VIRGINIA COMMONWEALTH UNIVERSITY
HEALTH SYSTEM AUTHORITY

(A Component Unit of Virginia Commonwealth University)

Basic Financial Statements and Other Financial Information

June 30, 2016 and 2015

(With Independent Auditors' Report Thereon)

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

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

Independent Auditors' Report

The Board of Directors
Virginia Commonwealth University
Health System Authority:

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, 2016 and 2015, 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, 2016 and 2015, and the respective changes in net position and, when applicable, cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that Management's Discussion and Analysis on pages 3 through 14, the Schedule of Employer Contributions and the Schedule of Authority's Share of Net Pension Liability on pages 70 and 71, 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 who 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, 2016, included on pages 72 and 73, and the Combining Schedule of Revenues, Expenses and Changes in Net Position – Enterprise Fund, year ended June 30, 2016, included on page 74, (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

Richmond, Virginia
November 14, 2016

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, 2016 and 2015. 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, 2016 and 2015 into their financial statements for the years then ended. The Authority's reporting entity includes MCVH, MCV Associated Physicians (MCVAP), Community Memorial Hospital (CMH), Virginia Premier Health Plan (Virginia Premier), Children's Hospital (Children's), and University Health Services, Inc. and subsidiaries (UHS).

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.

June 30, 2016 Compared to June 30, 2015

Financial Highlights

- The Authority's net position increased by $75.6 million, or 5.0%, over prior year as a result of this year's results of operations, which increased net position by $75.9 million, and was reduced by the current year change in pension valuation, which reduced net position by $0.3 million.
- Patient service revenue comprises the majority of the Authority's revenues. Net patient service revenue increased by $39.8 million, or 2.4%, from prior year. 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, 2016 of $151.6 million, a $75.4 million decrease from operating income of $227.0 million for the year ended June 30, 2015.
- The major capital expenditures for the Authority in 2016 related to the completion of a new Children's outpatient facility, the purchase of a new medical office building in Henrico County, 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 $91.6 million, or 9.8%, from prior year primarily due to enrollment and rate increases. Operating loss for the Complete Care program decreased from $26.6 million in FY15 to $4.4 million in FY16. The Complete Care program is designed to be Virginia's single program to coordinate delivery of primary, preventative, acute, behavioral, and long-term services and support.

(Continued)

As indicated in Table 1 below, the Authority's total assets and deferred outflows exceeded total liabilities and deferred inflows by $1,574.2 million as of June 30, 2016. Of this net position 24.2% ($380.3 million) are related to capital assets, 1.0% ($16.4 million) are restricted funds, and the remaining 74.8% ($1,177.5 million) are unrestricted funds, which can be used for ongoing operations of the Authority:

Table 1

Virginia Commonwealth University
Health System Authority

Condensed Statements of Net Position – Primary enterprise

(In thousands)

		June 30	
		2016	**2015**
Current assets	$	539,240	589,576
Capital assets, net		675,045	570,156
Other noncurrent assets		1,197,585	1,104,220
Total assets		2,411,870	2,263,952
Deferred outflows		62,085	46,421
Total assets and deferred outflows	$	2,473,955	2,310,373
Current liabilities	$	243,955	158,997
Long-term liabilities		645,368	638,559
Total liabilities		889,323	797,556
Deferred inflows		10,466	14,207
Total liabilities and deferred inflows	$	899,789	811,763
Net position:			
Net investment in capital assets	$	380,252	261,766
Restricted – nonexpendable		16,440	17,467
Unrestricted		1,177,474	1,219,377
Total net position	$	1,574,166	1,498,610

Table 2

Virginia Commonwealth University
Health System Authority

Condensed Statements of Revenues, Expenses and Changes in Net Position – Primary enterprise

(In thousands)

	Year ended June 30	
	2016	**2015**
Operating revenues:		
Net patient service revenue	$ 1,384,457	1,381,729
Other operating revenues	14,968	18,256
Total operating revenues	1,399,425	1,399,985
Operating expenses:		
Salaries, wages and employee benefits	565,779	538,557
Purchased services	165,763	158,886
Supplies	342,793	305,516
Depreciation and amortization	67,118	66,227
Other operating expenses	106,509	103,772
Total operating expenses	1,247,962	1,172,958
Operating income	151,463	227,027
Net nonoperating revenues and (expenses)	(38,493)	(1,200)
Excess of revenues over expenses before other changes in net position	112,970	225,827
Other changes in net position, net	(37,049)	(32,438)
Increase in net position	75,921	193,389
Beginning net position	1,498,610	1,370,179
Cumulative effect of change in accounting for pensions (note 1)	—	(64,958)
Change in funded status of net pension liability	(365)	—
Ending net position	$ 1,574,166	1,498,610

The Authority's operating revenues decreased by $0.6 million over the prior year. This decrease in revenues resulted from MCVH declining inpatient volume and pressure on reimbursement rates. Total operating expenses increased 6.7% ($78.9 million). Personnel costs are the largest single cost of the Authority, comprising 45.5% of operating costs in 2016. An increase in personnel-related costs of $31.1 million, or 5.8%, from prior year reflects both the salary adjustments required to meet market demands and the required staff levels to meet both quality and volume initiatives.

(Continued)

Capital Asset and Debt Administration

Capital Assets

The Authority's net capital assets increased by $104.9 million, or 18.4%, over prior year amounts.

Table 3

Virginia Commonwealth University
Health System Authority

Capital Assets – Primary enterprise

(In thousands)

		June 30 2016	June 30 2015
Land and improvements	$	13,123	7,621
Buildings and fixed equipment		825,284	594,474
Moveable equipment		473,322	423,429
Construction in progress		56,487	173,560
		1,368,216	1,199,084
Accumulated depreciation		(693,171)	(628,928)
Total	$	675,045	570,156

Table 4

Virginia Commonwealth University
Health System Authority

Schedule of Additions and Retirements – Primary enterprise

(In thousands)

		Year ended June 30 2016	Year ended June 30 2015
Capital assets – net, beginning of year	$	570,156	513,548
Additions		172,036	123,238
Disposals, net of accumulated depreciation		(15)	(298)
Depreciation		(67,132)	(66,332)
Capital assets – net, end of year	$	675,045	570,156

Capital asset additions during fiscal year 2016 and 2015 are comprised of (in millions):

	Year ended June 30	
	2016	**2015**
Children's outpatient facility	$ 39.9	46.9
Purchase and replacement of moveable equipment	20.3	21.0
Other building renovations	10.6	9.9
Investments in information system infrastructure, business systems and equipment	12.3	9.7
Major renovation projects	28.9	31.5
New building purchase and construction	52.7	—
Surgery equipment	7.3	4.2
	$ 172.0	123.2

The Authority has a five-year capital plan, which includes a budget of $254.9 million of expenditures in fiscal year 2017.

Debt

Table 5

Virginia Commonwealth University
Health System Authority

Debt – Primary enterprise

(In thousands)

	June 30	
	2016	**2015**
General Revenue Bonds Series 2014	$ 200,000	200,000
General Revenue Bonds Series 2013	185,900	188,155
General Revenue Bonds Series 2011	115,150	117,600
Premium – Bonds Series 2011	821	875
Note payable	6,673	7,214
Parking deck debt	—	265
Capital leases	985	1,496
Total	$ 509,529	515,605

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

(Continued)

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 $65.0 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.

(Continued)

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 – Primary enterprise

(In thousands)

		June 30	
		2015	**2014**
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

Table 2

Virginia Commonwealth University
Health System Authority

Condensed Statements of Revenues, Expenses and Changes in Net Position – Primary enterprise

(In thousands)

		Year ended June 30	
		2015	**2014**
Operating revenues:			
Net patient service revenue	$	1,381,729	1,262,623
Other operating revenues		18,256	13,514
Total operating revenues		1,399,985	1,276,137
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		1,172,958	1,094,233
Operating income		227,027	181,904
Net nonoperating revenues and (expenses)		(1,200)	33,483
Excess of revenues over expenses before other changes in net position		225,827	215,387
Other changes in net position, net		(32,438)	793
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)		(64,958)	—
Ending net position	$	1,498,610	1,370,179

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.

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 – Primary enterprise

(In thousands)

		June 30	
		2015	**2014**
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 – Primary enterprise

(In thousands)

		Year ended June 30	
		2015	**2014**
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

Capital asset additions during fiscal year 2015 and 2014 are comprised of (in millions):

		Year ended June 30	
		2015	**2014**
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
	$	123.2	117.1

The Authority has a five-year capital plan, which includes a budget of $168.0 million of expenditures in fiscal year 2016.

Debt

Table 5

Virginia Commonwealth University
Health System Authority

Debt – Primary enterprise

(In thousands)

		June 30	
		2015	**2014**
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	$	515,605	521,532

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

Basic Statements of Net Position – Enterprise Fund

June 30, 2016 and 2015

	2016		2015	
Assets and Deferred Outflows of Resources	**Primary enterprise**	**Component units**	**Primary enterprise**	**Component units**
Current assets:				
Cash and cash equivalents	$ 195,575,148	51,396,747	239,535,673	33,170,661
Restricted cash	—	61,221	—	49,109
Short-term investments	136,544	16,646,134	50,308,788	33,462,621
Patient accounts receivable, net	220,270,845	44,715,479	179,543,196	43,376,327
Settlements due from third-party payors	1,819,795	10,207,765	57,208,408	2,984,151
Premiums receivable	—	84,917,929	—	78,858,717
Other accounts receivable	3,120,709	15,375,951	2,279,007	8,145,687
Due from related parties	84,517,618	—	31,545,871	—
Current portion of assets whose use is limited	3,000,000	3,000,000	2,900,000	3,000,000
Supplies and other current assets	30,799,615	6,956,119	26,254,625	6,875,443
Total current assets	539,240,274	233,277,345	589,575,568	209,922,716
Capital assets:				
Land and improvements	13,122,417	6,353,283	7,620,817	4,538,858
Depreciable capital assets, net	605,434,981	76,395,944	388,975,489	47,558,082
Construction in progress	56,487,105	34,705,004	173,560,015	22,523,501
Total capital assets	675,044,503	117,454,231	570,156,321	74,620,441
Other assets:				
Assets whose use is limited, less current portion	1,073,048,953	247,677,758	979,483,818	284,873,911
Long-term investments	28,251,245	71,675,791	26,784,514	61,922,631
Note receivable from related parties	81,742,313	—	78,181,437	—
Other assets	14,542,699	2,704,377	19,770,143	6,130,281
Total other assets	1,197,585,210	322,057,926	1,104,219,912	352,926,823
Total assets	2,411,869,987	672,789,502	2,263,951,801	637,469,980
Deferred outflows of resources:				
Interest rate swap	22,932,797	—	5,370,758	—
Deferred loss on debt refunding	34,390,337	—	36,904,433	—
Pension contributions after measurement date	4,761,770	—	4,145,864	—
Total deferred outflows of resources	62,084,904	—	46,421,055	—
Total assets and deferred outflows of resources	$ 2,473,954,891	672,789,502	2,310,372,856	637,469,980

(Continued)

