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

Combined Financial Statements

June 30, 2013 and 2012

(With Independent Auditors' Report Thereon)

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

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

Independent Auditors' Report

The Board of Directors
Virginia Commonwealth University
Health System Authority:

Report on the Financial Statements

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, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 from material misstatement.

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

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

Opinion

In our opinion, the 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, 2013 and 2012, a component unit of Virginia Commonwealth University, as of June 30, 2013 and 2012, and the respective changes in net position and, when applicable, cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the Authority's basic financial statements. The Combining Schedules of Net Position – Enterprise Fund and Combining Schedule of Revenues, Expenses and Changes in Net Position – Enterprise Fund (the Combining Schedules) are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining Schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

KPMG LLP

September 19, 2013

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, 2013 and 2012. Please read it in conjunction with the Authority's combined financial statements, which begin on page 14.

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 19 and 20, respectively. 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, 2013 and 2012 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).

June 30, 2013 Compared to June 30, 2012

Financial Highlights

- The Authority's net position increased by $220.3 million, or 19.0%, over prior year as a result of this year's activity.
- Patient service revenue comprises the majority of the Authority's revenues. Net patient service revenue increased by $91.8 million, or 7.3%, 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 increased by $153.4 million, or 30.0%, from prior year due to a rate increase from the Department of Medical Assistance Services (DMAS) as well as an increase in enrollment in the Roanoke region and the introduction of Managed Care to members in the Southwest region of Virginia.
- The Authority's operating expenses increased by $208.0 million, or 12.5%, from prior year. This increase is largely due to medical claims expense related to increased enrollment at Virginia Premier.

- The Authority showed income from operations for the year ended June 30, 2013 of $188.8 million, a $55.6 million increase from operating income of $133.2 million for the year ended June 30, 2012.
- The major capital expenditures for the Authority in 2013 related to construction of a new Children's outpatient facility, 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 $1,382.2 million as of June 30, 2013. Of this net position 15.4% ($213.1 million) are related to capital assets, 1.5% ($21.1 million) are restricted funds, and the remaining 83.1% ($1,148.0 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 – Enterprise Fund

(In thousands)

		June 30	
		2013	**2012**
Current assets	$	1,128,577	850,257
Capital assets, net		481,257	463,442
Other noncurrent assets		427,482	491,134
Total assets		2,037,316	1,804,833
Deferred outflows		—	64,081
Total assets and deferred outflows	$	2,037,316	1,868,914
Current liabilities	$	300,684	247,315
Long-term liabilities		354,480	459,772
Total liabilities	$	655,164	707,087
Net position:			
Net investment in capital assets	$	213,073	200,709
Restricted:			
Expendable		1,859	1,456
Nonexpendable		19,240	18,517
Unrestricted		1,147,980	941,146
Total net position	$	1,382,152	1,161,828

(Continued)

Table 2

Virginia Commonwealth University
Health System Authority

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

(In thousands)

	Year ended June 30	
	2013	**2012**
Operating revenues:		
Net patient service revenue	$ 1,345,968	1,254,121
Premiums earned	665,677	512,248
Other operating revenues	46,747	28,433
Total operating revenues	2,058,392	1,794,802
Operating expenses:		
Salaries, wages and employee benefits	794,108	748,133
Medical claims expense	569,098	428,522
Supplies	252,968	245,895
Depreciation and amortization	62,060	58,309
Other operating expenses	191,390	180,746
Total operating expenses	1,869,624	1,661,605
Operating income	188,768	133,197
Net nonoperating income	32,780	448
Excess of revenues over expenses before other changes in net position	221,548	133,645
Other changes in net position	(1,224)	(4,868)
Increase in net position	220,324	128,777
Beginning net position	1,161,828	1,033,051
Ending net position	$ 1,382,152	1,161,828

The Authority's operating revenues increased by 14.7% ($263.6 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 an increase in premiums earned by Virginia Premier of $153.4 million. Total operating expenses increased 12.5% ($208.0 million). Personnel costs are the largest single cost of the Authority, comprising 42.5% of operating costs in 2013. An increase in personnel-related costs of $46.0 million, or 6.1%, 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 increased by $17.8 million, or 3.8%, over prior year amounts.

Table 3
Virginia Commonwealth University
Health System Authority

Capital Assets – Enterprise Fund

(In thousands)

		June 30	
		2013	**2012**
Land and improvements	$	7,724	7,724
Buildings and fixed equipment		585,614	567,682
Moveable equipment		384,929	361,374
Construction in progress		66,377	37,815
		1,044,644	974,595

Table 4

Virginia Commonwealth University
Health System Authority

Schedule of Additions and Retirements – Enterprise Fund

(In thousands)

		Year ended June 30	
		2013	**2012**
Capital assets, beginning of year	$	463,442	452,832
Additions		78,864	68,987
Disposals, net of accumulated depreciation		(6)	(143)
Depreciation		(61,043)	(58,234)
Capital assets, end of year	$	481,257	463,442

(Continued)

Major projects capitalized include (in millions):

		Year ended June 30	
		2013	**2012**
Purchase and replacement of moveable equipment		18.2	18.1
Children's outpatient facility	$	17.9	1.8
Major renovation projects		13.7	19.6
Office building renovations		8.6	9.6
Radiology and cardiology equipment		8.0	9.6
Investments in information system infrastructure, business systems and equipment		6.3	6.4
Renovations of Main and North Hospitals		4.2	2.4
Surgery equipment		2.0	1.5
	$	78.9	69.0

The Authority has a five-year capital plan, which includes a budget of $165.6 million of expenditures in fiscal year 2014.

