Basic Financial Statements and Supplementary Information

Virginia Commonwealth University Health System Authority
(A Component Unit of Virginia Commonwealth University)
June 30, 2018 and 2017
With Report of Independent Auditors

Ernst & Young LLP

Building a better working world

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

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Report of Independent Auditors

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, as of and for the years ended June 30, 2018 and 2017, 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 conformity 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 of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the enterprise fund and pension trust fund of Virginia Commonwealth University Health System Authority, a component unit of Virginia Commonwealth University, at June 30, 2018 and 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity 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 15, the Schedule of Employer Contributions, the Schedule of Authority's Share of Net Pension Liability, Schedule of Authority's Share of Net OPEB Liability Health Insurance Credit Program and Schedule of Authority's Share of Net OPEB Liability Pre-Medicare Retiree Healthcare on pages 77 through 80, 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, 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 audits were conducted for the purpose of forming an opinion on the Authority's basic financial statements as a whole. The accompanying Combining Schedule of Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position – Enterprise Fund, included on pages 81 and 82, and the Combining Schedule of Revenues, Expenses and Changes in Net Position – Enterprise Fund, included on page 83, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits 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. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Change in Accounting Principle

As discussed in Note 1 to the basic financial statements, in fiscal year 2018, the Authority adopted Governmental Accounting Standards Board (GASB) Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Our opinion is not modified with respect to this matter.

Ernst + Young LLP

October 19, 2018

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, 2018, 2017 and 2016. Please read it in conjunction with the Authority's basic financial statements, which begin on page 16.

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 of the Enterprise Fund and the statements of net position and statements of changes in net position of the Pension Trust Fund. 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 of the Enterprise Fund 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 the Pension Trust 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 financial statements for the years ended June 30, 2018 and 2017, into its 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 the current year, the Authority adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement required enhanced note disclosures and required supplementary information for OPEB plans as well as establishing standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. The cumulative effect of applying this statement reduced net position as of July 1, 2017 by $16,129,451.

June 30, 2018 Compared to June 30, 2017

Financial Highlights

- The Authority's net position increased by $146.1 million, or 6.5%, over prior year as a result of this year's results of operations, which increased net position by $162.2 million, and was reduced by the cumulative effect of implementing GASB Statements No. 75, which reduced net position by $16.1 million.
- Patient service revenue comprises the majority of the Authority's revenues. Net patient service revenue increased by $98.7 million, or 5.2%, from prior year. Regulatory changes and governmental reduction acts have significant effects on MCVH's reimbursement rates given its high mix of government payers.
- The Authority reported operating income for the year ended June 30, 2018 of $127.0 million, a $78.1 million decrease from operating income of $205.1 million for the year ended June 30, 2017.
- The major capital expenditures for the Authority in 2018 related to the completion of the construction of new inpatient and outpatient buildings in South Hill, Virginia, renovations to clinical areas, purchases of new and replacement medical equipment, and investments in information system infrastructure and business systems.
- The Authority provides services to the majority of the 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 $286.8 million, or 26.9%, from the prior year primarily due to enrollment expansion of the Medicaid Long Term Services and Supports (MLTSS) program and new enrollment in the Medicare Advantage plan started January 1, 2018.

As indicated in Table 1 below, the Authority's total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by $2,403.7 million as of June 30, 2018. Of this net position 19.7% ($473.7 million) are related to capital assets, 1.1% ($26.6 million) are restricted funds, and the remaining 79.2% ($1,903.4 million) are unrestricted funds, which can be used for ongoing operations of the Authority:

Table 1

Virginia Commonwealth University
Health System Authority

Condensed Statements of Net Position

(In thousands)

	June 30	
	2018	**2017**
Current assets	$ 1,002,130	$ 808,093
Capital assets, net	937,166	880,266
Other noncurrent assets	1,623,435	1,528,764
Total assets	3,562,731	3,217,123
Deferred outflows of resources	42,081	43,229
Total assets and deferred outflows of resources	$ 3,604,812	$ 3,260,352
Current liabilities	$ 428,850	$ 334,391
Long-term liabilities	753,191	659,297
Total liabilities	1,182,041	993,688
Deferred inflows of resources	19,057	9,038
Total liabilities and deferred inflows of resources	$ 1,201,098	$ 1,002,726
Net position:		
Net investment in capital assets	$ 473,657	$ 535,594
Restricted – expendable	3,099	4,771
Restricted – nonexpendable	23,529	20,804
Unrestricted	1,903,429	1,696,457
Total net position	$ 2,403,714	$ 2,257,626

(Continued)

Table 2

Virginia Commonwealth University
Health System Authority

Condensed Statements of Revenues, Expenses and Changes in Net Position

(In thousands)

	Year Ended June 30	
	2018	**2017**
Operating revenues:		
Net patient service revenue	$ 2,005,851	$ 1,907,176
Premiums earned	1,351,674	1,064,916
Other contract revenue	20,183	18,361
Other operating revenue	21,831	24,048
Total operating revenues	3,399,539	3,014,501
Operating expenses:		
Salaries, wages, and employee benefits	1,230,117	1,118,494
Medical claims expense	1,166,907	908,001
Purchased services	180,073	132,374
Supplies	438,364	398,954
Depreciation and amortization	97,233	90,286
Other operating expenses	159,856	161,266
Total operating expenses	3,272,550	2,809,375
Operating income	126,989	205,126
Net nonoperating revenues	50,907	108,357
Excess of revenues over expenses before other changes in net position	177,896	313,483
Other changes in net position, net	(15,679)	(3,951)
Increase in net position	162,217	309,532
Beginning net position	2,257,626	1,948,094
Cumulative effect of change in accounting for postretirement plan	(16,129)	–
Ending net position	$ 2,403,714	$ 2,257,626

The Authority's operating revenues increased by $385.0 million over the prior year. This increase in revenues resulted from increased inpatient and outpatient volume and Virginia Premier's network expansion. Total operating expenses increased 16.5% ($463.2 million). Personnel costs are the largest single cost of the Authority, comprising 37.6% of operating costs in 2018. An increase in personnel-related costs of $111.6 million, or 10.0%, 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 $56.9 million, or 6.5%, over prior year amounts.

Table 3

Virginia Commonwealth University
Health System Authority

Capital Assets

(In thousands)

	June 30	
	2018	**2017**
Land	$ 16,810	$ 16,250
Land improvements	3,855	3,226
Buildings and fixed equipment	1,167,259	1,017,262
Moveable equipment	680,574	595,889
Construction in progress	59,977	146,093
	1,928,475	1,778,720
Accumulated depreciation and impairment	(991,309)	(898,454)
Total	$ 937,166	$ 880,266

Table 4

Virginia Commonwealth University
Health System Authority

Schedule of Additions and Retirements

(In thousands)

	Year Ended June 30	
	2018	**2017**
Capital assets – net, beginning of year	$ 880,266	$ 792,499
Additions	155,224	184,281
Disposals, net of accumulated depreciation	(1,074)	(37)
Depreciation and impairment	(97,250)	(96,477)
Capital assets – net, end of year	$ 937,166	$ 880,266

Capital asset additions during fiscal year 2018 and 2017 are comprised of (in millions):

	Year Ended June 30	
	2018	**2017**
Major renovation projects	$ 50.4	$ 58.0
Inpatient and outpatient facilities construction in South Hill, Virginia	13.4	54.0
Purchase and replacement of moveable equipment	44.5	29.4
New building purchase and construction	19.0	19.4
Children's outpatient facility	4.0	3.1
Land and land improvements	1.2	–
Investments in information system infrastructure, business systems and equipment	22.7	20.4
	$ 155.2	$ 184.3

The Authority has a five-year capital plan, which includes a budget of $403.8 million of expenditures in fiscal year 2019.

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

(Continued)

Debt

Table 5

Virginia Commonwealth University
Health System Authority

Debt

(In thousands)

	June 30 2018	June 30 2017
General Revenue Bonds Series 2017	$ 197,890	$ –
Premium – Bonds Series 2017	20,676	–
General Revenue Bonds Series 2014	200,000	200,000
General Revenue Bonds Series 2013	180,105	183,055
General Revenue Bonds Series 2011	11,420	112,625
Premium – Bonds Series 2011	–	769
Note payable	5,590	6,132
Capital leases	1,813	422
CMH loan agreements	2,751	4,179
UHS loan agreements	11,700	11,700
Total	$ 631,945	$ 518,882

Additional information regarding the Authority's debt is included in note 6 to the basic financial statements.

(Continued)

June 30, 2017 Compared to June 30, 2016

Financial Highlights

- The Authority's net position increased by $309.5 million, or 15.9%, over prior year as a result of this year's results of operations, which increased net position by $309.5 million.
- Patient service revenue comprises the majority of the Authority's revenues. Net patient service revenue increased by $183.4 million, or 10.6%, from prior year. Regulatory changes and governmental reduction acts have significant effects on MCVH's reimbursement rates given its high mix of government payers.
- The Authority showed operating income for the year ended June 30, 2017, of $205.1 million, a $23.7 million increase from operating income of $181.4 million for the year ended June 30, 2016.
- The major capital expenditures for the Authority in 2017 related to the purchase of a new medical office building in the City of Richmond, ongoing construction of new inpatient and outpatient buildings in South Hill, Virginia, replacement of medical equipment, office building renovations, and investments in information system infrastructure, business systems and equipment.
- The Authority provides services 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 $37.9 million, or 3.7%, from prior year primarily due to enrollment and rate increases.

Table 1

Virginia Commonwealth University
Health System Authority

Condensed Statements of Net Position

(In thousands)

As indicated in Table 1 below, the Authority's total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by $2,257.6 million as of June 30, 2017. Of this net position 23.7% ($535.6 million) are related to capital assets, 1.1% ($25.6 million) are restricted funds, and the remaining 75.1% ($1,696.5 million) are unrestricted funds, which can be used for ongoing operations of the Authority:

	June 30	
	2017	**2016**
Current assets	$ 808,093	$ 688,000
Capital assets, net	880,266	792,499
Other noncurrent assets	1,528,764	1,437,900
Total assets	3,217,123	2,918,399
Deferred outflows of resources	43,229	62,085
Total assets and deferred outflows of resources	$ 3,260,352	$ 2,980,484
Current liabilities	$ 334,391	$ 331,890
Long-term liabilities	659,297	690,034
Total liabilities	993,688	1,021,924
Deferred inflows of resources	9,038	10,466
Total liabilities and deferred inflows of resources	$ 1,002,726	$ 1,032,390
Net position:		
Net investment in capital assets	$ 535,594	$ 472,349
Restricted – expendable	4,771	5,183
Restricted – nonexpendable	20,804	18,989
Unrestricted	1,696,457	1,451,573
Total net position	$ 2,257,626	$ 1,948,094

(Continued)

Table 2

Virginia Commonwealth University
Health System Authority

Condensed Statements of Revenues, Expenses and Changes in Net Position

(In thousands)

	Year Ended June 30	
	2017	**2016**
Operating revenues:		
Net patient service revenue	$ 1,907,176	$ 1,723,796
Premiums earned	1,064,916	1,027,058
Other contract revenue	18,361	18,326
Other operating revenue	24,048	29,907
Total operating revenues	3,014,501	2,799,087
Operating expenses:		
Salaries, wages, and employee benefits	1,118,494	1,036,565
Medical claims expense	908,001	870,210
Purchased services	132,374	110,340
Supplies	398,954	366,547
Depreciation and amortization	90,286	77,270
Other operating expenses	161,266	156,754
Total operating expenses	2,809,375	2,617,686
Operating income	205,126	181,401
Net nonoperating revenues (expenses)	108,357	(42,453)
Excess of revenues over expenses before other changes in net position	313,483	139,948
Other changes in net position, net	(3,951)	(8,544)
Increase in net position	309,532	130,404
Beginning net position as restated	1,948,094	1,817,690
Ending net position	$ 2,257,626	$ 1,948,094

The Authority's operating revenues increased by $215.4 million over the prior year. This increase in revenues resulted from increased inpatient and outpatient volume and Virginia Premier's network expansion. Total operating expenses increased 7.3% ($191.7 million). Personnel costs are the largest single cost of the Authority, comprising 39.8% of operating costs in 2017. An increase in personnel-related costs of $81.9 million, or 7.9%, 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 $87.8 million, or 11.1%, over prior year amounts.

