



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

Basic Financial Statements and Other Financial Information

June 30, 2015 and 2014

(With Independent Auditors' Report Thereon)

**VIRGINIA COMMONWEALTH UNIVERSITY  
HEALTH SYSTEM AUTHORITY**

(A Component Unit of Virginia Commonwealth University)

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## **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, 2015 and 2014, 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, 2015 and 2014, 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 Matters***

As discussed in note 1 to the financial statements, in fiscal year 2015, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which provide new accounting guidance that addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts. Our opinions are not modified with respect to this matter.

As discussed in note 1 to the financial statements, the Authority became the sole member of VCU Community Memorial Hospital (CMH) during fiscal year 2015. This transaction has been reported as a change in reporting entity and prior year financial statements have been retrospectively restated to include CMH as a discretely presented component unit.

### ***Other Matters***

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

U.S. generally accepted accounting principles require that Management's Discussion and Analysis on pages 4 through 15, the Schedule of Employer Contributions and the Schedule of Authority's Share of Net Pension Liability on pages 59 and 60, respectively, 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, 2015, included on pages 61 and 62, and Combining Schedule of Revenues, Expenses and Changes in Net Position – Enterprise Fund Year ended June 30, 2015, included on page 63, (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*

November 25, 2015

**VIRGINIA COMMONWEALTH UNIVERSITY**  
**HEALTH SYSTEM AUTHORITY**  
(A Component Unit of Virginia Commonwealth University)  
Management's Discussion and Analysis (Unaudited)  
June 30, 2015 and 2014

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, 2015 and 2014. 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, 2015 and 2014 into their financial statements for the years then ended. The Authority's reporting entity includes MCVH, MCV Associated Physicians (MCVAP), Community Memorial Hospital (CMH), University Health Services, Inc. and subsidiaries (UHS), Virginia Premier Health Plan (Virginia Premier), Children's Hospital (Children's) and VCU Community Memorial Hospital (CMH). 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, MCVAP and CMH 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 2015, the Authority adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which required enhanced note disclosure and required supplementary information for pension plans as well as established standards for measuring and recognizing pension related assets, liabilities, deferred outflows of resources, and deferred inflows of resources, and expenses. The cumulative effect of applying GASB Statements No. 68 and 71 reduced net position by \$64,958,000 as of July 1, 2014.

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*June 30, 2015 Compared to June 30, 2014*

**Financial Highlights**

- The Authority's net position increased by \$128.4 million, or 9.4%, over prior year as a result of this year's results of operations, which increased net position by \$193.4 million, and was reduced by the cumulative effect of implementing GASB Statements No. 68 and 71, which reduced net position by \$65 million.
- Patient service revenue comprises the majority of the Authority's revenues. Net patient service revenue increased by \$119.1 million, or 9.4%, from prior year due to an increase in volume of certain 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, 2015 of \$227.0 million, a \$45.0 million increase from operating income of \$181.9 million for the year ended June 30, 2014.
- The major capital expenditures for the Authority in 2015 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 \$196.1 million, or 26.5%, from prior year primarily due to a new initiative to coordinate care for individuals who are currently served by both Medicare and Medicaid. The new program is designed to be Virginia's single program to coordinate delivery of primary, preventative, acute, behavioral, and long-term services and support.

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As indicated in Table 1 below, the Authority's total assets and deferred outflows exceeded total liabilities and deferred inflows by \$1,498.6 million as of June 30, 2015. Of this net position 17.5% (\$261.8 million) are related to capital assets, 1.2% (\$17.5 million) are restricted funds, and the remaining 81.3% (\$1,219.4 million) are unrestricted funds, which can be used for ongoing operations of the Authority:

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

	<b>June 30</b>	
	<b>2015</b>	<b>2014</b>
Current assets	\$ 592,757	570,857
Capital assets, net	570,156	513,548
Other noncurrent assets	1,101,039	1,021,626
Total assets	2,263,952	2,106,031
Deferred outflows	46,421	39,962
Total assets and deferred outflows	\$ 2,310,373	2,145,993
Current liabilities	\$ 158,997	194,379
Long-term liabilities	638,559	581,435
Total liabilities	797,556	775,814
Deferred inflows	14,207	—
Total liabilities and deferred inflows	\$ 811,763	775,814
Net position:		
Net investment in capital assets	\$ 261,766	206,277
Restricted – nonexpendable	17,467	18,370
Unrestricted	1,219,377	1,145,532
Total net position	\$ 1,498,610	1,370,179



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**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>2015</b>	<b>2014</b>
Operating revenues:		
Net patient service revenue	\$ 1,381,729	1,262,623
Other operating revenues	18,256	13,514
Total operating revenues	<u>1,399,985</u>	<u>1,276,137</u>
Operating expenses:		
Salaries, wages and employee benefits	538,557	506,550
Purchased services	158,886	149,706
Supplies	305,516	278,953
Depreciation and amortization	66,227	63,629
Other operating expenses	103,772	95,395
Total operating expenses	<u>1,172,958</u>	<u>1,094,233</u>
Operating income	227,027	181,904
Net nonoperating revenues and (expenses)	<u>(1,200)</u>	<u>33,483</u>
Excess of revenues over expenses before other changes in net position	225,827	215,387
Other changes in net position, net	<u>(32,438)</u>	<u>793</u>
Increase in net position	193,389	216,180
Beginning net position	1,370,179	1,153,999
Cumulative effect of change in accounting for pensions (note 1)	<u>(64,958)</u>	<u>—</u>
Ending net position	<u>\$ 1,498,610</u>	<u>1,370,179</u>

The Authority's operating revenues increased by 9.7% (\$123.9 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 7.2% (\$78.7 million). Personnel costs are the largest single cost of the Authority, comprising 45.9% of operating costs in 2015. An increase in personnel-related costs of \$32.0 million, or 7.5%, from prior year reflects both the salary adjustments required to meet market demands and the required staff levels to meet both quality and volume initiatives.

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**Capital Asset and Debt Administration**

*Capital Assets*

The Authority's net capital assets increased by \$56.6 million, or 11.0%, over prior year amounts.

**Table 3**

**Virginia Commonwealth University  
Health System Authority**

Capital Assets – Enterprise Fund

(In thousands)

	<b>June 30</b>	
	<b>2015</b>	<b>2014</b>
Land and improvements	\$ 7,621	7,621
Buildings and fixed equipment	594,474	580,401
Moveable equipment	423,429	383,697
Construction in progress	173,560	106,504
	1,199,084	1,078,223
Accumulated depreciation	(628,928)	(564,675)
Total	\$ 570,156	513,548

**Table 4**

**Virginia Commonwealth University  
Health System Authority**

Schedule of Additions and Retirements – Enterprise Fund

(In thousands)

	<b>Year ended June 30</b>	
	<b>2015</b>	<b>2014</b>
Capital assets – net, beginning of year	\$ 513,548	459,164
Additions	123,238	117,121
Disposals, net of accumulated depreciation	(298)	—
Depreciation	(66,332)	(62,737)
Capital assets – net, end of year	\$ 570,156	513,548

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Major projects capitalized include (in millions):

	<b>Year ended June 30</b>	
	<b>2015</b>	<b>2014</b>
Children's outpatient facility	\$ 46.9	39.1
Purchase and replacement of moveable equipment	15.6	23.2
Office building renovations	9.9	19.6
Investments in information system infrastructure, business systems and equipment	9.7	14.7
Major renovation projects	24.5	11.4
Surgery equipment	4.2	3.3
Radiology and cardiology equipment	5.4	3.2
Renovations of Main and North Hospitals	7.0	2.6
	<b>\$ 123.2</b>	<b>117.1</b>

The Authority has a five-year capital plan, which includes a budget of \$168 million of expenditures in fiscal year 2016.

**Debt**

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

	<b>June 30</b>	
	<b>2015</b>	<b>2014</b>
General Revenue Bonds Series 2014	\$ 200,000	200,000
General Revenue Bonds Series 2013	188,155	190,315
General Revenue Bonds Series 2011	117,600	120,000
Premium – Bonds Series 2011	875	929
Note payable	7,214	7,800
Parking deck debt	265	520
Capital leases	1,496	1,968
Total	<b>\$ 515,605</b>	<b>521,532</b>

Additional information regarding the Authority's debt is included in note 5 to the basic financial statements.

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*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 \$81.3 million, or 6.9%, from prior year due to an increase in volume of certain 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.

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As indicated in Table 6 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 6**  
**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

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**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>2014</b>	<b>2,013</b>
Operating revenues:		
Net patient service revenue	\$ 1,262,623	1,181,337
Other operating revenues	13,514	16,345
Total operating revenues	<u>1,276,137</u>	<u>1,197,682</u>
Operating expenses:		
Salaries, wages and employee benefits	506,550	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>1,094,233</u>	<u>1,026,315</u>
Operating income	181,904	171,367
Net nonoperating revenues and (expenses)	<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	793	(4,252)
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 6.6% (\$78.5 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 6.6% (\$67.9 million). Personnel costs are the largest single cost of the Authority, comprising 46.3% of operating costs in 2014. An increase in personnel-related costs of \$1.4 million, or 0.3%, 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.

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**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 8**

**Virginia Commonwealth University  
Health System Authority**

Capital Assets – Enterprise Fund

(In thousands)

	<b>June 30</b>	
	<b>2014</b>	<b>2,013</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

**Table 9**

**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	\$ 513,548	459,164

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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>

**Debt**

**Table 10**  
**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>



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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.

