

BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

Virginia Commonwealth University Health System Authority
(A Component Unit of Virginia Commonwealth University)
June 30, 2021 and 2020
With Report of Independent Auditors

Ernst & Young LLP



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 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, 2021 and 2020, 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 financial position of the enterprise fund of Virginia Commonwealth University Health System Authority, a component unit of Virginia Commonwealth University, at June 30, 2021 and 2020, and the 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 84 through 87 respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, 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 audits 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 88 through 90 and the Combining Schedule of Revenues, Expenses and Changes in Net Position – Enterprise Fund, included on page 91, 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. Such 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.

Ernst + Young LLP

October 7, 2021

VIRGINIA COMMONWEALTH UNIVERSITY
HEALTH SYSTEM AUTHORITY
(A Component Unit of Virginia Commonwealth University)
Management's Discussion and Analysis (Unaudited)

June 30, 2021
(in thousands)

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, 2021, 2020 and 2019. 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. 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, consisting of MCV Hospitals (VCUMC), 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, 2021 and 2020, into its financial statements for the years then ended. The Authority's reporting entity includes VCUMC, MCV Associated Physicians (MCVAP), Community Memorial Hospital (CMH), Tappahannock Hospital (Tappahannock), Children's Hospital (Children's), Virginia Children's Care Network (VCCN), University Health Services, Inc. and subsidiaries (UHS) and Aries Insurance Services, Ltd. (ARIES). During FY2021, Tappahannock was purchased from Riverside Health System, and VCCN was formed to support outreach for children's care throughout the Commonwealth, these matters are noted throughout the financial statements as required.

VIRGINIA COMMONWEALTH UNIVERSITY
HEALTH SYSTEM AUTHORITY
(A Component Unit of Virginia Commonwealth University)
Management's Discussion and Analysis (Unaudited)

June 30, 2021
(in thousands)

June 30, 2021 Compared to June 30, 2020

Financial Highlights

- The Authority's net position increased by \$518,704 or 19.7%, over prior year as a result of this year's results of operations.
- Patient service revenue comprises the majority of the Authority's revenues. Net patient service revenue increased by \$286,684, or 13.3%, from prior year. Recovering from the impact of COVID-19 in FY2020 has a significant impact on patient service revenue. Regulatory changes and governmental reduction acts have significant effects on VCUMC's reimbursement rates given its high mix of government payers.
- The Authority reported operating income for the year ended June 30, 2021 of \$7,356 a \$40,955 a decrease from operating income of \$48,311 for the year ended June 30, 2020 primarily driven by the change in ownership and sale of Virginia Premier which had operating income of \$95,596 in FY2020. The Clinical Enterprise, consisting of VCUMC, MCVAP, CMH, Tappahannock, Children's, VCCN and UHS had an increase of \$64,809 over prior year as a result of this year's results of operations.
- The major capital expenditures for the Authority in 2021 related to continued construction of a new pediatric inpatient hospital and an adult outpatient building on the VCUMC downtown Richmond campus, renovations to clinical areas, purchases of new and replacement medical equipment, and investments in major information system infrastructure and business systems.
- In March 2020, the World Health Organization (WHO) declared the novel coronavirus disease (COVID-19) a pandemic. Throughout FY2021, VCUHSA has been operating under the declared pandemic. Our primary focus was the health and safety of our patients, employees and physicians, while ensuring we were able to provide adequate patient access throughout the pandemic. We implemented various measures to provide the safest possible environment within our facilities, expanded facility capacity and maintained full staffing throughout the pandemic to date.
- As a result of COVID-19 impacts, the Authority recognized revenue of \$55,254 from the CARES Act and other federal grants during the year ended June 30, 2021. These items are included in non-operating revenues on the statement of revenues, expenses and changes in net position.
- Reflected in non-operating revenue in the financial statements for the year is income from equity method investments of \$10,662 and equity method investments totaled \$86,105 as of June 30, 2021.

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 \$3,148,329 as of June 30, 2021. Of this net position 32.3% (\$1,017,179) are related to capital assets, 1.0% (\$32,089) are restricted funds, and the remaining 66.7% (\$2,099,061) are unrestricted funds, which can be used for ongoing operations of the Authority:

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

Management's Discussion and Analysis (Unaudited)

June 30, 2021
(in thousands)

Table 1

**Virginia Commonwealth University
Health System Authority**

Condensed Statements of Net Position

	June 30	
	<u>2021</u>	<u>2020</u>
Current assets	\$ 804,165	\$ 1,111,806
Capital assets, net	1,446,739	1,136,815
Other noncurrent assets	2,169,765	1,702,656
Total assets	<u>4,420,669</u>	<u>3,951,277</u>
Deferred outflows of resources	38,939	58,356
Total assets and deferred outflows of resources	<u>\$ 4,459,608</u>	<u>\$ 4,009,633</u>
Current liabilities	\$ 489,581	\$ 550,063
Long-term liabilities	807,971	815,510
Total liabilities	<u>1,297,552</u>	<u>1,365,573</u>
Deferred inflows of resources	13,727	14,435
Total liabilities and deferred inflows of resources	<u>\$ 1,311,279</u>	<u>\$ 1,380,008</u>
Net position:		
Net investment in capital assets	\$ 1,017,179	\$ 690,127
Restricted – expendable	5,768	4,653
Restricted – nonexpendable	26,321	21,116
Unrestricted	2,099,061	1,913,729
Total net position	<u>\$ 3,148,329</u>	<u>\$ 2,629,625</u>

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

June 30, 2021
(in thousands)

Table 2

**Virginia Commonwealth University
Health System Authority**

Condensed Statements of Revenues, Expenses and Changes in Net Position

	Year Ended June 30	
	2021	2020
Operating revenues:		
Net patient service revenue	\$ 2,443,572	\$ 2,156,888
Premiums earned	–	1,546,021
Other contract revenue	35,225	28,992
Other operating revenue	19,370	17,971
Total operating revenues	<u>2,498,167</u>	<u>3,749,872</u>
Operating expenses:		
Salaries, wages, and employee benefits	1,426,787	1,437,830
Medical claims expense	–	1,322,565
Purchased services	203,185	166,596
Supplies	562,743	497,528
Depreciation and amortization	98,126	102,244
Other operating expenses	199,970	174,798
Total operating expenses	<u>2,490,811</u>	<u>3,701,561</u>
Operating income	7,356	48,311
Net nonoperating revenues	515,544	50,449
Excess of revenues over expenses before other changes in net position	522,900	98,760
Other changes in net position, net	<u>(4,196)</u>	<u>(13,235)</u>
Increase in net position	518,704	85,525
Beginning net position	2,629,625	2,544,100
Ending net position	<u>\$ 3,148,329</u>	<u>\$ 2,629,625</u>

The Authority's operating revenue decreased by \$1,251,705 over the prior year. This decrease in revenues resulted from Virginia Premier's decline in revenues due to the majority ownership change in April, 2020. The Clinical Enterprise, consisting of VCUMC, MCVAP, CMH, Tappahannock, Children's, VCCN and UHS had an increase of \$283,640 or 12.4% in total operating revenues over prior year as a result of this year's results of operations.

Total operating expenses decreased 32.7% (\$1,210,750). Personnel costs are the largest single cost of the Authority in 2021, comprising 57.3% of operating costs in 2021. A decline in personnel-related costs of \$11,043 or 0.8%, from prior year reflects changes with Virginia Premier Health Plan ("VPH") year over year (due to sale in April 2020) and salary adjustments required to meet market demands and the required staff levels to meet both quality and volume initiatives. The Clinical Enterprise, consisting of VCUMC, MCVAP, CMH, Tappahannock, Children's, VCCN and UHS had an increase of \$72,579 or 5.4% over prior year as a result of this year's results of operations.

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

Management's Discussion and Analysis (Unaudited)

June 30, 2021
(in thousands)

Capital Asset and Debt Administration

Capital Assets

The Authority's net capital assets increased by \$309,924 or 27.3%, over prior year amounts.

Table 3
Virginia Commonwealth University
Health System Authority
Capital Assets

	June 30	
	2021	2020
Land	\$ 25,468	\$ 22,435
Land improvements	7,199	5,494
Buildings and fixed equipment	1,256,176	1,233,647
Moveable equipment	752,083	712,909
Construction in progress	670,903	305,150
	2,711,829	2,279,635
Accumulated depreciation and impairment	(1,265,090)	(1,142,820)
Total	\$ 1,446,739	\$ 1,136,815

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

June 30, 2021
(in thousands)

Table 4
**Virginia Commonwealth University
Health System Authority**
Schedule of Additions and Retirements

	<u>2021</u>	<u>2020</u>
Capital assets – net, beginning of year	\$ 1,136,815	\$ 982,426
Additions	390,868	274,501
Additions, purchase of Tappahannock assets, net of depreciation	17,098	–
Disposals, net of accumulated depreciation	84	(709)
Disposals, sale of Virginia Premier	–	(17,166)
Depreciation, current fiscal year	(98,126)	(102,237)
Capital assets – net, end of year	<u>\$ 1,446,739</u>	<u>\$ 1,136,815</u>

Capital asset additions during fiscal year 2021 and 2020 are comprised of:

	<u>Year Ended June 30</u>	
	<u>2021</u>	<u>2020</u>
Adult outpatient Facility	\$ 126,332	\$ 117,450
Children's outpatient facility	101,856	69,989
Major renovation projects	57,871	28,031
Purchase and replacement of moveable equipment	20,428	28,914
New building purchase and construction	11,453	9,353
Investments in information system infrastructure, business systems and equipment	72,928	20,764
	<u>\$ 390,868</u>	<u>\$ 274,501</u>

The Authority has a five-year capital plan, which includes a capital projection of \$432,000 of expenditures in fiscal year 2022.

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

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

June 30, 2021
(in thousands)

Debt

Table 5
Virginia Commonwealth University
Health System Authority
Debt

	June 30	
	2021	2020
General Revenue Bonds Series 2021	\$ 66,086	\$ –
General Revenue Bonds Series 2017	194,745	196,355
Premium – Bonds Series 2017	16,874	18,130
General Revenue Bonds Series 2014	200,000	200,000
General Revenue Bonds Series 2013	113,445	173,955
General Revenue Bonds Series 2011	3,025	5,935
Note payable	–	4,509
Capital leases	1,044	1,931
CMH USDA loan	62,697	63,513
CMH First Citizens loan	4,524	6,515
UHS loan agreements	–	11,700
Total	\$ 662,440	\$ 682,543

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

VIRGINIA COMMONWEALTH UNIVERSITY
HEALTH SYSTEM AUTHORITY
(A Component Unit of Virginia Commonwealth University)
Management's Discussion and Analysis (Unaudited)

June 30, 2021
(in thousands)

June 30, 2020 Compared to June 30, 2019

Financial Highlights

- The Authority's net position increased by \$85,525 or 3.4%, over prior year as a result of this year's results of operations.
- Patient service revenue comprises the majority of the Authority's revenues. Net patient service revenue decreased by \$20,349, or 1.0%, from prior year. COVID-19 has a significant impact on patient service revenue. Regulatory changes and governmental reduction acts have significant effects on VCUMC's reimbursement rates given its high mix of government payers.
- The Authority reported operating income for the year ended June 30, 2020 of \$48,311 a \$47,283 decrease from operating income of \$95,594 for the year ended June 30, 2019.
- The major capital expenditures for the Authority in 2020 related to continued construction of a new pediatric inpatient hospital and an adult outpatient building on the VCUMC downtown Richmond campus, renovations to clinical areas, purchases of new and replacement medical equipment, and investments in information system infrastructure and business systems.
- In March 2020, the World Health Organization (WHO) declared the novel coronavirus disease (COVID-19) a pandemic. Shortly thereafter, the governor of Virginia issued restrictions on nonessential and elective surgeries. In March, the Authority took proactive measures to prepare to serve the potential capacity issues predicted for the Commonwealth of Virginia and procure needed supplies. Our primary focus as the effects of COVID-19 began to impact our facilities was the health and safety of our patients, employees and physicians, while ensuring we were able to provide adequate patient access throughout the pandemic. We implemented various measures to provide the safest possible environment within our facilities, expanded facility capacity and maintained full staffing throughout the pandemic to date. In May, reactivation efforts began with patient volumes returning to pre-COVID-19 levels in many key areas during June.
- As a result of COVID-19 impacts, the Authority recognized revenue of \$63,719 from the CARES Act and other federal grants during the year ended June 30, 2020. These items are included in non-operating revenues on the statement of revenues, expenses and changes in net position.
- Premiums earned by Virginia Premier decreased by \$164,297 or 9.6%, from the prior year primarily due to the majority ownership change in April.
- In April 2020, 80% of Virginia Premier was sold. Reflected in non-operating revenue in the financial statements for the year is income from equity method investments (for the post-sale period) of \$9,054 and equity method investment of \$61,460 as of June 30, 2020.

VIRGINIA COMMONWEALTH UNIVERSITY
HEALTH SYSTEM AUTHORITY
(A Component Unit of Virginia Commonwealth University)
Management's Discussion and Analysis (Unaudited)

June 30, 2021
(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 \$2,629,625 as of June 30, 2020. Of this net position 26.2% (\$690,127) are related to capital assets, 1.0% (\$25,769) are restricted funds, and the remaining 72.8% (\$1,913,729) 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

	June 30	
	2020	2019
Current assets	\$ 1,111,806	\$ 1,131,774
Capital assets, net	1,136,815	982,426
Other noncurrent assets	1,702,656	1,727,696
Total assets	3,951,277	3,841,896
Deferred outflows of resources	58,356	41,295
Total assets and deferred outflows of resources	\$ 4,009,633	\$ 3,883,191
Current liabilities	\$ 550,063	\$ 509,335
Long-term liabilities	815,510	816,239
Total liabilities	1,365,573	1,325,574
Deferred inflows of resources	14,435	13,517
Total liabilities and deferred inflows of resources	\$ 1,380,008	\$ 1,339,091
Net position:		
Net investment in capital assets	\$ 690,127	\$ 525,888
Restricted – expendable	4,653	3,084
Restricted – nonexpendable	21,116	23,719
Unrestricted	1,913,729	1,991,409
Total net position	\$ 2,629,625	\$ 2,544,100

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

Management's Discussion and Analysis (Unaudited)

June 30, 2021
(in thousands)

Table 2

Virginia Commonwealth University
Health System Authority

Condensed Statements of Revenues, Expenses and Changes in Net Position

	Year Ended June 30	
	2020	2019
Operating revenues:		
Net patient service revenue	\$ 2,156,888	\$ 2,136,539
Premiums earned	1,546,021	1,710,318
Other contract revenue	28,992	24,397
Other operating revenue	17,971	24,545
Total operating revenues	<u>3,749,872</u>	<u>3,895,799</u>
Operating expenses:		
Salaries, wages, and employee benefits	1,437,830	1,370,709
Medical claims expense	1,322,565	1,502,101
Purchased services	166,596	183,607
Supplies	497,528	469,640
Depreciation and amortization	102,244	105,967
Other operating expenses	174,798	168,181
Total operating expenses	<u>3,701,561</u>	<u>3,800,205</u>
Operating income	48,311	95,594
Net nonoperating revenues	50,449	51,418
Excess of revenues over expenses before other changes in net position	98,760	147,012
Other changes in net position, net	(13,235)	(6,626)
Increase in net position	85,525	140,386
Beginning net position	2,544,100	2,403,714
Ending net position	<u>\$ 2,629,625</u>	<u>\$ 2,544,100</u>

The Authority's operating income decreased by \$47,282 over the prior year. This decrease in revenues resulted from decreased inpatient and outpatient volume driven by the pandemic and Virginia Premier's decline in revenues due to the majority ownership change in April. Total operating expenses decreased 2.6% (\$98,644). Personnel costs are the largest single cost of the Authority in 2020, comprising 38.8% of operating costs in 2020. An increase in personnel-related costs of \$67,121 or 4.9%, from prior year reflects salary adjustments required to meet market demands and the required staff levels to meet both quality and volume initiatives.