Table 3

Virginia Commonwealth University
Health System Authority

Capital Assets

(In thousands)

	June 30	
	2017	**2016**
Land	$ 16,250	$ 16,250
Land improvements	3,226	3,226
Buildings and fixed equipment	1,017,262	928,763
Moveable equipment	595,889	555,982
Construction in progress	146,093	91,192
	1,778,720	1,595,413
Accumulated depreciation and impairment	(898,454)	(802,914)
Total	$ 880,266	$ 792,499

Table 4

Virginia Commonwealth University
Health System Authority

Schedule of Additions and Retirements

(In thousands)

	Year Ended June 30	
	2017	**2016**
Capital assets – net, beginning of year	$ 792,499	$ 644,777
Additions	184,281	225,124
Disposals, net of accumulated depreciation	(37)	(126)
Depreciation and impairment	(96,477)	(77,276)
Capital assets – net, end of year	$ 880,266	$ 792,499

(Continued)

Capital asset additions during fiscal year 2017 and 2016 are comprised of (in millions):

	Year Ended June 30	
	2017	**2016**
Children's outpatient facility	$ 3.1	$ 61.4
Inpatient and outpatient facilities construction in South Hill, Virginia	54.0	17.1
New building purchase and construction	19.4	54.5
Major renovation projects	58.0	46.8
Purchase and replacement of moveable equipment	29.4	33.0
Investments in information system infrastructure, business systems and equipment	20.4	12.3
	$ 184.3	$ 225.1

The Authority has a five-year capital plan, which includes a budget of $254.9 million of expenditures in fiscal year 2018.

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

Debt

Table 5

Virginia Commonwealth University
Health System Authority

Debt

(In thousands)

	June 30	
	2017	**2016**
General Revenue Bonds Series 2014	$ 200,000	$ 200,000
General Revenue Bonds Series 2013	183,055	185,900
General Revenue Bonds Series 2011	112,625	115,150
Premium – Bonds Series 2011	769	822
Note payable	6,132	6,673
Capital leases	422	985
CMH loan agreements	4,179	5,592
UHS loan agreements	11,700	11,700
Total	$ 518,882	$ 526,822

Additional information regarding the Authority's debt is included in note 6 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 Box 980510, Richmond, Virginia 23298.

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

Statements of Net Position – Enterprise Fund

	June 30	
	2018	**2017**
Assets and deferred outflows of resources		
Current assets:		
Cash and cash equivalents	$ 395,323,679	$ 319,979,421
Restricted cash	62,040	23,509
Short-term investments	76,928,218	43,101,316
Patient accounts receivable, net	310,104,115	257,531,224
Settlements due from third-party payors	26,323,891	31,910,760
Premiums receivable	119,022,436	84,020,793
Other accounts receivable	23,975,834	19,483,993
Current portion of assets whose use is designated	5,800,000	5,900,000
Supplies and other current assets	44,589,173	46,142,066
Total current assets	1,002,129,386	808,093,082
Capital assets:		
Land	16,809,840	16,249,840
Depreciable capital assets, net	860,379,359	717,923,363
Construction in progress	59,976,837	146,092,933
Total capital assets, net	937,166,036	880,266,136
Other assets:		
Assets whose use is restricted	35,755,700	32,259,856
Assets whose use is designated, less current portion	1,511,080,452	1,409,988,828
Long-term investments	60,325,873	60,712,218
Other assets	16,272,937	25,802,772
Total other assets	1,623,434,962	1,528,763,674
Total assets	3,562,730,384	3,217,122,892
Deferred outflows of resources:		
Change in fair value of interest rate swap	–	3,835,148
Deferred loss on debt refunding	37,154,664	31,922,211
Pension and postretirement related deferred outflows	4,926,693	7,471,430
Total deferred outflows of resources	42,081,357	43,228,789
Total assets and deferred outflows of resources	$ 3,604,811,741	$ 3,260,351,681

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

Statements of Net Position – Enterprise Fund (Continued)

	June 30	
	2018	**2017**
Liabilities, deferred inflows of resources and net position		
Current liabilities:		
Current portion of long-term debt and capital leases	$ 7,594,782	$ 7,941,004
Estimated medical claims payable	167,956,372	81,433,594
Trade accounts payable	85,339,575	79,215,914
Settlements due to third-party payors	8,917,925	9,769,309
Accrued salaries, wages, and employee benefits	77,938,116	80,484,536
Accrued leave	37,101,078	35,088,764
Accrued interest payable	10,441,478	8,226,397
Due to related parties	2,354,336	6,181,172
Current portion of estimated workers' compensation claims	2,300,000	2,400,000
Current portion of estimated losses on malpractice claims	3,500,000	3,500,000
Other accrued liabilities	25,406,589	20,150,525
Total current liabilities	428,850,251	334,391,215
Other liabilities:		
Long-term debt and capital leases, less current portion	624,350,688	510,940,993
Estimated workers' compensation claims	10,521,441	13,052,207
Estimated losses on malpractice claims	21,146,615	20,817,161
Fair value of hedging derivatives	34,552,148	45,887,452
Net pension and postretirement liability	57,710,705	63,511,181
Other liabilities	4,909,234	5,087,619
Total liabilities	1,182,041,082	993,687,828
Deferred inflows of resources:		
Change in fair value of interest rate swap	7,500,155	–
Pension and postretirement related deferred inflows	11,556,807	9,038,000
Total deferred inflows of resources	19,056,962	9,038,000
Total liabilities and deferred inflows of resources	1,201,098,044	1,002,725,828
Net position:		
Net investment in capital assets	473,656,636	535,593,707
Restricted:		
Expendable	3,098,945	4,771,228
Nonexpendable permanent endowment	23,528,945	20,804,095
Unrestricted	1,903,429,171	1,696,456,823
Total net position	2,403,713,697	2,257,625,853
Total liabilities, deferred inflows of resources and net position	$ 3,604,811,741	$ 3,260,351,681

See accompanying notes to basic financial statements.

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

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

	Year Ended June 30	
	2018	**2017**
Operating revenues:		
Net patient service revenue	$2,005,850,648	$1,907,176,473
Premiums earned	1,351,673,587	1,064,915,569
Other contract revenue	20,183,496	18,361,296
Other operating revenue	21,831,162	24,047,984
	3,399,538,893	3,014,501,322
Operating expenses:		
Salaries and wages	990,887,755	903,807,887
Employee benefits	239,229,151	214,686,489
Medical claims expense	1,166,906,932	908,001,049
Purchased services	180,073,201	132,374,221
Supplies	438,363,858	398,953,861
Other expenses	159,855,485	161,266,180
Provision for depreciation and amortization	97,233,370	90,285,981
	3,272,549,752	2,809,375,668
Operating income	126,989,141	205,125,654
Nonoperating revenues and expenses:		
Investment income	75,217,203	120,887,351
Interest expense	(26,918,882)	(25,423,007)
Other nonoperating (expense) income, net	(1,308,503)	7,275,027
Donations and gifts	3,917,652	5,617,911
Nonoperating revenues and expenses, net	50,907,470	108,357,282
Income before other revenues, expenses, gains, and losses	177,896,611	313,482,936
Increase in beneficial interest in trusts	1,018,060	1,529,553
Other	(16,697,376)	(5,481,015)
Increase in net position	162,217,295	309,531,474
Net position at beginning of year	2,257,625,853	1,948,094,379
Cumulative effect of change in accounting for postretirement plan	(16,129,451)	–
Net position at end of year	$2,403,713,697	$2,257,625,853

See accompanying notes to basic financial statements.

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

Statements of Cash Flows – Enterprise Fund

	Year Ended June 30	
	2018	**2017**
Operating activities		
Cash received from third-party payors and patients	$ 1,960,081,345	$ 1,889,762,567
Cash received from premiums	1,405,022,159	1,067,903,069
Cash paid to employees and employee benefits	(1,227,033,756)	(1,129,145,444)
Cash paid to suppliers	(771,010,364)	(688,144,309)
Cash paid for income taxes	(1,387)	(361,941)
Cash paid to providers of health care services	(1,166,906,932)	(908,001,049)
Other operating cash receipts	36,761,386	40,272,417
Other operating cash payments	(14,072,938)	(2,840,415)
Net cash provided by operating activities	222,839,513	269,444,895
Noncapital financing activities		
Donations and gifts	3,917,652	5,617,911
Net cash provided by noncapital financing activities	3,917,652	5,617,911
Capital and related financing activities		
Purchases of capital assets	(153,143,088)	(180,281,113)
Proceeds from issuance of bonds	219,215,623	–
Principal payments on long-term debt and capital lease obligations	(106,814,621)	(7,887,348)
Cash paid for interest	(22,653,171)	(22,924,997)
Other financing cash flows	(26,495,832)	(4,890,645)
Net cash used in capital and related financing activities	(89,891,089)	(215,984,103)
Investing activities		
Interest and dividends on investments	15,822,891	15,148,805
Purchases of investments	(1,262,741,514)	(1,099,901,350)
Proceeds from sales of investments	1,061,431,897	1,126,202,571
Net cash (used in) provided by investing activities	(185,486,726)	41,450,026
Net (decrease) increase in cash and cash equivalents	(48,620,650)	100,528,729
Cash and cash equivalents at beginning of year	515,425,422	414,896,693
Cash and cash equivalents at end of year	$ 466,804,772	$ 515,425,422
Reconciliation of cash and cash equivalents at end of year to the basic statements of net position – enterprise fund:		
Cash and cash equivalents	$ 395,323,679	$ 319,979,421
Restricted cash	62,040	23,509
Assets whose use is restricted	12,985,306	10,716,998
Assets whose use is designated	58,433,747	184,705,494
Total cash and cash equivalents	$ 466,804,772	$ 515,425,422
Supplemental disclosure of cash flow information		
Capital asset purchases in other liabilities	$ –	$ 4,000,000

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

Statements of Cash Flows – Enterprise Fund (Continued)

	Year Ended June 30	
	2018	**2017**
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 126,989,141	$ 205,125,654
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	97,233,370	90,285,981
Impairment of capital assets	–	6,138,375
Loss on disposal of capital assets	1,074,005	36,999
Changes in:		
Patient accounts receivable	(52,572,891)	7,455,100
Due to/from third-party payors	4,735,485	(24,477,297)
Premiums receivable	(35,001,643)	897,136
Other accounts receivable	(4,491,841)	(987,333)
Due to/from related parties	(3,826,836)	4,952,362
Supplies and other assets	3,271,488	(10,557,241)
Estimated medical claims payable	86,522,778	(3,032,902)
Trade accounts payable	6,123,661	1,651,367
Accrued salaries, wages, and employee benefits	(2,546,420)	(3,801,468)
Accrued leave	2,012,314	2,351,998
Estimated workers' compensation claims	(2,630,766)	(6,042,909)
Estimated losses on malpractice claims	329,454	(1,348,580)
Other accrued liabilities	(4,381,786)	797,653
Net cash provided by operating activities	$ 222,839,513	$ 269,444,895

See accompanying notes to basic financial statements.

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

Statements of Net Position – Pension Trust Fund

	2018	2017
Assets:		
Assets whose use is restricted	$ 395,016,139	$ 345,138,129
Net position:		
Restricted for employees' pension benefits	$ 395,016,139	$ 345,138,129

See accompanying notes to basic financial statements.

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

Statements of Changes in Net Position – Pension Trust Fund

	Year Ended June 30	
	2018	**2017**
Beginning net position	$ 345,138,129	$ 288,084,892
Additions:		
Pension contributions	32,231,721	29,197,205
Investment gains, net	37,517,295	42,410,609
Total additions	69,749,016	71,607,814
Deductions:		
Pension benefit payments	(19,871,006)	(14,554,577)
Ending net position	$ 395,016,139	$ 345,138,129

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.

The Authority's principal activity is operation of the Medical College of Virginia Hospitals (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. (UHS). Each of these are considered component units of the Authority as the Authority has the voting majority of the governing body of each entity and has the ability to impose its will on the organizations as defined under generally accepted accounting standards as promulgated by the Governmental Accounting Standards Board. In addition, each component unit is blended into the primary enterprise for purposes of financial statement reporting.

MCVH is an approximately 800-bed teaching hospital which provides inpatient and outpatient services primarily to patients in the Commonwealth of Virginia.

MCVAP, formed in 1991 as a nonstock, not-for-profit charitable educational organization with the Authority as sole corporate member, functions as the group practice plan for those physicians and health care professionals who have faculty appointments in the Virginia Commonwealth University (VCU) School of Medicine (SOM).

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 at least $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, $35,300,000 in 2017 and $33,562,400 in 2018. The new facility in South Hill opened in November 2017. 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. On January 1, 2018, Virginia Premier started a Medicare Advantage plan in a limited market within the Commonwealth.

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.

(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. All significant inter-fund balances and transfers have been eliminated in the accompanying basic financial statements.

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 plans are recognized when due. Benefits are recognized when due and payable in accordance with the terms of the plans.

