175,000	—	(3,825,000)	94,350,000	2,025,000
Series 1998 Bonds	51,675,000	—	(51,675,000)	—	—
Parking deck debt	1,416,821	—	(206,377)	1,210,444	220,107
Capital leases	10,226,938	—	(3,800,167)	6,426,771	3,026,067
Total long-term debt	$ 285,718,759	—	(60,321,544)	225,397,215	6,111,174

On December 1, 2011, MCVH issued $120,000,000 of fixed rate General Revenue Bonds at a premium of $1,069,055 to fund construction of a new outpatient facility and other additions and improvements to MCVH facilities. The Series 2011 Bonds are subject to mandatory sinking fund, optional and extraordinary redemption with principal amount varying between $2,400,000 on July 1, 2014 and $7,370,000 at maturity on July 1, 2041. Interest rates range from 2.0% to 5.0% payable semiannually in January and July.

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 July 2013. The bonds bear variable rates of interest that reset daily based on the Securities Industry and Financial Markets Association (SIFMA) index (0.20% at June 30, 2012). The bonds are subject to mandatory sinking fund redemptions with principal amount varying between $795,000 on July 1, 2012 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 July 2013. The bonds bear variable rates of interest that reset daily based on the SIFMA index (0.20% at June 30, 2012).The bonds are subject to mandatory sinking fund redemptions with principal amounts varying between $2,100,000 in June 2013 and $10,250,000 at maturity in June 2030.

In conjunction with the transfer agreement associated with the formation of the Authority, 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, 2012 follows:

	Series 2011 Bonds	Series 2008 Bonds	Series 2005 Bonds	Parking deck debt	Capital leases	Total
2013	$ —	795,000	2,100,000	230,107	2,455,998	5,581,105
2014	—	910,000	2,175,000	238,834	944,706	4,268,540
2015	2,400,000	935,000	2,250,000	253,836	—	5,838,836
2016	2,450,000	980,000	2,325,000	267,560	—	6,022,560
2017	2,525,000	1,020,000	2,400,000	—	—	5,945,000
2018 – 2022	14,020,000	5,750,000	13,325,000	—	—	33,095,000
2023 – 2027	17,055,000	7,015,000	38,050,000	—	—	62,120,000
2028 – 2032	21,210,000	19,310,000	29,700,000	—	—	70,220,000
2033 – 2037	26,690,000	70,155,000	—	—	—	96,845,000
2038 – 2042	33,650,000	15,700,000	—	—	—	49,350,000
Total	$ 120,000,000	122,570,000	92,325,000	990,337	3,400,704	339,286,041

A summary of estimated future interest requirements of long-term debt based on effective rates as of June 30, 2012 follows:

	Series 2011 Bonds	Series 2008 Bonds	Series 2005 Bonds	Parking deck debt	Total
2013	$ 5,318,556	210,330	167,470	46,841	5,743,197
2014	5,318,556	208,759	163,433	35,336	5,726,084
2015	5,270,556	207,144	159,256	23,394	5,660,350
2016	5,197,056	205,451	154,941	10,702	5,568,150
2017	5,121,306	203,689	150,486	—	5,475,481
2018 – 2022	24,031,930	989,516	679,948	—	25,701,394
2023 – 2027	20,822,719	933,363	441,295	—	22,197,377
2028 – 2032	16,397,688	846,036	56,426	—	17,300,150
2033 – 2037	10,644,989	387,135	—	—	11,032,124
2034 – 2042	3,345,188	—	—	—	3,345,188
Total	$ 101,468,544	4,191,423	1,973,255	116,273	107,749,495

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 2011, 2008 and 2005 Bonds. For the years ended June 30, 2012 and 2011, MCVH transferred approximately $3,101,000 and $6,124,000, respectively, to the bond service accounts.

The Series 2011, 2008 and 2005 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:

	2012		2011	
	Carrying value	Fair value	Carrying value	Fair value
Long-term obligations	$ 336,922,674	344,119,409	218,970,444	219,121,695

Interest expense for the years ended June 30, 2012 and 2011 was approximately $7,307,000 and $8,842,007, respectively, net of amount capitalized. Capitalized interest of approximately $3,102,000 was recorded related to construction in progress in 2012. For the years ended June 30, 2012 and 2011, the Authority paid approximately $7,297,000 and $9,563,000, respectively, for interest.