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

Basic Statements of Net Position – Enterprise Fund

June 30, 2016 and 2015

	2016		2015	
Liabilities, Deferred Inflows of Resources and Net Position	**Primary enterprise**	**Component units**	**Primary enterprise**	**Component units**
Current liabilities:				
Current portion of long-term debt and capital leases	$ 6,473,708	1,438,902	6,055,216	1,403,555
Estimated medical claims payable	—	84,466,496	—	94,963,621
Trade accounts payable	57,716,320	19,848,227	47,477,907	14,148,723
Settlements due to third-party payors	5,831,771	8,531,635	14,717,016	9,321,149
Accrued salaries, wages and employee benefits	53,208,124	31,077,880	46,883,654	28,590,620
Accrued leave	23,484,382	9,252,384	22,692,578	8,365,461
Accrued interest payable	8,192,682	3,832	8,202,588	4,748
Due to related parties	70,085,872	15,660,556	4,731,627	28,505,685
Current portion of estimated workers' compensation claims	2,500,000	—	2,400,000	—
Current portion of estimated losses on malpractice claims	500,000	3,000,000	500,000	3,000,000
Other accrued liabilities	8,715,700	6,419,606	5,336,609	6,675,413
Total current liabilities	236,708,559	179,699,518	158,997,195	194,978,975
Other liabilities:				
Long-term debt and capital leases, less current portion	503,055,355	15,853,736	509,549,277	17,293,779
Estimated workers' compensation claims	18,995,116	—	19,120,715	—
Estimated losses on malpractice claims	2,956,010	19,209,731	2,353,506	20,055,224
Fair value of hedging derivatives	64,985,100	—	47,423,061	—
Net pension liability	53,472,000	9,142,773	52,598,000	7,275,666
Note payable to related parties	—	81,742,313	—	78,181,438
Other liabilities	1,904,667	459,136	7,514,244	605,231
Total liabilities	882,076,807	306,107,207	797,555,998	318,390,313
Deferred inflows of resources:				
Differences between projected and actual earnings on plan investments	3,846,000	—	9,388,000	—
Change in actual and proportionate share of pension contribution	6,620,000	—	4,819,000	—
Total deferred inflows of resources	10,466,000	—	14,207,000	—
Total liabilities and deferred inflows of resources	892,542,807	306,107,207	811,762,998	318,390,313
Net position:				
Net investment in capital assets	372,188,263	100,161,593	261,765,694	55,923,107
Restricted:				
Expendable	—	5,182,676	—	5,507,313
Nonexpendable permanent endowment	16,440,318	2,548,317	17,466,799	2,518,266
Unrestricted	1,192,783,503	258,789,709	1,219,377,365	255,130,981
Total net position	1,581,412,084	366,682,295	1,498,609,858	319,079,667
Total liabilities, deferred inflows of resources and net position	$ 2,473,954,891	672,789,502	2,310,372,856	637,469,980

See accompanying notes to basic financial statements.

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

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

Years ended June 30, 2016 and 2015

	2016		2015	
	Primary enterprise	**Component units**	**Primary enterprise**	**Component units**
Operating revenues:				
Net patient service revenue	$ 1,391,703,609	339,159,606	1,381,729,140	305,949,173
Premiums earned	—	1,027,057,487	—	935,416,323
Contract revenue from MCVH	—	75,502,659	—	73,522,154
Other contract revenue	—	18,325,902	—	16,430,897
Other operating revenue	14,968,454	42,711,760	18,255,762	42,983,296
	1,406,672,063	1,502,757,414	1,399,984,902	1,374,301,843
Operating expenses:				
Salaries and wages	446,637,673	378,292,110	423,072,389	344,486,401
Employee benefits	119,506,926	92,127,821	115,484,838	80,849,959
Medical claims expense	—	902,877,484	—	877,256,820
Purchased services	165,763,571	20,078,613	158,886,446	19,002,734
Supplies	342,792,641	23,754,113	305,515,581	21,063,657
Other expenses	106,509,077	52,418,168	103,772,065	47,693,322
Provision for depreciation and amortization	67,117,586	10,152,090	66,226,769	8,396,441
	1,248,327,474	1,479,700,399	1,172,958,088	1,398,749,334
Operating income (loss)	158,344,589	23,057,015	227,026,814	(24,447,491)
Nonoperating revenues and expenses:				
Investment income (losses)	(8,337,613)	(15,744,842)	17,290,871	12,909,672
Interest expense	(22,755,301)	(3,812,149)	(22,039,647)	(3,258,232)
Other nonoperating income or expense, net	(7,011,071)	10,029,499	3,520,187	70,047
Donations and gifts	(389,312)	5,930,165	28,530	5,108,619
Nonoperating revenues and expenses, net	(38,493,297)	(3,597,327)	(1,200,059)	14,830,106
Excess (deficiency) of revenues over expenses before income tax expense	119,851,292	19,459,688	225,826,755	(9,617,385)
Income tax expense	—	(361,941)	—	(750,448)
Excess of revenues over expenses	119,851,292	19,097,747	225,826,755	(10,367,833)
Transfers from (to) affiliates	(36,022,585)	30,017,031	(29,544,968)	22,994,992
Increase (decrease) in beneficial interest in trusts	(1,026,481)	(114,922)	(903,073)	85,582
Other	—	(1,397,228)	(1,989,636)	(1,105,519)
Increase in net position	82,802,226	47,602,628	193,389,078	11,607,222
Net position at beginning of year	1,498,609,858	319,079,667	1,370,178,780	307,472,445
Cumulative effect of change in accounting for pensions (note 1)	—	—	(64,958,000)	—
Net position at end of year	$ 1,581,412,084	366,682,295	1,498,609,858	319,079,667

See accompanying notes to basic financial statements.

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

Basic Statements of Cash Flows – Enterprise Fund

Years ended June 30, 2016 and 2015

	2016		2015	
	Primary enterprise	**Component units**	**Primary enterprise**	**Component units**
Cash flows from operating activities:				
Cash received from third-party payors and patients	$ 1,400,365,701	429,045,869	1,268,268,164	392,340,018
Cash received from premiums	—	1,020,998,275	—	922,385,216
Cash paid to employees and employee benefits	(560,032,928)	(467,045,748)	(530,840,303)	(419,986,118)
Cash paid to suppliers	(552,355,866)	(87,894,928)	(573,333,933)	(85,146,045)
Cash paid to providers of health care services	—	(913,374,609)	—	(847,674,343)
Other operating cash receipts and payments, net	(35,858,439)	16,774,778	9,641,717	45,957,394
Net cash provided by (used in) operating activities	252,118,468	(1,496,363)	173,735,645	7,876,122
Cash flows from noncapital financing activities:				
Donations and gifts	(389,312)	5,930,165	28,530	5,108,619
Intercompany note	—	—	(75,000,000)	75,000,000
Transfers from (to) affiliates and other transfers	(36,022,585)	30,017,031	(4,544,968)	(2,005,008)
Net cash provided by (used in) noncapital financing activities	(36,411,897)	35,947,196	(79,516,438)	78,103,611
Cash flows from capital and related financing activities:				
Purchases of capital assets	(169,357,331)	(52,985,880)	(119,609,381)	(30,244,691)
Proceeds from disposal of capital assets	—	—	402,709	—
Proceeds from issuance of note payable	—	—	—	2,447,178
Principal payments on long-term debt and capital lease obligations	(6,072,500)	(1,404,696)	(5,938,756)	(1,420,737)
Cash paid for interest	(22,902,478)	(251,274)	(22,219,898)	(76,794)
Other financing cash flows	(7,011,071)	10,029,499	3,520,187	11,829
Net cash used in capital and related financing activities	(205,343,380)	(44,612,351)	(143,845,139)	(29,283,215)
Cash flows from investing activities:				
Interest and dividends on investments	14,171,324	6,517,209	12,846,109	3,187,520
Purchases of investments	(1,104,752,485)	(2,394,704,606)	(963,235,691)	(5,621,416,060)
Proceeds from sales of investments	1,141,111,855	2,421,212,657	874,324,371	5,526,163,457
Net cash provided by (used in) investing activities	50,530,694	33,025,260	(76,065,211)	(92,065,083)
Net increase (decrease) in cash and cash equivalents	60,893,885	22,863,742	(125,691,143)	(35,368,565)
Cash and cash equivalents at beginning of year	276,060,903	55,078,163	401,752,046	90,446,728
Cash and cash equivalents at end of year	$ 336,954,788	77,941,905	276,060,903	55,078,163
Reconciliation of cash and cash equivalents at end of year to the basic statements of net position – enterprise fund:				
Cash and cash equivalents	$ 195,575,148	51,396,747	239,535,673	33,170,661
Restricted cash	—	61,221	—	49,109
Assets whose use is limited	141,379,640	26,483,937	36,525,230	21,858,393
Total cash and cash equivalents	$ 336,954,788	77,941,905	276,060,903	55,078,163

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

Basic Statements of Cash Flows – Enterprise Fund

Years ended June 30, 2016 and 2015

	2016		2015	
	Primary enterprise	**Component units**	**Primary enterprise**	**Component units**
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	$ 158,344,589	23,057,015	227,026,814	(24,447,491)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	67,117,586	10,152,090	66,226,769	8,396,441
Income tax payments			—	—
Changes in:				
Patient accounts receivable	(40,727,649)	(1,339,152)	(11,120,033)	(1,791,075)
Due to/from third-party payors	46,503,368	(2,603,146)	(100,982,129)	(1,771,131)
Premiums receivable	—	(6,059,212)	—	(13,031,107)
Other accounts receivable	(841,702)	(12,640,246)	(3,361,494)	(3,584,054)
Due to/from affiliates	12,382,498	(12,845,129)	(9,547,635)	9,494,511
Supplies and other assets	(2,878,422)	3,345,228	(34,264)	(2,983,715)
Estimated medical claims payable	—	(10,497,125)	—	29,582,477
Trade accounts payable	10,238,413	5,699,504	(590,894)	1,235,490
Accrued salaries, wages, and employee benefits	6,324,470	2,487,260	3,246,647	5,235,709
Accrued leave	791,804	886,923	699,011	114,533
Estimated workers' compensation claims	(25,599)	—	3,707,623	—
Estimated losses on malpractice claims	602,504	(845,493)	(543,708)	260,769
Net pension liability	(3,482,906)	1,867,107	(2,298,864)	1,216,979
Other accrued liabilities	(2,230,486)	(2,161,987)	1,307,802	(52,214)
Net cash provided by (used in) operating activities	$ 252,118,468	(1,496,363)	173,735,645	7,876,122
Supplemental disclosure of noncash information:				
Interest expense capitalized related to acquisition of capital assets	$ 2,611,520	—	3,563,000	—
Assets acquired under capital leases	50,200	—	65,103	—

See accompanying notes to basic financial statements.

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

Basic Statements of Net Position – Pension Trust Fund

June 30, 2016 and 2015

		2016	2015
Assets:			
Assets whose use is limited	$	288,084,892	277,280,753
Net position:			
Reserve for employees' pension benefits	$	288,084,892	277,280,753

See accompanying notes to basic financial statements.

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

Basic Statements of Changes in Net Position – Pension Trust Fund

Years ended June 30, 2016 and 2015

		2016	2015
Beginning net position	$	277,280,753	251,281,427
Additions:			
Pension contributions		25,787,898	26,399,288
Investment gains (losses), net		(1,209,657)	13,134,298
Total additions		24,578,241	39,533,586
Deductions:			
Pension benefit payments		(13,774,102)	(13,534,260)
Ending net position	$	288,084,892	277,280,753

See accompanying notes to basic financial statements.