**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  
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Basic Statements of Net Position – Enterprise Fund

June 30, 2015 and 2014

Assets and Deferred Outflows of Resources	2015		2014	
	Primary enterprise	Component units	Primary enterprise	Component units (note 1)
Current assets:				
Cash and cash equivalents	\$ 239,535,673	33,170,661	335,029,161	31,028,191
Restricted cash	—	49,109	—	37,448
Short-term investments	50,308,788	33,462,621	16,792,283	81,993,416
Patient accounts receivable, net	179,543,196	43,376,327	168,423,163	41,585,252
Settlements due from third-party payors	57,208,408	2,984,151	1,453,011	1,818,480
Premiums receivable	—	78,858,717	—	65,827,610
Other accounts receivable	5,460,444	8,145,687	2,098,950	4,561,633
Due from affiliates	31,545,871	4,909,509	17,266,609	110,785
Current portion of assets whose use is limited	2,900,000	3,000,000	3,350,000	3,000,000
Supplies and other current assets	26,254,625	6,875,443	26,444,241	4,589,854
Total current assets	592,757,005	214,832,225	570,857,418	234,552,669
Capital assets:				
Land and improvements	7,620,817	4,538,858	7,620,817	4,268,213
Depreciable capital assets, net	388,975,489	47,558,082	399,422,627	35,791,318
Construction in progress	173,560,015	22,523,501	106,504,438	12,712,660
Total capital assets	570,156,321	74,620,441	513,547,882	52,772,191
Other assets:				
Assets whose use is limited, less current portion	979,483,818	284,873,911	940,211,292	230,728,106
Long-term investments	26,784,514	61,922,631	36,868,191	—
Note receivable from affiliate	75,000,000	—	—	—
Other assets	19,770,143	6,130,281	44,546,263	5,432,155
Total other assets	1,101,038,475	352,926,823	1,021,625,746	236,160,261
Total assets	2,263,951,801	642,379,489	2,106,031,046	523,485,121
Deferred outflows of resources:				
Interest rate swap	5,370,758	—	519,918	—
Deferred loss on debt refunding	36,904,433	—	39,442,495	—
Pension contributions after measurement date	4,145,864	—	—	—
Total deferred outflows of resources	46,421,055	—	39,962,413	—
Total assets and deferred outflows of resources	\$ 2,310,372,856	642,379,489	2,145,993,459	523,485,121

**VIRGINIA COMMONWEALTH UNIVERSITY  
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Basic Statements of Net Position – Enterprise Fund

June 30, 2015 and 2014

Liabilities, Deferred Inflows of Resources and Net Position	2015		2014	
	Primary enterprise	Component units	Primary enterprise	Component units (note 1)
Current liabilities:				
Current portion of long-term debt and capital leases	\$ 6,055,216	1,403,555	5,926,054	1,132,214
Estimated medical claims payable	—	94,963,621	—	65,381,144
Trade accounts payable	47,477,907	14,148,723	48,068,801	12,913,233
Settlements due to third-party payors	14,717,016	9,321,149	59,943,748	9,926,609
Accrued salaries, wages and employee benefits	46,883,654	28,590,620	43,637,007	23,354,911
Accrued leave	22,692,578	8,365,461	21,993,567	8,250,928
Accrued interest payable	8,202,588	4,748	7,303,585	3,528
Due to affiliates	4,731,627	33,415,194	—	19,121,959
Current portion of estimated workers' compensation claims	2,400,000	—	2,100,000	—
Current portion of estimated losses on malpractice claims	500,000	3,000,000	1,250,000	3,000,000
Other accrued liabilities	5,336,609	6,675,413	4,156,330	4,947,248
Total current liabilities	158,997,195	199,888,484	194,379,092	148,031,774
Other liabilities:				
Long-term debt and capital leases, less current portion	509,549,277	17,293,779	515,605,975	16,538,679
Estimated workers' compensation claims	19,120,715	—	15,713,092	—
Estimated losses on malpractice claims	2,353,506	20,055,224	2,147,214	19,794,455
Fair value of hedging derivatives	47,423,061	—	42,572,221	—
Net pension liability	52,598,000	7,275,666	—	6,058,687
Note payable to affiliate	—	78,181,438	—	—
Other liabilities	7,514,244	605,231	5,397,085	25,589,081
Total liabilities	797,555,998	323,299,822	775,814,679	216,012,676
Deferred inflows of resources:				
Differences between projected and actual earnings on plan investments	9,388,000	—	—	—
Change in actual and proportionate share of pension contribution	4,819,000	—	—	—
Total deferred inflows of resources	14,207,000	—	—	—
Total liabilities and deferred inflows of resources	811,762,998	323,299,822	775,814,679	216,012,676
Net position:				
Net investment in capital assets	261,765,694	55,923,107	206,276,797	42,876,804
Restricted:				
Expendable	—	5,507,313	—	5,521,255
Nonexpendable permanent endowment	17,466,799	2,518,266	18,369,873	2,488,214
Unrestricted	1,219,377,365	255,130,981	1,145,532,110	256,586,172
Total net position	1,498,609,858	319,079,667	1,370,178,780	307,472,445
Total liabilities, deferred inflows of resources and net position	\$ 2,310,372,856	642,379,489	2,145,993,459	523,485,121

See accompanying notes to basic financial statements.

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

Years ended June 30, 2015 and 2014

	2015		2014	
	Primary enterprise	Component units	Primary enterprise	Component units (note 1)
Operating revenues:				
Net patient service revenue	\$ 1,381,729,140	305,949,173	1,262,623,109	269,438,014
Premiums earned	—	935,416,323	—	739,261,937
Contract revenue from MCVH	—	73,522,154	—	68,718,373
Other contract revenue	—	16,430,897	—	15,371,899
Other operating revenue	18,255,762	42,983,296	13,513,773	21,350,775
	<u>1,399,984,902</u>	<u>1,374,301,843</u>	<u>1,276,136,882</u>	<u>1,114,140,998</u>
Operating expenses:				
Salaries and wages	423,072,389	344,486,401	401,345,260	307,348,946
Employee benefits	115,484,838	80,849,959	105,203,957	65,050,361
Medical claims expense	—	877,256,820	—	666,951,693
Purchased services	158,886,446	19,002,734	149,706,276	16,476,254
Supplies	305,515,581	21,063,657	278,952,848	18,206,721
Other expenses	103,772,065	47,693,322	95,395,180	47,630,936
Provision for depreciation and amortization	66,226,769	8,396,441	63,629,044	6,123,786
	<u>1,172,958,088</u>	<u>1,398,749,334</u>	<u>1,094,232,565</u>	<u>1,127,788,697</u>
Operating income (loss)	<u>227,026,814</u>	<u>(24,447,491)</u>	<u>181,904,317</u>	<u>(13,647,699)</u>
Nonoperating revenues and expenses:				
Investment income	17,290,871	12,909,672	50,115,689	19,269,879
Interest expense	(22,039,647)	(3,258,232)	(16,539,480)	(249,228)
Other nonoperating income or expense, net	3,520,187	70,047	(177,619)	1,905,488
Donations and gifts	28,530	5,108,619	83,918	3,426,112
Nonoperating revenues and expenses, net	<u>(1,200,059)</u>	<u>14,830,106</u>	<u>33,482,508</u>	<u>24,352,251</u>
Excess (deficiency) of revenues over expenses before income tax expense	225,826,755	(9,617,385)	215,386,825	10,704,552
Income tax benefit (expense)	—	(750,448)	—	20,060,831
Excess of revenues over expenses	225,826,755	(10,367,833)	215,386,825	30,765,383
Transfers from (to) affiliates	(29,544,968)	22,994,992	(2,932,922)	723,319
Increase (decrease) in beneficial interest in trusts	(903,073)	85,582	1,522,730	262,339
Other	(1,989,636)	(1,105,519)	2,203,181	(31,775)
Increase in net position	193,389,078	11,607,222	216,179,814	31,719,266
Net position at beginning of year	1,370,178,780	307,472,445	1,153,998,966	275,753,179
Cumulative effect of change in accounting for pensions (note 1)	(64,958,000)	—	—	—
Net position at end of year	<u>\$ 1,498,609,858</u>	<u>319,079,667</u>	<u>1,370,178,780</u>	<u>307,472,445</u>

See accompanying notes to basic financial statements.

**VIRGINIA COMMONWEALTH UNIVERSITY  
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Basic Statements of Cash Flows – Enterprise Fund

Years ended June 30, 2015 and 2014

	2015		2014	
	Primary enterprise	Component units	Primary enterprise	Component units (note 1)
<b>Cash flows from operating activities:</b>				
Cash received from third-party payors and patients	\$ 1,268,268,164	392,340,018	1,250,807,426	369,888,245
Cash received from premiums	—	922,385,216	—	736,342,816
Cash paid to employees and employee benefits	(530,840,303)	(419,986,118)	(535,966,955)	(367,605,645)
Cash paid to suppliers	(573,333,933)	(85,146,045)	(523,206,668)	(77,755,671)
Cash paid to providers of health care services	—	(847,674,343)	—	(653,968,309)
Other operating cash receipts and payments, net	9,641,717	45,957,394	15,320,095	50,382,600
Net cash provided by operating activities	<u>173,735,645</u>	<u>7,876,122</u>	<u>206,953,898</u>	<u>57,284,036</u>
<b>Cash flows from noncapital financing activities:</b>				
Donations and gifts	28,530	5,108,619	83,918	3,426,112
Intercompany note	(75,000,000)	75,000,000	—	—
Transfers from (to) affiliates and other transfers	(4,544,968)	(2,005,008)	—	723,319
Net cash provided by (used in) noncapital financing activities	<u>(79,516,438)</u>	<u>78,103,611</u>	<u>83,918</u>	<u>4,149,431</u>
<b>Cash flows from capital and related financing activities:</b>				
Purchases of capital assets	(119,609,381)	(30,244,691)	(111,459,052)	(21,272,703)
Proceeds from disposal of capital assets	402,709	—	—	—
Proceeds from issuance of bonds	—	—	200,000,000	—
Proceeds from issuance of note payable	—	2,447,178	8,115,600	14,853,767
Principal payments on long-term debt and capital lease obligations	(5,938,756)	(1,420,737)	(1,634,474)	(1,061,251)
Cash paid for interest	(22,219,898)	(76,794)	(13,478,416)	(250,115)
Other financing cash flows	3,520,187	11,829	(31,090,038)	1,773,930
Net cash provided by (used in) capital and related financing activities	<u>(143,845,139)</u>	<u>(29,283,215)</u>	<u>50,453,620</u>	<u>(5,956,372)</u>
<b>Cash flows from investing activities:</b>				
Interest and dividends on investments	12,846,109	3,187,520	7,821,251	5,844,342
Purchases of investments	(963,235,691)	(5,621,416,060)	(1,054,108,297)	(125,271,006)
Proceeds from sales of investments	874,324,371	5,526,163,457	761,765,095	76,518,062
Net cash provided by (used in) investing activities	<u>(76,065,211)</u>	<u>(92,065,083)</u>	<u>(284,521,951)</u>	<u>(42,908,602)</u>
Net increase (decrease) in cash and cash equivalents	<u>(125,691,143)</u>	<u>(35,368,565)</u>	<u>(27,030,515)</u>	<u>12,568,493</u>
Cash and cash equivalents at beginning of year	401,752,046	90,446,728	428,782,561	51,440,202
Cash and cash equivalents at end of year	<u>\$ 276,060,903</u>	<u>55,078,163</u>	<u>401,752,046</u>	<u>64,008,695</u>
<b>Reconciliation of cash and cash equivalents at end of year to the basic statements of net position – enterprise fund:</b>				
Cash and cash equivalents	\$ 239,535,673	33,170,661	335,029,161	31,028,191
Restricted cash	—	49,109	—	37,448
Assets whose use is limited	36,525,230	21,858,393	66,722,885	32,943,056
Total cash and cash equivalents	<u>\$ 276,060,903</u>	<u>55,078,163</u>	<u>401,752,046</u>	<u>64,008,695</u>

