



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

Basic Financial Statements and Other Financial Information

June 30, 2014 and 2013

(With Independent Auditors' Report Thereon)

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

**Table of Contents**

	<b>Page(s)</b>
Independent Auditors' Report	1 – 2
Management's Discussion and Analysis (Unaudited)	3 – 15
Basic Financial Statements:	
Statements of Net Position – Enterprise Fund	16 – 17
Statements of Revenues, Expenses and Changes in Net Position – Enterprise Fund	18
Statements of Cash Flows – Enterprise Fund	19 – 20
Statements of Net Position – Pension Trust Fund	21
Statements of Changes in Net Position – Pension Trust Fund	22
Notes to Basic Financial Statements	23 – 54
<b>Other Financial Information as of and for the year ended June 30, 2014</b>	
Schedule 1 – Combining Schedule of Assets, Deferred Outflows of Resources, Liabilities and Net Position – Enterprise Fund	55 – 56
Schedule 2 – Combining Schedule of Revenues, Expenses and Changes in Net Position – Enterprise Fund	57



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

## **Independent Auditors' Report**

The Board of Directors  
Virginia Commonwealth University  
Health System Authority:

We have audited the accompanying 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, and its discretely presented component units as of and for the years ended June 30, 2014 and 2013, 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 opinions 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 basic 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 opinions.



### ***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, a component unit of Virginia Commonwealth University, and its discretely presented component units as of June 30, 2014 and 2013, 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.

### ***Emphasis of a Matter***

As discussed in Note 1 to the financial statements, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinions are not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

U.S. generally accepted accounting principles require that Management's Discussion and Analysis on pages 3 through 15 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 Information***

Our audit was conducted for the purpose of forming opinions on the Authority's basic financial statements. The Combining Schedule of Assets, Deferred Outflows of Resources, Liabilities and Net Position – Enterprise Fund, June 30, 2014, and Combining Schedule of Revenues, Expenses and Changes in Net Position – Enterprise Fund, Year ended June 30, 2014, (the Combining Information) are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Combining Information is the responsibility of management and was derived from and relates 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 basic 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 Information is fairly stated in all material respects in relation to the basic financial statements as a whole.

**KPMG LLP**

October 14, 2014

**VIRGINIA COMMONWEALTH UNIVERSITY**  
**HEALTH SYSTEM AUTHORITY**  
(A Component Unit of Virginia Commonwealth University)  
Management's Discussion and Analysis (Unaudited)  
June 30, 2014 and 2013

This section of Virginia Commonwealth University Health System Authority's (VCUHSA or the Authority) annual financial report provides management's overview of VCUHSA's financial activities for the fiscal years ended June 30, 2014 and 2013. Please read it in conjunction with the Authority's financial statements, which begin on page 16. Except as otherwise noted, the financial highlights in this analysis refer exclusively to the Primary Enterprise as described in note 1 to the basic financial statements.

**Financial Statement Overview**

The financial statements herein are comprised of the statements of net position, statements of revenues, expenses and changes in net position, and statements of cash flows. These 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 statements of net position and statements of changes in net position on pages 21 and 22, respectively. The Authority excludes these activities from the other 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, consisting of MCV Hospitals (MCVH), 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, 2014 and 2013 into their financial statements for the years then ended. The Authority's reporting entity includes MCVH, Children's Hospital (Children's), University Health Services, Inc. (UHS), Virginia Premier Health Plan (Virginia Premier), and MCV Associated Physicians (MCVAP). The adoption of Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment to GASB Statements No. 14 and 34*, modified the existing requirements for the assessment and blending of component units and resulted in the presentation of Children's, UHS, Virginia Premier and MCVAP as discretely presented component units. Amounts in management's discussion and analysis have been recast, where applicable, to reflect the impact of the adoption of GASB 61.

In 2014, the Authority adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which impacted the reporting of deferred outflows of resources. Amounts in management's discussion and analysis have been recast, where applicable, to reflect the impact of the adoption of GASB 65.

**VIRGINIA COMMONWEALTH UNIVERSITY**  
**HEALTH SYSTEM AUTHORITY**  
(A Component Unit of Virginia Commonwealth University)  
Management's Discussion and Analysis (Unaudited)  
June 30, 2014 and 2013

*June 30, 2014 Compared to June 30, 2013*

**Financial Highlights**

- The Authority's net position increased by \$216.2 million, or 18.7%, 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 \$103.8 million, or 8.8%, 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.
- The Authority showed income from operations for the year ended June 30, 2014 of \$181.9 million, a \$10.5 million increase from operating income of \$171.4 million for the year ended June 30, 2013.
- The major capital expenditures for the Authority in 2014 related to construction of a new Children's outpatient facility, purchase and replacement of medical equipment, office building renovations, and investments in information system infrastructure, business systems and equipment.
- 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.
- Premiums earned by Virginia Premier increased by \$73.6 million, or 11.1%, 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.

**VIRGINIA COMMONWEALTH UNIVERSITY**  
**HEALTH SYSTEM AUTHORITY**  
(A Component Unit of Virginia Commonwealth University)  
Management's Discussion and Analysis (Unaudited)  
June 30, 2014 and 2013

As indicated in Table 1 below, the Authority's total assets and deferred outflows exceeded total liabilities by \$1,370.2 million as of June 30, 2014. Of this net position 15.1% (\$206.3 million) are related to capital assets, 1.3% (\$18.4 million) are restricted funds, and the remaining 83.6% (\$1,145.5 million) are unrestricted funds, which can be used for ongoing operations of the Authority:

**Table 1**  
**Virginia Commonwealth University**  
**Health System Authority**  
Condensed Statements of Net Position – Enterprise Fund  
(In thousands)

	<b>June 30</b>	
	<b>2014</b>	<b>2013</b>
Current assets	\$ 570,857	847,089
Capital assets, net	513,548	459,164
Other noncurrent assets	1,021,626	379,790
Total assets	2,106,031	1,686,043
Deferred outflows	39,962	42,052
Total assets and deferred outflows	\$ 2,145,993	1,728,095
Current liabilities	\$ 194,379	201,476
Long-term liabilities	581,435	372,620
Total liabilities	\$ 775,814	574,096
Net position:		
Net investment in capital assets	\$ 206,277	190,979
Restricted -		
Nonexpendable	18,370	16,847
Unrestricted	1,145,532	946,173
Total net position	\$ 1,370,179	1,153,999

**VIRGINIA COMMONWEALTH UNIVERSITY**  
**HEALTH SYSTEM AUTHORITY**  
(A Component Unit of Virginia Commonwealth University)  
Management's Discussion and Analysis (Unaudited)  
June 30, 2014 and 2013

**Table 2**  
**Virginia Commonwealth University**  
**Health System Authority**  
Condensed Statements of Revenues, Expenses and Changes in Net Position – Enterprise Fund  
(In thousands)

	<b>Year ended June 30</b>	
	<b>2014</b>	<b>2013</b>
Operating revenues:		
Net patient service revenue	\$ 1,285,102	1,181,337
Other operating revenues	13,514	16,345
Total operating revenues	<u>1,298,616</u>	<u>1,197,682</u>
Operating expenses:		
Salaries, wages and employee benefits	529,029	505,186
Purchased services	149,706	129,904
Supplies	278,953	244,622
Depreciation and amortization	63,629	58,922
Other operating expenses	95,395	87,681
Total operating expenses	<u>1,116,712</u>	<u>1,026,315</u>
Operating income	181,904	171,367
Net nonoperating income	<u>33,483</u>	<u>20,775</u>
Excess of revenues over expenses before other changes in net position	215,387	192,142
Other changes in net position	<u>793</u>	<u>(4,252)</u>
Increase in net position	216,180	187,890
Beginning net position	<u>1,153,999</u>	<u>966,109</u>
Ending net position	<u>\$ 1,370,179</u>	<u>1,153,999</u>

The Authority's operating revenues increased by 8.4% (\$100.9 million) over the prior year. This increase in revenues resulted from changes in pricing for MCVH and the mix of hospital services. Total operating expenses increased 8.8% (\$90.4 million). Personnel costs are the largest single cost of the Authority, comprising 47.4% of operating costs in 2014. An increase in personnel-related costs of \$23.8 million, or 4.7%, from prior year reflects both the salary adjustments required to meet market demands and the required staff levels to meet both quality and volume initiatives.



**VIRGINIA COMMONWEALTH UNIVERSITY  
HEALTH SYSTEM AUTHORITY**  
(A Component Unit of Virginia Commonwealth University)  
Management's Discussion and Analysis (Unaudited)  
June 30, 2014 and 2013

**Capital Asset and Debt Administration**

*Capital Assets*

The Authority's net capital assets increased by \$54.4 million, or 11.8%, over prior year amounts.

**Table 3**  
**Virginia Commonwealth University**  
**Health System Authority**  
Capital Assets – Enterprise Fund  
(In thousands)

	<b>June 30</b>	
	<b>2014</b>	<b>2013</b>
Land and improvements	\$ 7,621	6,321
Buildings and fixed equipment	580,401	546,775
Moveable equipment	383,697	353,368
Construction in progress	106,504	66,377
	1,078,223	972,841
Accumulated depreciation	(564,675)	(513,677)
Total	\$ 513,548	459,164

**VIRGINIA COMMONWEALTH UNIVERSITY**  
**HEALTH SYSTEM AUTHORITY**  
(A Component Unit of Virginia Commonwealth University)  
Management's Discussion and Analysis (Unaudited)  
June 30, 2014 and 2013

**Table 4**

**Virginia Commonwealth University**  
**Health System Authority**

Schedule of Additions and Retirements – Enterprise Fund

(In thousands)

	<b>Year ended June 30</b>	
	<b>2014</b>	<b>2013</b>
Capital assets – net, beginning of year	\$ 459,164	439,307
Additions	117,121	77,656
Disposals, net of accumulated depreciation	—	(5)
Depreciation	(62,737)	(57,794)
Capital assets – net, end of year	<u>\$ 513,548</u>	<u>459,164</u>

Major projects capitalized include (in millions):

	<b>Year ended June 30</b>	
	<b>2014</b>	<b>2013</b>
Children's outpatient facility	\$ 39.1	17.9
Purchase and replacement of moveable equipment	23.2	17.1
Office building renovations	19.6	8.5
Investments in information system infrastructure, business systems and equipment	14.7	6.3
Major renovation projects	11.4	13.7
Surgery equipment	3.3	2.0
Radiology and cardiology equipment	3.2	8.0
Renovations of Main and North Hospitals	2.6	4.2
	<u>\$ 117.1</u>	<u>77.7</u>

The Authority has a five-year capital plan, which includes a budget of \$165.6 million of expenditures in fiscal year 2015.