(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 (0.16% as of June 30, 2012). The payments are settled monthly at the first of each month. Payments or receipts under the terms of the swap are recorded as interest expense. At June 30, 2012 and 2011, the fair market value of the swaps of $46,335,212 and $22,905,655, respectively, is included in deferred outflows and in other liabilities in the accompanying combined statements of net position. For the years ended June 30, 2012 and 2011, the change in fair value of the swaps was approximately $23,430,000 and $5,385,000, 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 (0.16% as of June 30, 2012). The payments are settled monthly at the first of each month. Payments or receipts under the terms of the swap are recorded as interest expense. At June 30, 2012 and 2011, the fair market value of the swap of $17,746,158 and $8,899,504, respectively, is included in deferred outflows and in other liabilities in the accompanying combined statements of net position. For the years ended June 30, 2012 and 2011, the change in fair value of the swap was approximately $8,847,000 and $2,103,000, respectively.

(7) Operating Leases

Total expense under operating leases was approximately $9,758,000 and $10,578,000 in 2012 and 2011, respectively. Future minimum lease payments for noncancelable operating leases are as follows:

2013	$	8,978,295
2014		7,103,064
2015		6,345,337
2016		5,025,183
2017		4,044,225
2018 – 2019		4,056,584
	$	35,552,688

(8) Commitments

Estimated costs to complete construction in progress for capital assets at June 30, 2012 are approximately $49,900,000. Commitments primarily relate to the purchase of medical equipment, information system infrastructure, and various other projects.

(9) Contingencies

(a) Professional Liability

MCVH

MCVH is self-insured for professional liability claims. 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:

		2012	2011
Estimated malpractice losses at beginning of year	$	3,948,028	4,977,439
Malpractice claims expense, net of actuarial adjustments		17,407	(309,428)
Malpractice claims settled		(184,153)	(719,983)
Estimated malpractice losses at end of year	$	3,781,282	3,948,028

Investments have been set aside based on actuarially determined reserves and are included in assets whose use is limited in the accompanying combined statements of net position – enterprise fund. At June 30, 2012 and 2011, the funds internally restricted for MCVH include $3,781,282 and $3,948,028, respectively, for claims and related legal expenses for reported and unreported incidents occurring since July 1, 1998.

The Authority believes that its combined financial position would not be materially affected by the difference between the amounts recorded and the ultimate cost related to asserted or unasserted MCVH claims, if any, at June 30, 2012.

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:

		2012	2011
Estimated malpractice losses at beginning of year	$	19,553,185	21,932,471
Malpractice claims expense, net of actuarial adjustments		5,034,670	(417,189)
Malpractice claims settled		(4,901,518)	(1,962,097)
Estimated malpractice losses at end of year	$	19,686,337	19,553,185

Assets whose use is limited of $19,686,337 and $19,553,185 have been internally restricted as of June 30, 2012 and 2011, respectively, for payment of claims and related legal expenses for reported and unreported incidents.

The Authority believes that its combined financial position would not be materially affected by the difference between the amounts recorded and the ultimate cost related to asserted and unasserted MCVAP claims, if any, at June 30, 2012.

VA Premier

VA Premier maintains general and professional liability policies. The general liability policy in force is occurrence-based. The coverage under the professional liability policy is on a claims-made basis and must be renewed or replaced with the equivalent insurance if claims incurred during its terms, but asserted after its expiration, are to be insured. Coverage limits for the general liability policy are $1,000,000 per occurrence and $3,000,000 in the annual aggregate. The coverage limit for the professional liability policy is $5,000,000 in the annual aggregate. Management does not believe the amount of liability for any claims incurred but unreported as of June 30, 2012 is significant.

Children's

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

The Authority believes that its combined financial position would not be materially affected by the ultimate cost related to unasserted Children's claims, if any, at June 30, 2012.