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

June 30, 2021
(in thousands)

Capital Asset and Debt Administration

Capital Assets

The Authority's net capital assets increased by \$154,389 or 15.7%, over prior year amounts.

Table 3
Virginia Commonwealth University
Health System Authority
Capital Assets

	June 30	
	2020	2019
Land	\$ 22,435	\$ 22,738
Land improvements	5,494	5,205
Buildings and fixed equipment	1,233,647	1,210,489
Moveable equipment	712,909	717,356
Construction in progress	305,150	114,159
	2,279,635	2,069,947
Accumulated depreciation and impairment	(1,142,820)	(1,087,521)
Total	\$ 1,136,815	\$ 982,426

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

June 30, 2021
(in thousands)

Table 4
**Virginia Commonwealth University
Health System Authority**
Schedule of Additions and Retirements

	Year Ended June 30	
	2020	2019
Capital assets – net, beginning of year	\$ 982,426	\$ 937,166
Additions	274,501	152,357
Disposals, net of accumulated depreciation	(709)	(1,137)
Disposals, sale of Virginia Premier	(17,166)	–
Depreciation and impairment	(102,237)	(105,960)
Capital assets – net, end of year	<u>\$ 1,136,815</u>	<u>\$ 982,426</u>

Capital asset additions during fiscal year 2020 and 2019 are comprised of (in thousands):

	Year Ended June 30	
	2020	2019
Adult outpatient Facility	\$ 117,450	\$ 4,891
Children's outpatient facility	69,989	2,338
Major renovation projects	28,031	30,124
Purchase and replacement of moveable equipment	28,914	32,187
New building purchase and construction	9,353	63,754
Land and land improvements	–	7,279
Investments in information system infrastructure, business systems and equipment	20,764	11,784
	<u>\$ 274,501</u>	<u>\$ 152,357</u>

The Authority has a five-year capital plan, which includes a capital projection of \$504,500 of expenditures in fiscal year 2021.

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

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

Management's Discussion and Analysis (Unaudited)

June 30, 2021
(in thousands)

Debt

Table 5
Virginia Commonwealth University
Health System Authority
Debt

	June 30	
	2020	2019
General Revenue Bonds Series 2017	\$ 196,355	\$ 197,890
Premium – Bonds Series 2017	18,130	19,398
General Revenue Bonds Series 2014	200,000	200,000
General Revenue Bonds Series 2013	173,955	177,115
General Revenue Bonds Series 2011	5,935	8,730
Note payable	4,509	5,050
Capital leases	1,931	1,405
CMH USDA loan	63,513	64,301
CMH First Citizens loan	6,515	8,445
CMH loan agreements	–	1,785
UHS loan agreements	11,700	11,700
Total	\$ 682,543	\$ 695,819

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, 2021
(In thousands)

	June 30	
	2021	2020
Assets and deferred outflows of resources		
Current assets:		
Cash and cash equivalents	\$ 192,791	\$ 602,147
Restricted cash	148	62
Short-term investments	–	1,508
Patient accounts receivable, net	446,822	340,255
Settlements due from third-party payors	59,126	47,771
Other accounts receivable	27,372	55,943
Current portion of assets whose use is designated	7,150	7,300
Supplies and other current assets	70,756	56,820
Total current assets	804,165	1,111,806
Capital assets:		
Land	25,468	22,435
Depreciable capital assets, net	750,368	809,230
Construction in progress	670,903	305,150
Total capital assets, net	1,446,739	1,136,815
Other assets:		
Assets whose use is restricted	43,721	36,826
Assets whose use is designated, less current portion	1,994,799	1,548,615
Long-term investments	38,667	35,666
Equity method investments	86,105	66,963
Other assets	6,473	14,586
Total other assets	2,169,765	1,702,656
Total assets	4,420,669	3,951,277
Deferred outflows of resources:		
Change in fair value of interest rate swap	6,973	19,633
Deferred loss on debt refunding	24,045	31,346
Pension and postretirement related deferred outflows	7,921	7,377
Total deferred outflows of resources	38,939	58,356
Total assets and deferred outflows of resources	\$ 4,459,608	\$ 4,009,633

VIRGINIA COMMONWEALTH UNIVERSITY
HEALTH SYSTEM AUTHORITY
(A Component Unit of Virginia Commonwealth University)
Statements of Net Position – Enterprise Fund (Continued)
(In thousands)

	June 30	
	2021	2020
Liabilities, deferred inflows of resources and net position		
Current liabilities:		
Current portion of long-term debt and capital leases	\$ 9,782	\$ 12,360
Trade accounts payable	85,735	111,213
Settlements due to third-party payors	72,285	76,244
Accrued salaries, wages, and employee benefits	111,430	97,601
Accrued leave	39,349	39,038
Accrued interest payable	9,718	10,107
Due to related parties	1,215	1,940
Current portion of estimated workers' compensation claims	900	950
Current portion of estimated losses on malpractice claims	6,250	6,350
Other accrued liabilities	152,917	194,260
Total current liabilities	<u>489,581</u>	<u>550,063</u>
Other liabilities:		
Long-term debt and capital leases, less current portion	652,658	670,183
Estimated workers' compensation claims	10,257	11,610
Estimated losses on malpractice claims	23,896	19,853
Fair value of hedging derivatives	37,349	61,685
Net pension and postretirement liability	43,940	46,664
Other liabilities	39,871	5,515
Total liabilities	<u>1,297,552</u>	<u>1,365,573</u>
Deferred inflows of resources:		
Pension and postretirement related deferred inflows	13,727	14,435
Total deferred inflows of resources	<u>13,727</u>	<u>14,435</u>
Total liabilities and deferred inflows of resources	<u>1,311,279</u>	<u>1,380,008</u>
Net position:		
Net investment in capital assets	1,017,179	690,127
Restricted:		
Expendable	5,768	4,653
Nonexpendable permanent endowment	26,321	21,116
Unrestricted	2,099,061	1,913,729
Total net position	<u>3,148,329</u>	<u>2,629,625</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 4,459,608</u>	<u>\$ 4,009,633</u>

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
(In thousands)

	Year Ended June 30	
	2021	2020
Operating revenues:		
Net patient service revenue	\$ 2,443,572	\$ 2,156,888
Premiums earned	–	1,546,021
Other contract revenue	35,225	28,992
Other operating revenue	19,370	17,971
	<u>2,498,167</u>	<u>3,749,872</u>
Operating expenses:		
Salaries and wages	1,140,369	1,149,649
Employee benefits	286,418	288,181
Medical claims expense	–	1,322,565
Purchased services	203,185	166,596
Supplies	562,743	497,528
Other expenses	199,970	174,798
Provision for depreciation and amortization	98,126	102,244
	<u>2,490,811</u>	<u>3,701,561</u>
Operating income	<u>7,356</u>	<u>48,311</u>
Nonoperating revenues and (expenses):		
Investment income	446,523	37,113
Interest expense	(16,125)	(23,941)
Other nonoperating (expense) income, net	(3,718)	(33,718)
Income from equity method investment	16,945	9,054
CARES Act and other COVID19 revenue	55,254	63,719
Donations and gifts, net	16,665	(1,778)
Nonoperating revenues and (expenses), net	<u>515,544</u>	<u>50,449</u>
Income before other revenues, expenses, gains, and losses	522,900	98,760
Change in beneficial interest in trusts	6,543	(93)
Other	(10,739)	(13,142)
Increase in net position	<u>518,704</u>	<u>85,525</u>
Net position at beginning of year	2,629,625	2,544,100
Net position at end of year	<u>\$ 3,148,329</u>	<u>\$ 2,629,625</u>

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
(In thousands)

	Year Ended June 30	
	2021	2020
Operating activities		
Cash received from third-party payors and patients	\$ 2,326,864	\$ 2,227,381
Cash received from premiums	–	1,506,741
Cash paid to employees and employee benefits	(1,416,683)	(1,417,402)
Cash paid to suppliers	(1,029,586)	(825,822)
Cash paid to providers of health care services	–	(1,352,807)
Other operating cash receipts	(5,029)	77,783
Other operating cash payments	53,360	(5,330)
Net cash (used in) provided by operating activities	(71,074)	210,544
Noncapital financing activities		
Donations and gifts, net	16,666	(1,778)
Transfers to affiliates	(10,741)	(13,142)
Accelerated Medicare payments	–	171,625
CARES Act federal funding and Virginia Coronavirus Relief Fund funding	53,392	70,624
Net cash provided by noncapital financing activities	59,317	227,329
Capital and related financing activities		
Purchases of capital assets	(360,976)	(247,722)
Principal payments on long-term debt and capital lease obligations	(15,983)	(13,410)
Cash paid for interest	(28,844)	(29,328)
Other financing cash flows	(2,789)	(4,287)
Net cash used in capital and related financing activities	(408,592)	(294,747)
Investing activities		
Interest and dividends on investments	6,595	14,939
Purchases of investments	(251,003)	(405,494)
Proceeds from sales of investments	229,006	445,855
Net outflow purchase of Tappahannock Hospital	(13,430)	–
Net proceeds from sale of Virginia Premier Health Plan	28,676	7,252
Equity contributions to joint venture	(2,813)	(5,503)
Net cash (used in) provided by investing activities	(2,969)	57,049
Net (decrease) increase in cash and cash equivalents	(423,318)	200,175
Cash and cash equivalents at beginning of year	663,747	463,572
Cash and cash equivalents at end of year	\$ 240,429	\$ 663,747
Reconciliation of cash and cash equivalents at end of year to the basic statements of net position – enterprise fund:		
Cash and cash equivalents	\$ 192,791	\$ 602,147
Restricted cash	148	62
Assets whose use is restricted	13,850	13,763
Assets whose use is designated	33,640	47,775
Total cash and cash equivalents	\$ 240,429	\$ 663,747
Supplemental disclosure of cash flow information		
Capital asset purchases in trade accounts payable	\$ 25,059	\$ 22,976

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Statements of Cash Flows – Enterprise Fund
(In thousands)

	Year Ended June 30	
	2021	2020
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 7,356	\$ 48,311
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	98,126	102,244
Loss on disposal of capital assets	(85)	709
Changes in:		
Patient accounts receivable	(102,323)	16,362
Due to/from third-party payors	(16,560)	59,513
Premiums receivable	–	(39,280)
Other accounts receivable	(5,029)	30,819
Due to/from related parties	(725)	(4,066)
Supplies and other assets	(10,091)	(22,660)
Estimated medical claims payable	–	(30,242)
Trade accounts payable	(41,838)	25,699
Accrued salaries, wages, and employee benefits	13,831	20,685
Accrued leave	(263)	3,709
Estimated workers' compensation claims	(1,403)	(498)
Estimated losses on malpractice claims	3,943	1,312
Other accrued liabilities	(16,013)	(2,073)
Net cash provided by operating activities	<u>\$ (71,074)</u>	<u>\$ 210,544</u>

See accompanying notes to basic financial statements.

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Notes to Basic Financial Statements

June 30, 2021 and 2020

(In thousands)

(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 (VCUMC), MCV Associated Physicians (MCVAP), Community Memorial Hospital (CMH), Tappahannock Hospital (TAPP), Children's Hospital (Children's), Virginia Children's Care Network (VCCN), University Health Services, Inc. (UHS) and Aries Insurance Services, Ltd (ARIES). 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.

VCUMC is an approximately 800-bed teaching hospital which provides inpatient, outpatient and emergency care 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. CMH Physician Services, LLC is a component unit of CMH and operates outpatient clinics in South Hill, Clarksville, and Chase City, Virginia. Community Memorial Foundation (CMH Foundation), a component unit of CMH, was established to solicit, administer, and distribute funds to support the charitable purpose of CMH.

TAPP, located in the eastern neck of Virginia, is a not-for-profit healthcare facility. TAPP is a 67-bed hospital which provides services ranging from traditional hospital care to intensive care. In January 2021, the Authority purchased TAPP from Riverside Hospital.

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. On January 1, 2021, the outpatient therapy service and operating room from Children's now operate under the license of VCUMC. The dental clinic is still operated on site and is part of the overall business of Children's.

VCCN was created in April 2020 and is a Virginia not-for-profit corporation and is the first clinically integrated network for VCUHSA. The network was established to improve the health of Virginia's children by improving access to medical services, coordinating care, enhancing communication and professional

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Notes to Basic Financial Statements (Continued)

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(In thousands)

satisfaction, and expanding opportunities for quality, safety, research and education. VCCN has recruited over 150 independent pediatric providers in surrounding communities as of the end of the fiscal year.

UHS is a not-for-profit, nonstock, tax-exempt corporation, which was incorporated in January 1995 to support the educational, scientific, and charitable purpose and activities of VCU and, in particular, the activities of the SOM and VCUMC. These activities include, but are not limited to, activities undertaken pursuant to Section 23-50.16B of the Code of Virginia.

ARIES is a wholly owned, captive insurance company domiciled in the Cayman Islands, which was incorporated in May 2018 to manage certain insurance risks and reduce insurance costs to the companies that comprise the Authority. Policies may cover, but are not limited to, health care professional liability, general liability, medical professional liability, commercial automobile liability, affiliated miscellaneous liability, worker compensation, excess umbrella coverage and related risks of the Authority and certain affiliates.