**VIRGINIA COMMONWEALTH UNIVERSITY**  
**HEALTH SYSTEM AUTHORITY**  
(A Component Unit of Virginia Commonwealth University)  
Management's Discussion and Analysis (Unaudited)  
June 30, 2014 and 2013

*Debt*

**Table 5**  
**Virginia Commonwealth University**  
**Health System Authority**  
Debt – Enterprise Fund  
(In thousands)

	<b>June 30</b>	
	<b>2014</b>	<b>2013</b>
General Revenue Bonds Series 2014	\$ 200,000	—
General Revenue Bonds Series 2013	190,315	190,315
General Revenue Bonds Series 2011	120,000	120,000
Premium – Bonds Series 2011	929	983
Note payable	7,800	—
Parking deck debt	520	763
Capital leases	1,968	945
Total	<u>\$ 521,532</u>	<u>313,006</u>

At June 30, 2014, the Authority had \$521.5 million in bonds, notes payable, parking deck debt, and capital leases, as shown in Table 5. During 2014, the Authority issued \$200 million of General Revenue Bonds to fund capital projects and improvements to hospital facilities. Additional information regarding the Authority's debt is included in note 5 to the basic financial statements.

**VIRGINIA COMMONWEALTH UNIVERSITY**  
**HEALTH SYSTEM AUTHORITY**  
(A Component Unit of Virginia Commonwealth University)  
Management's Discussion and Analysis (Unaudited)  
June 30, 2014 and 2013

*June 30, 2013 Compared to June 30, 2012*

**Financial Highlights**

- The Authority's net position increased by \$187.9 million, or 19.4%, over prior year as a result of this year's activity.
- Patient service revenue comprises the majority of the Authority's revenues. Net patient service revenue increased by \$93.2 million, or 8.6%, 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.
- The Authority's operating expenses increased by \$47.9 million, or 4.9%, from prior year. This increase is the result of increased personnel and supplies cost associated with service expansion and market conditions.
- The Authority showed income from operations for the year ended June 30, 2013 of \$171.4 million, a \$50.2 million increase from operating income of \$121.2 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.
- 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.

**VIRGINIA COMMONWEALTH UNIVERSITY**  
**HEALTH SYSTEM AUTHORITY**  
(A Component Unit of Virginia Commonwealth University)  
Management's Discussion and Analysis (Unaudited)  
June 30, 2014 and 2013

As indicated in Table 6 below, the Authority's total assets and deferred outflows exceeded total liabilities by \$1,154.0 million as of June 30, 2013. Of this net position 16.6% (\$191.0 million) are related to capital assets, 1.5% (\$16.8 million) are restricted funds, and the remaining 81.9% (\$946.2 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)

	<b>June 30</b>	
	<b>2013</b>	<b>2012</b>
Current assets	\$ 847,089	610,489
Capital assets, net	459,164	439,307
Other noncurrent assets	379,790	443,891
Total assets	1,686,043	1,493,687
Deferred outflows	42,052	64,081
Total assets and deferred outflows	\$ 1,728,095	1,557,768
Current liabilities	\$ 201,476	153,377
Long-term liabilities	372,620	438,282
Total liabilities	\$ 574,096	591,659
Net position:		
Net investment in capital assets	\$ 190,979	176,574
Restricted -		
Nonexpendable	16,847	16,189
Unrestricted	946,173	773,346
Total net position	\$ 1,153,999	966,109

**VIRGINIA COMMONWEALTH UNIVERSITY**  
**HEALTH SYSTEM AUTHORITY**  
(A Component Unit of Virginia Commonwealth University)  
Management's Discussion and Analysis (Unaudited)  
June 30, 2014 and 2013

**Table 7**  
**Virginia Commonwealth University**  
**Health System Authority**  
Condensed Statements of Revenues, Expenses and Changes in Net Position – Enterprise Fund  
(In thousands)

	<b>Year ended June 30</b>	
	<b>2013</b>	<b>2012</b>
Operating revenues:		
Net patient service revenue	\$ 1,181,337	1,088,163
Other operating revenues	16,345	11,403
Total operating revenues	<u>1,197,682</u>	<u>1,099,566</u>
Operating expenses:		
Salaries, wages and employee benefits	505,186	476,105
Purchased services	129,904	125,847
Supplies	244,622	238,362
Depreciation and amortization	58,922	55,258
Other operating expenses	87,681	82,809
Total operating expenses	<u>1,026,315</u>	<u>978,381</u>
Operating income	171,367	121,185
Net nonoperating income	<u>20,775</u>	<u>420</u>
Excess of revenues over expenses before other changes in net position	192,142	121,605
Other changes in net position	<u>(4,252)</u>	<u>(18)</u>
Increase in net position	187,890	121,587
Beginning net position	<u>966,109</u>	<u>844,522</u>
Ending net position	<u>\$ 1,153,999</u>	<u>966,109</u>

The Authority's operating revenues increased by 8.9% (\$98.1 million) over the prior year. This increase in revenues resulted from revenue improvement activities, third-party payor settlements, changes in pricing and the mix of hospital services. Total operating expenses increased 4.9% (\$47.9 million). Personnel costs are the largest single cost of the Authority, comprising 49.2% of operating costs in 2013. An increase in personnel-related costs of \$29.1 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. The growth of nonpersonnel expenses reflects the rate of inflation and increased purchase services in support of patient care.

**VIRGINIA COMMONWEALTH UNIVERSITY  
HEALTH SYSTEM AUTHORITY**  
(A Component Unit of Virginia Commonwealth University)  
Management's Discussion and Analysis (Unaudited)  
June 30, 2014 and 2013

**Capital Asset and Debt Administration**

*Capital Assets*

The Authority's net capital assets increased by \$19.9 million, or 4.5%, over prior year amounts.

**Table 8**  
**Virginia Commonwealth University**  
**Health System Authority**

Capital Assets – Enterprise Fund

(In thousands)

	<b>June 30</b>	
	<b>2013</b>	<b>2012</b>
Land and improvements	\$ 6,321	6,321
Buildings and fixed equipment	546,775	528,977
Moveable equipment	353,368	329,322
Construction in progress	66,377	37,815
	972,841	902,435
Accumulated depreciation	(513,677)	(463,128)
Total	\$ 459,164	439,307

**VIRGINIA COMMONWEALTH UNIVERSITY  
HEALTH SYSTEM AUTHORITY**  
(A Component Unit of Virginia Commonwealth University)  
Management's Discussion and Analysis (Unaudited)  
June 30, 2014 and 2013

**Table 9**

**Virginia Commonwealth University  
Health System Authority**

Schedule of Additions and Retirements – Enterprise Fund

(In thousands)

	<b>Year ended June 30</b>	
	<b>2013</b>	<b>2012</b>
Capital assets – net, beginning of year	\$ 439,307	428,609
Additions	77,656	66,014
Disposals, net of accumulated depreciation	(5)	(135)
Depreciation	(57,794)	(55,181)
Capital assets – net, end of year	<u>\$ 459,164</u>	<u>439,307</u>

Major projects capitalized include (in millions):

	<b>Year ended June 30</b>	
	<b>2013</b>	<b>2012</b>
Purchase and replacement of moveable equipment	\$ 17.1	14.7
Children's outpatient facility	17.9	1.8
Major renovation projects	13.7	19.6
Office building renovations	8.5	8.4
Radiology and cardiology equipment	8.0	9.6
Investments in information system infrastructure, business systems and equipment	6.3	8.0
Renovations of Main and North Hospitals	4.2	2.4
Surgery equipment	2.0	1.5
	<u>\$ 77.7</u>	<u>66.0</u>



**VIRGINIA COMMONWEALTH UNIVERSITY  
HEALTH SYSTEM AUTHORITY**  
(A Component Unit of Virginia Commonwealth University)  
Management's Discussion and Analysis (Unaudited)  
June 30, 2014 and 2013

**Debt**

**Table 10**  
**Virginia Commonwealth University  
Health System Authority**  
Debt – Enterprise Fund  
(In thousands)

	<b>June 30</b>	
	<b>2013</b>	<b>2012</b>
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
General Revenue Bonds Series 2005	—	92,325
Parking deck debt	763	990
Capital leases	945	3,401
Total	\$ 313,006	340,323

At June 30, 2013, the Authority had \$313.0 million in bonds, parking deck debt, and capital leases, as shown in Table 10. During 2013, the Authority issued \$190.3 million of General Revenue Bonds to refund existing indebtedness. Additional information regarding the Authority's debt is included in note 5 to the basic 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)

Statements of Net Position – Enterprise Fund

June 30, 2014 and 2013

Assets and Deferred Outflows of Resources	2014		2013	
	Primary Enterprise	Component Units	Primary Enterprise	Component Units
Current assets:				
Cash and cash equivalents	\$ 335,029,161	15,569,618	360,600,226	31,653,790
Restricted cash	—	6,760	—	39,420
Short-term investments	16,792,283	81,993,416	292,263,272	161,092,808
Patient accounts receivable, net	168,423,163	30,567,345	145,501,915	21,642,803
Settlements due from third-party payors	1,453,011	1,818,480	2,657,387	—
Premiums receivable	—	65,827,610	—	62,908,489
Other accounts receivable	2,098,950	3,963,687	10,438,933	5,357,571
Due from affiliates	17,266,609	110,785	7,012,443	17,865,036
Current portion of assets whose use is limited	3,350,000	3,000,000	2,600,000	3,000,000
Supplies and other current assets	26,444,241	2,785,432	26,015,210	2,622,993
Total current assets	570,857,418	205,643,133	847,089,386	306,182,910
Capital assets:				
Land and improvements	7,620,817	1,302,989	6,320,817	1,403,489
Depreciable capital assets, net	399,422,627	22,358,628	386,465,208	20,690,276
Construction in progress	106,504,438	11,304,116	66,377,432	—
Total capital assets	513,547,882	34,965,733	459,163,457	22,093,765
Other assets:				
Assets whose use is limited, less current portion	940,211,292	194,497,548	267,127,831	21,584,419
Long-term investments	36,868,191	—	100,529,743	25,737,513
Other assets	44,546,263	351,939	12,131,809	370,642
Total other assets	1,021,625,746	194,849,487	379,789,383	47,692,574
Total assets	2,106,031,046	435,458,353	1,686,042,226	375,969,249
Deferred outflows of resources	39,962,413	—	42,052,303	—
Total assets and deferred outflows of resources	\$ 2,145,993,459	435,458,353	1,728,094,529	375,969,249

See accompanying notes to financial statements.