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, promulgated by the Governmental Accounting Standards Board. The financial statement presentation and significant accounting policies adopted by the Authority conform to general practice within the governmental 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 investment companies and limited partnerships, are accounted for at fair value using net asset value (NAV) as a practical expedient 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. The Authority’s ownership structure does not provide for control over the related investees and the Authority’s financial risk is limited to the carrying amount reported for each investee, in addition to any unfunded capital commitment. Individual investment holdings within the nonreadily determinable investments include non-marketable and market traded debt, equity and real asset securities and interests in other alternative investments. The Authority may be exposed indirectly to securities lending, short sales of securities and trading in futures and forward contracts, options and other derivative products. Such investments often have liquidity restrictions under which the Authority’s capital may be divested only at specified times. Financial information used by the Authority to evaluate its nonreadily determinable investments is provided by the investment manager or general partner and includes fair valuations (quoted market prices and values determined through other means) of underlying securities and other financial instruments held by the investee, and estimates that require varying degrees of judgment. The financial statements of the investee companies are audited annually by independent auditors, although the timing for reporting the results of such audits for certain investee companies does not coincide with the Authority's annual financial statement reporting. There is uncertainty in the accounting for nonreadily determinable investments arising from factors such as lack of active markets (primary and secondary), lack of transparency into underlying holdings and time lags associated with reporting by the investee companies. As a result, there is at least a reasonable possibility that estimates will changes in the near term. Short-term investments include investments that mature in less than one year.

Investment income, including net realized and unrealized gains or losses, 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 was approximately $223,476,000 and $166,560,000 at June 30, 2018 and 2017, respectively.

(f) Assets Whose Use is Restricted and Assets Whose Use is Designated

Resources restricted for debt service under bond indenture agreements and by donors, including amounts held by CMH Foundation, by insurance regulations of the Commonwealth of Virginia are reported as assets whose use is restricted; unrestricted resources appropriated or designated by the Board of Directors for quasi-endowment, capital acquisition, medical malpractice program, workers' compensation program and other designated purposes are reported as assets whose use is designated; and all 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 restricted or designated, 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 restricted. These assets consist principally of beneficial interests in perpetual trust funds established by split-interest agreements. Split-interest agreements are trust agreements established by donors under which the Authority receives benefits that are shared with other beneficiaries. The trust agreements established by donors provide for a third party to hold the trust assets. These trusts do not permit donors to revoke their charitable contributions. Trust assets of $18,638,990 and $17,620,929 are restricted by donors for MCVH in perpetuity and are included in assets whose use is restricted at June 30, 2018 and 2017, respectively.

(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 leases 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.

(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 principally upon historical payment patterns and cost-per-member trends while taking into consideration variability in these patterns using actuarial techniques. Although considerable variability is inherent in such estimates, management believes that adequate provision has been made. The estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known.

(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 estimated 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 estimated 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 provide financial support for 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 assets who use is designated totaled approximately $29,550,000 and $34,149,000 at June 30, 2018 and 2017, 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 not-for-profit organizations, including MCV Foundation (related entity), and are reported as nonoperating expenses.

(p) Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under payment agreements with third-party payers, and include estimated retroactive adjustments due to ongoing and future audits, reviews and investigations. 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. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The effect of these settlement adjustments was to increase the Authority's net patient service revenue by approximately $33,047,000 and $33,100,000 in 2018 and 2017, respectively. Estimated settlements due to and from third-party payers 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. The Authority's estimated cost associated with these charges is approximately $82,140,000 and $53,362,000 for the years ended June 30, 2018 and 2017, respectively.

The Authority has agreements with third-party payers that provide for payments at amounts different from its established rates. A summary of payment arrangements with major third-party payers 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 paid 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 patient classification systems that are 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 payment 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) prospective payment system on an interim basis but eventually settled to a percentage of cost. Outpatient services rendered to Medicaid program beneficiaries are paid on prospectively determined rates and a cost reimbursement methodology. In addition to inpatient and outpatient services provided to Medicaid program beneficiaries, Medicaid reimburses the Authority most of its costs related to services provided to indigent patients and its education mission, which resulted in total Medicaid and indigent reimbursement to the Authority of approximately $499,100,000 and $478,294,000 in 2018 and 2017, respectively. The Authority's Medicaid cost reports have been audited by the Medicaid program representative through June 30, 2014.

(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 Medicaid and indigent patients. The Authority's estimated costs for the services provided for uncompensated care, net of reimbursement from the Commonwealth of Virginia, approximated $25,089,000 and $17,482,000 for the years ended June 30, 2018 and 2017, 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 Health Maintenance Organization (HMO). Virginia Premier recognizes premiums received from DMAS for members in the period to which health care coverage relates.

In April 2014, Virginia Premier entered into a three-way contract with Centers for Medicare and Medicaid Services (CMS) and DMAS in a new initiative to coordinate care for individuals who are currently served by both Medicare and Medicaid and meet certain eligibility requirements. The program is designed to be Virginia's single program to coordinate delivery of primary, preventive, acute, behavioral, and long-term services and support to dual-eligible participants. This program expired in December 2017 and the members converted to a new DMAS program called Medicaid Long Term Services and Supports (MLTSS), which will provide services consistent with those described above. Virginia Premier entered into the MLTSS contract with DMAS in August 2017.

On January 1, 2017, Virginia Premier started a Medicare Special Needs plan. On January 1, 2018, Virginia Premier started a Medicare Advantage plan in a limited market within the Commonwealth of Virginia.

(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

The Authority, inclusive of MCVH, is exempt from federal and state income taxes because it is a political subdivision of the Commonwealth of Virginia.

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 a federal income tax expense of $1,387 for the year ended June 30, 2018 and a federal income tax benefit of $1,082 for the year ended June 30, 2017, in Unrelated Business Income Tax (UBIT) for services performed.

As a result of the recent federal income tax reform enacted into law under the Tax Cuts and Jobs Act of 2017, certain provisions impact tax-exempt organizations effective January 1, 2018, including revisions to taxes on unrelated business activities, excise taxes on compensation of certain employees, and various other provisions. The regulations necessary to implement the law are expected to be promulgated throughout 2018 and the ultimate outcome of these regulations and the impact to the financial statements cannot be presently determined.

(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, medical claims payable, self-insurance liabilities, third-party settlements, and the carrying amount of capital assets, derivative financial instruments and investments.

(v) Recent Accounting Pronouncements

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (OPEB) included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement required enhanced note disclosures and required supplementary information for OPEB plans as well as establishing standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2017. The Authority adopted this new statement in fiscal year 2018 and the cumulative effect of applying this Statement reduced net position as of July 1, 2017 by $16,129,451.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets presenting its beneficial interest in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interest. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016. The Authority adopted this Statement in the fiscal year 2018 and the adoption of this Statement did not have a material impact on the basic financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The Authority is in the process of evaluating the impact of this Statement on its basic financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases – which under the current method are not reported in the financial statements – and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement will (1) enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model and (2) enhance the decision-usefulness of the information by requiring notes to financial statements related to the timing, significance, and purpose of a government's leasing arrangements. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The Authority is in the process of evaluating the impact of this Statement on its basic financial statements.

In March 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged. The Authority is in the process of evaluating the impact of this Statement on its basic financial statements.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost before the End of a Construction Period*. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively. The Authority is in the process of evaluating the impact of this Statement on its basic financial statements.

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis. The Authority is in the process of evaluating the impact of this Statement on its basic financial statements.

(3) Cash, Cash Equivalents, Deposits, Short-Term and Long-Term Investments and Assets Whose Use is Restricted and Designated

At June 30, 2018 and 2017, the carrying values of the Authority's cash and cash equivalent deposits totaled \$395,323,679 and \$319,979,421, respectively. Deposits are placed with banks and savings and loan institutions and are protected by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act (the Act). In accordance with the Act, the depository institution pledged collateral with a market value equal to 105% of the Authority's deposits with a third-party trustee in the name of the Treasurer of the Commonwealth of Virginia. In the event that the banking institution fails, the Treasurer will take possession of the collateral, liquidate it and reimburse the Authority up to the value of its deposits.

In accordance with the Authority's Investment Policy Statement, adopted by the Board of Directors, MCVH's investment portfolio assets are allocated among the following assets classes: Global Equity, Absolute Strategies, Fixed Income, Real Estate, Real Assets, Private Equity, and Cash.

Interest Rate Risk – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of a fixed income investment. The Authority's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates. At June 30, 2018 and 2017, the Authority had \$298,864,752 and \$178,653,722, 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, 2018, the credit quality ratings for the Authority's fixed income investments were 33.0% AAA (U.S. Treasury notes, asset backed securities, municipal bonds, corporate bonds and mortgage backed securities), 13.0% AA (corporate bonds), 35.0% A (corporate bonds), and 19.0% below A (corporate bonds).

At June 30, 2017, the credit quality ratings for the Authority's fixed income investments were 38.0% AAA (U.S. Treasury notes, asset backed securities, municipal bonds, corporate bonds and mortgage backed securities), 19.3% AA (corporate bonds), 34.9% A (corporate bonds), and 7.8% below A (corporate bonds).

Assets whose use is restricted, assets whose use is designated and investments are summarized as follows:

	June 30	
	2018	**2017**
Enterprise funds:		
Assets whose use is restricted:		
Externally restricted:		
By donors	$ 18,737,923	$ 17,719,664
Under bond indenture	12,194,005	10,013,484
By insurance regulations	692,368	604,779
Held by Foundation	4,131,404	3,921,929
	35,755,700	32,259,856
Assets whose use is designated:		
For medical malpractice	24,646,615	24,317,161
For innovation fund	3,500,000	3,500,000
For Community Partnership fund	3,500,000	3,500,000
For workers' compensation	12,821,441	15,452,207
For capital acquisition	357,415,014	315,374,210
For quasi endowment	1,114,997,382	1,053,745,250
	1,516,880,452	1,415,888,828
	$1,552,636,152	$1,448,148,684
Investments	$ 137,254,091	$ 103,813,534

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

	June 30	
	2018	**2017**
Pension trust funds:		
Externally restricted under pension plan agreement	$ 395,016,139	$ 345,138,129

As of June 30, 2018 and 2017, investments (including assets whose use is restricted and designated) and deposits consist of and mature, as applicable, as follows:

		Investment Maturities (In Years)			
	Fair Value	**Less Than 1**	**1 to 5**	**6 to 10**	**More Than 10**
2018					
Investments:					
U.S. Treasury notes	$ 39,162,233	$ 21,237,535	$ 11,232,854	$ 3,102,179	$ 3,589,665
Asset-backed securities	38,440,241	120,259	38,027,334	–	292,648
Agency-backed mortgages	36,493,707	10,637,385	15,916,025	608,313	9,331,984
Money market funds	32,144,566	32,144,566	–	–	–
Commercial paper	25,291,691	25,291,691	–	–	–
Corporate bonds and notes and municipal securities	184,768,571	103,485,364	72,312,551	5,577,316	3,393,340
Beneficial interest in perpetual trust	18,638,990	N/A	N/A	N/A	N/A
Equity interest in Foundation	4,131,404	N/A	N/A	N/A	N/A
Index funds	158,512,536	N/A	N/A	N/A	N/A
Marketable equity securities	41,414,541	N/A	N/A	N/A	N/A
Investment companies	1,066,702,424	N/A	N/A	N/A	N/A
Real estate	19,813,277	N/A	N/A	N/A	N/A
	1,665,514,181	192,916,800	137,488,764	9,287,808	16,607,637
Deposits:					
Cash	20,379,222	20,379,222	–	–	–
Certificates of deposit	3,996,840	3,996,840	–	–	–
	$ 1,689,890,243	$217,292,862	$ 137,488,764	$ 9,287,808	$ 16,607,637

		Investment Maturities (In Years)			
	Fair Value	**Less Than 1**	**1 to 5**	**6 to 10**	**More Than 10**
2017					
Investments:					
U.S. Treasury notes	$ 20,892,937	$ 11,689,185	$ 3,381,906	$ 3,357,165	$ 2,464,681
Asset-backed securities	37,867,771	1,658,926	35,703,548	252,885	252,412
Agency-backed mortgages	18,029,364	697,104	8,266,429	1,001,977	8,063,854
Money market funds	178,831,625	178,831,625	–	–	–
Corporate bonds and notes and municipal securities	104,813,858	55,144,460	42,339,134	3,514,786	3,815,478
Beneficial interest in perpetual trust	17,620,929	N/A	N/A	N/A	N/A
Equity interest in Foundation	3,921,929	N/A	N/A	N/A	N/A
Index funds	85,502,680	N/A	N/A	N/A	N/A
Marketable equity securities	45,245,883	N/A	N/A	N/A	N/A
Investment companies	1,003,701,054	N/A	N/A	N/A	N/A
Real estate	21,893,529	N/A	N/A	N/A	N/A
	1,538,321,559	248,021,300	89,691,017	8,126,813	14,596,425
Deposits:					
Cash	9,657,759	9,657,759	–	–	–
Certificates of deposit	3,982,900	2,482,900	1,500,000	–	–
	$ 1,551,962,218	$260,161,959	$ 91,191,017	$ 8,126,813	$ 14,596,425

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: Pricing inputs are based on quoted prices, unadjusted, for identical assets or liabilities, in active markets. Examples of financial assets and liabilities in Level 1 include U.S. Treasury notes, commercial paper and equities.
- Level 2: Pricing inputs are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full contractual term of the assets or liabilities. Examples of financial assets and liabilities in Level 2 include agency-backed mortgages, asset-backed securities and corporate bonds.
- Level 3: Pricing inputs are generally unobservable and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require management's judgment or estimation of assumptions that market participants would use in pricing the assets or liabilities. Level 3 fair values are therefore determined using factors that involve considerable judgment and interpretations, including but not limited to private and public comparable, discounted cash flow models and fund manager estimates.

Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Authority's assessment of the significance of a particular input to the fair value measurement requires judgement, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

The Authority has the following recurring fair value measurements as of June 30, 2018:

	Total	Level 1	Level 2	Level 3
Investments by fair value level:				
Beneficial trust	$ 18,638,990	$ –	$ –	$ 18,638,990
Equity interest in Foundation	4,131,404	–	–	4,131,404
Debt securities:				
U.S. Treasury notes	39,162,233	39,162,233	–	–
Asset-backed securities	38,440,241	–	38,440,241	–
Agency-backed mortgages	36,493,707	–	36,493,707	–
Corporate bonds and notes	210,025,076	–	210,025,076	–
Municipal securities	35,186	–	35,186	–
Total debt securities	324,156,443	39,162,233	284,994,210	–
Equity securities:				
Consumer discretionary	11,423,731	11,423,731	–	–
Consumer staples	720,385	720,385	–	–
Financials	11,085,849	11,085,849	–	–
Health care	3,089,076	3,089,076	–	–
Industrials	3,999,294	3,999,294	–	–
Information technology	7,704,944	7,704,944	–	–
Energy	1,231,974	1,231,974	–	–
Material	1,750,534	1,750,534	–	–
Telecommunication	294,592	294,592	–	–
Utilities	114,162	114,162	–	–
Total equity securities	41,414,541	41,414,541	–	–
Real estate investment trusts	6,931,220	6,931,220	–	–
Equity mutual funds and ETF's	177,504,797	177,504,797	–	–
Fixed income bond fund	95,181,512	95,181,512	–	–
Money market funds	32,144,566	32,144,566	–	–
Total investments by fair value level	700,103,473	392,338,869	284,994,210	22,770,394

(Continued)

	Total	Level 1	Level 2	Level 3
Investments measured at NAV:				
Equity long only hedge funds	108,193,350			
Equity long/short hedge funds	78,306,498			
Event-driven hedge funds	29,787,241			
Relative value/credit	16,560,761			
Opportunistic/macro	4,379,249			
Absolute strategies funds	117,228,891			
Private investments	51,347,206			
Multi-strategy investment fund	521,291,580			
Total	927,094,776			
Bond funds	38,315,932			
Total investments measured at NAV	965,410,708			
Total investments	$ 1,665,514,181	$ 392,338,869	$ 284,994,210	$ 22,770,394
Liabilities:				
Investment derivative instruments:				
Hedging derivatives	$ 34,552,148	$ –	$ 34,552,148	$ –

	June 30, 2018 Fair Value	Unfunded Commitments	Redemption Notice Period	
Investments Measured at NAV:				
Equity long only hedge funds (1)	$ 108,193,350	$ –	Daily-Monthly-Quarterly-Annually	10-90 days
Equity long/short hedge funds (2)	78,306,498	–	Quarterly-Semi-annually-Annually	45-90 days
Event-driven hedge funds (3)	29,787,241	–	Quarterly-Annually	60-180 days
Relative value/credit (4)	16,560,761	–	Monthly-Quarterly	60-180 days
Opportunistic/macro (5)	4,379,249	–	Monthly-Quarterly-Annually	60-180 days
Absolute strategies funds (6)	117,228,891	–	Monthly-Quarterly-Semi-annually-Annually	60-180 days
Private investments (7)	51,347,206	33,312,717	N/A	N/A
Multi-strategy investment fund (8)	521,291,580	–	Quarterly	120 days
Bond funds	38,315,932	–	Monthly	10-60 days
Total investments measured at NAV	$ 965,410,708	$ 33,312,717		

The Authority has the following recurring fair value measurements as of June 30, 2017:

	Total	Level 1	Level 2	Level 3
Investments by fair value level:				
Beneficial trust	$ 17,620,929	$ –	$ –	$ 17,620,929
Equity interest in Foundation	3,921,929	–	–	3,921,929
Debt securities:				
U.S. Treasury notes	20,892,937	20,892,937	–	–
Asset-backed securities	37,867,771	–	37,867,771	–
Agency-backed mortgages	18,029,364	–	18,029,364	–
Corporate bonds and notes	104,464,593	–	104,464,593	–
Municipal securities	349,265	–	349,265	–
Total debt securities	181,603,930	20,892,937	160,710,993	–
Equity securities:				
Consumer discretionary	9,838,983	9,838,983	–	–
Consumer staples	1,933,964	1,933,964	–	–
Financials	11,512,738	11,512,738	–	–
Health care	3,357,719	3,357,719	–	–
Industrials	6,315,114	6,315,114	–	–
Information technology	7,518,352	7,518,352	–	–
Energy	873,782	873,782	–	–
Material	2,239,889	2,239,889	–	–
Telecommunication	1,560,416	1,560,416	–	–
Utilities	94,926	94,926	–	–
Total equity securities	45,245,883	45,245,883	–	–
Real estate investment trusts	1,385,045	1,385,045	–	–
Equity mutual funds and ETF's	112,874,868	112,874,868	–	–
Fixed income bond fund	83,224,252	83,224,252	–	–
Money market funds	178,831,625	178,831,625	–	–
Total investments by fair value level	624,708,461	442,454,610	160,710,993	21,542,858

(Continued)

	Total	Level 1	Level 2	Level 3
Investments measured at NAV:				
Equity long only hedge funds	$ 100,034,394	$ –	$ –	$ –
Equity long/short hedge funds	86,540,591	–	–	–
Event-driven hedge funds	26,109,220	–	–	–
Relative value/credit	10,827,032	–	–	–
Opportunistic/macro	6,682,004	–	–	–
Absolute strategies funds	126,780,465	–	–	–
Private investments	51,993,750	–	–	–
Multi-strategy investment fund	476,643,032	–	–	–
Total	885,610,488	–	–	–
Bond funds	28,002,610	–	–	–
Total investments measured at NAV	913,613,098	–	–	–
Total investments	$1,538,321,559	$ 442,454,610	$ 160,710,993	$ 21,542,858
Liabilities:				
Investment derivative instruments:				
Hedging derivatives	$ 45,887,452	$ –	$ 45,887,452	$ –

	June 30, 2017 Fair Value	Unfunded Commitments	Redemption Notice Period	
Investments Measured at NAV:				
Equity long only hedge funds (1)	$ 100,034,394	$ –	Daily-Monthly-Quarterly-Annually	10-90 days
Equity long/short hedge funds (2)	86,540,591	–	Quarterly-Semi-annually-Annually	45-90 days
Event-driven hedge funds (3)	26,109,220	–	Quarterly-Annually	60-180 days
Relative value/credit (4)	10,827,032	–	Monthly-Quarterly	60-180 days
Opportunistic/macro (5)	6,682,004	–	Monthly-Quarterly-Annually	60-180 days
Absolute strategies funds (6)	130,198,998	–	Monthly-Quarterly-Semi-annually-Annually	60-180 days
Private investments (7)	48,575,217	28,733,749	N/A	N/A
Multi-strategy investment fund (8)	476,643,032	–	Quarterly	120 days
Bond funds	28,002,610	–	Monthly	10-60 days
Total investments measured at NAV	$ 913,613,098	$ 28,733,749		

1. Equity long only 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 eleven investments, one of which is still in its initial lock up.

2. Equity long/short hedge funds. These investments are comprised of 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 thirteen managers.

3. Event driven hedge funds. Investment managers in this asset class 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 driven exposure includes a combination of sensitivities to equity markets, credit markets and idiosyncratic, company specific developments. Investments in 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 five managers.

4. Relative value/credit funds. Investment managers in this asset class 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 eight managers.

5. Opportunistic/macro funds. Investment managers in this asset class 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 three 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 funds. Investments managers 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.

7. Private investment funds. The managers in this asset class have the flexibility to invest 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 six managers, three of which are focused on private real estate, and three on private equity.

8. **Multi-strategy investment fund**. The RAM Fund is a private investment fund structured as a Virginia limited partnership. It invests via a mix of active and passive investment managers and strategies across a diversified group of asset classes including global equity, fixed income (treasuries and credit), real assets and cash. Investments and investment managers included in the fund employ strategies primarily involving marketable securities.

9. **Bond funds**. Comprised of vehicles that invest in fixed income securities. The asset class includes two investments.

(5) Capital Assets

Capital assets and changes thereto, as of and for the year ended June 30, 2018, consisted of the following:

	Beginning Balance	Additions	Transfers	Disposals	Ending Balance
Nondepreciable assets:					
Land	$ 16,249,840	$ –	$ 560,000	$ –	$ 16,809,840
Construction in progress	146,092,933	153,871,561	(239,987,657)	–	59,976,837
	162,342,773	153,871,561	(239,427,657)	–	76,786,677
Depreciable assets:					
Land improvements	3,225,860	–	629,051	–	3,854,911
Buildings and fixed equipment	1,017,261,982	70,821	150,128,310	(201,999)	1,167,259,114
Moveable equipment	595,889,401	1,281,933	88,670,296	(5,267,270)	680,574,360
Less: impairment loss	(6,138,375)	–	–	–	(6,138,375)
Accumulated depreciation	(892,315,505)	(97,250,410)	–	4,395,264	(985,170,651)
	717,923,363	(95,897,656)	239,427,657	(1,074,005)	860,379,359
Total capital assets, net	$ 880,266,136	$ 57,973,905	$ –	$ (1,074,005)	$ 937,166,036

Capital assets and changes thereto, as of and for the year ended June 30, 2017, consisted of the following:

	Beginning Balance	Additions	Transfers	Disposals	Ending Balance
Nondepreciable assets:					
Land	$ 16,249,840	$ –	$ –	$ –	$ 16,249,840
Construction in progress	91,192,109	176,596,770	(121,695,946)	–	146,092,933
	107,441,949	176,596,770	(121,695,946)	–	162,342,773
Depreciable assets:					
Land improvements	3,225,860	–	–	–	3,225,860
Buildings and fixed equipment	928,763,217	217,575	88,325,224	(44,034)	1,017,261,982
Moveable equipment	555,981,691	7,466,768	33,370,722	(929,780)	595,889,401
Less: impairment loss	–	(6,138,375)	–	–	(6,138,375)
Accumulated depreciation	(802,913,983)	(90,338,337)	–	936,815	(892,315,505)
	685,056,785	(88,792,369)	121,695,946	(36,999)	717,923,363
Total capital assets, net	$ 792,498,734	$ 87,804,401	$ –	$ (36,999)	$ 880,266,136

(6) Long-Term Debt

Long-term debt, and changes thereto, as of and for the year ended June 30, 2018, is summarized below:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Series 2017 Bonds	$ –	$197,890,000	$ –	$197,890,000	$ –
Premium – Series 2017 Bonds	–	21,325,623	(649,534)	20,676,089	–
Series 2014 Bonds	200,000,000	–	–	200,000,000	–
Note payable	6,131,779	–	(541,045)	5,590,734	541,044
Series 2013 Bonds	183,055,000	–	(2,950,000)	180,105,000	2,990,000
Series 2011 Bonds	112,625,000	–	(101,205,000)	11,420,000	2,690,000
Premium – Series 2011 Bonds	769,222	–	(769,222)	–	–
Capital leases	421,998	2,081,227	(690,392)	1,812,833	407,753
CMH loan agreements	4,178,998	–	(1,428,184)	2,750,814	965,985
UHS loan agreements	11,700,000	–	–	11,700,000	–
Total long-term debt	$ 518,881,997	$221,296,850	$(108,233,377)	$631,945,470	$ 7,594,782

Long-term debt, and changes thereto, as of and for the year ended June 30, 2017, 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	6,672,823	–	(541,044)	6,131,779	541,044
Series 2013 Bonds	185,900,000	–	(2,845,000)	183,055,000	2,950,000
Series 2011 Bonds	115,150,000	–	(2,525,000)	112,625,000	2,600,000
Premium – Series 2011 Bonds	821,578	–	(52,356)	769,222	–
Capital leases	984,662	–	(562,664)	421,998	421,998
CMH loan agreements	5,592,638	–	(1,413,640)	4,178,998	1,427,962
UHS loan agreements	11,700,000	–	–	11,700,000	–
Total long-term debt	$ 526,821,701	$ –	$ (7,939,704)	$518,881,997	$ 7,941,004

On December 28, 2017, MCVH issued $197,890,000 of fixed rate general revenue bonds at a premium of $21,325,623, to advance refund the 2022 through 2041 maturities of MCVH's general revenue bonds Series 2011 and pay certain costs of capital improvements to the hospital facilities. The Series 2017A bonds are subject to mandatory sinking fund, optional and extraordinary redemption with principal amounts varying between $3,080,000 on July 1, 2022 and $6,990,000 at maturity on July 1, 2041. Interest rates range from 3.00% to 5.00% payable semiannually in January and July. The Series 2017B bonds are subject to mandatory sinking funds, optional and extraordinary redemption with principal amounts varying between $1,535,000 on July 1, 2019 and $5,920,000 at maturity on July 1, 2048. Interest rates range from 3.375% to 5% payable semiannually in January and July.