The consolidated financial statements as of June 30, 2021 and 2020, as applicable, include the Authority's equity interest investments with Virginia Premier, Sheltering Arms Institute, Health at Home, LLC, and HealthEco CPP SPV I, LLC. The investments are reported using the equity method.

(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 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

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Notes to Basic Financial Statements (Continued)

June 30, 2021 and 2020
(In thousands)

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

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Notes to Basic Financial Statements (Continued)

June 30, 2021 and 2020

(In thousands)

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 valuations (based on 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 change 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 reported as nonoperating revenues. 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) *Equity method investments*

The equity method of accounting is used for investments in companies where the Authority has the ability to exercise significant influence over operating and financial policies of an investee even though the Authority holds 50 percent or less of the voting interest. These investments are accounted for under the equity method because either the Authority has joint control or a minority interest in a legally separate entity. Equity method investments are accounted for initially at cost and are subsequently adjusted for the Authority's share of the joint venture's change in net position, regardless of whether the amount is actually remitted.

The Authority's 45% ownership interest in the Sheltering Arms Corporation joint venture ("Rehab JV") 20% ownership interest in Virginia Premier (subsequent to April 8, 2020), 49% ownership interest in Health at Home, LLC, and 45% ownership interest in HealthEco CPP SPV I, LLC (HealthEco is the holder of Kallaco equity securities) are the investments accounted for under the equity method. The Authority reviews the carrying value of its investments on a regular basis and considers whether any factors exist that might indicate an impairment in value that is other than temporary. At June 30, 2021 and 2020, the Authority determined that no such factors existed with respect to those investments.

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(In thousands)

(f) Allowance for Doubtful Accounts

The Authority records an allowance for doubtful accounts during the period in which collection is considered doubtful. The allowance for doubtful accounts was approximately \$126,670 and \$69,943 at June 30, 2021 and 2020, respectively.

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

Resources restricted for debt service under bond indenture agreements, by donors, and amounts held by CMH Foundation, 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 \$23,549 and \$18,393 are restricted by donors for VCUMC in perpetuity and are included in assets whose use is restricted at June 30, 2021 and 2020, respectively.

(h) Supplies Inventory

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

(i) Capital Assets

Capital assets are stated at cost or, if donated, at fair value at the date of donation. The Authority capitalizes expenditures for equipment when the unit acquisition cost is \$5 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 and capitalized when the asset is placed in service.

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(In thousands)

(j) *Derivative Financial Instruments*

VCUHSA 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. VCUMC 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, designated and qualify as cash flow hedges are recorded as deferred inflows or outflows on the accompanying statements of net position.

(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*

Effective July 2019, the Authority obtains workers' compensation coverage through ARIES. ARIES 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 Authority was self-insured prior to July 2019.

(m) *Estimated Losses on Malpractice Claims*

VCUMC 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.

Effective July 2018, MCVAP obtains medical malpractice coverage through ARIES. ARIES provides for the liability on a present value basis, based on the estimated ultimate cost of known claims and claims incurred but not yet reported, discounting future expected payments assuming a zero to two percent expected investment yield. The liability includes assumptions and factors related to the frequency and severity of claims, claims development history and claims settlement practices.

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June 30, 2021 and 2020

(In thousands)

(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 \$48,964 and \$35,357 at June 30, 2021 and 2020, 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 and expenses 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. Donations and gifts represent amounts received from and given to other not-for-profit organizations, including MCV Foundation (related entity), and are reported as nonoperating revenues (expenses). CARES Act and other COVID-19 funding represent amount received as grants from various federal and state agencies and are reported as nonoperating revenues.

(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 \$22,972 in 2021 and decrease net patient service revenue by approximately \$25,462 in 2020. 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 \$80,586 and \$83,195 for the years ended June 30, 2021 and 2020, respectively.

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June 30, 2021 and 2020

(In thousands)

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, 2013.

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 rates on an interim basis but eventually settled to a percentage of cost. Outpatient services rendered to Medicaid program beneficiaries are paid based 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 \$595,617 and \$564,118 in 2021 and 2020, respectively. The Authority's Medicaid cost reports have been audited by the Medicaid program representative through June 30, 2015.

(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. Since 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 \$57,889 and \$39,789 for the years ended June 30, 2021 and 2020, respectively.

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June 30, 2021 and 2020

(In thousands)

(r) *Income Taxes*

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

MCVAP, CMH, Children's, VCCN, TAPP, and UHS are exempt from federal income taxes on related income under Section 501(c)(3) of the Internal Revenue Code (the Code). Accordingly, no provision for income taxes has been made in the accompanying financial statements.

ARIES is a licensed insurer in the Cayman Islands where no tax is assessed on income or capital gains.

(s) *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, self-insurance liabilities, third-party settlements, and the carrying amount of capital assets, derivative financial instruments and investments.

(t) *Recent Accounting Pronouncements*

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 were delayed by the issuance of Statement No. 95 and are effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged. The Authority is in the process of evaluating the impact of this Statement on its basic financial statements.

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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 were delayed by the issuance of Statement No. 95 and are effective for reporting periods beginning after December 15, 2020. 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 May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The requirements of this Statement were delayed by the issuance of Statement No. 95 and are effective for reporting periods beginning after December 15, 2021. Earlier adoption is encouraged. The Authority is in the process of evaluating the impact of this Statement on its basic financial statements.

In January 2020, GASB issued Statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The Statement addresses a variety of topics and includes specific provisions about the following which are most applicable to the Authority.

- Delaying the effective date of Statement No. 87, *Leases* (see discussion above)
- The applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefit arrangements
- The applicability of Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, as amended, and No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, to reporting assets accumulated for postemployment benefits

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- Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature
- Terminology used to refer to derivative instruments.

The Authority adopted certain portions of this guidance for the year ended June 30, 2020. There was no material impact on the financial statements as a result of adoption. The remaining provisions will be implemented for the fiscal year ended June 30, 2022. The Authority is in the process of evaluating the impact of this Statement on its basic financial statements.

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The objective of this Statement is to address accounting and financial reporting implications that result from the replacement of the London Interbank Offered Rate (LIBOR) given it is expected to cease to exist in its current form at the end of 2021. This Statement includes the following amendments:

- Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment
- Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate
- Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable
- Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap
- Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap
- Clarifying the definition of *reference rate*, as it is used in Statement 53, as amended.

The Authority adopted certain portions of this guidance for the year ended June 30, 2020. There was no material impact on the financial statements as a result of adoption. The remaining provisions, including the removal of LIBOR as an appropriate benchmark interest rate, will be implemented for the fiscal year ended June 30, 2022. The Authority is in the process of evaluating the impact of this Statement on its basic financial statements.

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In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. The Authority is in the process of evaluating the impact of this Statement on its basic financial statements.

(u) COVID-19 Pandemic and CARES Act Funding Footnote

In March 2020, the World Health Organization (WHO) declared the novel coronavirus disease (COVID-19) a pandemic. Shortly thereafter, the governor of Virginia issued restrictions on nonessential and elective surgeries. In March 2020, the Authority took proactive measures to prepare to serve the potential capacity issues predicted for the Commonwealth of Virginia and procure needed supplies. The Authority's primary focus as the effects of COVID-19 began to impact its facilities was the health and safety of our patients, employees and physicians, while ensuring we were able to provide adequate patient access throughout the pandemic. The Authority implemented various measures to provide the safest possible environment within our facilities, expanded facility capacity and maintained full staffing throughout the pandemic to date. In May 2020, reactivation efforts began with patient volumes returning to pre-COVID-19 levels in many key areas during June 2020.

Throughout fiscal year 2021, VCUHSA continued to balance the impact of COVID-19 in its health care environment with the safety of its patients, employees and physicians at the forefront.

The Authority has received \$124,020 from various provisions in the Coronavirus Aid, Relief and Economic Securities Act (CARES Act) of which approximately \$55,254 and \$63,719 has been recognized as nonoperating revenue in the 2021 and 2020 statement of revenues, expenses, and changes in net position, respectively. The remaining amount has been reported as deferred revenue in the 2021 statement of net position. The Authority recognizes nonoperating revenue as income when there is reasonable assurance that the grant conditions are met. These estimates could change materially based on the evaluation of lost revenue or expenses related to COVID-19 as well as the evolving grant compliance guidance provided by the government. Additionally, the Authority has received approximately \$180,032 of Medicare advance payments as part of the CMS Accelerated and Advance Payments Program during fiscal year 2020, which have been recorded with a corresponding liability. Repayment of the funds began in fiscal year 2021. The Authority has an outstanding balance of \$159,983 as of June 30, 2021.

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The Authority began preparations in March 2020 and was well-prepared and ready to treat patients with COVID-19 across the region, especially those with serious or complex medical conditions. By the end of May 2020, the governors had relaxed restrictions on non-essential or elective surgeries. The Authority resumed to safely caring for patients facing non-COVID-19 conditions who are in need of the unique and specialized care offered by the Authority. The recent resurgence in COVID-19 cases due to the Delta variant of the coronavirus entering the U.S. could prompt a return to tighter restrictions. COVID-19 could still negatively affect the operating margins and financial results of the Authority as the duration of the pandemic is unknown.

The Authority will continue to monitor compliance with the terms and conditions of the CARES Act and the impact of the pandemic on its revenues and expenses. If management of the Authority is unable to attest to or comply with current or future terms and conditions the Authority's ability to retain some or all of the distributions received may be impacted. The CARES Act also provides for a deferral of payments of the employer portion of payroll tax incurred during the pandemic, allowing half of such payroll taxes be deferred until December 2021 and the remaining half until December 2022. At June 30, 2021, the Authority had deferred approximately \$35,865 of payroll taxes recorded under accrued salaries, wages, and employee benefits in the 2021 statement of net position.

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

At June 30, 2021 and 2020, the carrying values of the Authority's cash and cash equivalent deposits totaled \$192,791 and \$602,147, respectively. Deposits are placed with banks, savings and loan institutions which are generally 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. At June 30, 2021 and 2020, the Authority had \$96,739 and \$64,890, respectively, in uncollateralized cash and cash equivalents.

In accordance with the Authority's Investment Policy Statement, adopted by the Board of Directors, the Authority's investment portfolio assets may be invested in numerous asset classes, with risk parameters established on the underlying exposure to Equity, Real Assets, Credit, Government Bonds, 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, 2021 and 2020, the Authority had \$173,424 and \$163,871, respectively, in fixed income investments, whose value could fluctuate over time due to interest rate fluctuations.

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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, 2021, the credit quality ratings for the Authority’s fixed income investments were 42% AAA (asset-backed securities, money market funds, corporate bonds and mortgage-backed securities), 8% AA (asset-backed securities and corporate bonds), 28% A (asset-backed securities, corporate and municipal bonds), and 22% below A (asset-backed securities and corporate bonds).

At June 30, 2020, the credit quality ratings for the Authority’s fixed income investments were 42% AAA (asset-backed securities, money market funds, corporate bonds and mortgage-backed securities), 8% AA (asset-backed securities and corporate bonds), 33% A (asset-backed securities, corporate and municipal bonds), and 17% below A (asset-backed securities and corporate bonds).

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

	June 30	
	2021	2020
Enterprise funds:		
Assets whose use is restricted:		
Externally restricted:		
By donors	\$ 24,027	\$ 18,606
Under bond indenture	13,850	13,763
Held by Children’s Hospital Foundation	5,844	4,457
	43,721	36,826
Assets whose use is designated for:		
Medical malpractice	30,146	26,203
Innovation fund	5,848	7,514
Value & Efficiency, Teaching and Research fund	–	2,500
Community Partnership fund	6,950	7,593
Workers’ compensation	11,157	12,560
Auto, general and miscellaneous professional liability insurance	4,486	3,819
Capital acquisition	418,283	387,361
Quasi endowment	1,525,079	1,108,365
	2,001,949	1,555,915
Other investments	38,667	37,174
Total	\$ 2,084,337	\$ 1,629,915

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As of June 30, 2021 and 2020, investments (including assets whose use is restricted and designated) and deposits consist of and mature, as applicable, as follows:

	Fair Value	Investment Maturities (In Years)			
		Less Than 1	1 to 5	6 to 10	More Than 10
2021					
Investments:					
U.S. Treasury notes	\$ 36,291	\$ 15,579	\$ 11,404	\$ 6,888	\$ 2,420
Asset-backed securities	50,587	–	18,076	948	31,563
Agency-backed mortgages	6,420	150	863	316	5,091
Money market funds	40,118	40,118	–	–	–
Corporate bonds and notes and municipal securities	80,126	20,538	47,571	7,361	4,656
Beneficial interest in perpetual trust	23,549	N/A	N/A	N/A	N/A
Beneficial interest in Children's Hospital Foundation	5,844	N/A	N/A	N/A	N/A
Index funds	192,717	N/A	N/A	N/A	N/A
Marketable equity securities	44,872	N/A	N/A	N/A	N/A
Investment companies	1,592,761	N/A	N/A	N/A	N/A
Real estate	1,453	N/A	N/A	N/A	N/A
	<u>2,074,738</u>	<u>76,385</u>	<u>77,914</u>	<u>15,513</u>	<u>43,730</u>
Deposits:					
Cash	9,599	–	–	–	–
Certificates of deposit	–	–	–	–	–
	<u>\$ 2,084,337</u>	<u>\$ 76,385</u>	<u>\$ 77,914</u>	<u>\$ 15,513</u>	<u>\$ 43,730</u>

	Fair Value	Investment Maturities (In Years)			
		Less Than 1	1 to 5	6 to 10	More Than 10
2020					
Investments:					
U.S. Treasury notes	\$ 18,385	\$ 4,426	\$ 10,147	\$ 681	\$ 3,131
Asset-backed securities	38,350	153	22,189	992	15,016
Agency-backed mortgages	9,549	565	377	429	8,178
Money market funds	44,030	44,030	–	–	–
Corporate bonds and notes and municipal securities	97,587	29,730	54,994	8,239	4,624
Beneficial interest in perpetual trust	18,393	N/A	N/A	N/A	N/A
Beneficial interest in Children's Hospital Foundation	4,456	N/A	N/A	N/A	N/A
Index funds	181,071	N/A	N/A	N/A	N/A
Marketable equity securities	30,423	N/A	N/A	N/A	N/A
Investment companies	1,167,757	N/A	N/A	N/A	N/A
Real estate	901	N/A	N/A	N/A	N/A
	<u>1,610,902</u>	<u>78,904</u>	<u>87,707</u>	<u>10,341</u>	<u>30,949</u>
Deposits:					
Cash	17,505	17,505	–	–	–
Certificates of deposit	1,508	1,508	–	–	–
	<u>\$ 1,629,915</u>	<u>\$ 97,917</u>	<u>\$ 87,707</u>	<u>\$ 10,341</u>	<u>\$ 30,949</u>

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

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During FY2021, the Authority entered into two additional equity method investments. In FY2021 and FY2020, the equity method investments had income/(loss) as reflected below:

	2021	2020
Virginia Premier, post-sale	\$ 22,911	\$ 9,054
Sheltering Arms Institute	(5,966)	–
Health at Home, LLC	–	–
HealthEco CPP SPV I, LLC	–	–
Total	\$ 16,945	\$ 9,054

As of June 30, 2021 and June 30, 2020, the equity method of investments had balances of:

	2021	2020
Virginia Premier, post-sale	\$ 83,032	\$ 61,460
Sheltering Arms Institute	260	5,503
Health at Home, LLC	1,813	–
HealthEco CPP SPV I, LLC	1,000	–
Total	\$ 86,105	\$ 66,963

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(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 or liability.