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

Statements of Net Position – Enterprise Fund

June 30, 2014 and 2013

<b>Liabilities and Net Position</b>	<b>2014</b>		<b>2013</b>	
	<b>Primary Enterprise</b>	<b>Component Units</b>	<b>Primary Enterprise</b>	<b>Component Units</b>
<b>Current liabilities:</b>				
Current portion of long-term debt and capital leases	\$ 5,926,054	—	1,187,668	—
Estimated medical claims payable	—	65,381,144	—	52,397,760
Trade accounts payable	48,068,801	9,369,490	36,522,910	10,736,009
Settlements due to third-party payors	59,943,748	6,585,024	72,521,766	4,531,863
Accrued salaries, wages and employee benefits	43,637,007	21,950,747	40,475,887	17,686,724
Accrued leave	21,993,567	6,796,292	21,120,611	5,911,494
Accrued interest payable	7,303,585	—	3,234,523	—
Due to affiliates	—	19,121,959	17,713,372	7,800,598
Current portion of estimated workers' compensation claims	2,100,000	—	2,100,000	—
Current portion of estimated losses on malpractice claims	1,250,000	3,000,000	500,000	3,000,000
Other accrued liabilities	4,156,330	3,697,702	6,098,802	21,839,229
Total current liabilities	194,379,092	135,902,358	201,475,539	123,903,677
<b>Other liabilities:</b>				
Long-term debt and capital leases, less current portion	515,605,975	11,700,000	311,818,408	—
Estimated workers' compensation claims	15,713,092	—	12,980,964	—
Estimated losses on malpractice claims	2,147,214	19,794,455	3,099,225	17,332,188
Fair value of hedging derivatives	42,572,221	—	42,052,303	—
Other liabilities	5,397,085	6,647,768	2,669,124	6,580,138
Total liabilities	775,814,679	174,044,581	574,095,563	147,816,003
<b>Net position:</b>				
Net investment in capital assets	206,276,797	31,041,239	190,978,883	22,093,765
Restricted:				
Expendable	—	1,792,028	—	1,859,627
Nonexpendable permanent endowment	18,369,873	2,422,604	16,847,143	2,392,604
Unrestricted	1,145,532,110	226,157,901	946,172,940	201,807,250
Total net position	1,370,178,780	261,413,772	1,153,998,966	228,153,246
Total liabilities and net position	\$ 2,145,993,459	435,458,353	1,728,094,529	375,969,249

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

Statements of Revenues, Expenses and  
Changes in Net Position – Enterprise Fund  
Years ended June 30, 2014 and 2013

	<b>2014</b>		<b>2013</b>	
	<b>Primary Enterprise</b>	<b>Component Units</b>	<b>Primary Enterprise</b>	<b>Component Units</b>
Operating revenues:				
Net patient service revenue	\$ 1,285,102,316	209,284,531	1,181,336,461	210,410,865
Premiums earned	—	739,261,937	—	665,677,336
Contract revenue from MCVH	—	68,718,373	—	61,490,977
Other contract revenue	—	15,371,899	—	13,628,492
Other operating revenue	13,513,773	19,270,607	16,345,214	18,608,657
	<u>1,298,616,089</u>	<u>1,051,907,347</u>	<u>1,197,681,675</u>	<u>969,816,327</u>
Operating expenses:				
Salaries and wages	401,345,260	277,021,561	381,755,959	238,825,152
Employee benefits	127,683,164	63,801,946	123,430,025	59,079,386
Medical claims expense	—	667,435,449	—	605,894,995
Purchased services	149,706,276	12,054,057	129,903,973	10,152,924
Supplies	278,952,848	9,755,712	244,622,207	8,345,811
Other expenses	95,395,180	29,073,420	87,680,822	26,978,626
Provision for depreciation and amortization	63,629,044	3,467,849	58,921,692	3,138,520
	<u>1,116,711,772</u>	<u>1,062,609,994</u>	<u>1,026,314,678</u>	<u>952,415,414</u>
Operating income (loss)	<u>181,904,317</u>	<u>(10,702,647)</u>	<u>171,366,997</u>	<u>17,400,913</u>
Nonoperating revenues and expenses:				
Investment income	50,115,689	17,698,789	24,156,295	12,012,397
Interest expense	(16,539,480)	(119,395)	(8,992,383)	—
Other nonoperating income or expense, net	(177,619)	1,954,325	7,371,371	198,636
Donations and gifts	83,918	3,283,182	(1,760,000)	4,071,063
Nonoperating revenues and expenses, net	<u>33,482,508</u>	<u>22,816,901</u>	<u>20,775,283</u>	<u>16,282,096</u>
Excess of revenues over expenses before income tax expense	215,386,825	12,114,254	192,142,280	33,683,009
Income tax benefit (expense)	—	20,060,831	—	(4,277,046)
Excess of revenues over expenses	215,386,825	32,175,085	192,142,280	29,405,963
Transfers from (to) affiliates	(2,932,922)	723,319	(6,200,919)	4,424,578
Increase in beneficial interest in trusts	1,522,730	262,339	657,675	469,570
Other	2,203,181	99,783	1,290,861	(1,865,551)
Increase in net position	216,179,814	33,260,526	187,889,897	32,434,560
Net position at beginning of year	<u>1,153,998,966</u>	<u>228,153,246</u>	<u>966,109,069</u>	<u>195,718,686</u>
Net position at end of year	<u>\$ 1,370,178,780</u>	<u>261,413,772</u>	<u>1,153,998,966</u>	<u>228,153,246</u>

See accompanying notes to financial statements.

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

Statements of Cash Flows – Enterprise Fund

Years ended June 30, 2014 and 2013

	2014		2013	
	Primary Enterprise	Component Units	Primary Enterprise	Component Units
Cash flows from operating activities:				
Cash received from third-party payors and patients	\$ 1,250,807,426	311,882,248	1,209,638,942	286,899,575
Cash received from premiums	—	736,342,816	—	650,629,835
Cash paid to employees	(535,966,955)	(335,674,686)	(490,805,585)	(294,809,092)
Cash paid to suppliers	(523,206,668)	(46,993,276)	(444,575,877)	(35,935,449)
Cash paid to providers of health care services	—	(654,452,065)	—	(596,218,523)
Other operating cash receipts and payments, net	15,320,095	21,854,169	17,744,293	(14,817,200)
Net cash provided by (used in) operating activities	<u>206,953,898</u>	<u>32,959,206</u>	<u>292,001,773</u>	<u>(4,250,854)</u>
Cash flows from noncapital financing activities:				
Donations and gifts	83,918	3,283,182	—	4,071,063
Transfers from (to) affiliates and other transfers	—	723,319	—	4,554,978
Net cash provided by (used in) noncapital financing activities	<u>83,918</u>	<u>4,006,501</u>	<u>—</u>	<u>8,626,041</u>
Cash flows from capital and related financing activities:				
Purchases of capital assets	(111,459,052)	(16,339,817)	(74,092,387)	(1,208,272)
Proceeds from issuance of bonds	200,000,000	—	190,315,000	—
Proceeds from issuance of note payable	8,115,600	11,700,000	—	—
Principal payments on long-term debt and capital lease obligations	(1,634,474)	—	(217,577,930)	—
Cash paid for interest	(13,478,416)	(119,395)	(13,084,137)	—
Other financing cash flows	(31,090,038)	1,791,769	(1,567,268)	—
Net cash provided by (used in) capital and related financing activities	<u>50,453,620</u>	<u>(2,967,443)</u>	<u>(116,006,722)</u>	<u>(1,208,272)</u>
Cash flows from investing activities:				
Interest and dividends on investments	7,821,251	3,535,536	8,801,931	4,011,610
Purchases of investments	(1,054,108,297)	(96,287,048)	(773,199,188)	(291,070,207)
Proceeds from sales of investments	761,765,095	74,488,970	773,310,983	274,481,438
Net cash provided by (used in) investing activities	<u>(284,521,951)</u>	<u>(18,262,542)</u>	<u>8,913,726</u>	<u>(12,577,159)</u>
Net increase (decrease) in cash and cash equivalents	<u>(27,030,515)</u>	<u>15,735,722</u>	<u>184,908,777</u>	<u>(9,410,244)</u>
Cash and cash equivalents at beginning of year	<u>428,782,561</u>	<u>32,783,712</u>	<u>243,873,784</u>	<u>42,193,956</u>
Cash and cash equivalents at end of year	<u>\$ 401,752,046</u>	<u>48,519,434</u>	<u>428,782,561</u>	<u>32,783,712</u>
Reconciliation of cash and cash equivalents to the statements of net position – enterprise fund:				
Cash and cash equivalents	\$ 335,029,161	15,569,618	360,600,226	31,653,790
Restricted cash	—	6,760	—	39,420
Assets whose use is limited	<u>66,722,885</u>	<u>32,943,056</u>	<u>68,182,335</u>	<u>1,090,502</u>
Total cash and cash equivalents	<u>\$ 401,752,046</u>	<u>48,519,434</u>	<u>428,782,561</u>	<u>32,783,712</u>

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

Statements of Cash Flows – Enterprise Fund

Years ended June 30, 2014 and 2013

	2014		2013	
	Primary Enterprise	Component Units	Primary Enterprise	Component Units
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 181,904,317	(10,702,647)	171,366,997	17,400,913
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization	63,629,044	3,467,849	58,921,692	3,138,520
Income tax payments	—	(450,000)	—	—
Loss on disposal of capital assets	—	—	4,878	1,270
IRS refund for FICA taxes paid	—	—	18,969,500	—
Changes in:				
Patient accounts receivable	(22,921,248)	(8,924,542)	3,875,868	1,768,824
Due to/from third-party payors	(11,373,642)	234,681	22,534,259	(399,583)
Premiums receivable	—	(2,919,121)	—	(15,047,501)
Other accounts receivable	8,339,983	1,393,884	(3,087,339)	(2,687,816)
Due to/from affiliates	(30,900,460)	29,075,612	19,138,489	(26,065,912)
Supplies and other assets	(619,669)	(143,736)	(11,053,624)	(524,026)
Estimated medical claims payable	—	12,983,384	—	9,676,472
Trade accounts payable	11,545,891	(1,366,519)	4,135,476	5,547,186
Accrued salaries, wages, and employee benefits	3,161,120	4,264,023	5,468,712	2,625,746
Accrued leave	872,956	884,798	284,087	469,700
Estimated workers' compensation claims	2,732,128	—	(2,445,763)	—
Estimated losses on malpractice claims	(202,011)	2,462,267	(182,057)	645,851
Other accrued liabilities	785,489	2,699,273	4,070,598	(800,498)
Net cash provided by (used in) operating activities	\$ 206,953,898	32,959,206	292,001,773	(4,250,854)
Supplemental disclosure of noncash information:				
Interest expense capitalized related to acquisition of capital assets	\$ 3,563,000	—	3,563,000	—
Assets acquired under capital leases	2,099,200	—	—	—

See accompanying notes to financial statements.

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

Statements of Net Position – Pension Trust Fund

June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Assets:		
Assets whose use is limited	\$ 251,281,427	201,120,095
Net position:		
Reserve for employees' pension benefits	\$ 251,281,427	201,120,095

See accompanying notes to financial statements.

**VIRGINIA COMMONWEALTH UNIVERSITY  
HEALTH SYSTEM AUTHORITY**  
(A Component Unit of Virginia Commonwealth University)  
Statements of Changes in Net Position – Pension Trust Fund  
Years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Beginning net position	\$ 201,120,095	164,636,441
Additions:		
Pension contributions	23,935,388	22,540,291
Investment gain, net	<u>34,583,884</u>	<u>20,377,715</u>
Total additions	<u>58,519,272</u>	<u>42,918,006</u>
Deductions:		
Pension benefit payments	<u>(8,357,940)</u>	<u>(6,434,352)</u>
Ending net position	<u>\$ 251,281,427</u>	<u>201,120,095</u>

See accompanying notes to financial statements.