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% (3.23% and 2.30% and at June 30, 2018 and 2017, respectively) and matures on October 31, 2020. Interest and principal payments of approximately $59,000 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 (2.10% and 1.22% at June 30, 2018 and 2017, respectively). 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 $2,990,000 on July 1, 2018 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 2022 through 2014 maturities of the Series 2011 Bonds totaling $98,605,000 were repaid as of December 28, 2017, from the proceeds of the Series 2017A Bonds issuance. The partial repayment of the Series 2011 Bonds created a deferred loss on refunding which is being amortized over the life of the original bond. The unamortized balance is $7,660,053 at June 30, 2018. The remaining Series 2011 Bonds are subject to mandatory sinking fund, optional and extraordinary redemption with principal amounts varying between $2,690,000 on July 1, 2018 and $3,025,000 at maturity on July 1, 2021. Interest rates range from 2.00% to 4.00% 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 $22,522,525 and $24,060,171 at June 30, 2018 and 2017, 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 $6,972,087 and $7,862,040 at June 30, 2018 and 2017, respectively.

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 approximately $149,000 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, 2018 follows:

	Series 2017 Bonds	Series 2014 Bonds	Note Payable	Series 2013 Bonds	Series 2011 Bonds	Capital Leases	CMH Loans	UHS Loans	Total
2019	$ –	$ –	$ 541,044	$ 2,990,000	$ 2,690,000	$ 407,753	$ 965,985	$ –	$ 7,594,782
2020	1,535,000	–	541,044	3,160,000	2,795,000	414,033	457,423	–	8,902,500
2021	1,610,000	–	541,044	3,260,000	2,910,000	420,410	334,493	345,030	9,420,977
2022	1,695,000	–	541,044	3,415,000	3,025,000	426,885	344,019	429,289	9,876,237
2023	4,860,000	–	541,044	3,535,000	–	143,752	353,816	435,675	9,869,287
2024–2028	28,230,000	35,000,000	2,705,220	37,010,000	–	–	295,078	2,276,767	105,517,065
2029–2033	36,055,000	–	180,294	53,860,000	–	–	–	2,452,056	92,547,350
2034–2038	44,695,000	–	–	72,875,000	–	–	–	2,640,712	120,210,712
2039–2043	47,205,000	–	–	–	–	–	–	2,844,193	50,049,193
2044-2048	26,085,000	165,000,000	–	–	–	–	–	276,278	191,361,278
2049	5,920,000	–	–	–	–	–	–	–	5,920,000
Total	$ 197,890,000	$ 200,000,000	$ 5,590,734	$180,105,000	$ 11,420,000	$ 1,812,833	$2,750,814	$ 11,700,000	$611,269,381

A summary of estimated future interest requirements of long-term debt based on effective rates as of June 30, 2018 follows:

	Series 2017 Bonds	Series 2014 Bonds	Note Payable	Series 2013 Bonds	Series 2011 Bonds	Capital Leases	CMH Loans	UHS Loans	Total
2019	$ 8,748,925	$ 9,527,700	$ 179,119	$ 3,471,808	$ 349,200	$ 24,875	$ 62,055	$ 173,622	$ 22,537,304
2020	8,672,175	9,527,700	160,984	3,408,923	237,400	18,595	43,140	173,622	22,242,539
2021	8,591,675	9,527,700	142,848	3,344,036	121,000	12,218	32,996	155,859	21,928,332
2022	8,506,925	9,527,700	124,713	3,276,088	–	5,743	23,471	166,260	21,630,900
2023	8,263,925	9,527,700	106,578	3,205,753	–	458	13,673	159,874	21,277,961
2024–2028	37,221,875	41,562,150	260,864	14,020,728	–	–	4,257	700,978	93,770,852
2029–2033	29,125,075	40,887,000	1,275	9,315,884	–	–	–	525,689	79,854,923
2034–2038	20,256,688	40,887,000	–	2,910,580	–	–	–	337,034	64,391,302
2039–2043	10,464,363	40,887,000	–	–	–	–	–	133,553	51,484,916
2044–2045	3,432,662	4,088,700	–	–	–	–	–	1,558	7,522,920
Total	$143,284,288	$215,950,350	$ 976,381	$ 42,953,800	$ 707,600	$ 61,889	$ 179,592	$ 2,528,049	$406,641,949

MCVH is required to make interest and principal payments to the interest and principal accounts included in assets whose use is restricted for the Series 2017, 2014 and 2011 Bonds. For the years ended June 30, 2018 and 2017, MCVH transferred approximately $19,407,000 and $17,249,000 to the bond service accounts, respectively.

The various 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 in such agreements, in each fiscal year equal to or greater than either 110% (Series 2011, 2014, and 2017) or 125% (Series 2013) of maximum total annual debt service in each fiscal year, as defined.

Interest expense for the years ended June 30, 2018 and 2017, was $26,918,882 and $25,423,007, respectively. For the years ended June 30, 2018 and 2017, the Authority paid approximately $22,653,000 and $22,925,000, 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 6). The swaps have a combined initial 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, 2018 and 2017, was $116,855,000 and $117,930,000, respectively. MCVH pays a fixed rate of 3.84% and the counterparty pays 67% of 30-day LIBOR (1.41% and 0.82% as of June 30, 2018 and 2017, respectively). 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, 2018 and 2017, the fair value of the swaps of $27,222,812 and $35,240,652, respectively, is included in the accompanying statements of net position. For the years ended June 30, 2018 and 2017, the change in fair value of the swaps was $8,017,840 and $13,911,612, respectively, and is reported as a deferred inflow of resources and a deferred outflow of resources, 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 6). The swap had an initial 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, 2018 and 2017, was $63,250,000 and $65,125,000, respectively. MCVH pays a fixed rate of 3.50% and the counterparty pays 67% of 30-day LIBOR (1.41% and 0.82% as of June 30, 2018 and 2017, respectively). 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, 2018 and 2017, the fair value of the swap of $7,329,336 and $10,646,800 is included in the accompanying statements of net position, respectively. For the years ended June 30, 2018 and 2017, the change in fair value of the swap was $3,317,464 and $5,186,036, respectively, and is reported as a deferred inflow of resources and a deferred outflow of resources, 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 was $16,417,995 and $12,350,517 in 2018 and 2017, respectively. Future minimum lease payments for non-cancelable operating leases are as follows:

	Carrying Value
2019	$ 13,975,965
2020	10,102,241
2021	7,551,335
2022	6,953,171
2023-2024	25,779,862
	$ 64,362,574

(9) Commitments

Estimated costs to complete construction in progress for capital assets at June 30, 2018 and 2017, for the Authority are approximately $448,510,000 and $163,842,000, respectively. Commitments primarily relate to a new outpatient facility, 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 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:

	2018	2017	2016
Estimated malpractice losses at beginning of year	$ 3,497,794	$ 3,456,010	$ 2,853,506
Malpractice claims expense, net of actuarial adjustments	474,809	171,453	1,137,592
Malpractice claims settled	(467,810)	(129,669)	(535,088)
Estimated malpractice losses at end of year	$ 3,504,793	$ 3,497,794	$ 3,456,010

Investments have been set aside based on actuarially determined reserves and are included in assets whose use is designated in the accompanying statements of net position – enterprise fund. At June 30, 2018, 2017 and 2016, the funds internally designated for MCVH include $3,504,793, $3,497,794 and $3,456,010, 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, 2018, 2017 and 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:

	2018	2017	2016
Estimated malpractice losses at beginning of year	$ 20,819,367	$ 22,209,731	$ 23,055,224
Malpractice claims expense, net of actuarial adjustments	1,883,648	(114,272)	2,737,138
Malpractice claims settled	(1,561,193)	(1,276,092)	(3,582,631)
Estimated malpractice losses at end of year	$ 21,141,822	$ 20,819,367	$ 22,209,731

Assets whose use is designated of $21,141,822, $20,819,367, and $22,209,731, have been internally designated as of June 30, 2018, 2017 and 2016, respectively, for payment of claims and related legal expenses for reported and unreported incidents.

The Authority believes that its financial position would not be materially affected by the difference between the amounts recorded and the ultimate cost related to asserted and unasserted MCVAP claims, if any, at June 30, 2018, 2017 and 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 limit is $1,000,000 per event and $3,000,000 aggregate with an Umbrella policy of $5,900,000 per event and $5,900,000 aggregate. Management does not believe the amount of liability for any claims incurred by unreported as of June 30, 2018, 2017 and 2016, is significant.

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, 2018, 2017 and 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 un-asserted Children's claims, if any, at June 30, 2018, 2017 and 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:

	2018	2017	2016
Estimated workers' compensation losses at beginning of year	$ 15,452,207	$ 21,495,116	$ 21,520,715
Workers' compensation expense, net of actuarial adjustments	(872,288)	(3,712,937)	2,478,304
Workers' compensation claims settled	(1,758,478)	(2,329,972)	(2,503,903)
Estimated workers' compensation losses at end of year	$ 12,821,441	$ 15,452,207	$ 21,495,116

Investments have been set aside based on actuarially determined reserves and are included in assets whose use is designated in the accompanying statements of net position – enterprise fund. At June 30, 2018, 2017 and 2016, the funds internally designated include $12,821,441; $15,452,207 and $21,495,116 for claims and related legal expenses for reported and unreported incidents, respectively.

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 un-asserted claims, if any, at June 30, 2018, 2017 and 2016.

(11) Net Patient Service Revenue

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

	2018	2017
MCVH gross charges:		
Inpatient	$ 3,154,814,404	$ 2,973,435,500
Outpatient	2,466,851,559	2,208,939,867
Less uncompensated care	(440,315,614)	(413,841,728)
Total MCVH gross patient service revenue	5,181,350,349	4,768,533,639
Less contractual allowances, and uncollectible amounts	(3,524,463,087)	(3,194,970,235)
Net patient service revenue – MCVH	1,656,887,262	1,573,563,404
MCVAP net patient service revenue	277,178,131	257,143,617
CMH net patient service revenue	84,425,465	89,072,799
Children's net patient service revenue	30,924,827	30,097,943
Eliminations	(43,565,037)	(42,701,290)
Total net patient service revenue	$ 2,005,850,648	$ 1,907,176,473

(12) Estimated Medical Claims Payable

Medical claims payable under Virginia Premier's HMO activities 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, 2018, 2017 and 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:

	2018	2017	2016
Balance at beginning of year	$ 81,433,594	$ 84,466,496	$ 94,963,621
Add provision for claims occurring in:			
Current year	1,246,231,986	945,144,679	894,429,022
Prior years	(15,573,986)	1,317,321	(2,512,191)
Claims incurred during the current year	1,230,658,000	946,462,000	891,916,831
Deduct payments for claims occurring in:			
Current year	(1,084,661,946)	(875,392,114)	(830,323,441)
Prior years	(59,473,276)	(74,102,788)	(72,090,515)
Claims payments during the current year	(1,144,135,222)	(949,494,902)	(902,413,956)
Balance at end of year	$ 167,956,372	$ 81,433,594	$ 84,466,496

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, 2018, 2017 and 2016, were approximately $5,247,000, $5,817,000 and $3,969,000 and are included in other expenses in the accompanying statements of revenues, expenses and changes in net position, respectively. Benefits of approximately $5,640,000, $6,673,000 and $4,757,000 were provided by the reinsurer for the years ended June 30, 2018, 2017 and 2016, and are netted with medical claims expense in the accompanying statements of revenues, expenses, and changes in net position, respectively.

(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 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, 2018, MCVH's remaining commitment through 2028 is approximately $3,476,000.

Payments under the affiliation and lease agreements with VCU for the years ended June 30, 2018 and 2017, which are included in purchased services and other expenses on the accompanying statements of revenues, expenses and changes in net position, were as follows:

	2018	2017
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	$ 222,438
Nonphysician clinical support	5,832,090	4,809,205
Administrative support	9,535,666	8,353,418
Rent on short-term space	2,154,984	2,144,408
Principal and interest on parking deck debt	436,775	431,025
Total payments by MCVH to VCU	$ 18,181,953	$ 15,960,494

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

	2018	2017
Due to Virginia Commonwealth University	$ 2,354,336	$ 6,181,172

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

The MCV Foundation's mission is to inspire and steward philanthropy throughout the MCV Campus of VCU. The MCV Foundation provided $355,286 and $473,063 to MCVAP for the years ended June 30, 2018 and 2017, 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 2018 and 2017, MCVH paid approximately $59,555,000 and $62,252,000 in COSA payments, respectively.