- 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, 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 comparables, 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 judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

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The Authority has the following recurring fair value measurements as of June 30, 2021:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level:				
Beneficial trust	\$ 23,549	\$ —	\$ —	\$ 23,549
Equity interest in Children's Hospital Foundation	5,844	—	—	5,844
Debt securities:				
U.S. Treasury notes	36,291	36,291	—	—
Asset-backed securities	50,587	—	50,587	—
Agency-backed mortgages	6,420	—	6,420	—
Corporate bonds and notes	79,962	—	79,962	—
Municipal securities	164	—	164	—
Total debt securities	<u>173,424</u>	<u>36,291</u>	<u>137,133</u>	<u>—</u>
Equity securities:				
Consumer cyclical	324	324	—	—
Consumer discretionary	13,799	13,799	—	—
Consumer staples	435	435	—	—
Financials	10,141	10,141	—	—
Health care	2,802	2,802	—	—
Industrials	4,110	4,110	—	—
Information technology	11,160	11,160	—	—
Energy	162	162	—	—
Material	1,827	1,827	—	—
Telecommunication	112	112	—	—
Total equity securities	<u>44,872</u>	<u>44,872</u>	<u>—</u>	<u>—</u>
Real estate investment trusts	1,453	1,453	—	—
Equity mutual funds and ETF's	92,332	92,332	—	—
Fixed income bond funds	100,384	100,384	—	—
Money market funds	40,118	40,118	—	—
Total investments by fair value level	<u>481,976</u>	<u>315,450</u>	<u>137,133</u>	<u>29,393</u>

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	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments measured at NAV:				
Equity long only hedge funds	\$ 233,575	–	–	–
Equity long/short hedge funds	72,116	–	–	–
Event-driven hedge funds	27,111	–	–	–
Relative value/credit	3,004	–	–	–
Opportunistic/macro	94	–	–	–
Absolute strategies funds	174,869	–	–	–
Multi-strategy investment fund	861,013	–	–	–
Private investments	142,852	–	–	–
Total	<u>1,514,634</u>	–	–	–
Bond funds	78,127	–	–	–
Total investments measured at NAV	<u>1,592,761</u>	–	–	–
Total investments	<u>\$ 2,074,738</u>	<u>\$ 315,450</u>	<u>\$ 137,133</u>	<u>\$ 29,393</u>
Liabilities:				
Investment derivative instruments:				
Hedging derivatives	<u>\$ 37,349</u>	<u>\$ –</u>	<u>\$ 37,349</u>	<u>\$ –</u>

	<u>June 30, 2021 Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Notice Period</u>	
Investments Measured at NAV:				
	\$ 233,575	\$ –	Daily-Monthly Quarterly- Annually	14-90 days
Equity long only hedge funds (a)				
Equity long/short hedge funds (b)	72,116	–	Quarterly-Semi- annually-Annually	45-90 days
Event-driven hedge funds (c)	27,111	–	Annually	60-90 days
Relative value/credit (d)	3,004	–	N/A	N/A
Opportunistic/macro (e)	94	–	N/A	N/A
Absolute strategies funds (f)	174,869	–	Quarterly-Semi- annually-Annually	60-180 days
Private investments (g)	142,852	52,626	N/A	N/A
Multi-strategy investment fund (h)	861,013	–	Quarterly	120 days
Bond funds (i)	78,127	–	Monthly- Quarterly	10-60 days
Total investments measured at NAV	<u>\$ 1,592,761</u>	<u>\$ 52,626</u>		

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The Authority has the following recurring fair value measurements as of June 30, 2020:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level:				
Beneficial trust	\$ 18,393	\$ —	\$ —	\$ 18,393
Equity interest in Children's Hospital Foundation	4,456	—	—	4,456
Debt securities:				
U.S. Treasury notes	18,385	18,385	—	—
Asset-backed securities	38,350	—	38,350	—
Agency-backed mortgages	9,549	—	9,549	—
Corporate bonds, notes and commercial paper	97,419	—	97,419	—
Municipal securities	168	—	168	—
Total debt securities	<u>163,871</u>	<u>18,385</u>	<u>145,486</u>	<u>—</u>
Equity securities:				
Consumer discretionary	10,595	10,595	—	—
Consumer staples	370	370	—	—
Financials	6,511	6,511	—	—
Health care	1,906	1,906	—	—
Industrials	2,211	2,211	—	—
Information technology	6,890	6,890	—	—
Energy	256	256	—	—
Material	1,271	1,271	—	—
Telecommunication	413	413	—	—
Total equity securities	<u>30,423</u>	<u>30,423</u>	<u>—</u>	<u>—</u>
Real estate investment trusts	901	901	—	—
Equity mutual funds and ETF's	88,576	88,576	—	—
Fixed income bond funds	92,495	92,495	—	—
Money market funds	44,030	44,030	—	—
Total investments by fair value level	<u>443,145</u>	<u>274,810</u>	<u>145,486</u>	<u>22,849</u>

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	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments measured at NAV:				
Equity long only hedge funds	\$ 148,736	\$ —	\$ —	\$ —
Equity long/short hedge funds	33,895	—	—	—
Event-driven hedge funds	21,724	—	—	—
Relative value/credit	3,040	—	—	—
Opportunistic/macro	320	—	—	—
Absolute strategies funds	152,439	—	—	—
Multi-strategy investment fund	659,823	—	—	—
Private investments	73,595	—	—	—
Total	<u>1,093,626</u>	—	—	—
Bond funds	74,131	—	—	—
Total investments measured at NAV	<u>1,167,757</u>	—	—	—
Total investments	<u>\$ 1,610,902</u>	<u>\$ 274,810</u>	<u>\$ 145,486</u>	<u>\$ 22,849</u>
Liabilities:				
Investment derivative instruments:				
Hedging derivatives	<u>\$ 61,685</u>	<u>\$ —</u>	<u>\$ 61,685</u>	<u>\$ —</u>
	<u>June 30, 2020</u>	<u>Unfunded</u>	<u>Redemption Notice Period</u>	
	<u>Fair Value</u>	<u>Commitments</u>		
Investments Measured at NAV:				
Equity long only hedge funds (a)	\$ 148,736	\$ —	Daily-Monthly- Quarterly- Annually	14-90 days
Equity long/short hedge funds (b)	33,895	4,980	Quarterly-Semi- annually- Annually	45-90 days
Event-driven hedge funds (c)	21,724	—	Annually	60-90 days
Relative value/credit (d)	3,040	—	N/A	N/A
Opportunistic/macro (e)	320	—	N/A	N/A
Absolute strategies funds (f)	152,493	—	Quarterly-Semi- annually- Annually	60-180 days
Private investments (g)	73,595	57,803	N/A	N/A
Multi-strategy investment fund (h)	659,823	—	Quarterly	120 days
Bond funds (i)	74,131	—	Monthly- Quarterly	10-60 days
Total investments measured at NAV	<u>\$ 1,167,757</u>	<u>\$ 62,783</u>		

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(a) *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 fifteen investments, one of which is still in its initial lock up.

(b) *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 four managers, one of which is still in its initial lock up.

(c) *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 two managers, one of which is structured similarly to a private investment fund with no liquidity.

(d) *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 two managers, each of which are in liquidation with no ability to accelerate redemptions.

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(e) *Opportunistic/macro fund*

The manager in this asset class trades 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. This manager employs 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. The manager in this asset class is currently in liquidation with no ability to accelerate redemptions.

(f) *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 seven managers.

(g) *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 eight managers, three of which are focused on private real estate, and five on private equity.

(h) *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.

(i) *Bond funds*

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

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(5) Capital Assets

Capital assets and changes thereto, as of and for the year ended June 30, 2021, consisted of the following:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Disposals</u>	<u>Ending Balance</u>
Non depreciable assets:					
Land	\$ 22,435	\$ 3,047	\$ –	\$ (14)	\$ 25,468
Construction in progress	305,150	391,078	(25,325)	–	670,903
	<u>327,585</u>	<u>394,125</u>	<u>(25,325)</u>	<u>(14)</u>	<u>696,371</u>
Depreciable assets:					
Land improvements	5,494	1,803	–	(98)	7,199
Buildings and fixed equipment	1,233,648	32,469	685	(10,626)	1,256,176
Moveable equipment	712,908	21,159	24,640	(6,624)	752,083
Less: impairment loss	(6,138)	–	–	–	(6,138)
Accumulated depreciation	<u>(1,136,682)</u>	<u>(139,717)</u>	<u>–</u>	<u>17,447</u>	<u>(1,258,952)</u>
	809,230	(84,286)	25,325	99	750,368
Total capital assets, net	<u>\$ 1,136,815</u>	<u>\$ 309,839</u>	<u>\$ –</u>	<u>\$ 85</u>	<u>\$ 1,446,739</u>

Capital assets and changes thereto, as of and for the year ended June 30, 2020, consisted of the following:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Disposals</u>	<u>Ending Balance</u>
Non depreciable assets:					
Land	\$ 22,738	\$ –	\$ –	\$ (303)	\$ 22,435
Construction in progress	114,160	272,519	(81,529)	–	305,150
	<u>136,898</u>	<u>272,519</u>	<u>(81,529)</u>	<u>(303)</u>	<u>327,585</u>
Depreciable assets:					
Land improvements	5,205	–	433	(144)	5,494
Buildings and fixed equipment	1,210,489	1,021	29,215	(7,077)	1,233,648
Moveable equipment	717,355	961	51,849	(57,257)	712,908
Less: impairment loss	(6,138)	–	–	–	(6,138)
Accumulated depreciation	<u>(1,081,383)</u>	<u>(102,237)</u>	<u>32</u>	<u>46,906</u>	<u>(1,136,682)</u>
	845,528	(100,255)	81,529	(17,572)	809,230
Total capital assets, net	<u>\$ 982,426</u>	<u>\$ 172,264</u>	<u>\$ –</u>	<u>\$ (17,875)</u>	<u>\$ 1,136,815</u>

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(6) Long-Term Debt

Long-term debt, and changes thereto, as of and for the year ended June 30, 2021, is summarized below:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Series 2021 Bonds	\$ –	\$ 66,086	\$ –	\$ 66,086	\$ –
Series 2017 Bonds	196,355	–	(1,610)	194,745	1,695
Premium – Series 2017 Bonds	18,131	–	(1,257)	16,874	–
Series 2014 Bonds	200,000	–	–	200,000	–
Series 2013 Direct Placement Bonds	173,955	–	(60,510)	113,445	1,265
Series 2011 Bonds	5,935	–	(2,910)	3,025	3,025
Note payable	4,509	–	(4,509)	–	–
Capital leases	1,931	–	(887)	1,044	900
CMH USDA loan	63,513	–	(816)	62,697	846
CMH First Citizen’s loan	6,514	–	(1,990)	4,524	2,051
UHS loan agreements	11,700	–	(11,700)	–	–
Total long-term debt	<u>\$ 682,543</u>	<u>\$ 66,086</u>	<u>\$ (86,189)</u>	<u>\$ 662,440</u>	<u>\$ 9,782</u>

Long-term debt, and changes thereto, as of and for the year ended June 30, 2020, is summarized below:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Series 2017 Bonds	\$ 197,890	\$ –	\$ (1,535)	\$ 196,355	\$ 1,610
Premium – Series 2017 Bonds	19,398	–	(1,268)	18,130	–
Series 2014 Bonds	200,000	–	–	200,000	–
Series 2013 Direct Placement Bonds	177,115	–	(3,160)	173,955	3,260
Series 2011 Bonds	8,730	–	(2,795)	5,935	2,910
Note payable	5,050	–	(541)	4,509	542
Capital leases	1,405	1,401	(875)	1,931	887
CMH USDA loan	64,301	–	(788)	63,513	816
CMH First Citizen’s loan	8,445	–	(1,930)	6,515	1,990
CMH loan agreements	1,785	–	(1,785)	–	–
UHS loan agreements	11,700	–	–	11,700	345
Total long-term debt	<u>\$ 695,819</u>	<u>\$ 1,401</u>	<u>\$ (14,677)</u>	<u>\$ 682,543</u>	<u>\$ 12,360</u>

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In December 2017, VCUMC issued \$197,890 of fixed rate general revenue bonds at a premium of \$21,325 to advance refund the 2022 through 2041 maturities of VCUMC'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 in July 2022 and \$6,990 at maturity in July 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 \$1,695 in July 2021 and \$5,920 at maturity in July 2048. Interest rates range from 3.375% to 5% payable semiannually in January and July.

In February 2014, VCUMC issued \$200,000 of fixed rate taxable general revenue bonds, Series 2014A. The Series 2014 Bonds are subject to mandatory sinking fund and optional redemption with principal amounts of \$35,000 due January 2024, with an interest rate of 3.86% and \$165,000 due January 2044, with an interest rate of 4.96%.

In October 2013, VCUMC entered into a note payable to a bank in the amount of \$8,116. The remaining note balance of \$4,509 was paid in full by November 2020. Interest of approximately \$21 was paid during the year ended June 30, 2021.