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

Notes to Financial Statements

June 30, 2014 and 2013

**(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.

For financial reporting purposes, the activities of the Authority are divided between the “Primary Enterprise” and “Component Units”. The Primary Enterprise consists of the Medical College of Virginia Hospitals (MCVH). MCVH is an approximately 800-bed teaching hospital which provides inpatient and outpatient services primarily to patients in the Commonwealth of Virginia. The Component Units, which are discretely presented, consist of MCV Associated Physicians (MCVAP), University Health Services, Inc. and subsidiaries (UHS), Virginia Premier Health Plan (VA Premier) and Children’s Hospital (Children’s).

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).

UHS 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.

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.

The discretely presented Component Units’ financial statements are included in a separate column apart from the Primary Enterprise. Under the discrete presentation method, intercompany receivables, payables, revenues, and expenses between the Component Units and the Primary Enterprise are not eliminated.

**(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 of resources, liabilities, deferred inflows of resources, net position, revenues, and expenses, as appropriate.

The enterprise fund is used to account for the Authority’s ongoing activities.

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

Notes to Financial Statements

June 30, 2014 and 2013

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 the Authority and governed by the Board of Directors of the Authority.

The 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*.

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

Notes to Financial Statements

June 30, 2014 and 2013

**(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. The allowance for doubtful accounts for MCVH was approximately \$85,060,000 and \$68,420,000 at June 30, 2014 and 2013, respectively. The allowance for doubtful accounts for the Component Units was approximately \$11,030,000 and \$9,420,000 at June 30, 2014 and 2013, 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 unrestricted resources appropriated or designated by the Board of Directors for quasi-endowment, capital acquisition, medical malpractice program and workers' compensation program are reported as assets whose use is limited and are carried at fair value. Quasi-endowment investments have been designated by the Board of Directors to function as an endowment, in that the principal is to be retained and invested, but may be spent at any time at the discretion of the Board of Directors. All assets whose use is limited, except for the portion required for the payment of current liabilities, are classified as noncurrent assets.

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

Notes to Financial Statements

June 30, 2014 and 2013

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 \$18,369,873 and \$16,847,143 are restricted by donors for MCVH in perpetuity and are included in assets whose use is limited at June 30, 2014 and 2013, 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 \$3,602,326 and \$3,339,987 for June 30, 2014 and 2013, respectively, is included in the Component Units' 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 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***

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

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

Notes to Financial Statements

June 30, 2014 and 2013

**(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 \$23,923,000 and \$19,563,000 at June 30, 2014 and 2013, respectively, and are included in unrestricted net position in the accompanying statements of net position.

**(p) *Operating Revenues and Expenses***

The Authority's 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

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

Notes to Financial Statements

June 30, 2014 and 2013

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 at MCVH by approximately \$35,936,000 and \$51,578,000 in 2014 and 2013, respectively, and increase net patient service revenue at the Component Units by approximately \$2,900,000 in 2013. Settlements due to and from third-party payors include amounts that are currently under appeal with various federal and state agencies.

Net patient service revenue includes an estimate of uncollectible charges which is a deduction from gross revenue. MCVH's estimated cost associated with these charges is \$22,601,181 and \$18,677,772 for the years ended June 30, 2014 and 2013, respectively. The Component Units' estimated cost associated with these charges is \$4,706,499 and \$3,353,727 for the years ended June 30, 2014 and 2013, respectively.

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, 2009.

*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

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

Notes to Financial Statements

June 30, 2014 and 2013

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 MCVH of approximately \$359,186,000 and \$336,989,000 in 2014 and 2013, respectively, and to the Component Units of approximately \$54,569,000 and \$49,976,000 in 2014 and 2013, respectively. The Authority's Medicaid cost reports have been audited by the Medicaid program representative through June 30, 2011.

**(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 these 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. MCVH's estimated costs for the services provided for this care, net of reimbursement from the Commonwealth of Virginia, approximated \$7,966,000 and \$9,362,000 for the years ended June 30, 2014 and 2013, respectively. The Component Units' estimated costs for the services provided for this care, net of reimbursement from the Commonwealth of Virginia, was approximately \$1,189,000 and \$1,180,000 for the years ended June 30, 2014 and 2013, 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 Low Income Families with Children (LIFC), 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.

In 2013, VA Premier began providing administrative services to unaffiliated health plans. These services include claims processing, member services, and financial reporting. Revenues and expenses associated with these services are included in other operating revenue and operating expenses, respectively on the accompanying statement of revenues, expenses and changes in net position.

In 2014, VA Premier began participating in the Medicare-Medicaid Coordination program. This is a three year demonstration designed to increase the level of service and quality of service provided to members who are eligible for both Medicare and Medicaid (Duals). These members carry a higher level of revenues, a higher level of risk, and a higher level of costs than traditional Medicaid members.

**(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

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

Notes to Financial Statements

June 30, 2014 and 2013

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 of 1986 (the Code). Accordingly, no provision for income taxes has been made in the accompanying financial statements.

In August 2013, the IRS approved VA Premier's application for tax exempt status under Section 501(c)(3) of the Code, effective July 1, 2010. Between July 2010 and August 2013, VA Premier recorded a tax provision as though it were for-profit, pending IRS approval of its application. As a result of gaining tax exempt status, VA Premier reversed federal tax payable and deferred tax assets and recorded a federal income tax benefit of \$20,700,651 in fiscal year 2014.

Prior to August 2013, the provision for income taxes of VA Premier was determined using the asset and liability method based on tax laws, as enacted. Deferred tax assets and liabilities were recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

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, 2014 and 2013, 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 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.

**(w) *Recently Adopted Accounting Pronouncements***

The Authority adopted GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment to GASB Statements Nos. 14 and 34*, which modified existing requirements for the assessment and blending of component units that should be included in the financial statements of the Authority. The adoption of this statement resulted in the separate discrete presentation of the Component Units apart from the Primary Enterprise and was retroactively applied.



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

Notes to Financial Statements

June 30, 2014 and 2013

The Authority adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65) which clarified the appropriate reporting of deferred outflows and inflows of resources. The adoption of GASB 65 was applied retroactively to all periods presented. As a result of the adoption, \$42,052,303 of MCVH deferred debt refunding losses, which were previously reported as a component of long-term debt in the 2013 basic financial statements, were reclassified to deferred outflows of resources in the accompanying statements of net position.

**(x) Reclassifications**

Certain reclassifications have been made to the 2013 financial statements to conform to the 2014 financial statement presentation. These reclassifications had no impact on operating income, total assets or net position.

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

At June 30, 2014 and 2013, the carrying values of MCVH's deposits totaled \$335,029,161 and \$360,600,226, respectively, and the bank balances totaled \$346,728,086 and \$391,256,229, respectively. The carrying values of the Component Units' deposits totaled \$15,576,378 and \$31,693,210, respectively at June 30, 2014 and 2013, and the bank balances totaled \$24,294,805 and \$41,961,506, respectively. Deposits are placed with banks and savings and loan institutions and are protected by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act (the Act). In accordance with the Act, the depository institution pledged collateral with a market value equal to 105% of the Authority's deposits with a third-party trustee in the name of the Treasurer of the Commonwealth of Virginia. In the event that the banking institution fails, the Treasurer will take possession of the collateral, liquidate it and reimburse the Authority up to the value of its deposits.

In accordance with the Authority's Investment Policy Statement, adopted by the 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. At June 30, 2014 and June 30, 2013 the Primary Enterprise had \$165,355,386 and \$128,986,303, respectively in fixed income investments and the Component Units had \$101,665,161 and \$110,278,864, respectively, in fixed income investments, whose value could fluctuate over time due to interest rate fluctuations.

*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.

At June 30, 2014 the credit quality ratings for the Primary Enterprise's fixed income investments were 37.9% AAA, 13.9% AA, 37.7% A, 9.6% below A and 0.9% not rated. The Component Units' fixed income investments were 88.3% AAA, 1.3% AA, 7.3% A, 2.4% below A and 0.7% not rated. At June 30,

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

Notes to Financial Statements

June 30, 2014 and 2013

2013 the credit quality ratings for the Primary Enterprise's fixed income investments were 57.2% AAA 12.3% AA, 26.6% A, 3.2% below A and 0.7% not rated. The Component Units' fixed income ratings at June 30, 2013 were 87.5% AAA, 3.3% AA, 6.5% A, 2.4% below A and 0.3% not rated.

*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.

At June 30, 2014 and June 30, 2013, the Primary Enterprise had three fixed income managers and one mutual fund manager that individually exceeded 5% of investments, amounting to 24.9% and 38.7% of total investments, respectively.

*Custodial Credit Risk* – Custodial credit risk is the risk that, in the event of a failure of a counter party, the Enterprise will not be able to recover the value of the investments or collateral securities in the possession of a third party. Fixed income investments and equity securities are exposed to custodial credit risk if the securities are not registered in the Primary) Enterprises name or Component Unit's name and are held by either the counterparty or the counterparty's trust department or agent in the counterparty's name. As of June 30, 2014 and June 30, 2013 all of the fixed income investments and equity securities of the Primary Enterprise and Component Units were held by their custodial bank in their respective names and are, therefore, not exposed to custodial credit risk.

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

Notes to Financial Statements

June 30, 2014 and 2013

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

	<b>2014</b>		<b>2013</b>	
	<b>Primary Enterprise</b>	<b>Component Units</b>	<b>Primary Enterprise</b>	<b>Component Units</b>
Enterprise funds:				
Assets whose use is limited:				
Externally restricted:				
By donors	\$ 18,369,873	—	16,847,143	—
Under bond indenture	18,315,513	7,174,903	44,138,661	—
By insurance regulations	—	612,306	—	912,244
By Foundation	—	3,602,326	—	3,339,987
Internally restricted:				
For medical malpractice	3,397,214	22,794,455	3,599,225	20,332,188
For workers' compensation	17,813,092	—	15,080,964	—
For capital acquisition	200,232,130	—	190,061,838	—
For quasi endowment	685,433,470	163,313,558	—	—
	<u>\$ 943,561,292</u>	<u>197,497,548</u>	<u>269,727,831</u>	<u>24,584,419</u>
Investments	\$ 53,660,474	81,993,416	392,793,015	186,830,321
Pension trust funds:				
Externally restricted under pension plan agreement	\$ 251,281,427	—	201,120,095	—

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

Notes to Financial Statements

June 30, 2014 and 2013

As of June 30, 2014, investments (including assets whose use is limited) held by the Primary Enterprise mature as follows:

	<b>Fair value</b>	<b>Investment maturities (in years)</b>			
		<b>Less than 1</b>	<b>1 to 5</b>	<b>6 to 10</b>	<b>More than 10</b>
Cash and cash equivalents	\$ 70,525,665	70,525,665	—	—	—
U.S. Treasury notes	31,018,446	—	19,374,093	2,972,493	8,671,860
Asset-backed securities	21,493,305	603,896	18,526,419	689,542	1,673,448
Agency-backed mortgages	16,972,844	508,256	2,659,699	3,486,474	10,318,415
Commercial paper	124,977,067	124,977,067	—	—	—
Corporate notes	52,831,988	11,812,619	35,144,637	4,083,093	1,791,639
Corporate bonds	43,038,803	12,930,609	20,109,204	3,222,280	6,776,710
Beneficial interest in perpetual trust	18,369,873	N/A	N/A	N/A	N/A
Mutual funds	69,530,220	N/A	N/A	N/A	N/A
Index funds	28,561,223	N/A	N/A	N/A	N/A
Marketable equity securities	76,236,744	N/A	N/A	N/A	N/A
Investment companies	437,213,976	N/A	N/A	N/A	N/A
Real estate	6,451,612	N/A	N/A	N/A	N/A
	<u>\$ 997,221,766</u>	<u>221,358,112</u>	<u>95,814,052</u>	<u>14,453,882</u>	<u>29,232,072</u>

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

As of June 30, 2013, investments (including assets whose use is limited) held by the Primary Enterprise mature as follows:

	<b>Fair value</b>	<b>Investment maturities (in years)</b>			
		<b>Less than 1</b>	<b>1 to 5</b>	<b>6 to 10</b>	<b>More than 10</b>
Cash and cash equivalents	\$ 68,182,335	68,182,335	—	—	—
U.S. Treasury notes	26,335,679	5,100,556	17,812,088	885,585	2,537,450
Asset-backed securities	22,315,002	—	19,037,566	1,152,984	2,124,452
Agency-backed mortgages	20,974,138	4,302,399	3,183,294	1,806,597	11,681,848
Commercial paper	198,390,959	198,390,959	—	—	—
Corporate notes	38,678,374	14,881,733	18,908,406	3,519,941	1,368,294
Corporate bonds	20,683,110	4,171,873	12,739,983	1,559,234	2,212,020
Beneficial interest in perpetual trust	16,847,143	N/A	N/A	N/A	N/A
Mutual funds	65,415,753	N/A	N/A	N/A	N/A
Index funds	49,986,385	N/A	N/A	N/A	N/A
Marketable equity securities	18,329,254	N/A	N/A	N/A	N/A
Investment companies	105,607,010	N/A	N/A	N/A	N/A
Real estate	10,775,704	N/A	N/A	N/A	N/A
	<u>\$ 662,520,846</u>	<u>295,029,855</u>	<u>71,681,337</u>	<u>8,924,341</u>	<u>19,924,064</u>

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

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

Notes to Financial Statements

June 30, 2014 and 2013

As of June 30, 2014, investments (including assets whose use is limited) held by the Component Units mature as follows:

	Fair value	Investment maturities (in years)			
		Less than 1	1 to 5	6 to 10	More than 10
Cash and cash equivalents	\$ 32,943,056	32,943,056	—	—	—
U.S. Treasury notes	79,411,308	72,226,379	4,874,204	1,422,682	888,043
Asset-backed securities	904,764	—	—	760	904,004
Agency-backed mortgages	10,359,946	4,082,576	1,879,647	433,459	3,964,264
Commercial paper	5,497,600	5,497,600	—	—	—
Corporate notes	7,413,742	897,928	3,956,652	1,804,086	755,076
Corporate bonds	3,565,401	438,780	793,276	1,179,179	1,154,166
Equity interest in Foundation	3,602,326	N/A	N/A	N/A	N/A
Index funds	24,966,843	N/A	N/A	N/A	N/A
Marketable equity securities	24,159,945	N/A	N/A	N/A	N/A
Investment companies	83,890,872	N/A	N/A	N/A	N/A
Real estate	2,775,161	N/A	N/A	N/A	N/A
	<u>\$ 279,490,964</u>	<u>116,086,319</u>	<u>11,503,779</u>	<u>4,840,166</u>	<u>7,665,553</u>

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

As of June 30, 2013, investments (including assets whose use is limited) held by the Component Units mature as follows:

	Fair value	Investment maturities (in years)			
		Less than 1	1 to 5	6 to 10	More than 10
Cash and cash equivalents	\$ 1,090,502	1,090,502	—	—	—
U.S. Treasury notes	86,784,957	81,683,515	2,937,025	1,385,131	779,286
Asset-backed securities	1,086,145	—	—	97,164	988,981
Agency-backed mortgages	9,031,260	325,069	2,193,685	715,300	5,797,206
Corporate notes	9,155,700	2,173,938	2,834,621	3,268,466	878,675
Corporate bonds	4,220,802	235,828	566,222	1,991,029	1,304,723
Equity interest in Foundation	3,339,987	N/A	N/A	N/A	N/A
Index funds	32,726,594	N/A	N/A	N/A	N/A
Marketable equity securities	20,427,854	N/A	N/A	N/A	N/A
Investment companies	38,863,494	N/A	N/A	N/A	N/A
Real estate	4,687,445	N/A	N/A	N/A	N/A
	<u>\$ 211,414,740</u>	<u>85,508,852</u>	<u>8,531,553</u>	<u>7,457,090</u>	<u>9,748,871</u>

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.

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

Notes to Financial Statements

June 30, 2014 and 2013

**(4) Capital Assets**

Capital assets and changes thereto, as of and for the year ended June 30, 2014, consisted of the following for the Primary Enterprise:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Disposals</u>	<u>Ending balance</u>
Nondepreciable assets:					
Land and improvements	\$ 6,320,817	1,300,000	—	—	7,620,817
Construction in progress	66,377,432	115,766,685	(75,639,679)	—	106,504,438
	<u>72,698,249</u>	<u>117,066,685</u>	<u>(75,639,679)</u>	<u>—</u>	<u>114,125,255</u>
Depreciable assets:					
Buildings and fixed equipment	546,774,997	—	41,879,199	(8,253,373)	580,400,823
Moveable equipment	353,367,425	55,000	33,760,480	(3,485,725)	383,697,180
Less accumulated depreciation	(513,677,214)	(62,737,260)	—	11,739,098	(564,675,376)
	<u>386,465,208</u>	<u>(62,682,260)</u>	<u>75,639,679</u>	<u>—</u>	<u>399,422,627</u>
Total capital assets, net	\$ <u>459,163,457</u>	<u>54,384,425</u>	<u>—</u>	<u>—</u>	<u>513,547,882</u>

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

	<u>Beginning balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Disposals</u>	<u>Ending balance</u>
Nondepreciable assets:					
Land and improvements	\$ 6,320,817	—	—	—	6,320,817
Construction in progress	37,815,089	77,655,820	(49,093,477)	—	66,377,432
	<u>44,135,906</u>	<u>77,655,820</u>	<u>(49,093,477)</u>	<u>—</u>	<u>72,698,249</u>
Depreciable assets:					
Buildings and fixed equipment	528,977,322	—	17,797,675	—	546,774,997
Moveable equipment	329,321,423	—	31,295,802	(7,249,800)	353,367,425
Less accumulated depreciation	(463,127,837)	(57,794,299)	—	7,244,922	(513,677,214)
	<u>395,170,908</u>	<u>(57,794,299)</u>	<u>49,093,477</u>	<u>(4,878)</u>	<u>386,465,208</u>
Total capital assets, net	\$ <u>439,306,814</u>	<u>19,861,521</u>	<u>—</u>	<u>(4,878)</u>	<u>459,163,457</u>

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

Notes to Financial Statements

June 30, 2014 and 2013

Capital assets and changes thereto, as of and for the year ended June 30, 2014, consisted of the following for the Component Units:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Disposals</u>	<u>Ending balance</u>
Nondepreciable assets:					
Land and improvements	\$ 1,403,489	—	—	(100,500)	1,302,989
Construction in progress	—	11,304,116	—	—	11,304,116
	<u>1,403,489</u>	<u>11,304,116</u>	<u>—</u>	<u>(100,500)</u>	<u>12,607,105</u>
Depreciable assets:					
Buildings and fixed equipment	38,838,974	2,430,729	—	(886,104)	40,383,599
Moveable equipment	31,561,244	3,003,633	—	(1,008,907)	33,555,970
Less accumulated depreciation	(49,709,942)	(3,467,849)	—	1,596,850	(51,580,941)
	<u>20,690,276</u>	<u>1,966,513</u>	<u>—</u>	<u>(298,161)</u>	<u>22,358,628</u>
Total capital assets, net	<u>\$ 22,093,765</u>	<u>13,270,629</u>	<u>—</u>	<u>(398,661)</u>	<u>34,965,733</u>

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

	<u>Beginning balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Disposals</u>	<u>Ending balance</u>
Nondepreciable assets:					
Land and improvements	\$ 1,403,489	—	—	—	1,403,489
Depreciable assets:					
Buildings and fixed equipment	38,704,747	150,017	(15,790)	—	38,838,974
Moveable equipment	32,052,486	1,058,255	15,790	(1,565,287)	31,561,244
Less accumulated depreciation	(48,025,166)	(3,248,793)	—	1,564,017	(49,709,942)
	<u>22,732,067</u>	<u>(2,040,521)</u>	<u>—</u>	<u>(1,270)</u>	<u>20,690,276</u>
Total capital assets, net	<u>\$ 24,135,556</u>	<u>(2,040,521)</u>	<u>—</u>	<u>(1,270)</u>	<u>22,093,765</u>

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

Notes to Financial Statements

June 30, 2014 and 2013

**(5) Long-Term Debt**

Long-term debt, and changes thereto, as of and for the year ended June 30, 2014, for the Primary Enterprise is summarized below:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Series 2014 Bonds	\$ —	200,000,000	—	200,000,000	—
Note payable	—	8,115,600	(315,607)	7,799,993	586,127
Series 2013 Bonds	190,315,000	—	—	190,315,000	2,160,000
Series 2011 Bonds	120,000,000	—	—	120,000,000	2,400,000
Premium – Series 2011 Bonds	982,965	—	(54,373)	928,592	—
Parking deck debt	763,406	—	(242,962)	520,444	255,127
Capital leases	944,705	2,099,200	(1,075,905)	1,968,000	524,800
Total long-term debt	<u>\$ 313,006,076</u>	<u>210,214,800</u>	<u>(1,688,847)</u>	<u>521,532,029</u>	<u>5,926,054</u>

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

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
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)	—	—
Series 2005 Bonds	92,325,000	—	(92,325,000)	—	—
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	<u>\$ 340,323,378</u>	<u>190,315,000</u>	<u>(217,632,302)</u>	<u>313,006,076</u>	<u>1,187,668</u>

On February 6, 2014, MCVH issued \$200,000,000 of fixed rate taxable general revenue bonds, Series 2014A, to fund capital projects and improvements to hospital facilities. The Series 2014 Bonds are subject to mandatory sinking fund and optional redemption with principal amounts of \$35,000,000 due January 1, 2024, with an interest rate of 3.858% and \$165,000,000 due January 1, 2044, with an interest rate of 4.956%.

On October 23, 2013, MCVH entered into a note payable to a bank in the amount of \$8,115,600. The note bears an interest rate of LIBOR plus 1.25% (1.40% at June 30, 2014) and matures on October 31, 2020. Interest and principal payments of approximately \$55,000 are paid monthly.