(Continued)

(b) Workers' Compensation

The Authority is self-insured for workers' compensation claims. The claims are in various stages of processing. In addition, there may be other claims from unreported incidents arising from services provided by employees. Management of the Authority accrues estimated losses on workers' compensation claims to the extent they fall within the limits of the Authority's self-insurance program. The liability is actuarially determined using industry data and the Authority's historical experience.

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

	2012	2011
Estimated workers' compensation losses at beginning of year	$ 18,408,983	17,007,095
Workers' compensation expense	596,732	3,397,188
Workers' compensation claims settled	(1,478,988)	(1,995,300)
Estimated workers' compensation losses at end of year	$ 17,526,727	18,408,983

Investments have been set aside based on actuarially determined reserves and are included in assets whose use is limited in the accompanying combined statements of net position – enterprise fund. At June 30, 2012 and 2011, the funds internally restricted include $17,526,727 and $18,408,983, respectively, for claims and related legal expenses for reported and unreported incidents.

The Authority believes that its combined financial position would not be materially affected by the difference between the amounts recorded and the ultimate cost related to asserted or unasserted claims, if any, at June 30, 2012.

(10) Net Patient Service Revenue

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

	2012	2011
MCVH gross patient revenue:		
Inpatient	$ 1,855,965,047	1,712,473,142
Outpatient	1,259,765,269	1,124,002,263
Total MCVH gross patient service revenue	3,115,730,316	2,836,475,405
Less uncompensated care, contractual allowances, and uncollectible amounts	(2,027,566,913)	(1,855,048,288)
MCVH net patient service revenue	1,088,163,403	981,427,117
MCVAP net patient service revenue	168,435,566	157,538,651
Children's net patient service revenue	25,776,269	26,354,809
Eliminations	(28,254,745)	(27,986,984)
Combined net patient service revenue	$ 1,254,120,493	1,137,333,593

MCVH participated in an intergovernmental transfer with the Virginia Department of Medical Assistance (DMAS) in 2011 whereby MCVH transferred $10,633,000 of commercial receipts to the Commonwealth of Virginia. DMAS obtained matching federal funds on these receipts and increased Medicaid premium payments to VA Premier by $27,097,000. No such transfers occurred in 2012.

During 2011, VA Premier notified MCVH it would make supplemental claims payments of $12,780,000 related to 2011. The receivable from VA Premier is included in due from affiliates in the accompanying 2012 and 2011 combined statements of net position and is eliminated in combination. No supplemental claims payments occurred in 2012.

These transactions are included in net patient service revenue in the accompanying 2011 combined statement of revenues, expenses and changes in net position.

(11) Estimated Medical Claims Payable

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

(Continued)

Claims expenses and liabilities arising from services rendered to VA Premier's HMO members are reported when it is probable that services have been provided and amount of the claim can be reasonably estimated. The claims payable at June 30, 2012 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:

		2012	2011
Balance at July 1	$	49,075,641	63,697,510
Add provision for claims occurring in:			
Current year		433,654,320	446,040,730
Prior years		(5,132,238)	(7,258,922)
Claims incurred during the current year		428,522,082	438,781,808
Deduct payments for claims occurring in:			
Current year		(392,246,737)	(398,569,339)
Prior years		(42,629,698)	(54,834,338)
Claims payments during the current year		(434,876,435)	(453,403,677)
Balance at June 30	$	42,721,288	49,075,641

VA Premier has a stop-loss arrangement to limit losses on individual claims. These contracts provide stop-loss coverage for all enrollee claims. The VA Premier contract provides coverage for 90% of all inpatient and outpatient services, physician services, and drug-related services in excess of $350,000 subject to certain limitations and a lifetime limit of $5,000,000 per enrollee. Premiums paid to the reinsurer for the years ended June 30, 2012 and 2011 were approximately $2,302,000 and $2,168,000, respectively, and are included in other expenses in the accompanying combined statements of revenues, expenses and changes in net position. Benefits of approximately $1,985,000 and $2,055,000, were provided by the reinsurer for the years ended June 30, 2012 and 2011, respectively, and are netted with medical claims expense in the accompanying combined statements of revenues, expenses, and changes in net position.