In June 2013, VCUMC issued \$190,315 of variable rate direct placement bonds, consisting of Series 2013A totaling \$69,450 and Series 2013B totaling \$120,865, to refund existing indebtedness of VCUMC. The Series 2013 Direct Placement Bonds were issued at face value with initial interest rates based on the 30-day LIBOR index (0.10% and 0.18% at June 30, 2021 and 2020, respectively). The Series 2013 Direct Placement Bonds are subject to mandatory sinking fund, optional and extraordinary redemption with principal amounts varying between \$3,260 in July 2020 and \$15,700 at maturity in July 2037. In June 2021, VCUMC refinanced the Series 2013A with Series 2021A (\$57,250) and Series 2021B (\$8,836). The refinancing of the bonds replaced the variable rate debt with fixed tax-exempt rate of 1.40% (2021A). The swap associated with the Series 2013A was terminated and the cost to unwind the swap was financed at a fixed taxable rate of 1.98% (2021B). The Series 2021A bonds are subject to mandatory sinking fund, optional and extraordinary redemption with principal amounts varying between \$2,464 in July 2022 and \$8,239 at maturity in July 2030.

In December 2011, VCUMC issued \$120,000 of fixed rate General Revenue Bonds at a premium of \$1,069 to fund construction of a new outpatient facility and other additions and improvements to VCUMC facilities. The 2022 through 2014 maturities of the Series 2011 Bonds totaling \$98,605 were repaid as of December 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 \$6,051 and \$6,588 at June 30, 2021 and 2020, respectively. The remaining Series 2011 Bonds are subject to mandatory sinking fund, optional and extraordinary redemption with the remaining principal of \$3,025 due in July 2021.

In January 2008, VCUMC issued \$125,000 of variable rate demand bonds to finance the costs of a new 11 story critical care hospital to expand VCUMC's adult intensive care beds, emergency department, and private room capacity. The Series 2008 Bonds were repaid as of June 2013, from the proceeds of the Series 2013

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Direct Placement 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 \$17,994 and \$19,486 at June 30, 2021 and 2020, respectively.

In December 2005, VCUMC issued \$100,000 of General Revenue Bonds Series 2005 to fund a portion of the cost of constructing a new critical care hospital, refund existing indebtedness of VCUMC, and pay certain costs of issuance of the Series 2005 Bonds. The Series 2005 Bonds were repaid as of June 2013, from the proceeds of the Series 2013 Direct Placement 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 remaining unamortized balance of \$5,272 was expensed with the termination of the interest rate derivative as of June 30, 2021.

In July 2018, CMH entered into parity loan agreements aggregating \$75,000 with the United States Department of Agriculture (USDA) and First Citizen's Bank (First Citizen). The proceeds of the loans were used to provide long term financing for the construction of inpatient and outpatient facilities in South Hill, Virginia. Principal and interest for the USDA loan is amortized with the final payment due in July 2058. The interest rate is 3.5% per annum. Principal and interest for the First Citizen loan is amortized with the final payment due in August 2023. The interest rate is 2.99% per annum and is principal guaranteed by the USDA at 90% of loan principal. Both loans are collateralized by the facility improvements at the South Hill location.

In October 2013, UHS entered into loan agreements which total \$11,700 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 was paid through October 2020. This loan was forgiven in the current year, as such there was no outstanding balance as of June 30, 2021.

The Authority holds a line of credit with Wells Fargo in the amount of \$50,000, which expires in October 2021. In addition, during FY2020, the Authority entered into an additional revolving line of credit with TD Bank in the amount of \$50,000, which expired in June 2021. As of June 30, 2021 and 2020, the lines had no outstanding balance and were not drawn upon during the fiscal year.

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A summary of future principal requirements of long-term debt as of June 30, 2021 follows:

	Series 2021 Bonds	Series 2017 Bonds	Series 2014 Bonds	Direct Placement Bonds	Series 2011 Bonds	Note Payable and Capital Leases	CMH Loans	Total
2022	\$ —	\$ 1,695	\$ —	\$ 1,265	\$ 3,025	\$ 900	\$ 2,897	\$ 9,782
2023	3,372	4,860	—	1,310	—	144	2,990	12,676
2024	3,464	5,110	35,000	1,360	—	—	1,266	46,200
2025	7,682	5,365	—	1,355	—	—	939	15,341
2026	7,926	5,640	—	1,465	—	—	972	16,003
2027–2031	43,642	32,700	—	8,335	—	—	5,406	90,083
2032–2036	—	41,175	—	67,540	—	—	6,438	115,153
2037–2041	—	50,420	—	30,815	—	—	7,667	88,902
2042–2046	—	30,665	165,000	—	—	—	9,131	204,796
2047–2051	—	17,115	—	—	—	—	10,875	27,990
2052–2056	—	—	—	—	—	—	12,952	12,952
2057–2059	—	—	—	—	—	—	5,688	5,688
Total	\$ 66,086	\$ 194,745	\$ 200,000	\$ 113,445	\$ 3,025	\$ 1,044	\$ 67,221	\$ 645,566

A summary of estimated future interest requirements of long-term debt based on effective rates as of June 30, 2021 follows:

	Series 2021 Bonds	Series 2017 Bonds	Series 2014 Bonds	Placement Bonds	Series 2011 Bonds	and Capital Leases	CMH Loans	Total
2022	\$ 976	\$ 8,507	\$ 9,528	\$ 648	\$ —	\$ 12	\$ 2,290	\$ 21,961
2023	977	8,264	9,528	640	—	—	2,197	21,606
2024	924	8,008	8,853	632	—	—	2,121	20,538
2025	870	7,740	8,177	625	—	—	2,087	19,499
2026	757	7,459	8,177	616	—	—	2,054	19,063
2027–2031	1,962	32,547	40,887	2,941	—	—	9,726	88,063
2032–2036	—	23,884	40,887	1,700	—	—	8,694	75,165
2037–2041	—	14,352	40,887	91	—	—	7,465	62,795
2042–2046	—	5,895	20,443	—	—	—	6,001	32,339
2047–2051	—	616	—	—	—	—	4,257	4,873
2052–2056	—	—	—	—	—	—	2,180	2,180
2057–2059	—	—	—	—	—	—	204	204
Total	\$ 6,466	\$ 117,272	\$ 187,367	\$ 7,893	\$ —	\$ 12	\$ 49,276	\$ 368,286

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VCUMC 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, 2021 and 2020, VCUMC transferred approximately \$22,960 and \$22,957 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 Direct Placement) of maximum total annual debt service in each fiscal year, as defined.

Interest expense for the years ended June 30, 2021 and 2020 was approximately \$16,125 and \$23,941, respectively. For the years ended June 30, 2021 and 2020, the Authority paid approximately \$28,844 and \$29,328 respectively, for interest. This was inclusive of \$6,174 and \$4,554 for the years ended June 30, 2021 and 2020 of interest paid related to the interest rate swap agreements (Note 7).

(7) Derivative Instruments

In June 2007, VCUMC 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, which declines over time to \$15,700 at the termination date in July 2037. The notional amount as of June 30, 2021 and 2020 was \$113,445 and \$114,630, respectively. VCUMC pays a fixed rate of 3.84% and the counterparty pays 67% of 30-day LIBOR (.06% and 0.12% as of June 30, 2021 and 2020, respectively). The payments are settled monthly. Payments or receipts under the terms of the swap are recorded as interest expense. At June 30, 2021 and 2020, the fair value of the swaps was a liability of \$37,349 and \$49,451, respectively, is included in the accompanying statements of net position. For the years ended June 30, 2021 and 2020, the change in fair value of the swaps was \$12,102 and (\$13,754), respectively, and is reported as a deferred outflow of resources.

In June 2013, VCUMC 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 was included in the calculation of the deferred loss on refunding. In June 2013, VCUMC reestablished hedge accounting by designating the Series 2013A Bonds as the hedged debt.

In December 2005, VCUMC entered into an interest rate swap agreement in conjunction with the issuance of its Series 2005 Bonds (note 6).

In June 2013, VCUMC 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 was included in the calculation of the deferred loss on refunding. In June 2013, VCUMC reestablished hedge accounting by designating the Series 2013B Bonds as the hedged debt. The swap had an initial notional amount of \$75,000,

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which declines over time to \$8,000 at the maturity date in July 2030. The notional amount as of June 30, 2020, was \$59,325. In June 2021 the fair value swap was terminated and the cost to unwind of the swap was financed as through the 2021B bonds. Upon termination of the interest rate swap agreement in June 2021 the unamortized deferred loss on refunding was expensed.

(8) Operating Leases

Total expense under operating leases was \$11,681 and \$13,949 in 2021 and 2020, respectively. Future minimum lease payments for non-cancelable operating leases are as follows:

2022	\$	8,854
2023		7,116
2024		6,123
2025		4,544
2026-2027		14,959
	\$	41,596

(9) Commitments

Estimated costs to complete construction in progress for capital assets at June 30, 2021 and 2020 for the Authority are approximately \$390,341 and \$504,500 respectively. Commitments primarily relate to two new facilities, an ambulatory facility and a children’s outpatient facility, major renovations of existing facilities, purchase of medical equipment, information system infrastructure, and various other projects.

(10) Contingencies

Professional, General, Automobile and Healthcare Professional Liability

VCUMC

VCUMC is self-insured for professional liability claims, exclusive of insured excess retentions. There have been malpractice claims asserted against VCUMC 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 VCUMC accrues estimated losses on malpractice claims to the extent they fall within the limits of VCUMC’s self-insurance program or exceed the limits of the excess insurance coverage in place through ARIES at the date of the claim. The undiscounted liability is actuarially determined using industry data and VCUMC’s historical experience.

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

	2021	2020	2019
Balance at beginning of year	\$ 3,023	\$ 2,931	\$ 3,505
Malpractice claims expense, net of actuarial adjustments	412	462	(436)
Malpractice claims settled	(210)	(370)	(138)
Balance at end of year	\$ 3,225	\$ 3,023	\$ 2,931

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. The balances at the end of the year represent claims and related legal expenses for reported and unreported incidents occurring since July 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 VCUMC claims, if any, at June 30, 2021, 2020 and 2019.

VCUMC obtains automobile liability insurance and specific coverage of general liability and healthcare professional liability through ARIES. Management does not believe the amount of liability for any claims incurred but unreported as of June 30, 2021, 2020 and 2019 is significant.

MCVAP

Beginning in July 2018, MCVAP obtained insurance coverage for malpractice claims through ARIES. Additionally, ARIES assumed the previously self-insured estimated liabilities from policy years July 2005 through June 2018.

Due to coverage moving to ARIES in FY19, there are no estimated losses on malpractice claims for the years ended June 30, 2021 and 2020.

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 provided through ARIES or purchased for claims arising from such matters.

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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. Management does not believe the amount of liability for any claims incurred but unreported as of June 30, 2021, 2020 and 2019 is significant.

Children's

Children's obtains insurance coverage for professional liability through ARIES. Management and legal counsel believe all claims should be settled within the limits of insurance coverage. Management does not believe the amount of liability for any claims incurred but unreported as of June 30, 2021, 2020 and 2019 is significant.

UHS and VCCN

UHS and VCCN obtain general liability insurance coverage through ARIES. Coverage was provided for 2021, 2020, and 2019 for UHS and 2021 for VCCN. Management does not believe the amount of liability for any claims incurred but unreported for these entities as of June 30, 2021, 2020 and 2019 is significant.

ARIES

ARIES provides medical malpractice coverage to MCVAP. 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 ARIES accrues estimated losses on malpractice claims. The discounted liability is actuarially determined using industry data and MCVAP's historical experience.

Changes in ARIES' estimated losses on malpractice claims for the years ended June 30 as a result of this arrangement were as follows:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Balance at beginning of year	\$ 23,180	\$ 21,960	\$ —
Malpractice claims expense, net of actuarial adjustments	5,220	3,999	5,549
Malpractice claims settled	(1,479)	(2,779)	(4,731)
Transfer to ARIES - MCVAP	—	—	21,142
Balance at end of year	<u>\$ 26,921</u>	<u>\$ 23,180</u>	<u>\$ 21,960</u>

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Assets whose use is designated have been internally designated for payment of claims and related legal expenses for reported and unreported incidents.

The Authority believes its financial position would not be materially affected by the difference between the amounts recorded and the ultimate cost related to asserted and unasserted claims covered by ARIES, if any, at June 30, 2021, 2020 and 2019.

Workers' Compensation

Beginning in July 2019, the Authority obtained insurance coverage for workers' compensation claims through ARIES. Additionally, ARIES assumed the previously self-insured estimated liabilities from policy years July 2001 through July 2019. The Authority is self-insured for workers' compensation claims prior to July 2001. The claims are in various stages of processing. 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 VCUMC's estimated losses on workers' compensation claims for the years ended June 30 were as follows:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Balance at beginning of year	\$ 6,915	\$ 13,058	\$ 12,822
Workers' compensation expense, net of actuarial adjustments	(1,820)	70	1,709
Workers' compensation claims settled	(122)	(154)	(1,473)
Transfer to ARIES	—	(6,059)	—
Balance at end of year	<u>\$ 4,973</u>	<u>\$ 6,915</u>	<u>\$ 13,058</u>

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, 2021, 2020 and 2019.

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Changes in ARIES' estimated losses on workers' compensation claims for the year ended June 30, 2021 and 2020, as a result of this arrangement were as follows:

	2021	2020
Balance at beginning of year	\$ 5,645	\$ –
Workers' compensation expense, net of actuarial adjustments	1,435	331
Workers' compensation claims settled	(896)	(745)
Transfer to ARIES	–	6059
Balance at end of year	\$ 6,184	\$ 5,645

Investments have been set aside for workers' compensation claims based on actuarially determined reserves and are included in assets whose use is designated in the accompanying statements of net position – enterprise fund. The funds are internally designated for claims and related legal expenses for reported and unreported incidents.

(11) Net Patient Service Revenue

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

	2021	2020
VCUMC gross charges:		
Inpatient	\$ 3,763,221	\$ 3,452,861
Outpatient	3,046,350	2,720,106
Less uncompensated care	(61,295)	(69,699)
Total VCUMC gross patient service revenue	6,748,276	6,103,268
Less contractual allowances, and uncollectible amounts	(4,859,478)	(4,448,082)
Net patient service revenue – VCUMC	1,888,798	1,655,186
Net patient service revenue – MCVAP	373,940	368,089
Net patient service revenue - Tappahannock	27,855	–
Net patient service revenue – CMH	128,999	120,668
Net patient service revenue – Children's	23,980	29,992
Eliminations	–	(17,047)
Total net patient service revenue	\$ 2,443,572	\$ 2,156,888

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(12) Estimated Medical Claims Payable

Claims expenses and liabilities arising from services rendered to Virginia Premier's HMO members through April 7, 2020 were reported when probable that services were provided and the amount of the claim was reasonably estimated.

In April 2020, a majority ownership of Virginia Premier was sold. In accordance with applicable accounting standards, the Authority's proportionate share of Virginia Premier's financial results subsequent to April 7, 2020 is reflected in non-operating results within income from equity method investment, consistent with equity method reporting for a minority held position.