Debt

Table 5

Virginia Commonwealth University
Health System Authority

Debt – Enterprise Fund

(In thousands)

		June 30	
		2013	**2012**
General Revenue Bonds Series 2013	$	190,315	—
General Revenue Bonds Series 2011		120,000	120,000
Premium – Bonds Series 2011		983	1,037
General Revenue Bonds Series 2008		—	122,570
Deferred loss on refunding of Series 2008 Bonds		(30,376)	—
General Revenue Bonds Series 2005		—	92,325
Deferred loss on refunding of Series 2005 Bonds		(11,676)	—
Parking deck debt		763	990
Capital leases		945	3,401
Total	$	270,954	340,323

(Continued)

At June 30, 2013, the Authority had $271.0 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.

June 30, 2012 Compared to June 30, 2011

Financial Highlights

- The Authority's net position increased by $128.8 million, or 12.5%, over 2011 as a result of 2012 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 2011 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 2011 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 2011. 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.

(Continued)

As indicated in Table 6 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 6

Virginia Commonwealth University
Health System Authority

Condensed Statements of Net Position – Enterprise Fund

(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
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

(Continued)

Table 7

Virginia Commonwealth University
Health System Authority

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

(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 increased by $10.6 million, or 2.3%, over prior year amounts.

Table 8

Virginia Commonwealth University
Health System Authority

Capital Assets – Enterprise Fund

(In thousands)

		June 30	
		2012	**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 9

Virginia Commonwealth University
Health System Authority

Schedule of Additions and Retirements – Enterprise Fund

(In thousands)

		Year ended June 30	
		2012	**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

Debt

Table 10

Virginia Commonwealth University
Health System Authority

Debt – Enterprise Fund

(In thousands)

	June 30	
	2012	**2011**
General Revenue Bonds Series 2011	$ 121,037	123,410
General Revenue Bonds Series 2008	122,570	94,350
General Revenue Bonds Series 2005	92,325	—
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.

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, 2013 and 2012

Assets and Deferred Outflows	2013	2012
Current assets:		
Cash and cash equivalents	$ 392,254,016	203,645,154
Restricted cash	39,420	84,036
Short-term investments	453,356,080	387,648,541
Patient accounts receivable, less allowances for doubtful accounts of $206,957,458 in 2013 and $203,449,671 in 2012	167,144,718	172,789,410
Settlements due from third-party payors	2,657,387	1,553,207
Premiums receivable	62,908,489	47,860,988
Other accounts receivable	15,796,504	5,421,349
Due from affiliates	181,869	514,837
Current portion of assets whose use is limited	5,600,000	5,500,000
Supplies and other current assets	28,638,203	25,239,553
Total current assets	1,128,576,686	850,257,075
Capital assets:		
Land and improvements	7,724,306	7,724,306
Depreciable capital assets, less accumulated depreciation of $563,387,156 in 2013 and $511,153,003 in 2012	407,155,484	417,902,975
Construction in progress	66,377,432	37,815,089
Total capital assets	481,257,222	463,442,370
Other assets:		
Assets whose use is limited, less current portion	288,712,250	325,011,530
Long-term investments	126,267,256	127,881,858
Other receivables	—	32,872,635
Other assets	12,502,451	5,367,936
Total other assets	427,481,957	491,133,959
Total assets	2,037,315,865	1,804,833,404
Deferred outflows – accumulated change in fair value of hedging derivatives	—	64,081,370
Total assets and deferred outflows	$ 2,037,315,865	1,868,914,774

See accompanying notes to combined financial statements.

(Continued)

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

Combined Statements of Net Position – Enterprise Fund

June 30, 2013 and 2012

Liabilities and Net Position		2013	2012
Current liabilities:			
Current portion of long-term debt and capital leases	$	1,187,668	5,581,105
Estimated medical claims payable		52,397,760	42,721,288
Trade accounts payable		47,258,919	37,576,257
Settlements due to third-party payors		77,053,629	53,814,773
Accrued salaries, wages and employee benefits		58,162,611	50,068,153
Accrued leave		27,032,105	26,278,318
Accrued interest payable		3,234,523	3,708,472
Due to affiliates		818,360	1,877,832
Current portion of estimated workers' compensation claims		2,100,000	2,000,000
Current portion of estimated losses on malpractice claims		3,500,000	3,500,000
Other accrued liabilities		27,938,031	20,188,799
Total current liabilities		300,683,606	247,314,997
Other liabilities:			
Long-term debt and capital leases, less current portion		269,766,105	334,742,273
Estimated workers' compensation claims		12,980,964	15,526,727
Estimated losses on malpractice claims		20,431,413	19,967,619
Fair value of hedging derivatives		42,052,303	64,081,370
Other liabilities		9,249,262	25,454,034
Total liabilities		655,163,653	707,087,020
Net position:			
Net investment in capital assets		213,072,648	200,709,637
Restricted:			
Expendable		1,859,627	1,455,722
Nonexpendable permanent endowment		19,239,747	18,516,990
Unrestricted		1,147,980,190	941,145,405
Total net position		1,382,152,212	1,161,827,754
Total liabilities and net position	$	2,037,315,865	1,868,914,774

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, 2013 and 2012

	2013	2012
Operating revenues:		
Net patient service revenue, net of uncollectible amounts	$ 1,345,968,106	1,254,120,493
Premiums earned	665,677,336	512,248,225
Other contract revenue	13,628,492	12,701,015
Medical consultation income	966,149	957,961
Other operating revenue	32,152,205	14,774,431
	2,058,392,288	1,794,802,125
Operating expenses:		
Salaries and wages	613,844,295	584,765,748
Employee benefits	180,263,805	163,367,316
Medical claims expense	569,098,197	428,522,082
Purchased services	78,565,920	75,778,144
Supplies	252,968,018	245,895,096
Other expenses	112,823,930	104,967,569
Provision for depreciation and amortization	62,060,212	58,309,249
	1,869,624,377	1,661,605,204
Operating income	188,767,911	133,196,921
Nonoperating revenues and expenses:		
Investment income	36,168,692	9,387,903
Interest expense	(8,992,383)	(7,306,771)
Other nonoperating income or expense, net	7,570,007	(444,595)
Donations and gifts	2,311,063	3,008,850
Total nonoperating revenues and expenses, net	37,057,379	4,645,387
Excess of revenues over expenses before income tax expense	225,825,290	137,842,308
Income tax expense	(4,277,046)	(4,197,613)
Excess of revenues over expenses	221,548,244	133,644,695
Transfers to affiliates	(1,776,341)	(2,017,143)
Other	(574,690)	(1,895,428)
Increase (decrease) in beneficial interest in trusts	1,127,245	(955,672)
Increase in net position	220,324,458	128,776,452
Net position at beginning of year	1,161,827,754	1,033,051,302
Net position at end of year	$ 1,382,152,212	1,161,827,754