(12) 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 be the primary teaching hospital for VCU. VCU leased 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, 2012, MCVH's remaining commitment through 2026 is approximately $6,415,000.

Payments under the affiliation and lease agreements with VCU for the years ended June 30, which are included in purchased services and other expenses on the accompanying combined statements of revenues, expenses and changes in net position, were as follows:

		2012	2011
Payments by VCU to MCVH:			
Operation and maintenance – buildings (five-year lease)	$	2,182,422	2,368,891
Clinical information systems and related services		—	2,094,955
Total payments by VCU to MCVH	$	2,182,422	4,463,846
Payments by MCVH to VCU:			
Graduate education services	$	57,978	57,978
Nonphysician clinical support		6,440,936	4,560,686
Administrative support		7,156,500	6,630,869
Rent on short-term space		1,040,587	2,173,310
Principal and interest on parking deck debt		738,032	735,620
Use of steam plant		585,112	585,401
Total payments by MCVH to VCU	$	16,019,145	14,743,864

(b) Medical College of Virginia Foundation

During the years ended June 30, 2012 and 2011, the Authority donated $278,000 and $9,733,000, 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 combined statements of revenues, expenses and changes in net position. The MCV Foundation provided $1,576,000 and $1,452,000 to MCVAP for the years ended June 30, 2012 and 2011, respectively. The gifts from MCV Foundation were unrestricted and will be used to support the clinical departments.

(13) Litigation

The Authority has been named as defendant in a number of lawsuits regarding matters generally incidental to its core 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 combined financial position or results of operations.

(14) Pension Plans

(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, 2012 and 2011 for these employees were approximately $3,214,000 and $2,946,000, 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 house staff, working at least 20 hours a week in a benefit-eligible position are eligible to participate in the VCUHS 401(a) Plan. At June 30, 2012 and 2011, there were 5,325 and 4,856 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, 2012 and 2011 were approximately $17,050,000 and $15,803,000, 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 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, 2012 and 2011, 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, 2012 and 2011 were approximately $32,000 and $37,000, 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	
	2012	2011
Fidelity Investments	$ 100,145,095	87,929,436
TIAA/CREF	52,893,997	47,516,612
The Variable Annuity Life Insurance Company (VALIC)	11,597,349	13,311,676
	$ 164,636,441	148,757,724

(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 $11,333,000 and $11,851,000 for the years ended June 30, 2012 and 2011, respectively.

MCVAP also participates in 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, 2012 and 2011 were approximately $3,118,000 and $2,820,000, respectively.

(c) VA Premier

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 completes 1,000 hours of service. There is no minimum service or age requirement to participate 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 $1,230,000 and $1,533,000 for the years ended 2012 and 2011, 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 30, 2010, Children's decided to freeze all future benefit accruals for those who were active plan participants. The Pension Plan is also frozen to new participants as of that date.

The measurement date for determining the Pension Plan's funded status is June 30. The Pension Plan's projected benefit obligation was $12,656,088 and $10,084,756 as of June 30, 2012 and 2011, respectively. The Pension Plan's fair value of plan assets was $8,468,236 and $7,914,945 as of June 30, 2012 and 2011, respectively. The Pension Plan's unfunded liability of $4,187,852 and $2,169,811 as of June 30, 2012 and 2011, respectively, is included in other liabilities on the accompanying combined statements of net position.

Children's also maintained 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 were eligible for participation in the 401(k) plan. Contributions were made at the discretion of the Children's Board of Directors. Effective June 30, 2010, the 401(k) plan was frozen and no employer contributions were made into the plan after that date. The IRS approved terminating the plan during 2011 and plan participants received a distribution of their account balance.

(15) 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:

	2012	2011
Anthem	21%	19%
Medicaid	20	20
Medicare	16	18
Other	43	43
	100%	100%

Revenue from the Medicare and Medicaid/Indigent programs accounted for approximately 21% and 30%, respectively, of the Authority's net patient service revenue for the year ended June 30, 2012 (22% and 29%, respectively, for the year ended June 30, 2011). 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.