(1) Reporting Entity

Virginia Commonwealth University Health System Authority (the Authority) is a public corporate body and political subdivision of the Commonwealth of Virginia created and established by an Act of the General Assembly of the Commonwealth of Virginia during 1996. The Authority is tax exempt as an integral part of the Commonwealth of Virginia.

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 Medical College of Virginia Associated Physicians (MCVAP), Community Memorial Healthcenter (CMH), Virginia Premier Health Plan (Virginia Premier), Children's Hospital (Children's) and University Health Services (UHS).

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).

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 and made no additional payments in 2016. CMH also operates outpatient clinics in South Hill, Clarksville, and Chase City, Virginia. Community Memorial Foundation (CMH Foundation) was established to solicit, administer, and distribute funds to support the charitable purpose of CMH.

Virginia Premier is a Medicaid health maintenance organization (HMO) 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.

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.

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 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) Investments and Investment Income

Investments in marketable debt and equity securities are carried at fair value based on quoted market prices. Investments in nonreadily determinable 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 determinable 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.

(e) 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 $90,400,000 and $74,800,000 at June 30, 2016 and 2015, respectively. The allowance for doubtful accounts for the Component Units was approximately $18,540,000 and $17,400,000 at June 30, 2016 and 2015, respectively.

(f) 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'

(Continued)

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 $16,440,318 and $17,466,799 are restricted by donors for MCVH in perpetuity and are included in assets whose use is limited at June 30, 2016 and 2015, respectively, at fair value.

(g) Supplies Inventory

Supplies inventory is stated at the lower of cost (first-in, first-out method) or market.

(h) 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.

(i) 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.

(Continued)

(j) Estimated Medical Claims Payable

Estimated medical claims payable is comprised of billed and unbilled medical obligations for Virginia 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.

(k) Accrued Leave

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

(l) 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.

(m) 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.

(n) 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 $29,957,000 and $27,930,000 at June 30, 2016 and 2015, respectively, and are included in unrestricted net position in the accompanying statements of net position.

(o) 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.

(Continued)

(p) 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 decrease MCVH net patient service revenue by approximately $23,720,000 in 2016 and increase MCVH net patient service revenue by approximately $49,742,000 in 2015. 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 $19,597,000 and $21,329,000 for the years ended June 30, 2016 and 2015, respectively. The Component Units' estimated cost associated with these charges is approximately $11,350,000 and $9,961,000 for the years ended June 30, 2016 and 2015, respectively.

Operating revenues include a budget neutral retroactive reduction in rates that were paid by Virginia Premier Health Plan to the two Virginia public teaching hospitals in its network, and at the same time an increase in the rates Virginia Premier Health Plan paid to the physician practice groups affiliated with those hospitals

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

Anthem – Inpatient acute care services rendered to Anthem subscribers are paid at prospectively determined rates per discharge or discounted rates. Outpatient services rendered to Anthem subscribers are reimbursed at discounted rates or applicable fee schedule. The rates can be subject to retroactive adjustments based on quality standards or calculations above a predetermined charge increase percentage.

Medicare – Inpatient acute care services and defined capital costs rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient nonacute services, certain outpatient services and education related to Medicare beneficiaries are paid based on prospectively determined rates and a discounted cost reimbursement methodology. The Authority is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare fiscal intermediary. The Authority's Medicare cost reports have been final audited by the Medicare fiscal intermediary through June 30, 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 $372,684,000 and $363,404,000 in 2016 and 2015, respectively, and to the Component Units of approximately $61,506,000 and $63,299,000 in 2016 and 2015, respectively. The Authority's Medicaid cost reports have been audited by the Medicaid program representative through June 30, 2013.

(q) 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 $9,364,000 and $9,369,000 for the years ended June 30, 2016 and 2015, respectively. The Component Units' estimated costs for the services provided for this care, net of reimbursement from the Commonwealth of Virginia, was approximately $1,531,000 and $1,766,000 for the years ended June 30, 2016 and 2015, respectively.

(r) Premiums Earned

Virginia Premier has contracts with the Virginia Department of Medical Assistance Services (DMAS) wherein Virginia Premier provides health care services to the Low Income Families with Children (LIFC), the Family Access to Medical Insurance Security (FAMIS), Aged, Blind and Disabled (ABD), and Health and Acute Care Program (HAP) residents of Virginia on a prepaid basis through a HMO. Virginia Premier recognizes premiums received from DMAS for members in the period to which health care coverage relates.

In 2014, Virginia 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.

(s) 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. Virginia Premier is contingently liable for reinsurance losses to the extent that the reinsurance company cannot meet its obligations.

(t) Income Taxes

MCVAP, CMH, Children's and UHS 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.

Virginia Premier recorded federal income tax expenses of $304,732 and $631,831 for the years ended June 30 2016 and 2015, respectively, in Unrelated Business Income Tax (UBIT) for services performed.

Virginia Premier recorded current state income tax benefit of $57,209 and $118,617 for the years ended June 30, 2016 and 2015, respectively.

(u) 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.

(v) Recently Adopted Accounting Pronouncements

In 2016, the Authority adopted GASB Statement No. 72, *Fair Value Measurement and Application*, which required investments to be measured at fair value, provided guidance for determining a fair value measurement for financial reporting purposes and required disclosures about fair value measurements and valuation techniques.

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 disclosures 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		(3,226,000)
Reduction in net position as of July 1, 2014	$	64,958,000

(w) Reclassifications

Certain reclassifications have been made to the 2015 financial statements to conform to the 2016 financial statement presentation. These reclassifications have 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, 2016 and 2015, the carrying values of MCVH's deposits totaled $195,575,148 and $239,535,673, respectively. The carrying values of the Component Units' deposits totaled $51,396,747 and $33,219,770, respectively at June 30, 2016 and 2015. 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, 2016 and 2015 the Primary Enterprise had $102,485,826 and $156,199,469, respectively in fixed income investments and the Component Units had $97,032,964 and $111,687,147, respectively, in fixed income investments, whose value could fluctuate over time due to interest rate fluctuations.

Credit Risk – Credit risk is the risk that a fixed income issuer or other investment counterparty will not fulfill their obligations as required by the investment security. The investment portfolio is monitored and evaluated on a quarterly basis by the Authority's investment advisor and Finance Committee of the Board of Directors to ensure credit risk is kept at an appropriately low level.

At June 30, 2016 the credit quality ratings for the Primary Enterprise's fixed income investments were 74.5% AAA, 6.0% AA, 13.3% A, 6.2% below A and 0.0% not rated. The Component Units' fixed income investments were 30.6% AAA, 41.3% AA, 26.4% A, and 1.7% below A. 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.

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, 2016, the Primary Enterprise had three fixed income managers that individually exceeded 5.0% of investments, amounting to 11.0% of total investments. 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.

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, 2016 and 2015 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.

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

	2016		2015	
	Primary enterprise	**Component units**	**Primary enterprise**	**Component units**
Enterprise funds:				
Assets whose use is limited:				
Externally restricted:				
By donors	$ 16,440,318	201,338	17,466,799	201,786
Under bond indenture	9,887,378	113,502	9,849,128	138,184
By insurance regulations	—	602,213	—	601,052
Held by Foundation	—	3,572,986	—	3,687,908
Internally restricted:				
For medical malpractice	3,456,010	22,209,731	2,853,506	23,055,224
For workers' compensation	21,495,116	—	21,520,715	—
For capital acquisition	302,450,825	5,630,589	197,303,707	35,398,662
For quasi endowment	722,319,306	218,347,399	733,389,963	224,791,095
	$ 1,076,048,953	250,677,758	982,383,818	287,873,911
Investments	$ 28,387,789	88,321,925	77,093,302	95,385,252

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

	2016		2015	
	Primary enterprise	**Component units**	**Primary enterprise**	**Component units**
Pension trust funds:				
Externally restricted under pension plan agreement	$ 288,084,892	—	277,280,753	—

As of June 30, 2016, investments (including assets whose use is limited) held by the Primary Enterprise mature as follows:

		Investment maturities (in years)			
	Fair value	**Less than 1**	**1 to 5**	**6 to 10**	**More than 10**
Cash and cash equivalents	$ 141,379,640	141,379,640	—	—	—
U.S. Treasury notes	3,881,228	2,316,962	112,156	201,159	1,250,951
Asset-backed securities	18,723,245	—	18,723,245	—	—
Agency-backed mortgages	15,149,364	1,627,768	3,272,779	737,040	9,511,777
Corporate notes	28,203,390	7,286,570	18,831,566	505,269	1,579,985
Corporate bonds	36,528,599	14,939,698	17,564,342	1,607,203	2,417,356
Beneficial interest in perpetual trust	16,440,318	N/A	N/A	N/A	N/A
Index funds	2,474,344	N/A	N/A	N/A	N/A
Marketable equity securities	280,441,576	N/A	N/A	N/A	N/A
Investment companies	547,301,785	N/A	N/A	N/A	N/A
Real estate	13,913,253	N/A	N/A	N/A	N/A
	$ 1,104,436,742	167,550,638	58,504,088	3,050,671	14,760,069

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 Primary Enterprise mature as follows:

		Investment maturities (in years)			
	Fair value	Less than 1	1 to 5	6 to 10	More than 10
Cash and cash equivalents	$ 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
	$ 1,059,477,120	118,203,520	96,064,431	10,539,544	15,908,419

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

As of June 30, 2016, investments (including assets whose use is limited) held by the Component Units mature as follows:

		Investment maturities (in years)			
	Fair value	Less than 1	1 to 5	6 to 10	More than 10
Cash and cash equivalents	$ 26,483,937	26,483,937	—	—	—
U.S. Treasury notes	8,085,440	958,739	5,468,284	1,265,340	393,077
Asset-backed securities	13,007,126	981,602	12,025,524	—	—
Agency-backed mortgages	31,271,164	12,444,746	17,333,643	416,696	1,076,079
Commercial paper	2,999,790	2,999,790	—	—	—
Corporate notes	3,636,300	521,420	2,082,566	809,973	222,341
Corporate bonds	41,032,934	17,202,385	22,120,516	1,198,731	511,302
Equity interest in Foundation	3,572,986	N/A	N/A	N/A	N/A
Index funds	13,475,157	N/A	N/A	N/A	N/A
Marketable equity securities	38,937,167	N/A	N/A	N/A	N/A
Investment companies	149,733,613	N/A	N/A	N/A	N/A
Real estate	6,764,069	N/A	N/A	N/A	N/A
	$ 338,999,683	61,592,619	59,030,533	3,690,740	2,202,799

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:

		Investment maturities (in years)			
	Fair value	**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
	$ 383,259,163	65,358,695	58,438,741	5,230,888	22,709,774

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

(4) Investments and Derivative Instruments Measured at Fair Value

The Authority categorizes its fair value measurements within the fair value hierarchy established by U.S. generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset.

- Level 1: Inputs are quoted prices in active markets for identical assets.
- Level 2: Inputs are significant other observable inputs.
- Level 3: Inputs are significant unobservable inputs.