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, 2013 and 2012

		2013	2012
Cash flows from operating activities:			
Cash received from third-party payors and patients	$	1,373,747,474	1,300,584,913
Cash received from premiums		650,629,835	468,082,218
Cash paid to employees		(785,614,677)	(738,585,072)
Cash paid to suppliers		(432,270,754)	(415,854,340)
Cash paid to providers of health care services		(559,421,725)	(434,876,435)
Other operating cash receipts and payments, net		46,813,449	17,572,161
Net cash provided by operating activities		293,883,602	196,923,445
Cash flows from noncapital financing activities:			
Donations and gifts		2,311,063	(6,491,150)
Transfers to affiliates and other transfers		(1,776,341)	(2,017,143)
Net cash provided by (used in) noncapital financing activities		534,722	(8,508,293)
Cash flows from capital and related financing activities:			
Purchases of capital assets		(75,300,659)	(65,916,226)
Proceeds from issuance of bonds		190,315,000	121,069,055
Principal payments on long-term debt and capital lease obligations		(217,577,930)	(6,111,174)
Cash paid for interest		(13,084,137)	(7,296,905)
Cash paid for deferred financing costs		—	(969,889)
Other financing cash flows		391,368	1,208,792
Net cash provided by (used in) capital and related financing activities		(115,256,358)	41,983,653
Cash flows from investing activities:			
Interest and dividends on investments		12,813,541	8,524,899
Purchases of investments		(1,064,269,395)	(603,674,860)
Proceeds from sales of investments		1,047,792,421	301,122,501
Net cash used in investing activities		(3,663,433)	(294,027,460)
Net increase (decrease) in cash and cash equivalents		175,498,533	(63,628,655)
Cash and cash equivalents at beginning of year		286,067,740	349,696,395
Cash and cash equivalents at end of year	$	461,566,273	286,067,740
Reconciliation of cash and cash equivalents to the combined statements of net position – enterprise fund:			
Cash and cash equivalents	$	392,254,016	203,645,154
Restricted cash		39,420	84,036
Assets whose use is limited		69,272,837	82,338,550
Total cash and cash equivalents	$	461,566,273	286,067,740

(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, 2013 and 2012

		2013	2012
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	188,767,911	133,196,921
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization		62,060,212	58,309,249
Income tax expense		(4,277,046)	(4,197,613)
Loss on disposal of capital assets		6,148	143,235
IRS refund for FICA taxes paid		18,969,500	—
Changes in:			
Patient accounts receivable		5,644,692	(1,943,118)
Due to/from third-party payors		22,134,676	48,407,538
Premiums receivable		(15,047,501)	(44,166,007)
Other accounts receivable		(5,802,520)	2,022,795
Due to/from affiliates		(726,504)	(172,332)
Supplies and other assets		(11,550,285)	1,894,326
Estimated medical claims payable		9,676,472	(6,354,353)
Trade accounts payable		9,682,662	7,105,375
Accrued salaries, wages, and employee benefits		8,094,458	7,024,873
Accrued leave		753,787	1,926,387
Estimated workers' compensation claims		(2,445,763)	(882,256)
Estimated losses on malpractice claims		463,794	(33,594)
Other accrued liabilities		7,478,909	(5,357,981)
Net cash provided by operating activities	$	293,883,602	196,923,445
Supplemental disclosure of noncash information:			
Interest expense capitalized related to acquisition of capital assets	$	3,563,433	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, 2013 and 2012

		2013	2012
Assets:			
Assets whose use is limited	$	201,120,095	164,636,441
Net position:			
Reserve for employees' pension benefits	$	201,120,095	164,636,441

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, 2013 and 2012

		2013	2012
Beginning net position	$	164,636,441	148,757,724
Additions:			
Pension contributions		22,540,291	21,702,874
Investment gain, net		20,377,715	1,106,223
Total additions		42,918,006	22,809,097
Deductions:			
Pension benefit payments		(6,434,352)	(6,930,380)
Total deductions		(6,434,352)	(6,930,380)
Ending net position	$	201,120,095	164,636,441

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.

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 inflows, 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.

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*.

(b) Enterprise Fund Accounting

The Authority uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using economic resources measurement focus.

(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 is $22,031,499 and $13,046,882 for the years ended June 30, 2013 and 2012, respectively.

(g) Assets Whose Use is Limited

Resources restricted for debt service under bond indenture agreements, by insurance regulations of the Commonwealth of Virginia and State of South Carolina, and 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 $16,847,143 and $16,189,468 are restricted by donors for MCVH in perpetuity and are included in assets whose use is limited at June 30, 2013 and 2012, 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 $3,339,987 and $2,870,417 for June 30, 2013 and 2012, 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 greater than one year.

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) 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. Fair value is calculated using the zero-coupon method, which considers known and projected contractual cash flows. 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.

(k) 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.

(l) Accrued Leave

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

(m) 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.

(n) 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.

(o) Clinical Earnings Contribution to VCU School of Medicine

MCVAP is required by an agreement with the VCU SOM 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 $19,563,000 and $14,490,000 at June 30, 2013 and 2012, respectively, and are included in unrestricted assets in the accompanying combined statements of net position.

(p) 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.

(q) 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 $54,478,000 and $19,059,000 in 2013 and 2012, respectively. Settlements due to and from third-party payors include amounts that are currently under appeal with various federal and state agencies.