(16) Federal Income Taxes

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, 2012 and 2011, 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:

		2012	2011
Federal:			
Current	$	2,970,350	14,466,282
Deferred		598,949	(1,196,637)
	$	3,569,299	13,269,645
State:			
Current	$	518,986	2,622,931
Deferred		109,328	(218,232)
	$	628,314	2,404,699

Net deferred tax assets as of June 30, 2012 and 2011 were $2,788,008 and $3,496,285, respectively, and are included in other assets on the accompanying combined statements of net position. The tax effects of temporary differences that gave rise to significant portions of the deferred tax assets and deferred tax liabilities at June 30, 2012 and 2011 were as follows:

		2012	2011
Deferred tax assets:			
Goodwill	$	363,128	605,212
Charitable contribution carryforward		2,108,297	2,458,077
Property and equipment		14,496	216,778
Estimated medical claims payable		305,791	342,709
Total deferred tax assets		2,791,712	3,622,776
Deferred tax liabilities:			
Unrealized gain on investments		(3,704)	(125,951)
Total deferred tax liabilities		(3,704)	(125,951)
Net deferred tax assets	$	2,788,008	3,496,825

As of June 30, 2012, 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, 2012 and 2011 were $19,210,090 and $15,686,634, respectively, and are included in other accrued liabilities in the accompanying combined statements of net position.

(Continued)

(17) FICA Receivable

In March 2010, the IRS announced that, for periods ending before April 1, 2005, medical residents would be eligible for the student exception of Federal Insurance Contributions Act (FICA) taxes. Under the student exception, FICA taxes do not apply to wages for services performed by students employed by a school, college, or university where the student is pursuing a course of study. As a result, the IRS will allow refunds for institutions that file timely FICA refund claims and provide certain information to meet the requirements of perfection, established by the IRS, for their claims applicable to periods prior to April 1, 2005. Institutions are potentially eligible for medical resident FICA refunds for the employer portion of FICA taxes paid, plus statutory interest, and the employees portion, filed on behalf of the employees.

For the year ended June 30, 2011, MCVH recorded nonoperating revenue of $12,500,000 related to the employer portion of FICA medical resident taxes paid that are expected to meet the IRS requirements to be eligible for refunds plus statutory interest. At June 30, 2012 and 2011, MCVH has recorded a receivable of approximately $32,900,000, which is included in noncurrent other receivables. This amount includes the refund that is due to MCVH and amounts that are expected to be received on behalf of and due to the medical residents and other health care providers. At June 30, 2012 and 2011, MCVH has recorded a payable of approximately $20,400,000, included in other liabilities, that represents amounts expected to be paid to the medical residents and other health care providers. MCVH has established its estimate based on information presently available. The estimate is subject to change as the IRS adjudicates the claims.

(18) Subsequent Events

The Authority has evaluated subsequent events for potential recognition and/or disclosure in the June 30, 2012 combined financial statements through September 11, 2012, the date the combined financial statements were available to be issued.