The Primary Enterprise has the following recurring fair value measurements as of June 30, 2016:

		June 30, 2016		
	Total	**Level 1**	**Level 2**	**Level 3**
Investments by fair value level:				
Cash and cash equivalents	$ 141,379,640	141,379,640	—	—
Beneficial trust	16,440,318	—	—	16,440,318
Debt securities:				
U.S. Treasury notes	3,881,228	3,881,228	—	—
Asset backed securities	18,723,245	—	18,723,245	—
Agency backed mortgages	15,149,364	—	15,149,364	—
Corporate notes	28,203,390	—	28,203,390	—
Corporate bonds	36,528,599	—	36,528,599	—
Total debt securities	260,305,784	145,260,868	98,604,598	16,440,318
Equity securities:				
Consumer discretionary	8,713,040	8,713,040	—	—
Consumer staples	1,557,711	1,557,711	—	—
Financials	8,845,208	8,845,208	—	—
Health care	1,861,805	1,861,805	—	—
Industrials	3,079,090	3,079,090	—	—
Information technology	4,464,924	4,464,924	—	—
Energy	1,118,482	1,118,482	—	—
Material	813,362	813,362	—	—
Telecommunication	125,542	125,542	—	—
Utilities	292,610	292,610	—	—
Total equity securities	30,871,774	30,871,774	—	—
Equity mutual funds	316,258,077	316,258,077	—	—
Fixed income bond fund	144,103,020	144,103,020	—	—
Total investments by fair value level	751,538,655	636,493,739	98,604,598	16,440,318
Investments measured at NAV:				
Equity long only hedge funds	61,145,680	—	—	—
Equity long/short hedge funds	76,809,469	—	—	—
Event-driven hedge funds	17,338,467	—	—	—
Relative value/credit	12,862,942	—	—	—
Opportunistic/macro	17,916,832	—	—	—

(Continued)

	June 30, 2016			
	Total	**Level 1**	**Level 2**	**Level 3**
Absolute strategies funds	$ 117,934,604	—	—	—
Private investments	21,621,788	—	—	—
Total	325,629,782	—	—	—
Bond funds	27,268,305	—	—	—
Total investments measured at NAV	352,898,087	—	—	—
Total investments measured at fair value	$ 1,104,436,742	636,493,739	98,604,598	16,440,318
Liabilities:				
Investment derivative instruments:				
Hedging derivatives	$ 64,985,100	—	64,985,100	—

	Fair value	**Unfunded commitments**	**Redemption notice period**	
Investments Measured at NAV:				
Equity long only hedge funds 1)	$ 61,145,680	—	Daily	14-90 days
Equity long/short hedge funds 2)	76,809,469	—	Quarterly-Semi-Annually	45-60 days
Event-driven hedge funds 3)	17,338,467	—	Quarterly	60-180 days
Relative value/credit 4)	12,862,942	—	Quarterly	60-180 days
Opportunistic/macro 5)	17,916,832	—	Quarterly	60-180 days
Absolute strategies funds 6)	117,934,604	5,613,462	Quarterly	60-180 days
Private investments 7)	21,621,788	5,867,092	N/A	N/A
Bond funds	27,268,305	—	Monthly	10-30 days
Total investments measured at NAV	$ 352,898,087	11,480,554		

The Primary Enterprise has the following recurring fair value measurements as of June 30, 2015:

	June 30, 2015			
	Total	**Level 1**	**Level 2**	**Level 3**
Investments by fair value level:				
Cash and cash equivalents	$ 36,525,230	36,525,230	—	—
Commercial paper	47,991,215	47,991,215	—	—
Beneficial trust	17,466,799	17,466,799	—	—
Debt securities:				
U.S. Treasury notes	26,367,913	26,367,913	—	—
Asset backed securities	25,673,908	—	25,673,908	—
Agency backed mortgages	18,990,189	—	18,990,189	—
Corporate notes	49,199,881	—	49,199,881	—
Corporate bonds	35,967,578	—	35,967,578	—
Total debt securities	258,182,713	128,351,157	129,831,556	—
Equity securities:				
Consumer discretionary	9,257,654	9,257,654	—	—
Consumer staples	2,310,409	2,310,409	—	—
Financials	10,415,917	10,415,917	—	—
Health care	2,417,153	2,417,153	—	—
Industrials	3,228,106	3,228,106	—	—
Information technology	5,296,276	5,296,276	—	—
Energy	1,371,607	1,371,607	—	—
Material	1,738,758	1,738,758	—	—
Telecommunication	336,751	336,751	—	—
Utilities	217,914	217,914	—	—
Total equity securities	36,590,545	36,590,545	—	—
Equity mutual funds	382,220,357	382,220,357	—	—
Total investments by fair value level	676,993,615	547,162,059	129,831,556	—
Investments measured at NAV:				
Equity long only hedge funds	83,183,789	—	—	—
Equity long/short hedge funds	81,389,814	—	—	—
Event-driven hedge funds	19,173,762	—	—	—
Relative value/credit	17,108,867	—	—	—
Opportunistic/macro	14,883,138	—	—	—

			June 30, 2015	
	Total	**Level 1**	**Level 2**	**Level 3**
Absolute strategies funds	$ 125,233,685	—	—	—
Private investments	16,499,911	—	—	—
Total	357,472,966	—	—	—
Bond funds	25,010,539	—	—	—
Total investments measured at NAV	382,483,505	—	—	—
Total investments measured at fair value	$ 1,059,477,120	547,162,059	129,831,556	—
Liabilities:				
Investment derivative instruments:				
Hedging derivatives	$ 47,423,061	—	47,423,061	—

	Fair value	**Unfunded commitments**	**Redemption notice period**	
Investments Measured at NAV:				
Equity long only hedge funds 1)	$ 83,183,789	—	Daily	14-90 days
Equity long/short hedge funds 2)	81,389,814	—	Quarterly-Semi-Annually	45-60 days
Event-driven hedge funds 3)	19,173,762	—	Quarterly	60-180 days
Relative value/credit 4)	17,108,867	—	Quarterly	60-180 days
Opportunistic/macro 5)	14,883,138	—	Quarterly	60-180 days
Absolute strategies funds 6)	125,233,685	5,962,500	Quarterly	60-180 days
Private investments 7)	16,499,911	11,060,443	N/A	N/A
Bond funds	25,010,539	—	Monthly	10-30 days
Total investments measured at NAV	$ 382,483,505	17,022,943		

1. Long only equity hedge funds. These investments are comprised of vehicles that invest in publicly traded equity securities with the primary goal of producing capital appreciation. The aforementioned investments may have global, domestic, developed international or emerging market focus. This asset class includes nine investments, each subject to liquidity terms ranging from quarterly to a rolling three-year lock up.

2. Long/short equity hedge funds. These investments are comprised or vehicles that seek opportunities globally without regard for market capitalization, country of domicile or asset class. These managers have broad flexibility to establish long and short positions. This asset class includes fifteen managers, two of which are still in their initial lock-up terms (expires 12/31/16 and 6/30/17).

3. Event driven. Investments managers who maintain positions in companies currently or prospectively involved in corporate transactions of a wide variety including but not limited to mergers, restructurings, financial distress, tender offers, shareholder buybacks, debt exchanges, security issuance or other capital structure adjustments. Security types can range from most senior in the capital structure to most junior or subordinated, and frequently involve additional derivative securities. Event drive exposure includes a combination of sensitivities to equity markets, credit markets and idiosyncratic, company specific developments. Investment these are typically predicated on fundamental characteristics (as opposed to quantitative), with the realization of the thesis predicated on a specific development exogenous to the existing capital structure. This asset class includes four managers.

4. Relative value. Investment managers who maintain positions in which the investment thesis is predicated on realization of a valuation discrepancy in the relationship between multiple securities. Managers employ a variety of fundamental and quantitative techniques to establish investment theses, and security types. Fixed income strategies are typically quantitatively driven to measure the existing relationship between instruments and, in some cases, identify attractive positions in which the risk adjusted spread between these instruments represents an attractive opportunity for the investment manager. Realization of a pricing discrepancy between related securities, as opposed to the outcome of the corporate transaction generally drives transactions. This class includes six mangers.

5. Opportunistic/macro. Investment managers which trade a broad range of strategies in which the investment process is predicated on movements in underlying economic variables and the impact these have on equity, fixed income, hard currency and commodity markets. These seven managers employ a variety of techniques, both discretionary and systematic analysis, combinations of top down and bottom up theses, quantitative and fundamental approaches and long and short term holding periods.

6. Absolute strategies hedge funds. Investments in this asset class seek to exploit market inefficiencies and generate positive investment returns with reduced volatility and minimal net exposure. These investments may include credit-oriented, market neutral or multi-strategy investments. This asset class includes six managers, one of which is structured similar to a private investment while the others are outside of their initial lock-up periods.

7. Private investments. The managers in this asset class have the flexibility to investment in private equity, distressed debt and private real estate. These investments are not liquid and generally have a fund life of ten years or greater. The asset class includes eight managers, four of which are focused on private real estate, one on distressed debt and three on private equity.

(Continued)

The Component Units have the following recurring fair value measurements as of June 30, 2016:

		June 30, 2016		
	Total	**Level 1**	**Level 2**	**Level 3**
Investments by fair value level:				
Cash and cash equivalents	$ 26,483,937	26,483,937	—	—
Equity interest	3,572,986	3,572,986	—	—
Debt securities:				
Commercial paper	2,999,790	2,999,790	—	—
U.S. Treasury notes	8,085,440	8,085,440	—	—
Asset backed securities	13,007,126	—	13,007,126	—
Agency backed mortgages	31,271,164	—	31,271,164	—
Corporate notes	3,636,300	—	3,636,300	—
Corporate bonds	41,032,934	—	41,032,934	—
Total debt securities	130,089,677	41,142,153	88,947,524	—
Equity securities:				
Consumer discretionary	4,821,033	4,821,033	—	—
Consumer staples	1,249,774	1,249,774	—	—
Financials	6,177,365	6,177,365	—	—
Health care	1,858,146	1,858,146	—	—
Industrials	2,029,334	2,029,334	—	—
Information technology	2,931,329	2,931,329	—	—
Energy	974,603	974,603	—	—
Material	521,658	521,658	—	—
Telecommunication	196,433	196,433	—	—
Utilities	202,300	202,300	—	—
Real estate	229,665	229,665	—	—
Total equity securities	21,191,640	21,191,640	—	—
Index funds	13,475,157	13,475,157	—	—
Mutual funds and ETF's	56,015,869	56,015,869	—	—
	69,491,026	69,491,026	—	—
Total investments by fair value level	220,772,343	131,824,819	88,947,524	—
Investments measured at NAV:				
Equity long only hedge funds	36,234,289	—	—	—
Equity long/short hedge funds	35,623,653	—	—	—
Event-driven hedge funds	1,860,639	—	—	—
Relative value/credit	1,023,435	—	—	—

(Continued)

		June 30, 2016		
	Total	**Level 1**	**Level 2**	**Level 3**
Opportunistic/macro	$ 3,026,692	—	—	—
Absolute strategies funds	28,969,641	—	—	—
Private investments	1,488,991	—	—	—
Total investments measured at NAV	108,227,340	—	—	—
Total investments measured at fair value	$ 328,999,683	131,824,819	88,947,524	—