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Basic Statements of Cash Flows – Enterprise Fund

Years ended June 30, 2015 and 2014

	2015		2014	
	Primary enterprise	Component units	Primary enterprise	Component units (note 1)
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ 227,026,814	(24,447,491)	181,904,317	(13,647,699)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation and amortization	66,226,769	8,396,441	63,629,044	6,123,786
Income tax payments	—	—	—	(450,000)
Changes in:				
Patient accounts receivable	(11,120,033)	(1,791,075)	(22,921,248)	(10,726,317)
Due to/from third-party payors	(100,982,129)	(1,771,131)	(11,373,642)	(111,030)
Premiums receivable	—	(13,031,107)	—	(2,919,121)
Other accounts receivable	(3,361,494)	(3,584,054)	8,339,983	3,572,458
Due to/from affiliates	(9,547,635)	9,494,511	(30,900,460)	29,075,612
Supplies and other assets	(34,264)	(2,983,715)	(619,669)	(127,642)
Estimated medical claims payable	—	29,582,477	—	12,983,384
Trade accounts payable	(590,894)	1,235,490	11,545,891	(1,078,629)
Accrued salaries, wages, and employee benefits	3,246,647	5,235,709	3,161,120	4,051,367
Accrued leave	699,011	114,533	872,956	742,295
Estimated workers' compensation claims	3,707,623	—	2,732,128	—
Estimated losses on malpractice claims	(543,708)	260,769	(202,011)	2,462,267
Net pension liability	(2,298,864)	1,216,979	—	—
Other accrued liabilities	1,307,802	(52,214)	785,489	27,333,305
Net cash provided by operating activities	<u>\$ 173,735,645</u>	<u>7,876,122</u>	<u>206,953,898</u>	<u>57,284,036</u>
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	65,103	—	2,099,200	—

See accompanying notes to basic financial statements.

**VIRGINIA COMMONWEALTH UNIVERSITY**  
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Basic Statements of Net Position – Pension Trust Fund

June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Assets:		
Assets whose use is limited	\$ 277,280,753	251,281,427
Net position:		
Reserve for employees' pension benefits	\$ 277,280,753	251,281,427

See accompanying notes to basic financial statements.

**VIRGINIA COMMONWEALTH UNIVERSITY  
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Basic Statements of Changes in Net Position – Pension Trust Fund  
Years ended June 30, 2015 and 2014

	<b>2015</b>	<b>2014</b>
Beginning net position	\$ 251,281,427	201,120,095
Additions:		
Pension contributions	26,399,288	23,935,388
Investment gain, net	13,134,298	34,583,884
Total additions	39,533,586	58,519,272
Deductions:		
Pension benefit payments	(13,534,260)	(8,357,940)
Ending net position	\$ 277,280,753	251,281,427

See accompanying notes to basic financial statements.



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Notes to Basic Financial Statements

June 30, 2015 and 2014

**(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), VCU Community Memorial Hospital (CMH), 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).

VCU Community Memorial Hospital (CMH), located in South Hill, Virginia, is a not-for-profit healthcare facility. CMH provides inpatient, outpatient, emergency care, and long-term care for residents of Southside Virginia. Effective July 1, 2014, the Authority and CMH 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. In accordance with the affiliation agreement, the Authority paid \$25,000,000 of the investment commitment in 2015. CMH also operates outpatient clinics in South Hill, Clarksville, and Chase City, Virginias. Community Memorial Foundation (CMH Foundation) was established to solicit, administer, and distribute funds to support the charitable purpose of CMH. This transaction has been retrospectively applied as a change in reporting entity to the fiscal year ended June 30, 2014 to include CMH as a discretely presented Component Unit.

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.

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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.

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

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regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. Restricted assets are either expendable or nonexpendable. Nonexpendable assets are those that are required to be retained in perpetuity.

- *Unrestricted* – This component is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

The accounting policies and practices of the Authority conform to U.S. generally accepted accounting principles applicable to a proprietary fund of a government unit. The financial statement presentation and significant accounting policies adopted by the Authority conform to general practice within the healthcare industry, as published by the American Institute of Certified Public Accountants in its audit and accounting guide, *Health Care Organizations*.

**(b) Enterprise Fund Accounting**

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

**(c) Cash Equivalents**

The Authority considers investments in highly liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents.

**(d) Restricted Cash**

Restricted cash consists of amounts owed to Muscular Dystrophy Association for patient financial assistance.

**(e) Investments and Investment Income**

Investments in marketable debt and equity securities are carried at fair value based on quoted market prices. Investments in nonreadily marketable securities, including limited investment companies and partnerships, are accounted for under the equity method, based on the underlying net asset value of the investment. Changes in market conditions and the economic environment may significantly impact the investments' net asset value and the carrying value of the Authority's interest. Short-term investments include investments that mature in less than one year.

Investment income, including net realized and unrealized gains or losses and the Authority's equity in earnings of nonreadily marketable securities, is recorded as nonoperating revenues or expenses. The income earned on nonexpendable restricted funds is restricted primarily for indigent care. Gains and losses from the sale of securities are recorded using specific identification.

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**(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 \$74,800,000 and \$85,060,000 at June 30, 2015 and 2014, respectively. The allowance for doubtful accounts for the Component Units was approximately \$17,400,000 and \$17,600,000 at June 30, 2015 and 2014, 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.

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 \$17,466,799 and \$18,369,873 are restricted by donors for MCVH in perpetuity and are included in assets whose use is limited at June 30, 2015 and 2014, respectively, at fair value.

**(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.

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**(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.

**(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 Support to VCU School of Medicine***

MCVAP is required by agreement with the VCU SOM to financially support VCU SOM's academic and educational goals. This support 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 unspent support remain a designated unrestricted fund balance of MCVAP until such time as the amounts are needed for a designated purpose. These designated reserves totaled approximately \$27,930,000 and \$23,923,000 at June 30, 2015 and 2014,

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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 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 \$49,742,000 and \$35,936,000 in 2015 and 2014. 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 approximately \$21,329,000 and \$22,601,000 for the years ended June 30, 2015 and 2014, respectively. The Component Units' estimated cost associated with these charges is approximately \$4,799,000 and \$4,706,000 for the years ended June 30, 2015 and 2014, 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

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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, 2010.

*Medicaid* – Inpatient acute care services rendered to Medicaid program beneficiaries are paid at a per diem rate and APDRG (rates per discharge) on an interim basis but eventually settled to a percentage of cost. Outpatient services rendered to Medicaid program beneficiaries are reimbursed on prospectively determined rates and a cost reimbursement methodology. In addition to inpatient and outpatient services provided to Medicaid program beneficiaries, Medicaid reimburses the Authority most of its costs related to services provided to indigent patients and its education mission, which resulted in total Medicaid and indigent reimbursement to MCVH of approximately \$363,404,000 and \$359,186,000 in 2015 and 2014, respectively, and to the Component Units of approximately \$63,299,000 and \$54,569,000 in 2015 and 2014, respectively. The Authority's Medicaid cost reports have been audited by the Medicaid program representative through June 30, 2012.

(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 \$9,369,000 and \$7,966,000 for the years ended June 30, 2015 and 2014, respectively. The Component Units' estimated costs for the services provided for this care, net of reimbursement from the Commonwealth of Virginia, was approximately \$1,766,000 and \$2,401,000 for the years ended June 30, 2015 and 2014, 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 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.

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(t) ***Medical Claims Expense***

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

(u) ***Income Taxes***

UHS, Children's, CMH 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.

Prior to August 2013, income taxes were accounted for under the asset and liability method. 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 and operating loss and tax credit carry forwards. As a result of its tax exempt status, VA Premier has recorded no federal deferred tax assets or liabilities as of June 30, 2015 or 2014, and a benefit of \$20,700,651 was recognized for the reversal of prior year federal taxes payable.

VA Premier recorded federal income tax expenses of \$631,831 and \$162,255 for the years ended June 30 2015 and 2014, respectively, in Unrelated Business Income Tax (UBIT) for services performed.

VA Premier recorded current state income tax benefit of \$118,617 and \$27,565 for the years ended June 30, 2015 and 2014, respectively.

(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. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which required enhanced note disclosures



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and required supplementary information for pension plans as well as established standards for measuring and recognizing pension related assets, liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. The cumulative effect of applying GASB Statements No. 68 and 71 reduced net position by \$64,958,000 as of July 1, 2014 as follows:

Net pension liability of June 30, 2014	\$	68,184,000
Deferred outflow of resources – contributions made after the measurement date		<u>(3,226,000)</u>
Reduction in net position as of July 1, 2014	\$	<u><u>64,958,000</u></u>

**(x) Reclassifications**

Certain reclassifications have been made to the 2014 financial statements to conform to the 2015 financial statement presentation. These reclassifications had no impact on operating income or net position.