MCVH provided MCVAP with approximately $25,851,000 and $18,935,000 in information system and administrative services in 2018 and 2017, which are reimbursed to MCVH by MCVAP on a monthly basis, respectively.

MCVH leases clinical and administrative facilities to various MCVAP departments. Rental income related to these facilities totaled approximately $531,000 and $517,000, respectively, for the years ended June 30, 2018 and 2017.

(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. Both interest and principal payments require written approval from the Virginia Bureau of Insurance. In March 2017, the Bureau approved repayment of $26,250,000 of principal and $8,532,000 of accrued interest. Payment was made by Virginia Premier in May 2017. Interest accrued at June 30, 2018 and 2017, is $3,919,874 and $1,611,629, respectively. 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 2019.

During 2018 and 2017, MCVH provided Virginia Premier with approximately $8,902,000 and $7,432,000, respectively, in information system services and administrative services, which are reimbursed to MCVH by Virginia Premier on a quarterly basis.

During 2018 and 2017, Virginia Premier provided certain MCVH departments administrative services for which Virginia Premier received reimbursement of approximately $27,000 and $343,000, respectively.

MCVH provided health care services to Virginia Premier members, for which it received payments of approximately $32,902,000 and $40,314,000 for the years ended June 30, 2018 and 2017, respectively, which are included in net patient service revenue by MCVH and medical claims expense by Virginia Premier, prior to eliminations, respectively.

(e) UHS

MCVH leases clinic office space from UHS under operating leases. Rental expense under these leases was $2,817,000 and $2,673,000 during the years ended June 30, 2018 and 2017, respectively.

(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, 2018, 349 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 each of the years ended June 30, 2018 and 2017 was 13.49% of covered employee compensation for employees in the Plan. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The contribution rate for the Plan also reflects the transfer in June 2016 of $162,406,273 as an accelerated payback of the deferred contribution in the 2010-12 biennium. 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. Contributions from MCVH to the Plan were $3,602,983 and $3,926,430 for the years ended June 30, 2018 and 2017, respectively.

3) Net Pension Liability

MCVH reported a liability of $43,367,000 and $52,121,000 for its proportionate share of the Net Pension Liability for the years ended June 30, 2018 and 2017, respectively. The Net Pension Liability was measured as of June 30, 2017, 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 years ended June 30, 2017 and 2016, relative to the total of the actuarially determined employer contribution for all participating employers. At June 30, 2017, MCVH's proportion of the Plan was 0.74% as compared to 0.79% at June 30, 2016.

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

MCVH recognized pension income of $1,999,000 and $220,000 for the Plan for the years ended June 30, 2018 and 2017, respectively. Since there was a change in proportionate share between June 30, 2016 and June 30, 2017, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2018, MCVH reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 92,000	$ 1,312,000
Net difference between projected and actual earnings on pension plan investments	–	–
Change in assumptions	421,000	1,853,000
Changes in proportion and differences between employer contributions and proportionate share of contributions	–	5,612,000
Employer contributions subsequent to the measurement date	3,602,983	–
Total	$ 4,115,983	$ 8,777,000

Deferred outflows of resources related to employer contributions subsequent to the measurement date totaling $3,602,983 will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. The net deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2019	$ (4,862,000)
2020	(1,567,000)
2021	(589,000)
2022	(1,246,000)
	$ (8,264,000)

5) Actuarial Assumptions

The total pension liability for the VRS Plan was based on an actuarial valuation as of June 30, 2016, 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, 2017.

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

Mortality rates:

Pre-Retirement:	RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020, males set back 1 year, 85% of rates; females set back 1 year.
Post-Retirement:	RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB; males set forward 1 year; females set back 1 year with 1.5% increase compounded from ages 70 to 85.
Post-Disablement:	RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males 115% of rates; females 130% of rates.

The actuarial assumptions used in the June 30, 2016, valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthly and disabled)	Update to a more current mortality table-RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

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
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
Inflation			2.50%
* Expected arithmetic nominal return *			7.30%

* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.0%, 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 Statutes and the employer contributions will be made in accordance with 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, 2019, 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, 2019 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 MCVH's proportionate share of the Plan's 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	$ 64,059,000	$ 43,367,000	$ 25,990,000

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR).

(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, 2018 and 2017, there were 7,454 and 7,166 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, 2018 and 2017, were approximately $24,616,000 and $24,263,000, respectively.

Age Plus Years of Service	Employer Contributions 401(a) Plan
65+	10%
55–65	8
45–55	6
35–45	4
<35	2

MCVH shall have the right at any time, and without the consent of any party, to terminate the VCUHS 401(a) Plan in its entirety. Any changes to the provisions of the VCUHS 401(a) Plan, including the contribution requirements, must be approved in writing by the Authority's Board of Directors.

MCVH also sponsors the VCUHS Savings Plan (VCUHS 457(b) Plan), a savings plan that represents employee contributions and employees may also receive a 2% matching contribution in the VCUHS 401(a) Plan based on their 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, 2018 and 2017, there were 3 participants in the HCP Plan. 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 the years ended June 30, 2018 and 2017 were $29,322 and $29,702, respectively.

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 value. The fair values of the mutual funds are based on quoted market prices. Investments with investment managers are as follows at June 30, 2018:

Fidelity Investments	$ 263,195,827
TIAA/CREF	119,695,222
The Variable Annuity Life Insurance Company (VALIC)	12,125,090
	$ 395,016,139

(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 $20,281,000 and $20,117,000 for the years ended June 30, 2018 and 2017, 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, 2018 and 2017 were approximately $4,682,000 and $4,113,000, respectively.

(d) CMH

CMH participates in the VCUHS 401(a) Plan and retirement plan expense was approximately $1,760,000 and $1,443,000 for the years ended June 30, 2018 and 2017, 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). Virginia Premier also contributes 2% of each employee's compensation (Non Elective base contribution). Virginia Premier made the Safe Harbor and Non Elective base contributions in an annual installment at the end of the calendar year through December 2014. Starting January 2015, Safe Harbor and Non Elective base 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 (per the table below) as of January 1st of the plan year. This additional Non Elective contribution was made after the end of the calendar years 2017 and 2016.

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 was 1,675 and 1,190 as of June 30, 2018 and 2017, respectively. Virginia Premier's expense for its contributions to this plan was approximately $5,954,000 and $4,076,000 for the years ended June 30, 2018 and 2017, 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 fair value of plan assets of $10,396,182 and $9,833,684 as of June 30, 2018 and 2017, respectively, is recorded in net pension liability on the accompanying statements of net position. The Pension Plan's liability of $11,711,365 and $11,390,181 as of June 30, 2018 and 2017, respectively, is included in net pension liability on the accompanying statements of net position.

Children's participates in the VCUHS 401(a) Plan and retirement plan expense was approximately $1,156,000 and $1,238,000 for the years ended June 30, 2018 and 2017, respectively.

(16) Postemployment Benefits

(a) MCVH – State Employee Health Insurance Credit Program (HIC Plan)

1) Plan

Prior to July 1, 1997, employees of MCVH were employees of the Commonwealth of Virginia (the Commonwealth). These employees were automatically covered by the Employee Health Insurance Credit Program (HIC Plan) administered by the Virginia Retirement System (VRS). The HIC Plan is a defined benefit postemployment plan that provides a credit towards the cost of health insurance coverage for retirees with at least fifteen years of service. After July 1, 1997, new employees are not eligible for the HIC Plan. As of June 30, 2018, 619 employees remain enrolled in the HIC Plan. The Commonwealth, not MCVH, has overall responsibility for these plans. VRS issues a Comprehensive Annual Financial Report (CAFR) containing detailed information about the VRS State Employee Health Insurance Credit Program's Fiduciary Net Position. The CAFR may be downloaded from the VRS website 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 51.1-1400 (D) 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. Each state agency's (including MCVH) contractually required employer contribution rate for the year ended June 30, 2018 was 1.18% of covered employee compensation for employees in the HIC Plan. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from MCVH to the HIC Plan were approximately $647,000 and $622,000 for the years ended June 30, 2018 and June 30, 2017, respectively.

3) Net HIC OPEB Liability

At June 30, 2018, MCVH reported a liability of $8,180,000 for its proportionate share of the HIC Plan OPEB Liability. The Net HIC Plan OPEB Liability was measured as of June 30, 2017 and the total HIC Plan OPEB liability was determined by an actuarial valuation as of that date. MCVH's proportion of the Net HIC Plan OPEB Liability was based on MCVH's actuarially determined employer contributions to the HIC Plan for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, MCVH's proportion of the HIC Plan was .90% as compared to 0.96% at June 30, 2016.

4) HIC Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to HIC OPEB

For the year ended June 30, 2018, MCVH recognized HIC Plan expense of $622,000. Since there was a change in proportionate share between June 30, 2016 and June 30, 2017 a portion of the HIC Plan expense was related to deferred amounts from changes in proportion.

At June 30, 2018, MCVH reported deferred outflows of resources and deferred inflows of resources related to the HIC Plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	$ –	$ 20,000
Change in assumptions	–	92,000
Changes in proportion and differences between employer contributions and proportionate share of contribution	–	463,000
Employer contributions subsequent to the measurement date	647,255	–
Total	$ 647,255	$ 575,000

Deferred outflows of resources related to employer contributions subsequent to the measurement date totaling $647,255 will be recognized as a reduction of the net HIC Plan liability in the year ending June 30, 2019. The net inflows of resources related to HIC OPEB will be recognized in pension expense as follows:

Year ended June 30:		
2019	$	(112,000)
2020		(112,000)
2021		(112,000)
2022		(112,000)
2023		(112,000)
Thereafter		(15,000)
	$	(575,000)

5) Actuarial Assumptions

The total HIC OPEB liability for the HIC Plan was based on actuarial valuation as of June 30, 2016, 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, 2017.

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

Mortality rates:

Pre-Retirement:	RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020, males set back 1 year, 85% of rates; females set back 1 year.
Post-Retirement:	RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB; males set forward 1 year; females set back 1 year with 1.5% increase compounded from ages 70 to 85.
Post-Disablement:	RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males 115% of rates; females 130% of rates.

The actuarial assumptions used in the June 30, 2016, valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthly and disabled)	Update to a more current mortality table-RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

6) Long-Term Expected Rate of Return

The long-term expected rate of return on VRS System 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 VRS System 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
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
Inflation			2.50%
* Expected arithmetic nominal return			7.30%

* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.0%, including expected inflation of 2.50%.

7) Discount Rate

The discount rate used to measure the total HIC Plan OPEB was 7.00%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with 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, 2019, the rate contributed by MCVH for the HIC Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, all agencies are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the HIC 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 HIC Plan liability.

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

The following presents MCVH's proportionate share of the HIC Plan's net HIC OPEB liability using the discount rate at 7.00%, as well as what the net HIC OPEB 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	$ 9,044,000	$ 8,180,000	$ 7,436,000

9) Net State Employee HIC OPEB Liability and State Employee HIC OPEB Fiduciary Net Position

As of June 30, 2017, the net OPEB liability amounts for the VRS State Employee Health Insurance Credit Program is as follows (amounts expressed in thousands):

	State Employee HIC OPEB Plan
Total State Employee HIC OPEB Liability	$ 990,028
Plan Fiduciary Net Position	79,516
State Employee net HIC OPEB Liability (Asset)	$ 1,069,544

Detailed information about the VRS State Employee Health Insurance Credit Program's Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

(b) MCVH – State Pre-Medicare Retiree Healthcare (Retiree Healthcare Plan)

1) Plan

The Commonwealth of Virginia provides a healthcare plan established by Title 2.2, Chapter 28 of the *Code of Virginia* for retirees who are not yet eligible to participate in Medicare. For a retiree to participate in the Retiree Healthcare Plan, the participant must be eligible for VRS, be receiving benefits payments immediately upon retirement, and be eligible for coverage as an active employee in the State Health Benefits Program until his or her retirement. Prior to July 1, 1997, employees of MCVH were employees of the Commonwealth. Employees who elected to remain in the VRS Plan and continued enrollment in the State Health Benefits Program after July 1, 1997, remain eligible for the Retiree Healthcare Plan. As of June 30, 2018, 262 employees remain enrolled in the Retiree Healthcare Plan through the State Health Benefits Program.

This fund is reported as part of the Commonwealth's Healthcare Internal Service Fund. Benefit payments are recognized when due and payable in accordance with benefit terms. The Retiree Healthcare Plan is administered by the Department of Human Resource Management.