	Fair value	**Unfunded commitments**	**Redemption notice period**	
Investments Measured at NAV:				
Equity long only hedge funds 1)	$ 36,234,290	—	Daily	14-90 days
Equity long/short hedge funds 2)	35,623,652	—	Quarterly-Semi-Annually	45-60 days
Event-driven hedge funds 3)	1,860,639	—	Quarterly	60-180 days
Relative value/credit 4)	1,023,435	—	Quarterly	60-180 days
Opportunistic/macro 5)	3,026,692	—	Quarterly	60-180 days
Absolute strategies funds 6)	28,969,641	868,750	Quarterly	60-180 days
Private investments 7)	11,488,991	1,070,543	N/A	N/A
Total investments measured at NAV	$ 118,227,340	1,939,293		

The Component Units have the following recurring fair value measurements as of June 30, 2015:

	June 30, 2015			
	Total	**Level 1**	**Level 2**	**Level 3**
Investments by fair value level:				
Cash and cash equivalents	$ 21,858,393	21,858,393	—	—
Equity interest	3,687,908	3,687,908		
Debt securities:				
Commercial paper	18,192,558	18,192,558	—	—
U.S. Treasury notes	27,232,638	27,232,638	—	—
Asset backed securities	17,259,791	—	17,259,791	—
Agency backed mortgages	22,847,294	—	22,847,294	—
Corporate notes	21,552,288	—	21,552,288	—
Corporate bonds	22,795,136	—	22,795,136	—
Total debt securities	155,426,006	70,971,497	84,454,509	—
Equity securities:				
Consumer discretionary	7,500,466	7,500,466	—	—
Consumer staples	2,144,550	2,144,550	—	—
Financials	9,824,772	9,824,772	—	—
Health care	2,597,780	2,597,780	—	—
Industrials	2,756,043	2,756,043	—	—
Information technology	4,560,743	4,560,743	—	—
Energy	1,256,972	1,256,972	—	—
Material	1,355,399	1,355,399	—	—
Telecommunication	423,264	423,264	—	—
Utilities	197,558	197,558	—	—
Real estate	227,352	227,352	—	—
Transportation	17,209	17,209	—	—
Fixed income exchange traded funds	257,126	257,126	—	—
Equity funds	294,072	294,072	—	—
Master limited partnership	85,167	85,167	—	—
Total equity securities	33,498,473	33,498,473	—	—
Index funds	14,689,818	14,689,818	—	—
Mutual funds and ETF's	32,928,282	32,928,282	—	—
	47,618,100	47,618,100	—	—
Total investments by fair value level	236,542,579	152,088,070	84,454,509	—

		June 30, 2015		
	Total	**Level 1**	**Level 2**	**Level 3**
Investments measured at NAV:				
Equity long only hedge funds	$ 59,680,986	—	—	—
Equity long/short hedge funds	45,900,099	—	—	—
Event-driven hedge funds	2,233,059	—	—	—
Relative value/credit	1,590,849	—	—	—
Opportunistic/macro	1,838,157	—	—	—
Absolute strategies funds	25,323,340	—	—	—
Private investments	10,150,094	—	—	—
Total investments measured at NAV	146,716,584	—	—	—
Total investments measured at fair value	$ 383,259,163	152,088,070	84,454,509	—

	Fair value	**Unfunded commitments**	**Redemption notice period**	
Investments Measured at NAV:				
Equity long only hedge funds 1)	$ 59,680,986	—	Daily	14-90 days
Equity long/short hedge funds 2)	45,900,099	—	Quarterly-Semi-Annually	45-60 days
Event-driven hedge funds 3)	2,233,059	—	Quarterly	60-180 days
Relative value/credit 4)	1,590,849	—	Quarterly	60-180 days
Opportunistic/macro 5)	1,838,157	—	Quarterly	60-180 days
Absolute strategies funds 6)	25,323,340	987,500	Quarterly	60-180 days
Private investments 7)	10,150,094	2,170,543	N/A	N/A
Total investments measured at NAV	$ 146,716,584	3,158,043		

1. Long only equity hedge funds. These investments are comprised of vehicles that invest in publicly traded equity securities with the primary goal of producing capital appreciation. The aforementioned investments may have global, domestic, developed international or emerging market focus. This asset class includes eight investments, each subject to liquidity terms ranging from quarterly to a rolling three-year lock up.

2. Long/short equity hedge funds. These investments are comprised or vehicles that seek opportunities globally without regard for market capitalization, country of domicile or asset class. These managers have broad flexibility to establish long and short positions. This asset class includes six managers, two of which are still in their initial lock-up terms (expires 12/31/16 and 6/30/17).

3. Event driven. Investments managers who maintain positions in companies currently or prospectively involved in corporate transactions of a wide variety including but not limited to mergers, restructurings, financial distress, tender offers, shareholder buybacks, debt exchanges, security issuance or other capital structure adjustments. Security types can range from most senior in the capital structure to most junior or subordinated, and frequently involve additional derivative securities. Event drive exposure includes a combination of sensitivities to equity markets, credit markets and idiosyncratic, company specific developments. Investment these are typically predicated on fundamental characteristics (as opposed to quantitative), with the realization of the thesis predicated on a specific development exogenous to the existing capital structure. This asset class includes four managers.

4. Relative value. Investment managers who maintain positions in which the investment thesis is predicated on realization of a valuation discrepancy in the relationship between multiple securities. Managers employ a variety of fundamental and quantitative techniques to establish investment theses, and security types. Fixed income strategies are typically quantitatively driven to measure the existing relationship between instruments and, in some cases, identify attractive positions in which the risk adjusted spread between these instruments represents an attractive opportunity for the investment manager. Realization of a pricing discrepancy between related securities, as opposed to the outcome of the corporate transaction generally drives transactions. This class includes six mangers.

5. Opportunistic/macro. Investment managers which trade a broad range of strategies in which the investment process is predicated on movements in underlying economic variables and the impact these have on equity, fixed income, hard currency and commodity markets. These seven managers employ a variety of techniques, both discretionary and systematic analysis, combinations of top down and bottom up theses, quantitative and fundamental approaches and long and short term holding periods.

6. Absolute strategies hedge funds. Investments in this asset class seek to exploit market inefficiencies and generate positive investment returns with reduced volatility and minimal net exposure. These investments may include credit-oriented, market neutral or multi-strategy investments. This asset class includes seven managers, one of which is structured similar to a private investment while the others are outside of their initial lock-up periods.

7. Private investments. The managers in this asset class have the flexibility to investment in private equity, distressed debt and private real estate. These investments are not liquid and generally have a fund life of ten years or greater. The asset class includes four managers, three of which are focused on private real estate and one on private equity.

(Continued)

(5) Capital Assets

Capital assets and changes thereto, as of and for the year ended June 30, 2016, consisted of the following for the Primary Enterprise:

	Beginning balance	Additions	Transfers	Disposals	Ending balance
Nondepreciable assets:					
Land and improvements	$ 7,620,817	—	5,501,600	—	13,122,417
Construction in progress	173,560,015	172,035,163	(289,108,073)	—	56,487,105
	181,180,832	172,035,163	(283,606,473)	—	69,609,522
Depreciable assets:					
Buildings and fixed equipment	594,474,349	—	230,825,979	(16,112)	825,284,216
Moveable equipment	423,429,352	—	52,780,494	(2,887,549)	473,322,297
Less accumulated depreciation	(628,928,212)	(67,131,943)	—	2,888,623	(693,171,532)
	388,975,489	(67,131,943)	283,606,473	(15,038)	605,434,981
Total capital assets, net	$ 570,156,321	104,903,220	—	(15,038)	675,044,503

Capital assets and changes thereto, as of and for the year ended June 30, 2015, consisted of the following for the Primary Enterprise:

	Beginning balance	Additions	Transfers	Disposals	Ending balance
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
	114,125,255	123,237,917	(56,182,340)	—	181,180,832
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)
	399,422,627	(66,332,023)	56,182,340	(297,455)	388,975,489
Total capital assets, net	$ 513,547,882	56,905,894	—	(297,455)	570,156,321

(Continued)

Capital assets and changes thereto, as of and for the year ended June 30, 2016, consisted of the following for the Component Units:

	Beginning balance	Additions	Transfers	Disposals	Ending balance
Nondepreciable assets:					
Land and improvements	$ 4,538,858	1,814,425	—	—	6,353,283
Construction in progress	22,523,501	45,286,406	(33,104,903)	—	34,705,004
	27,062,359	47,100,831	(33,104,903)	—	41,058,287
Depreciable assets:					
Buildings and fixed equipment	71,464,007	790,276	31,224,718	—	103,479,001
Moveable equipment	76,258,670	5,197,077	1,880,185	(676,538)	82,659,394
Less accumulated depreciation	(100,164,595)	(10,143,848)	—	565,992	(109,742,451)
	47,558,082	(4,156,495)	33,104,903	(110,546)	76,395,944
Total capital assets, net	$ 74,620,441	42,944,336	—	(110,546)	117,454,231

Capital assets and changes thereto, as of and for the year ended June 30, 2015, consisted of the following for the Component Units:

	Beginning balance	Additions	Transfers	Disposals	Ending balance
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
	16,980,873	28,872,179	(18,790,693)	—	27,062,359
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)
	35,791,318	(7,003,954)	18,790,693	(19,975)	47,558,082
Total capital assets, net	$ 52,772,191	21,868,225	—	(19,975)	74,620,441

(6) Long-Term Debt

Long-term debt, and changes thereto, as of and for the year ended June 30, 2016, for the Primary Enterprise is summarized below:

	Beginning balance	Additions	Reductions	Ending balance	Amounts due within one year
Series 2014 Bonds	$ 200,000,000	—	—	200,000,000	—
Note payable	7,213,867	—	(541,044)	6,672,823	541,044
Series 2013 Bonds	188,155,000	—	(2,255,000)	185,900,000	2,845,000
Series 2011 Bonds	117,600,000	—	(2,450,000)	115,150,000	2,525,000
Premium – Series 2011 Bonds	874,709	—	(53,131)	821,578	—
Parking deck debt	265,317	—	(265,317)	—	—
Capital leases	1,495,600	50,200	(561,138)	984,662	562,664
Total long-term debt	$ 515,604,493	50,200	(6,125,630)	509,529,063	6,473,708

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

	Beginning balance	Additions	Reductions	Ending balance	Amounts due within one year
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	$ 521,532,029	65,103	(5,992,639)	515,604,493	6,055,216

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 3.86% and $165,000,000 due January 1, 2044, with an interest rate of 4.96%.

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% (1.71% at June 30, 2016) and matures on October 31, 2020. Interest and principal payments of approximately $55,000 are paid monthly.

On June 25, 2013, MCVH issued $190,315,000 of variable rate bonds, consisting of Series 2013A totaling $69,450,000 and Series 2013B totaling $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 (0.46% at June 30, 2016). 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 2.00% to 5.00% 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 $8,778,375 and $9,722,969 at June 30, 2016 and 2015, 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 $25,611,963 and $27,181,464 at June 30, 2016 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 5.38% to 5.90%.

Long-term debt, and changes thereto, as of and for the year ended June 30, 2016, for the Component Units is summarized below:

		Beginning balance	Additions	Reductions	Ending balance	Amounts due within one year
CMH loan agreements	$	6,997,334	—	(1,404,696)	5,592,638	1,438,902
UHS loan agreements		11,700,000	—	—	11,700,000	—
Total long-term debt	$	18,697,334	—	(1,404,696)	17,292,638	1,438,902

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

		Beginning balance	Additions	Reductions	Ending balance	Amounts due within one year
CMH loan agreements	$	5,970,893	2,447,178	(1,420,737)	6,997,334	1,403,555
UHS loan agreements		11,700,000	—	—	11,700,000	—
Total long-term debt	$	17,670,893	2,447,178	(1,420,737)	18,697,334	1,403,555

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 1.00% to 1.56%.