Schedule 1

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

Combining Statements of Net Position – Enterprise Fund

June 30, 2012

Assets and Deferred Outflows	**MCV Hospitals**	**MCV Associated Physicians**	**Virginia Premier Health Plan**	**Children's Hospital**	**University Health Services**	**Eliminations**	**Total**
Current assets:							
Cash and cash equivalents	$ 162,258,624	32,190,510	234,470	2,313,539	6,648,011	—	203,645,154
Restricted cash	—	84,036	—	—	—	—	84,036
Short-term investments	251,540,331	46,740,634	89,367,576	—	—	—	387,648,541
Patient accounts receivable, net	149,377,783	19,013,550	—	3,061,679	—	1,336,398	172,789,410
Settlements due from third-party payors	1,553,207	—	—	—	—	—	1,553,207
Premiums receivable	—	—	47,860,988	—	—	—	47,860,988
Other accounts receivable	2,751,594	2,449,715	45,000	—	175,040	—	5,421,349
Due from affiliates	17,264,658	2,682,708	—	—	481,224	(19,913,753)	514,837
Current portion of assets whose use is limited	2,500,000	3,000,000	—	—	—	—	5,500,000
Supplies and other current assets	23,242,923	351,208	1,359,834	285,588	—	—	25,239,553
Total current assets	610,489,120	106,512,361	138,867,868	5,660,806	7,304,275	(18,577,355)	850,257,075
Capital assets:							
Land and improvements	6,320,817	45,500	303,075	54,914	1,000,000	—	7,724,306
Depreciable capital assets, net	432,985,997	1,946,587	1,365,694	10,139,014	9,280,772	—	455,718,064
Total capital assets	439,306,814	1,992,087	1,668,769	10,193,928	10,280,772	—	463,442,370
Other assets:							
Assets whose use is limited, less current portion	304,541,949	16,686,337	612,178	2,870,417	300,649	—	325,011,530
Long-term investments	101,471,147	23,032,176	3,378,535	—	—	—	127,881,858
Other receivables	32,872,635	—	—	—	—	—	32,872,635
Other assets	5,005,230	—	52,511	11,396	298,799	—	5,367,936
Total other assets	443,890,961	39,718,513	4,043,224	2,881,813	599,448	—	491,133,959
Total assets	1,493,686,895	148,222,961	144,579,861	18,736,547	18,184,495	(18,577,355)	1,804,833,404
Deferred outflows	64,081,370	—	—	—	—	—	64,081,370
Total assets and deferred outflows	$ 1,557,768,265	148,222,961	144,579,861	18,736,547	18,184,495	(18,577,355)	1,868,914,774

(Continued)

Schedule 1

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

Combining Statements of Net Position – Enterprise Fund

June 30, 2012

Liabilities and Net Position	MCV Hospitals	MCV Associated Physicians	Virginia Premier Health Plan	Children's Hospital	University Health Services	Eliminations	Total
Current liabilities:							
Current portion of long-term debt and capital leases	$ 5,581,105	—	—	—	—	—	5,581,105
Estimated medical claims payable	—	—	42,471,288	—	250,000	—	42,721,288
Trade accounts payable	32,387,434	447,901	4,304,811	347,136	88,975	—	37,576,257
Settlements due to third-party payors	48,883,327	3,407,173	—	1,524,273	—	—	53,814,773
Accrued salaries, wages and employee benefits	35,007,175	12,509,309	1,135,705	1,361,964	54,000	—	50,068,153
Accrued leave	20,836,524	3,488,780	1,113,154	839,860	—	—	26,278,318
Accrued interest payable	3,708,472	—	—	—	—	—	3,708,472
Due to affiliates	2,626,179	1,378,915	10,500,007	4,838,997	1,111,089	(18,577,355)	1,877,832
Current portion of estimated workers' compensation claims	2,000,000	—	—	—	—	—	2,000,000
Current portion of estimated losses on malpractice claims	500,000	3,000,000	—	—	—	—	3,500,000
Other accrued liabilities	1,846,736	1,175,714	16,527,717	396,901	241,731	—	20,188,799
Total current liabilities	153,376,952	25,407,792	76,052,682	9,309,131	1,745,795	(18,577,355)	247,314,997
Other liabilities:							
Long-term debt and capital leases, less current portion	334,742,273	—	—	—	—	—	334,742,273
Estimated workers' compensation claims	15,526,727	—	—	—	—	—	15,526,727
Estimated losses on malpractice claims	3,281,282	16,686,337	—	—	—	—	19,967,619
Fair value of hedging derivatives	64,081,370	—	—	—	—	—	64,081,370
Other liabilities	20,650,592	—	531,557	4,271,885	—	—	25,454,034
Total liabilities	591,659,196	42,094,129	76,584,239	13,581,016	1,745,795	(18,577,355)	707,087,020
Net position:							
Net investment in capital assets	176,574,081	1,992,087	1,668,769	10,193,928	10,280,772	—	200,709,637
Restricted:							
Expendable	—	—	612,178	542,895	300,649	—	1,455,722
Nonexpendable permanent endowment	16,189,468	—	—	2,327,522	—	—	18,516,990
Unrestricted	773,345,520	104,136,745	65,714,675	(7,908,814)	5,857,279	—	941,145,405
Total net position	966,109,069	106,128,832	67,995,622	5,155,531	16,438,700	—	1,161,827,754
Total liabilities and net position	$ 1,557,768,265	148,222,961	144,579,861	18,736,547	18,184,495	(18,577,355)	1,868,914,774

See accompanying independent auditors' report.