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

Anthem – Inpatient acute care services rendered to Anthem subscribers are paid at prospectively determined rates per discharge or discounted rates. Outpatient services rendered to Anthem subscribers are reimbursed at discounted rates or applicable fee schedule. The rates 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 resulted in total Medicaid and indigent reimbursement to the Authority of approximately $386,965,000 and $378,400,000 in 2013 and 2012, respectively. The Authority's Medicaid cost reports have been audited by the Medicaid program representative through June 30, 2010.

(r) 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 $10,541,000 and $12,673,000 for the years ended June 30, 2013 and 2012, respectively.

(s) 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.

(t) 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.

(u) 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 continued to record a tax provision as though it were a for-profit entity until the IRS approved 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, 2013 and 2012, the Authority has no income tax positions that are not considered greater than 50% likely of being realized.

(v) 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, Short-Term and Long-Term Investments and Assets Whose Use is Limited

At June 30, 2013 and 2012, the carrying values of the Authority's deposits totaled $392,254,016 and $203,645,154, respectively, and the bank balances totaled $433,178,315 and $222,481,435, 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 MCVH's Investment Policy Statement, adopted by its board of directors, MCVH's investment portfolio assets are allocated among the following assets classes: Global Equity, Absolute Strategies, Fixed Income, Real Estate, Real Assets, Private Equity, and Cash.

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. The investment portfolio is monitored and evaluated on a quarterly basis by the Authority's investment advisor and Finance Committee of the Board of Directors to ensure credit risk is kept at an appropriately low level.

Credit Concentration Risk – Credit concentration risk results from not adequately diversifying investments. The Authority's investment policy establishes specific asset allocation guidelines to ensure diversification, define the magnitude of tactical asset allocation, to constrain absolute and relative risk, and to ensure adequate liquidity. The investment portfolio is monitored and evaluated on a quarterly basis by the Authority's investment advisor and Finance Committee of the Board of Directors.

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

	Fair value 2013	Fair value 2012
Enterprise funds:		
Assets whose use is limited:		
Externally restricted by donors	$ 16,847,143	16,189,468
Externally restricted under bond indenture	44,138,661	75,614,038
Externally restricted by insurance regulations	912,244	912,827
Externally restricted by Foundation	3,339,987	2,870,417
Internally restricted for medical malpractice (MCVAP)	20,332,188	19,686,337
Internally restricted for medical malpractice (MCVH)	3,599,225	3,781,282
Internally restricted for workers' compensation	15,080,964	17,526,727
Internally restricted for capital acquisition	190,061,838	193,930,434
	$ 294,312,250	330,511,530
Investments	$ 579,623,336	515,530,399
Pension trust funds:		
Externally restricted under pension plan agreement	$ 201,120,095	164,636,441

As of June 30, 2013, investments (including assets whose use is limited) mature as follows:

		Investment maturities (in years)			
	Fair value	Less than 1	1 to 5	6 to 10	More than 10
Cash and cash equivalents	$ 69,272,837	69,272,837	—	—	—
U.S. Treasury notes	113,120,636	86,784,072	20,749,113	2,270,716	3,316,736
Asset-backed securities	23,401,147	—	19,037,566	1,250,148	3,113,433
Agency-backed mortgages	30,005,398	4,627,468	5,376,979	2,521,897	17,479,054
Commercial paper	198,390,959	198,390,959	—	—	—
Corporate notes	47,834,074	17,055,671	21,743,027	6,788,407	2,246,969
Corporate bonds	24,903,912	4,530,701	13,306,205	3,550,263	3,516,743
Beneficial interest in perpetual trust	16,847,143	N/A	N/A	N/A	N/A
Equity interest in Foundation	3,339,987	N/A	N/A	N/A	N/A
Mutual funds	65,415,753	N/A	N/A	N/A	N/A
Index funds	82,712,979	N/A	N/A	N/A	N/A
Marketable equity securities	38,757,108	N/A	N/A	N/A	N/A
Investment companies	144,470,504	N/A	N/A	N/A	N/A
Real estate	15,463,149	N/A	N/A	N/A	N/A
	$ 873,935,586	380,661,708	80,212,890	16,381,431	29,672,935

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

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

		Investment maturities (in years)			
	Fair value	**Less than 1**	**1 to 5**	**6 to 10**	**More than 10**
Cash and cash equivalents	$ 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.

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

(4) Capital Assets

Capital assets, and changes thereto, as of and for the year ended June 30, 2013, consisted of the following:

	Beginning balance	Additions	Transfers	Disposals	Ending balance
Nondepreciable assets:					
Land and improvements	$ 7,724,306	—	—	—	7,724,306
Construction in progress	37,815,089	77,655,820	(49,093,477)	—	66,377,432
	45,539,395	77,655,820	(49,093,477)	—	74,101,738
Depreciable assets:					
Buildings and fixed equipment	567,682,069	150,017	17,781,885	—	585,613,971
Moveable equipment	361,373,909	1,058,255	31,311,592	(8,815,087)	384,928,669
Less accumulated depreciation	(511,153,003)	(61,043,092)	—	8,808,939	(563,387,156)
	417,902,975	(59,834,820)	49,093,477	(6,148)	407,155,484
Total capital assets, net	$ 463,442,370	17,821,000	—	(6,148)	481,257,222

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
Nondepreciable assets:					
Land and improvements	$ 5,114,816	2,609,490	—	—	7,724,306
Construction in progress	10,138,217	63,404,861	(35,727,989)	—	37,815,089
	15,253,033	66,014,351	(35,727,989)	—	45,539,395
Depreciable assets:					
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
Less accumulated depreciation	(456,585,489)	(58,232,946)	—	3,665,432	(511,153,003)
	437,578,519	(55,260,298)	35,727,989	(143,235)	417,902,975
Total capital assets, net	$ 452,831,552	10,754,053	—	(143,235)	463,442,370