CMH holds various promissory notes with financial institutions and a revenue bond with the Industrial Development Authority of the Town of South Hill, Virginia. The proceeds of these notes were used to finance building renovations and purchase medical equipment. Principal and interest are paid monthly with the maturities ranging from April 2018 through August 2024. Interest rates range from 1.49% to 4.04%.

A summary of future principal requirements of long-term debt as of June 30, 2016, for the Primary Enterprise follows:

		Series 2014 Bonds	Note payable	Series 2013 Bonds	Series 2011 Bonds	Capital leases	Total
2017	$	—	541,044	2,845,000	2,525,000	562,664	6,473,708
2018		—	541,044	2,950,000	2,600,000	421,998	6,513,042
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		—	541,044	3,260,000	2,910,000	—	6,711,044
2022–2026		35,000,000	2,705,220	26,655,000	16,390,000	—	80,750,220
2027–2031		—	1,262,383	45,685,000	20,255,000	—	67,202,383
2032–2036		—	—	67,540,000	25,490,000	—	93,030,000
2037–2041		—	—	30,815,000	32,125,000	—	62,940,000
2042–2046		165,000,000	—	—	7,370,000	—	172,370,000
	$	200,000,000	6,672,823	185,900,000	115,150,000	984,662	508,707,485

(Continued)

A summary of estimated future interest requirements of long-term debt based on effective rates as of June 30, 2016 for the Primary Enterprise follows:

	Series 2014 Bonds	Note payable	Series 2013 Bonds	Series 2011 Bonds	Capital leases	Total
2017	$ 9,527,700	110,496	1,624,339	5,121,306	—	16,383,841
2018	9,527,700	101,193	1,596,643	5,030,306	—	16,255,842
2019	9,527,700	91,889	1,568,525	4,922,706	—	16,110,820
2020	9,527,700	82,586	1,538,873	4,810,906	—	15,960,065
2021	9,527,700	73,282	1,508,260	4,694,506	—	15,803,748
2022–2026	44,262,750	226,859	6,912,900	21,540,706	—	72,943,215
2027–2031	40,887,000	26,274	4,961,723	17,387,057	—	63,262,054
2032–2036	40,887,000	—	2,418,663	11,912,764	—	55,218,427
2037–2041	40,887,000	—	129,030	4,943,563	—	45,959,593
2042–2046	20,443,500	—	—	—	—	20,443,500
Total	$ 235,005,750	712,579	22,258,956	80,363,820	—	338,341,105

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, 2016 and 2015, MCVH transferred approximately $17,250,000 and $12,484,000, respectively, to the bond service accounts.

The Series 2013 and 2011 Bonds agreements place restrictions on future borrowings and require certain minimum insurance coverage. The related agreements also contain certain covenants, including a requirement that charges to patients are maintained at a level which will produce income available for debt service, as defined by the bond resolutions, in each fiscal year equal to or greater than 125% of maximum total annual debt service in each fiscal year.

The fair value of long-term debt (excluding capital leases), estimated based on the quoted market prices for the same or similar issues or discounted cash flow analyses, is as follows at June 30:

	2016		2015	
	Carrying value	Fair value	Carrying value	Fair value
Long-term obligations	$ 508,544,401	558,774,586	514,108,893	523,742,917

Interest expense for the years ended June 30, 2016 and 2015 was $22,755,301 and $22,039,647, respectively, net of amounts capitalized. Capitalized interest of approximately $2,612,000 and $3,563,000 was recorded related to construction in progress in 2016 and 2015, respectively. For the years ended June 30, 2016 and 2015, MCVH paid approximately $22,863,000 and $22,220,000, respectively, for interest.

(7) 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, 2016 was $118,950,000. MCVH pays a fixed rate of 3.84% and the counterparty pays 67% of 30-day LIBOR (0.31% as of June 30, 2016). 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, 2016 and 2015, the fair value of the swaps of $49,152,264 and $35,297,417, respectively, is included in other liabilities in the accompanying statements of net position. For the years ended June 30, 2016 and 2015, the change in fair value of the swaps was $13,854,847 and $4,365,398, 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, 2016 was $59,475,000. MCVH pays a fixed rate of 3.50% and the counterparty pays 67% of 30-day LIBOR (0.31% as of June 30, 2016). 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, 2016 and 2015, the fair value of the swap of $15,832,836 and $12,125,644, respectively, is included in other liabilities in the accompanying statements of net position. For the years ended June 30, 2016 and 2015, the change in fair value of the swap was $3,707,192 and $485,442, 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.

(8) Operating Leases

Total expense under operating leases for the Primary Enterprise was $7,580,655 and $6,431,547 in 2016 and 2015, respectively. Total expense under operating leases for the Component Units was $5,323,142 and $4,683,066 in 2016 and 2015, respectively. Future minimum lease payments for noncancelable operating leases are as follows:

	Primary enterprise	Component units
2017	$ 6,464,228	4,570,702
2018	5,149,356	3,091,016
2019	3,898,402	163,684
2020	2,889,981	895,992
2021	1,566,748	108,720
	$ 19,968,715	8,830,114

(9) Commitments

Estimated costs to complete construction in progress for capital assets at June 30, 2016 for the Authority are approximately $122,800,000. Commitments primarily relate to major renovations of existing facilities, purchase of medical equipment, information system infrastructure, and various other projects.

(10) Contingencies

(a) Professional Liability

MCVH

MCVH is self-insured for professional liability claims. There have been malpractice claims asserted against MCVH by various claimants. The claims are in various stages of processing and some may ultimately be brought to trial. There are also known incidents that have occurred that may result in the assertion of additional claims. In addition, there may be other claims from unreported incidents arising from services provided to patients. Management of MCVH accrues estimated losses on malpractice claims to the extent they fall within the limits of the MCVH's self-insurance program or exceed the limits of the excess insurance coverage in place at the date of the claim. The undiscounted liability is actuarially determined using industry data and MCVH's historical experience.

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

		2016	2015
Estimated malpractice losses at beginning of year	$	2,853,506	3,397,214
Malpractice claims expense, net of actuarial adjustments		1,137,592	(6,256)
Malpractice claims settled		(535,088)	(537,452)
Estimated malpractice losses at end of year	$	3,456,010	2,853,506

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, 2016 and 2015, the funds internally restricted for MCVH include $3,456,010 and $2,853,506, 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, 2016.

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:

		2016	2015
Estimated malpractice losses at beginning of year	$	23,055,224	22,794,455
Malpractice claims expense, net of actuarial adjustments		2,737,138	3,663,767
Malpractice claims settled		(3,582,631)	(3,402,998)
Estimated malpractice losses at end of year	$	22,209,731	23,055,224

Assets whose use is limited of $22,209,731 and $23,055,224 have been internally restricted as of June 30, 2016 and 2015, respectively, for payment of claims and related legal expenses for reported and unreported incidents.

(Continued)

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, 2016.

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.

Virginia Premier

Virginia 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, 2016 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, 2016.

(b) Workers' Compensation

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

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

		2016	2015	2014
Estimated workers' compensation losses at beginning of year	$	21,520,715	17,813,092	15,080,964
Workers' compensation expense, net of actuarial adjustments		2,478,304	6,070,130	4,753,821
Workers' compensation claims settled		(2,503,903)	(2,362,507)	(2,021,693)
Estimated workers' compensation losses at end of year	$	21,495,116	21,520,715	17,813,092

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, 2016 and 2015, the funds internally restricted include $21,495,116 and $21,520,715, 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, 2016.

(11) 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:

		2016	2015
MCVH gross charges:			
Inpatient	$	2,590,839,713	2,393,115,710
Outpatient		1,947,018,732	1,730,975,415
Less uncompensated care		(440,598,428)	(457,946,795)
Total MCVH gross patient service revenue		4,097,260,017	3,666,144,330
Less contractual allowances, and uncollectible amounts		(2,705,556,408)	(2,284,415,190)
Net patient service revenue – primary enterprise	$	1,391,703,609	1,381,729,140
MCVAP net patient service revenue	$	256,368,275	212,338,220
CMH net patient service revenue		82,637,035	73,815,743
Children's net patient service revenue		31,707,878	29,265,508
Eliminations		(31,553,582)	(9,470,298)
Net patient service revenue – component units	$	339,159,606	305,949,173

(12) Estimated Medical Claims Payable

Medical claims payable represents management's best estimate of ultimate net cost of all reported and unreported claims incurred. The liability for unpaid claims is computed in accordance with generally accepted actuarial practices and is based upon authorized healthcare services and past claims payment experience, together with current factors, which in management's judgment, require recognition in the 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 Virginia 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, 2016 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:

		2016	2015
Balance at beginning of year	$	94,963,621	65,381,144
Add provision for claims occurring in:			
Current year		894,429,022	878,411,377
Prior years		(2,512,191)	(1,154,557)
Claims incurred during the current year		891,916,831	877,256,820
Deduct payments for claims occurring in:			
Current year		(830,323,441)	(795,883,900)
Prior years		(72,090,515)	(51,790,443)
Claims payments during the current year		(902,413,956)	(847,674,343)
Balance at end of year	$	84,466,496	94,963,621

Virginia Premier has a stop-loss arrangement to limit losses on individual claims. These contracts provide stop-loss coverage for all enrollee claims. The Virginia 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, 2016 and 2015 were approximately $3,969,000 and $3,713,000, respectively, and are included in other expenses in the accompanying statements of revenues, expenses and changes in net position. Benefits of approximately $4,757,000 and $4,381,000, were provided by the reinsurer for the years ended June 30, 2016 and 2015, respectively, and are netted with medical claims expense in the accompanying statements of revenues, expenses, and changes in net position.

(Continued)

(13) Related Parties

(a) Virginia Commonwealth University

Effective July 1, 1997, MCVH and VCU entered into an affiliation agreement, which provides that each will support the mission of the other. VCU will provide clinical and administrative support to MCVH. MCVH will 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 fiscal year 2006. In addition, MCVH agreed to assume responsibility for 50% of the payments on the associated construction debt. At June 30, 2016, MCVH's remaining commitment through 2027 is approximately $4,393,000.

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:

		2016	2015
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	$	222,438	59,724
Nonphysician clinical support		4,250,690	3,999,518
Administrative support		8,846,735	8,202,298
Rent on short-term space		2,133,446	2,123,091
Principal and interest on parking deck debt		725,694	725,464
Use of steam plant		181,669	227,144
Total payments by MCVH to VCU	$	16,360,672	15,337,239

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 $235,204 and $315,069 to MCVAP for the years ended June 30, 2016 and 2015, respectively. The gifts from MCV Foundation were unrestricted and will be used to support the clinical departments.

(c) MCVAP

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 2016 and 2015, MCVH paid approximately $75,503,000 and $73,522,000, respectively, in COSA payments.

MCVH provided MCVAP with approximately $15,967,000 and $12,619,000 in information system and administrative services in 2016 and 2015, 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 $504,000 and $463,000 for the years ended June 30, 2016 and 2015, respectively.