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

At June 30, 2015 and 2014, the carrying values of MCVH’s deposits totaled \$239,535,673 and \$335,029,161, respectively, and the bank balances totaled \$246,197,050 and \$346,728,086, respectively. The carrying values of the Component Units’ deposits totaled \$33,219,770 and \$31,065,770, respectively at June 30, 2015 and 2014, and the bank balances totaled \$41,484,930 and \$40,430,470, 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, 2015 and 2014 the Primary Enterprise had \$156,199,469 and \$165,355,386, respectively in fixed income investments and the Component Units had \$111,687,147 and \$104,866,770, 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

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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, 2015 the credit quality ratings for the Primary Enterprise's fixed income investments were 39.1% AAA, 21.0% AA, 23.8% A, 16.1% below A and 0% not rated. The Component Units' fixed income investments were 59.3% AAA, 33.4% AA, 2.9% A, 4.3% below A and 0.1% not rated. 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.

*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, 2015, the Primary Enterprise had four fixed income managers that individually exceeded 5% of investments, amounting to 23.8% of total investments. At June 30, 2014, the Primary Enterprise had four fixed income managers and one mutual fund manager that individually exceeded 5% of investments amounting to 36.6% of total investments.

*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, 2015 and 2014 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.

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

	2015		2014	
	Primary enterprise	Component units	Primary enterprise	Component units
Enterprise funds:				
Assets whose use is limited:				
Externally restricted:				
By donors	\$ 17,466,799	201,786	18,369,873	201,482
Under bond indenture	9,849,128	138,184	18,315,513	7,174,903
By insurance regulations	—	601,052	—	612,306
Held by Foundation	—	3,687,908	—	3,602,326
Internally restricted:				
For medical malpractice	2,853,506	23,055,224	3,397,214	22,794,455
For workers' compensation	21,520,715	—	17,813,092	—
For capital acquisition	197,303,707	35,398,662	200,232,130	36,029,076
For quasi endowment	733,389,963	224,791,095	685,433,470	163,313,558
	<u>\$ 982,383,818</u>	<u>287,873,911</u>	<u>943,561,292</u>	<u>233,728,106</u>
Investments	\$ 77,093,302	95,385,252	53,660,474	81,993,416
	2015		2014	
	Primary enterprise	Component units	Primary enterprise	Component units
Pension trust funds:				
Externally restricted under pension plan agreement	\$ 277,280,753	—	251,281,427	—

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As of June 30, 2015, investments (including assets whose use is limited) held by the Primary Enterprise 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	\$ 36,525,230	36,525,230	—	—	—
U.S. Treasury notes	26,367,913	6,874,930	16,383,620	1,633,608	1,475,755
Asset-backed securities	25,673,908	217,965	22,370,604	1,997,992	1,087,347
Agency-backed mortgages	18,990,189	279,708	6,554,225	2,175,354	9,980,902
Commercial paper	47,991,215	47,991,215	—	—	—
Corporate notes	49,199,881	15,945,149	29,945,777	2,100,878	1,208,077
Corporate bonds	35,967,578	10,369,323	20,810,205	2,631,712	2,156,338
Beneficial interest in perpetual trust	17,466,799	N/A	N/A	N/A	N/A
Mutual funds	70,320,183	N/A	N/A	N/A	N/A
Index funds	9,372,653	N/A	N/A	N/A	N/A
Marketable equity securities	101,466,633	N/A	N/A	N/A	N/A
Investment companies	612,194,242	N/A	N/A	N/A	N/A
Real estate	7,940,696	N/A	N/A	N/A	N/A
	<u>\$ 1,059,477,120</u>	<u>118,203,520</u>	<u>96,064,431</u>	<u>10,539,544</u>	<u>15,908,419</u>

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

As of June 30, 2014, investments (including assets whose use is limited) held by the Primary Enterprise 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	\$ 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>

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

As of June 30, 2015, 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	\$ 21,858,393	21,858,393	—	—	—
U.S. Treasury notes	27,232,638	252,784	6,222,783	2,472,195	18,284,876
Asset-backed securities	17,259,791	—	16,837,274	—	422,517
Agency-backed mortgages	22,847,294	12,510,939	7,145,737	475,078	2,715,540
Commercial paper	18,192,558	18,192,558	—	—	—
Corporate notes	21,552,288	1,577,897	18,693,415	824,763	456,213
Corporate bonds	22,795,136	10,966,124	9,539,532	1,458,852	830,628
Equity interest in Foundation	3,687,908	N/A	N/A	N/A	N/A
Index funds	14,689,818	N/A	N/A	N/A	N/A
Marketable equity securities	42,607,066	N/A	N/A	N/A	N/A
Investment companies	167,169,437	N/A	N/A	N/A	N/A
Real estate	3,366,836	N/A	N/A	N/A	N/A
	<u>\$ 383,259,163</u>	<u>65,358,695</u>	<u>58,438,741</u>	<u>5,230,888</u>	<u>22,709,774</u>

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

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	\$ 59,381,089	59,381,089	—	—	—
U.S. Treasury notes	81,468,318	72,799,772	6,037,054	1,593,883	1,037,609
Asset-backed securities	904,764	—	—	760	904,004
Agency-backed mortgages	10,708,166	4,204,973	1,979,708	453,689	4,069,796
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	4,371,780	496,697	1,144,030	1,441,769	1,289,284
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	29,163,822	N/A	N/A	N/A	N/A
Investment companies	84,990,862	N/A	N/A	N/A	N/A
Real estate	3,252,210	N/A	N/A	N/A	N/A
	<u>\$ 315,721,522</u>	<u>143,278,059</u>	<u>13,117,444</u>	<u>5,294,187</u>	<u>8,055,769</u>

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

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

**(4) Capital Assets**

Capital assets and changes thereto, as of and for the year ended June 30, 2015, 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	\$ 7,620,817	—	—	—	7,620,817
Construction in progress	106,504,438	123,237,917	(56,182,340)	—	173,560,015
	<u>114,125,255</u>	<u>123,237,917</u>	<u>(56,182,340)</u>	<u>—</u>	<u>181,180,832</u>
Depreciable assets:					
Buildings and fixed equipment	580,400,823	—	14,073,526	—	594,474,349
Moveable equipment	383,697,180	—	42,108,814	(2,376,642)	423,429,352
Less accumulated depreciation	(564,675,376)	(66,332,023)	—	2,079,187	(628,928,212)
	<u>399,422,627</u>	<u>(66,332,023)</u>	<u>56,182,340</u>	<u>(297,455)</u>	<u>388,975,489</u>
Total capital assets, net	<u>\$ 513,547,882</u>	<u>56,905,894</u>	<u>—</u>	<u>(297,455)</u>	<u>570,156,321</u>

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>

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Capital assets and changes thereto, as of and for the year ended June 30, 2015, 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	\$ 4,268,213	—	270,645	—	4,538,858
Construction in progress	12,712,660	28,872,179	(19,061,338)	—	22,523,501
	<u>16,980,873</u>	<u>28,872,179</u>	<u>(18,790,693)</u>	<u>—</u>	<u>27,062,359</u>
Depreciable assets:					
Buildings and fixed equipment	66,411,764	372,688	4,711,960	(32,405)	71,464,007
Moveable equipment	64,488,068	1,008,328	14,078,733	(3,316,459)	76,258,670
Less accumulated depreciation	(95,108,514)	(8,384,970)	—	3,328,889	(100,164,595)
	<u>35,791,318</u>	<u>(7,003,954)</u>	<u>18,790,693</u>	<u>(19,975)</u>	<u>47,558,082</u>
Total capital assets, net	<u>\$ 52,772,191</u>	<u>21,868,225</u>	<u>—</u>	<u>(19,975)</u>	<u>74,620,441</u>

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	\$ 4,363,135	—	34,240	(129,162)	4,268,213
Construction in progress	944,223	16,273,249	(4,504,812)	—	12,712,660
	<u>5,307,358</u>	<u>16,273,249</u>	<u>(4,470,572)</u>	<u>(129,162)</u>	<u>16,980,873</u>
Depreciable assets:					
Buildings and fixed equipment	62,312,834	2,430,729	2,702,532	(1,034,331)	66,411,764
Moveable equipment	61,482,445	3,003,636	1,768,040	(1,766,053)	64,488,068
Less accumulated depreciation	(91,479,364)	(6,107,226)	—	2,478,076	(95,108,514)
	<u>32,315,915</u>	<u>(672,861)</u>	<u>4,470,572</u>	<u>(322,308)</u>	<u>35,791,318</u>
Total capital assets, net	<u>\$ 37,623,273</u>	<u>15,600,388</u>	<u>—</u>	<u>(451,470)</u>	<u>52,772,191</u>

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**(5) Long-Term Debt**

Long-term debt, and changes thereto, as of and for the year ended June 30, 2015, for the Primary Enterprise is summarized below:

	<b>Beginning balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending balance</b>	<b>Amounts due within one year</b>
Series 2014 Bonds	\$ 200,000,000	—	—	200,000,000	—
Note payable	7,799,993	—	(586,126)	7,213,867	541,044
Series 2013 Bonds	190,315,000	—	(2,160,000)	188,155,000	2,255,000
Series 2011 Bonds	120,000,000	—	(2,400,000)	117,600,000	2,450,000
Premium – Series 2011 Bonds	928,592	—	(53,883)	874,709	—
Parking deck debt	520,444	—	(255,127)	265,317	265,317
Capital leases	1,968,000	65,103	(537,503)	1,495,600	543,855
Total long-term debt	<u>\$ 521,532,029</u>	<u>65,103</u>	<u>(5,992,639)</u>	<u>515,604,493</u>	<u>6,055,216</u>

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

	<b>Beginning balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending balance</b>	<b>Amounts due within one year</b>
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>

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% (1.434% at June 30, 2015) and matures on October 31, 2020. Interest and principal payments of approximately \$55,000 are paid monthly.