(5) Long-Term Debt

Long-term debt, and changes thereto, as of and for the year ended June 30, 2013, is summarized below:

	Beginning balance	Additions	Reductions	Ending balance	Amounts due within one year
Series 2013 Bonds	$ —	190,315,000	—	190,315,000	—
Series 2011 Bonds	120,000,000	—	—	120,000,000	—
Premium – Series 2011 Bonds	1,037,337	—	(54,372)	982,965	—
Series 2008 Bonds	122,570,000	—	(122,570,000)	—	—
Deferred loss on refunding of Series 2008 Bonds	—	(30,376,129)	—	(30,376,129)	—
Series 2005 Bonds	92,325,000	—	(92,325,000)	—	—
Deferred loss on refunding of Series 2005 Bonds	—	(11,676,174)	—	(11,676,174)	—
Parking deck debt	990,337	—	(226,931)	763,406	242,963
Capital leases	3,400,704	—	(2,455,999)	944,705	944,705
Total long-term debt	$ 340,323,378	148,262,697	(217,632,302)	270,953,773	1,187,668

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

On June 25, 2013, MCVH issued $190,315,000 of variable rate bonds, consisting of Series 2013A of $69,450,000 and Series 2013B of $120,865,000, to refund existing indebtedness of MCVH. The Series 2013 Bonds were issued at face value with initial interest rates based on the 30-day LIBOR index (0.129% at June 30, 2013). MCVH may elect to use other rates as the base but does not currently expect to do so. The Series 2013 Bonds are subject to mandatory sinking fund, optional and extraordinary redemption with principal amounts varying between $2,160,000 on July 1, 2014 and $15,700,000 at maturity on July 1, 2037.

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 to finance the costs of a new 11 story Critical Care Hospital to expand MCVH's adult intensive care beds, emergency department, and private room capacity. The Series 2008 Bonds were repaid as of June 25, 2013, from the proceeds of the Series 2013 Bonds issuance.

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 Series 2005 Bonds were repaid as of June 25, 2013, from the proceeds of the Series 2013 Bonds issuance.

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, 2013 follows:

	Series 2013 Bonds	Series 2011 Bonds	Parking deck debt	Capital leases	Total
2014	$ —	—	242,963	944,705	1,187,668
2015	2,160,000	2,400,000	255,126	—	4,815,126
2016	2,255,000	2,450,000	265,317	—	4,970,317
2017	2,845,000	2,525,000	—	—	5,370,000
2018	2,950,000	2,600,000	—	—	5,550,000
2019 – 2023	16,360,000	14,565,000	—	—	30,925,000
2024 – 2028	37,010,000	17,775,000	—	—	54,785,000
2029 – 2033	53,860,000	22,200,000	—	—	76,060,000
2034 – 2038	72,875,000	27,955,000	—	—	100,830,000
2039 – 2042	—	27,530,000	—	—	27,530,000
Total	$ 190,315,000	120,000,000	763,406	944,705	312,023,111

A summary of estimated future interest requirements of long-term debt based on effective rates as of June 30, 2013 follows:

	Series 2013 Bonds	Series 2011 Bonds	Parking deck debt	Total
2014	$ 1,391,220	5,318,556	30,494	6,740,270
2015	1,352,344	5,270,556	21,722	6,644,622
2016	1,338,914	5,197,056	12,699	6,548,669
2017	1,313,280	5,121,306	—	6,434,586
2018	1,290,525	5,030,306	—	6,320,831
2019 – 2023	6,087,772	23,449,330	—	29,537,102
2024 – 2028	5,026,040	20,042,457	—	25,068,497
2029 – 2033	3,180,520	15,365,782	—	18,546,302
2034 – 2038	982,090	9,317,126	—	10,299,216
2039 – 2042	—	2,037,513	—	2,037,513
Total	$ 21,962,705	96,149,988	64,915	118,177,608

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 2013 and 2011 Bonds. For the years ended June 30, 2013 and 2012, MCVH transferred approximately $24,874,000 and $3,101,000, respectively, to the bond service accounts.

The Series 2013 and 2011 Bonds 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:

	2013		2012	
	Carrying value	Fair value	Carrying value	Fair value
Long-term obligations	$ 312,061,371	313,334,087	336,922,674	344,119,409

Interest expense for the years ended June 30, 2013 and 2012 was $8,992,383 and $7,306,771, respectively, net of amounts capitalized. Capitalized interest of approximately $3,563,000 and $3,102,000 was recorded related to construction in progress in 2013 and 2012. For the years ended June 30, 2013 and 2012, the Authority paid approximately $13,080,000 and $7,297,000, 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 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. The notional amount as of June 30, 2013 was $121,320,000. MCVH pays a fixed rate of 3.84% and the counterparty pays 67% of 30-day LIBOR (0.129% as of June 30, 2013). 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, 2013 and 2012, the fair market value of the swaps of $30,376,129 and $46,335,212, respectively, is included in other liabilities in the accompanying statements of net position. For the years ended June 30, 2013 and 2012, the change in fair value of the swaps was approximately $15,959,000 and $23,430,000, respectively.

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

In December 2005, MCVH entered into an interest rate swap agreement in conjunction with the issuance of its Series 2005 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. The notional amount as of June 30, 2013 was $70,650,000. MCVH pays a fixed rate of 3.499% and the counterparty pays 67% of 30-day LIBOR (0.129% as of June 30, 2013). 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, 2013 and 2012, the fair market value of the swap of $11,676,174 and $17,746,158, respectively, is included in other liabilities in the accompanying statements of net position. For the years ended June 30, 2013 and 2012, the change in fair value of the swap was approximately $6,070,000 and $8,847,000, respectively.