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

Notes to Financial Statements

June 30, 2014 and 2013

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 (0.152% at June 30, 2014). 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. The repayment of the Series 2008 Bonds created a deferred loss on refunding which is being amortized over the life of the original bond. The unamortized balance is \$10,682,922 and \$11,676,174 at June 30, 2014 and 2013, respectively.

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. The repayment of the Series 2005 Bonds created a deferred loss on refunding which is being amortized over the life of the original bond. The unamortized balance is \$28,759,573 and \$30,376,129 at June 30, 2014 and 2013, respectively.

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%.

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

Notes to Financial Statements

June 30, 2014 and 2013

A summary of future principal requirements of long-term debt as of June 30, 2014, for the primary enterprise follows:

	<u>Series 2014 Bonds</u>	<u>Note Payable</u>	<u>Series 2013 Bonds</u>	<u>Series 2011 Bonds</u>	<u>Parking deck debt</u>	<u>Capital leases</u>	<u>Total</u>
2015	\$ —	586,127	2,160,000	2,400,000	255,127	524,800	5,926,054
2016	—	541,044	2,255,000	2,450,000	265,317	524,800	6,036,161
2017	—	541,044	2,845,000	2,525,000	—	524,800	6,435,844
2018	—	541,044	2,950,000	2,600,000	—	393,600	6,484,644
2019	—	541,044	2,990,000	2,690,000	—	—	6,221,044
2020 – 2024	35,000,000	2,705,220	17,030,000	15,145,000	—	—	69,880,220
2025 – 2029	—	2,344,470	42,465,000	18,555,000	—	—	63,364,470
2030 – 2034	—	—	58,240,000	23,235,000	—	—	81,475,000
2035 – 2039	—	—	59,380,000	29,280,000	—	—	88,660,000
2040 – 2044	165,000,000	—	—	21,120,000	—	—	186,120,000
	<u>\$ 200,000,000</u>	<u>7,799,993</u>	<u>190,315,000</u>	<u>120,000,000</u>	<u>520,444</u>	<u>1,968,000</u>	<u>520,603,437</u>

A summary of estimated future interest requirements of long-term debt based on effective rates as of June 30, 2014 follows:

	<u>Series 2014 Bonds</u>	<u>Note Payable</u>	<u>Series 2013 Bonds</u>	<u>Series 2011 Bonds</u>	<u>Parking deck debt</u>	<u>Total</u>
2015	\$ 9,527,700	107,349	1,286,650	5,270,556	21,722	16,213,977
2016	9,527,700	99,612	1,270,388	5,197,056	12,699	16,107,455
2017	9,527,700	91,875	1,249,473	5,121,306	—	15,990,354
2018	9,527,700	84,138	1,227,817	5,030,306	—	15,869,961
2019	9,527,700	76,402	1,205,823	4,922,706	—	15,732,631
2020 – 2024	46,963,350	265,955	5,663,730	22,843,530	—	75,736,565
2025 – 2029	40,887,000	74,038	4,449,850	19,220,870	—	64,631,758
2030 – 2034	40,887,000	—	2,634,992	14,264,463	—	57,786,455
2035 – 2039	40,887,000	—	566,995	7,926,326	—	49,380,321
2040 – 2044	36,798,300	—	—	1,034,313	—	37,832,613
Total	<u>\$ 254,061,150</u>	<u>799,369</u>	<u>19,555,718</u>	<u>90,831,432</u>	<u>34,421</u>	<u>365,282,090</u>

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, 2014 and 2013, MCVH transferred approximately \$11,556,102 and \$24,874,000, 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.

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

Notes to Financial Statements

June 30, 2014 and 2013

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:

	2014		2013	
	Carrying value	Fair value	Carrying value	Fair value
Long-term obligations	\$ 519,564,029	544,544,474	312,061,371	313,334,087

Interest expense for the years ended June 30, 2014 and 2013 was \$16,539,480 and \$8,992,383, respectively, net of amounts capitalized. Capitalized interest of approximately \$3,563,000 and \$3,563,000 was recorded related to construction in progress in 2014 and 2013. For the years ended June 30, 2014 and 2013, MCVH paid approximately \$13,478,000 and \$13,080,000, respectively, for interest.

In October 2013, UHS entered into loan agreements which total \$11,700,000 with two lenders. The proceeds of the loans are to be used to finance a portion of the cost to develop and construct a condominium unit of the Children's Pavilion. Interest on the loans is accrued and payable quarterly through December 1, 2020. Thereafter, principal and interest payments of \$150,033 are due quarterly through October 23, 2043. Interest rates range from 1.0020% to 1.5588%.

**(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, 2014 was \$120,397,500. MCVH pays a fixed rate of 3.84% and the counterparty pays 67% of 30-day LIBOR (0.102% as of June 30, 2014). 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, 2014 and 2013, the fair value of the swaps of \$30,932,019 and \$30,376,129, respectively, is included in other liabilities in the accompanying statements of net position. For the years ended June 30, 2014 and 2013, the change in fair value of the swaps was \$555,890 and \$15,959,083, 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 of \$30,376,129 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, 2014 was \$69,450,000. MCVH pays a fixed rate of 3.499% and the counterparty pays 67% of 30-day LIBOR (0.102% as of June 30, 2014). 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, 2014 and 2013, the fair

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

Notes to Financial Statements

June 30, 2014 and 2013

value of the swap of \$11,640,202 and \$11,676,174, respectively, is included in other liabilities in the accompanying statements of net position. For the years ended June 30, 2014 and 2013, the change in fair value of the swap was \$35,972 and \$6,069,984, 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 of \$11,676,174 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 for the Primary Enterprise was \$6,484,781 and \$7,328,692 in 2014 and 2013, respectively. Total expense under operating leases for the Component Units was \$3,754,995 and \$3,579,038 in 2014 and 2013, respectively. Future minimum lease payments for non-cancelable operating leases are as follows:

		<u>Primary Enterprise</u>	<u>Component Units</u>
2015	\$	5,622,109	3,330,405
2016		4,237,466	2,742,341
2017		3,002,514	2,376,138
2018		1,923,862	1,506,735
2019		1,019,607	352,012
2020		339,869	62,649
	\$	<u>16,145,427</u>	<u>10,370,280</u>

**(8) Commitments**

Estimated costs to complete construction in progress for capital assets at June 30, 2014 for the Authority are approximately \$39,000,000. 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

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

Notes to Financial Statements

June 30, 2014 and 2013

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:

	<b>2014</b>	<b>2013</b>
Estimated malpractice losses at beginning of year	\$ 3,599,225	3,781,282
Malpractice claims expense, net of actuarial adjustments	1,201,653	1,175,865
Malpractice claims settled	(1,403,664)	(1,357,922)
Estimated malpractice losses at end of year	\$ 3,397,214	3,599,225

Investments have been set aside based on actuarially determined reserves and are included in assets whose use is limited in the accompanying statements of net position – enterprise fund. At June 30, 2014 and 2013, the funds internally restricted for MCVH include \$3,397,214 and \$3,599,225, respectively, for claims and related legal expenses for reported and unreported incidents occurring since July 1, 1998.

The Authority believes that its 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, 2014.

**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.

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

Notes to Financial Statements

June 30, 2014 and 2013

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

	<b>2014</b>	<b>2013</b>
Estimated malpractice losses at beginning of year	\$ 20,332,188	19,686,337
Malpractice claims expense, net of actuarial adjustments	5,418,871	4,621,089
Malpractice claims settled	(2,956,604)	(3,975,238)
Estimated malpractice losses at end of year	\$ 22,794,455	20,332,188

Assets whose use is limited of \$22,794,455 and \$20,332,188 have been internally restricted as of June 30, 2014 and 2013, respectively, for payment of claims and related legal expenses for reported and unreported incidents.

The Authority believes that its 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, 2014.

**VA Premier**

VA Premier maintains general and professional liability policies. The general liability policy in force is occurrence-based. The coverage under the professional liability policy is on a claims-made basis and must be renewed or replaced with the equivalent insurance if claims incurred during its terms, but asserted after its expiration, are to be insured. Coverage limits for the general liability policy are \$1,000,000 per occurrence and \$3,000,000 in the annual aggregate. The coverage limit for the professional liability policy is \$10,000,000 in the annual aggregate. Management does not believe the amount of liability for any claims incurred but unreported as of June 30, 2014 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 financial position would not be materially affected by the ultimate cost related to unasserted Children's claims, if any, at June 30, 2014.

**(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.

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

Notes to Financial Statements

June 30, 2014 and 2013

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

	<u>2014</u>	<u>2013</u>
Estimated workers' compensation losses at beginning of year	\$ 15,080,964	17,526,727
Workers' compensation expense, net of actuarial adjustments	4,753,821	(354,822)
Workers' compensation claims settled	<u>(2,021,693)</u>	<u>(2,090,941)</u>
Estimated workers' compensation losses at end of year	<u>\$ 17,813,092</u>	<u>15,080,964</u>

Investments have been set aside based on actuarially determined reserves and are included in assets whose use is limited in the Primary Enterprise's accompanying statements of net position – enterprise fund. At June 30, 2014 and 2013, the funds internally restricted include \$17,813,092 and \$15,080,964, respectively, for claims and related legal expenses for reported and unreported incidents.

The Authority believes that its 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, 2014.

**(10) Net Patient Service Revenue**

The Authority's net patient service revenue for the Primary Enterprise and for the Component Units is summarized as follows for the years ended June 30:

	<u>2014</u>	<u>2013</u>
MCVH gross changes:		
Inpatient	\$ 2,195,311,542	1,963,031,657
Outpatient	1,545,731,340	1,378,105,409
Less uncompensated care	<u>(437,743,267)</u>	<u>(413,769,601)</u>
Total MCVH gross patient service revenue	3,303,299,615	2,927,367,465
Less contractual allowances, and uncollectible amounts	<u>(2,018,197,299)</u>	<u>(1,746,031,004)</u>
Net patient service revenue - primary enterprise	<u>\$ 1,285,102,316</u>	<u>1,181,336,461</u>
MCVAP net patient service revenue	\$ 185,613,441	186,503,950
Children's net patient service revenue	29,629,985	28,999,740
Eliminations	<u>(5,958,895)</u>	<u>(5,092,825)</u>
Net patient service revenue - component units	<u>\$ 209,284,531</u>	<u>210,410,865</u>

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

Notes to Financial Statements

June 30, 2014 and 2013

**(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, 2014 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:

	<u>2014</u>	<u>2013</u>
Balance at beginning of year	\$ 52,397,760	42,721,288
Add provision for claims occurring in:		
Current year	669,780,288	607,262,505
Prior years	<u>(2,344,839)</u>	<u>(1,367,510)</u>
Claims incurred during the current year	<u>667,435,449</u>	<u>605,894,995</u>
Deduct payments for claims occurring in:		
Current year	(604,472,627)	(556,131,033)
Prior years	<u>(49,979,438)</u>	<u>(40,087,490)</u>
Claims payments during the current year	<u>(654,452,065)</u>	<u>(596,218,523)</u>
Balance at end of year	<u>\$ 65,381,144</u>	<u>52,397,760</u>

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, 2014 and 2013 were approximately \$2,956,000 and \$3,173,000, respectively, and are included in other expenses in the accompanying statements of revenues, expenses and changes in net position. Benefits of approximately \$2,829,000 and \$2,664,000, were provided by the reinsurer for the years ended June 30, 2014 and 2013, respectively, and are netted with medical claims expense in the accompanying statements of revenues, expenses, and changes in net position.