(d) Virginia Premier

During 2015, Virginia Premier entered into a promissory note agreement with the Authority for $75 million. Interest to be paid by Virginia 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, 2016 is $6,742,313. The note is payable by Virginia 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 2016 and 2015, MCVH provided Virginia Premier with approximately $5,682,000 and $5,300,000, respectively, in information system services and administrative services, which are reimbursed to MCVH by Virginia Premier on a quarterly basis.

During 2016 and 2015, Virginia Premier provided certain MCVH departments administrative services for which Virginia Premier received reimbursement of approximately $343,000 each year.

MCVH provided health care services to Virginia Premier members, for which it received reimbursement of approximately $32,667,000 and $33,516,000, respectively, for the years ended June 30, 2016 and 2015, which is included in net patient service revenue by MCVH and medical claims expense by Virginia Premier.

(e) UHS

MCVH leases clinic office space from UHS under operating leases. Rental expense under these leases was $2,173,000 and $1,683,000 during the years ended June 30, 2016 and 2015, respectively.

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:

		2016	2015
MCVAP	$	63,166,976	16,196,976
CMH		9,689,966	1,110,583
Virginia Premier		(70,085,872)	(4,731,627)
Children’s		11,070,839	3,605,595
UHS		560,946	10,621,778
Virginia Commonwealth University		28,891	10,939
Due from (to) related parties	$	14,431,746	26,814,244
Note receivable – Virginia Premier	$	75,000,000	75,000,000
Interest on note receivable – Virginia Premier		6,742,313	3,181,437
Note receivable from affiliate	$	81,742,313	78,181,437

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:

		2016	2015
MCVH	$	(14,402,856)	(26,803,305)
Virginia Commonwealth University		(1,257,700)	(1,702,380)
Due to related parties	$	(15,660,556)	(28,505,685)

(14) 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.

(15) 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 VRS Plan or enroll in the MCVH Authority Defined Contribution Plan (the Plan). As of June 30, 2016, approximately 360 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 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.

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, 2016 was 12.33% of covered employee compensation for employees in the Plan for July 2015, 13.28% for August 2015 and 14.22% for September 2015 through June 2016. 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, 2016. Additional funding provided by the General Assembly moved the contribution rate to 90% of the actuarial rate by September 2015 and for the remainder of 2016. Contributions from MCVH to the Plan were $4,376,770 and $4,145,864 for the years ended June 30, 2016 and June 30, 2015, respectively.

3) Net Pension Liability

MCVH reported a liability of $53,472,000 and $52,598,000 for its proportionate share of the net pension liability for the years ended June 30, 2016 and June 30, 2015, respectively. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. 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, 2015, relative to the total of the actuarially determined employer contribution for all participating employers. At June 30, 2015, MCVH's proportion of the Plan was 0.87% as compared to 0.94% at June 30, 2014.

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

MCVH recognized pension expense of $580,000 and $1,847,000 for the Plan for the years ended June 30, 2016 and June 30, 2015, respectively. Since there was a change in proportionate share between June 30, 2014 and June 30, 2015, 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.

MCVH reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	June 30, 2016		June 30, 2015	
	Deferred outflows of resources	Deferred inflows of resources	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$ 385,000	—	—	—
Net difference between projected and actual earnings on pension plan investments	—	3,846,000	—	9,388,000
Changes in proportion and differences between employer contributions and proportionate share of contributions	—	6,620,000	—	4,819,000
Employer contributions subsequent to the measurement date	4,376,770	—	4,145,864	—
Total	$ 4,761,770	10,466,000	4,145,864	14,207,000

Deferred outflows of resources related to employer contributions subsequent to the measurement date totaling $4,376,770 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:		
2017	$	4,295,000
2018		4,096,000
2019		2,364,000
	$	10,755,000

5) Actuarial Assumptions

The total pension liability for the VRS Plan was based on an actuarial valuation as of June 30, 2014, 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, 2015.

Discount rate	7.0%
Inflation	2.5%
Salary increases, including inflation	3.5%–5.35%
Investment rate of return including	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, 2014 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

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:

Asset class (strategy)	Target allocation	Arithmetic long-term expected rate of return	Weighted average long-term expected rate of return
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	100%		5.83
	Inflation		2.50
	* Expected arithmetic nominal return		8.33%

* 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 7.00%. 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. 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:

	1% Decrease	Discount rate	1% Increase
Net pension liability	$ 76,789,000	53,472,000	33,908,000

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

The MCVH Authority Defined Contribution Plan was amended and restated effective January 1, 2002 and is now referred to as the VCUHS Retirement Plan (the 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, 2016 and 2015, there were 6,616 and 6,486 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, 2016 and 2015 were approximately $21,914,000 and $21,010,000, 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.

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

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.

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, 2016 and 2015, 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 VCUHS 401(a) Plan. Total contributions to the HCP Plan for each of the years ended June 30, 2016 and 2015 were approximately $27,900.

(Continued)

The VCUHS 401(a) Plan and the HCP Plan use the accrual basis of accounting and the VCUHS 401(a) Plan assets, which consist of mutual funds, are carried at fair market value. The fair market values of the mutual funds are based on quoted market prices. Investments with investment managers are as follows:

	June 30	
	2016	**2015**
Fidelity Investments	$ 185,505,454	178,565,570
TIAA/CREF	91,551,616	86,501,731
The Variable Annuity Life Insurance Company (VALIC)	11,027,822	12,213,452
	$ 288,084,892	277,280,753

(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 $16,684,000 and $15,064,000 for the years ended June 30, 2016 and 2015, respectively.

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

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

Contributions to the VCUHS 401(a) Plan for the years ended June 30, 2016 and 2015 were approximately $3,426,000 and $3,691,000, respectively.

(d) CMH

CMH participates in the VCUHS 401(a) Plan and retirement plan expense was approximately $1,308,000 and $1,030,000 for the years ended June 30, 2016 and 2015, respectively.

(e) Virginia Premier

Effective August 1, 1999, Virginia 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. Virginia Premier will match 50% of the employee's contributions up to 4% of the employee's compensation. Matching will occur based on the biweekly pay periods.

In addition, Virginia Premier contributes 3% of each employee's compensation (Safe Harbor contribution) and also contributes 2% of each employee's compensation (Non Elective base contribution). Virginia Premier made the Safe Harbor and Non Elective employer contributions in an annual installment at the end of the calendar year through 2014. Starting January 2015, Safe Harbor contributions are made on the biweekly pay periods. Also starting January 2015, Virginia Premier may make additional contributions (Non Elective employer contributions) based on age plus years of service as of January 1st of the plan year. This additional Non Elective contribution and the Non Elective base contribution were made after the end of the calendar year 2015.

Age plus years of service	Nonelective employer contributions
65+	5%
55–65	3
45–55	1
<55	—

Employees are fully vested after four years of service in which the employee begins employment. The number of covered employees were 1,113 and 977 as of June 30, 2016 and 2015, respectively. Virginia Premier's expense for its contributions to this plan was approximately $3,947,000 and $2,956,000 for the years ended 2016 and 2015, respectively.

(f) 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 $18,088,966 and $16,555,417 as of June 30, 2016 and 2015, respectively. The Pension Plan's fair value of plan assets was $8,946,193 and $9,279,752 as of June 30, 2016 and 2015, respectively. The Pension Plan's unfunded liability of $9,142,773 and $7,275,665 as of June 30, 2016 and 2015, 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 $1,213,000 and $1,210,000 for the years ended June 30, 2016 and 2015, respectively.

(16) Concentration of Credit Risk

The Authority grants credit without collateral to its patients, most of whom are area residents insured under third-party payor agreements. The composition of net receivables from patients and third-party payors as of June 30 follows:

	2016		2015	
	Primary enterprise	**Component units**	**Primary enterprise**	**Component units**
Anthem	33%	27%	34%	29%
Medicaid	12	14	12	15
Medicare	14	19	13	23
Other	41	40	41	33
	100%	100%	100%	100%

Revenue from the Medicare and Medicaid/Indigent programs accounted for approximately 23% and 24%, respectively, of MCVH's net patient service revenue for the years ended June 30, 2016 (23% and 27% respectively, for the year ended June 30, 2015). Revenue from the Medicare and Medicaid/Indigent programs accounted for approximately 21% and 44%, respectively, of the Component Unit's net patient service revenue for the years ended June 30, 2016 (24% and 30% respectively, for the year ended June 30, 2015). Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates may change by a material amount in the near term.

(17) Subsequent Event

The Authority has evaluated subsequent events from the balance sheet date through November 14, 2016, the date at which the financial statements of the enterprise fund and pension fund were issued, and determined that there were no other items to disclose.

Schedule 1

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

Schedule of Employer Contributions (unaudited-see accompanying auditor's report)

Date		Actuarially determined contribution of employer (1)	Contributions in relation to actuarially determined contribution (2)	Contribution deficiency (excess) (3)	Covered employee payroll (4)	Contributions as a % of covered employee payroll (5)
2015*	$	4,145,864	4,145,864	—	38,331,215	10.81%
2016*		4,761,770	4,761,770	—	34,987,924	13.61%

Schedule is intended to show information for 10 years. 2015 was the first fiscal year for presentation, 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.

Schedule 2

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

Schedule of Authority's Share of Net Pension Liability (unaudited-see accompanying auditor's report)

		2015*	2016*
Employer's proportion of the net pension liability		0.94%	0.87%
Employer's proportionate share of the net pension liability	$	52,598,000	53,472,000
Employer's covered-employee payroll	$	41,277,334	38,331,215
Employer's proportionate share of the net pension liability as a percentage of its covered-employee payroll		127.43%	139.50%
Plan fiduciary net position as a percentage of the total pension liability		74.28%	72.81%

Schedule is intended to show information for 10 years. 2015 is the first fiscal year for presentation, 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.