Schedule 2

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

Combining Statements of Revenues, Expenses and Changes in Net Position – Enterprise Fund

Year ended June 30, 2012

	MCV Hospitals	MCV Associated Physicians	Virginia Premier Health Plan	Children's Hospital	University Health Services	Eliminations	Total
Operating revenues:							
Net patient service revenue	$ 1,088,163,403	168,435,566	—	25,776,269	—	(28,254,745)	1,254,120,493
Premiums earned	—	—	512,248,225	—	—	—	512,248,225
Contract revenue from MCVH	—	58,344,957	—	—	—	(58,344,957)	—
Other contract revenue	—	13,738,048	—	—	—	(1,037,033)	12,701,015
Medical consultation income	—	957,961	—	—	—	—	957,961
Other operating revenue	11,402,653	744,555	—	144,244	4,015,081	(1,532,102)	14,774,431
	1,099,566,056	242,221,087	512,248,225	25,920,513	4,015,081	(89,168,837)	1,794,802,125
Operating expenses:							
Salaries and wages	364,557,809	180,763,644	21,954,154	17,047,718	458,195	(15,772)	584,765,748
Employee benefits	111,546,724	39,212,425	7,880,229	4,740,840	(28,674)	15,772	163,367,316
Medical claims expense	—	—	460,035,749	—	(3,258,922)	(28,254,745)	428,522,082
Purchased services	125,847,203	2,446,364	2,129,648	2,307,309	2,429,610	(59,381,990)	75,778,144
Supplies	238,361,876	3,080,988	2,174,817	2,151,493	125,922	—	245,895,096
Other expenses	82,809,416	13,278,773	6,727,867	2,188,836	1,494,779	(1,532,102)	104,967,569
Provision for depreciation and amortization	55,257,708	531,509	852,091	982,393	685,548	—	58,309,249
	978,380,736	239,313,703	501,754,555	29,418,589	1,906,458	(89,168,837)	1,661,605,204
Operating income (loss)	121,185,320	2,907,384	10,493,670	(3,498,076)	2,108,623	—	133,196,921
Nonoperating revenues and expenses:							
Investment income	8,759,307	549,237	78,852	—	507	—	9,387,903
Interest expense	(7,306,771)	—	(12,918)	—	—	12,918	(7,306,771)
Other nonoperating income, net	(1,030,504)	—	—	608,803	(9,976)	(12,918)	(444,595)
Donations and gifts	(1,850)	3,054,352	(43,652)	—	—	—	3,008,850
Total nonoperating revenues and expenses	420,182	3,603,589	22,282	608,803	(9,469)	—	4,645,387
Excess of revenues over expenses before income taxes	121,605,502	6,510,973	10,515,952	(2,889,273)	2,099,154	—	137,842,308
Income tax expense	—	—	(4,197,613)	—	—	—	(4,197,613)
Excess of revenues over expenses	121,605,502	6,510,973	6,318,339	(2,889,273)	2,099,154	—	133,644,695
Transfers to affiliates	—	(2,017,143)	—	—	—	—	(2,017,143)
Other	937,214	—	—	(2,832,642)	—	—	(1,895,428)
Increase in beneficial interest in trusts	(955,672)	—	—	—	—	—	(955,672)
Increase (decrease) in net position	121,587,044	4,493,830	6,318,339	(5,721,915)	2,099,154	—	128,776,452
Net position at beginning of year	844,522,025	101,635,002	61,677,283	10,877,446	14,339,546	—	1,033,051,302
Net position at end of year	$ 966,109,069	106,128,832	67,995,622	5,155,531	16,438,700	—	1,161,827,754

See accompanying independent auditors' report.