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

(7) Operating Leases

Total expense under operating leases was approximately $10,908,000 and $9,758,000 in 2013 and 2012, respectively. Future minimum lease payments for noncancelable operating leases are as follows:

2014	$	8,913,984
2015		7,435,874
2016		5,882,035
2017		4,527,700
2018		2,975,417
2019 – 2020		1,428,268
	$	31,163,278

(8) Commitments

Estimated costs to complete construction in progress for capital assets at June 30, 2013 are approximately $69,400,000. Commitments primarily relate to new construction of a Children's outpatient facility, 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:

		2013	2012
Estimated malpractice losses at beginning of year	$	3,781,282	3,948,028
Malpractice claims expense, net of actuarial adjustments		1,175,865	17,407
Malpractice claims settled		(1,357,922)	(184,153)
Estimated malpractice losses at end of year	$	3,599,225	3,781,282

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, 2013 and 2012, the funds internally restricted for MCVH include $3,599,225 and $3,781,282, 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, 2013.

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:

		2013	2012
Estimated malpractice losses at beginning of year	$	19,686,337	19,553,185
Malpractice claims expense, net of actuarial adjustments		4,621,089	5,034,670
Malpractice claims settled		(3,975,238)	(4,901,518)
Estimated malpractice losses at end of year	$	20,332,188	19,686,337

Assets whose use is limited of $20,332,188 and $19,686,337 have been internally restricted as of June 30, 2013 and 2012, 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, 2013.

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 $5,000,000 in the annual aggregate. The coverage limit for the professional liability policy is $7,000,000 in the annual aggregate. Management does not believe the amount of liability for any claims incurred but unreported as of June 30, 2013 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, 2013.

(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:

		2013	2012
Estimated workers' compensation losses at beginning of year	$	17,526,727	18,408,983
Workers' compensation expense, net of actuarial adjustments		(354,822)	596,732
Workers' compensation claims settled		(2,090,941)	(1,478,988)
Estimated workers' compensation losses at end of year	$	15,080,964	17,526,727

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, 2013 and 2012, the funds internally restricted include $15,080,964 and $17,526,727, 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, 2013.

(10) Net Patient Service Revenue

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

		2013	2012
MCVH gross changes:			
Inpatient	$	1,963,031,657	1,855,965,047
Outpatient		1,378,105,409	1,259,765,269
Less uncompensated care		(413,769,601)	(397,223,522)
Total MCVH gross patient service revenue		2,927,367,465	2,718,506,794
Less contractual allowances, and uncollectible amounts		(1,755,013,426)	(1,630,343,391)
MCVH net patient service revenue		1,172,354,039	1,088,163,403
MCVAP net patient service revenue		186,503,950	168,435,566
Children's net patient service revenue		28,999,740	25,776,269
Eliminations		(41,889,623)	(28,254,745)
Combined net patient service revenue	$	1,345,968,106	1,254,120,493

(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.

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, 2013 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:

		2013	2012
Balance at beginning of year	$	42,721,288	49,075,641
Add provision for claims occurring in:			
Current year		570,198,762	433,654,320
Prior years		(1,100,565)	(5,132,238)
Claims incurred during the current year		569,098,197	428,522,082
Deduct payments for claims occurring in:			
Current year		(519,067,290)	(392,246,737)
Prior years		(40,354,435)	(42,629,698)
Claims payments during the current year		(559,421,725)	(434,876,435)
Balance at end of year	$	52,397,760	42,721,288

VA Premier has a stop-loss arrangement to limit losses on individual claims. These contracts provide stop-loss coverage for all enrollee claims. The VA Premier contract provides coverage for 90% of all inpatient and outpatient services, physician services, and drug-related services in excess of $375,000 subject to certain limitations and a lifetime limit of $5,000,000 per enrollee. Premiums paid to the reinsurer for the years ended June 30, 2013 and 2012 were approximately $3,173,000 and $2,302,000, respectively, and are included in other expenses in the accompanying combined statements of revenues, expenses and changes in net position. Benefits of approximately $2,664,000 and $1,985,000, were provided by the reinsurer for the years ended June 30, 2013 and 2012, 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, 2013, MCVH's remaining commitment through 2027 is approximately $5,739,000.

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:

		2013	2012
Payments by VCU to MCVH:			
Operation and maintenance	$	2,103,417	2,182,422
Payments by MCVH to VCU:			
Graduate education services	$	57,978	57,978
Nonphysician clinical support		3,581,038	6,440,936
Administrative support		7,835,422	7,156,500
Rent on short-term space		164,892	1,040,587
Principal and interest on parking deck debt		594,863	738,032
Use of steam plant		467,544	585,112
Total payments by MCVH to VCU	$	12,701,737	16,019,145

(b) Medical College of Virginia Foundation

During the years ended June 30, 2013 and 2012, the Authority donated $500,000 and $278,000, 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 $1,044,622 and $1,576,000 to MCVAP for the years ended June 30, 2013 and 2012, 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, 2013 and 2012 for these employees were approximately $5,673,000 and $3,214,000, 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, 2013 and 2012, there were 5,994 and 5,325 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, 2013 and 2012 were approximately $18,464,000 and $17,050,000, 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 heir 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, 2013 and 2012, there were 4 and 5 participants in the HCP Plan, respectively. 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, 2013 and 2012 were approximately $31,000 and $32,000, 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	
		2013	**2012**
Fidelity Investments	$	125,279,650	100,145,095
TIAA/CREF		63,766,340	52,893,997
The Variable Annuity Life Insurance Company (VALIC)		12,074,105	11,597,349
	$	201,120,095	164,636,441

(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 $12,250,000 and $11,333,000 for the years ended June 30, 2013 and 2012, 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, 2013 and 2012 were approximately $3,550,000 and $3,118,000, 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. VA Premier also contributes 3% of each employee's compensation (Safe Harbor contribution) and may make additional contributions (Profit Sharing contributions) at the option of the Board of Directors. During 2013 and 2012, VA Premier made Profit Sharing contributions equal to 2% of each eligible employee's compensation. VA Premier makes Safe Harbor and Profit Sharing contributions in an annual installment at the end of the year. Employees are fully vested after four years of service in which the employee begins employment. The number of covered employees was 566 and 575 as of June 30, 2013 and 2012, respectively. VA Premier's expense for its contributions to this plan was approximately $1,376,000 and $1,230,000 for the years ended 2013 and 2012, 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 $14,881,461 and $12,656,088 as of June 30, 2013 and 2012, respectively. The Pension Plan's fair value of plan assets was $8,896,294 and $8,468,236 as of June 30, 2013 and 2012, respectively. The Pension Plan's unfunded liability of $5,985,167 and $4,187,852 as of June 30, 2013 and 2012, respectively, is included in other liabilities on the accompanying combined statements of net position.