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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 (0.1865% at June 30, 2015). 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 \$9,722,969 and \$10,682,922 at June 30, 2015 and 2014, 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 \$27,181,464 and \$28,759,573 at June 30, 2015 and 2014, 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%.

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A summary of future principal requirements of long-term debt as of June 30, 2015, 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>
2016	\$ —	541,044	2,255,000	2,450,000	265,317	543,855	6,055,216
2017	—	541,044	2,845,000	2,525,000	—	543,855	6,454,899
2018	—	541,044	2,950,000	2,600,000	—	407,890	6,498,934
2019	—	541,044	2,990,000	2,690,000	—	—	6,221,044
2020	—	541,044	3,160,000	2,795,000	—	—	6,496,044
2021–2025	35,000,000	2,705,220	21,725,000	15,755,000	—	—	75,185,220
2026–2030	—	1,803,427	44,065,000	19,375,000	—	—	65,243,427
2031–2035	—	—	62,795,000	24,335,000	—	—	87,130,000
2036–2040	—	—	45,370,000	30,670,000	—	—	76,040,000
2041–2045	165,000,000	—	—	14,405,000	—	—	179,405,000
	<u>\$ 200,000,000</u>	<u>7,213,867</u>	<u>188,155,000</u>	<u>117,600,000</u>	<u>265,317</u>	<u>1,495,600</u>	<u>514,729,784</u>

A summary of estimated future interest requirements of long-term debt based on effective rates as of June 30, 2015 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>
2016	\$ 9,527,700	99,612	1,311,491	5,197,056	12,699	16,148,558
2017	9,527,700	91,875	1,289,946	5,121,306	—	16,030,827
2018	9,527,700	84,138	1,267,639	5,030,306	—	15,909,783
2019	9,527,700	76,402	1,244,983	4,922,706	—	15,771,791
2020	9,527,700	68,665	1,221,103	4,810,906	—	15,628,374
2021–2025	45,613,050	227,270	5,681,579	22,204,818	—	73,726,717
2026–2030	40,887,000	44,058	4,251,281	18,342,276	—	63,524,615
2031–2035	40,887,000	—	2,312,777	13,111,926	—	56,311,703
2036–2040	40,887,000	—	297,314	6,469,501	—	47,653,815
2041–2045	28,620,900	—	—	350,075	—	28,970,975
Total	<u>\$ 244,533,450</u>	<u>692,020</u>	<u>18,878,113</u>	<u>85,560,876</u>	<u>12,699</u>	<u>349,677,158</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, 2015 and 2014, MCVH transferred approximately \$12,484,000 and \$11,556,000, 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.

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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:

	2015		2014	
	Carrying value	Fair value	Carrying value	Fair value
Long-term obligations	\$ 514,108,893	523,742,917	519,564,029	544,544,474

Interest expense for the years ended June 30, 2015 and 2014 was \$22,039,647 and \$16,539,480, respectively, net of amounts capitalized. Capitalized interest of approximately \$3,563,000 was recorded related to construction in progress in 2015 and in 2014. For the years ended June 30, 2015 and 2014, MCVH paid approximately \$22,220,000 and \$13,478,000, 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, 2015 was \$119,930,000. MCVH pays a fixed rate of 3.84% and the counterparty pays 67% of 30-day LIBOR (0.1250% as of June 30, 2015). 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, 2015 and 2014, the fair value of the swaps of \$35,297,417 and \$30,932,019, respectively, is included in other liabilities in the accompanying statements of net position. For the years ended June 30, 2015 and 2014, the change in fair value of the swaps was \$4,365,398 and \$555,890, 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, 2015 was \$68,225,000. MCVH pays a fixed rate of 3.499% and the counterparty pays 67% of 30-day LIBOR (0.1250% as of June 30, 2015). 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, 2015 and 2014, the fair value of the swap of \$12,125,644 and \$11,640,202, respectively, is included in other liabilities in the accompanying statements

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of net position. For the years ended June 30, 2015 and 2014, the change in fair value of the swap was \$485,442 and \$35,972, 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 \$6,431,547 and \$6,484,781 in 2015 and 2014, respectively. Total expense under operating leases for the Component Units was \$4,683,066 and \$4,105,436 in 2015 and 2014, respectively. Future minimum lease payments for noncancelable operating leases are as follows:

		<u>Primary enterprise</u>	<u>Component units</u>
2016	\$	5,841,556	4,408,955
2017		4,347,900	3,551,715
2018		3,126,215	2,438,076
2019		1,967,337	1,002,652
2020		1,041,309	485,845
	\$	<u>16,324,317</u>	<u>11,887,243</u>

**(8) Commitments**

Estimated costs to complete construction in progress for capital assets at June 30, 2015 for the Authority are approximately \$42,000,000. 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 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.

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

	<b>2015</b>	<b>2014</b>
Estimated malpractice losses at beginning of year	\$ 3,397,214	3,599,225
Malpractice claims expense, net of actuarial adjustments	(6,256)	1,201,653
Malpractice claims settled	(537,452)	(1,403,664)
Estimated malpractice losses at end of year	\$ 2,853,506	3,397,214

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, 2015 and 2014, the funds internally restricted for MCVH include \$2,853,506 and \$3,397,214, 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, 2015.

**MCVAP**

MCVAP is self-insured for all malpractice claims. There have been malpractice claims asserted against MCVAP by various claimants. The claims are in various stages of processing and some may ultimately be brought to trial. There are also known incidents that have occurred that may result in the assertion of additional claims. In addition, there may be other claims from unreported incidents arising from services provided to patients. Management of MCVAP accrues estimated losses on malpractice claims. The undiscounted liability is actuarially determined using industry data and MCVAP’s historical experience.

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

	<b>2015</b>	<b>2014</b>
Estimated malpractice losses at beginning of year	\$ 22,794,455	20,332,188
Malpractice claims expense, net of actuarial adjustments	3,663,767	5,418,871
Malpractice claims settled	(3,402,998)	(2,956,604)
Estimated malpractice losses at end of year	\$ 23,055,224	22,794,455

Assets whose use is limited of \$23,055,224 and \$22,794,455 have been internally restricted as of June 30, 2015 and 2014, respectively, for payment of claims and related legal expenses for reported and unreported incidents.

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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, 2015.

**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, 2015 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, 2015.

**CMH**

CMH is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruptions; errors and omissions; employee injuries and illnesses; natural disasters; malpractice; and employee health, dental and accident benefits. Insurance coverage is purchased for claims arising from such matters.

CMH can be involved in litigation during the ordinary course of business related to professional liability claims. Management and legal counsel believe all claims should be settled within the limits of insurance coverage, less a \$25,000 deductible. The basic level of coverage limits are \$1,000,000 per event and \$3,000,000 aggregate with an Umbrella policy of \$5,000,000 per event and \$5,000,000 aggregate. CMH was not involved with any professional liability litigation as a defendant in a lawsuit as of June 30, 2015 and 2014. CMH did not incur any legal or insurance expenses related to professional liability litigation during the years ended June 30, 2015 and 2014, but did incur planned expenses related to various legal services not related to litigation.

**(b) Workers' Compensation**

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

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

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Estimated workers' compensation losses at beginning of year	\$ 17,813,092	15,080,964	17,526,727
Workers' compensation expense, net of actuarial adjustments	6,070,130	4,753,821	(354,822)
Workers' compensation claims settled	<u>(2,362,507)</u>	<u>(2,021,693)</u>	<u>(2,090,941)</u>
Estimated workers' compensation losses at end of year	<u>\$ 21,520,715</u>	<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, 2015 and 2014, the funds internally restricted include \$21,520,715 and \$17,813,092, 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, 2015.

**(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>2015</u>	<u>2014</u>
MCVH gross charges:		
Inpatient	\$ 2,393,115,710	2,195,311,542
Outpatient	1,730,975,415	1,545,731,340
Less uncompensated care	<u>(457,946,795)</u>	<u>(437,743,267)</u>
Total MCVH gross patient service revenue	3,666,144,330	3,303,299,615
Less contractual allowances, and uncollectible amounts	<u>(2,284,415,190)</u>	<u>(2,040,676,506)</u>
Net patient service revenue – primary enterprise	<u>\$ 1,381,729,140</u>	<u>1,262,623,109</u>
MCVAP net patient service revenue	\$ 212,338,220	179,275,635
CMH net patient service revenue	73,815,743	66,975,045
Children's net patient service revenue	29,265,508	29,629,985
Eliminations	<u>(9,470,298)</u>	<u>(6,442,651)</u>
Net patient service revenue – component units	<u>\$ 305,949,173</u>	<u>269,438,014</u>

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**(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 the amount of the claim can be reasonably estimated. The claims payable at June 30, 2015 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>2015</u>	<u>2014</u>
Balance at beginning of year	\$ 65,381,144	52,397,760
Add provision for claims occurring in:		
Current year	878,411,377	669,296,532
Prior years	<u>(1,154,557)</u>	<u>(2,344,839)</u>
Claims incurred during the current year	<u>877,256,820</u>	<u>666,951,693</u>
Deduct payments for claims occurring in:		
Current year	(795,883,900)	(603,988,871)
Prior years	<u>(51,790,443)</u>	<u>(49,979,438)</u>
Claims payments during the current year	<u>(847,674,343)</u>	<u>(653,968,309)</u>
Balance at end of year	<u>\$ 94,963,621</u>	<u>65,381,144</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, 2015 and 2014 were approximately \$3,713,000 and \$2,956,000, respectively, and are included in other expenses in the accompanying statements of revenues, expenses and changes in net position. Benefits of approximately \$4,381,000 and \$2,829,000, were provided by the reinsurer for the years ended June 30, 2015 and 2014, respectively, and are netted with medical claims expense in the accompanying statements of revenues, expenses, and changes in net position.



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**(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, 2015, MCVH's remaining commitment through 2027 is approximately \$4,841,000.