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, 2016

	Primary enterprise	Component units								
Assets	**MCV Hospitals**	**MCV Associated Physicians**	**Community Memorial Healthcenter**	**Virginia Premier Health Plan**	**Children's**	**University Health Services**	**Eliminations**	**Total component units**	**Eliminations**	**Total**
Current assets:										
Cash and cash equivalents	$ 195,575,148	17,399,276	16,441,369	9,615,328	3,198,991	4,741,783	—	51,396,747	—	246,971,895
Restricted cash	—	25,277	35,944	—	—	—	—	61,221	—	61,221
Short-term investments	136,544	—	—	16,646,134	—	—	—	16,646,134	—	16,782,678
Patient accounts receivable, net	220,270,845	30,102,476	11,068,387	—	3,544,616	—	—	44,715,479	—	264,986,324
Settlements due from third-party payors	1,819,795	—	4,958,308	—	5,249,457		—	10,207,765	—	12,027,560
Premiums receivable	—	—	—	84,917,929	—	—	—	84,917,929	—	84,917,929
Other accounts receivable	3,120,709	5,060,868	156,196	10,119,728	—	39,159	—	15,375,951	—	18,496,660
Due from related parties	84,517,618	61,080,279	—	70,085,872	—	36,536	(131,202,687)	—	(84,517,618)	—
Current portion of assets whose use is limited	3,000,000	3,000,000	—	—	—	—	—	3,000,000	—	6,000,000
Supplies and other current assets	30,799,615	323,753	1,664,856	4,397,434	306,132	263,944	—	6,956,119	—	37,755,734
Total current assets	539,240,274	116,991,929	34,325,060	195,782,425	12,299,196	5,081,422	(131,202,687)	233,277,345	(84,517,618)	688,000,001
Capital assets:										
Land and improvements	13,122,417	—	3,250,294	303,075	54,914	2,745,000	—	6,353,283	—	19,475,700
Depreciable capital assets, net	605,434,981	2,426,648	19,144,493	10,874,463	7,990,832	35,959,508	—	76,395,944	—	681,830,925
Construction in progress	56,487,105	—	17,926,305	4,311,175	17,883	12,449,641	—	34,705,004	—	91,192,109
Total capital assets	675,044,503	2,426,648	40,321,092	15,488,713	8,063,629	51,154,149	—	117,454,231	—	792,498,734
Other assets:										
Assets whose use is limited, less current portion	1,073,048,953	125,552,261	17,252,185	101,186,824	3,572,986	113,502	—	247,677,758	—	1,320,726,711
Long-term investments	28,251,245	—	—	71,675,791	—	—	—	71,675,791	—	99,927,036
Note receivable from related parties	81,742,313	—	—	—	—	—	—	—	(81,742,313)	—
Other assets	14,542,699	—	2,128,462	296,538	24,836	254,541	—	2,704,377	—	17,247,076
Total other assets	1,197,585,210	125,552,261	19,380,647	173,159,153	3,597,822	368,043	—	322,057,926	(81,742,313)	1,437,900,823
Total assets	2,411,869,987	244,970,838	94,026,799	384,430,291	23,960,647	56,603,614	(131,202,687)	672,789,502	(166,259,931)	2,918,399,558
Deferred outflows of resources										
Interest rate swap	22,932,797	—	—	—	—	—	—	—	—	22,932,797
Deferred loss on debt refunding	34,390,337	—	—	—	—	—	—	—	—	34,390,337
Pension contributions after measurement date	4,761,770	—	—	—	—	—	—	—	—	4,761,770
Total deferred outflows of resources	62,084,904	—	—	—	—	—	—	—	—	62,084,904
Total assets and deferred outflows	$ 2,473,954,891	244,970,838	94,026,799	384,430,291	23,960,647	56,603,614	(131,202,687)	672,789,502	(166,259,931)	2,980,484,462

(Continued)

Schedule 3

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, 2016

	Primary enterprise	**Component units**								
Liabilities, Deferred Inflows of Resources and Net Position	**MCV Hospitals**	**MCV Associated Physicians**	**Community Memorial Healthcenter**	**Virginia Premier Health Plan**	**Children's**	**University Health Services**	**Eliminations**	**Total component units**	**Eliminations**	**Total**
Current liabilities:										
Current portion of long-term debt and capital leases	$ 6,473,708	—	1,438,902	—	—	—	—	1,438,902	—	7,912,610
Estimated medical claims payable	—	—	—	84,466,496	—	—	—	84,466,496	—	84,466,496
Trade accounts payable	57,716,320	889,608	5,158,361	13,248,363	532,895	19,000	—	19,848,227	—	77,564,547
Settlements due to third-party payors	5,831,771	6,976,515	1,177,516	377,604	—	—	—	8,531,635	—	14,363,406
Accrued salaries, wages and employee benefits	53,208,124	22,762,846	3,438,624	2,735,579	2,140,831	—	—	31,077,880	—	84,286,004
Accrued leave	23,484,382	4,245,149	1,577,304	2,495,780	934,151	—	—	9,252,384	—	32,736,766
Accrued interest payable	8,192,682	—	3,832	—	—	—	—	3,832	—	8,196,514
Due to related parties	70,085,872	64,461,213	9,689,966	61,055,781	11,095,337	560,946	(131,202,687)	15,660,556	(84,517,618)	1,228,810
Current portion of estimated workers' compensation claims	2,500,000	—	—	—	—	—	—	—	—	2,500,000
Current portion of estimated losses on malpractice claims	500,000	3,000,000	—	—	—	—	—	3,000,000	—	3,500,000
Other accrued liabilities	8,715,700	2,202,670	195,136	2,466,522	222,552	1,332,726	—	6,419,606	—	15,135,306
Total current liabilities	236,708,559	104,538,001	22,679,641	166,846,125	14,925,766	1,912,672	(131,202,687)	179,699,518	(84,517,618)	331,890,459
Other liabilities:										
Long-term debt and capital leases, less current portion	503,055,355	—	4,153,736	—	—	11,700,000	—	15,853,736	—	518,909,091
Estimated workers' compensation claims	18,995,116	—	—	—	—	—	—	—	—	18,995,116
Estimated losses on malpractice claims	2,956,010	19,209,731	—	—	—	—	—	19,209,731	—	22,165,741
Fair value of hedging derivatives	64,985,100	—	—	—	—	—	—	—	—	64,985,100
Net pension liability	53,472,000	—	—	—	9,142,773	—	—	9,142,773	—	62,614,773
Note payable to related parties	—	—	—	81,742,313	—	—	—	81,742,313	(81,742,313)	—
Other liabilities	1,904,667	—	—	367,772	91,364	—	—	459,136	—	2,363,803
Total liabilities	882,076,807	123,747,732	26,833,377	248,956,210	24,159,903	13,612,672	(131,202,687)	306,107,207	(166,259,931)	1,021,924,083
Deferred Inflows of Resources										
Difference between projected and actual earnings on plan investments	3,846,000	—	—	—	—	—	—	—	—	3,846,000
Change in actuarial and proportionate share of pension contributions	6,620,000	—	—	—	—	—	—	—	—	6,620,000
Total deferred inflows of resources	10,466,000	—	—	—	—	—	—	—	—	10,466,000
Total liabilities and deferred inflows of resources	892,542,807	123,747,732	26,833,377	248,956,210	24,159,903	13,612,672	(131,202,687)	306,107,207	(166,259,931)	1,032,390,083
Net Position										
Net position:										
Net investment in capital assets	372,188,263	2,426,648	34,728,454	15,488,713	8,063,629	39,454,149	—	100,161,593	—	472,349,856
Restricted:										
Expendable	—	—	3,490,081	602,213	1,090,382	—	—	5,182,676	—	5,182,676
Nonexpendable permanent endowment	16,440,318	—	65,713	—	2,482,604	—	—	2,548,317	—	18,988,635
Unrestricted	1,192,783,503	118,796,458	28,909,174	119,383,155	(11,835,871)	3,536,793	—	258,789,709	—	1,451,573,212
Total net position	1,581,412,084	121,223,106	67,193,422	135,474,081	(199,256)	42,990,942	—	366,682,295	—	1,948,094,379
Total liabilities and net position	$ 2,473,954,891	244,970,838	94,026,799	384,430,291	23,960,647	56,603,614	(131,202,687)	672,789,502	(166,259,931)	2,980,484,462

See accompanying independent auditors' report.

Schedule 4

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, 2016

	Primary enterprise	Component units								
	MCV Hospitals	**MCV Associated Physicians**	**Community Memorial Healthcenter**	**Virginia Premier Health Plan**	**Children's**	**University Health Services**	**Eliminations**	**Total component units**	**Eliminations**	**Total**
Operating revenues:										
Net patient service revenue	$ 1,391,703,609	256,368,275	82,637,035	—	31,707,878	—	(31,553,582)	339,159,606	(7,067,103)	1,723,796,112
Premiums earned	—	—	—	1,027,057,487	—	—	—	1,027,057,487	—	1,027,057,487
Contract revenue from MCVH	—	75,502,659	—	—	—	—	—	75,502,659	(75,502,659)	—
Other contract revenue	—	19,022,951	—	—	—	—	(697,049)	18,325,902	—	18,325,902
Other operating revenue	14,968,454	3,208,653	1,464,983	34,125,851	111,044	3,801,229	—	42,711,760	(27,772,818)	29,907,396
	1,406,672,063	354,102,538	84,102,018	1,061,183,338	31,818,922	3,801,229	(32,250,631)	1,502,757,414	(110,342,580)	2,799,086,897
Operating expenses:										
Salaries and wages	446,637,673	276,370,844	35,848,911	46,665,689	19,041,555	365,111	—	378,292,110	—	824,929,783
Employee benefits	119,506,926	51,988,984	13,493,822	18,134,112	8,370,671	140,232	—	92,127,821	—	211,634,747
Medical claims expense	—	—	—	934,431,066	—	—	(31,553,582)	902,877,484	(32,667,103)	870,210,381
Purchased services	165,763,571	5,161,748	2,990,879	8,761,206	2,377,182	1,484,647	(697,049)	20,078,613	(75,502,659)	110,339,525
Supplies	342,792,641	4,566,262	11,194,126	5,858,003	2,022,443	113,279	—	23,754,113	—	366,546,754
Other expenses	106,509,077	15,202,488	22,819,584	10,102,614	2,615,717	1,677,765	—	52,418,168	(2,172,818)	156,754,427
Provision for depreciation and amortization	67,117,586	725,184	3,841,418	3,600,573	932,694	1,052,221	—	10,152,090		77,269,676
	1,248,327,474	354,015,510	90,188,740	1,027,553,263	35,360,262	4,833,255	(32,250,631)	1,479,700,399	(110,342,580)	2,617,685,293
Operating income (loss)	158,344,589	87,028	(6,086,722)	33,630,075	(3,541,340)	(1,032,026)	—	23,057,015	—	181,401,604
Nonoperating revenues and expenses:										
Investment income	(8,337,613)	(9,599,510)	283,821	(6,445,657)	—	16,504	—	(15,744,842)	—	(24,082,455)
Interest expense	(22,755,301)	—	(164,701)	(3,560,875)	—	(86,573)	—	(3,812,149)	3,560,875	(23,006,575)
Other nonoperating income, net	(7,011,071)	10,000,000	71,861	—	—	(42,362)	—	10,029,499	(3,560,875)	(542,447)
Donations and gifts	(389,312)	5,319,059	50,000	(26,855)	587,961	—	—	5,930,165	—	5,540,853
Total nonoperating revenues and expenses	(38,493,297)	5,719,549	240,981	(10,033,387)	587,961	(112,431)	—	(3,597,327)	—	(42,090,624)
Excess (deficiency) of revenues over expenses before income taxes	119,851,292	5,806,577	(5,845,741)	23,596,688	(2,953,379)	(1,144,457)	—	19,459,688	—	139,310,980
Income tax expense	—	—	—	(361,941)	—	—	—	(361,941)	—	(361,941)
Excess of revenues over expenses	119,851,292	5,806,577	(5,845,741)	23,234,747	(2,953,379)	(1,144,457)	—	19,097,747	—	138,949,039
Transfers from (to) affiliates	(36,022,585)	(4,670,385)	3,522,656	—	—	31,164,760	—	30,017,031	—	(6,005,554)
Increase (decrease) in beneficial interest in trusts	(1,026,481)	—	—	—	(114,922)	—	—	(114,922)	—	(1,141,403)
Other	—	—	—	—	(1,627,915)	230,687	—	(1,397,228)	—	(1,397,228)
Increase (decrease) in net position	82,802,226	1,136,192	(2,323,085)	23,234,747	(4,696,216)	30,250,990	—	47,602,628	—	130,404,854
Net position at beginning of year	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
Net position at end of year	$ 1,581,412,084	121,223,106	67,193,422	135,474,081	(199,256)	42,990,942	—	366,682,295	—	1,948,094,379

See accompanying independent auditors' report.