(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:

	2013	2012
Anthem	28%	21%
Medicaid	14	20
Medicare	11	16
Other	47	43
	100%	100%

Revenue from the Medicare and Medicaid/Indigent programs accounted for approximately 21% and 31%, respectively, of the Authority's net patient service revenue for the year ended June 30, 2013 (21% and 30%, respectively, for the year ended June 30, 2012). 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, 2013 and 2012, 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:

	2013	2012
Federal:		
Current	$ 2,898,371	2,970,350
Deferred	826,284	598,949
	$ 3,724,655	3,569,299
State:		
Current	$ 401,700	518,986
Deferred	150,691	109,328
	$ 552,391	628,314

Net deferred tax assets as of June 30, 2013 and 2012 were $1,811,033 and $2,788,008, respectively, and are netted within other accrued liabilities 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, 2013 and 2012 were as follows:

		2013	2012
Deferred tax assets:			
Goodwill	$	121,044	363,128
Charitable contribution carryforward		1,637,045	2,108,297
Property and equipment		155,468	14,496
Estimated medical claims payable		259,633	305,791
Total deferred tax assets		2,173,190	2,791,712
Deferred tax liabilities:			
Unrealized gain on investments		(362,157)	(3,704)
Total deferred tax liabilities		(362,157)	(3,704)
Net deferred tax assets	$	1,811,033	2,788,008

As of June 30, 2013, 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, 2013 and 2012 were $22,511,684 and $19,210,090, respectively, and are included in other accrued liabilities in the accompanying combined statements of net position.

In August 2013, as a result of receiving IRS approval to convert to not-for-profit status VA Premier reversed the income taxes payable and deferred tax assets and liabilities that were previously recorded.

(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.

During 2011, MCVH recorded nonoperating revenue of $12,500,000 related to the employer portion of FICA medical resident refund claims that are expected to meet the IRS requirements to be eligible for refunds and accrued interest. During 2013, MCVH received $45,150,461 from the IRS, which represents most of the periods subject to the IRS refunds. As a result, MCVH recorded nonoperating revenue of

$8,469,500 in 2013 representing amounts received in excess of original estimates and adjustments to the remaining receivable. At June 30, 2013 and 2012, MCVH recorded current accounts receivable of approximately $4,600,000 and noncurrent other receivables of approximately $32,900,000, respectively, which include the refunds due to MCVH and amounts expected to be received on behalf of and due to the medical residents and other health care providers. At June 30, 2013, and 2012, MCVH recorded current other accrued liabilities of approximately $2,600,000 and noncurrent other liabilities of approximately $20,400,000, respectively, which represent 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

In August 2013, the IRS approved VA Premier's application for not-for-profit status. As a result, VA Premier reversed income taxes payable and deferred tax assets and liabilities and recorded a gain on conversion of approximately $23,000,000.

Schedule 1

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

Combining Schedule of Net Position – Enterprise Fund

June 30, 2013

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	$ 360,600,226	26,269,807	(2,168,335)	1,425,575	6,126,743	—	392,254,016
Restricted cash	—	39,420	—	—	—	—	39,420
Short-term investments	292,263,272	63,428,719	97,664,089	—	—	—	453,356,080
Patient accounts receivable, net	145,501,915	18,763,168	—	2,879,635	—	—	167,144,718
Settlements due from third-party payors	2,657,387	—	—	—	—	—	2,657,387
Premiums receivable	—	—	62,908,489	—	—	—	62,908,489
Other accounts receivable	10,438,933	3,053,569	2,242,855	—	61,147	—	15,796,504
Due from affiliates	7,012,443	17,740,783	—	—	151,665	(24,723,022)	181,869
Current portion of assets whose use is limited	2,600,000	3,000,000	—	—	—	—	5,600,000
Supplies and other current assets	26,015,210	327,375	1,485,614	623,773	186,231	—	28,638,203
Total current assets	847,089,386	132,622,841	162,132,712	4,928,983	6,525,786	(24,723,022)	1,128,576,686
Capital assets:							
Land and improvements	6,320,817	45,500	303,075	54,914	1,000,000	—	7,724,306
Depreciable capital assets, net	386,465,208	1,795,993	950,616	9,348,443	8,595,224	—	407,155,484
Construction in progress	66,377,432	—	—	—	—	—	66,377,432
Total capital assets	459,163,457	1,841,493	1,253,691	9,403,357	9,595,224	—	481,257,222
Other assets:							
Assets whose use is limited, less current portion	267,127,831	17,332,188	612,244	3,339,987	300,000	—	288,712,250
Long-term investments	100,529,743	22,319,710	3,417,803	—	—	—	126,267,256
Other assets	12,131,809	—	71,511	11,396	287,735	—	12,502,451
Total other assets	379,789,383	39,651,898	4,101,558	3,351,383	587,735	—	427,481,957
Total assets	$ 1,686,042,226	174,116,232	167,487,961	17,683,723	16,708,745	(24,723,022)	2,037,315,865

(Continued)