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

Notes to Financial Statements

June 30, 2014 and 2013

**(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. MCVH leases space in other buildings from VCU with varying renewal options.

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, 2014, MCVH's remaining commitment through 2027 is approximately \$5,290,000.

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 statements of revenues, expenses and changes in net position, were as follows:

	<b>2014</b>	<b>2013</b>
Payments by VCU to MCVH:		
Operation and maintenance	\$ 471,927	471,927
Rent on short-term space	164,892	164,892
Total payments by VCU to MCVH	\$ 636,819	636,819
Payments by MCVH to VCU:		
Graduate education services	\$ 59,724	57,978
Nonphysician clinical support	5,066,725	3,581,038
Administrative support	7,952,620	7,835,422
Rent on short-term space	2,113,150	2,103,417
Principal and interest on parking deck debt	722,385	594,863
Use of steam plant	272,882	467,544
Total payments by MCVH to VCU	\$ 16,187,486	14,640,262

**(b) Medical College of Virginia Foundation**

During the year ended June 30, 2013, MCVH donated \$500,000 to the MCV Foundation. This gift was 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 statements of revenues, expenses and changes in net position. The MCV Foundation provided \$22,562 to MCVH for the year ended June 30, 2014. The MCV Foundation provided \$999,433 and \$1,044,622 to

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

Notes to Financial Statements

June 30, 2014 and 2013

MCVAP for the years ended June 30, 2014 and 2013, respectively. The gifts from MCV Foundation were unrestricted and will be used to support the clinical departments.

**(c) *MCV Associated Physicians***

MCVH has entered into purchased service agreements with MCVAP regarding reimbursement for various services performed on behalf of MCVH by MCVAP. Clinical and Operating Services Agreement (COSA) payments are annually determined and made by MCVH to MCVAP in return for clinical support and joint operations funded by MCVAP and payments for indigent care provided by physicians of MCVAP. During 2014 and 2013, MCVH paid approximately \$88,503,000 and \$90,971,000, respectively, in COSA payments.

MCVH provided MCVAP with approximately \$10,716,000 and \$10,157,000 in information system and administrative services in 2014 and 2013, respectively, which are reimbursed to MCVH by MCVAP on a monthly basis.

MCVH leases clinical and administrative facilities to various MCVAP departments. Rental income related to these facilities totaled approximately \$267,000 for each year ended June 30, 2014 and 2013.

**(d) *University Health Services, Inc.***

MCVH leases clinic office space from UHS under operating leases. Rental expense under these leases was \$1,634,000 and \$1,568,000 during the years ended June 30, 2014 and 2013, respectively.

**(e) *Virginia Premier***

During 2014 and 2013, MCVH provided VA Premier with approximately \$5,011,000 and \$4,518,000, respectively, in information system services and administrative services, which are reimbursed to MCVH by VA Premier on a quarterly basis.

During 2014 and 2013, VA Premier provided certain MCVH departments administrative services for which VA Premier received reimbursement of approximately \$343,000 and \$335,000, respectively.

MCVH provided health care services to VA Premier members, for which it received reimbursement of approximately \$38,014,706 and \$37,027,332, respectively, for the years ended June 30, 2014 and 2013, which is included in net patient service revenue by MCVH and medical claims expense by VA Premier.

**(f) *Children's Hospital***

MCVH made capital contributions to Children's of \$2,932,922 and \$6,200,919 for the years ended June 30, 2014 and 2013, respectively. These contributions are included in transfers to affiliates in the accompanying statements of revenues, expenses, and changes in net position—enterprise fund.

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

Notes to Financial Statements

June 30, 2014 and 2013

Included in the accompanying statements of net position are the following amounts due from (to) related parties as of June 30 for the Primary Enterprise:

		<b>2014</b>	<b>2013</b>
MCVAP	\$	9,483,934	(17,713,372)
Virginia Premier Health Plan		6,377,086	6,523,200
UHS		1,387,862	459,037
Virginia Commonwealth University		17,727	30,206
Due from (to) related parties	\$	<u>17,266,609</u>	<u>(10,700,929)</u>

Included in the accompanying statements of net position are the following amounts due from (to) related parties as of June 30 for the Component Units:

		<b>2014</b>	<b>2013</b>
MCVH	\$	(17,248,882)	10,731,135
Virginia Commonwealth University		(1,762,292)	(666,697)
Due from (to) related parties	\$	<u>(19,011,174)</u>	<u>10,064,438</u>

**(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 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, 2014 and 2013 for these employees were approximately \$5,950,000 and \$5,673,000, 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

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

Notes to Financial Statements

June 30, 2014 and 2013

benefit-eligible position are eligible to participate in the VCUHS 401(a) Plan. At June 30, 2014 and 2013, there were 6,159 and 5,994 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, 2014 and 2013 were approximately \$19,736,000 and \$18,464,000, 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.

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

MCVH 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, 2014 and 2013, 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, 2014 and 2013 were approximately \$31,000 for each year.

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

Notes to Financial Statements

June 30, 2014 and 2013

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:

	<b>June 30</b>	
	<b>2014</b>	<b>2013</b>
Fidelity Investments	\$ 159,694,664	125,279,650
TIAA/CREF	78,062,591	63,766,340
The Variable Annuity Life Insurance Company (VALIC)	13,524,172	12,074,105
	\$ 251,281,427	201,120,095

**(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 \$14,249,000 and \$12,250,000 for the years ended June 30, 2014 and 2013, 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.

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

Contributions to the plans for the years ended June 30, 2014 and 2013 were approximately \$3,550,000 for each year.

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

Notes to Financial Statements

June 30, 2014 and 2013

(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 90% 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 2014 and 2013, 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 534 and 468 as of June 30, 2014 and 2013, respectively. VA Premier's expense for its contributions to this plan was approximately \$1,644,000 and \$1,376,000 for the years ended 2014 and 2013, 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 \$15,775,856 and \$14,881,461 as of June 30, 2014 and 2013, respectively. The Pension Plan's fair value of plan assets was \$9,717,169 and \$8,896,294 as of June 30, 2014 and 2013, respectively. The Pension Plan's unfunded liability of \$6,058,687 and \$5,985,167 as of June 30, 2014 and 2013, respectively, is included in other liabilities on the accompanying statements of net position.

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

Notes to Financial Statements

June 30, 2014 and 2013

**(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:

	<b>2014</b>		<b>2013</b>	
	<b>Primary Enterprise</b>	<b>Component Units</b>	<b>Primary Enterprise</b>	<b>Component Units</b>
Anthem	33%	19%	30%	23%
Medicaid	9	15	13	19
Medicare	9	5	10	14
Other	49	61	47	44
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

Revenue from the Medicare and Medicaid/Indigent programs accounted for approximately 22% and 31%, respectively, of MCVH's net patient service revenue for the both years ended June 30, 2014 and June 30, 2013. Revenue from the Medicare and Medicaid/Indigent programs accounted for approximately 18% and 30% respectively, of the Component Units' net patient service revenue for the year ended June 30, 2014 (16% and 33% respectively, for the year ended June 30, 2013). 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**

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

	<b>2014</b>	<b>2013</b>
Federal:		
Current	\$ (18,652,579)	2,898,371
Deferred	1,703,805	826,284
	<u>\$ (16,948,774)</u>	<u>3,724,655</u>
State:		
Current	\$ (3,219,285)	401,700
Deferred	107,228	150,691
	<u>\$ (3,112,057)</u>	<u>552,391</u>

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, 2014 and 2013, due to conversion to tax-exempt status, permanent differences, prior year current tax true-ups, and the effects of nondeductible deferred tax assets.

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

Notes to Financial Statements

June 30, 2014 and 2013

As a result of its tax exempt status, VA Premier has recorded no deferred tax assets or liabilities as of June 30, 2014. Net deferred tax assets as of June 30, 2013 were \$1,811,033, which were netted within other accrued liabilities on the accompanying statements of net position. Income taxes payable as of June 30, 2013 were \$22,511,684 and were included in other accrued liabilities in the accompanying statements of net position.

**(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 \$27,593,640 from the IRS, which represented most of the periods subject to the IRS refunds. As a result, MCVH paid approximately \$8,700,000 to other hospitals that supported medical residents during the eligible period and recorded additional 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, MCVH recorded current accounts receivables of approximately \$4,600,000 and current other accrued liabilities of approximately \$2,600,000. During 2014, MCVH received a final payment of \$4,660,000 from the IRS, which represented the remaining period subject to IRS refunds, and made final payments of \$2,655,000 to medical residents and other health care providers.

**(18) Subsequent Event**

Effective July 1, 2014, the Authority and Community Memorial Healthcenter (CMH), a Virginia not-for-profit nonstock corporation located in South Hill, Virginia, entered in to an affiliation agreement. The Authority became the sole member of CMH and, in addition to other contractual obligations, has committed to invest \$75,000,000 in facility replacements and enhancements to assist CMH in carrying out certain strategic projects and initiatives to improve and enhance the delivery of health care services to the communities it serves as an affiliate of the Authority.