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>2015</b>	<b>2014</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	59,724
Nonphysician clinical support	3,999,518	5,066,725
Administrative support	8,202,298	7,952,620
Rent on short-term space	2,123,091	2,113,150
Principal and interest on parking deck debt	725,464	722,385
Use of steam plant	227,144	272,882
Total payments by MCVH to VCU	\$ 15,337,239	16,187,486

In April 2015, MCVH contributed \$4,544,968 to VCU for the construction of a replacement facility of the Virginia Treatment Center for Children.

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

The MCV Foundation's mission is to inspire and steward philanthropy throughout the MCV Campus of VCU. The MCV Foundation provided \$315,069 and \$999,433 to MCVAP for the years ended June 30, 2015 and 2014, respectively. The gifts from MCV Foundation were unrestricted and will be used to support the clinical departments.

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(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 2015 and 2014, MCVH paid approximately \$73,522,000 and \$68,718,000, respectively, in COSA payments.

MCVH provided MCVAP with approximately \$12,619,000 and \$10,716,000 in information system and administrative services in 2015 and 2014, 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 \$463,000 and \$363,000 for the years ended June 30, 2015 and 2014, respectively.

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

MCVH leases clinic office space from UHS under operating leases. Rental expense under these leases was \$1,683,000 and \$1,634,000 during the years ended June 30, 2015 and 2014, respectively.

(e) ***Virginia Premier***

During 2014, VA Premier entered into a promissory note agreement with the Authority for \$75 million. The Authority transferred the \$75 million to VA Premier in fiscal 2015. Interest to be paid by VA Premier to the Authority ranges from 4.67% to 4.88% annually and is required to be paid quarterly (January, April, July and October). Interest accrued at June 30, 2015 is \$3,181,438. The note is payable by VA Premier on demand by the Authority, however approval by the Virginia State Corporation Commission is required by the agreement. The Authority does not have plans nor intentions to request approval for repayment of the note in fiscal year 2016.

During 2015 and 2014, MCVH provided VA Premier with approximately \$5,300,000 and \$5,011,000, respectively, in information system services and administrative services, which are reimbursed to MCVH by VA Premier on a quarterly basis.

During 2015 and 2014, VA Premier provided certain MCVH departments administrative services for which VA Premier received reimbursement of approximately \$343,000 each year.

MCVH provided health care services to VA Premier members, for which it received reimbursement of approximately \$33,516,000 and \$38,015,000, respectively, for the years ended June 30, 2015 and 2014, which is included in net patient service revenue by MCVH and medical claims expense by VA Premier.

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**(f) Children's Hospital**

MCVH made a capital contribution to Children's of \$2,932,922 for the year ended June 30, 2014. The contribution was included in transfers to affiliates in the accompanying statements of revenues, expenses, and changes in net position – enterprise fund.

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>2015</b>	<b>2014</b>
MCVAP	\$ 16,196,976	9,483,934
Virginia Premier Health Plan	(4,731,627)	6,377,086
UHS	10,621,778	1,387,862
CMH	1,110,583	—
Children's	3,605,595	—
Virginia Commonwealth University	10,939	17,727
Due from (to) related parties	\$ 26,814,244	17,266,609

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

	<b>2015</b>	<b>2014</b>
MCVH	\$ (26,803,305)	(17,248,882)
Virginia Commonwealth University	(1,702,380)	(1,762,292)
Due to related parties	\$ (28,505,685)	(19,011,174)

**(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 – Virginia Retirement System Plan (VRS Plan)**

**1) Plan**

Prior to July 1, 1997, employees of MCVH were employees of the Commonwealth of Virginia (the Commonwealth). These employees were eligible to participate in a defined benefit pension plan administered by the Virginia Retirement System (VRS). VRS is an independent agency of the Commonwealth of Virginia. After July 1, 1997, employees could choose to remain in the

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VRS Plan or enroll in the MCVH Authority Defined Contribution Plan (the Plan). As of June 30, 2015, approximately 530 employees remain enrolled in VRS. Participating MCVH employees are eligible for VRS's Plan 1 benefit structure in which the retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. The Commonwealth, not MCVH, has overall responsibility for these plans. VRS issues a Comprehensive Annual Financial Report (CAFR) containing the financial statements and required supplementary information for all of VRS' pension trust funds. The CAFR is publicly available at [www.varetire.org](http://www.varetire.org) through the About VRS link or a copy may be obtained by submitting a request to the VRS Chief Financial Officer, P.O. Box 2500, Richmond, VA 23218-2500.

**2) Contributions**

The contribution requirement for active employees is governed by 51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2013, the 5.00% member contribution was paid by MCVH. Beginning July 1, 2013, MCVH employees were required to pay the 5.00% member contribution. Each state agency's (including MCVH) contractually required contribution rate for the year ended June 30, 2015 was 12.33% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013. The actuarial rate for the Plan was 15.80%. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Based on the provisions of 51.1-145 of the *Code of Virginia*, as amended, the employer contributions for the Plan were funded at 78.02% of the actuarial rate for the year ended June 30, 2015. Contributions from MCVH to the Plan were \$4,145,864 and \$3,226,000 for the years ended June 30, 2015 and June 30, 2014, respectively.

Required employer contributions in dollars and the percentage of that amount contributed for fiscal year 2014 and each of the two preceding years as required under GASB Statement No. 27 were as follows:

<u>Fiscal Year</u>	<u>Required contribution (\$)</u>	<u>Percentage contributed</u>
2014	\$ 3,226,000	100%
2013	3,397,000	105
2012	3,274,000	100

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**3) Net Pension Liability**

At June 30, 2015, MCVH reported a liability of \$52,598,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 and rolled forward to the measurement date of June 30, 2014. MCVH's proportion of the net pension liability was based on MCVH's actuarially determined employer contributions to the pension plan for the year ended June 30, 2014, relative to the total of the actuarially determined employer contribution for all participating employers. At June 30, 2014, MCVH's proportion of the Plan was 0.93952% as compared to 1.03839% at June 30, 2013.

**4) Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

For the year ended June 30, 2015, MCVH recognized pension expense of \$1,847,000 for the Plan. Since there was a change in proportionate share between June 30, 2013 and June 30, 2014, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2015, MCVH reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	<b>Deferred outflows of resources</b>	<b>Deferred inflows of resources</b>
Net difference between projected and actual earnings on pension plan investments	\$ —	9,388,000
Changes in proportion and differences between employer contributions and proportionate share of contributions	—	4,819,000
Employer contributions subsequent to the measurement date	4,145,864	—
Total	\$ 4,145,864	14,207,000

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\$4,145,864 reported as deferred outflows of resources related to employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:		
2016	\$	4,020,000
2017		4,020,000
2018		3,820,000
2019		2,347,000
		14,207,000
	\$	14,207,000

**5) Actuarial Assumptions**

The total pension liability for the VRS Plan was based on an actuarial valuation as of June 30, 2013, using the entry age normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

Discount rate	7.0%
Inflation	2.5%
Salary increases, including inflation	3.5%–5.35%
Investment rate of return including inflation	7.0%, net of pension plan investment expense, inflation

**Mortality rates:**

**Pre-Retirement:** RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 2 years and females were set back 3 years.

**Post-Retirement:** RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with females set back 1 year.

**Post-Disablement:** RP-2000 Disability Life Mortality Table Projected to 2020 with males set back set 3 years and no provision for future mortality improvement.

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

- Updated mortality table
- Decrease in rates of service retirement
- Decrease in rates of withdrawals for less than 10 years of service
- Decrease in rates of male disability retirement
- Reduce rates of salary increase by 0.25% per year

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**6) Long-Term Expected Rate of Return**

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset class (strategy)</u>	<u>Target allocation</u>	<u>Arithmetic long-term expected rate of return</u>	<u>Weighted average long-term expected rate of return</u>
U.S. Equity	19.50%	6.46%	1.26%
Developed Non U.S. Equity	16.50	6.28	1.04
Emerging Market Equity	6.00	10.00	0.60
Fixed income	15.00	0.09	0.01
Emerging debt	3.00	3.51	0.11
Rate sensitive credit	4.50	3.51	0.16
Non rate sensitive credit	4.50	5.00	0.23
Convertibles	3.00	4.81	0.14
Public real estate	2.25	6.12	0.14
Private real estate	12.75	7.10	0.91
Private equity	12.00	10.41	1.25
Cash	1.00	(1.50)	(0.02)
Total	<u>100%</u>		<u>5.83%</u>
	Inflation		<u>2.50</u>
	* Expected arithmetic nominal return		<u>8.33%</u>

\* Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons the volatility declines significantly and provides a median return of 7.44%, including expected inflation of 2.50%.

**7) Discount Rate**

The discount rate used to measure the total pension liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that Plan member contributions will be made per the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by MCVH for the Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly.

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From July 1, 2018 on, all agencies are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

**8) Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

The following presents the net pension liability using the discount rate at 7.00%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	<u>1% Decrease</u>	<u>Discount rate</u>	<u>1% Increase</u>
Net pension liability	\$ 32,094,000	52,598,000	77,051,000

**(b) VCUHS Retirement Plan (VCUHS 401(a) Plan)**

The MCVH Authority Defined Contribution Plan (the Plan) was amended and restated effective January 1, 2002 and is now referred to as the VCUHS Retirement Plan (VCUHS 401(a) Plan). All employees, excluding house staff, working at least 20 hours a week in a benefit-eligible position are eligible to participate in the VCUHS 401(a) Plan. At June 30, 2015 and 2014, there were 6,486 and 6,159 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, 2015 and 2014 were approximately \$21,010,000 and \$19,736,000, 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.



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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.

<b>Age plus years of service</b>	<b>Employer contribution 401(a) Plan</b>
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, 2015 and 2014, there were 3 and 4 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, 2015 and 2014 were approximately \$27,900 and \$31,000, respectively.