Schedule 1

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

Combining Schedule of Net Position – Enterprise Fund

June 30, 2013

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	$ 1,187,668	—	—	—	—	—	1,187,668
Estimated medical claims payable	—	—	52,397,760	—	—	—	52,397,760
Trade accounts payable	36,522,910	346,689	10,034,515	347,955	6,850	—	47,258,919
Settlements due to third-party payors	72,521,766	4,450,795	—	81,068	—	—	77,053,629
Accrued salaries, wages and employee benefits	40,475,887	14,954,212	1,200,363	1,532,149	—	—	58,162,611
Accrued leave	21,120,611	3,663,532	1,391,562	856,400	—	—	27,032,105
Accrued interest payable	3,234,523	—	—	—	—	—	3,234,523
Due to affiliates	17,713,372	534,974	6,526,701	23,912	742,423	(24,723,022)	818,360
Current portion of estimated workers' compensation claims	2,100,000	—	—	—	—	—	2,100,000
Current portion of estimated losses on malpractice claims	500,000	3,000,000	—	—	—	—	3,500,000
Other accrued liabilities	6,098,802	732,200	20,700,651	107,702	298,676	—	27,938,031
Total current liabilities	201,475,539	27,682,402	92,251,552	2,949,186	1,047,949	(24,723,022)	300,683,606
Other liabilities:							
Long-term debt and capital leases, less current portion	269,766,105	—	—	—	—	—	269,766,105
Estimated workers' compensation claims	12,980,964	—	—	—	—	—	12,980,964
Estimated losses on malpractice claims	3,099,225	17,332,188	—	—	—	—	20,431,413
Fair value of hedging derivatives	42,052,303	—	—	—	—	—	42,052,303
Other liabilities	2,669,124	—	502,180	6,077,958	—	—	9,249,262
Total liabilities	532,043,260	45,014,590	92,753,732	9,027,144	1,047,949	(24,723,022)	655,163,653
Net position:							
Net investment in capital assets	190,978,883	1,841,493	1,253,691	9,403,357	9,595,224	—	213,072,648
Restricted:						—	
Expendable	—	—	612,244	947,383	300,000	—	1,859,627
Nonexpendable permanent endowment	16,847,143	—	—	2,392,604	—	—	19,239,747
Unrestricted	946,172,940	127,260,149	72,868,294	(4,086,765)	5,765,572	—	1,147,980,190
Total net position	1,153,998,966	129,101,642	74,734,229	8,656,579	15,660,796	—	1,382,152,212
Total liabilities and net position	$ 1,686,042,226	174,116,232	167,487,961	17,683,723	16,708,745	(24,723,022)	2,037,315,865

See accompanying independent auditors' report.

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

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

Year ended June 30, 2013

	MCV Hospitals	MCV Associated Physicians	Virginia Premier Health Plan	Children's Hospital	University Health Services	Eliminations	Total
Operating revenues:							
Net patient service revenue	$ 1,172,354,039	186,503,950	—	28,999,740	—	(41,889,623)	1,345,968,106
Premiums earned	—	—	665,811,720	—	(134,384)	—	665,677,336
Contract revenue from MCVH	—	61,490,977	—	—	—	(61,490,977)	—
Other contract revenue	—	14,639,992	—	—	—	(1,011,500)	13,628,492
Medical consultation income	—	966,149	—	—	—	—	966,149
Other operating revenue	16,345,214	9,919,555	3,638,857	133,543	3,965,753	(1,850,717)	32,152,205
	1,188,699,253	273,520,623	669,450,577	29,133,283	3,831,369	(106,242,817)	2,058,392,288
Operating expenses:							
Salaries and wages	375,019,143	194,648,436	26,078,956	17,710,309	387,451	—	613,844,295
Employee benefits	121,184,419	45,058,161	8,287,547	5,729,681	3,997	—	180,263,805
Medical claims expense	—	—	611,470,875	—	(399,455)	(41,973,223)	569,098,197
Purchased services	129,903,973	3,797,392	2,715,638	2,223,233	2,344,561	(62,418,877)	78,565,920
Supplies	244,622,207	2,958,636	3,100,999	2,239,877	46,299	—	252,968,018
Other expenses	87,680,822	15,309,275	7,875,764	2,266,751	1,542,035	(1,850,717)	112,823,930
Provision for depreciation and amortization	58,921,692	647,087	834,458	971,427	685,548		62,060,212
	1,017,332,256	262,418,987	660,364,237	31,141,278	4,610,436	(106,242,817)	1,869,624,377
Operating income (loss)	171,366,997	11,101,636	9,086,340	(2,007,995)	(779,067)	—	188,767,911
Nonoperating revenues and expenses:							
Investment income	24,156,295	10,060,621	1,950,613	—	1,163	—	36,168,692
Interest expense	(8,992,383)	—	—	—	—	—	(8,992,383)
Other nonoperating income, net	7,371,371	—	—	198,636	—	—	7,570,007
Donations and gifts	(1,760,000)	3,586,894	(21,300)	505,469	—	—	2,311,063
Total nonoperating revenues and expenses	20,775,283	13,647,515	1,929,313	704,105	1,163	—	37,057,379
Excess of revenues over expenses before income taxes	192,142,280	24,749,151	11,015,653	(1,303,890)	(777,904)	—	225,825,290
Income tax expense	—	—	(4,277,046)	—	—	—	(4,277,046)
Excess of revenues over expenses	192,142,280	24,749,151	6,738,607	(1,303,890)	(777,904)	—	221,548,244
Transfers to affiliates	(6,200,919)	(1,776,341)	—	6,200,919	—	—	(1,776,341)
Other	1,290,861	—	—	(1,865,551)	—	—	(574,690)
Increase in beneficial interest in trusts	657,675	—	—	469,570	—	—	1,127,245
Increase (decrease) in net position	187,889,897	22,972,810	6,738,607	3,501,048	(777,904)	—	220,324,458
Net position at beginning of year	966,109,069	106,128,832	67,995,622	5,155,531	16,438,700	—	1,161,827,754
Net position at end of year	$ 1,153,998,966	129,101,642	74,734,229	8,656,579	15,660,796	—	1,382,152,212

See accompanying independent auditors' report.