2) Contributions

The employer does not pay a portion of the retirees' healthcare premium; however, since both active and retirees are included in the same pool for purposes of determining health insurance rates, this generally results in a higher rate for active employees. Therefore, the employer effectively subsidizes the costs of the participating retirees' healthcare through payment of the employer's portion of the premiums for active employees.

3) Retiree Healthcare OPEB Liabilities

At June 30, 2018, MCVH reported a liability of $6,163,705 for its proportionate share of the total Retiree Healthcare OPEB Liability. The Retiree Healthcare OPEB liability was measured as of June 30, 2017 and was determined by an actuarial valuation as of June 30, 2017. MCVH's proportion of the Retiree Healthcare OPEB Liability was based on MCVH's healthcare premium contributions as a percentage of the total health premium contributions for all participating employers. At June 30, 2017, MCVH's proportion of the Retiree Healthcare Plan was 0.47% as compared to 0.52% at June 30, 2016.

4) Retiree Healthcare Plan Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Retiree Healthcare Plan OPEB

For the year ended June 30, 2018, MCVH recognized Retiree Healthcare Plan expense of $372,061. Since there was a change in proportionate share between June 30, 2016 and June 30, 2017 a portion of the Retiree Healthcare Plan expense was related to deferred amounts from changes in proportion.

At June 30, 2018, MCVH reported deferred outflows of resources and deferred inflows of resources related to the Retiree Healthcare Plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ –	$ 247,913
Change in assumptions	–	1,306,711
Changes in proportion and differences between employer contributions and proportionate share of contributions	–	650,183
Employer contributions subsequent to the measurement date	163,455	–
Total	$ 163,455	$ 2,204,807

Deferred outflows of resources related to employer contributions subsequent to the measurement date totaling $163,455 will be recognized as a reduction of the net HIC Plan liability in the year ending June 30, 2019. The net inflows of resources related to HIC OPEB will be recognized in pension expense as follows:

Year ended June 30:	
2019	$ (406,042)
2020	(406,042)
2021	(406,042)
2022	(406,042)
2023	(406,042)
Thereafter	(174,597)
	$ (2,204,807)

5) Actuarial Assumptions

The total Retiree Healthcare OPEB liability was based on an actuarial valuation as of June 30, 2017. The Department of Human Resource Management selected the economic, demographic and healthcare claim cost assumptions. The actuary provided guidance with respect to these assumptions. Initial healthcare cost trend rates used were 8.62% for medical and pharmacy and 4.0% for dental. The ultimate trend rates used were 5.0% for medical and pharmacy and 4.0% for dental.

Valuation Date	Actuarially determined contribution rates are calculated as of June 30, one year prior to the end of the fiscal yar in which contributions are reported.
Measurement Date	June 30, 2017 (one year prior to the end of the fiscal year)
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level dollar, closed
Effective Amortization Period	6.43 years
Discount Rate	3.58%
Projected Salary Increases	4.00%
Medical Trend Under 65	Medical & Rx: 8.62% to 5.0% Dental: 4.0% Before reflectin excise tax
Year of Ultimate Trend	2025

Mortality rates:

Pre-Retirement:	RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020, males set back 1 year, 85% of rates; females set back 1 year.
Post-Retirement:	RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB; males set forward 1 year; females set back 1 year with 1.5% increase compounded from ages 70 to 85.
Post-Disablement:	RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males 115% of rates; females 130% of rates.

The discount rate was based on the Bond Buyers GO 20 Municipal Bond Index as of the measurement date which is June 30, 2017.

The following assumptions were updated since the July 1, 2016 valuation based on the results of a Virginia Retirement System actuarial experience study performed for the period July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthly and disabled)	Update to a more current mortality table-RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

6) Discount Rate

The discount rate was increased from 2.85% to 3.58% based on the Bond Buyers GO 20 Municipal Bond Index. Spousal coverage was reduced from 70% to 50% based on a blend of recent spousal coverage election rates and the prior year assumption. Based on the 2017 census, new retirees since January 1, 2015 have chosen to cover their spouses approximately 20% of the time. However, active employees cover their spouses at a rate close to 53%.

7) Sensitivity of the Retiree Healthcare OPEB Liability to Changes in the Discount Rate

The following presents MCVH's proportionate share of the Retiree Healthcare OPEB liability using the discount rate at 3.58%, as well as what the Retiree Healthcare OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.58%) or one percentage point higher (4.58%) than the current rate:

	1% Decrease	Discount rate	1% Increase
Retiree Healthcare OPEB Liability	$ 6,602,735	$ 6,163,705	$ 5,743,067

8) Sensitivity of the Retiree Healthcare OPEB Liability to Changes in Healthcare Cost Trends

The following presents MCVH's proportionate share of the Retiree Healthcare OPEB liability using healthcare cost trend rate of 8.62% decreasing to 5.0%, as well as what the MCVH's proportionate share of the Retiree Healthcare OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower (7.62% decreasing to 4.0%) or one percentage point higher (9.62% decreasing to 6.0%) than the current rate:

	1% Decrease	Discount rate	1% Increase
Retiree Healthcare OPEB Liability	$ 5,484,134	$ 6,163,705	$ 6,960,368

(17) Concentration of Credit Risk

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

	2018	2017
Anthem	23%	31%
Medicaid	15	12
Medicare	15	13
Other	47	44
	100%	100%

Revenue from the Medicare and Medicaid/Indigent programs accounted for approximately 22% and 26%, respectively, of the Authority's net patient service revenue for each of the years ended June 30, 2018 and June 30, 2017. 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.

(18) Subsequent events

The Authority formed a captive insurance company in May 2018. Aries Insurance Services, Ltd (Aries) is a wholly owned stock company domiciled in the Cayman Islands. Aries was created to manage certain various insurance risks and reduce the insurance cost to the companies that comprise the Authority. This is being accomplished by using conservative self-insurance retention levels, consolidating and reducing the number of commercial insurance policies and taking advantage of less costly reinsurance policies only available to licensed insurance companies.

(19) Condensed Combining Information

(a) Condensed Statement of Net Position

	June 30, 2018							
	MCV Hospitals	MCV Associated Physicians	Community Memorial Hospital	Virginia Premier Health Plan	Children's	University Health Services	Eliminations	Total
Assets								
Current assets	$ 728,857,752	$ 75,552,503	$ 36,885,997	$ 225,618,453	$ 6,616,987	$ 4,946,586	$ (76,348,892)	$1,002,129,386
Capital assets	747,202,781	4,450,455	102,367,155	19,064,976	7,234,417	56,846,252	–	937,166,036
Other assets	1,369,654,727	123,590,233	17,705,698	160,701,660	4,156,240	296,278	(52,669,874)	1,623,434,962
Total assets	2,845,715,260	203,593,191	156,958,850	405,385,089	18,007,644	62,089,116	(129,018,766)	3,562,730,384
Deferred outflows of resources								
Total deferred outflows of resources	42,081,357	–	–	–	–	–	–	42,081,357
Total assets and deferred outflows of resources	$ 2,887,796,617	$ 203,593,191	$ 156,958,850	$ 405,385,089	$ 18,007,644	$ 62,089,116	$ (129,018,766)	$3,604,811,741
Liabilities								
Current liabilities	$ 161,074,102	$ 73,730,200	$ 39,315,124	$ 207,637,068	$ 12,753,058	$ 10,689,591	$ (76,348,892)	$ 428,850,251
Other liabilities	718,762,299	18,141,822	1,784,829	54,156,571	1,315,184	11,700,000	(52,669,874)	753,190,831
Total liabilities	879,836,401	91,872,022	41,099,953	261,793,639	14,068,242	22,389,591	(129,018,766)	1,182,041,082
Deferred inflows of resources								
Total deferred inflows of resources	19,056,962	–	–	–	–	–	–	19,056,962
Net position								
Net investment in capital assets	298,144,195	4,450,455	99,616,341	19,064,976	7,234,417	45,146,252	–	473,656,636
Restricted:								
Expendable	–	–	3,098,945	–	–	–	–	3,098,945
Nonexpendable	18,638,990	–	66,183	692,368	4,131,404	–	–	23,528,945
Unrestricted	1,672,120,069	107,270,714	13,077,428	123,834,106	(7,426,419)	(5,446,727)	–	1,903,429,171
Total net position	1,988,903,254	111,721,169	115,858,897	143,591,450	3,939,402	39,699,525	–	2,403,713,697
Total liabilities, deferred inflows of resources and net position	$ 2,887,796,617	$ 203,593,191	$ 156,958,850	$ 405,385,089	$ 18,007,644	$ 62,089,116	$ (129,018,766)	$3,604,811,741

(b) Condensed Statement of Revenues, Expenses, and Changes in Net Position

	Year Ended June 30, 2018							
	MCV Hospitals	**MCV Associated Physicians**	**Community Memorial Hospital**	**Virginia Premier Health Plan**	**Children's**	**University Health Services**	**Eliminations**	**Total**
Operating revenues	$ 1,675,191,825	$ 358,400,250	$ 84,948,455	$ 1,372,214,063	$ 30,992,403	$ 5,995,073	$ (128,203,176)	$ 3,399,538,893
Operating expenses excluding depreciation and amortization	1,337,179,183	440,069,041	97,716,024	1,390,955,472	32,412,346	5,187,492	(128,203,176)	3,175,316,382
Provision for depreciation and amortization	82,681,004	1,355,730	5,525,226	4,230,340	877,416	2,563,654	–	97,233,370
Operating income (loss)	255,331,638	(83,024,521)	(18,292,795)	(22,971,749)	(2,297,359)	(1,756,073)	–	126,989,141
Nonoperating revenue and expenses, net	(36,278,993)	76,584,802	1,818,149	8,536,031	371,118	(123,637)	–	50,907,470
Other	(35,334,982)	(15,020,489)	33,562,482	–	–	95,613	–	(16,697,376)
Increase in beneficial interest in trusts	1,018,060	–	–	–	–	–	–	1,018,060
Increase (decrease) in net position	184,735,723	(21,460,208)	17,087,836	(14,435,718)	(1,926,241)	(1,784,097)	–	162,217,295
Net position at beginning of year	1,820,296,982	133,181,377	98,771,061	158,027,168	5,865,643	41,483,622	–	2,257,625,853
Cumulative effect of change in accounting for postretirement plan	(16,129,451)	–	–	–	–	–	–	(16,129,451)
Net position at end of year	$ 1,988,903,254	$ 111,721,169	$ 115,858,897	$ 143,591,450	$ 3,939,402	$ 39,699,525	$ –	$ 2,403,713,697

(c) Condensed Statement of Cash Flows

	Year Ended June 30, 2018						
	MCV Hospitals	**MCV Associated Physicians**	**Community Memorial Hospital**	**Virginia Premier Health Plan**	**Children's**	**University Health Services**	**Total**
Net cash provided (used) by:							
Operating activities	$ 209,327,773	$ (44,490,618)	$ (7,316,896)	$ 62,611,321	$ 557,861	$ 2,150,072	$ 222,839,513
Noncapital financing activities	(1,227,888)	3,685,076	985,081	(44,947)	520,330	–	3,917,652
Capital and related financing activities	(119,611,142)	30,951,296	8,030,403	(6,339,207)	(1,037,414)	(1,885,025)	(89,891,089)
Investing activities	(120,183,550)	(377,790)	455,077	(65,442,017)	–	61,554	(185,486,726)
Net increase (decrease) in cash and cash equivalents	(31,694,807)	(10,232,036)	2,153,665	(9,214,850)	40,777	326,601	(48,620,650)
Cash and cash equivalents at beginning of year	422,474,054	31,686,838	12,979,200	42,807,463	935,836	4,542,031	515,425,422
Cash and cash equivalents at end of year	$ 390,779,247	$ 21,454,802	$ 15,132,865	$ 33,592,613	$ 976,613	$ 4,868,632	$ 466,804,772

Schedule 1

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

Schedule of Employer Contributions
(unaudited-see accompanying Report of Independent Auditors)

Date	**Contractually Required Contribution (1)**	**Contributions in Relation to Contractually Required Contribution (2)**	**Contribution Deficiency (Excess) (3)**	**Covered Payroll (4)**	**Contributions as a % of Covered Payroll (5)**
2015*	$ 4,145,864	$ 4,145,864	$ –	$ 38,331,215	10.82%
2016*	4,761,770	4,761,770	–	34,987,924	13.61%
2017*	3,926,430	3,926,430	–	32,650,805	12.03%
2018*	3,602,983	3,602,983	–	24,977,594	14.42%

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 report of independent auditors.

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 Report of Independent Auditors)

	2015*	**2016***	**2017***	**2018***
Employer's proportion of the net pension liability	0.94%	0.87%	0.79%	0.74%
Employer's proportionate share of the net pension liability	$ 52,598,000	$ 53,472,000	$ 52,121,000	$ 43,367,000
Employer's covered payroll	$ 41,277,334	$ 38,331,215	$ 34,987,924	$ 32,650,805
Employer's proportionate share of the net pension liability as a percentage of its covered payroll	127.43%	139.50%	148.97%	132.82%
Plan fiduciary net position as a percentage of the total pension liability	74.28%	72.81%	71.29%	75.33%

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 report of independent auditors.