The Plan and the HCP Plan use the accrual basis of accounting and the Plan assets, which consist of mutual funds, are carried at fair market value. The fair market values of the mutual funds are based on quoted market prices. Investments with investment managers are as follows:

	<b>June 30</b>	
	<b>2015</b>	<b>2014</b>
Fidelity investments	\$ 178,565,570	159,694,664
TIAA/CREF	86,501,731	78,062,591
The Variable Annuity Life Insurance Company (VALIC)	12,213,452	13,524,172
	\$ 277,280,753	251,281,427

(c) **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 \$15,064,000 and \$14,249,000 for the years ended June 30, 2015 and 2014, 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

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Savings Plan (VCUHS 457(b) Plan), a savings plan that represents employee contribution and the MCVAP 403(b) Supplemental Plan (the 403(b) Highly Compensated Plan), a noncontributory defined contribution plan for highly compensated employees. The VCUHS 401(a) Plan contributions (as a percentage of the employee's salary) are a function of the employee's age plus years of service per the table below. MCVAP employees may contribute to the VCUHS 457(b) Savings Plan. Employees may also receive a 2% matching contribution in their VCUHS 401(a) Plan based on their 457(b) contribution.

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

Contributions to the plans for the years ended June 30, 2015 and 2014 were approximately \$3,691,000 and 3,550,000, respectively.

**(d) VA Premier**

Effective August 1, 1999, VA Premier adopted a 401(k) plan, for which Fidelity Investments is the trustee. Prior to January 1, 2015, employees become eligible to participate after completing one year of service, during which the employee completed 1,000 hours of service. Effective January 1, 2015, employees became eligible to participate following one month 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 (nonelective employer contributions) at the option of the Board of Directors. During FY 2014 and through December 2014, VA Premier made nonelective employer contributions equal to 2% of each eligible employee's compensation. During that time, VA Premier made the Safe Harbor and nonelective employer contributions in an annual installment at the end of the calendar year. Effective January 1, 2015, VA Premier is making the Safe Harbor contributions on the biweekly pay periods. The nonelective employer contribution for the calendar year 2015 will be determined and submitted at the end of the calendar year. Employees are fully vested after four years of service in which the employee begins employment. The number of covered employees 977 and 534 as of June 30, 2015 and 2014, respectively. VA Premier's expense for its contributions to this plan was approximately \$2,956,000 and \$1,644,000 for the years ended 2015 and 2014, respectively.

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**(e) 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 \$16,555,417 and \$15,775,856 as of June 30, 2015 and 2014, respectively. The Pension Plan's fair value of plan assets was \$9,279,752 and \$9,717,169 as of June 30, 2015 and 2014, respectively. The Pension Plan's unfunded liability of \$7,275,665 and \$6,058,687 as of June 30, 2015 and 2014, respectively, is included in other liabilities on the accompanying statements of net position.

Children's participates in the VCUHS 401(a) Plan and retirement plan expense was approximately \$1,210,000 and \$1,170,000 for the years ended June 30, 2015 and 2014, respectively.

**(f) CMH**

CMH participates in the VCUHS 401(a) Plan and retirement plan expense was approximately \$1,030,000 and \$0 for the years ended June 30, 2015 and 2014, respectively.

**(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:

	2015		2014	
	Primary enterprise	Component units	Primary enterprise	Component units
Anthem	34%	29%	33%	19%
Medicaid	12	15	9	15
Medicare	13	23	9	14
Other	41	33	49	52
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

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Revenue from the Medicare and Medicaid/Indigent programs accounted for approximately 23% and 27%, respectively, of MCVH's net patient service revenue for the years ended June 30, 2015 (22% and 31% respectively, for the year ended June 30, 2014). Revenue from the Medicare and Medicaid/Indigent programs accounted for approximately 24% and 30% respectively, of the Component Units' net patient service revenue for the year ended June 30, 2015 (24% and 26% respectively, for the year ended June 30, 2014). 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) Subsequent Event**

On July 1, 2015, the joint venture, known as South Hill Radiation Oncology, LLC, between the Authority and CMH was dissolved. As a result of the dissolution, the Authority gave a capital contribution to CMH in the amount of \$3,522,657.

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Schedule of Employer Contributions (unaudited)

<b>Date</b>	<b>Actuarially determined contribution of employer (1)</b>	<b>Contributions in relation to actuarially determined contribution (2)</b>	<b>Contribution deficiency (excess) (3)</b>	<b>Covered employee payroll (4)</b>	<b>Contributions as a % of covered employee payroll (5)</b>
2015*	\$ 4,145,864	4,145,864	—	38,331,215	10.81%

*Schedule is intended to show information for 10 years. Since 2015 is the first fiscal year for presentation, no other data are available. However, additional years will be included as they become available.*

\* The amounts presented have a measurement date of the previous year end.

See accompanying independent auditors' report.

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Schedule of Authority's Share of Net Pension Liability (unaudited)

	<b>2015*</b>
Employer's proportion of the net pension liability	0.94%
Employer's proportionate share of the net pension liability	\$ 52,598,000
Employer's covered-employee payroll	\$ 41,277,334
Employer's proportionate share of the net pension liability as a percentage of its covered-employee payroll	172.43%
Plan fiduciary net position as a percentage of the total pension liability	74.28%

*Schedule is intended to show information for 10 years. Since 2015 is the first fiscal year for presentation, no other data are available. However, additional years will be included as they become available.*

\* The amounts presented have a measurement date of the previous fiscal year end.

See accompanying independent auditors' report.

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

June 30, 2015

Assets	Primary enterprise	Component units						Total component units	Eliminations	Total
	MCV Hospitals	MCV Associated Physicians	Community Memorial Healthcenter	Virginia Premier Health Plan	Children's Hospital	University Health Services	Eliminations			
<b>Current assets:</b>										
Cash and cash equivalents	\$ 239,535,673	21,182,381	12,612,184	(2,655,882)	817,793	1,214,185	—	33,170,661	—	272,706,334
Restricted cash	—	14,291	34,818	—	—	—	—	49,109	—	49,109
Short-term investments	50,308,788	—	—	28,713,678	—	4,748,943	—	33,462,621	—	83,771,409
Patient accounts receivable, net	179,543,196	29,018,796	10,934,780	—	3,422,751	—	—	43,376,327	—	222,919,523
Settlements due from third-party payors	57,208,408	—	—	424,930	2,559,221	—	—	2,984,151	—	60,192,559
Premiums receivable	—	—	—	78,858,717	—	—	—	78,858,717	—	78,858,717
Other accounts receivable	5,460,444	2,998,054	626,533	4,493,280	—	27,820	—	8,145,687	(3,181,438)	10,424,693
Due from affiliates	31,545,871	26,490	—	4,731,627	—	177,882	(26,490)	4,909,509	(36,266,559)	188,821
Current portion of assets whose use is limited	2,900,000	3,000,000	—	—	—	—	—	3,000,000	—	5,900,000
Supplies and other current assets	26,254,625	459,874	1,728,134	4,343,995	343,440	—	—	6,875,443	—	33,130,068
<b>Total current assets</b>	<b>592,757,005</b>	<b>56,699,886</b>	<b>25,936,449</b>	<b>118,910,345</b>	<b>7,143,205</b>	<b>6,168,830</b>	<b>(26,490)</b>	<b>214,832,225</b>	<b>(39,447,997)</b>	<b>768,141,233</b>
<b>Capital assets:</b>										
Land and improvements	7,620,817	—	3,235,869	303,075	54,914	945,000	—	4,538,858	—	12,159,675
Depreciable capital assets, net	388,975,489	2,824,203	16,246,403	12,977,157	8,348,249	7,162,070	—	47,558,082	—	436,533,571
Construction in progress	173,560,015	—	872,554	884,825	7,737	20,758,385	—	22,523,501	—	196,083,516
<b>Total capital assets</b>	<b>570,156,321</b>	<b>2,824,203</b>	<b>20,354,826</b>	<b>14,165,057</b>	<b>8,410,900</b>	<b>28,865,455</b>	<b>—</b>	<b>74,620,441</b>	<b>—</b>	<b>644,776,762</b>
<b>Other assets:</b>										
Assets whose use is limited, less current portion	979,483,818	138,324,017	35,600,448	107,123,354	3,687,908	138,184	—	284,873,911	—	1,264,357,729
Long-term investments	26,784,514	—	—	61,922,631	—	—	—	61,922,631	—	88,707,145
Note receivable from affiliate	75,000,000	—	—	—	—	—	—	—	(75,000,000)	—
Other assets	19,770,143	—	5,768,051	71,788	24,836	265,606	—	6,130,281	—	25,900,424
<b>Total other assets</b>	<b>1,101,038,475</b>	<b>138,324,017</b>	<b>41,368,499</b>	<b>169,117,773</b>	<b>3,712,744</b>	<b>403,790</b>	<b>—</b>	<b>352,926,823</b>	<b>(75,000,000)</b>	<b>1,378,965,298</b>
<b>Total assets</b>	<b>2,263,951,801</b>	<b>197,848,106</b>	<b>87,659,774</b>	<b>302,193,175</b>	<b>19,266,849</b>	<b>35,438,075</b>	<b>(26,490)</b>	<b>642,379,489</b>	<b>(114,447,997)</b>	<b>2,791,883,293</b>
<b>Deferred outflows of resources</b>										
Interest rate swap	5,370,758	—	—	—	—	—	—	—	—	5,370,758
Deferred loss on debt refunding	36,904,433	—	—	—	—	—	—	—	—	36,904,433
Pension contributions after measurement date	4,145,864	—	—	—	—	—	—	—	—	4,145,864
<b>Total deferred outflows of resources</b>	<b>46,421,055</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>46,421,055</b>
<b>Total assets and deferred outflows</b>	<b>\$ 2,310,372,856</b>	<b>197,848,106</b>	<b>87,659,774</b>	<b>302,193,175</b>	<b>19,266,849</b>	<b>35,438,075</b>	<b>(26,490)</b>	<b>642,379,489</b>	<b>(114,447,997)</b>	<b>2,838,304,348</b>

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

Combining Schedule of Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position – Enterprise Fund  
June 30, 2015