The following table provides a reconciliation of the beginning and ending claims payable balances, prior to intercompany eliminations, for the years ended June 30, through April 7, 2020:

	2020	2019
Balance at beginning of year	\$ 174,863	\$ 167,956
Add provision for claims occurring in:		
Current year	1,415,697	1,594,249
Prior years	(41,262)	(18,971)
Claims incurred during the current year	1,374,435	1,575,278
Deduct payments for claims occurring in:		
Current year	(1,297,538)	(1,426,184)
Prior years	(119,670)	(142,187)
Claims payments during the current year	(1,417,208)	(1,568,371)
Sale of Virginia Premier	(132,090)	-
Balance at end of year	\$ -	\$ 174,863

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 \$450 subject to certain limitations and a lifetime limit of \$5,000 per enrollee. Premiums paid to the reinsurer for the years ended June 30, 2020 (through April 7, 2020), were approximately \$6,397 are included in other expenses in the accompanying statements of revenues, expenses and changes in net position. Benefits of approximately \$4,035 were provided by the reinsurer for the year ended June 30, 2020 and are netted with medical claims expense in the accompanying statements of revenues, expenses, and changes in net position.

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(13) Related Parties

(a) Virginia Commonwealth University

Effective July 1, 1997, VCUMC 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 VCUMC. VCUMC will be the primary teaching hospital for VCU. VCU leased patient care facilities to VCUMC under a 99-year lease for \$1 per year. VCUMC 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 VCUMC's campus, VCUMC funded approximately \$1,804 of the construction costs in fiscal year 2006. In addition, VCUMC agreed to assume responsibility for 50% of the payments on the associated construction debt. At June 30, 2021, VCUMC's remaining commitment through 2030 is approximately \$2,172.

Payments under the affiliation and lease agreements with VCU for the years ended June 30, 2021 and 2020, which are included in purchased services and other expenses on the accompanying statements of revenues, expenses and changes in net position, were as follows:

	<u>2021</u>	<u>2020</u>
Payments by VCU to VCUMC:		
Operation and maintenance	\$ 18	\$ 18
Rent on short-term space	165	165
Total payments by VCU to VCUMC	<u>\$ 183</u>	<u>\$ 183</u>
Payments by VCUMC to VCU:		
Massey Cancer Center	\$ 6,000	\$ 6,000
Graduate education services	661	527
Nonphysician clinical support	5,939	5,012
Administrative support	18,838	14,781
Gainshare	-	990
Health Innovation Consortium	666	886
Rent on short-term space	1,126	1,114
Principal and interest on parking deck debt	432	435
Total payments by VCUMC to VCU	<u>\$ 33,662</u>	<u>\$ 29,745</u>

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

	2021	2020
Due to Virginia Commonwealth University	\$ 1,215	\$ 1,940

(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 \$326 and \$487 to MCVAP for the years ended June 30, 2021 and 2020, respectively. The gifts from MCV Foundation were unrestricted and will be used to support the clinical departments

(c) MCVAP

VCUMC has entered into purchased service agreements with MCVAP regarding reimbursement for various services performed on behalf of VCUMC by MCVAP. Clinical and Operating Services Agreement (COSA) payments are annually determined and made by VCUMC to MCVAP in return for clinical support and joint operations funded by MCVAP and payments for indigent care provided by physicians of MCVAP. During 2021 and 2020, VCUMC paid approximately \$63,278 and \$56,620 in COSA payments, respectively.

VCUMC allocated MCVAP approximately \$71,017 in shared services in FY2021. In FY2020, there was no allocation for shared services.

VCUMC leases clinical and administrative facilities to various MCVAP departments. Rental income related to these facilities totaled approximately \$366 and \$397, respectively, for the years ended June 30, 2021 and 2020.

Activity between VCUMC and MCVAP is eliminated in the accompanying financial statements.

(d) Virginia Premier

During 2020, a majority ownership interest of Virginia Premier was sold. In accordance with applicable accounting standards, after the sale, the Authority’s share of Virginia Premier is reflected on the statement of net position using the equity method of accounting with the Authority’s proportionate share of Virginia Premier’s financial results in the non-operating section of the statement of revenues, expenses and changes in net position.

During 2015, Virginia Premier entered into a promissory note agreement with the Authority for \$75,000. Interest to be paid by Virginia Premier to the Authority ranged from 4.67% to 4.88% annually. Both interest and principal payments required written approval from the Virginia Bureau of

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Insurance. In March 2017, the Bureau approved repayment of \$26,250 of principal and \$8,532 of accrued interest. Payment was made by Virginia Premier in May 2017. In December 2018, Virginia Premier entered into a second promissory note agreement with the Authority for \$50,000. The note bore an interest rate of LIBOR plus 1.00%. The note was forgiven by VCUMC as part of the majority ownership sale in April 2020.

During 2020, Virginia Premier provided certain VCUMC departments administrative services for which Virginia Premier received reimbursement of approximately \$48.

VCUMC provided health care services to Virginia Premier members, for which VCUMC received payments of approximately \$46,587 for the years ended June 30, 2020 (through April 7, 2020), which are included in net patient service revenue by VCUMC and medical claims expense by Virginia Premier respectively, prior to eliminations.

Activity between VCUMC and Virginia Premier prior to the sale is eliminated in the accompanying financial statements.

(e) UHS

VCUMC leases clinic office space from UHS under operating leases. Rental expense under these leases was \$2,473 and \$2,930 during the years ended June 30, 2021 and 2020, respectively.

VCUMC allocated to UHS approximately \$3,003 in shared services in FY2021. In FY2020, there was no allocation for shared services.

Activity between VCUMC and UHS is eliminated in the accompanying financial statements.

(f) CMH

VCUMC allocated to CMH approximately \$14,842 in shared services in FY2021. In FY2020, there was no allocation for shared services.

(g) Children's

VCUMC allocated Children's approximately \$2,128 in shared services in FY2021. In FY2020, there was no allocation for shared services.

(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.

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(15) Pension Plans

(a) VCUMC – Virginia Retirement System Plan (VRS Plan)

1) Plan

Prior to July 1997, employees of VCUMC 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. After July 1997, employees could choose to remain in the VRS Plan or enroll in the VCUMC Authority Defined Contribution Plan. As of June 30, 2020, 287 employees remain enrolled in VRS. Participating VCUMC 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 VCUMC, has overall responsibility for the VRS 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 2013, the 5.00% member contribution was paid by VCUMC. Beginning July 2013, VCUMC employees were required to pay the 5.00% member contribution. Each state agency's (including VCUMC) contractually required contribution rate was 14.46% and 13.52% of covered employee compensation for employees in the Plan, for the years ended June 30, 2021 and 2020 respectively. These rates were based on an actuarially determined rate from an actuarial valuation as of June 30, 2019 and 2017. 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 VCUMC to the VRS Plan were \$2,490 and \$2,859 for the years ended June 30, 2021 and 2020, respectively.

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3) Net Pension Liability

VCUMC reported a liability of \$36,297 and \$37,635 for its proportionate share of the Net Pension Liability for the years ended June 30, 2021 and 2020, respectively. The Net Pension Liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2019 and rolled forward to the measurement date of June 30, 2020. VCUMC's proportion of the Net Pension Liability was based on VCUMC's actuarially determined employer contributions to the pension plan for the year ended June 30, 2020, relative to the total of the actuarially determined employer contribution for all participating employers. At June 30, 2020, VCUMC's proportion of the VRS Plan was 0.50% as compared to 0.60% at June 30, 2019.

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

For the year ended June 30, 2021, VCUMC recognized pension expense of \$50. Since there was a change in proportionate share between June 30, 2019 and June 30, 2020, 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, 2021, VCUMC reported deferred outflows of resources and deferred inflows of resources related to the VRS Plan from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 412	\$ 369
Net difference between projected and actual earnings on pension plan investments	2,824	—
Change in assumptions	1,508	—
Changes in proportion and differences between employer contributions and proportionate share of contributions	—	7,041
Employer contributions subsequent to the measurement date	2,490	—
Total	<u>\$ 7,234</u>	<u>\$ 7,410</u>

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Deferred outflows of resources related to employer contributions subsequent to the measurement date totaling \$2,490 will be recognized as a reduction of the net pension liability in the year ending June 30, 2022. The net deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2022	\$ (2,832)
2023	(778)
2024	38
2025	906
2026	—
	\$ (2,666)

5) Actuarial Assumptions

The total pension liability for the VRS Plan was based on an actuarial valuation as of June 30, 2019, 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, 2020.

Inflation	2.5%
Salary increases, including inflation	3.5%–5.35%
Investment rate of return	6.75%, 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 to 2020; 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.

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The actuarial assumptions used in the June 30, 2019, valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy 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
Discount Rates	Decrease rate from 7.00% to 6.75%

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6) Long-Term Expected Rate of Return

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

<u>Asset Class (Strategy)</u>	<u>Target Allocation</u>	<u>Arithmetic Long-term Expected Rate of Return</u>	<u>Weighted Average Long-term Expected Rate of Return</u>
Public Equity	34.00%	4.65%	1.58%
Fixed Income	15.00%	0.46%	0.07%
Credit Strategies	14.00%	5.38%	0.75%
Real Assets	14.00%	5.01%	0.70%
Private Equity	14.00%	8.34%	1.17%
MAPS - Multi-Asset Public Strategies	6.00%	3.04%	0.18%
PIP-Private Investment Partnership	3.00%	6.49%	0.19%
Total	<u>100.00%</u>		<u>4.64%</u>
Inflation			<u>2.50%</u>
			<u>7.14%</u>

The above allocation provides a one-year return of 7.14%. 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, 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 7.11%, including expected inflation of 2.50%. The VRS Board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation. More recent capital market assumptions compiled for the FY2020 actuarial valuations, provide a median return of 6.81%.

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7) Discount Rate

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that the VRS 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, 2020, the rate contributed by VCUMC for the VRS Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly which was 100% of the actuarially determined contribution rate. From July 1, 2020 on, all agencies are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the VRS 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 VCUMC’s proportionate share of the VRS Plan’s net pension liability using the discount rate at 6.75%, as well as what VCUMC’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	<u>1% Decrease</u>	<u>Discount rate</u>	<u>1% Increase</u>
Net pension liability	\$ 51,442	\$ 36,297	\$ 23,564

Pension plan fiduciary net position. Detailed information about the pension plan’s fiduciary net position is available in the separately issued VRS 2020 Comprehensive Annual Financial Report (CAFR).

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

The VCUMC Defined Contribution Plan was amended and restated effective January 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. Per the VCUHS 401(a) Plan document as approved by the Authority’s Board of Directors, VCUMC 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, 2021 and 2020 were approximately \$34,212 and \$32,089, respectively.

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

VCUMC 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.

VCUMC 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.

VCUMC has also established the HCP Plan. All persons hired as a health care provider on or after July 1993 and prior to July 1997 and working at least 35 hours of service per week are eligible to participate 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, 2021 and 2020 were \$24 and \$27, respectively.

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(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 \$24,391 and \$23,852 for the years ended June 30, 2021 and 2020, respectively.

MCVAP also participates in the VCUHS 401(a) Plan, which covers all benefited nonclinical provider employees of MCVAP; the VCUHS 457(b) Plan, 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 account based on their 457(b) contribution.

Age Plus Years of Service	Employer Contributions (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, 2021 and 2020 were approximately \$5,261 and \$4,673, respectively.

(d) CMH

CMH participates in the VCUHS 401(a) Plan and retirement plan expense was approximately \$3,388 and \$2,187 for the years ended June 30, 2021 and 2020, respectively.

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(e) Virginia Premier

Effective August 1, 1999, Virginia Premier adopted a 401(k) plan, for which Fidelity Investments is the trustee. Prior to January 2015, employees became eligible to participate after completing one year of service, during which the employee completed 1,000 hours of service. Effective January 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 of the plan year. This additional Non Elective contribution was made after the end of the calendar years 2015 and later.

Age Plus Years of Service	Nonelective Employer Contributions
65+	5%
55–65	3
45–55	1
<55	–

Virginia Premier's expense for its contributions to this plan was approximately \$5,009 for the years ended June 30, 2020 (through April 7, 2020).

(f) Children's

Children's has a noncontributory defined benefit pension plan (Pension Plan) covering substantially all Children's employees prior to the plan being frozen in June 2010. 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 2010, Children's froze future benefit accruals for those who were active plan participants and closed the plan to new participants.

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The Pension Plan's fair value of plan assets of \$14,226 and \$11,530 as of June 30, 2021 and 2020, respectively, is recorded in net pension liability on the accompanying statements of net position. The Pension Plan's liability of \$12,194 and \$12,226 as of June 30, 2021 and 2020, 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 \$795 and \$1,236 for the years ended June 30, 2021 and 2020, respectively.

(16) Postemployment Benefits

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

1) Plan

Prior to July 1997, employees of VCUMC were employees of the Commonwealth of Virginia . These employees were automatically covered by the Employee Health Insurance Credit Program (HIC Plan) administered by the VRS. The HIC Plan is a defined benefit postemployment plan (OPEB) that provides a credit towards the cost of health insurance coverage for retirees with at least fifteen years of service. The credit cannot exceed the amount of the premiums and ends upon the retiree's death. After July 1997, new employees are not eligible for the HIC Plan. As of June 30, 2021, 521 employees remain enrolled in the HIC Plan. The Commonwealth, not VCUMC, has overall responsibility for the HIC 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 VCUMC) contractually required employer contribution rate for the year ended June 30, 2021 was 1.12% 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, 2019. 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 VCUMC to the HIC Plan were approximately \$534 and \$520 for the years ended June 30, 2021 and June 30, 2020, respectively.

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3) Net HIC OPEB Liability

At June 30, 2021 and 2020, VCUMC reported a liability of \$5,655 and \$6,374, respectively, for its proportionate share of the HIC Plan OPEB Liability. The Net HIC Plan OPEB Liability was measured as of June 30, 2020 and the total HIC Plan OPEB liability used to calculate the net HIC Plan OPEB liability was determined by an actuarial valuation performed as of June 30, 2019 and rolled forward to the measurement date of June 30, 2020. VCUMC's proportion of the net HIC Plan OPEB Liability was based on VCUMC's actuarially determined employer contributions to the HIC Plan for the year ended June 30, 2020, relative to the total of the actuarially determined employer contributions for all participating state employers. At June 30, 2020, VCUMC's proportion of the HIC Plan was 0.62% as compared to 0.69% at June 30, 2019.