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

Combining Schedule of Assets, Deferred Outflows of Resources, Liabilities and Net Position – Enterprise Fund

June 30, 2014

	Primary Enterprise	Component Units						Total Component Units	Eliminations	Total
		MCV Hospitals	MCV Associated Physicians	Virginia Premier Health Plan	Children's Hospital	University Health Services	Eliminations			
<b>Assets and Deferred Outflows of Resources</b>										
Current assets:										
Cash and cash equivalents	\$ 335,029,161	12,082,518	1,609,411	836,793	1,040,896	—	15,569,618	—	350,598,779	
Restricted cash	—	6,760	—	—	—	—	6,760	—	6,760	
Short-term investments	16,792,283	1,183,252	75,312,563	—	5,497,601	—	81,993,416	—	98,785,699	
Patient accounts receivable, net	168,423,163	26,688,827	—	3,878,518	—	—	30,567,345	—	198,990,508	
Settlements due from third-party payors	1,453,011	—	—	1,818,480	—	—	1,818,480	—	3,271,491	
Premiums receivable	—	—	65,827,610	—	—	—	65,827,610	—	65,827,610	
Other accounts receivable	2,098,950	2,686,608	1,204,779	—	72,300	—	3,963,687	—	6,062,637	
Due from affiliates	17,266,609	25,839	—	—	110,785	(25,839)	110,785	(17,248,882)	128,512	
Current portion of assets whose use is limited	3,350,000	3,000,000	—	—	—	—	3,000,000	—	6,350,000	
Supplies and other current assets	26,444,241	331,243	1,894,728	331,568	227,893	—	2,785,432	—	29,229,673	
Total current assets	<u>570,857,418</u>	<u>46,005,047</u>	<u>145,849,091</u>	<u>6,865,359</u>	<u>6,949,475</u>	<u>(25,839)</u>	<u>205,643,133</u>	<u>(17,248,882)</u>	<u>759,251,669</u>	
Capital assets:										
Land and improvements	7,620,817	—	303,075	54,914	945,000	—	1,302,989	—	8,923,806	
Depreciable capital assets, net	399,422,627	1,823,569	3,699,272	9,031,028	7,804,759	—	22,358,628	—	421,781,255	
Construction in progress	106,504,438	1,152,069	6,227,553	—	3,924,494	—	11,304,116	—	117,808,554	
Total capital assets	<u>513,547,882</u>	<u>2,975,638</u>	<u>10,229,900</u>	<u>9,085,942</u>	<u>12,674,253</u>	<u>—</u>	<u>34,965,733</u>	<u>—</u>	<u>548,513,615</u>	
Other assets:										
Assets whose use is limited, less current portion	940,211,292	143,245,006	40,475,313	3,602,326	7,174,903	—	194,497,548	—	1,134,708,840	
Long-term investments	36,868,191	—	—	—	—	—	—	—	36,868,191	
Other assets	44,546,263	—	50,433	24,836	276,670	—	351,939	—	44,898,202	
Total other assets	<u>1,021,625,746</u>	<u>143,245,006</u>	<u>40,525,746</u>	<u>3,627,162</u>	<u>7,451,573</u>	<u>—</u>	<u>194,849,487</u>	<u>—</u>	<u>1,216,475,233</u>	
Total assets	<u>2,106,031,046</u>	<u>192,225,691</u>	<u>196,604,737</u>	<u>19,578,463</u>	<u>27,075,301</u>	<u>(25,839)</u>	<u>435,458,353</u>	<u>(17,248,882)</u>	<u>2,524,240,517</u>	
Deferred outflows of resources	39,962,413	—	—	—	—	—	—	—	39,962,413	
Total assets and deferred outflows	<u>\$ 2,145,993,459</u>	<u>192,225,691</u>	<u>196,604,737</u>	<u>19,578,463</u>	<u>27,075,301</u>	<u>(25,839)</u>	<u>435,458,353</u>	<u>(17,248,882)</u>	<u>2,564,202,930</u>	

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

Combining Schedule of Assets, Deferred Outflow of Resources, Liabilities and Net Position – Enterprise Fund

June 30, 2014

Liabilities and Net Position	Primary Enterprise	Component Units							
	MCV Hospitals	MCV Associated Physicians	Virginia Premier Health Plan	Children's Hospital	University Health Services	Eliminations	Total Component Units	Eliminations	Total
Current liabilities:									
Current portion of long-term debt and capital leases	\$ 5,926,054	—	—	—	—	—	—	—	5,926,054
Estimated medical claims payable	—	—	65,381,144	—	—	—	65,381,144	—	65,381,144
Trade accounts payable	48,068,801	481,567	8,496,093	369,146	22,684	—	9,369,490	—	57,438,291
Settlements due to third-party payors	59,943,748	6,585,024	—	—	—	—	6,585,024	—	66,528,772
Accrued salaries, wages and employee benefits	43,637,007	18,196,925	2,036,593	1,717,229	—	—	21,950,747	—	65,587,754
Accrued leave	21,993,567	4,180,828	1,660,651	954,813	—	—	6,796,292	—	28,789,859
Accrued interest payable	7,303,585	—	—	—	—	—	—	—	7,303,585
Due to affiliates	—	11,202,825	6,377,086	25,839	1,542,048	(25,839)	19,121,959	(17,248,882)	1,873,077
Current portion of estimated workers' compensation claims	2,100,000	—	—	—	—	—	—	—	2,100,000
Current portion of estimated losses on malpractice claims	1,250,000	3,000,000	—	—	—	—	3,000,000	—	4,250,000
Other accrued liabilities	4,156,330	1,943,753	1,061,527	261,850	430,572	—	3,697,702	—	7,854,032
Total current liabilities	<u>194,379,092</u>	<u>45,590,922</u>	<u>85,013,094</u>	<u>3,328,877</u>	<u>1,995,304</u>	<u>(25,839)</u>	<u>135,902,358</u>	<u>(17,248,882)</u>	<u>313,032,568</u>
Other liabilities:									
Long-term debt and capital leases, less current portion	515,605,975	—	—	—	11,700,000	—	11,700,000	—	527,305,975
Estimated workers' compensation claims	15,713,092	—	—	—	—	—	—	—	15,713,092
Estimated losses on malpractice claims	2,147,214	19,794,455	—	—	—	—	19,794,455	—	21,941,669
Fair value of hedging derivatives	42,572,221	—	—	—	—	—	—	—	42,572,221
Other liabilities	5,397,085	—	497,071	6,150,697	—	—	6,647,768	—	12,044,853
Total liabilities	<u>775,814,679</u>	<u>65,385,377</u>	<u>85,510,165</u>	<u>9,479,574</u>	<u>13,695,304</u>	<u>(25,839)</u>	<u>174,044,581</u>	<u>(17,248,882)</u>	<u>932,610,378</u>
Net position:									
Net investment in capital assets	206,276,797	2,975,638	10,229,900	9,085,942	8,749,759	—	31,041,239	—	237,318,036
Restricted:									
Expendable	—	—	612,306	1,179,722	—	—	1,792,028	—	1,792,028
Nonexpendable permanent endowment	18,369,873	—	—	2,422,604	—	—	2,422,604	—	20,792,477
Unrestricted	<u>1,145,532,110</u>	<u>123,864,676</u>	<u>100,252,366</u>	<u>(2,589,379)</u>	<u>4,630,238</u>	<u>—</u>	<u>226,157,901</u>	<u>—</u>	<u>1,371,690,011</u>
Total net position	<u>1,370,178,780</u>	<u>126,840,314</u>	<u>111,094,572</u>	<u>10,098,889</u>	<u>13,379,997</u>	<u>—</u>	<u>261,413,772</u>	<u>—</u>	<u>1,631,592,552</u>
Total liabilities and net position	<u>\$ 2,145,993,459</u>	<u>192,225,691</u>	<u>196,604,737</u>	<u>19,578,463</u>	<u>27,075,301</u>	<u>(25,839)</u>	<u>435,458,353</u>	<u>(17,248,882)</u>	<u>2,564,202,930</u>

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, 2014

	Primary	Component Units						Eliminations	Total
	Enterprise	MCV Hospitals	MCV Associated Physicians	Virginia Premier Health Plan	Children's Hospital	University Health Services	Total Component Units		
Operating revenues:									
Net patient service revenue	\$ 1,285,102,316	185,613,441	—	29,629,985	—	(5,958,895)	209,284,531	(38,014,706)	1,456,372,141
Premiums earned	—	—	739,261,937	—	—	—	739,261,937	—	739,261,937
Contract revenue from MCVH	—	68,718,373	—	—	—	—	68,718,373	(68,718,373)	—
Other contract revenue	—	16,147,739	—	—	—	(775,840)	15,371,899	—	15,371,899
Other operating revenue	13,513,773	7,432,833	8,313,994	168,953	3,369,425	(14,598)	19,270,607	(1,633,528)	31,150,852
	<u>1,298,616,089</u>	<u>277,912,386</u>	<u>747,575,931</u>	<u>29,798,938</u>	<u>3,369,425</u>	<u>(6,749,333)</u>	<u>1,051,907,347</u>	<u>(108,366,607)</u>	<u>2,242,156,829</u>
Operating expenses:									
Salaries and wages	401,345,260	224,338,009	33,754,257	18,586,246	343,049	—	277,021,561	—	678,366,821
Employee benefits	127,683,164	47,298,834	10,524,938	5,859,654	118,520	—	63,801,946	—	191,485,110
Medical claims expense	—	—	673,395,947	—	(1,603)	(5,958,895)	667,435,449	(38,031,206)	629,404,243
Purchased services	149,706,276	4,104,168	3,540,058	2,378,852	2,804,467	(773,488)	12,054,057	(68,718,373)	93,041,960
Supplies	278,952,848	3,402,644	4,006,153	2,267,968	78,947	—	9,755,712	—	288,708,560
Other expenses	95,395,180	16,221,210	8,976,818	2,381,601	1,510,741	(16,950)	29,073,420	(1,617,028)	122,851,572
Provision for depreciation and amortization	63,629,044	839,916	985,404	958,664	683,865	—	3,467,849	—	67,096,893
	<u>1,116,711,772</u>	<u>296,204,781</u>	<u>735,183,575</u>	<u>32,432,985</u>	<u>5,537,986</u>	<u>(6,749,333)</u>	<u>1,062,609,994</u>	<u>(108,366,607)</u>	<u>2,070,955,159</u>
Operating income (loss)	181,904,317	(18,292,395)	12,392,356	(2,634,047)	(2,168,561)	—	(10,702,647)	—	171,201,670
Nonoperating revenues and expenses:									
Investment income	50,115,689	13,739,126	3,952,506	—	7,157	—	17,698,789	—	67,814,478
Interest expense	(16,539,480)	—	—	—	(119,395)	—	(119,395)	—	(16,658,875)
Other nonoperating income, net	(177,619)	1,173,012	—	781,313	—	—	1,954,325	—	1,776,706
Donations and gifts	83,918	3,328,532	(45,350)	—	—	—	3,283,182	—	3,367,100
Total nonoperating revenues and expenses	33,482,508	18,240,670	3,907,156	781,313	(112,238)	—	22,816,901	—	56,299,409
Excess of revenues over expenses before income taxes	215,386,825	(51,725)	16,299,512	(1,852,734)	(2,280,799)	—	12,114,254	—	227,501,079
Income tax benefit	—	—	20,060,831	—	—	—	20,060,831	—	20,060,831
Excess of revenues over expenses	215,386,825	(51,725)	36,360,343	(1,852,734)	(2,280,799)	—	32,175,085	—	247,561,910
Transfers from (to) affiliates	(2,932,922)	(2,209,603)	—	2,932,922	—	—	723,319	—	(2,209,603)
Increase in beneficial interest in trusts	1,522,730	—	—	262,339	—	—	262,339	—	1,785,069
Other	2,203,181	—	—	99,783	—	—	99,783	—	2,302,964
Increase (decrease) in net position	216,179,814	(2,261,328)	36,360,343	1,442,310	(2,280,799)	—	33,260,526	—	249,440,340
Net position at beginning of year	1,153,998,966	129,101,642	74,734,229	8,656,579	15,660,796	—	228,153,246	—	1,382,152,212
Net position at end of year	\$ <u>1,370,178,780</u>	<u>126,840,314</u>	<u>111,094,572</u>	<u>10,098,889</u>	<u>13,379,997</u>	<u>—</u>	<u>261,413,772</u>	<u>—</u>	<u>1,631,592,552</u>

See accompanying independent auditors' report.