Liabilities	Primary enterprise	Component units					University Health Services	Eliminations	Total component units	Eliminations	Total
	MCV Hospitals	MCV Associated Physicians	Community Memorial Healthcenter	Virginia Premier Health Plan	Children's Hospital						
Current liabilities:											
Current portion of long-term debt and capital leases	\$ 6,055,216	—	1,403,555	—	—	—	—	1,403,555	—	7,458,771	
Estimated medical claims payable	—	—	—	94,963,621	—	—	—	94,963,621	—	94,963,621	
Trade accounts payable	47,477,907	483,095	2,770,376	10,405,919	460,358	28,975	—	14,148,723	—	61,626,630	
Settlements due to third-party payors	14,717,016	6,749,808	2,571,341	—	—	—	—	9,321,149	—	24,038,165	
Accrued salaries, wages and employee benefits	46,883,654	21,491,100	2,757,400	2,322,957	2,019,163	—	—	28,590,620	—	75,474,274	
Accrued leave	22,692,578	3,800,987	1,418,147	2,201,368	944,959	—	—	8,365,461	—	31,058,039	
Accrued interest payable	8,202,588	—	4,748	—	—	—	—	4,748	—	8,207,336	
Due to affiliates	4,731,627	18,077,239	1,110,582	—	3,632,085	10,621,778	(26,490)	33,415,194	(36,266,559)	1,880,262	
Current portion of estimated workers' compensation claims	2,400,000	—	—	—	—	—	—	—	—	2,400,000	
Current portion of estimated losses on malpractice claims	500,000	3,000,000	—	—	—	—	—	3,000,000	—	3,500,000	
Other accrued liabilities	5,336,609	4,103,739	513,339	1,373,829	337,136	347,370	—	6,675,413	—	12,012,022	
Total current liabilities	158,997,195	57,705,968	12,549,488	111,267,694	7,393,701	10,998,123	(26,490)	199,888,484	(36,266,559)	322,619,120	
Other liabilities:											
Long-term debt and capital leases, less current portion	509,549,277	—	5,593,779	—	—	11,700,000	—	17,293,779	—	526,843,056	
Estimated workers' compensation claims	19,120,715	—	—	—	—	—	—	—	—	19,120,715	
Estimated losses on malpractice claims	2,353,506	20,055,224	—	—	—	—	—	20,055,224	—	22,408,730	
Fair value of hedging derivatives	47,423,061	—	—	—	—	—	—	—	—	47,423,061	
Net pension liability	52,598,000	—	—	—	7,275,666	—	—	7,275,666	—	59,873,666	
Note payable to affiliate	—	—	—	78,181,438	—	—	—	78,181,438	(78,181,438)	—	
Other liabilities	7,514,244	—	—	504,709	100,522	—	—	605,231	—	8,119,475	
Total liabilities	797,555,998	77,761,192	18,143,267	189,953,841	14,769,889	22,698,123	(26,490)	323,299,822	(114,447,997)	1,006,407,823	
<b>Deferred Inflows of Resources</b>											
Pension investment experience	9,388,000	—	—	—	—	—	—	—	—	9,388,000	
Change in actuarial and proportionate share of pension contributions	4,819,000	—	—	—	—	—	—	—	—	4,819,000	
Total deferred inflows of resources	14,207,000	—	—	—	—	—	—	—	—	14,207,000	
Total liabilities and deferred inflows of resources	811,762,998	77,761,192	18,143,267	189,953,841	14,769,889	22,698,123	(26,490)	323,299,822	(114,447,997)	1,020,614,823	
<b>Net Position</b>											
Net position:											
Net investment in capital assets	261,765,694	2,824,203	13,357,492	14,165,057	8,410,900	17,165,455	—	55,923,107	—	317,688,801	
Restricted:											
Expendable	—	—	3,670,957	601,052	1,235,304	—	—	5,507,313	—	5,507,313	
Nonexpendable permanent endowment	17,466,799	—	65,662	—	2,452,604	—	—	2,518,266	—	19,985,065	
Unrestricted	1,219,377,365	117,262,711	52,422,396	97,473,225	(7,601,848)	(4,425,503)	—	255,130,981	—	1,474,508,346	
Total net position	1,498,609,858	120,086,914	69,516,507	112,239,334	4,496,960	12,739,952	—	319,079,667	—	1,817,689,525	
Total liabilities and net position	\$ 2,310,372,856	197,848,106	87,659,774	302,193,175	19,266,849	35,438,075	(26,490)	642,379,489	(114,447,997)	2,838,304,348	

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, 2015

	Primary enterprise	Component units							Eliminations	Total
	MCV Hospitals	MCV Associated Physicians	Community Memorial Healthcenter	Virginia Premier Health Plan	Children's Hospital	University Health Services	Eliminations	Total component units		
Operating revenues:										
Net patient service revenue	\$ 1,381,729,140	212,338,220	73,815,743	—	29,265,508	—	(9,470,298)	305,949,173	(11,016,149)	1,676,662,164
Premiums earned	—	—	—	935,416,323	—	—	—	935,416,323	—	935,416,323
Contract revenue from MCVH	—	73,522,154	—	—	—	—	—	73,522,154	(73,522,154)	—
Other contract revenue	—	17,310,087	—	—	—	—	(879,190)	16,430,897	—	16,430,897
Other operating revenue	18,255,762	4,962,334	2,467,483	31,676,107	194,475	3,685,927	(3,030)	42,983,296	(24,646,051)	36,593,007
	<u>1,399,984,902</u>	<u>308,132,795</u>	<u>76,283,226</u>	<u>967,092,430</u>	<u>29,459,983</u>	<u>3,685,927</u>	<u>(10,352,518)</u>	<u>1,374,301,843</u>	<u>(109,184,354)</u>	<u>2,665,102,391</u>
Operating expenses:										
Salaries and wages	423,072,389	250,608,956	31,423,434	43,289,317	18,851,293	313,401	—	344,486,401	—	767,558,790
Employee benefits	115,484,838	47,921,611	10,549,715	14,751,695	7,515,136	111,802	—	80,849,959	—	196,334,797
Medical claims expense	—	—	—	886,814,268	—	—	(9,557,448)	877,256,820	(33,516,149)	843,740,671
Purchased services	158,886,446	6,629,352	4,774,290	3,724,309	2,534,444	2,135,409	(795,070)	19,002,734	(73,522,154)	104,367,026
Supplies	305,515,581	4,088,403	9,691,833	4,983,744	2,221,420	78,257	—	21,063,657	—	326,579,238
Other expenses	103,772,065	15,503,810	18,545,746	9,460,610	2,643,618	1,539,538	—	47,693,322	(2,146,051)	149,319,336
Provision for depreciation and amortization	66,226,769	881,586	3,107,684	2,747,567	968,395	691,209	—	8,396,441	—	74,623,210
	<u>1,172,958,088</u>	<u>325,633,718</u>	<u>78,092,702</u>	<u>965,771,510</u>	<u>34,734,306</u>	<u>4,869,616</u>	<u>(10,352,518)</u>	<u>1,398,749,334</u>	<u>(109,184,354)</u>	<u>2,462,523,068</u>
Operating income (loss)	<u>227,026,814</u>	<u>(17,500,923)</u>	<u>(1,809,476)</u>	<u>1,320,920</u>	<u>(5,274,323)</u>	<u>(1,183,689)</u>	<u>—</u>	<u>(24,447,491)</u>	<u>—</u>	<u>202,579,323</u>
Nonoperating revenues and expenses:										
Investment income	17,290,871	8,735,156	371,670	3,789,478	—	13,368	—	12,909,672	—	30,200,543
Interest expense	(22,039,647)	—	(196,189)	(3,181,438)	—	119,395	—	(3,258,232)	3,181,438	(22,116,441)
Other nonoperating income, net	3,520,187	—	70,047	—	—	—	—	70,047	(3,181,438)	408,796
Donations and gifts	28,530	4,428,256	80,000	(33,750)	634,113	—	—	5,108,619	—	5,137,149
Total nonoperating revenues and expenses	<u>(1,200,059)</u>	<u>13,163,412</u>	<u>325,528</u>	<u>574,290</u>	<u>634,113</u>	<u>132,763</u>	<u>—</u>	<u>14,830,106</u>	<u>—</u>	<u>13,630,047</u>
Excess (deficiency) of revenues over expenses before income taxes	<u>225,826,755</u>	<u>(4,337,511)</u>	<u>(1,483,948)</u>	<u>1,895,210</u>	<u>(4,640,210)</u>	<u>(1,050,926)</u>	<u>—</u>	<u>(9,617,385)</u>	<u>—</u>	<u>216,209,370</u>
Income tax expense	—	—	—	(750,448)	—	—	—	(750,448)	—	(750,448)
Excess of revenues over expenses	<u>225,826,755</u>	<u>(4,337,511)</u>	<u>(1,483,948)</u>	<u>1,144,762</u>	<u>(4,640,210)</u>	<u>(1,050,926)</u>	<u>—</u>	<u>(10,367,833)</u>	<u>—</u>	<u>215,458,922</u>
Transfers from (to) affiliates	(29,544,968)	(2,415,889)	25,000,000	—	—	410,881	—	22,994,992	—	(6,549,976)
Increase (decrease) in beneficial interest in trusts	(903,073)	—	—	—	85,582	—	—	85,582	—	(817,491)
Other	(1,989,636)	—	(58,218)	—	(1,047,301)	—	—	(1,105,519)	—	(3,095,155)
Increase (decrease) in net position	<u>193,389,078</u>	<u>(6,753,400)</u>	<u>23,457,834</u>	<u>1,144,762</u>	<u>(5,601,929)</u>	<u>(640,045)</u>	<u>—</u>	<u>11,607,222</u>	<u>—</u>	<u>204,996,300</u>
Net position at beginning of year	1,370,178,780	126,840,314	46,058,673	111,094,572	10,098,889	13,379,997	—	307,472,445	—	1,677,651,225
Pension net position at beginning of year	(64,958,000)	—	—	—	—	—	—	—	—	(64,958,000)
Net position at end of year	<u>\$ 1,498,609,858</u>	<u>120,086,914</u>	<u>69,516,507</u>	<u>112,239,334</u>	<u>4,496,960</u>	<u>12,739,952</u>	<u>—</u>	<u>319,079,667</u>	<u>—</u>	<u>1,817,689,525</u>

See accompanying independent auditors' report.