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

For the year ended June 30, 2021, VCUMC recognized HIC Plan expense of \$(27). Since there was a change in proportionate share between measurement dates, apportion of the VRS HIC Plan Net OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2021, VCUMC 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
Differences between expected and actual experience	\$ 2	\$ 85
Net difference between projected and actual investment earnings on State HIC OPEB plan investments	28	-
Change in assumptions	94	27
Changes in proportion share	-	1,945
Employer contributions subsequent to the measurement date	434	-
Total	\$ 558	\$ 2,057

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Deferred outflows of resources related to employer contributions subsequent to the measurement date totaling \$434 will be recognized as a reduction of the net HIC Plan liability in the year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to HIC OPEB will be recognized in pension expense as follows:

Year ended June 30:

2022	\$	(519)
2023		(516)
2024		(436)
2025		(320)
2026		(142)
Thereafter		—
	<u>\$</u>	<u>(1,933)</u>

5) Actuarial Assumptions

The total HIC OPEB liability for the HIC Plan was based on an actuarial valuation as of June 30, 2019, 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, 2020.

Inflation	2.5%
Salary increases, including inflation	3.50% – 5.35%
Investment rate of return including	6.75%, 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 to 2020; 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.

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The actuarial assumptions used in the June 30, 2019, valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy 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
Discount Rate	Decrease rate from 7.00% to 6.75%

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June 30, 2021 and 2020

(In thousands)

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 asset 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	34.00%	4.65%	1.58%
Fixed Income	15.00%	0.46%	0.07%
Credit Strategies	14.00%	5.38%	0.75%
Real Assets	14.00%	5.01%	0.70%
Private Equity	14.00%	8.34%	1.17%
MAPS-Multi-Asset Public Strategies	6.00%	3.04%	0.18%
PIP-Private Investment Partnership	3.00%	6.49%	0.19%
Total	<u>100.00%</u>		4.64%
Inflation			<u>2.50%</u>
			<u>7.14%</u>

The above allocation provides a one-year return of 7.143%. 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 7.11%, including expected inflation of 2.50%. The VRS Board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation. More recent capital market assumptions compiled for the FY2020 actuarial valuations, provide a median return of 6.81%.

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(In thousands)

7) Discount Rate

The discount rate used to measure the total HIC Plan OPEB was 6.75%. 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 actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2020, the rate contributed by VCUMC for the HIC Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly, which was 100% of the actuarially determined contribution rate. From July 1, 2020 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 VCUMC's proportionate share of the HIC Plan's net HIC OPEB liability using the discount rate at 6.75%, as well as what VCUMC's proportionate share of the net HIC OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate.

	1% Decrease	Discount rate	1% Increase
Net pension liability	\$ 6,266	\$ 5,655	\$ 5,129

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

As of June 30, 2020, the net HIC OPEB liability amounts for the VRS State Employee Health Insurance Credit Program is as follows (amounts expressed in thousands):

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June 30, 2021 and 2020
(In thousands)

	<u>State Employee HIC OPEB Plan</u>
Total State Employee HIC OPEB Liability	\$ 1,043,382
Less: Plan Fiduciary Net Position	<u>125,378</u>
State Employee net HIC OPEB Liability (Asset)	<u><u>\$ 918,004</u></u>

Detailed information about the VRS State Employee Health Insurance Credit Program's Fiduciary Net Position is available in the separately issued VRS 2020 Comprehensive Annual Financial Report (CAFR). A copy of the 2020 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) VCUMC – 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. Pre-Medicare Retiree Healthcare is a single-employer defined benefit OPEB plan that is treated like a cost-sharing plan for financial reporting purposes. For a retiree to participate in the Retiree Healthcare Plan, the participant must be eligible for VRS, be receiving benefits payments immediately upon retirement, be eligible for coverage as an active employee in the State Health Benefits Program until his or her retirement, and enroll no later than 31 days from retirement date. Prior to July 1997, employees of VCUMC 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 1997, remain eligible for the Retiree Healthcare Plan. As of June 30, 2021, 212 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.

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(In thousands)

2) Contributions

The employer does not pay a portion of the retirees' healthcare premium; however, since both active employees 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, 2021 and 2020, VCUMC reported a liability of \$1,988 and \$2,655, respectively, for its proportionate share of the total Retiree Healthcare OPEB Liability. The Retiree Healthcare OPEB liability was measured as of June 30, 2020 and was determined by an actuarial valuation as of June 30, 2020. VCUMC's proportion of the Retiree Healthcare OPEB Liability was based on VCUMC's calculated healthcare premium contributions as a percentage of the total health premium contributions for all participating employers. At June 30, 2020, VCUMC's proportion of the Retiree Healthcare Plan was 0.35% as compared to 0.39% at June 30, 2019.

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, 2021, VCUMC recognized Retiree Healthcare Plan expense of \$(926). At June 30, 2021, VCUMC 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	\$ —	\$ 1,012
Change in assumptions	—	1,628
Changes in proportion share	—	1,620
Amounts associated with transactions subsequent to the measurement date	129	—
Total	\$ 129	\$ 4,260

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(In thousands)

Deferred outflows of resources related to employer contributions subsequent to the measurement date totaling \$129 will be recognized as a reduction of the net Retiree Healthcare Plan liability in the year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Retiree Healthcare OPEB as follows:

Year ended June 30:		
2022	\$	(1,181)
2023		(1,181)
2024		(993)
2025		(577)
2026		(265)
Thereafter		(63)
	<u>\$</u>	<u>(4,260)</u>

5) Actuarial Assumptions

The total Retiree Healthcare OPEB liability was based on an actuarial valuation as of June 30, 2020. 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 6.75% for medical and pharmacy and 4.0% for dental. The ultimate trend rates used were 4.5% 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 year in which contributions are reported.
Measurement Date	June 30, 2020 (one year prior to the end of the fiscal year)
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level dollar, closed
Effective Amortization Period	6.34 years
Discount Rate	2.21%
Projected Salary Increases	4.00%
Medical Trend Under 65	Medical & Rx: 6.75% to 4.5% Dental: 4.0%
Year of Ultimate Trend	2029

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Mortality rates:	Mortality rates vary by participant status
Pre-Retirement:	RP-2014 Employee Rates; 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 to 2020; males and females set back 1 year.
Post-Disablement:	RP-2014 Disability Life Mortality Table projected with Scale BB to 2021; 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, 2020.

The following assumptions were updated since the June 30, 2019 valuation based on recent experience:

- Spousal Coverage – reduced the rate from 25% to 20%
- Retiree Participation – reduced the rate from 50% to 45%

Spousal coverage and retiree participation were both reduced based on a blend of recent experience and the prior year assumptions. The mortality assumption was modified slightly to reflect mortality improvement projection scale BB, including age over 65 in pre-retirement mortality base rates.

No excise tax has been reflected due to the SECURE Act. Trend rates were updated based on economic conditions as of June 30, 2020. Additionally, the discount rate was decreased from 3.51% to 2.21% based on the Bond Buyers GO 20 Municipal Bond Index.

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Notes to Basic Financial Statements (Continued)

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(In thousands)

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

The following presents VCUMC's proportionate share of the Retiree Healthcare OPEB liability using the discount rate at 2.21%, 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 (1.21%) or one percentage point higher (3.21%) than the current rate:

	1% Decrease	Discount rate	1% Increase
Retiree Healthcare OPEB Liability	\$ 2,092	\$ 1,988	\$ 1,883

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

The following presents VCUMC's proportionate share of the Retiree Healthcare OPEB liability using healthcare cost trend rate of 6.75% decreasing to 4.50%, as well as what the VCUMC'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 (5.75% decreasing to 3.50%) or one percentage point higher (7.75% decreasing to 5.50%) than the current rate:

	1% Decrease (5.75% decreasing to 3.50%)	Trend Rate (6.75% decreasing to 4.50%)	1% Increase (7.75% decreasing to 5.50%)
Retiree Healthcare OPEB Liability	\$ 1,782	\$ 1,988	\$ 2,230

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(In thousands)

(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:

	2021	2020
Anthem	31%	26%
Medicaid	13%	16%
Medicare	15%	16%
Other	41%	42%
	100%	100%

Revenue from the Medicare and Medicaid/Indigent programs accounted for approximately 22% and 23%, respectively, of the Authority's net patient service revenue for the year ended June 30, 2021. Revenue from the Medicare and Medicaid/Indigent programs accounted for approximately 20% and 23%, respectively, of the Authority's net patient service revenue for the year ended June 30, 2020. 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.

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Notes to Basic Financial Statements (Continued)

June 30, 2021 and 2020

(In thousands)

(18) Condensed Combining Information

(a) Condensed Statement of Net Position

	At June 30, 2021									
	MCV Hospitals	MCV Associated Physicians	Community Memorial Hospital	Tappahannock Hospital	VCCN	Children's	University Health Services	Aries Insurance Captive	Eliminations	Total
Assets										
Current assets	\$ 833,484	\$ 165,435	\$ 142,316	\$ 13,905	\$ –	\$ 4,658	\$ 8,831	\$ 6,889	\$ (371,353)	\$ 804,165
Capital assets	1,289,172	7,669	101,822	16,299	–	6,612	25,165	–	–	1,446,739
Other assets	1,951,009	118,610	21,480	39	–	7,898	1,221	69,508	–	2,169,765
Total assets	4,073,665	291,714	265,618	30,243	–	19,168	35,217	76,397	(371,353)	4,420,669
Deferred outflows of resources										
Total deferred outflows of	38,939	–	–	–	–	–	–	–	–	38,939
Total assets and deferred	<u>\$ 4,112,604</u>	<u>\$ 291,714</u>	<u>\$ 265,618</u>	<u>\$ 30,243</u>	<u>\$ –</u>	<u>\$ 19,168</u>	<u>\$ 35,217</u>	<u>\$ 76,397</u>	<u>\$ (371,353)</u>	<u>\$ 4,459,608</u>
Liabilities										
Current liabilities	\$ 509,125	\$ 201,618	\$ 91,381	\$ 16,532	\$ –	\$ 16,413	\$ 16,635	\$ 9,230	\$ (371,353)	\$ 489,581
Other liabilities	712,805	–	64,324	–	–	–	–	30,842	–	807,971
Total liabilities	1,221,930	201,618	155,705	16,532	–	16,413	16,635	40,072	(371,353)	1,297,552
Deferred inflows of resources										
Total deferred inflows of	13,727	–	–	–	–	–	–	–	–	13,727
Net position										
Net investment in capital assets	926,834	7,669	34,601	16,299	–	6,611	25,165	–	–	1,017,179
Restricted:										
Expendable	–	–	2,600	–	–	3,168	–	–	–	5,768
Nonexpendable	23,549	–	96	–	–	2,676	–	–	–	26,321
Unrestricted	1,926,564	82,427	72,616	(2,588)	–	(9,700)	(6,583)	36,325	–	2,099,061
Total net position	2,876,947	90,096	109,913	13,711	–	2,755	18,582	36,325	–	3,148,329
Total liabilities, deferred inflows of resources and net position	<u>\$ 4,112,604</u>	<u>\$ 291,714</u>	<u>\$ 265,618</u>	<u>\$ 30,243</u>	<u>\$ –</u>	<u>\$ 19,168</u>	<u>\$ 35,217</u>	<u>\$ 76,397</u>	<u>\$ (371,353)</u>	<u>\$ 4,459,608</u>

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June 30, 2021 and 2020

(In thousands)

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

	Year Ended June 30, 2021									
	MCV Hospitals	MCV Associated Physicians	Community Memorial Hospital	Tappahannock Hospital	VCCN	Children's	University Health Services	Aries Insurance Captive	Eliminations	Total
Operating revenues	\$ 1,909,900	\$ 468,394	\$ 129,241	\$ 28,313	\$ –	\$ 24,467	\$ 5,620	\$ 10,820	\$ (78,588)	\$ 2,498,167
Operating expenses excluding depreciation and amortization	1,684,756	567,635	145,772	27,144	355	26,602	8,601	10,408	(78,588)	2,392,685
Provision for depreciation and amortization	83,487	2,168	8,496	930	–	1,252	1,793	–	–	98,126
Operating income (loss)	141,657	(101,409)	(25,027)	239	(355)	(3,387)	(4,774)	412	–	7,356
Nonoperating revenue and expenses, net	404,092	83,479	10,136	42	–	4,657	12,429	709	–	515,544
Other	8,735	(10,038)	2,380	13,430	355	(216)	(25,385)	–	–	(10,739)
Increase in beneficial interest in trusts	5,156	–	–	–	–	1,387	–	–	–	6,543
Increase (decrease) in net position	559,640	(27,968)	(12,511)	13,711	–	2,441	(17,730)	1,121	–	518,704
Net position at beginning of year	2,317,307	118,064	122,424	–	–	314	36,312	35,204	–	2,629,625
Net position at end of year	<u>\$ 2,876,947</u>	<u>\$ 90,096</u>	<u>\$ 109,913</u>	<u>\$ 13,711</u>	<u>\$ –</u>	<u>\$ 2,755</u>	<u>\$ 18,582</u>	<u>\$ 36,325</u>	<u>\$ –</u>	<u>\$ 3,148,329</u>

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Notes to Basic Financial Statements (Continued)

June 30, 2021 and 2020

(In thousands)

(c) Condensed Statement of Cash Flows

	Year Ended June 30, 2020								
	MCV Hospitals	MCV Associated Physicians	Community Memorial Hospital	Tappahannock Hospital	VCCN	Children's	University Health Services	Aries Insurance Captive	Total
Net cash provided (used) by:									
Operating activities	\$ (83,408)	\$ 9,856	\$ (3,136)	\$ 130	\$ –	\$ (2,730)	\$ 874	\$ 7,340	\$ (71,074)
Noncapital financing activities	50,624	(4,363)	10,530	–	–	2,526	–	–	59,317
Capital and related financing activities	(397,531)	(3,804)	(6,420)	(91)	–	(685)	(61)	–	(408,592)
Investing activities	4,061	(829)	2,035	–	–	–	(996)	(7,240)	(2,969)
Net increase (decrease) in cash and cash equivalents	(426,254)	860	3,009	39	–	(889)	(183)	100	(423,318)
Cash and cash equivalents at beginning of year	581,641	60,126	15,980	–	–	969	4,998	33	663,747
Cash and cash equivalents at end of year	<u>\$ 155,387</u>	<u>\$ 60,986</u>	<u>\$ 18,989</u>	<u>\$ 39</u>	<u>\$ –</u>	<u>\$ 80</u>	<u>\$ 4,815</u>	<u>\$ 133</u>	<u>\$ 240,429</u>

Required Supplementary Information and
Supplementary Information as of and
For the Year Ended June 30, 2021

**VIRGINIA COMMONWEALTH UNIVERSITY
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Schedule of Employer Contributions
(unaudited-see accompanying Report of Independent Auditors)
(In thousands)

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	\$ 5,138	\$ 5,138	\$ —	\$ 41,277	12.45%
2016	4,146	4,146	—	38,331	10.82%
2017	4,762	4,762	—	34,988	13.61%
2018	3,926	3,926	—	32,650	12.02%
2019	3,603	3,603	—	24,978	14.42%
2020	3,114	3,114	—	24,562	12.68%
2021	2,859	2,859	—	21,602	13.23%

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.