Schedule 3

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

Schedule of Authority's Share of Net OPEB Liability Health
Insurance Credit Program (HIC)
(unaudited-see accompanying Report of Independent Auditors)

		2018*
Employer's proportion of the net HIC OPEB		0.90%
Employer's proportionate share of the net HIC OPEB liability	$	8,180,000
Employer's covered payroll	$	47,623,512
Employer's proportionate share of the net HIC OPEB liability as a percentage of its covered payroll		17.18%
Plan fiduciary net position as a percentage of the total HIC OPEB liability		8.03%

Schedule is intended to show information for 10 years. 2018 is the first fiscal year for presentation, only one year of data is available. However, additional years will be included as they become available.

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

See accompanying report of independent auditors.

Schedule 4

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

Schedule of Authority's Share of Net OPEB Liability Pre-Medicare
Retiree Healthcare (Retiree Healthcare Plan)
(unaudited-see accompanying Report of Independent Auditors)

		2018*
Employer's proportion of the net Retiree Healthcare Plan OPEB		0.47%
Employer's proportionate share of the net Retiree Healthcare Plan OPEB liability	$	6,163,705
Employer's covered payroll	$	20,659,339
Employer's proportionate share of the net Retiree Healthcare Plan OPEB liability as a percentage of its covered payroll		29.83%

Schedule is intended to show information for 10 years. 2018 is the first fiscal year for presentation, only one year of data is available. However, additional years will be included as they become available.

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

See accompanying report of independent auditors.

Schedule 5

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, 2018

	MCV Hospitals	MCV Associated Physicians	Community Memorial Hospital	Virginia Premier Health Plan	Children's Hospital	University Health Services	Eliminations	Total
Assets								
Current assets:								
Cash and cash equivalents	$ 326,518,185	$ 19,312,574	$ 12,181,179	$ 31,530,866	$ 976,613	$ 4,804,262	$ –	$ 395,323,679
Restricted cash	–	41,661	20,379	–	–	–	–	62,040
Short-term investments	16,071,051	–	3,996,840	56,860,327	–	–	–	76,928,218
Patient accounts receivable, net	245,616,613	42,442,346	18,510,189	–	3,534,967	–	–	310,104,115
Settlements due from third-party payors	24,522,834	–	–	–	1,801,057	–	–	26,323,891
Premiums receivable	–	–	–	119,022,436	–	–	–	119,022,436
Other accounts receivable	3,523,840	5,331,169	15,391	14,980,128	47,287	78,019	–	23,975,834
Due from related parties	71,311,108	4,973,479	–	–	–	64,305	(76,348,892)	–
Current portion of assets whose use is designated	2,800,000	3,000,000	–	–	–	–	–	5,800,000
Supplies and other current assets	38,494,121	451,274	2,162,019	3,224,696	257,063	–	–	44,589,173
Total current assets	728,857,752	75,552,503	36,885,997	225,618,453	6,616,987	4,946,586	(76,348,892)	1,002,129,386
Capital assets:								
Land	12,078,336	–	1,628,515	303,075	54,914	2,745,000	–	16,809,840
Depreciable capital assets, net	681,096,463	4,370,308	99,646,317	14,210,954	7,153,898	53,901,419	–	860,379,359
Construction in progress	54,027,982	80,147	1,092,323	4,550,947	25,605	199,833	–	59,976,837
Total capital assets, net	747,202,781	4,450,455	102,367,155	19,064,976	7,234,417	56,846,252	–	937,166,036
Other assets:								
Assets whose use is restricted	30,768,625	–	98,933	692,368	4,131,404	64,370	–	35,755,700
Assets whose use is designated, less current portion	1,250,838,457	123,590,233	15,524,842	121,126,920	–	–	–	1,511,080,452
Long-term investments	21,521,316	–	–	38,804,557	–	–	–	60,325,873
Note receivable from related parties	52,669,874	–	–	–	–	–	(52,669,874)	–
Other assets	13,856,455	–	2,081,923	77,815	24,836	231,908	–	16,272,937
Total other assets	1,369,654,727	123,590,233	17,705,698	160,701,660	4,156,240	296,278	(52,669,874)	1,623,434,962
Total assets	2,845,715,260	203,593,191	156,958,850	405,385,089	18,007,644	62,089,116	(129,018,766)	3,562,730,384
Deferred outflows of resources								
Deferred loss on debt refunding	37,154,664	–	–	–	–	–	–	37,154,664
Pension and OPEB related deferred outflows	4,926,693	–	–	–	–	–	–	4,926,693
Total deferred outflows of resources	42,081,357	–	–	–	–	–	–	42,081,357
Total assets and deferred outflows of resources	$ 2,887,796,617	$ 203,593,191	$ 156,958,850	$ 405,385,089	$ 18,007,644	$ 62,089,116	$ (129,018,766)	$ 3,604,811,741

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 (continued)

June 30, 2018

	MCV Hospitals	MCV Associated Physicians	Community Memorial Hospital	Virginia Premier Health Plan	Children's Hospital	University Health Services	Eliminations	Total
Liabilities, deferred inflows of resources and net position								
Current liabilities:								
Current portion of long-term debt and capital leases	$ 6,628,797	$ –	$ 965,985	$ –	$ –	$ –	$ –	$ 7,594,782
Estimated medical claims payable	–	–	–	167,956,372	–	–	–	167,956,372
Trade accounts payable	60,933,748	1,204,328	4,568,450	18,097,491	362,314	173,244	–	85,339,575
Settlements due to third-party payors	–	6,584,138	1,751,956	581,831	–	–	–	8,917,925
Accrued salaries, wages and employee benefits	41,187,182	26,231,690	3,730,565	4,492,270	2,296,409	–	–	77,938,116
Accrued leave	24,732,065	5,485,573	1,932,712	3,916,976	1,033,752	–	–	37,101,078
Accrued interest payable	10,438,547	–	2,931	–	–	–	–	10,441,478
Due to related parties	–	26,814,388	26,074,256	6,774,785	8,730,505	10,309,294	(76,348,892)	2,354,336
Current portion of estimated workers' compensation claims	2,300,000	–	–	–	–	–	–	2,300,000
Current portion of estimated losses on malpractice claims	500,000	3,000,000	–	–	–	–	–	3,500,000
Other accrued liabilities	14,353,763	4,410,083	288,269	5,817,343	330,078	207,053	–	25,406,589
Total current liabilities	161,074,102	73,730,200	39,315,124	207,637,068	12,753,058	10,689,591	(76,348,892)	428,850,251
Other liabilities:								
Long-term debt and capital leases, less current portion	610,865,859	–	1,784,829	–	–	11,700,000	–	624,350,688
Estimated workers' compensation claims	10,521,441	–	–	–	–	–	–	10,521,441
Estimated losses on malpractice claims	3,004,793	18,141,822	–	–	–	–	–	21,146,615
Fair value of hedging derivatives	34,552,148	–	–	–	–	–	–	34,552,148
Net pension and postretirement liability	57,710,705	–	–	–	–	–	–	57,710,705
Note payable to related parties	–	–	–	52,669,874	–	–	(52,669,874)	–
Other liabilities	2,107,353	–	–	1,486,697	1,315,184	–	–	4,909,234
Total liabilities	879,836,401	91,872,022	41,099,953	261,793,639	14,068,242	22,389,591	(129,018,766)	1,182,041,082
Deferred inflows of resources								
Change in fair value of interest rate swap	7,500,155	–	–	–	–	–	–	7,500,155
Pension and postretirement related deferred inflows	11,556,807	–	–	–	–	–	–	11,556,807
Total deferred inflows of resources	19,056,962	–	–	–	–	–	–	19,056,962
Total liabilities and deferred inflows of resources	898,893,363	91,872,022	41,099,953	261,793,639	14,068,242	22,389,591	(129,018,766)	1,201,098,044
Net position								
Net position:								
Net investment in capital assets	298,144,195	4,450,455	99,616,341	19,064,976	7,234,417	45,146,252	–	473,656,636
Restricted:								
Expendable	–	–	3,098,945	–	–	–	–	3,098,945
Nonexpendable permanent endowment	18,638,990	–	66,183	692,368	4,131,404	–	–	23,528,945
Unrestricted	1,672,120,069	107,270,714	13,077,428	123,834,106	(7,426,419)	(5,446,727)	–	1,903,429,171
Total net position	1,988,903,254	111,721,169	115,858,897	143,591,450	3,939,402	39,699,525	–	2,403,713,697
Total liabilities, deferred inflows of resources and net position	$2,887,796,617	$ 203,593,191	$ 156,958,850	$ 405,385,089	$ 18,007,644	$ 62,089,116	$ (129,018,766)	$3,604,811,741

See accompanying independent auditors' report.

Schedule 6

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, 2018

	Component units							
	MCV Hospitals	**MCV Associated Physicians**	**Community Memorial Hospital**	**Virginia Premier Health Plan**	**Children's Hospital**	**University Health Services**	**Eliminations**	**Total**
Operating revenues:								
Net patient service revenue	$ 1,656,887,262	$ 277,178,131	$ 84,425,465	$ –	$ 30,924,827	$ –	$ (43,565,037)	$ 2,005,850,648
Premiums earned	–	–	–	1,351,673,587	–	–	–	1,351,673,587
Contract revenue from MCVH	–	59,554,790	–	–	–	–	(59,554,790)	–
Other contract revenue	–	20,652,090	–	–	–	–	(468,594)	20,183,496
Other operating revenue	18,304,563	1,015,239	522,990	20,540,476	67,576	5,995,073	(24,614,755)	21,831,162
	1,675,191,825	358,400,250	84,948,455	1,372,214,063	30,992,403	5,995,073	(128,203,176)	3,399,538,893
Operating expenses:								
Salaries and wages	498,799,587	339,437,646	48,837,709	84,035,248	19,374,689	402,876	–	990,887,755
Employee benefits	123,659,631	69,939,983	11,844,312	27,263,259	6,388,045	133,921	–	239,229,151
Medical claims expense	–	–	–	1,230,471,969	–	–	(63,565,037)	1,166,906,932
Purchased services	190,521,710	5,923,057	15,438,383	24,154,471	2,041,123	2,017,841	(60,023,384)	180,073,201
Supplies	404,752,661	8,054,737	13,926,355	9,641,402	1,842,844	145,859	–	438,363,858
Other expenses	119,445,594	16,713,618	7,669,265	15,389,123	2,765,645	2,486,995	(4,614,755)	159,855,485
Provision for depreciation and amortization	82,681,004	1,355,730	5,525,226	4,230,340	877,416	2,563,654	–	97,233,370
	1,419,860,187	441,424,771	103,241,250	1,395,185,812	33,289,762	7,751,146	(128,203,176)	3,272,549,752
Operating income (loss)	255,331,638	(83,024,521)	(18,292,795)	(22,971,749)	(2,297,359)	(1,756,073)	–	126,989,141
Nonoperating revenues and expenses:								
Investment income	53,179,997	10,021,681	1,063,361	10,890,610	–	61,554	–	75,217,203
Interest expense	(26,652,581)	–	(92,679)	(2,308,245)	–	(173,622)	2,308,245	(26,918,882)
Other nonoperating (expense) income, net	(61,578,521)	62,878,045	(137,614)	(1,387)	(149,212)	(11,569)	(2,308,245)	(1,308,503)
Donations and gifts	(1,227,888)	3,685,076	985,081	(44,947)	520,330	–	–	3,917,652
Total nonoperating revenues and expenses, net	(36,278,993)	76,584,802	1,818,149	8,536,031	371,118	(123,637)	–	50,907,470
Income before other revenues, expenses, gains and losses	219,052,645	(6,439,719)	(16,474,646)	(14,435,718)	(1,926,241)	(1,879,710)	–	177,896,611
Other	(35,334,982)	(15,020,489)	33,562,482	–	–	95,613	–	(16,697,376)
Increase in beneficial interest in trusts	1,018,060	–	–	–	–	–	–	1,018,060
Increase (decrease) in net position	184,735,723	(21,460,208)	17,087,836	(14,435,718)	(1,926,241)	(1,784,097)	–	162,217,295
Net position at beginning of year	1,820,296,982	133,181,377	98,771,061	158,027,168	5,865,643	41,483,622	–	2,257,625,853
Cumulative effect of change in accounting for postretirement plan	(16,129,451)	–	–	–	–	–	–	(16,129,451)
Net position at end of year	$ 1,988,903,254	$ 111,721,169	$ 115,858,897	$ 143,591,450	$ 3,939,402	$ 39,699,525	$ –	$ 2,403,713,697

See accompanying independent auditors' report.

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