VIRGINIA COMMONWEALTH UNIVERSITY
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Schedule of Authority's Share of Net Pension Liability
(unaudited-see accompanying Report of Independent Auditors)
(In thousands)

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Employer's proportion of the net pension liability	0.94%	0.87%	0.79%	0.74%	0.67%	0.60%	0.50%
Employer's proportionate share of the net pension liability	\$52,598	\$53,472	\$52,121	\$43,367	\$36,496	\$37,635	\$ 36,297
Employer's covered payroll	\$41,277	\$38,331	\$34,988	\$32,650	\$24,978	\$24,562	\$ 21,602
Employer's proportionate share of the net pension liability as a percentage of its covered payroll	127.43%	139.50%	148.97%	132.82%	146.11%	153.22%	168.03%
Plan fiduciary net position as a percentage of the total pension liability	74.28%	72.81%	71.29%	75.33%	77.39%	75.13%	72.15%

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.

**VIRGINIA COMMONWEALTH UNIVERSITY
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Schedule of Authority's Share of Net OPEB Liability Health
Insurance Credit Program (HIC)
(unaudited-see accompanying Report of Independent Auditors)
(In thousands)

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Employer's proportion of the net HIC OPEB	0.90%	0.82%	0.69%	0.62%
Employer's proportionate share of the net HIC				
OPEB liability	\$ 8,180	\$ 7,495	\$ 6,374	\$ 5,655
Employer's covered payroll	\$ 47,624	\$ 42,435	\$ 49,072	\$ 45,133
Employer's proportionate share of the net HIC OPEB				
liability as a percentage of its covered payroll	17.18%	17.66%	12.99%	12.53%
Plan fiduciary net position as a percentage of the				
total HIC OPEB liability	8.03%	9.51%	10.56%	12.02%

Schedule is intended to show information for 10 years. 2018 is the first fiscal year for presentation, only four years 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.

**VIRGINIA COMMONWEALTH UNIVERSITY
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Schedule of Authority's Share of Net OPEB Liability Pre-Medicare
Retiree Healthcare (Retiree Healthcare Plan)

(unaudited-see accompanying Report of Independent Auditors)

(In thousands)

	2018	2019	2020	2021
Employer's proportion of the net Retiree Healthcare Plan OPEB	0.47%	0.43%	0.39%	0.35%
Employer's proportionate share of the net Retiree Healthcare Plan OPEB liability	\$ 6,164	\$ 4,348	\$ 2,655	\$ 1,988
Employer's covered payroll	\$ 20,660	\$ 18,552	\$ 18,309	\$ 22,472
Employer's proportionate share of the net Retiree Healthcare Plan OPEB liability as a percentage of its covered payroll	29.83%	23.43%	14.50%	8.85%

Schedule is intended to show information for 10 years. 2018 is the first fiscal year for presentation, only four years 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.

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, 2021
(In thousands)

	MCV Hospitals	MCV Associated Physicians	Community Memorial Hospital	Tappahannock Hospital	VCCN	Children's Hospital	University Health Services	Aries Insurance Captive	Eliminations	Total
Assets										
Current assets:										
Cash and cash equivalents	\$ 114,626	\$ 57,865	\$ 15,235	\$ 39	\$ -	\$ 78	\$ 4,815	\$ 133	\$ -	\$ 192,791
Restricted cash	-	69	77	-	-	2	-	-	-	148
Patient accounts receivable, net	361,018	62,472	15,898	6,358	-	1,076	-	-	-	446,822
Settlements due from third-party payors	5,237	38,083	14,152	33	-	1,621	-	-	-	59,126
Other accounts receivable	16,794	5,810	195	4,491	-	34	48	-	-	27,372
Due from related parties	271,770	31	93,824	-	-	1,791	3,937	-	(371,353)	-
Current portion of assets whose use is designated	400	-	-	-	-	-	-	6,750	-	7,150
Supplies and other current assets	63,639	1,105	2,935	2,984	-	56	31	6	-	70,756
Total current assets	833,484	165,435	142,316	13,905	-	4,658	8,831	6,889	(371,353)	804,165
Capital assets:										
Land	18,007	-	1,614	3,047	-	55	2,745	-	-	25,468
Depreciable capital assets, net	604,543	4,967	98,686	13,225	-	6,527	22,420	-	-	750,368
Construction in progress	666,622	2,702	1,522	27	-	30	-	-	-	670,903
Total capital assets	1,289,172	7,669	101,822	16,299	-	6,612	25,165	-	-	1,446,739
Other assets:										
Assets whose use is restricted	37,399	-	478	-	-	5,844	-	-	-	43,721
Assets whose use is designated, less current portion	1,825,024	118,610	20,324	-	-	-	-	30,841	-	1,994,799
Long-term investments	-	-	-	-	-	-	-	38,667	-	38,667
Equity method investments	85,105	-	-	-	-	-	1,000	-	-	86,105
Other assets	3,481	-	678	39	-	2,054	221	-	-	6,473
Total other assets	1,951,009	118,610	21,480	39	-	7,898	1,221	69,508	-	2,169,765
Total assets	4,073,665	291,714	265,618	30,243	-	19,168	35,217	76,397	(371,353)	4,420,669
Deferred outflows of resources										
Change in fair value of interest rate swap	6,973	-	-	-	-	-	-	-	-	6,973
Deferred loss on debt refunding	24,045	-	-	-	-	-	-	-	-	24,045
Pension and postretirement related deferred outflows	7,921	-	-	-	-	-	-	-	-	7,921
Total deferred outflows of resources	38,939	-	-	-	-	-	-	-	-	38,939
Total assets and deferred outflows of resources	\$ 4,112,604	\$ 291,714	\$ 265,618	\$ 30,243	\$ -	\$ 19,168	\$ 35,217	\$ 76,397	\$ (371,353)	\$ 4,459,608

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, 2021
(In thousands)

	MCV Hospitals	MCV Associated Physicians	Community Memorial Hospital	Tappahannock Hospital	VCCN	Children's Hospital	University Health Services	Aries Insurance Captive	Eliminations	Total
Liabilities, deferred inflows of resources and net position										
Current liabilities:										
Current portion of long-term debt and capital leases	\$ 6,885	\$ —	\$ 2,897	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 9,782
Trade accounts payable	80,202	943	3,092	987	—	222	—	289	—	85,735
Settlements due to third-party payors	68,280	2,202	1,803	—	—	—	—	—	—	72,285
Accrued salaries, wages and employee benefits	78,106	24,482	6,654	141	—	2,047	—	—	—	111,430
Accrued leave	28,393	7,895	1,997	773	—	291	—	—	—	39,349
Accrued interest payable	9,646	—	72	—	—	—	—	—	—	9,718
Due to related parties	113,888	157,821	63,860	5,907	—	12,376	16,525	2,191	(371,353)	1,215
Current portion of estimated workers' compensation claims	150	—	—	—	—	—	—	750	—	900
Current portion of estimated losses on malpractice claims	250	—	—	—	—	—	—	6,000	—	6,250
Other accrued liabilities	123,325	8,275	11,006	8,724	—	1,477	110	—	—	152,917
Total current liabilities	509,125	201,618	91,381	16,532	—	16,413	16,635	9,230	(371,353)	489,581
Other liabilities:										
Long-term debt and capital leases, less current portion	588,334	—	64,324	—	—	—	—	—	—	652,658
Estimated workers' compensation	4,822	—	—	—	—	—	—	5,435	—	10,257
Estimated losses on malpractice claims	2,975	—	—	—	—	—	—	20,921	—	23,896
Fair value of hedging derivatives	37,349	—	—	—	—	—	—	—	—	37,349
Net pension and postretirement liability	43,940	—	—	—	—	—	—	—	—	43,940
Other liabilities	35,385	—	—	—	—	—	—	4,486	—	39,871
Total liabilities	1,221,930	201,618	155,705	16,532	—	16,413	16,635	40,072	(371,353)	1,297,552
Deferred inflows of resources										
Pension and post retirement related deferred inflows	13,727	—	—	—	—	—	—	—	—	13,727
Total deferred inflows of resources	13,727	—	—	—	—	—	—	—	—	13,727
Total liabilities and deferred inflows of resources	1,235,657	201,618	155,705	16,532	—	16,413	16,635	40,072	(371,353)	1,311,279

**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, 2021
(In thousands)

	<u>MCV Hospitals</u>	<u>MCV Associated Physicians</u>	<u>Community Memorial Hospital</u>	<u>Tappahannock Hospital</u>	<u>VCCN</u>	<u>Children's Hospital</u>	<u>University Health Services</u>	<u>Aries Insurance Captive</u>	<u>Eliminations</u>	<u>Total</u>
Net position										
Net position:										
Net investment in capital assets	\$ 926,834	\$ 7,669	\$ 34,601	\$ 16,299	\$ –	\$ 6,611	\$ 25,165	\$ –	\$ –	\$ 1,017,179
Restricted:										
Expendable	–	–	2,600	–	–	3,168	–	–	–	5,768
Nonexpendable permanent endowment	23,549	–	96	–	–	2,676	–	–	–	26,321
Unrestricted	1,926,564	82,427	72,616	(2,588)	–	(9,700)	(6,583)	36,325	–	2,099,061
Total net position	<u>2,876,947</u>	<u>90,096</u>	<u>109,913</u>	<u>13,711</u>	<u>–</u>	<u>2,755</u>	<u>18,582</u>	<u>36,325</u>	<u>–</u>	<u>3,148,329</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 4,112,604</u>	<u>\$ 291,714</u>	<u>\$ 265,618</u>	<u>\$ 30,243</u>	<u>\$ –</u>	<u>\$ 19,168</u>	<u>\$ 35,217</u>	<u>\$ 76,397</u>	<u>\$ (371,353)</u>	<u>\$ 4,459,608</u>

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, 2021
(In thousands)

	Component Units								Eliminations	Total
	MCV Hospitals	MCV Associated Physicians	Community Memorial Hospital	Tappahannock Hospital	VCCN	Children's Hospital	University Health Services	Aries Insurance Captive		
Operating revenues:										
Net patient service revenue	\$ 1,888,798	\$ 373,940	\$ 128,999	\$ 27,855	\$ –	\$ 23,980	\$ –	\$ –	\$ –	\$ 2,443,572
Contract revenue from MCVH	–	63,278	–	–	–	–	–	–	(63,278)	–
Other contract revenue	5,691	29,918	–	–	–	–	–	–	(384)	35,225
Other operating revenue	15,411	1,258	242	458	–	487	5,620	\$ 10,820	(14,926)	19,370
	<u>1,909,900</u>	<u>468,394</u>	<u>129,241</u>	<u>28,313</u>	<u>–</u>	<u>24,467</u>	<u>5,620</u>	<u>10,820</u>	<u>(78,588)</u>	<u>2,498,167</u>
Operating expenses:										
Salaries and wages	658,874	389,429	69,257	8,538	109	13,577	585	–	–	1,140,369
Employee benefits	187,082	76,297	15,487	2,240	28	5,086	198	–	–	286,418
Purchased services	232,743	8,016	15,432	7,401	2	1,471	2,222	10,381	(74,483)	203,185
Supplies	526,863	5,202	21,505	7,730	2	1,422	19	–	–	562,743
Other expenses	79,194	88,691	24,091	1,235	214	5,046	5,577	27	(4,105)	199,970
Provision for depreciation and	83,487	2,168	8,496	930	–	1,252	1,793	–	–	98,126
	<u>1,768,243</u>	<u>569,803</u>	<u>154,268</u>	<u>28,074</u>	<u>355</u>	<u>27,854</u>	<u>10,394</u>	<u>10,408</u>	<u>(78,588)</u>	<u>2,490,811</u>
Operating income (loss)	<u>141,657</u>	<u>(101,409)</u>	<u>(25,027)</u>	<u>239</u>	<u>(355)</u>	<u>(3,387)</u>	<u>(4,774)</u>	<u>412</u>	<u>–</u>	<u>7,356</u>
Nonoperating revenues and expenses:										
Investment income	407,775	33,675	4,361	–	–	–	3	709	–	446,523
Interest expense	(13,690)	–	(2,374)	–	–	–	(61)	–	–	(16,125)
Other nonoperating (expense) income,	(62,505)	44,128	(1)	42	–	2,131	12,487	–	–	(3,718)
Income from equity method investment	16,945	–	–	–	–	–	–	–	–	16,945
CARES ACT and other COVID-19	43,530	1,772	7,533	–	–	2,419	–	–	–	55,254
Donations and gifts, net	12,037	3,904	617	–	–	107	–	–	–	16,665
Total nonoperating revenues and	<u>404,092</u>	<u>83,479</u>	<u>10,136</u>	<u>42</u>	<u>–</u>	<u>4,657</u>	<u>12,429</u>	<u>709</u>	<u>–</u>	<u>515,544</u>
Income before other revenues, expenses, gains and losses	545,749	(17,930)	(14,891)	281	(355)	1,270	7,655	1,121	–	522,900
Other	(701)	(10,038)	–	–	–	–	–	–	–	(10,739)
Capital contribution from (to) affiliates	9,436	–	2,380	13,430	355	(216)	(25,385)	–	–	–
Increase (decrease) in beneficial interest	5,156	–	–	–	–	1,387	–	–	–	6,543
Increase (decrease) in net position	559,640	(27,968)	(12,511)	13,711	–	2,441	(17,730)	1,121	–	518,704
Net position at beginning of year	2,317,307	118,064	122,424	–	–	314	36,312	35,204	–	2,629,625
Net position at end of year	<u>\$2,876,947</u>	<u>\$ 90,096</u>	<u>\$ 109,913</u>	<u>\$ 13,711</u>	<u>\$ –</u>	<u>\$ 2,755</u>	<u>\$ 18,582</u>	<u>\$ 36,325</u>	<u>\$ –</u>	<u>\$3,148,329</u>

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